# SIKA
# BUSINESS YEAR
# 2017

WWW.SIKA.COM/ANNUALREPORT

BUILDING TRUST

# CONTENT



All Sika Annual Report content is available in German and English, and can also be accessed on our website **www.sika.com/annualreport.**

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# LETTER TO SHAREHOLDERS

## NEW RECORD FIGURES

Paul Schuler, Chief Executive Officer

Dr. Paul Hälg, Chairman of the Board

# Dear Shareholders

The Sika success story continued in 2017 with another record year. In local currencies, sales increased by 9.0% to CHF 6,248.3 million. Strong growth momentum and disciplined cost management led to new record figures of CHF 896.3 million (+CHF 101.0 million, +12.7%) for operating profit and CHF 649.0 million (+14.5%) for net profit. In the reporting year, 19 key investments were realized with a view to driving future growth. The strategic targets for 2020 were confirmed, and the growth target for 2018 raised to more than 10%.

All regions reported higher sales and were able to further increase market share. Particularly high growth rates were achieved in the USA, Mexico, Argentina, China, Southeast Asia, the Pacific area, the Middle East, Eastern Europe, and Africa, as well as in the automotive area. In cumulative terms, sales were up 9.0% in local currencies. The strength of the franc led to conversion effects of -0.3%, and thus to an 8.7% increase in sales in Swiss franc terms to CHF 6,248.3 million.

**RECORD PROFIT**

The high growth momentum produced above-average increases in the operating result and profit. Raw material price increases and volatility posed a challenge, with access to raw materials in China, for example, being limited by environmental constraints introduced by the government. Thanks to persistent cost management, margins were boosted further, while record figures were recorded for both EBIT (CHF 896.3 million, +12.7%) and net profit (CHF 649.0 million, +14.5%).

**GROWTH IN ALL REGIONS**

Sales in the EMEA region (Europe, Middle East, Africa) increased by 7.5% in local currencies (previous year: 4.6%). The major EU countries with the core markets of France, Italy, and the United Kingdom, recorded strong growth rates. The Middle East, Eastern Europe, and Africa all delivered double-digit growth.

At 18.4%, it was the North America region that posted the strongest growth (previous year: 7.8%), of which 8.5% was through acquisitions. Sika reported a significant increase in its business volume in the USA, growing much more rapidly than the local construction market in the reporting year. The positive development of the North American business was attributable in particular to the targeted investment in this region over the last few years.

The Latin America region increased sales by 3.3% (previous year: 5.1%). Both Mexico and Argentina generated above-avera growth. By contrast, construction activity continued to develop modestly in the countries that are more dependent on the raw material sector, such as Brazil, Peru, and Chile.

Sales in the Asia/Pacific region rose by 5.2% (previous year: 3.6%). High growth rates were recorded in China, while double-digit growth was achieved in Australia, New Zealand, and Thailand.

**CONTINUITY IN THE MANAGEMENT**

Following the departure of Jan Jenisch, the Board of Directors appointed Paul Schuler as new CEO of the Group with effect from July 1, 2017. Paul Schuler has worked for Sika for some 30 years, and has been a Member of Group Management since 2007. His responsibilities have included the build-up of the industry business as well as management of the North America and EMEA regions.

**19 KEY INVESTMENTS AND 74 NEW PATENTS**

The Group's accelerated expansion into growth markets continued under Paul Schuler's leadership in 2017, with a total of 19 key investments in nine new factories, three additional national subsidiaries, and seven acquisitions.

More than 900 employees working on basic research and the development of new products at 20 regional technology centers are the key drivers of our innovative strength. 74 new patent applications were filed in the 2017 business year, and numerous new products were launched in all target markets. Heralded by the slogan "From patents to world-class products", more than 20 products and innovations from all target markets were presented on Capital Markets Day 2017, including products for higher building standards, 3D concrete printing, and electric vehicles.

**2020 STRATEGIC TARGETS SET TO BE MET**

Along with its annual growth target of 6–8%, Sika is seeking to achieve an EBIT margin of 14–16% and operating free cash flow of more than 10% of net sales by 2020. At the same time, the return on capital employed (ROCE) should amount to more than 25%.

The Group's international expansion is to be further driven forward over the same period by 21 additional factories and five new national subsidiaries. The unknown outcome of Saint-Gobain's hostile takeover attempt remains an element of uncertainty for the future.

**DIVIDEND INCREASE OF 15.6% PROPOSED**
For the Annual General Meeting of April 17, 2018, the Board of Directors is proposing to shareholders a 15.6% increase in the gross dividend to CHF 111.00 per bearer share (2016: CHF 96.00) and CHF 18.50 per registered share (2016: CHF 16.00).

Our strong sales organization, our well-filled product pipeline, and the 19 key investments give us reason to look to the future with optimism. Our thanks go to the global management team and our more than 18,400 employees, whose efforts are responsible for Sika achieving another record year. We would like to thank all of them for their great dedication and loyalty over the past year.

A special debt of gratitude is due to our customers, business partners, and suppliers for their outstanding cooperation and the strong business relations we enjoy with them.

We would especially like to thank our shareholders for their enduring loyalty to Sika and the extraordinary trust they place in the Board of Directors and management.

Sincerely,

DR. PAUL HÄLG
Chairman of the Board

PAUL SCHULER
Chief Executive Officer

# AT A GLANCE

# FACTS & FIGURES 2017

## NEW RECORD FIGURES

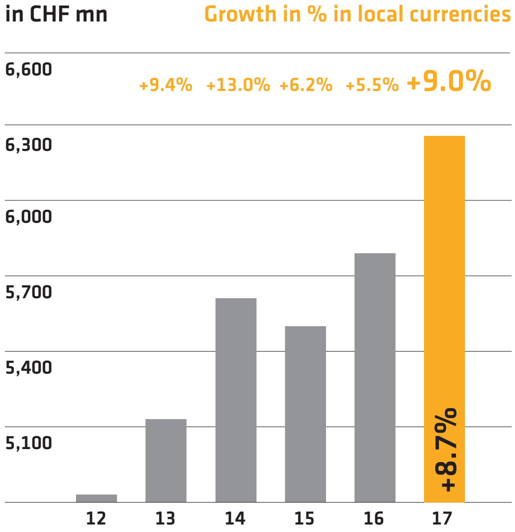
All regions were able to further increase market share. Due to strong growth momentum and disciplined cost management, operating profit and net profit increased at a disproportionally high rate – resulting in new record figures.

| in CHF mn | | Changes in % |
|---|---|---|
| 6,248.3 | Net sales | **+8.7%** |
| 896.3 | Operating profit (EBIT) | **+12.7%** |
| 649.0 | Net profit | **+14.5%** |
| 496.8 | Operating free cash flow | **-15.3%** |
| 29.8% | ROCE | +**1.1 pp*** |

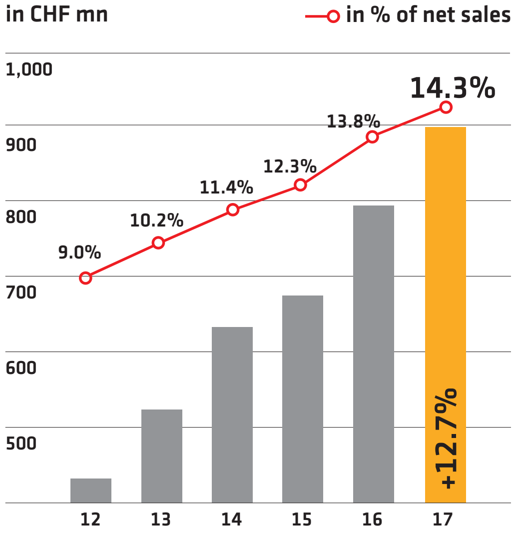
| | |
|---|---|
| 9 | New factories |
| 3 | New national subsidiaries |
| 7 | Acquisitions |
| 18,484 | Employees |
| 13 | Hours of training per employee |
| 905 | Employees in R&D |
| 20 | Global Technology Centers |
| -8% | Workplace accidents |

* percentage points

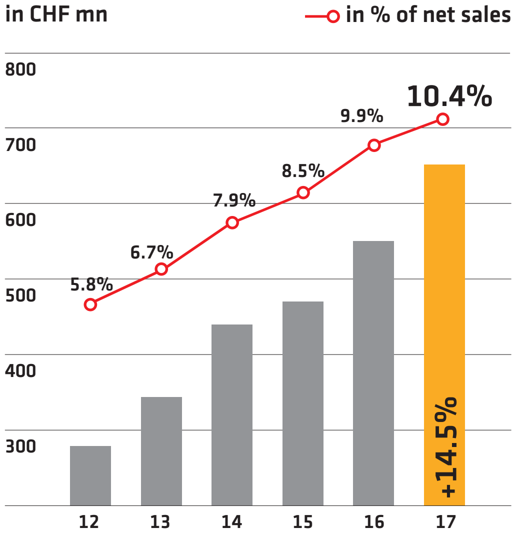
## NET SALES (CONSOLIDATED)



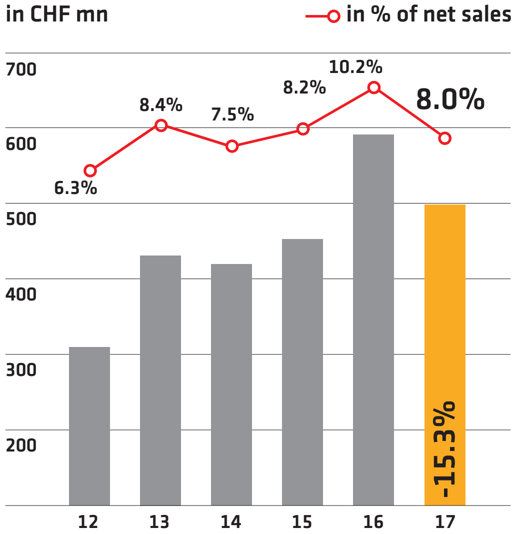

## OPERATING PROFIT (EBIT)



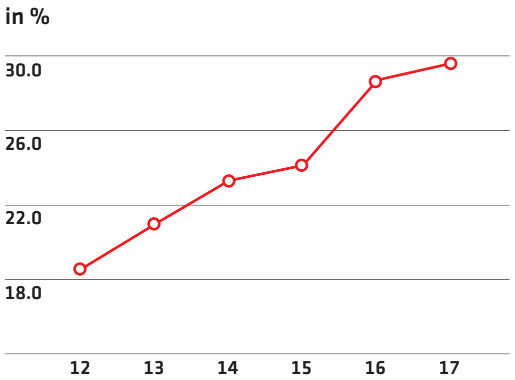

## NET PROFIT




## OPERATING FREE CASH FLOW




## ROCE



# STRONG STRATEGY EXECUTION

## STRENGTHENING THE MARKET POSITION

The cornerstones of Sika's growth strategy include investments in new national subsidiaries, new factories, and acquisitions. Sika positions itself early on in emerging economies and is well established in mature markets. This enables the company to harness potential at all stages in the development of local construction sectors and sell the entire product portfolio for new-build projects, in the application of higher building standards through to refurbishment work.

**WELL POSITIONED FOR THE CONSTRUCTION BOOM IN TEXAS**

In 2017, Sika expanded its presence in the high-growth US market with the start of operations at a new factory for concrete admixtures and mortar products near Houston. Also serving as a strategic distribution center, Sika's 22nd production facility in the USA will supply customers in the greater Texas area and the southwest of the country. With a total population of 20 million and home to a booming construction industry, the region also contains four of North America's fastest-growing cities: the major megacities Houston, Dallas, Austin, and San Antonio.

On a 16-hectare site Sika manufactures concrete admixtures, mortar products, and polymers – the backbone of high-performance additives used in concrete.


The construction industry is booming in Bangladesh. With its new headquarters in Dhaka, Sika is well positioned to capture the potential in this growing market.

**100TH NATIONAL SUBSIDIARY ESTABLISHED IN BANGLADESH**

With the establishment of a new national subsidiary in Bangladesh, Sika reached a further milestone in the implementation of its growth strategy and is now represented in 100 different countries. Bangladesh has over 163 million inhabitants. It is one of the most densely populated countries in the world and has a flourishing construction industry. The new headquarters in Bangladesh's capital Dhaka enable Sika to tap into the potential available in the local construction market, which has a total volume equivalent to CHF 15 billion and an annual growth rate of 12%. Local and foreign investments are channeled primarily into the construction of transport and energy infrastructures.

## IN THE FAST LANE THANKS TO FAIST CHEMTEC ACQUISITION

Through the takeover of Faist ChemTec Group, a leading manufacturer of high-performance engineered, structure-borne acoustic solutions in vehicles, Sika consolidates its position as a strong supplier which meets the demands of tomorrow's automotive construction sector. Headquartered in Worms, Germany, the company generates annual sales equal to CHF 190 million with a workforce of 840 and has six production sites in Europe, North America, and Asia, as well as a pan-European distribution network. Similar to Sika, its innovations are driven by megatrends such as the increased need for comfort and lightweight construction of vehicles. The acquisition brings technology and know-how that will accelerate Sika's growth and drive market penetration via the strong synergies between the two companies.

Christoph Röttges, CEO of Faist ChemTec (left), and Thomas Hasler, Head of Industry and Automotive at Sika, discuss ultralight acoustic solutions for energy-efficient vehicles.

At their robotics center in Frankfurt, Faist ChemTec's experts are developing automated assembly concepts tailored to the customers' production processes.

Quality you can hear. Testing solutions for reducing structure-borne noise in the BMW i3 at the acoustics center in Worms.

