

Sika Services AG

The UN Global Compact
Two United Nations Plaza
New York, NY 10017

March, 8th 2011

COP Submission

Dear all,

the present documentation refers on the following topics:

- **Basic Financial Data:** Business Year 2010 – Media Release as from 1st of March 2011.
- **Sustainability and Responsibility:** Sustainable Development, Risk Management, Corporate Governance. Annual Report, P. 44-59
- **5-Year Reviews**, incl. P. 138-142
- **Value-added Statement**, P. 143

This is our first COP. In 2010 Sika did adapt to the sustainability indicators to the GRI system. Next year's COP will be structured according to these criteria.

With compliments

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Sika on track – Net Profit up 37.7%

Sika posted a 6.3% increase in sales in the 2010 business year, achieving net sales of CHF 4.416 billion. In local currencies, Sika lifted sales by 10.2%. Consolidated net profit amounted to CHF 310.9 million, 37.7% above the previous year's level of CHF 225.7 million.

Despite mixed market performances, reticence on the part of public sector customers and rising raw material prices, Sika succeeded in lifting sales and net profit and is confident about 2011. The emerging markets in Latin America and Asia offer the greatest potential.

Sales

The 6.3% increase in annual net sales to CHF 4.416 billion comprises organic growth (6.1%), growth through acquisitions (4.1%) and a negative currency effect (-3.9%).

Sika's performance in the year under review varied considerably from Region to Region. While the high turnover Regions Europe and North America achieved only a very hesitant recovery, Sika posted substantial gains in the emerging markets throughout the entire year. Growth rates in the individual Regions in local currencies: Europe North 4.5%, Europe South 1.7%, North America 8.5%, Latin America 18.0%, IMEA (India, Middle East, Africa) 9.5%, Asia/Pacific 41.4%. Particularly developments in North America and Asia/Pacific were additionally influenced by acquisitions.

Owing to the significant increase in sales achieved in emerging markets, the proportion of Sika Group sales generated by these countries rose to 36%.

In local currencies, Group sales of products for the building and construction industry were up by 8.7% in the 2010 business year; of this figure, 4.9% were attributable to acquisitions. Sales of products for industrial manufacturing increased 16.7% in local currencies, including an acquisition effect of 0.6%.

The strong franc was not without influence on the sales figures. The overall currency effect of -3.9% almost exclusively corresponds to a translation effect. The currency effect was particularly substantial in the final quarter of 2010. The Group's decentralized regional structuring and the largely local-based generation of value added at Sika's 120-plus locations in 74 countries provides a good natural hedge against exchange rate movements.

During the reporting period Sika acquired six companies: The auto glass replacement business of ADCO Products, Inc., USA, the construction sealants operations of Henkel Japan Ltd., Czech-



based flooring manufacturer Panbex Group, structural waterproofing manufacturers Dyflex HD Co. Ltd. Japan, Greenstreak Group, Inc., North America, and US-based silicone and polyurethane products manufacturer May National Associates, Inc.

Profit

Raw material prices witnessed increases in 2010, owing primarily to low supplier capacity at the beginning of the year coinciding with increased demand. The fact that higher raw material prices could only be passed on to sales prices after a certain time lag squeezed the gross margin. Overall, Sika increased its gross profit to CHF 2.385 billion (2009: 2.295 billion), corresponding to a gross margin of 54.0%.

Sika improved operating profit before restructuring by 9.7% to CHF 439.5 million (2009: CHF 400.6 million; 2009 operating profit after restructuring: 344.0 million), resulting in an operating profit margin of 10.0%. At CHF 310.9 million (2009: CHF 225.7 million), consolidated net profit was up 37.7% year on year. One-off tax effects also had a positive impact on consolidated net profit.

Investments, liquidity and balance sheet

Sika's unchanged investment strategy is geared to consolidating its global presence, built up during the last few years, and unlocking new markets or expanding its existing activities. To encourage focused growth, selected markets, customers, technologies and products are prioritized. Given the changed economic climate triggered in many parts of the world by the financial crisis, Sika has reviewed all investment plans and adjusted these to the new conditions. The volume of investment during the period under review therefore remained below the level of the previous years at CHF 100 million.

Operating free cash flow reached CHF 332.2 million (2009: CHF 368.7 million) in the year under review. Cash and cash equivalents increased from CHF 801.6 million to CHF 938.4 million as of the end of the year. Net debt could be pared from CHF 264.8 million to CHF 164.5 million, reducing the ratio of net debt to shareholders' equity (gearing) from 16.6% to 9.4%. The equity ratio increased from 43.9% to 44.6%. The syndicated credit limit of CHF 450 million was not drawn on in 2010. It expired on November 15, 2010. Given the company's high level of cash holdings, Sika opted not to have the limit extended.

Proposals of the Board of Directors

The Board of Directors proposes to the Annual General Meeting payment of an unchanged gross dividend of CHF 45.00 per bearer share and CHF 7.50 per registered share. In addition, the Board proposes to reduce the nominal value of the bearer shares from CHF 9.00 to CHF 0.60 and that of the registered shares from CHF 1.50 to CHF 0.10. The payout sum amounts to CHF 134.0 million, representing approximately 43% (2009: 50%) of consolidated net profit. The proposal is an expression of the consistency of Sika's dividend payout policy.



Furthermore, the Annual General Meeting is recommended to reelect current Board member Urs F. Burkard and to newly elect Monika Ribar, CEO of Panalpina, to the Board of Directors.

Outlook

The markets are likely to present a similarly mixed picture in terms of performance in 2011 as they did in 2010. Economists are predicting modest growth for Europe. Much hinges on how the real economy is impacted by the high sovereign debt levels in various European countries, austerity programs and the euro crisis. The trend toward a moderate recovery should continue in North America. There is a backlog of demand from the infrastructure sector in particular. Unlike Europe and North America the emerging markets continue to witness strong growth. The Asian markets will gain further in significance; the potential for structural growth has not been exhausted by a long way yet.

Renovation work will become an increasingly important factor in the construction sector – in particular in the roofing and waterproofing sectors. Investments in commercial buildings will probably persist at a low level, whereas investments in infrastructure are more likely to increase.

The market recovered surprisingly fast in the industrial sector in 2010 – especially in the motor vehicle segment. Further growth is expected for 2011 as well, albeit at a lower level owing to the higher baseline for comparison. The order books are full, and Sika has won market share with new products.

Targets confirmed

Sika will continue to consistently pursue its acquisition strategy in 2011, focusing on expanding market access and market penetration in emerging markets and buying new technologies which fit in well with the existing portfolio and can be globally marketed via Sika's network.

Sika's medium-term growth targets envision an 8 to 10% increase in sales per year, with an EBITDA margin in the order of 12 to 14%. Sika seeks to win further market share in its key sales markets, to attain a 20% share in all Regions and target markets in the longer term and to achieve an annual turnover totaling CHF 8 billion in the medium term.



