SWATCH GROUP

ANNUAL REPORT
2020


GOVERNANCE
CORPORATE RESPONSIBILITY
SOCIAL POLICY
CORPORATE GOVERNANCE

CORPORATE RESPONSIBILITY

OUR APPROACH TO CORPORATE RESPONSIBILITY

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

SUSTAINABILITY GOVERNANCE

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

In its decisions, Swatch Group respects all national and international legal systems. We refer and comply as a minimum to European standards since they go beyond many local regulations. We observe a zero-tolerance policy to violations of human rights, e.g., child and forced labor, and corruption and other criminal acts. Our *Code of Conduct*, which sets forth these principles for our business practices, has been in place since 2005. In relation to sustainable production methods and products, environmental protection and health and safety, Swatch Group complies with the applicable EU directives, such as the restriction of hazardous substances (RoHS), the registration, evaluation, authorization, and restriction of hazardous chemicals (REACH), and the disposal of electrical and electronic equipment (WEEE). We always base our policies on the strictest regulations as the minimum benchmark. With internal directives, we commit ourselves to standards that go beyond the legal standards. Swatch Group Quality Management (SGQM) is responsible for quality assurance, product safety and reliability, and compliance with regulatory requirements by all Group companies. This includes regular courses and training for our employees. Our Group companies are currently subject to various directives and technical specifications, e.g., substances that we exclude from our watch components and packaging materials, marketing and labeling requirements, the use of sustainable materials and guidelines for the disposal of products. Compliance with external standards (ISO, EN, IEC, SN, etc.) is verified. These relate to chemical test methods, compliance, environment, marketing, test process approvals, test and audit laboratories and packaging materials. SGQM defines the criteria for the approval of new materials and components and reviews the test procedures. It is also responsible for the inspection of internal and external chemical laboratories. Swatch Group Quality Management plays a key role in the continuous improvement of our products, production processes and sustainability.

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

ENVIRONMENT

RISK MANAGEMENT

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

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

PRODUCTION SITES OF THE SWATCH GROUP

Swatch Group is a fully verticalized company with a global sales network and service centers, and a wide range of operating and production sites in the fields of watchmaking, fine jewelry and electronic components (see chapter Organization, pages 4–5). In its approximately 150 sites in Switzerland, Swatch Group produces its own watch movements, cases, crystals, hands and other watch components, thus largely fulfilling the criteria for marketing watches manufactured in Switzerland in accordance with Swissness requirements (Swiss Made, in accordance with Art. 48 Trademark Protection Act, TmPA).

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

These production companies are highly specialized in their fields and accordingly each has its own specific profile for the building and facility technology in terms of safety, health, and environmental protection. Each site is equipped with its own facility management system in order to achieve further optimization. The most important parameters are those of the environmentally relevant areas with an influence on energy consumption, in particular electrical, thermal and refrigeration energy consumption and the associated CO_2 emissions, and key figures on water consumption, material consumption, waste management, battery recycling and emissions of Volatile Organic Compounds (VOCs). These indicators are recorded and analyzed in all Swatch Group entities.

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

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

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

EMISSIONS AND ENERGY

As early as 1990, Swatch Group campaigned for a reduction of CO_2 emissions and lower energy consumption through its sponsorship of the solar mobile *Spirit of Biel*. At that time, the solar mobile won the *World Solar Challenge* in Australia. The first solar-powered Swatch (1995), which has lost none of its appeal, stems from this period. With this, our early commitment to climate protection remains ever-present and motivates us to continue our contribution to climate protection.

In order to contribute even more to environmental protection and further reduce energy consumption, it was decided in 2013 to include all Swiss production entities in a CO_2 reduction program. This means the following targets for Swatch Group:

- By 2030, CO_2 emissions will be reduced by 32% compared with the base year of 2013.
- By 2050, we will achieve the target of net-zero CO_2 emissions.