## SikaFiber® Force-60 FOR THE ULTIMATE IN CONCRETE REINFORCEMENT

In the year under review, Sika started producing high-performance concrete reinforcing fiber for customers in the Europe, Middle East, and Africa region at its manufacturing facility in Troisdorf, Germany, and invested in a new plant. Made of a thermoplastic material (polypropylene), the fibers are used to increase the structural strength of concrete in highly demanding applications. Macro fibers such as Sika's newly developed product line SikaFiber® Force-60 are mainly used instead of steel reinforcements for strengthening concrete or shotcreted structures with demanding performance requirements.

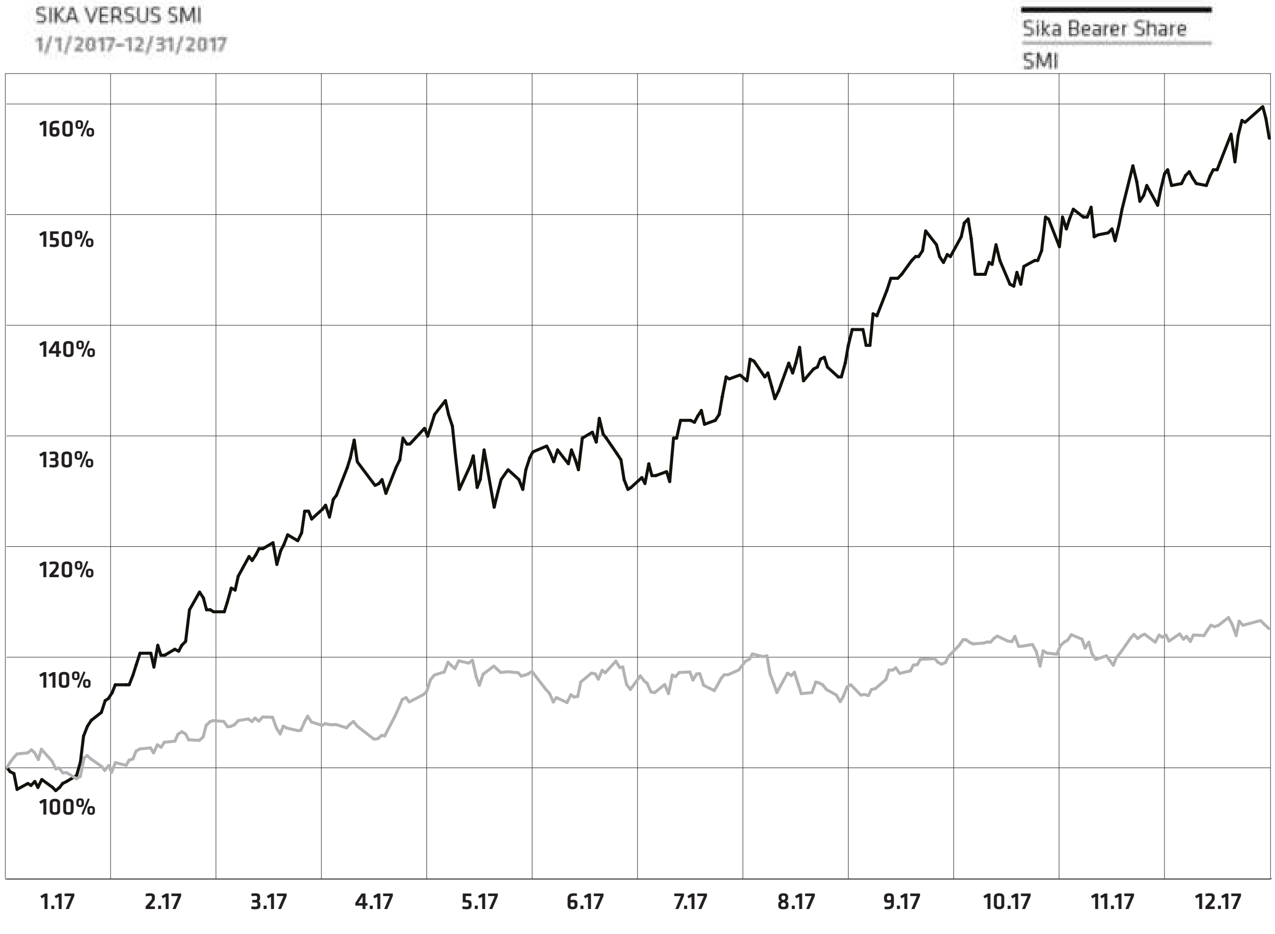
Production of innovative fibers for concrete at the Troisdorf site for customers in the EMEA region.

# THE SIKA SHARE

## SIKA ENTERS SWISS BLUE-CHIP INDEX SMI

On May 15, 2017, the Sika share entered the blue-chip stock market index SMI and now belongs to the 20 most important shares in Switzerland. Also in 2017, the share price performed above-average and the market capitalization exceeded CHF 20 billion for the first time.

SIKA VERSUS SMI
1/1/2017–12/31/2017




### OVERVIEW

- Performing at +58.2%, the Sika share price developed stronger than the SMI Index
- Closing price of the Sika share in 2016: CHF 4,892
  Closing price of the Sika share in 2017: CHF 7,740
- The key global share indices performed as follows:
  - SMI +14.1%
  - SLI +20.7%
  - DAX +12.5%
  - Dow Jones +25.2%
  - Nikkei +21.5%
- Shareholders benefit additionally from the record results: dividend increase of 15.6% proposed

### STOCK EXCHANGE RATIOS SIKA

| in CHF | 2017 |
|---|---|
| Market capitalization in CHF mn | 19,661 |
| Yearly high | 7,885 |
| Yearly low | 4,781 |
| Year end | 7,740 |
| Dividend 2016 | 96.00 |
| Dividend 2017[1] | 111.00 |
| Earnings per share (EPS) | 253.52 |

[1] Pursuant to proposal to Annual General Meeting

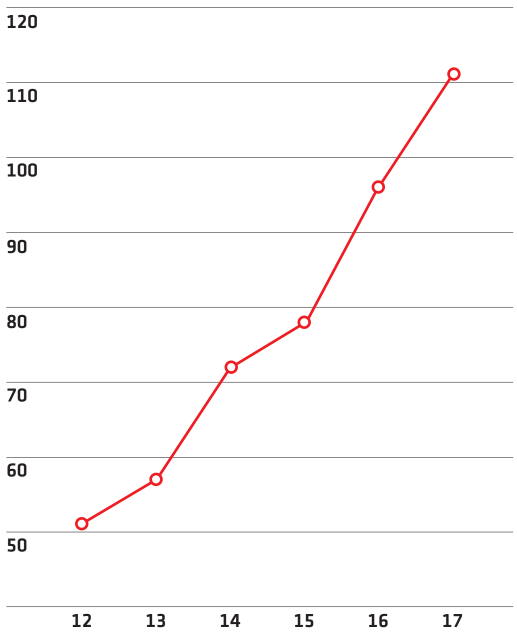
# DIVIDEND PAYOUT

## HIGHER DIVIDENDS

Sika's growth strategy is sutainable and guarantees good results. Sales have continuously increased over the past few years, and profits have developed at disproportionately high rates. Shareholders also benefit as Sika has been able to raise the dividend year after year.

### DIVIDEND

**CHF / bearer share**




2017: Pursuant to proposal to Annual General Meeting CHF 111.00

# STRATEGY & FOCUS

# BUSINESS ENVIRONMENT

## DYNAMIC GROWTH THROUGH FRAGMENTED MARKETS, MEGATRENDS, AND AN ATTRACTIVE BUSINESS MODEL

A company is typically part of a complex economic network and embedded in an economic environment. This presents both risks and opportunities. For many years now, Sika has been active in a market that is shaped by future trends, facilitates structural growth, and offers business potential.

### ATTRACTIVE INDUSTRIES AND MARKETS

As a company active in the field of specialty chemicals, Sika has a leading position in the development and production of systems and products for bonding, sealing, damping, reinforcing, and protecting in the building sector and motor vehicle industry. It is active in seven target markets: concrete, waterproofing, sealing & bonding, roofing, flooring, refurbishment and industry. In 2017, these markets were estimated to have a combined volume of more than CHF 70 billion, a figure that is predicted to rise to around CHF 80 billion by 2020. In other words, Sika is active in substantial markets with solid growth rates. Moreover, the pronounced fragmentation of these markets provides the company with additional potential to expand its business volume in attractive segments. For example, the combined market share of the ten largest internationally active companies in the construction chemicals sector is just 40%. Sika's global market share currently amounts to just under 10%. In many cases, numerous small companies with a very small market share and a modest market position are active in individual markets and countries. Sika uses its reputation and its strong distribution organization to extend its market position on an ongoing basis. The health of the global construction industry is providing the company with an additional boost.

### EXTERNAL GROWTH THROUGH ACQUISITIONS IN FRAGMENTED MARKETS

Sika's acquisition strategy should also be viewed against this background. External growth in the form of corporate takeovers is pursued if a company possesses a complementary product portfolio and its customers can accordingly be offered added value, or if the Group's distribution channels and its market access can be expanded. For both Sika and the acquired company new growth platforms are established which, in particular, allow the acquired company to utilize production capacity fully and improve its access to the global market – thanks to Sika's worldwide presence. In other words, a win-win situation arises for both parties.

### STRONG BUSINESS MODEL FOR ALL PHASES OF A CONSTRUCTION'S LIFE-CYCLE

The current economic phase of a country's development will also be reflected in the focus of the local construction sector. In the emerging markets, the dominant feature of activity is the expansion of infrastructure in the form of transportation projects such as roads, airports and ports, energy projects such as power plants, and the construction of public buildings and facilities such as hospitals.

Markets at a later stage of maturity tend to attract investment in buildings of a higher quality. The products sought after in this context are those that offer greater safety, higher energy efficiency and greater environmental compatibility, as well as rapidly applied – and therefore more efficient – system solutions.

In mature markets, it is above all the refurbishment of building facilities and renovation projects that take center stage. For example renovation projects encompass the waterproofing and reinforcement of bridges, as well as commercial and private residential buildings.

Sika offers solutions for all the above-mentioned phases of a construction facility's life-cycle, and is well positioned in both emerging and mature markets thanks to its global network of national subsidiaries and specific product families. This enables the company to market technologies for all stages of a construction object's life-cycle – from new buildings through to refurbishment work. In the early phases of development, market growth is frequently achieved via distributors. Only when Sika's products and brand are established in a country, and the market exhibits healthy growth potential, will Sika invest in its own national subsidiary and start building up its local supply chain – including local production – step by step.

### STRUCTURAL GROWTH THANKS TO MEGATRENDS

Megatrends determine the future and bring about social transformation. Urbanization, sustainability, and lightweight construction/e-mobility are three of the megatrends on which Sika's business model is based, and which facilitate dynamic growth and a high level of competitiveness.

## URBANIZATION AND MEGACITIES

For the first time in history more than half of the world's population lives in an urban environment, with a global trend of people being drawn to the city from the countryside. Although the urbanization dynamic is particularly pronounced in emerging markets and developing countries, this trend continues to be observed in highly developed countries too. Indeed, by 2030 some two-thirds of the global population is expected to live in an urban environment. The urban way of life and the emergence of megacities also have an impact on the construction industry, thus stimulating demand for Sika products. Dense population clusters and heavily limited space on which to build are factors conducive to the construction of high-rise buildings that require high-performance, safe, and environmentally friendly building materials from foundations to roof.

## SUSTAINABILITY

The earth's climate is changing at a more rapid rate than ever before. By signing up to the Paris Climate Agreement, countries all round the world have undertaken the task to alleviate the problem of climate change through regulatory measures. The agreement calls on chemical companies to contribute to the reduction of their customers' $CO_2$ emissions. With its "More Value – Less Impact" strategy, Sika is committed to achieving these goals. For example, the company has set up the Sika Sustainability Advisory Board, which sets out recommendations and targets for environmental protection. Furthermore, sustainable construction standards such as the LEED environmental rating system are increasingly gaining importance. These industry bodies issue certifications to construction projects that are planned and realized in a way that can be sustainably measured. Sika helps its customers to build more enduringly, and engages keenly with sustainable product developments in the area of research.

## LIGHTWEIGHT CONSTRUCTION AND E-MOBILITY

With 95 million new vehicles sold, global car production grew by 2.1% year on year in 2017, parallel to a paradigm shift unfolding in the automotive sector. Combustion engines are increasingly being replaced by electric drive systems. Alongside enhanced comfort, themes such as electromobility, lightweight construction, environmental compatibility, and safety will dominate the future of mobility. In Norway, electric vehicles already make up 50% of all new cars, while in the automotive market of the future – China – some 700,000 electric cars were sold in 2017. Numerous car manufacturers are responding to this phenomenon by making large-scale investments in the development of electric drive systems in readiness for the announced changes to the regulatory framework in various countries, as well as in-line with the specific requirements that apply in China. Sika aims to be a disproportionately strong beneficiary of the electromobility megatrend and wants to reach on average 20% more sales per electric car than for internal-combustion engine vehicles. Sika solutions are replacing the weld seams in electric cars with adhesives, strengthening the rigidity of newly designed vehicle bodies, delivering greater driving comfort thanks to interior soundproofing, increasing the safety of vehicle occupants thanks to superior crash resistance, and assisting with both the protection and heat management of batteries.