Key figures 2010

in CHF mn	as % of net sales	2009	as % of net sales	2010	Δ in %
Net sales		4'154.9		4'416.0	6.3
Depreciation/amortization/ Impairment	-3.4	-139.3	-3.1	-137.5	
Operating profit before restructuring	9.6	400.6	10.0	439.5	9.7
Net profit after tax	5.4	225.7	7.0	310.9	37.7
Net profit per share (EPS) in CHF		91.03		124.6	36.9
Cash flow from operating activities	12.7	526.3	9.6	424.8	-19.3
Free cash flow	7.5	312.5	5.5	243.9	-22.0
Operating free cash flow	8.9	368.7	7.5	332.2	-9.9
Balance sheet total		3'629.4		3'931.7	8.3
Shareholders' equity		1'593.0		1'752.2	10.0
Equity ratio in %		43.9		44.6	
NWC	20.1	836	18.2	802	-4.1
ROCE in %		19.3		21.3	
Number of employees		12'369		13'482	9.0

The Annual Report and the presentation held at the media conference and analyst meeting covering business in 2010 can be retrieved at www.sika.com.

Link Annual report

http://www.sika.com/en/group/Publications/annual_reports01.html

Link Presentation

<http://www.sika.com/en/group/investors/presentations.html>

Sika AG Corporate Profile

Sika AG, located in Baar, Switzerland, is a globally active specialty chemicals company. Sika supplies the building and construction industry as well as manufacturing industries (automotive, bus, truck, rail, alternative energies, building components). Sika is a leader in processing materials used in sealing, bonding, damping, reinforcing and protecting load-bearing structures. Sika's product lines feature high-quality concrete admixtures, specialty mortars, sealants and adhesives, damping and reinforcing materials, structural strengthening systems, industrial flooring as well as roofing and waterproofing systems. Worldwide local presence in 74 countries and some 13 500 employees link customers directly to Sika and guarantee the success of all partners. Sika generates annual sales of CHF 4.4 billion. Visit our website at www.sika.com.



Five-Year Reviews

Consolidated Balance Sheet as of December 31

in CHF mn	2006	2007	2008	2009	2010
Cash and cash equivalents	428	439	318	802	938
Accounts receivable c	790	861	779	739	781
Inventories d	413	500	513	451	500
Other current assets	112	116	134	101	132
Total current assets b	1 743	1 916	1 744	2 093	2 351
Property, plant and equipment	764	831	832	862	817
Intangible assets	486	463	525	562	631
Other non-current assets	67	108	108	112	133
Total non-current assets e	1 317	1 402	1 465	1 536	1 581
Assets held for sale	4	0	0	0	0
Total assets	3 064	3 318	3 209	3 629	3 932
Accounts payable g	387	439	398	355	478
Bonds (short term)					275
Other current liabilities	326	303	287	311	304
Current liabilities f	713	742	685	666	1 057
Bonds	765	767	768	1 067	794
Non-current provisions, employee benefit liabilities	237	266	221	233	224
Other non-current liabilities	74	68	71	70	105
Total non-current liabilities	1 076	1 101	1 060	1 370	1 123
Total liabilities	1 789	1 843	1 745	2 036	2 180
Capital stock	23	23	23	23	23
Treasury shares	-2	-65	-118	-106	-70
Reserves	1 242	1 514	1 556	1 672	1 795
Equity attributable to Sika shareholders	1 263	1 472	1 461	1 589	1 748
Non-controlling interests	11	3	3	5	4
Total shareholders' equity h	1 274	1 475	1 464	1 593	1 752
Total liabilities and shareholders' equity a	3 063	3 318	3 209	3 629	3 932

Five-Year Reviews

Consolidated Income Statement from January 1 to December 31

in CHF mn	2006	2007	2008	2009	2010
Net sales	3 896	4 573	4 625	4 155	4 416
Operating revenue	3 910	4 573	4 642	4 146	4 434
Material expenses	1 809	2 137	2 251	1 851	2 049
Gross result	2 101	2 436	2 391	2 295	2 385
Personnel expenses	845	926	958	954	953
Other operating expenses	741	872	877	801	855
Operating profit before depreciation and restructuring	515	638	556	540	577
Depreciation / amortization / impairment	143	127	134	139	138
Operating profit before restructuring i	371	511	422	401	440
Restructuring	0	0	0	57	0
Operating profit	371	511	422	344	440
Interest income / expense	18	22	21	24	30
Financial income / expense	19	9	28	4	6
Profit before taxes	334	480	373	316	404
Income taxes	99	138	106	90	93
Net profit	235	342	267	226	311
Free cash flow	146	183	90	313	244
Gross result as % of net sales	53.9	53.3	51.7	55.2	54.0
Operating profit (EBIT) as % of net sales	9.5	11.2	9.1	9.6	10.0
Consolidated net profit as % of net sales (ROS)	6.0	7.5	5.8	5.4	7.0
Consolidated net profit as % of shareholders' equity (ROE)	18.4	23.2	18.3	14.2	17.8

Key balance sheet data

in CHF mn	Calculation	2006	2007	2008	2009	2010
Net working capital	(c+d-g)	816	922	893	835	802
Net working capital as % of net sales		21	20	19	20	18
Non-current assets as % of balance sheet total	(e : a)	43	42	46	42	40
Shareholders' equity as % of non-current assets	(h : e)	97	105	100	104	111
Net debt ¹	j	389	352	465	265	165
Gearing in %	(j : h)	31	24	32	17	9
Equity ratio in %	(h : a)	42	44	46	44	45

¹ Net debt: Interest-bearing indebtedness (short and long-term bank debt + bonds) ./ interest-bearing current assets (cash, cash equivalents and securities)

Value-based key data

in CHF mn	Calculation ¹	2006	2007	2008	2009	2010
Capital employed¹		1 884	2 041	2 109	2 041	2 086
Annual average of capital employed	k	1 838	1 963	2 075	2 075	2 064
Operating profit before restructuring	i	371	511	422	401	440
Return on capital employed (ROCE) in %	(i : k)	20	26	20	19	21

¹ Capital employed = Operating assets./cash./non-interest-bearing current liabilities

Five-Year Reviews

Segment Information

in CHF mn	Europe North					Europe South					
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Net sales	1 439	1 713	1 736	1 475	1 457	947	1 101	1 050	935	874	
Operating profit before restructuring	155	228	191	159	156	127	168	145	136	127	
in % of net sales	10.8	13.3	11.0	10.8	10.7	13.4	15.3	13.8	14.6	14.5	
Depreciation / amortization	49	50	28	29	26	21	21	15	19	16	
Impairment	6	-1	6	2	0	0	0	0	0	0	
Capital expenditures	39	78	67	45	30	17	27	21	17	12	

in CHF mn	IMEA					Asia/Pacific					
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
Net sales	164	223	258	264	286	407	478	483	473	676	
Operating profit before restructuring	20	29	32	43	45	36	43	32	54	92	
in % of net sales	12.2	13.0	12.4	16.1	15.7	8.8	9.0	6.5	11.4	13.6	
Depreciation / amortization	2	2	3	3	4	10	13	12	13	18	
Impairment	1	-1	0	0	0	3	1	0	1	0	
Capital expenditures	7	12	7	11	4	23	21	20	11	11	

The Region IMEA encompasses India, the Middle East and the eastern countries of Africa (see also the world map on page 21). Separate reporting for this Region was introduced as of January 1, 2007. Data for 2006 were adjusted accordingly.