In order to achieve this, targets for energy-efficiency gains and CO_2 reductions were defined in relation to the figures from the base year of 2013 for all production units in Switzerland, and in principle also apply on a consolidated basis to the entire Group. Production sites and distribution companies located outside Switzerland, in particular the many boutiques and service centers, are also working to improve their energy balance and are subject to clearly defined targets. The boutiques and service centers naturally consume far less energy than the production plants in Switzerland, but are of course also included in the range of measures to reduce emissions and energy consumption.

CO_2 EMISSIONS

Our CO_2 emissions and other greenhouse gases generated by our operations consist of direct emissions from production processes, heat use and fuel consumption (oil and gas). This corresponds to Scope 1 emissions. In the year under review, the Swatch Group's consolidated CO_2 emissions (Scope 1) were reduced by 16.3% compared with the previous year to 15 890 metric tons of CO_2 equivalent.

CO_2 emissions

CO_2 emissions (tons CO_2 eq)	2013 Base year	2019	2020	Change to previous year	Change to base year
Total Swatch Group worldwide Scope 1	21 501	18 991	15 890	–16.3%	–26.1%

SWISS PRODUCTION SITES ENVIRONMENTAL PROGRAM, CO_2 EMISSIONS AND ENERGY EFFICIENCY

Together with the Swiss Federal Office for the Environment (FOEN), Swatch Group has agreed voluntary economic and environmental measures for the reduction of energy consumption and the associated CO_2 emissions at all Swiss production sites, with contractually defined targets. The aim of this agreement is to achieve a 27% reduction in CO_2 emissions as measured and evaluated at the Swiss production sites in the period from 2013 to 2020, with a simultaneous boost in energy efficiency of 8%, in order to achieve the targets of 2030 and 2050 (see above). In association with the Energy Agency of the Swiss Private Sector (EnAW), energy audits have been carried out annually by specialists in all locations since 2013 and additional opportunities to reduce CO_2 emissions identified. A corresponding optimized action plan to achieve the goal was developed. The action plan is regularly reviewed and updated, so that a significant contribution to climate protection can continue to be made. Achievement of the annual objectives is monitored and audited by FOEN and the Swiss Federal Office of Energy (SFOE). When the audit is completed, EnAW issues an annual certificate reflecting the extent to which the objectives have been met. All our production plants in Switzerland fall under this program and are certified accordingly.

Certificate of the Swiss Private Sector Energy Agency

Voluntary Climate Protection and Energy Efficiency

Breguet au Crêt du Locle

Breguet au Crêt du Locle is convinced of the need to stand up for sustainable climate protection. By voluntarily declaring its adherence to the Swiss Private Sector Energy Agency programme, **Breguet au Crêt du Locle** commits to actively reducing CO_2 emissions and optimizing energy efficiency. The Swiss Federal Government, cantons and private sector partners honor the target agreement.

Dr. Jacqueline Jakob
Swiss Private Sector Energy Agency

1st January 2021

Martin Kernen
Swiss Private Sector Energy Agency

ENERGY AGENCY
SWISS PRIVATE SECTOR EnAW

Diagram 1

Development of the reduction of CO_2 emissions with objective 2030

The audited Figures 2020 will be available mid 2021

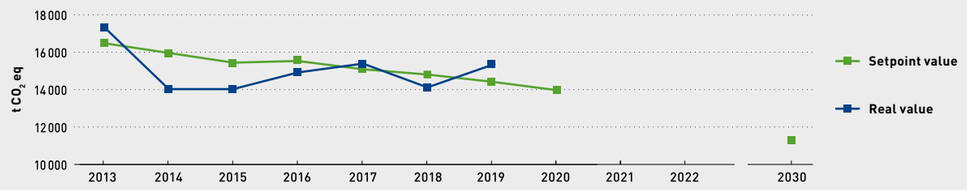
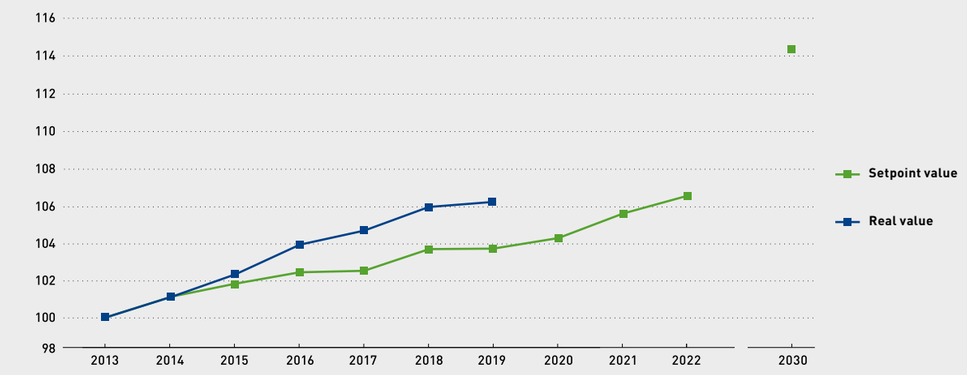