# STRATEGY

## GROWTH TRAJECTORY

The Sika growth model is synonymous with long-term success and profitable growth. By focusing on market penetration, innovation, expanding emerging markets, and acquisitions – and driven by its strong corporate values – Sika is growing successfully. With the positive development of business in 2017, the establishment of three further national subsidiaries, and the commissioning of nine new factories and seven acquisitions, Sika took a further major step forward in the implementation of its strategic targets for 2020.

### SUCCESSFUL STRATEGY IMPLEMENTATION SINCE 2015

| | |
|---|---|
| **Market Penetration** | ✓ - Successful target market concept<br>✓ - Megatrends driving growth |
| **Innovation** | ✓ - 217 new patents filed<br>✓ - 20 Global Technology Centers |
| **Emerging Markets** | ✓ - 26 new plants opened<br>✓ - 10 new national subsidiaries |
| **Acquisitions** | ✓ - 17 acquisitions in all regions<br>✓ - CHF 705 million sales added |
| **Values** | ✓ - Strong corporate culture<br>✓ - High employee loyalty |

### STRATEGIC TARGETS 2020

**Market Penetration**

**Innovation**

**Emerging Markets**

**Acquisitions**

**Values**

- 6–8% annual growth
- 30 new plants
- 105 national subsidiaries
- 14–16% EBIT margin per year
- >10% operating free cash flow per year
- >25% ROCE per year

# SUSTAINABILITY STRATEGY

## HONORING THE RESPONSIBILITIES

With its sustainability strategy, Sika's aim is to maximize long-term benefits and added value for all stakeholders and, at the same time, reduce resource consumption and the environmental impacts associated with production.

14.3% ✓
EBIT MARGIN
IN 2017

ALL ✓
LOCAL KEY PROJECTS
IMPLEMENTED

+31% ✓
PROJECTS IN 2017

**ECONOMIC PERFORMANCE**

Our success directly benefits all stakeholders.

**TARGET**
**Operating profit (EBIT) 14–16% of net sales.**

**SUSTAINABLE SOLUTIONS**

We are leading the industry by pioneering a portfolio of sustainable products, systems, and services.

**TARGET**
**All new projects are assessed in accordance with Sika's Product Development Process. All local key projects are implemented.**

**LOCAL COMMUNITIES/SOCIETY**

We build trust and create value – with customers, communities, and with society.

**TARGET**
**5% more projects per year.**

MORE VALUE

LESS IMPACT

**ENERGY**

We manage resources and costs carefully.

**TARGET**
**3% less energy consumption per ton and year.**

**WATER /WASTE**

We increase water and material efficiency.

**TARGET**
**3% less water consumption and waste per ton and year.**

**OCCUPATIONAL SAFETY**

Sika employees leave the workplace healthy.

**TARGET**
**5% less accidents per year.**

+3% –
ENERGY CONSUMPTION
IN 2017

+/-0% WATER –
+3% WASTE –
IN 2017

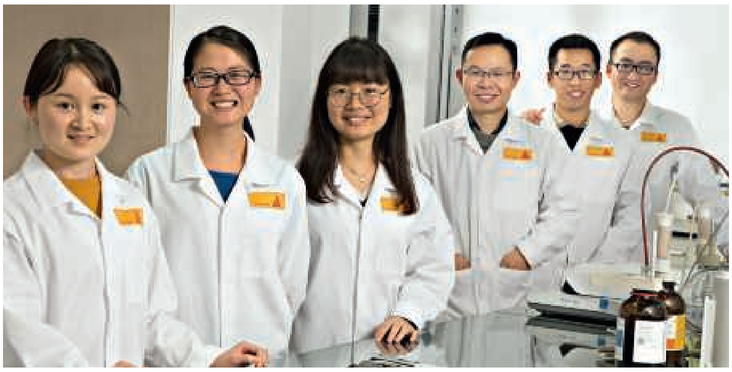
-8% ✓
WORKPLACE ACCIDENTS
IN 2017

# FROM INNOVATION TO SOLUTION

Sika's growth is driven to a large extent by innovation. Innovation can be the invention of a completely new molecule, or it can be identifying a new way to apply an existing technology. The key factor is that the innovation represents a benefit for customers, applicators, and those who live in and use buildings and vehicles. That is why Sika's employees listen very carefully and observe very closely – working together across teams and across regions to deliver timely solutions for the world of today and of tomorrow.

◂ **SIKA – TEAM CORPORATE AND PRODUCTION, TROISDORF, GERMANY**

« We developed a best-in-class high-performance fiber for concrete reinforcement. To complement it, we came up with an innovative packaging that is water-soluble and therefore waste-free – customers love it and we have won several awards. Successful development was made possible by the excellent collaboration between corporate experts from Process Technology, Concrete and R&D as well as the local experts in Process Engineering and Quality Assurance. »



**SIKA CHINA – R&D TEAM**
"Face-to-face communication is the ideal way to understand the clients' needs. This is a dynamic process that continues throughout the entire project to ensure customer satisfaction, and adds value through innovation."

**SIKA COLOMBIA – TEAM R&D AND SALES**
"Constantly working close to our clients is how we get ideas for new products. It helps us to realize innovative projects that really meet their expectations."

**SIKA BRAZIL – TEAM R&D AND SALES WITH CUSTOMER**
"Both our sales and R&D teams strive to fully understand the design and objective of each project. We make regular visits to our large infrastructure project in São Paulo, together with our customer OAS Engenharia."

**SIKA JAPAN – TEAM TECHNICAL SERVICE, R&D, MARKETING, SALES**
"Last year we launched Sikaflex®-268 to the Japanese market. Working as a team has enabled us to meet customer expectations. We are proud that we received positive feedback from the rail vehicle manufacturers using this product."

**SIKA NEW ZEALAND – TEAM R&D AND CONCRETE**

"Our lab team's skills ensure our concrete team can deliver the rock-solid certainty our customers demand."

**SIKA UK – TEAM R&D, MARKETING, PRODUCT MANAGEMENT**

«In the UK we are the market leader in a number of different roofing sectors. Innovation and collaboration between our R&D, marketing, and product management teams is key to our success.»

**SIKA SOUTH AFRICA – NATIONAL DISTRIBUTION TEAM**

"We meet our clients' needs all the way from R&D to procurement, production, and distribution. It is the job of our team to ensure that customers get our products on time, every time."

**SIKA URUGUAY – R&D TEAM**
“Our dedication and research efforts are rooted in our profound knowledge of our customers’ needs, leading us to outstanding and motivating results.”

**SIKA USA – PRODUCTION TEAM HOUSTON**
“It has been an awe-inspiring experience working on an expansion project team with access to the breadth and depth of Sika’s resources. Planning and execution have been methodical, and the very personal boots-on-the-ground approach to identifying and meeting customers’ needs makes it evident that we have planned for success.”

**SIKA ARGENTINA – TEAM CONCRETE AND SUPPLY CHAIN WITH CUSTOMER**
“We put the customer first and give highest priority to the quality of our products and services. This results in trust and decade-long relationships. We have worked together with our highly esteemed customer JoséMaria Casas, a ready mix company, for more than 30 years.”

**SIKA GERMANY – TEAM R&D, MARKETING, SALES**
”When our researchers came up with a new flooring product, it was the collaboration between R&D, marketing, sales, and distribution that allowed us to highlight the innovative new features of the product, making it an instant success with our customers.“

**SIKA SWEDEN – TEAM CONCRETE**

"In Sweden our Concrete team is working very closely with the customer and provides project-specific innovations and services. From our lab, office, and factory we develop, sell, and produce the concrete admixtures that are shipped out to our customers on a daily basis."

**SIKA ETHIOPIA – TEAM R&D, MARKETING, SALES**

"Sika was the first foreign construction chemicals company to establish a production facility in Ethiopia. All our teams, including sales, marketing, and R&D, are involved in finding the right Sika products for our clients. We are proud to bring Sika's values and know-how to the Ethiopian market."

**SIKA USA – SUPPLY CHAIN TEAM, PRODUCTION MARION**

« We support customers in all of our market sectors from R&D through to the finished project. Our goal is to produce the next generation of innovative ideas requested by R&D, while creating customer loyalty through continuous process improvements to ensure product availability and on-time shipping. »



**SIKA CHILE – MARKETING TEAM**

"As a sales enabler, our mission is to communicate our leadership in technology. We work closely together with our regional R&D team, which is constantly developing and improving products for real-world applications in this demanding market."

**SIKA HONG KONG – TEAM R&D, OPERATIONS, SALES**

"R&D is all about communication, ideas, and innovation. We take advice from the customer and ideas from the sales team and turn them into new products and solutions. A strong team combining R&D, operations, and sales is key to our success."

**SIKA CAMBODIA – TEAM FINANCE, SALES, HR**
"Close cooperation between our HR, sales, and finance teams enabled the development of a new collaborative sales tool. This allows us to save time so that we can spend more of it with our customers – giving them a first-class service."

**SIKA CROATIA – TEAM TECHNICAL SERVICE**
« Our customers know that they can always contact us for help to find the best combination of products for their projects. To maintain this service we regularly test our products and educate our employees and partners. »

**CANADA – SWITZERLAND: HOW TWO SIKA SUBSIDIARIES SUCCESSFULLY INTRODUCED THE NEW PowerCure® TECHNOLOGY**

**SIKA CANADA – TEAM R&D, SALES, TECHNICAL SERVICE**
"When Bombardier Canada was facing a sudden increase in orders, we were thrilled to introduce them to our new PowerCure® technology. It was the seamless cooperation between our sales, training, and technical departments that made it possible for Bombardier to apply PowerCure® within weeks."

**SIKA SWITZERLAND – TEAM PRODUCT ENGINEERING, TECHNICAL SERVICE AND SALES WITH CUSTOMER**
"When it comes to glazing in cable cars, every gram counts. When CWA built new cabins for the Stockhorn aerial tramway, we recommended Sikaflex®-223 PowerCure® – it met customer expectations unlike any other product."

# THE SIKA BRAND

## THE SIKA BRAND STANDS FOR QUALITY, INNOVATION, AND SERVICE

Sika is a strong brand. It allows the Group to present a uniform identity in all target markets and with all products.

## SIKA AS A BRAND

Branding lends products a distinct identity and associates them with a specific set of values. This fact was recognized early in Sika's history by founder Kaspar Winkler, who coined the company's name and designed its logo. The considerable standing acquired by the Sika brand over the years is a tribute to this farsightedness. Having changed only slightly since its creation, the logo epitomizes continuity and solidity. It is recognized across the globe as synonymous with innovation, quality, and service. The combined word/picture trademark has proved a valuable asset throughout the world during the Sika Group's decades-long expansion. It has been successfully launched and is readily accepted across all cultural boundaries. Customers throughout the world can rest assured that they will receive Sika quality and service wherever they see the Sika logo.

**WORLDWIDE TRADEMARK PROTECTION**
Given the heightened awareness of the Sika brand, particularly the graphic word trademark, the company attaches high priority to a consistent and standardized use of the logo and the associated corporate image guidelines, and verifies compliance with them. The various attempts, in recent years, to copy the logo only serve to underline its enormous intangible value for the company.

The Sika umbrella brand and some 851 Sika product trademarks, such as Sika® ViscoCrete®, SikaBond® or Sikaflex®, sharpen the company's competitive edge. Hence the crucial role of trademark protection as a management task, performed both globally at Group level and locally at national level. In total, Sika held 10,735 trademark registrations in 165 countries at the end of 2017. Sika AG continuously monitors its trademarks and takes appropriate legal action in cases of infringement.

**CORPORATE IDENTITY**
The rollout of Sika's revamped corporate identity in 2013 gave the company's public face a fresh and modern look. The aim of the corporate identity process preceding this was to achieve a clearcut positioning of the brand based on uniform corporate design guidelines. Additional elements of these guidelines were rolled out in 2017, focusing primarily on the packaging layout as well as several appendixes to existing guidelines. In 2017 Sika introduced an in-depth e-learning course internally to help further strengthen brand understanding with employees across the globe.

**CORPORATE CULTURE – MAKING AN IMPACT ON THE OUTSIDE AND THE INSIDE**
The second core element of the Sika brand, alongside its positioning, is the brand personality. Three attributes form the backbone of this personality are pioneering, team oriented and committed. Today they shape the awareness of Sika employees worldwide. To ensure that internal collaboration remains very strong in the digital age as well, in the year under review the possibilities offered by our social intranet were tapped into to create new perspectives. Complementing internal measures, employer branding campaigns have also been stepped up in external communications to make the Sika Spirit visible and tangible outside the company and to further increase the awareness of Sika as an employer.

**BUILDING TRUST**
Sika successfully integrates the "Building Trust" tagline into its communication strategy. The implications of this pledge for Sika's brand positioning can be described as follows:
"Specialty chemicals are our business and trust is the foundation of our success. For more than a century, we have focused on the quality of our products while constantly bringing to our industry a spirit of reinvention. We are committed to delivering reliable, innovative, and long-lasting solutions to our customers in the construction, building and manufacturing industries. This truly represents the value and the impact of the full range of Sika's core competencies: sealing, bonding, damping, reinforcing, and protecting. Willing and able to meet future challenges of our clients and partners, we provide innovative products with added value, comprehensive services, expert answers, well-founded training, and custom-designed solutions. We're proud of our achievements and eager to prove ourselves that Sika provides a seal of quality you can rely on.
Committed to excellence.
Inspired by innovation.
Building Trust."