Due to the first application of IFRS 8, data for 2008 were adjusted. No adjustments were made for prior years.

North America					Latin America				
2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
637	681	657	602	633	302	377	433	395	480
45	64	47	64	62	35	50	59	57	88
7.1	9.4	7.1	10.6	9.8	11.6	13.3	13.6	14.3	18.3
30	26	25	25	25	6	6	6	6	6
1	0	0	0	0	0	0	0	0	0
36	28	26	24	9	9	12	26	8	11
Central Services					Total				
2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
		8	12	10	3 896	4 573	4 625	4 156	4 416
-48	-71	-83	-112	-130	371	511	422	401	440
					9.5	11.2	9.1	9.6	10.0
10	10	40	42	41	128	128	128	137	136
0	0	0	0	2	11	-1	6	3	2
8	8	64	46	23	139	186	230	161	100

Five-Year Reviews

Employees

	2006	2007	2008	2009	2010
Employees by Region (as of December 31)					
Europe North	4 151	4 248	4 741	4 417	4 455
Switzerland	1 773	1 792	2 036	1 900	1 912
Germany	1 375	1 302	1 422	1 336	1 321
Europe South	1 869	1 922	1 994	2 108	2 103
France	651	664	685	617	603
North America	1 330	1 319	1 358	1 163	1 360
USA	1 192	1 155	1 180	991	1 189
Latin America	1 365	1 539	1 729	1 561	1 703
Brazil	169	188	209	220	244
IMEA	496	789	873	892	1 082
Asia / Pacific	2 098	1 906	2 205	2 228	2 779
Japan	210	211	212	197	614
Total	11 309	11 723	12 900	12 369	13 482
Personnel expenses (in CHF mn)					
Wages and salaries	678	746	780	769	775
Social charges, other	167	180	178	185	178
Total personnel expenses	845	926	958	954	953
Personnel expenses as % of net sales	22	20	21	23	22
Key data per employee (in CHF 1000)					
Net sales	352	397	376	329	342
Net value-added ¹	110	125	112	103	108

¹ See next page, Five-year reviews: Value-Added Statement

Five-Year Reviews

Value-Added Statement

in CHF mn	2006	2007	2008	2009	2010
Source of value-added					
Corporate performance (net sales)	3 896	4 573	4 625	4 155	4 416
Intermediate inputs	-2 524	-2 982	-3 132	-2 676	-2 908
Gross value-added	1 372	1 591	1 493	1 479	1 508
Expenses not affecting liquidity					
Depreciation and amortization	-143	-127	-134	-139	-138
Change in provisions	-12	-27	21	-42	23
Net value-added	1 217	1 437	1 380	1 298	1 393
Distribution of value-added					
To employees					
Wages and salaries	678	746	780	769	775
Social charges	167	180	178	185	179
To governments (capital and income taxes)	99	138	106	90	93
To lenders (financial expenses)	38	31	49	28	35
To shareholders (dividend payout, incl. non-controlling interests)	49	79	112	112	112
To the company					
Net profit for the year	235	342	267	226	311
Less dividend payout	-49	-79	-112	-112	-112
Net value-added	1 217	1 437	1 380	1 298	1 393
Number of employees					
End of year	11 309	11 723	12 900	12 369	13 482
Annual average	11 080	11 516	12 312	12 635	12 926
Net value-added per employee (in CHF 1 000)	110	125	112	103	108

Net value-added 2010

Intermediate inputs	65.9% (64.4%)
Non-liquidity-related expenses	2.6% (4.4%)
Net value-added	31.5% (31.2%)

Distribution of value-added = 100%

Employees	68.5% (73.4%)
Company	14.2% (8.9%)
Government	6.7% (6.9%)
Shareholders	8.0% (8.6%)
Lenders	2.6% (2.2%)

Innovation is the greatest
driver of sustainability.
Sika sees the future as
an opportunity.

Sustainability and Responsibility

Sustainable Development

RESPONSIBILITY FOR THE FUTURE. Global megatrends, such as energy and raw materials shortages, urbanization and population growth, are confronting companies and communities with major economic, social and ecological challenges. At the same time, these developments act as powerful drivers for the technologies and solutions of tomorrow. As a technology-based company and market leader in its target markets, Sika regards this as an opportunity.

VISION. Sika's vision centers on the provision to customers of innovative solutions that boost the efficiency, durability and aesthetic appeal of buildings, infrastructure constructions, installations and vehicles, throughout production and use, and thereby make a substantial contribution to sustainable development. Sika views this as a corporate obligation to be shouldered by every single member of staff.

COMMITMENT. With a history spanning over 100 years, Sika is all the more committed to sustainable development as a guiding principle. To underscore this commitment, the company has for many years participated in the chemical industry's Responsible Care® sustainability program and, in 2009, also signed up to the UN Global Compact corporate responsibility initiative. While these activities are focused on corporate operations, on the company's products and services, they also address its social context. Due consideration is therefore given to the economic, social and environmental implications of business activities.

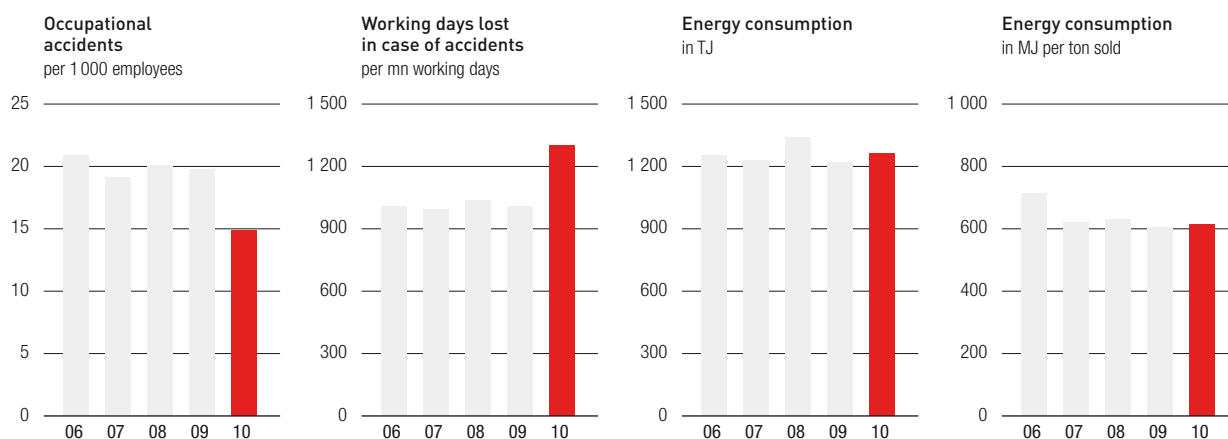
For Sika, sustainability is not a goal that can be achieved immediately but a continuous process of optimization, adaptation to customer needs and innovation. This presupposes an understanding of the impact of the relevant products and activities. That is why Sika is constantly on the search for possible refinements, for ways of furthering the good of the company, its customers, the environment and humankind. For Sika, responsibility to shareholders, market players and the general public is fundamental to its mission. It acts in accordance with common values that lay the foundation for the company's sustainable development.