Diagram 2

Energy efficiency with objective 2030

The audited Figures 2020 will be available mid 2021



Energy consumption

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

The defined measures have been consistently implemented, resulting in a 12.1% reduction in CO_2 and a 6.4% increase in energy efficiency at Swiss production sites since 2013 as of the end of 2019 (see diagrams 1 and 2). As of the end of 2019, CO_2 emissions were slightly above the CO_2 reduction target path. This is due to operations-related postponements of individual investments, which of course cannot be implemented on a linear basis in line with a target path. However, achievement of the target values at the end of the assessment period is still feasible with the measures taken. The targets for increased energy efficiency, on the other hand, have already been achieved. We will build on this and further intensify our efforts.

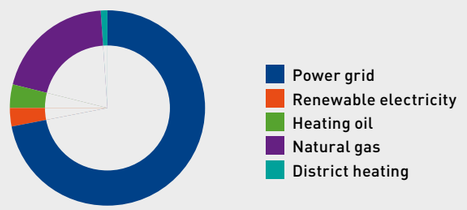
As the contractual data collection period with FOEN is the calendar year, the data for production facilities in Switzerland cover the period from January 1 to December 31, 2019. The figures for 2020 will be available in mid-2021.

ENERGY CONSUMPTION

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

Diagram 3

Share of energy sources



Energy intensity across Swatch Group improved by -13.5% to 322.2 kWh/m^2 from 2013 to 2020. The share of renewable energy more than quadrupled over the same period. The consumption of heating oil and natural gas has been steadily reduced though the program of measures, as they are CO_2 emissions drivers.

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

Measured in kWh per square meter of floor space, the annual consumption of fossil energy in the form of heating fuel, natural gas and district heating fell by 11.9% in the year under review compared with the previous year. Energy efficiency is constantly improving thanks to ongoing investment in production facilities and buildings. The measures include new buildings equipped with state-of-the-art heat pump technology, new thermal insulation and building renovation programs, the optimization or replacement of air-conditioning and water-cooling systems, renovation of heating installations and the commissioning of new heat recovery units. Due to investment to reduce heat consumption per unit of floor space, this consumption has been cut by more than half since the introduction of the program in 2001. A good example of this are the extensions to the Omega/Swatch site in Biel/Bienne (BE), where heat consumption per m^2 of surface area was reduced by 48% and CO_2 emissions by an impressive 55%.

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

Electricity consumption, measured in kilowatt hours (kWh) per unit area (m^2) per year, was also reduced by 6.9% compared with the previous year. The commissioning of new, more energy-efficient machines and systems at the production sites, the installation of reactive power compensation equipment and investment in the upgrading of lighting systems led to a slight reduction in electricity consumption in 2020. The use of new LED lamps has resulted in optimal lighting and lower thermal load, thus reducing power consumption and air conditioning costs.