# TARGET MARKETS

## FOCUS ON THE TOP POSITION

### CONCRETE

Sika develops and markets a complete range of admixtures and additives for use in concrete, cement, and mortar production. These products enhance specific properties of the fresh or hardened concrete, such as workability, watertightness, durability, load-bearing capacity, or early and final strength. The demand for admixtures and additives is currently on the rise, particularly due to the increased performance requirements placed on concrete and mortar, especially in urban areas and for infrastructure construction. Furthermore, the increasing use of alternative cementitious materials in cement, mortar, and therefore also in concrete, leads to a growth in the need for admixtures.

### ROOFING

Sika provides a full range of single-ply and built-up flat roofing systems incorporating both flexible sheet and liquid-applied membranes as well as thermal insulation and various roofing accessories. A more than 50-year history has documented that Sika roofing solutions are outstanding performers, reliable, sustainable, and long-lasting. Demand in this segment is driven by the need for eco-friendly, energy-saving solutions such as green roof systems, cool roofs, and solar roofs, which simultaneously help to reduce $CO_2$ emissions. While refurbishment projects continue to gain significance in the mature markets, the emerging markets are moving towards higher-quality roof solutions for new build structures.

### WATERPROOFING

Sika's system solutions for waterproofing cover the full range of technologies used for below and above-ground waterproofing: flexible membrane systems, liquid-applied membranes, waterproofing admixtures for mortars, joint sealants, waterproofing mortars, injection grouts, and coatings. Key market segments include basements, underground parking garages, tunnels, and all types of water-retaining structures (for example reservoirs, storage basins, and storage tanks). Waterproofing systems face increasingly stringent requirements regarding sustainability, ease of application, and total cost management. Therefore the selection of appropriate waterproofing systems to suit the needs and requirements of owners, as well as the treatment of specific project-related details, is key for long-lasting and watertight structures.

### FLOORING

Sika's flooring solutions are based on synthetic resin and cementitious systems for industrial and commercial buildings, for example pharmaceutical and food-sector production plants, public buildings such as educational and healthcare facilities, parking decks, and private residential properties. Each market segment is subject to its own particular requirements in terms of mechanical properties, safety regulations (for example slip resistance), anti-static performance, and chemical or fire resistance. Trends in the flooring market are being dictated by the growing significance of safety and environmental regulations, as well as customized technical requirements. The high volume of building alteration and conversion projects nowadays has boosted the importance of efficient solutions for the refurbishment of existing flooring systems.

## SEALING & BONDING

Sika offers a wide range of high-performance and durable sealants, tapes, spray foams, and elastic adhesives for the building envelope, for interior finishing and for infrastructure construction. Typical applications include the sealing of movement joints between facade elements to make buildings weatherproof, the bonding of wood floors to reduce noise, or the sealing of joints in airport aprons. The growing demand in this market is fueled by an increasing awareness of the importance of high-performance sealants for the overall durability and energy efficiency of buildings, the increasing urbanization including the larger volumes of high-rise projects, and the continued replacement of mechanical fastening systems by adhesives due to better performance.

## INDUSTRY

The markets served by Sika include automobile and commercial vehicle assembly (structural bonding, direct glazing, acoustic systems, reinforcing systems), automotive aftermarket (auto glass replacement, car body repair), marine vessels, industrial lamination, renewable energies (solar and wind), and facade engineering (structural glazing, sealing of insulating glass units). Sika is a technology leader in elastic bonding, structural adhesives, sealants, reinforcing, and acoustic applications – serving the world's leading industrial manufacturers. Customers rely on Sika solutions to enhance product performance and durability while optimizing manufacturing efficiency. For example, Sika's solutions address key megatrends in vehicle design, leading to lighter, stronger, safer, quieter, and more efficient vehicles, while fast-processing materials and compatibility with automation optimize productivity.

## REFURBISHMENT

This segment features concrete protection and repair solutions, for example repair mortars, protective coatings, grouts, and structural strengthening systems. It also includes products for interior finishing, such as leveling compounds, tile adhesives, and tile grouts as well as facade mortars for external use. Sika provides technologies for the entire life cycle of commercial buildings, residential properties, and infrastructure constructions. Especially in developed markets, many structures are decades old and need to be refurbished. The present uptrend in demand is attributable to a rising volume of infrastructure rehabilitation projects in the transport, water management, and energy sectors. The global urbanization trend and the increasing need for renovation in developed markets are also fueling demand.

# PRODUCTS & INNOVATIONS

## COURAGE FOR INNOVATION

Sika's long history of innovation has led to unparalleled success in becoming a recognized global technology leader in many markets, as well as creating value for Sika's customers. While investing in established and new technology centers around the world, the company also nurtures and develops an international network of scientists, partners, suppliers and customers.

## INNOVATION AND GROWTH

Creativity, innovation, customer connections, and research are dynamic components of Sika's long-term success and future growth. Multiple large-scale projects are cultivated simultaneously around the globe, resulting not only in effective and original products for existing customers but also in opportunities for knowledge sharing among R&D teams in different countries. Securing and enforcing patents is an active part of protecting Sika's intellectual property.

**CUSTOMER-FOCUSED DEVELOPMENT**
A dedicated focus on core competencies – bonding, sealing, damping, reinforcing and protecting load-bearing structures – has been, and remains, the cornerstone of Sika's success.

In 2017, Sika's concentration on core knowledge and capabilities, as well as customer needs, led to unique new products, including novel adhesives and coatings with improved mechanical performance and environmental sustainability. Sika is introducing unrivaled cementitious mortars and underlayments with either acoustic properties or a unique balance of quick dry and non-crack properties. Remarkable new additives for masking contamination in cement and sand provide customers with a better application experience and reduced dependence on premium raw materials. Sika's R&D team developed more than 50 noteworthy new products in 2017 alone.

## DEVELOPMENT FOCUS IN INDIVIDUAL TARGET MARKETS

**CONCRETE**
Due to the worldwide shortage of high-quality aggregates, gravel and sand, secondary aggregates are increasingly being used for the production of concrete – either from recycling or from natural, inferior sources. Nevertheless, the finished concrete must meet the highest quality standards. The new ViscoCrete® polymers from Sika make it possible to compensate for the varying quality of such raw materials and to produce concrete with consistent optimum properties such as flowability and strength. Sika also meets the growing demand for concrete with highly aesthetic surfaces with its range of innovative surfactant agents.

In 2017 a new production line for synthetic macro fibers for European markets was successfully set up at Sika in Troisdorf. Based on the production knowledge from Australia, Sika's best performing fiber, SikaFiber® Force-60, was launched to the European market. Sika was also awarded with the German Packaging Award in the category Functionality and Convenience for its innovative fully water-dissolvable packaging.

**WATERPROOFING**
Sika produces a range of resin injection systems designed to stop water ingress through leaks. In 2017, multiple products used for injections were domesticated and made available to the local markets in North and South America. The company has also invested in production equipment to produce the latest addition to the SikaProof® portfolio for the Korean tunneling market. Sika has extended its range of waterproofing membranes with SikaProof A+, which offers improved adhesion to fresh concrete and therefore prevents lateral water underflow; In-house manufacturing has been implemented and results from initial basement waterproofing applications have been analyzed. This product is expected to be field tested in 2018.

**ROOFING**
Sika's new self-adhered PVC membrane, launched in 2017, is often used on roofs with unusual shapes and forms. The system is a good choice for any facility where Volatile Organic Compounds (VOCs) or odor may be a concern. Sika's bituminous product range has increased as a result of various company acquisitions, and efficient in-house production of bitumen-based sealing tapes for the construction and industrial markets was implemented.

Furthermore the company continues to profit from its technological leadership in polyurethane roof coatings, offering environmentally friendly and low emission products. Over the last 12 months Sika developed the portfolio to include a cost-effective base coat and primer. The continued focus on water-based technology has also led to the release of several products in 2017, including a high-performance top coat and an innovative early rain-resistant waterproofing product. Sika continues to select and develop technology platforms that will benefit from anticipated changes in legislative and regulatory environments.

**FLOORING**
Development work for synthetic resin flooring products continues to focus on meeting sustainable building requirements, which include low emissions, high performance, and excellent aesthetics. Novel epoxy coatings have been developed with ultralow emis-

sions, fast cure, and high performance for use in a range of industrial applications. The developments are based on novel Sika-patented hardeners. The environmentally friendly, low emission theme has extended to balcony coatings with the introduction of a low-odor waterproofing product and a high-performance clear top coat. Reliable, aesthetically pleasing products which meet the most stringent regulatory requirements remain the focus.

**SEALING & BONDING**

Both product ranges for sealants and adhesives were extended with numerous innovative new products and technologies. Sika launched new sealants based on aqueous dispersion polymers with outstanding elastic properties and weather resistance, as well as fire-rated products to seal cavities from fire and smoke thus making buildings safer. Furthermore new special jointing systems for airport runways and products with excellent chemical resistance for silo and tank applications have been developed. Sika added value for its customers with its high grab adhesives, eliminating the need to fix freshly bonded parts, and launched a product range for adhering to wet and green concrete thus eliminating unproductive waiting times.

**REFURBISHMENT**

Innovative building and engineering mortars from Sika provide complete sustainable solutions for every step of refurbishment projects in a wide variety of construction applications. Specific design and manufacturing of dry-mix compositions, according to local availability and technical requirements, provide longer life of the structures and high safety levels. The recently developed Sika mortars use the latest technologies to provide easy, fast and smart refurbishment with the least impact on the environment and very high performance – also for special applications in which specific properties such as fatigue resistance or extreme crack resistance are required.

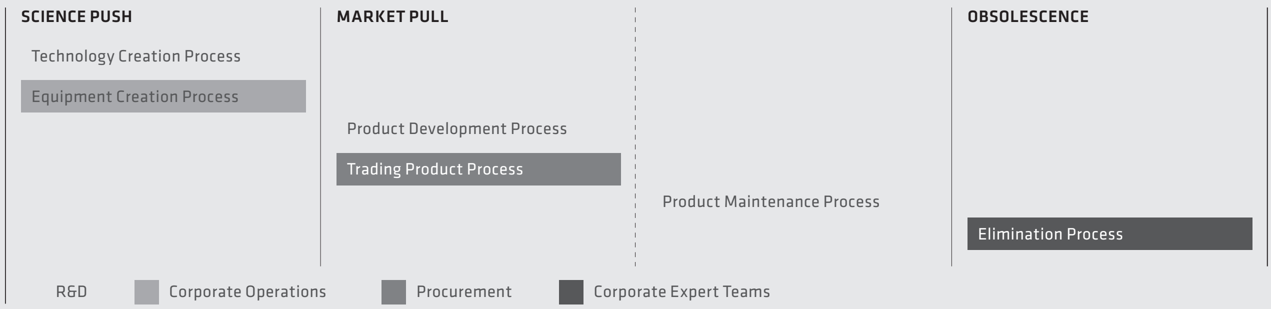
**INDUSTRY**

Sika is highly successful in driving efficiency improvements for its customers with fast and smart curing adhesive and sealant systems based on new, innovative, and patent-protected technologies. The trend for lightweight solutions continues and demands the replacement of steel, rivets, screws, bolts and welding by bonding concepts. Key requirements for such high-performance bonding concepts are a high durability and constant mechanical properties over the whole temperature range of use. Several groundbreaking new technologies for structural bonding applications have been developed in 2017, enabling Sika to significantly expand the business in the future.

**AUTOMOTIVE**

Sika has been selected as finalist for the 2018 Automotive News PACE Award with the new and innovative generation of PUR hot melt products for lamination applications. These patented products show the excellent application and mechanical properties of PUR hot melts whilst having a massively reduced monomeric isocyanate content, which prevents sensitization of workers. Therefore these products are branded “SF”, meaning “Safety First”.

## PRODUCT CREATION PROCESS



## RESEARCH STRATEGY

Sika's research activities are carried out at its 20 technology centers worldwide, with Switzerland as a key location. The research program targets the development of proprietary technology that provides key performance benefits and thus allows Sika's product platforms to respond to global trends such as resource-saving building methods, energy-efficient and low-emission construction materials, high-speed manufacturing methods, or lighter and safer vehicles. Key projects focus on high-performance molecules with unique features, smart refining techniques for polymers and surfaces, and tailored laboratory equipment allowing quick scale-up to full-size production.

Sika complements its internal research efforts by working with major universities and scientific institutes on fundamental technologies. One example is the "Mesh Mould" project, in partnership with the Swiss Federal Institute of Technology (ETH) Zurich, for the development of a robotized construction method for building load-bearing concrete elements of any shape without formwork. Sika also participates in international research projects and networks, such as the "Lorcenis" and the "EnDurCrete" projects. These grant-supported consortium projects run under the HORIZON 2020 program of the European Union and center on durable, environmental-friendly reinforced concrete for energy infrastructure, industrial and offshore applications.

## INVESTMENT

Total expenditures on research and development for the Group in the year under review totaled CHF 180.8 million (previous year: CHF 172.1 million), equivalent to 2.9% of sales (previous year: 3.0%).

## INTELLECTUAL PROPERTY

Sika maintains exclusivity over its innovative products through the systematic registration of its intellectual property rights. 112 new inventions were reported in 2017 (previous year: 84) and 74 new patent applications were filed (previous year: 72). By the end of 2017 Sika's patent portfolio included more than 700 unique patent families with more than 2,700 single national patents.

## NEW PRODUCTS IN 2017

Sika launched a number of important new products in 2017, including the following:

### CONCRETE
- **Sika® Stabilizer SI-100:** Admixture for aesthetic quality improvement of concrete surfaces both traditional RMC and precast applications but more importantly colored concrete.
- **Sika® ViscoCrete®-3301:** High-performance admixture to produce soft and rheology-improved concrete with fluctuating, inferior raw materials.
- **SikaFiber® Force-60:** Synthetic macro fibers for concrete reinforcement.