MEGATRENDS. The issue of sustainable development is closely allied to the global trends that will generally shape our future. These megatrends will also play a pivotal role in the future of the economy. In its risk management and strategic decision-making, Sika, for example, pays particular attention to the following issues:

- Scarcity of energy and raw materials
- Climate change and regulation of the carbon economy
- Water shortages and inadequate water quality
- Infrastructural changes due to population growth and urbanization

The above trends will influence the way in which buildings, infrastructure constructions, installations and vehicles are constructed and used in future. This will, in turn, have implications for Sika's target markets and geographical focus. Sika is determined to help shape these change processes through innovation. Top priority will be given here to sustainably developed and manufactured products that enhance durability and promote the efficient use of energy, water and materials.

STRATEGY. Sika pursues a double-pronged sustainability strategy. On one hand, the company seeks to design products and services that meet the demand for efficient, sustainable solutions in the target markets. On the other hand, Sika is committed to the continuous refinement of its own operations in line with sustainable practice, backed up by suitable investment in sustainability on the basis of business management principles.



TRANSPARENCY. Sika AG reports clearly and openly on its efforts in the field of sustainability. Reporting transparency was further increased in 2010:

- Sika consolidated its activities in the areas of environment, health, safety and sustainability in a like-named unit that reports to the Corporate Operations Group Management member. Tasks relating to the sustainability of products and the value chain, product safety, REACH (registration, evaluation, authorization and restriction of chemical substances), transport safety and risk management are handled centrally by the unit.
- The facts and figures presented in this report relate to the company's global business operations in 2010, excluding those sites acquired during the last three years. Most new acquisitions initially undergo a program to boost their sustainability performance. As Sika intends, over the next few years, to continue its growth strategy by buying into local markets, the associated activities will, unless otherwise stated, be integrated after a three-year period, as to date. The extent of operations covered by the report will be posted as a percentage of total sales. For the year under review some 98 percent are covered.
- The sustainability indicators used by Sika have now been adapted to the widely used GRI (Global Reporting Initiative) system so as to allow comparisons within the indicator framework. Due to this changeover, not all indicators can be presented in a historic time series.
- Sika's reporting on primary (Scope 1) and secondary (Scope 2) energy use now dates back several years. Sika intends to use these data in the coming years to determine its overall CO₂ footprint.
- To maintain a clear picture at all times, Sika has adapted the internal compilation of sustainability indicators to the in-house financial reporting procedures and principles.

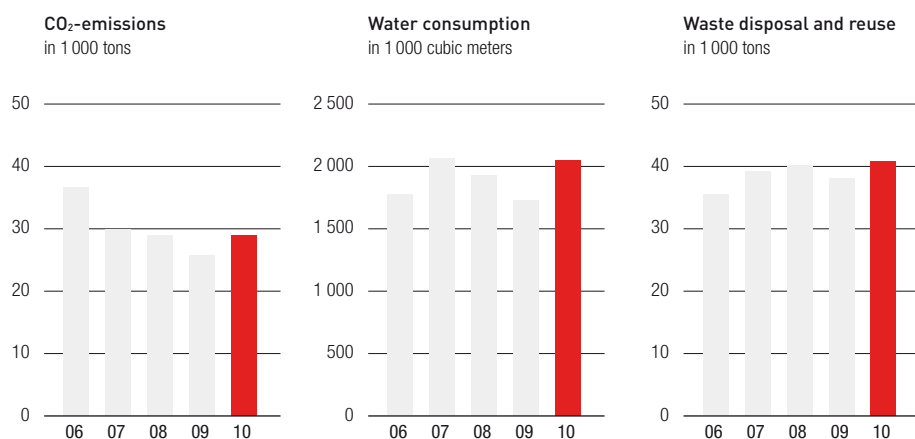
SUSTAINABILITY IN THE VALUE CHAIN. Sika's mission statement specifies the following requirement: "Our aim is to address environmental and safety concerns throughout the value chain." To increase the sustainability and efficiency of its own activities, Sika will this year introduce a special sustainability performance target system and action program. This will mainly focus on work accidents, energy and water use, and waste reduction. Local initiatives may also be implemented to address further issues beyond these core concerns. Sika targets a continued reduction in the number of accidents over the next three years together with further cuts in energy use, water consumption or waste production, as appropriate for the particular site.

ENVIRONMENTAL, SAFETY AND RISK MANAGEMENT.

Manufacturing subsidiaries in some 40 countries have participated in the chemical industry's Responsible Care® program since 1992. In all, some 84 companies boast certified environmental management systems, while 24 sites have achieved OHSAS:18001 (occupational health and safety) certification.

Sika AG routinely checks its production facilities for risks to staff and local residents, monitors damage and stoppages, and implements measures to improve safety. Internal Audits and controls ensure compliance with the specified rules and procedures.

One cornerstone of sustainable corporate management is the provision of basic and advanced training for employees. The wide-ranging courses deal with raw materials handling, occupational safety, statutory regulations as well as product packaging, labeling and transport.



Investment in safety and environmental protection.

In the reporting year, Sika invested some CHF 6.5 million in technical equipment for environmental protection, bringing about particular improvements in energy production and risk prevention. Stepped-up efforts over the past few years, above all the increased use of state-of-the-art equipment, are bearing fruit, enabling Sika to reduce replacement investments. Current expenditure was at CHF 24 million. Through the acquisition of new companies in Asia and northern Europe, the number of full-time employees in the field of environment, health, safety and sustainability rose to around 100.

Health and safety. At 14.9 per 1 000 employees, the number of occupational accidents with over one day's lost working time was significantly down year on year. Due to longer absences after accidents, however, the number of days lost per million workdays rose to 1 296.

Energy use. Energy consumption in the reporting period totaled 1 259 TJ and was thus, like production volumes, on a par with the previous year. Over half of Sika's energy requirement (roughly 60%) was met by electrical power. A further quarter of demand was covered by natural gas, the rest by heating oil and, to a small extent, by district heating. The energy requirement per ton of product remained static at 616 MJ.

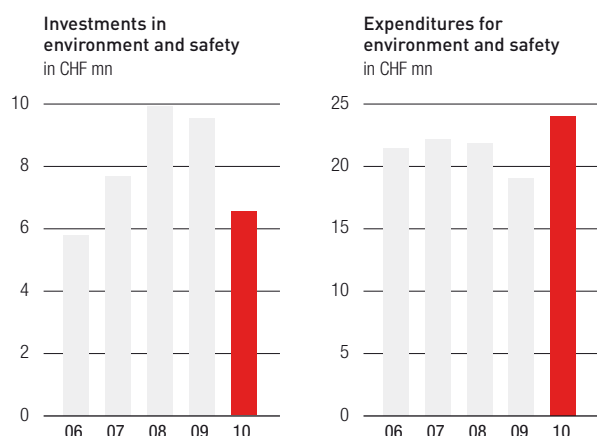
Atmospheric emissions. In the reporting year, CO₂ emissions resulting from the use of primary energy sources ran to 29 000 tons. Primary energy consumption is heavily dependent on the product mix demanded by the market and produced by Sika, and varies accordingly.