ENERGY FROM SELF-GENERATED RENEWABLE SOLAR ENERGY AND HYDROPOWER PRODUCTION

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

The photovoltaic installations at the Omega manufactory, Swatch Headquarters Distico in Biel/Bienne (BE), Longines in Saint-Imier (BE) and ETA in Boncourt (JU) have a total installed capacity of 1.42 MW. The energy produced by these plants in the year under review amounted to some 1 166 000 kWh (previous year: 1 131 000 kWh) with an area of more than 8000 m^2. The photovoltaic installations are equipped with state-of-the-art technology, particularly at Omega and Swatch, and owe their patented micro-inverter to Belenos Clean Power.

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

VOC (VOLATILE ORGANIC COMPOUNDS) EMISSIONS

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

Waste consumption

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

WASTE

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

BATTERY RECYCLING

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

Water consumption

Water consumption (m³)	2013	2019	2020	Change to previous year	Change to base year
Drinking water	762 612	872 276	613 248	–29.7%	–19.6%
Non-potable water	784 278	370 736	459 231	+23.9%	–41.5%
Total consumption	**1 546 890**	**1 243 012**	**1 072 479**	**–13.7%**	**–30.7%**

WATER

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

The consumption of drinking water decreased by 29.7% to 613 248 m^3 compared with the previous year, whereas the consumption of non-potable water increased by 23.9% to 459 231 m^3. Overall, this resulted in a 13.7% decrease in water consumption. Of particular note is the increased use of closed water circulation systems, the increased efficiency of water treatment plants and the use of rainwater recovery systems for cooling and sanitary installations.

SUSTAINABLE INVESTMENTS IN NEW BUILDINGS AND RENOVATIONS

The Swatch brand's new "home" is not only one of the largest wooden buildings in the world, it is also a unique place for work and innovation. It sets new benchmarks in terms of sustainable development and energy efficiency. The majority of the building was constructed from wood, a natural raw material. The 1997 m^3 of spruce timber come from Swiss forests, where this quantity of wood grows in less than two hours. During its growth phase, the spruce decomposed about 1847 metric tons of greenhouse gases from the environment and absorbed it in the form of carbon. The intelligent geothermal use of ground water to heat or cool the building, and the solar energy produced by the photovoltaic system, make a significant contribution to achieving an optimal CO_2 balance. This use of geothermal energy is in association with the Omega factory building and the Cité du Temps. Several water tanks have been installed on the Swatch site. During the cooling process, cold water pumped from a withdrawal well is fed into a cold water tank. It is then conveyed to a heat exchanger, where the cooling energy is extracted to help cool the building through cooling ceilings and ventilation. The heat exchanger then returns the water heated by this process to a hot water tank, where it is available to buildings on the site for heating if required. Thanks to this ingenious device, the building is integrated into the natural water cycle. To determine the correct dimensioning of the photovoltaic system, the total electrical power required for all building functions, such as ventilation, cooling, heating, basic lighting, etc., was taken into calculation during the planning stages. The honeycomb structure of the facade comprises 442 tailor-made photovoltaic elements with a total area of 1770 m^2, while the PV-inverter technology was developed by subsidiaries of the company. This results in a reduction of up to 30 metric tons of CO_2 per year, reflecting the philosophy adopted by Swatch Group, which consists of designing and constructing its new buildings and renovating its old buildings in a sustainable way.

The Group's previous new buildings, such as the Omega manufactory, the Boncourt (JU) industrial park and the combined Universo and Rubattel et Weyermann industrial building located in La Chaux-de-Fonds (NE), were constructed with the same care and similar energy design. However, the manufacturing units in the Boncourt (JU) and Universo industrial buildings produce much more thermal energy, which is recovered by heat exchangers and used for the heating and hot water of some parts of the production sites. As a result, the heating of these buildings consumes little or no fossil fuel. The Boncourt (JU) building also has a rainwater recovery system, which means that industrial water does not need to be drawn from the normal water supply. Instead, the recovered rainwater is purified and treated as industrial water in the company's water treatment plant, stored in a 100 m^3 reservoir and from there piped to the production facilities. The industrial wastewater is then recovered again at the end of the production cycle and returned to the treatment plant. The industrial water is thus treated and reprocessed again and again in a closed cycle. The project carried out for the industrial building of Universo and Rubattel et Weyermann in La Chaux-de-Fonds (NE) deserves special mention. Originally, this industrial area was bought with a view to renovation from a foreign company that had abandoned its production site in Switzerland. The site was completely dismantled, followed by a remediation of the polluted site, prior to erecting a new energy-efficient industrial building in line with Swatch Group's philosophy. In addition, this new industrial area has its own high-tech and fully automated water treatment plant. Wastewater is conveyed from the collection tank to a reactor, where the different liquids and substances are separated. Each solution and substance thus isolated is then reprocessed, tested for quality and purity, and then returned to production in a closed cycle. The Swiss authorities have described this plant as the best industrial example in existence and a flagship project. The total renovation of this industrial area has contributed to the improvement of the urban landscape, and has been welcomed by both the local authorities and the population.