### MORTARS
- **SikaGrout®-3210:** High-performance grout for wind turbines, specifically designed for horizontal joints with optimized flow and setting properties for perfect pumpability in all application conditions.
- **Sikafloor®-40 Level:** High fluidity, self-levelling compound with excellent application properties and optimized balance of all components for perfect finish and performance.

### SEALING SYSTEMS
- **SikaBit® S-515 MX:** Self-adhesive, post-applied, bituminous membrane, offering high hydrostatic head resistance and vapor barrier.
- **Sika® Injection-101 BR:** Low-viscous polyurethane injection foam for temporary water stopping.
- **Sika® Injection-201 BR:** Low-viscous, flexible polyurethane injection resin for permanent watertight sealing even in wet conditions.
- **Sarnafil® G-410 EL SA:** Self-adhered, fully bonded PVC roofing membrane system.

### COATINGS
- **Sikafloor®-377 / Sikafloor®-376:** Polyurethane car park coating system with low moisture sensitivity combined with excellent wear resistance and durability.
- **Sika® Unitherm® Platinum-120:** Solvent-free epoxy intumescent coating for prolonged fire protection and approvals for indoor air quality.
- **Sikalastic®-580:** Acrylic water-based roof coating with novel early-rain resistance.
- **Sikafloor®-264 N:** High-quality, versatile epoxy floor with high early-strength development and optimized aesthetics.

### ADHESIVES AND SEALANTS
- **Sikaflex®-118 Extreme Grab:** Extreme high grab adhesive for applications without any initial fixings.
- **Sikaflex®-591:** Designed to perform well under harsh marine conditions. The sealant is available in different colors.
- **SikaSeal®-106 Construction:** Water-based sealant with extraordinarily high-performance level and movement capabilities for construction.
- **SikaBond®-151 Object:** Elastic wood floor bonding adhesive with excellent application properties designed for large objects with engineered wood, or small solid wood floors.
- **SikaPower®-1200:** Fast, room temperature-curing two-component epoxy adhesive for return flange bonding in wind blades with excellent durability performance.
- **Sikasil® AS-784:** RTV-2 silicone for short cycle line production. Excellent adhesion on all relevant substrates and best durability under various climatic conditions.
- **Sikaflex®-274:** Fast-curing assembly adhesive with booster to bond plastic parts in OES industry.

### AUTOMOTIVE
- **SikaMelt®-9700:** PUR hot melt, particularly designed for bonding of lenses into polycarbonate housings of headlamps, allowing immediate fixing of headlamp, showing excellent adhesion on all relevant substrates.
- **SikaReinforcer®-951:** Product shows optimized crash performance, improves the stiffness of car bodies and enables energy absorption in case of crash. Furthermore, it offers higher elasticity compared to other reinforcers and therefore better energy distribution, enabling minimal weight of car bodies while maintaining excellent crash properties.
- **SikaBaffle®-455 LB**: New low-bake version of acoustic baffle which prevent moisture ingress into vehicle body cavities and reduce noise, enabling lower oven temperatures, respectively shorter oven duration times, and consequently energy saving of the Automotive OEM.

# ACQUISITIONS & INVESTMENTS

## SUPPORTING GROWTH IN THE TARGET MARKETS

Acquisitions are an important element of Sika's growth strategy, enabling the company to enhance its core business with related technologies as well as to improve access to certain markets or additional distribution channels. Through capacity expansion fine-tuned to market demands, and investment in plant efficiency, the Group ensures the consolidation of its global growth potential. Acquisitions thus become a platform for further growth.

### ACQUISITION STRATEGY

Organic growth, i.e., growth driven by entrepreneurial endeavor, is at the core of Sika's corporate strategy. This organic growth is enhanced by carefully targeted external growth, which offers a useful way of closing existing gaps in access to target markets and consolidating fragmented markets. Particularly in North America, Asia, and parts of Europe and Latin America, Sika pursues this policy as a means of steadily improving its market position. At the same time, however, the company seeks to strengthen or extend its core business through the selective acquisition of related technologies, which Sika finds mainly in medium-sized enterprises in Europe, the USA, and some Asian countries. The fact that such acquired businesses are usually unable to market their systems worldwide sooner or later proves a barrier to growth, and by acquiring such companies, the Sika Group, as a global player, is able to leverage their full potential.

When evaluating a takeover offer, Sika relies on the expertise and experience it has already gained as well as on clearly defined processes in place across the Group. Since acquired companies are usually fully incorporated in the Group, Sika places great value on a smooth integration process, and therefore pays particular attention to the corporate culture of all takeover candidates prior to any acquisition.

The regions generally assume responsibility for the business aspect and integration of an acquisition, but the whole process is supervised and coordinated at group level.

### 2017 ACQUISITIONS

In February 2017, Sika acquired Bitbau Dörr, a leading waterproofing system manufacturer, headquartered in Innsbruck, Austria. The product portfolio includes complete waterproofing systems for roofs, buildings and civil-engineering applications. Both companies will benefit from growth opportunities resulting from expanded distribution channels and a broader customer base.

In August 2017, Sika acquired ABC Sealants, a leading Turkish-based manufacturer of sealants and adhesives headquartered in Istanbul. The acquired production site will not only improve Sika's ability to serve customers in the Turkish market but will also function as a distribution and production hub for the Middle East and Africa, reinforcing the supply chain in this region.

In October 2017, Sika acquired KVK Holding a.s, headquartered in Prague, Czech Republic, a leading manufacturer of waterproofing and roofing systems as well as a wide range of mortar products. With these strategically located facilities, Sika will strengthen its production platform and expand its geographical footprint in the growing Czech market.

In October 2017, Sika acquired Butterfield Color, Inc., a US-based market leader in the production of decorative concrete floor products and systems. The acquisition will accelerate Sika's growth by bringing the most comprehensive range of solutions for concrete contractors in the North American construction market.

In November 2017, Sika agreed to acquire Faist ChemTec Group, a leading manufacturer of high-performance engineered, structure-borne acoustic solutions for the automotive industry headquartered in Worms, Germany. With six production sites in Europe, North America and Asia, and a pan-European distribution network, it supplies its customers with successful and innovative products. The acquisition brings technology and know-how that will accelerate Sika's growth and drive market penetration via the strong synergies between the two companies.

In December 2017, Sika acquired certain assets of Grupo Industrial Alce in Mexico. As a result, Sika will extend its range of solutions for roofing and waterproofing customers, and further expand its manufacturing footprint in Mexico to better serve the Mexico City metropolitan area.
The addition of Grupo Industrial Alce's well-known brands will reinforce Sika's position in key project management and specification selling.

In December 2017, Sika acquired Emseal Joint Systems, Ltd., a US-based market leader in the development and manufacturing of structural expansion joint products for new construction and refurbishment. With the acquisition, Sika will be able to offer the most comprehensive range of sealing and bonding solutions available in the North American construction market.

## 2017 INVESTMENTS

Sika's unchanged investment strategy is geared to consolidating the global presence it has built up during the last few years, and unlocking new markets or expanding its activities to this end. To encourage focused growth, selected markets, customers, technologies, and products are prioritized. Sika continues to invest in production and logistics capacities at its sites in order to strengthen local supply chains, and its decentralized market development policy brings the company very close to its customers.

In the year under review, Sika invested CHF 163.4 million (2016: 154.9 million), which is equivalent to 2.6% of net sales. At 52%, the key focus for investment was the expansion of production capacity (2016: 54%). The breakdown of the remaining investments is as follows: 28% (2016: 24%) was needed to replace existing facilities, 16% (2016: 19%) was used for rationalization, and 4% (2016: 3%) was spent on environmental protection, health and safety, and quality control. The share of investment in the emerging markets was 39% (2016: 37%), underscoring Sika's growth strategy.

Sika will continue to invest in those regions where the Group can tap into new markets and generate growth.

# RISK MANAGEMENT

## EARLY IDENTIFICATION OF POSSIBLE RISKS

As a global player, Sika is exposed to a variety of risks. Ensuring the Group's freedom of action at all times, safeguarding its image, and protecting the capital invested in Sika necessitates the timely analysis of potential risks and their integration into strategic decision-making processes.

### 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 at Group level and for all its subsidiaries. Risks 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.

### GROUP MANAGEMENT AND BOARD OF DIRECTORS

Whereas Sika's Group Management regularly reviews the processes underlying risk management, the Board of Directors bears ultimate responsibility for risk assessment. Its duties include the annual reassessment of the risk situation at Group level. All risks are assessed in terms of a few basic questions:
- Is the risk global or regional in scope?
- What implications does the risk have for the Group?
- How high is the probability of losses occurring?
- What measures need to be implemented to prevent the risk or mitigate its consequences?

If a risk is rated critical in the overall assessment, effective measures are then taken to reduce the probability of or prevent its occurrence, or limit its implications.

Sika pursues a risk-based management approach along the entire value chain from procurement and production to marketing.

### SUPPLIER MANAGEMENT AND RAW MATERIAL PROCUREMENT

The raw materials that Sika processes into superior-grade products are the Group's biggest cost factor. This is why they are high on the risk assessment agenda. Almost 70% of the materials used by Sika in production – e.g., polyols, epoxy resins, acrylic dispersions, and polycarboxylates – are based on fossil fuels or their derivatives. Purchase prices consequently vary according to the supply and demand situation for each raw material and fluctuations in the price of oil. To reduce its dependency on crude oil, Sika is increasingly relying on renewable raw materials such as sugar derivatives, bioethanol derivatives, and natural oils. Moreover, recycled raw materials are used wherever possible, and many production plants implement their own or externally operated recycling loop systems. Mineral substances, such as calcium carbonate, sand, and cement, make up the remaining raw materials.

Sika purchases its base chemicals in accordance with strict quality requirements from certified suppliers offering the best value for money. In the case of key raw materials with limited availability or large purchase volumes, Sika mandates at least two suppliers whenever possible. For unique, highly innovative technologies, the Group seeks to manufacture raw materials itself or source them in close collaborative partnerships with innovative suppliers. In respect of all the materials used, compliance with the relevant statutory registration requirements (e.g., REACH or TSCA ) is monitored and ensured by a network of global and local specialists as well as external consultants.

Sika's purchasing specialists and technical experts work closely with suppliers' technical units to fully understand the raw material flows and continually optimize costs, quality, availability, and sustainability. Potential suppliers are closely screened by Sika. Before working with the company, they are required to sign the Supplier Code of Conduct, which covers all principles of sustainability.

Suppliers are regularly evaluated by a comprehensive supply risk management process to achieve continuous uninterrupted material availability, quality and cost competitiveness and compliance essential for the business success. The corresponding findings are incorporated into the risk assessment, along with the suppliers' self-appraisals and data available in the public domain. If a relevant risk is identified, Sika will conduct an audit of the supply company in question to ensure the functionality of the latter's internal risk management system. Potential risks are systematically identified and addressed, particularly in the case of local suppliers.

Raw materials are systematically evaluated within Sika to assess possible risks relating to quality and availability, and to determine relevant measures such as maintaining safety stocks or securing long-term supply contracts. Risk mitigation actions are actively developed in collaboration with R&D and Operations to ensure approval of potential alternate suppliers or solutions to mitigate an overall risk. 2017 was marked by an unusually high number of incidents caused by force majeure, as well as reduced availability of materials as a result of stricter environmental audits in China. Thanks to the processes and measures described above, Sika was able to mitigate the impacts and avoid disruptions in supplying its customers.

## PRODUCTION AND LOGISTICS

Sika sets defined standards for risk provisions that are binding for its production and logistics operations. These standards form part of the Group-wide "Sika Corporate Management System" and determine, for example, processes and guidelines in the areas of purchasing, quality, environment, health, and safety. Following the launch in 2016 of Sika's new intranet platform (SikaWorld), the "Sika Corporate Management System" is now accessible to employees all around the world. Together with the statutory regulations, the standards are also documented in the management systems of local Sika companies. Additionally, Sika production companies are certified to ISO 14001:2015 (environmental protection) and ISO 9001:2015 (quality), and many also to OHSAS 18001 (safety and health). A growing number of larger facilities are also certified to ISO 50001 (energy management). The current certification status of individual Group companies is shown on page 114 et seq. of the download version of this report.

Audits and inspections are core elements of Sika's comprehensive management system. They provide management at group, regional, and local company levels with a regular, independent assessment of compliance with official requirements as well as with Sika's internal risk management guidelines and principles. The audits and inspections ensure the effectiveness of processes and related controls. Quality, environment, safety and risk factors, technology, legal matters, application risks, IT security, suppliers and products are all subject to audit. On group level, Sika conducted 117 corporate audits in 2017.

Supplier audits are carried out by the purchasing and quality assurance departments on the basis of the risk assessment, and the number of reviews is steadily being increased. In 2017, two supplier audit trainings for more than 40 purchasing and quality assurance employees were conducted.

Sika also regularly audits production and logistics at local companies. This includes recording any risks that may result in production downtime, personal injury, property damage, or liability claims. The probability and significance of these risks are assessed, and measures are subsequently defined and implemented to minimize the risk potential at the site and to enhance safety. Sika is also insured against production losses.

Over recent years, Sika has succeeded in significantly reducing the number of accidents and is constantly working on further improvements.

The company is focusing more closely on accident prevention and, since 2015, has also operated a global, Web-based emergency notification and crisis management service solution.