Water use. Due to the shifts in the company's product mix and, above all, the increased cooling water requirement, water consumption rose to around 2.0 million cubic meters. Cooling water is mainly obtained from the company's own authority-approved wells and returned, unpolluted, to the water cycle. Cooling water accounts for roughly three-quarters of the company's total water demand. The used water quantity ran to around 0.9 cubic meters per ton of product sold.

Materials use. Waste quantities in the year under review were slightly up year on year at around 41 000 tons. The proportion of hazardous waste from production was more or less in line with the previous year. Around one-third of waste, particularly that from polymer and mortar production, is reclaimed and recycled. Waste from the manufacture of polymer membranes, for example, is granulated and reintroduced into production.

PRODUCT SUSTAINABILITY. Sika sets out to undertake objective, transparent, comparative assessments of the sustainability of its products – not only in manufacture, but also and above all in service. These analyses may pinpoint necessary improvements for existing products. They may also deliver important insights into raw materials, production processes or application efficiency and thereby promote innovation.

Under the banner "Innovating Performance and Sustainability," Sika seeks to enhance the outstanding and widely appreciated utility of its products by optimizing their sustainability profile, and so create added value for its customers. The following Sika solutions combine first-class technical performance with high sustainability standards.



Energy and raw materials. Worldwide demand for resources such as crude oil, coal, natural gas, water, iron ore and copper is constantly rising, driven by population growth and greater purchasing power. These resources are, however, limited or their extraction is becoming increasingly expensive. The efficient and purposeful use of these resources is one of the key preconditions for future growth.

Sika solutions:

- Concrete admixtures for high-grade concrete incorporating recycled aggregates
- Concrete admixtures for recycling of excavated material directly on site
- Grinding aids for energy-efficient cement production
- Special seals for argon-filled insulating glass units
- New jointing techniques for lighter, better-insulated windows

Climate change. The earth's climate is changing. The consequences are manifold and affect all humankind. This makes climate protection, in particular the continuous reduction of greenhouse emissions, a crucial task for the future.

Sika solutions:

- Structural adhesives to reduce the weight of motor vehicles
- Polymer-based reinforcing components for lighter automobiles
- Adhesives for the solar industry
- Solar roofs
- Highly reflective roof membranes to boost the efficiency of solar installations
- Adhesives for the development of more durable wind turbines
- Protection of wind turbines against adverse weather conditions
- Concrete admixtures for safe foundations

Water. The processes of global population growth, urbanization and climate change are making clean water an increasingly scarce commodity. The careful management of water consumption, purification and storage as well as wastewater treatment is essential. Already today, a billion people suffer from inadequate access to drinking water.

Sika solutions:

- Concrete admixtures and mortar for waterproof concrete
- Joint sealing systems for watertight structures
- Interior coatings for drinking water reservoirs
- Membrane systems for flexible waterproofing
- Special concrete repair mortars
- Surface protection coatings
- Special crack-sealing resins
- Concrete admixtures to reduce water requirement for concrete production

Infrastructure. Few projects command bigger budgets than those for infrastructure provision and maintenance. The rapid economic ascent of the developing nations necessitates enormous investments in energy, transportation, water and health care. The existing infrastructure in developed countries also requires modernization.

Sika solutions:

- Construction chemicals, shotcreting machines and waterproof membranes for tunneling
- Composite materials for durable infrastructure facilities
- Roof membranes for green roofs and an improved urban climate
- Reflective roof membranes reduce unwanted heat gain

Further details of all the aforementioned Sika solutions are presented in the "Solutions for a Sustainable Future" brochure, which can be ordered on the Internet (www.sika.com) or by mail (please address to Sika AG, "Sustainable Future", P.O. Box, Zugerstrasse 50, CH-6341 Baar).

SOCIAL RESPONSIBILITY. The fair treatment of all stakeholders is a guiding principle for the Sika workforce. Management and employees at Sika AG have actively participated in the UN Global Compact corporate responsibility initiative since 2009. They have committed themselves to implementing the Global Compact principles in the company's strategic planning, culture and day-to-day business, and to engaging in joint projects in support of the UN's development objectives, specifically its Millennium Development Goals. The Global Compact principles enshrine a series of universally accepted values in the areas of human rights, labor standards, environmental protection and anticorruption policy. For further information, please visit the website at www.unglobalcompact.org.

Since 2010, Sika has also been a member of the **World Business Council for Sustainable Development**, a CEO-led association dealing exclusively with the issues of business and sustainable development. The WBCSD seeks to boost ecological efficiency, promote associated innovation and foster an awareness of social responsibility within companies. It takes its cue from the results of the Rio Conference and the Agenda 21, and sets out to promote collaboration between business, governments and non-governmental organizations.

RESPONSIBLE CARE®. Sika honors the rules of the Responsible Care® program, a global voluntary initiative of the chemical industry. Through their national associations, companies work together to continuously improve their health, safety and environmental performance and communicate with stakeholders about their products and processes.

The Responsible Care® ethic helps industry to operate safely, profitably and with due consideration to future generations. At the World Summit on Sustainable Development in 2002, it was recommended by the United Nations Environment Program (UNEP) as a fitting contribution to more sustainable development.

ROMUALD BURKARD FOUNDATION. The Sika Board of Directors established the Romuald Burkard Foundation in 2005 in memory of Dr. Romuald Burkard, the third-generation representative of the Winkler family, which founded Sika. It provides financial support to social and ecological projects in emerging markets in which Sika maintains subsidiaries. The projects focus on the following areas:

- Buildings and infrastructure that serve a social or ecological purpose, such as water reservoirs or sewage treatment facilities
- Technical training in construction professions and trades
- Water projects with ecological and social objectives

Sika seeks to promote on-the-ground self-help. The local Sika companies are thus required to put forward specific aid applications and, working with local partners, supervise the projects on site up to completion.

Via the Romuald Burkard Foundation, Sika supported the following projects in the year under review:

Chile. The “Juan XXIII” children’s home, destroyed in the violent earthquake in February 2010, was successfully reconstructed. The Sika-sponsored project allowed some 50 children to reoccupy their rooms in Buin, near Santiago, at the start of 2011. Repair work was carried out to the classrooms and living spaces in the mentally handicapped children’s home, run by the nonprofit organization “Coanil”. Sika employees volunteered to help with the clearance and renovation works. The children were also given new satchels, books and school materials. Total aid provided: CHF 215 000. (www.coanil.cl)

Haiti. In the wake of the devastating earthquake, Sika supplied emergency aid in the form of a mobile production plant for concrete admixtures. The facility, installed at a site in the Dominican Republic, helped to speed up the reconstruction of destroyed buildings. To facilitate on-site operations, silos were also erected for raw materials and finished products. Total aid provided: CHF 200 000.