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

The buildings erected in 1946 for the sale and production of Mido in Biel/Bienne (BE) were completely deconstructed in 2019 and 2020. The buildings were no longer up to date in operational and energy terms, and renovation didn't make any sense due to the substance of the buildings. The aim of the deconstruction after the move to the modern Distico building was to prepare a fully renovated plot of land ready for construction. Extensive studies were carried out for the deconstruction project and the necessary concepts for building pollutants, demolition, contaminated sites and backfilling were developed on that basis. With the renovation, all materials containing hazardous substances were professionally remediated or disposed of in accordance with the law. Particular attention was paid to the protection of workers and the environment. In total, more than 360 metric tons of building pollutants were handed over to specialist disposal companies. In addition, more than 9100 metric tons of building fabric was recovered and recycled. Approximately 5000 m^3 of clean material, such as sand, gravel and top soil, was used for backfilling and recultivation. The demolition was completed in the summer of 2020 and the office of water and waste management (AWA) of the Canton of Bern confirmed that the site could be removed from the register of contaminated sites.

SOURCING

GENERAL RAW MATERIAL SOURCING

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

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

Swatch Group FEPS (*Far East Procurement Service*) and SGQM continually verify that suppliers are effectively fulfilling the conditions. The supplier review process is clearly defined and covers the following elements: Swatch Group supplier contract, compliance with SA 8000 conditions, compliance with all local laws and directives relating to labor law, safety and environmental protection, compliance with ISO 9000, and compliance with EU laws and directives, in particular RoHS and REACH. The audit procedures are divided into the following six subject areas: compliance with labor law and control of working conditions, health and safety at work (Occupational Health & Safety, OH&S), environmental protection, legal product conformity, verification of compliance with the supply contract and the quality of planning, and verification of the quality management system. FEPS determines which suppliers will be audited during a financial year, commissions an auditing company to carry out an audit in accordance with the requirements and then analyzes the report. The cycle ensures that all suppliers are audited within three years. New suppliers are checked immediately.

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

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

PRECIOUS METAL SOURCING

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

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

ORGANIC RAW MATERIAL SOURCING

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

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

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

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

DIAMOND AND GEMSTONE SOURCING

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

OCCUPATIONAL HEALTH AND SAFETY

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

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

Special protective measures for Covid-19

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

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

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

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

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

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

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

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

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

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

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

SOCIAL POLICY – APPRENTICES

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

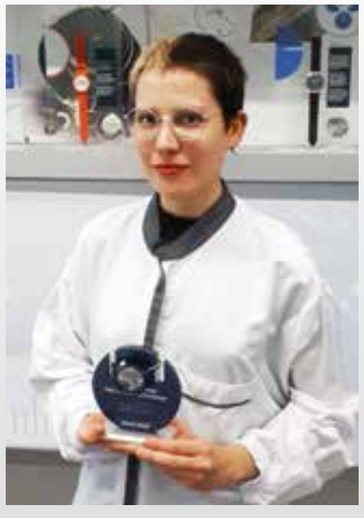
In accordance with existing objectives, the number of apprentices hired at the start of the academic year in August 2020 was equal to the number who finished in July 2020. It should be noted that it takes four years to train an apprentice, followed by several years of experience needed to reach the level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

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

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

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

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



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