## PRODUCT DEVELOPMENT AND MARKETING

For products and services, Sika implements a structured product development process that factors in potential risks. The Group monitors ecological and safety aspects during the development, production, and product-handling stages. For this purpose, it has introduced the specific checking of new developments against a sustainability profile. Sika also focuses on market opportunities and risks, product sustainability performance, and the protection of intellectual property.

Over a period of many years, Sika has had a global program in place to minimize the risks in advisory and sales activities that could provide grounds for product complaints. Thanks to a host of additional measures, including the regular training of employees, clearly formulated standards, detailed causal analyses, and stricter controls, expenditure for product-related claims is steadily being reduced. To avoid the risk of customers using Sika's products incorrectly, Sika provides systematic instructions, application training, and support to customers, as well as extensive documentation and quality control.

## CUSTOMERS AND MARKETS

Sika has 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 different regions of the world. Customer diversification – with no single customer accounting for more than 2.0% 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 cyclical renovation and maintenance market.

## FINANCIAL RISKS

The purpose of financial risk management is to optimize funding and achieve a liquidity position geared to financial obligations. Liquidity is ensured by means of long-term bonds.

Liquidity is optimized by means of a cash-pooling arrangement. Sika also manages its net working capital with the utmost prudence. For example, the local companies have precisely defined processes for handling accounts receivable. A cost structure dovetailed to the prevailing market conditions ensures adequate cash generation. Sika attaches high priority to open and cost-efficient access to capital markets. In this context, the A/negative rating of Standard & Poor's must be taken into account. Due to the legal disputes surrounding Saint-Gobain's hostile takeover bid, the outlook for Sika's rating has been downgraded from "stable" to "negative."

## INTERNAL AUDIT

Internal Audit carries out audits as set out in the annual audit plan. The internal audits are primarily for Group companies in the areas of sales, accounts receivable and accounts payable management, product development, purchasing, production, goods management, financial and operational reporting, payroll processes, and IT management. In addition to the global audit of sales and production companies, regular in-depth audits are carried out in the area of headquarters functions and Group-wide support processes. Internal Audit is an instrument of the Board of Directors and reports to the Audit Committee.

Financial risk management is described in greater detail on page 125 et seq. of the download version of this report.

# LEADERSHIP

# ORGANIZATION & LEADERSHIP

## INTEGRATED MANAGEMENT, FLAT HIERARCHIES

Sika's organizational structure is decentralized, with the management teams in the regions and national subsidiaries playing a pivotal role. The company is customer focused and is characterized by its traditional flat leadership structures.

### ORGANIZATIONAL STRUCTURE

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. An overview of the organization by regions for the 2017 financial year can be found on page 76 of the download version of this report.

Sika's regional breakdown is based on unified economic areas and supply chain structures. Overarching leadership responsibility ensures integrated management from production to the customer. Sika's sales organization is geared to seven target markets: Concrete, Waterproofing, Roofing, Flooring, Sealing & Bonding, Refurbishment, and Industry. This market-oriented distribution enables Sika to sharpen its customer focus, optimize its technical market support activities, and concentrate its R&D operations on market needs.

# ORGANIZATIONAL CHART

Sika takes the long view when it comes to developing its business. The relationship with customers, employees, and other stakeholders is shaped by respect and responsibility. Sika operates with a strong focus on safety, quality, environmental protection, fair treatment, social responsibility, responsible growth, and value creation.

BOARD OF DIRECTORS

**Paul Hälg,** Chairman
**Urs F. Burkard**
**Frits van Dijk**
**Willi K. Leimer**
**Monika Ribar**
**Daniel J. Sauter**
**Ulrich W. Suter**
**Jürgen Tinggren**
**Christoph Tobler**

**CEO**
**Paul Schuler**

LEGAL
Stefan Mösli

COMMUNICATION
Dominik Slappnig

PROCUREMENT
Marcos Vázquez

HR
Philippe Jost

**CFO**
**Adrian Widmer**

**TECHNOLOGY (CTO)**
**Frank Höfflin**

**CONSTRUCTION**
**Yumi Kan**

**INDUSTRY AND AUTOMOTIVE**
**Thomas Hasler**

**EMEA**
**Ivo Schädler**

**ASIA/PACIFIC**
**Mike Campion**

**NORTH AMERICA**
**Christoph Ganz**

**LATIN AMERICA**
**José Luis Vázquez**

# GROUP MANAGEMENT

Sika's Group Management is made up of experienced managers who have been active at Sika companies across the globe. Thanks to the diversity of their careers and their many years with the company, the members of Group Management have vast expertise that allows them to lead Sika successfully and steer the company toward the future. Urbanization with high levels of population density, high-rises, and infrastructure investments is one of the megatrends where Sika is capturing the full potential for its business.

**IVO SCHÄDLER**
EMEA
With Sika for 21 years in Switzerland and the UK

**CHRISTOPH GANZ**
North America
With Sika for 22 years in Switzerland, France, and the USA

**THOMAS HASLER**
Industry and Automotive
With Sika for 29 years in Switzerland and the USA

**ADRIAN WIDMER**
CFO
With Sika for 11 years in Switzerland

**JOSÉ LUIS VÁZQUEZ**
Latin America
With Sika for 34 years in Spain and Latin America
(until March 2018)

**YUMI KAN**
Construction
With Sika for 26 years in Switzerland and Asia

**MIKE CAMPION**
Asia/Pacific
With Sika for 20 years in Asia and the USA

**PAUL SCHULER**
CEO
With Sika for 30 years in Switzerland, Germany, and the USA

**FRANK HÖFFLIN**
Technology (CTO)
With Sika for 15 years in Switzerland and the USA

**PAUL SCHULER,** MBA
CEO

Nationality: Swiss; Year of birth: 1955
CEO since 2017; Member of Group Management since 2007; 2013–2017: Regional Manager EMEA; 2007–2012: Regional Manager North America; General Manager Sika USA; 2003–2006: General Manager Sika Germany; 1988–2002: Product Manager, Head of Sales Industry; Marketing Manager Industry; Business Unit Leader Industry; 1982–1988: International Key Account Sales Manager Switzerland, EMS Chemie AG, Switzerland; 1980–1982: Project Manager Air Condition Plants, Luwa AG, Hong Kong, China; 1976–1980: Production Manager, Hemair AG, Switzerland. Further commitments: Member of the Board Swisspearl Group AG.

**MIKE CAMPION,** BSc Chemistry
Regional Manager Asia/Pacific

Nationality: US; Year of birth: 1965
Regional Manager Asia/Pacific and Member of Group Management since 2017; 2016–2017: Head Target Market Concrete Asia/Pacific; 2015–2017: General Manager Sika China; Area Manager Greater China; 2013–2015: Senior Vice President Target Markets Concrete and Waterproofing, Sika USA; 2011-2015: General Manager Sika Greenstreak, USA; 1998–2011: Management Positions in Target Market Concrete and in Business Unit Construction, Sika USA; 1991–1998: Management Positions, Stonhard Inc., USA.

**CHRISTOPH GANZ,** lic. oec. HSG
Regional Manager North America

Nationality: Swiss; Year of birth: 1969
Regional Manager North America since 2013; Member of Group Management since 2007; since 2013: General Manager Sika USA; 2007–2012: Head of Corporate Business Unit Distribution; 2009–2012: General Manager Sika France; Area Manager France, North Africa, Mauritius; 2003–2006: Head of Business Unit Distribution; 1999–2003: Corporate Market Field Manager Distribution; 1996–1999: Project Manager Distribution, Sika Switzerland.

**THOMAS HASLER,** Dipl. Ing. Chem. HTL, Executive MBA
Head Industry and Automotive

Nationality: Swiss; Year of birth: 1965
Head Industry and Automotive since 2017; Member of Group Management since 2014; 2014–2017: CTO; 2011–2013: Head Global Automotive; 2008–2010: Senior Vice President of Industry and Automotive, Sika USA; 2005–2008: Senior Vice President Automotive North America, Sika USA; 2004–2005: Automotive Manager Europe; 2000–2003: Automotive Manager Switzerland; 1995–2000: Business Development Manager; 1992–1995: R&D Head Automotive OEM Adhesives; 1989–1992: Research Chemist Industry Adhesives.

**FRANK HÖFFLIN,** Ph. D. Chemistry
Chief Technology Officer (CTO)

Nationality: German, US; Year of birth: 1964
CTO and Member of Group Management since 2017; 2014–2017: Corporate Technology Head Thermoplastic Systems; 2011–2014: Corporate Technology Head Roofing and Waterproofing; 2004–2011: Vice President Research and Development, PTD Acoustics and Reinforcement, Sika USA; 2003–2004: Director Research and Development, Sika USA; 2001: Global Technology Manager, Exatec, USA; 1996–2001: Management Positions, Weatherables, GE Plastics, USA.

**YUMI KAN**
Head Construction

Nationality: Vietnamese, Taiwanese; Year of birth: 1970
Head Construction since 2017; Member of Group Management since 2016; 2016–2017: Head Building Systems & Industry; 2015–2016: Head Target Market Concrete Asia/Pacific; 2011–2016: Area Manager Southeast Asia; 1995–2014: General Manager Sika Vietnam; 2001–2005: Area Manager Indochina; 1994: Deputy General Director Sika Vietnam; 1992–1993: Sales and Marketing Manager Sika Vietnam.

**IVO SCHÄDLER,** MSc ETH Materials Eng., Executive MBA
Regional Manager EMEA

Nationality: Swiss, Liechtenstein; Year of birth: 1966
Regional Manager EMEA and Member of Group Management since 2017; 2015–2017: Area Manager Europe South, Head Target Market Refurbishment EMEA; 2012–2015: General Manager Sika UK and Sika Ireland ; 1997–2012: Head Business Unit Contractors and Industry, Head Marketing Construction, Product Engineer Industrial Flooring, Deputy Manager Diagnostic Center, Sika Switzerland; 1996–1997: Head Department Materials Testing and R&D, Wolfseher and Partner AG, Switzerland; 1993–1995: Manager Department Materials Testing, EMS Chemie AG, Switzerland.

**JOSÉ LUIS VÁZQUEZ,** Dr. Ing., MBA
Regional Manager Latin America

Nationality: Spanish; Year of birth: 1947
Regional Manager Latin America since 2009; Member of Group Management since 2002; 2002–2008: Regional Manager Europe South; 1984–2002: Head of Marketing; General Manager Spain; 1999: Area Manager Southern Europe; 1983–1984: Manager National Sport Insurance Company, Sport Ministry, Cabinet of Ministers, Spain; 1977–1983: Vice President, Oil Business Division, Explosivos Rio Tinto, Spain; 1972–1976: Director of numerous global projects in the area of road construction, harbors, factories; Helma (Cádiz), Boskalis (Cádiz), Laing (Valencia/Bilbao), Caminos y Puertos (Barcelona); 1970–1972: Laboratoire Central des Ponts et Chaussées, France; Instituto Eduardo Torroja, Spain.

**ADRIAN WIDMER,** lic. oec. publ.
Chief Financial Officer (CFO)

Nationality: Swiss; Year of birth: 1968
CFO and Member of Group Management since 2014; 2007–2014: Head Group Controlling and M&A; 2005–2007: General Manager Construction Systems Germany/Austria/Switzerland, BASF (Degussa) Construction Chemicals, Switzerland; 2000–2005: CFO Degussa Construction Chemicals Switzerland; Finance Director Business Line Flooring Europe; Manager Corporate Finance, Degussa Construction Chemicals, Switzerland; 1997–2000: Manager M&A, Textron Industrial Products, United Kingdom/Switzerland; 1995–1997: Market Development Manager, Textron Inc., USA/United Kingdom; 1994–1995: Business Analyst, Nordostschweizer Kraftwerke (NOK), Switzerland.

# BOARD OF DIRECTORS

**PAUL HÄLG,** Dr. sc. techn., ETH Zurich
Chairman

Nationality: Swiss; Year of birth: 1954
Member since: 2009; 2004–2016: CEO, Dätwyler Group, Altdorf; 2001–2004: Executive Vice President, Forbo International SA, Eglisau; 1987–2001: Product Manager, Commercial Director, CEO, Gurit Essex AG, Freienbach; 1981–1986: Project and Group Leader, Schweizerische Aluminium AG (Alusuisse), Zurich; Chairman of the Board: Datwyler Holding AG (and therefore also of PEMA AG and Dätwyler Führungs AG), Altdorf; Member of the Board: Dätwyler Cabling Solutions AG, Altdorf; Sonceboz Automotive SA, Sonceboz; Baumann Federn AG, Ermenswil; Chairman: Welfare Foundation Sika, Baar; Member of the Foundation Council: ETH Foundation, Zurich; Swisscontact, Zurich.

**WILLI K. LEIMER,** Dr. oec. HSG

Nationality: Swiss; Year of birth: 1958
Member since: 2010; Committees: Audit Committee; since 2003: Partner and Chairman of the Board, ISPartners Investment Solutions AG, Zurich; 2002-2017: Member of the Board and Partner, WM Partners Wealth Management, Zurich; 2007–2014: Chairman of the Board, Schenker-Winkler Holding AG, Baar; 1990–2002: Managing Director, Morgan Stanley, Zurich; 1988-1990: Associate, Goldman Sachs & Co., New York and Zurich; Chairman of the Board: Mojo Capital, Luxembourg; Turos Capital AG, Zug; Member of the Board: Helvetica Capital AG, Zurich; Canica Holding AG and Canica International AG, Freienbach.