Switzerland-Latin America. 2010 also saw Sika continue its sponsorship of YES (Youth Encounter on Sustainability) courses in Switzerland and Latin America. The courses, developed by Actis GmbH, a spin-off from the ETH (Swiss Federal Institute of Technology) Zurich, address various aspects of sustainable development and are primarily geared to young trainees. Total aid provided: CHF 200 000. (www.actis-education.ch)

ETH ZURICH FOUNDATION. Sika solutions help to cut CO₂ emissions in the construction sector and reduce water consumption for concrete production. As part of its centenary celebrations, Sika opted to underscore its commitment in this field by sponsoring a new professorship and, with it, the foundation of a new institute for sustainable civil engineering at the ETH (Swiss Federal Institute of Technology) Zurich. This partnership will provide the ETH Zurich Foundation with additional funding to the tune of CHF 7 million. The ETH Zurich Foundation’s mission is to promote strategic research and teaching projects at the ETH. Through its support for the new professorship, Sika is continuing its successful and wide-ranging partnership with the ETH in the fields of chemistry, construction and building materials.

GLOBAL NATURE FUND. Sika supports the international Living Lakes environmental program of the Global Nature Fund (GNF). Comprising 70 partner organizations from various lake regions across the globe, the Living Lakes network sets out to promote sustainable development and the protection of drinking water, lakes and wetlands. The initiative uses concrete models to demonstrate how, with the involvement of the local population, positive social and economic developments can be achieved in different climatic zones and societies without any threat to nature and the environment. (www.globalnature.org)

In the year under review, Sika supported two particular GNF projects:

Laguna de Fúquene, Colombia. Sika's long-term commitment has enabled the Fundación Humedales, its Colombian Living Lakes partner, to implement numerous conservation schemes centered on the species-rich Laguna de Fúquene. In the reporting year, the collaboration focused on three areas:

- Better marketing of organic fertilizer: Measures were taken, as part of a sustainability project, to improve the marketing of organic fertilizer from aquatic plants. The fertilizer is produced by the fishermen's and craftsmen's organization at Laguna de Fúquene (Los Fundadores).
- Improved income situation for handicraft workers: The Fundación Humedales organized a workshop for handicraft workers in order to demonstrate new braiding techniques for producing eco-friendly goods. A brand strategy was also developed for these new products.
- Marketing of indigenous trees: To increase the proportion of indigenous trees in new plantations, a demonstration tree nursery featuring 12 different indigenous species was set up. (www.fundacionhumedales.org)

Lake Atitlán, Guatemala. Lake Atitlán in the western part of the Guatemalan Highlands provides a living for the residents of numerous villages in the region. In 2009, water pollution from agriculture and households led to large-scale algae growth that covered up to 75% of the

lake's surface. The Sika-sponsored project involved the development and implementation of key measures to renaturalize Lake Atitlán and improve its water quality. One example was the installation of a scientific laboratory to monitor and analyze water quality. In May 2010, however, the project suffered a bitter setback when the region was visited by heavy storms that wrecked large parts of villages around the lake, tore away bridges and routes, and almost completely destroyed the plant-based wastewater treatment system. Local Living Lakes partner organization, Vivamos Mejor, is currently in the process of reconstructing the facility. (www.vivamosmejor.org.gt)

SIKA EXPERIENCE. To mark its centenary, Sika launched the "Sika Experience" program, which is directed at young people, students and career starters. The special program website attracted applications from over 1500 candidates in 191 countries to participate in one of six projects on the following topics: "Raw Materials," "Mobility," "Wind," "Climate," "Water" and "Solar Energy." Participants were able to post an account of their experiences and newly acquired knowledge on the Sika Experience Blog 2010. The website, which provides information and hosts forums on the company's history and sustainability issues, has been viewed by some 80 000 visitors. The lively interest in the program and the search for sustainable solutions in construction and industry prompted Sika to make a further donation of around CHF 80 000 for social and ecological construction projects.

Risk Management

SEIZING OPPORTUNITIES AND CUTTING RISKS. As a global player, Sika is exposed to a variety of risks. The permanent protection of the Group's reputation and safeguarding of its freedom of action necessitate a timely analysis of potential risks and their integration into strategic decision-making processes. Diligent risk management may also unlock new opportunities.

RISKS AND OPPORTUNITIES. Flawed risk assessments may seriously impair a company's reputation, limit its freedom of action or, at worst, lead to insolvency. Well aware of this, Sika reacted years ago by introducing a comprehensive risk management system for the Group and all its subsidiaries. Dangers should be identified at an early stage and integrated into strategic decision-making processes. Risk management may sometimes assist in the identification of new opportunities and thereby help to generate added value. The risk management process comprises four steps: Risk identification, risk assessment, risk monitoring and risk controlling.

GROUP MANAGEMENT AND BOARD OF DIRECTORS. While Sika's Group Management regularly reviews the processes underlying risk management, the Board of Directors bears ultimate responsibility for risk assessment. Its duties include annual reassessment of the risk situation at Group level. Here, the focus is on those strategic and operative risks that are capable of seriously endangering the Group as a whole. All risks are assessed in terms of a few basic questions:

- Is the risk global or regional in scope?
- How significant is the risk for the Group?
- How high is the probability of losses occurring?
- What measures need to be implemented to prevent or mitigate the risk?

Suitable measures are then taken to counteract any risks that are rated critical in the overall assessment.

SUPPLIERS AND RAW MATERIALS. Materials, as Sika's biggest cost factor, are high on the risk assessment agenda. Almost 70% of the materials used by Sika in production – e.g. polyurethanes, epoxy resins or polyvinyl chloride – are based on crude oil or crude oil derivatives. Purchase prices consequently vary in line with the wide fluctuations in the cost of crude oil.

Sika purchases its base chemicals from the best-quality and most reliable suppliers. Wherever possible, Sika obtains those materials required for special solutions from at least two providers. Raw materials needed for one-of-a-kind technologies are manufactured in-house.

PRODUCTION AND LOGISTICS. Risk management in the areas of production and logistics entails the annual systematic analysis of possible operational risks that may lead to downtime or other disruption along with the specification of suitable preventive measures. Sika is also insured against production losses. The practical and organizational procedures for handling operational and all other risks are laid down in Sika's Risk Management Policy. This policy is based on the mandatory standards governing environmental protection, health and safety. Risk analyses performed by external specialists, frequently in close collaboration with the relevant property insurance companies, complement the in-house assessments.

On average, external checks are carried out at Sika's major factories every three years. Accompanied by the local safety officers and their teams, independent specialists conduct on-site inspections to identify and record those risks that may result in production downtimes, property damage or liability claims. The probability and implications of the associated risk events are subsequently assessed and measures taken to minimize the risk potential as far as possible. Adopting the same procedure, each company conducts an annual in-house risk analysis on its production and logistics operations.

The risks potentially posed by products are minimized through the implementation of binding procedures governing product development and refinement – the so-called Product Creation Process and Product Maintenance Process. Both processes are subject to highly stringent controls. The issues addressed relate, on one hand, to ecology and safety in development, production and product handling, and, on the other, to market opportunities and intellectual property protection. These processes are complemented by a global program, in place since 1999, which aims to minimize the risks resulting from counseling and sales activities. A host of additional measures, including the regular and systematic training of employees, clearly formulated standards, detailed causal analyses and stricter controls, help to bring about a steady reduction in expenditure for product-related claims.