**DANIEL J. SAUTER,** Financial Expert

Nationality: Swiss; Year of birth: 1957
Member since: 2000; Committees: Nomination and Compensation Committee; 1994–2001: CEO and Delegate of Board of Directors, Xstrata AG, Zug; 1983–1998: Senior partner and CFO, Glencore International AG, Baar; 1976–1983: Various banks, incl. Bank Leu, Zurich; Chairman of the Board: Julius Bär Gruppe AG, Zurich; Trinsic AG, Zug; Tabulum AG, Zug; Hadimec AG, Mägenwil; Member of the Board: ARAS Holding AG, Lenzburg; AS Print AG, Villmergen; Richnerstutz AG, Villmergen; Member of the Foundation Board: Avenir Suisse, Zurich.

**FRITS VAN DIJK,** School of Economics (HES), Rotterdam

Nationality: Dutch; Year of birth: 1947
Member since: 2012; Committees: Chairman Nomination and Compensation Committee; 1970–2011: Career within Nestlé (focus region Asia), of which the last 10 years as member of the Nestlé SA Executive Board, responsible for Asia, Oceania, Africa & Middle East; Member of the Board: Nestlé Malaysia Berhad; Member of Advisory Board: Al Muhaidib Group, Saudi Arabia.

**URS F. BURKARD,** Carpenter/Interior Designer

Nationality: Swiss; Year of birth: 1957
Member since: 1990; Committees: Nomination and Compensation Committee; 1989–2017: Principal, Burkard Office Design GmbH, Rotkreuz; 1987–1989: Head of planning, Denz Office Furniture, Zurich; Vice Chairman of the Board: Schenker-Winkler Holding AG, Baar; Member of the Board: Gazet Holding AG, Baar; Modularis AG, Zurich; ADUR Management AG, Oberägeri.

**MONIKA RIBAR,** lic. oec. HSG

Nationality: Swiss; Year of birth: 1959
Member since: 2011; Committees: Chairman Audit Committee; 2006–2013: CEO, Panalpina AG, Basel; 2005–2006: CFO, Panalpina AG, Basel; 2000–2005: Chief Information Officer (CIO), Panalpina AG, Basel; 1991–2000: Various functions within Controlling, IT and Global Project Management, Panalpina AG, Basel; Chairman of the Board: SBB AG (Swiss Federal Railways), Bern; Member of the Board: Lufthansa Group, Frankfurt am Main; Chain IQ Group, Zurich. Member of the Swiss Innovation Agency's Innovation Council, "Innosuisse", Bern.

**CHRISTOPH TOBLER,** Dipl. El. Ing. EPFL

Nationality: Swiss; Year of birth: 1957
Member since: 2005; Committees: Audit Committee; since 2004: CEO, Sefar Holding AG, Thal SG; 1998–2004: Head of Industry Division and Member of Group Management, Sika AG, Baar; 1994–1998: Adtranz Schweiz; 1988–1994: McKinsey & Company, Zurich; Chairman of the Board: AG Cilander, Herisau; Member of the Board: Sefar Holding AG, Thal SG; economiesuisse, Zurich; Member of Regional Advisory Board: Swiss National Bank.

**JÜRGEN TINGGREN,** MBA

Nationality: Swedish; Year of birth: 1958
Member since: 2014; 2011–2013: CEO Schindler Group, Ebikon; 2007-2011: CEO and President of the Schindler Group Executive Committee; 1997-2007: Member of the Schindler Group Executive Committee; 1985–1997: Sika AG, Baar. Final position: Member of the Management Committee with responsibility for North America; Member of the Board: Johnson Controls International Ltd., Dublin; OpenText Corporation, Ontario; The Conference Board, New York; Senior Advisor to the Chairman's office, Schindler Holding AG, Hergiswil.

**ULRICH W. SUTER,** Dr. sc. techn., Professor emeritus

Nationality: Swiss, US; Year of birth: 1944
Member since: 2003; 2001–2005: Vice President Research, ETH Zurich; 1988–2008: Professor, ETH Zurich, Department of Materials; 1982–1989: Professor, MIT, Department of Chemical Engineering, Cambridge, USA; Chairman of the Board: WICOR Holding AG, Rapperswil SG; Member of the Board: Rainbow Photonics AG, Zurich; Co-owner of Ceruda d.o.o., Serbia; President of the Foundation Council: Werner Oechslin Library Foundation; Member of the Board of Trustees: Pension Fund of the Weidmann Group of Companies; Swisscontact; Swiss National Science Foundation; President Swiss Academy of Engineering Sciences (SATW). Consultant to the National Research Foundation, Singapore.

# CORPORATE CULTURE

## SIKA SPIRIT MAKES THE DIFFERENCE

"Dear friends" – that's how most emails at Sika begin. Many employees describe the work atmosphere as informal and uncomplicated. The Sika corporate culture combined with the skills and expertise of our workforce is what defines the Sika Spirit and consistently produces new record results. To ensure that this remains the case in future too, employees are assured the best possible conditions.

### SHARED VALUES AS A STRONG FOUNDATION AND BASIS OF THE GROWTH STRATEGY

Customer First, Courage for Innovation, Sustainability & Integrity, Empowerment & Respect, and Manage for Results are the defining elements of our company. These values and principles serve as a compass at all Sika national subsidiaries around the globe and are applied by our employees. Thus the Group's culture of trust, transparency, and openness has a firm global foundation that is lived out in practice. Sika's 2020 growth targets describe what is being done, the corporate values how this is being achieved.

### ETHICAL CONDUCT AS A CORNERSTONE OF REPUTATION

The company is actively committed to ethical conduct and integrity as the strategic cornerstones on which Sika's excellent reputation is founded. Numerous compliance initiatives were conducted in the year under review, owing to the strong growth experienced by Sika as a result of the takeover of large companies, the establishment of new national subsidiaries, and fast-growing business activities in challenging markets. Accompanied by a large-scale international compliance campaign designed to promote integrity awareness, a new digital training program on the Code of Conduct was widely introduced throughout the company, as was the misconduct reporting system, the Sika TrustLine. Worldwide over 5,000 employees underwent compliance training and education in 2017. Leaders including senior managers, general managers, and executive management members in the 100 countries reinforced their role model status by signing a multi-year compliance commitment.

### LABOR AND SOCIAL STANDARDS

Sika companies and their employees comply with global and local labor and social standards. Furthermore, all employees are bound by the Sika Code of Conduct, regardless of where they work and in which function. The Sika Code of Conduct is binding even in cases where local laws are less stringent. In addition, as a signatory of the UN Global Compact, Sika prepares its reporting in accordance with the GRI standards. To ensure that the interests of all stakeholders are represented and to reaffirm our commitment, Sika is also a member of the World Council for Sustainable Development.

The Sika Code of Conduct protects and ensures compliance with human rights. The company respects the right to freedom of association. However, it must be noted that Sika also operates in countries where the right to freedom of assembly and collective bargaining are restricted by national legislation.

Sika tolerates neither child labor nor any type of slavery, and observes all laws and guidelines in respect of discrimination in any form. Sika actively promotes a recruitment policy aimed at achieving a diversified workforce. Chapter nine of Sika's Code of Conduct contains a zero tolerance guideline on harassment and discrimination in the workplace. In the reporting year, the compliance system was again strengthened in order to further promote the Sika Group's culture of trust, transparency and openness.

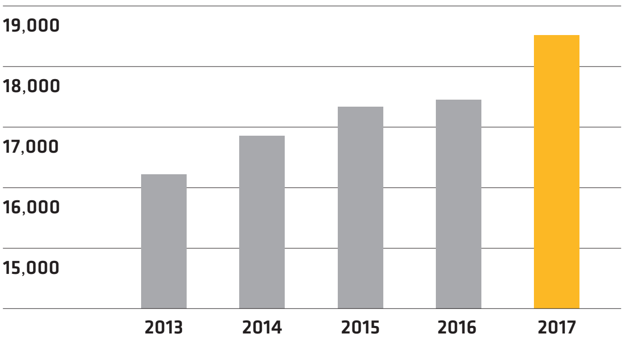
Every year around 20 internal audits and ten external audits are conducted, corresponding to some 20% of all Sika national subsidiaries. Among other things, these audits ensure compliance with the applicable labor and social standards.

### EMPLOYEES – THE KEY TO SUCCESS

The number of employees rose 6.1% during the year under review to 18,484 (previous year: 17,419). Regional distribution is as follows: EMEA: 9,822 (previous year: 9,083), North America: 2,142 (previous year: 1,818), Latin America: 2,479 (previous year: 2,349), Asia/Pacific: 4,041 (previous year: 4,169).

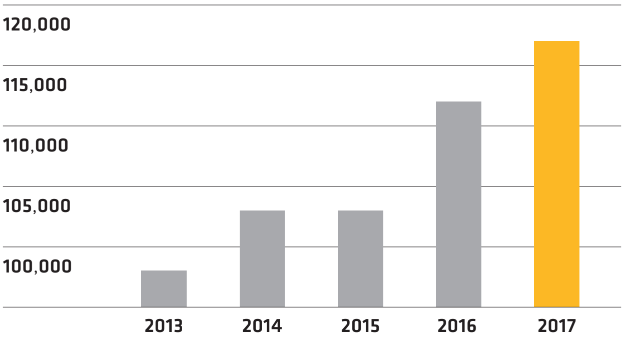
In 2017, 901 new employees joined Sika as a result of acquisitions. Organic growth also added a further 164 employees to the company headcount.

**EMPLOYEES**




Together, the workforce generated a net added value of CHF 2,092 million in 2017 (previous year: CHF 1,935 million). This corresponds to net added value per employee of CHF 117,000 (previous year: CHF 112,000).

**NET ADDED VALUE PER EMPLOYEE**
IN CHF




The age structure at Sika is broadly balanced: 15% of employees are under 30 years of age and 24% over 50. Sika wants to offer its staff long-term prospects with the company. Over 96% of employees have permanent employment contracts.

## DIVERSITY

Sika's global presence and associated proximity to customers make it extremely important to integrate different cultures and share experience and know-how across national boundaries. The company firmly believes that the diversity experienced by employees on a daily basis is one of the factors of its success, especially at senior management level. At courses and seminars, Sika managers are encouraged to give high priority to diversity in team and project planning. 48 nationalities are represented among Sika's Senior Managers.Women account for 22.6% of the total headcount (previous year: 22.7%) and 18.4% of managers (previous year: 17.4%). Sika is constantly working to increase these percentages.

## INTERESTING PROSPECTS ACROSS THE GLOBE

Sika has a local presence in over 100 countries and its products are available worldwide. The company is growing fast and able to offer employees adaptable career paths as opposed to rigid development plans. With its culture of flexibility and trust in talents, Sika creates and nurtures individual career opportunities and increasingly champions international mobility. Internal candidates are given preference. In recent years, for instance, some 300 employees were promoted to new positions and 100% of Sika senior management roles were filled in-house. The long-term employee prospects and the corporate culture are among the reasons behind Sika's low fluctuation rate of 6.2% (2016: 6.2%). Sika is proud to have employees who remain with the company a long time and contribute their know-how and experience over a lengthy period.

By building an employer brand and introducing related measures focusing on digital communication, Sika is further enhancing its reputation as an employer of choice. The external recruitment strategy is aimed predominantly at hiring and developing young talents, increasing the quota of female employees, and attracting more candidates from emerging economies.

## LEARNING FOR LONG-TERM SUCCESS

Sika is growing rapidly and posting record results. As a multinational, the company is still able to act as fast as a medium-sized enterprise and respond to business opportunities with high implementation speeds. To ensure that this remains the case, employee know-how must be kept in sync with current trends and market demands. In the year under review, Sika spent CHF 10.7 million (previous year: CHF 9.9 million) on employee development. The aim is to provide at least ten hours training per year for each employee. In 2017, this figure stood at 12.9 hours (previous year: 12.4 hours). The focus is on external as well as in-house training opportunities.

Geared to a strategy of sustainable growth, the programs offered by the Sika Business School comprise leadership and talent development, sales training, digital learning, and special academies. The more than 100 courses on offer in the year under review were attended by 1,600 participants. The 29 training programs conducted for existing and upcoming managers were designed to further foster management and leadership know-how and, among other objectives, prepare them for assignments abroad.

To promote the development of sales skills within the company, sales and marketing training was expanded to include new courses on negotiating tactics and key project management. Approximately half of all Sika Business School courses are sales-oriented. Furthermore, many training courses on Sika products and their applications take place at local and regional level. The company's expertise in advising customers is thus fostered further.

The range of online courses available was also increased significantly. Over 200 new programs were implemented, and more than 2,000 training hours completed online.

## DIGITAL COMMUNICATION PLATFORM

Driven by the Internet, real and virtual worlds are growing increasingly into an Internet of Things. In the year under review, Sika made further headway with the wide-scale integration of employees, customers, and business partners into business, value creation, and communication processes. Internal and external digital media therefore play a crucial role in shaping Sika's corporate culture. This not only applies to innovation management, recruitment, and training, but also extends to everyday communication, whether at the workplace or off-site.

In 2017, Sika pressed ahead with the worldwide launch of its state-of-the-art intranet platform SikaWorld, designed to promote the global transfer of knowledge. Every country where Sika is present has access to the platform and around 60 national subsidiaries publish their own regional content. In the year under review, SikaConnect was transferred to the cloud, the global tool for worldwide internal collaboration. Thanks to these two digital workplaces, the global transfer of know-how is faster and more straightforward.

In the process of implementing a sophisticated online communication strategy, a social media management tool available in all countries was introduced. In 2017, the Sika social media channels numbered around 90,000 regular users. LinkedIn remained the most popular channel, with some 60,000 followers.