CUSTOMERS AND MARKETS. Sika adopts a policy of strategic diversification to limit market- and customer-

related risks. Geographical diversification is tremendously important in the locally based construction industry given the sometimes contrary business trends witnessed in this sector in the different regions of the world. Customer diversification – with no single customer accounting for more than 1.5% of Sika's turnover – is another stabilizing factor. As a further safeguard against economic fluctuations, Sika operates both in the new-build sector and in the less cyclically dependent renovation and maintenance market.

FINANCIAL RISKS. The purpose of financial risk management is to optimize funding and achieve a liquidity position geared to payment obligations. Liquidity is ensured by means of four long-term bonds, two to the value of CHF 250 million maturing in 2013 and 2016, one for CHF 275 million maturing in 2011 and another for CHF 300 million maturing in 2014.

Liquidity is optimized by means of a cash pooling arrangement. For selected activities in the treasury area, Sika relies on additional third-party services. Sika also manages its net working capital with the utmost care and, through a cost structure dovetailed to the prevailing market conditions, ensures adequate cash generation at all times. Sika attaches high priority to open and cost-efficient access to capital markets. Of significance here is the Standard & Poor's rating A-/stable (long-term).

Financial risk management is described in detail on page 123 ff of this Report.

Corporate Governance

COMMITMENT TO OPENNESS AND TRANSPARENCY. Creating transparency is the highest objective of good corporate governance. This provides information on structures and processes, areas of responsibility and decision procedures as well as rights and obligations of various stakeholders. Reporting at Sika follows the SIX Swiss Exchange guidelines.

GROUP STRUCTURE AND SHAREHOLDERS. Sika AG, headquartered in Baar, canton Zug, is the only listed Sika company. The Sika AG bearer shares are listed on SIX Swiss Exchange under Swiss security no. 58797. Information on Sika AG's stock market capitalization can be found on page 7 of this Report. In the year under review the Sika Group encompassed unlisted subsidiaries in 74 countries. 120 companies are included in the scope of consolidation. Companies of which Sika holds less than 50% of shareholder votes are not consolidated. These are namely Sika Gulf B.S.C., Bahrain, Sika Saudi Arabia LLC, the part GmbH joint venture in Germany as well as Addiment Italia S.r.l. Detailed information on Group companies can be found on page 133 ff.

Sika conducts its worldwide activities according to countries that have been classed into Regions with area-wide managerial functions. The heads of the Regions are members of Group Management. The regional and national management teams bear full profit and loss responsibility, and – based on the Group strategy – set country-specific growth and sustainability targets, and allocate resources.

Furthermore, Sika has geared its internal organization toward four customer groups from the construction industry or from industrial manufacturing. These four customer groups are represented in Group Management as well as in the regional management teams and those of the individual countries. The relevant managers are responsible for the definition and launch of new products, the implementation of demonstrated best practices, and the product-line and pricing policies for Group products, i.e. those offered worldwide rather than only within a particular country.

The heads of the central services finance, production and logistics as well as research and development are likewise members of Group Management, which consists of 14 members. All Group business is consolidated in Sika AG, the holding company, itself in turn under the supervision of the Board of Directors. The organization structures are presented on pages 31 to 38 of this Report.

In accordance with Art. 663c of the Swiss Code of Obligations, major shareholders hold a share of voting rights of over 3%. As of the balance sheet date of December 31, 2010, Sika had two significant shareholders. These are the Burkard-Schenker family, which according to information provided by the family as at December 31, 2010, holds 53.2% of all share votes, in part through the Schenker-Winkler Holding AG, Baar, and Ameriprise Financial Inc., Minneapolis, Minnesota, USA, which held 3.03% of all share votes on the balance sheet date. A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange Ltd during the year under review can be found at http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

There are no crossover holdings exceeding 3%, either in terms of capital or votes.

CAPITAL STRUCTURE. As at December 31, 2010, capital stock totaled CHF 22 861 602.00. This was divided into 2 151 199 bearer shares, each with a nominal value of CHF 9.00, and 2 333 874 registered shares, each having a nominal value of CHF 1.50. All shares earn the same dividend, with payout adjusted according to nominal value. One share represents one vote. In addition, there is CHF 2 333 398.00 in contingent capital, unrestricted in time, comprising 259 822 bearer shares with a per-share nominal value of CHF 9.00.

These shares are reserved for the exercise of option or conversion rights. Shareholders are excluded from subscription rights. There are currently no conversion or option rights outstanding. Sika granted no participation certificates, dividend right certificates or stock options. Option plans do not exist for members of the Board of Directors, Group Management or employees. Changes in capital stock, reserves as well as retained earnings during the last five years are posted on pages 138 ff of this Report.

The purchase of Sika bearer and registered shares is open to all legal persons and individuals. The Board of Directors can deny purchase of registered shares if the purchaser's registered share holdings exceed 5% of the total number of registered shares entered in the commercial register. In the year under review no new shareholder exceeded this 5% threshold. Nominees, i.e. shareholders who acquire shares in their own name but on the account of third parties, are registered as shareholders without voting rights.

BOARD OF DIRECTORS. The Board of Directors is Sika's highest governing body and is mainly responsible for the:

- Definition of the corporate mission statement and corporate policies
- Decisions on corporate strategy and organizational structure
- Appointment and dismissal of members of Group Management
- Structuring of finances and accounting
- Establishment of the three-year plan as well as the annual and investment budgets

The members of the Board of Directors are elected by the Annual General Meeting for a term of office of three years. Members' tenures are staggered. They can be reelected at any time. Upon reaching the age of seventy,

directors resign their mandate. Detailed information on individual members of the Board of Directors is listed on pages 37 and 38 of this Report. No directorships are maintained with other listed companies on a reciprocal basis. The Board of Directors constitutes itself, electing the Chairman and Vice Chairman from its ranks.

Presently the Board of Directors of Sika AG consists of nine members. None of the members of the Board of Directors was a member of Group Management or the executive management of a Group company during the three preceding business years. The Board convenes at the Chairman's request as business demands. In business year 2010 the Board met six times. The Chief Executive Officer (CEO) participates in the Board meetings in an advisory capacity. The other members of Group Management take part as necessary, but at least three times per year, also in an advisory capacity.

Company officers report regularly and comprehensively to the Chairman concerning implementation of Board decisions. The CEO as well as the CFO report to the Board in writing on the development of business at least once per month. Extraordinary occurrences are reported immediately to the Chairman or the Audit Committee, insofar as such events relate to the latter's area of responsibility. The Internal Audit staff report to the Chairman as well as the Audit Committee within the scope of the review schedule.

BOARD COMMITTEES. Sika has two committees of the Board of Directors: The Audit Committee as well as the Nomination and Compensation Committee. The chairpersons of these committees are elected by the Board. Otherwise, the committees organize themselves. Information on the members of the Committees can be found on pages 37 and 38 of this Report.

- The Audit Committee mainly reviews the results of internal and external audits as well as risk management. The committee assembles on request of its chairperson as required. Customarily the Chairman of the Board and the CFO, as well as the CEO if necessary, take part in these meetings in an advisory capacity. In the year under review the Audit Committee met four times.
- The Nomination and Compensation Committee prepares personnel planning at Board and Group Management level and handles matters relating to their compensation. One of the central tasks of the Nomination and Compensation Committee is succession planning for the Board of Directors and Group Management. The committee convenes at the request of its chairperson as required. Usually the Chairman of the Board and the CEO participate in these meetings in an advisory capacity. In the year under review the Nomination and Compensation Committee met six times.

GROUP MANAGEMENT. Within the framework of Board resolutions, Sika's operative leadership is incumbent on Group Management. The members of Group Management and their functions are listed on page 32 of this Report. Detailed information on their backgrounds and activities can be found on pages 34 to 36 of this Report. Sika had no management contracts with third parties in the year under review.

SHAREHOLDER PARTICIPATION RIGHTS. Sika upholds restrictions to voting rights neither on the basis of by-laws nor by other means, and thus also no rules for granting exceptions. Accordingly no exceptions were made in the year under review with respect to voting rights restrictions. Every shareholder can exercise share votes through representation by another shareholder with voting rights, a registered representative of securities accounts or an independent proxy. Information on what constitutes a quorum under the by-laws can be found in Art. 704 of the Swiss Code of Obligations (OR), as well as § 15 paragraph 3 of Sika's articles of association.

The orders of business for which a majority is required are defined therein. Sika's articles of association can be found at <http://www.sika.com/en/group/investors/corporategovernance/articlesofassociation.html>. The invitation modalities and deadlines for the Annual General Meeting are conforming with legal requirements.

In addition, shareholders representing a nominal share value of CHF 150 000 can request in writing to have an item placed on the agenda during a 14-day period approximately two and a half months prior to the Annual General Meeting. New registered shares will not be registered by the company in the 2 working days prior to the Annual General Meeting. Therefore registered shares sold between the deadline and the Annual General Meeting are not entitled to vote.

DELINEATION OF POWERS OF AUTHORIZATION. The powers of authorization, duties and responsibilities of the Board of Directors and Group Management are laid down in the organizational regulations of Sika AG and Sika Group.

CHANGE IN CORPORATE CONTROL AND DEFENSE MEASURES. In accordance with § 6 of the Sika articles of association, purchasers of shares are not obligated to make a public offering as generally prescribed by articles 32 and 52 of the Swiss Federal Act on Stock Exchanges and Securities Trading. There are no clauses governing changes in corporate control.

AUDITOR. The auditor of Sika AG is elected by the Annual General Meeting for a respective term of one year. In the year under review Ernst & Young AG, listed as an auditor in the commercial register since February 7, 1995, served in this capacity. In accordance with the Swiss Code of Obligations, the auditor in charge is replaced after a maximum period of seven years. The auditor in charge has been responsible for the audit mandate since 2010.

The auditor participates regularly in the meetings of the Audit Committee, providing oral and written report of the results of its reviews. The Audit Committee checks and evaluates the auditor and makes recommendations to the Board of Directors. The evaluation of performance and the negotiation of fees are conducted according to internally specified criteria. In 2010 the present auditor took part in two meetings of the Audit Committee.

Ernst & Young AG billed CHF 3.9 million for its services during the year under review. This figure includes the audits of individual closings within Sika AG, practically all subsidiaries and the review of the consolidated financial statements.

Ernst & Young AG received additional fees totaling CHF 1.1 million for tax consultancy and CHF 0.4 million for audit-related consulting services.

COMMUNICATIONS. Sika informs extensively on the development of business in annual and quarterly reports, at the annual media and financial analyst conference as well as at the Annual General Meeting. The continually updated website at www.sika.com as well as press releases regarding important developments are also integral components in communications. As a company listed on SIX Swiss Exchange, Sika is also obligated to comply in particular with requirements of ad hoc disclosure, i.e. the release of news which may affect its stock price. In addition, Sika maintains dialogue with investors and the media through special events and road shows. Information on important dates in 2011 can be found in this Report on page 158.

COMPENSATION REPORT. The compensation of members of the Board of Directors and of Group Management is presented in detail from page 153 onwards in Notes 25 to 26 in the Notes to the Financial Statements of Sika AG and is therefore not repeated here.

Nomination and Compensation Committee. The Nomination and Compensation Committee comprises directors Thomas W. Bechtler (Chairman), Urs F. Burkard and Paul Hälgi.

The Nomination and Compensation Committee draws up principles for the compensation of members of the Board of Directors and Group Management and submits them to the Board of Directors for approval. Furthermore, it approves employment contracts with the CEO and members of Group Management. All appointments and dismissals which fall within the province of the Board of Directors are to be presented beforehand to the Nomination and Compensation Committee, which will submit a recommendation to the Board of Directors. In urgent cases, the Nomination and Compensation Committee may reach a decision jointly with the Chairman's Office.

Following a defined method of operation, the Nomination and Compensation Committee also reviews the plans for the variable portions of compensation and submits its recommendations to the Board of Directors.

In the year under review the Nomination and Compensation Committee met six times.

Compensation of the Board members. The compensation of the members of the Board of Directors consists of a fixed base remuneration and meeting fees for membership in various committees. Meeting fees are paid in March for the preceding year.

Compensation for the Chairman of the Board of Directors comprises a fixed base remuneration and a variable portion equal to the short-term bonus component received by members of Group Management that is based on the financial result.

The compensation of members of the Board of Directors is subject to Swiss taxation and social security laws. Sika pays the respective employer contributions. The members of the Board of Directors receive no additional reimbursements of business entertainment expenses beyond actual expenditures for business travel.

The members of the Board do not participate in Sika's employee benefit plans.

The details on compensation of members of the Board of Directors are shown in Note 25 in the Notes to the Financial Statements of Sika AG on page 153 of this Report.

Compensation of members of Group Management.

Sika's compensation policy for members of management is based on the following principles:

- The amount of compensation must be competitive and in line with the market
- Overall compensation must be structured in such a way that it is significantly based on performance and results
- The components of remuneration must be fair, transparent and target oriented

In order to set compensation in line with the market, the Nomination and Compensation Committee confers with a renowned company which regularly prepares statistics on overall compensation paid to group management members and high-ranking managers in the industrial and construction chemical sectors. Based on these external and also internal benchmarks, the Nomination and Compensation Committee establishes a frame of reference for the overall compensation of members of the Board of Directors and of Group Management. The actual amount of compensation of the individual members of Group Management and of Senior Management is dependent on performance in a given business year.

The overall compensation for members of Group Management consists of a fixed salary as well as a short- and a long-term variable portion of compensation. The short-term variable salary portion of compensation is dependent upon the degree to which targets set have been reached and is determined as follows:

Financial targets (70%)

- EBIT Earnings Before Interest and Taxes
- ROCE Return On Capital Employed
- NWC Net Working Capital

Individual targets (30%)

- Quantitative and/or qualitative targets

The weighting of the individual financial targets depends on the area of responsibility (Region or Customer Group).

Group EBIT is kept separate from budgeting and indexed. Indexing produces an objective, beyond-budgeting EBIT target measurement which is both sustainable and fair since this method compares current company performance relative to peer companies. Peer companies are industrial firms with a comparable global structure and exposed to similar market cycles. Indexing is performed by a certified independent external consultant.

The individual targets may include qualitative targets along with quantitative targets.

The composition and weighting of targets is determined by the Nomination and Compensation Committee.