# CORPORATE GOVERNANCE

# 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, is the only listed company of the Sika Group. Sika AG's bearer shares are listed on SIX Swiss Exchange under Swiss security no. 58797. Information on Sika AG's market capitalization can be found on page 11 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html). In the year under review, the Sika Group encompassed unlisted subsidiaries in 100 countries. 161 companies are included in the scope of consolidation. Companies of which Sika holds 50% or less of the voting rights are not consolidated. These are namely Condensil SARL, France; Part GmbH in Germany; Sarna Granol AG, Switzerland, as well as Hayashi-Sika Automotive Ltd., Chemical Sangyo Ltd., and Seven Tech Co. Ltd. in Japan. Detailed information on the Group companies can be found on page 135 et seqq. of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html).

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 towards seven target markets from the construction industry or from industrial manufacturing. These target markets are represented by two members of Group Management as well as in the regional management teams and the national subsidiaries. The relevant managers are responsible for the definition and launch of new products, the implementation of best-demonstrated practices, and the product-line policies for Group products, i.e., those offered worldwide rather than only in one particular country.

The heads of the central Finance and Research and Development are likewise members of Group Management, which consists of nine members. All Group business is consolidated in Sika AG, the holding company, which itself is under the supervision of the Board of Directors. The organizational structures are presented on pages 37 to 43 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html).

As of the balance sheet date of December 31, 2017, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting rights via Schenker-Winkler Holding AG (SWH) as of December 31, 2017. On December 8, 2014, the Burkard-Schenker family announced the sale of their Sika participation to Compagnie de Saint-Gobain ("Saint-Gobain"), and, on December 11, 2014, the Burkard-Schenker family and Saint-Gobain announced the formation of a group. On April 7, 2015, the Burkard-Schenker family and Saint-Gobain announced the dissolution of their group. Saint-Gobain itself announced on April 7, 2015, that it held 52.92% of all voting rights via SWH. Legal proceedings are ongoing in connection with the planned transaction, which, as far as the company is aware, has not yet been completed. (2) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III and Melinda French Gates as well as Bill & Melinda Gates Foundation Trust, which owned 4.77% of all voting rights on the balance sheet date. (3) BlackRock, Inc., which owned 3.41% of all voting shares on the balance sheet date. A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange during the year under review can be found at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

There are no cross-shareholdings exceeding 3%, either in terms of capital or votes.

## CAPITAL STRUCTURE

As of December 31, 2017, the outstanding share capital totaled CHF 1,524,106.80 and was divided into 2,151,199 bearer shares, each with a nominal value of CHF 0.60, and 2,333,874 registered shares, each with a nominal value of CHF 0.10. All shares earn the same dividend, with payout adjusted according to nominal value. One share represents one vote in the General Meeting. In addition, there is a maximum amount of CHF 155,893.20 in conditional capital (which represents 10.2% of the outstanding share capital as of December 31, 2017) , unrestricted in time, comprising 259,822 bearer shares with a nominal value of CHF 0.60 each. These shares are reserved for the exercise of option or conversion rights. The Shareholders' subscription rights are excluded. Further information on the conditional capital can be found in art. 2 para. 4 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html). Sika AG does not have an authorized capital.

There are currently no conversion or option rights outstanding. Sika has not issued any 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 the share capital, reserves, and retained earnings during the last five years are posted on page 142 et seqq. of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports 01.html).

The purchase of Sika bearer and registered shares is open to all legal persons and individuals. The Board of Directors can deny the purchase of registered shares if the purchaser's registered shareholdings exceed 5% of the total number of registered shares entered in the commercial register. 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. Further information regarding transfer restrictions of registered shares (including group and trustee clauses) can be found in art. 4 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html). The removal of the statutory transfer restrictions requires an affirmative vote of at least two-thirds of the votes represented, and an absolute majority of the par value of shares represented (see art. 7.3 para. 4 of the Sika Articles of Association).

## 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 medium-term planning 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 one year. They can be re-elected. Upon reaching the age of 70, directors make their mandate available. The Board of Directors may decide on exemptions. Detailed information on individual members of the Board of Directors is listed on page 42 and 43 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html). No directorships are maintained with other listed companies on a reciprocal basis. Further information regarding the election and the composition of the Board of Directors can be found in art. 8.1 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html).

The Board of Directors of Sika AG currently 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 Sika Group company during the three preceding business years. None of the members of the Board of Directors has a significant business connection with Sika AG or any of the Sika Group companies. The Board of Directors convenes at the Chairman's request as often as business demands. Meetings are generally held every one to two months. In the business year 2017, the Board of Directors met twelve times. The meetings lasted between four and six hours.

ATTENDANCE OF INDIVIDUAL BOARD MEMBERS

| Board Member | Number of meetings attended |
|---|---|
| Paul Hälg | 12 of 12 |
| Urs F. Burkard | 12 of 12 |
| Frits van Dijk | 11 of 12 |
| Willi K. Leimer | 11 of 12 |
| Monika Ribar | 11 of 12 |
| Daniel J. Sauter | 12 of 12 |
| Ulrich W. Suter | 12 of 12 |
| Jürgen Tinggren | 11 of 12 |
| Christoph Tobler | 12 of 12 |

The Chief Executive Officer (CEO) participates in the meetings of the Board of Directors 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 decisions of the Board of Directors.

The CEO as well as the Chief Financial Officer (CFO) report to the Board of Directors in writing on the development of business at least once per month. Extraordinary events are reported immediately to the Chairman of the Board of Directors or the Audit Committee, insofar as such events relate to the latter's area of responsibility. The Internal Audit staff report to the Chairman of the Board of Directors as well as the Audit Committee within the scope of the review schedule.

Information regarding the number of permitted mandates of members of the Board of Directors outside the Sika Group can be found in art. 8.4 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html).

## BOARD COMMITTEES

Sika has two committees of the Board of Directors: the Audit Committee and the Nomination and Compensation Committee. The members of the Nomination and Compensation Committee are elected annually by the General Meeting. Re-election is possible. The members of the Audit Committee as well as the chairperson of each committee are elected by the Board of Directors. Otherwise, the committees organize themselves. Information on the members of the committees can be found on page 42 and 43 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html).

The Audit Committee mainly reviews the results of internal and external audits as well as risk management. The committee convenes at the request of its chairperson as required. Customarily, the Chairman of the Board of Directors and the CFO, as well as the CEO if necessary, take part in these meetings in an advisory capacity. Meetings are generally held every two to three months, lasting between three and four hours. In the year under review, the Audit Committee met five times, with all members present at all meetings. More detailed information regarding the competences and activities of the Audit Committee can be found in the 5th chapter of the Organizational Rules of Sika AG and the Sika Group (available at https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html).

The Nomination and Compensation Committee prepares personnel planning at the level of the Board of Directors and Group Management and handles matters relating to 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 of Directors and the CEO participate in these meetings in an advisory capacity, insofar as they are not themselves affected by the items on the agenda. Meetings are generally held on a bimonthly basis, lasting between one and a half and two and a half hours. In the year under review, the Nomination and Compensation Committee met six times, with all members present at all meetings. More detailed information regarding the competences and activities of the Nomination and Compensation Committee can be found in art. 9 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html), the 6th chapter of the Organizational Rules of Sika AG and the Sika Group (available at https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html) as well as on page 55 et seqq. of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html).

## INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS GROUP MANAGEMENT

Within the framework of its nontransferable and inalienable duties, the Board of Directors of Sika supervises the Group Management. The members of the Group Management report to the CEO, who in turn reports to the Chairman of the Board of Directors. The Chairman of the Board of Directors is regularly and comprehensively informed by the CEO and the CFO on all matters pertaining to Sika. Extraordinary events are reported to the Chairman of the Board of Directors immediately. In every meeting, the Chairman of the Board of Directors, or, at the Chairman's instruction, the CEO informs the Board of Directors about the ongoing business. More detailed information regarding the information and reporting rights can be found in the Organizational Rules of Sika AG and the Sika Group (available at https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html).

Sika has a comprehensive risk management as well as an Internal Audit. Details can be found in the chapter "Risk Management" beginning on page 33 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html). As part of its audit plan, the Internal Audit reports to the Chairman of the Board of Directors as well as to the Audit Committee.

## GROUP MANAGEMENT

Within the framework of the resolutions of the Board of Directors, Sika's operative leadership is incumbent on Group Management. The structure of the Group Management is outlined in the beginning of the Corporate Governance section, on page 48 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html). During the year under review, the following persons resigned from the Group Management: Jan Jenisch (former CEO; resigned as per the end of June 2017), Ernesto Schümperli (former Head Concrete & Waterproofing; resigned as per the end of March 2017) and Heinz Gisel (former Regional Manager Asia/Pacific; resigned as per the end of March 2017). Mike Campion (Regional Manager Asia/Pacific) and Frank Höfflin (Chief Technology Officer) joined the Group Management as per April 1, 2017. As per July 1, 2017, Paul Schuler resumed the CEO position and Ivo Schädler (Regional Manager EMEA) joined the Group Management. The members of Group Management and their functions as per the balance sheet date are listed on pages 38 to 41 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html). Detailed information on their backgrounds and activities can be found on pages 40 and 41 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html).

Information regarding the number of permitted mandates of members of the Group Management outside the Sika Group can be found in art. 10 para. 3 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html). Sika had no management contracts with third parties in the year under review.

## REGULATION OF RESPONSIBILITIES

The powers, tasks, and responsibilities of the Board of Directors and Group Management are set out in detail in the Organizational Rules of Sika AG and the Sika Group (available at https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html). Further, for the tasks and duties of the Board of Directors and the Group Management, reference is made to art. 8.2 and art. 10 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html).

## COMPENSATION, SHAREHOLDINGS AND LOANS

As regards information on the compensation of the members of the Board of Directors and the Management Board, reference is made to the compensation report beginning on page 53 of the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html).

## SHAREHOLDER PARTICIPATION RIGHTS

Each shareholder can have his shares be represented by another shareholder with voting rights or the independent proxy. Proxies and instructions can be issued to the independent proxy in writing or electronically. The Annual General Meeting elects the independent proxy annually for a one-year term until the conclusion of the next Annual General Meeting. Re-election is possible. For more detailed information on the participation, representation and instruction rights of shareholders reference is made to the chapter CAPITAL STRUCTURE and art. 7.3 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html).

Information on the legal quora can be found in Article 703 et seq. of the Swiss Code of Obligations (CO); information on what constitutes a quorum under the Sika Articles of Association can be found in art. 7 para. 4 of the Sika Articles of Association. The resolutions for which a qualified majority (at least two-thirds of the votes represented, and an absolute majority of the par value of shares represented) is required are defined therein. The Sika Articles of Association can be found at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html. The invitation modalities and deadlines for the General Meetings match with legal requirements (art. 699 et seq. CO). In addition, during a period published by the Company in the Swiss Official Gazette of Commerce, shareholders representing shares with a nominal value of CHF 10,000 can request in writing to have an item placed on the agenda, indicating the proposals to be put forward.

The publication of the convening of the General Meeting is made in the Swiss Official Gazette of Commerce. The convening also contains the agenda items and the proposals of the Board of Directors. In addition, the invitation to the General Meeting is sent by post to the holders of registered shares. New holders of registered shares will not be registered by the company in the two business days prior to a General Meeting. Therefore, registered shares sold between the deadline and a General Meeting are not entitled to be voted.

## CHANGE IN CORPORATE CONTROL AND DEFENSE MEASURES

In accordance with art. 5 of the Sika Articles of Association (available at https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html), a purchaser of shares is not obligated to make a public tender offer (opting-out) as generally prescribed by art. 135 and 163 of the Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA). There are no change of control clauses.

## AUDITOR

The auditor of Sika AG is elected by the Annual General Meeting for a term of one year. In the year under review, Ernst & Young AG, listed as auditor in the commercial register since February 7, 1995, served in this capacity.

The auditor participates regularly in the meetings of the Audit Committee, providing oral and written reports on the results of its reviews. In 2017, the auditor participated in three meetings of the Audit Committee. The Audit Committee checks and evaluates the auditor and makes recommendations to the Board of Directors. For further information regarding reporting and control of the auditor reference is made to the 5th chapter of Organizational Rules of Sika AG and the Sika Group (available at https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html).

The independence of the auditor is ensured by various measures. The Audit Committee has defined a percentage threshold for non-audit services in relation to the audit services. In addition, services outside the audit which individually exceed CHF 100,000 are subject to prior approval by the chairman of the Audit Committee. As part of its reporting for the consolidated and statutory financial statements, the auditor confirms its independence vis-à-vis Sika AG. In accordance with legal requirements, the lead auditor is replaced after a maximum period of seven years. The current lead auditor has been responsible for the audit mandate since 2015. As set out in the 5th chapter of the Organizational Rules of Sika AG and the Sika Group (available at https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html), the Audit Committee reviews any potential conflicts between the audit and non-audit services of the auditor.

The performance of the auditor is evaluated by the Audit Committee as well as by employees of Sika who are in regular contact with the auditor. The assessment is based on criteria such as the professional expertise and know-how, the understanding of the corporate structure and company-specific risks, comprehensibility of the audit strategy proposed by the auditor and diligence in the implementation of the proposed audit strategy as well as the coordination of the auditor with the Audit Committee and the finance department of the Sika Group. In addition, the Audit Committee reviews the results of the audit, particularly the audit report for the consolidated annual financial statements and the interim financial statements.

The budget for the audit fees is proposed by the CFO and approved by the Audit Committee. During the year under review, Ernst & Young AG invoiced in total CHF 4.8 million for its services. Thereof, CHF 3.9 million related to audit services, which included the audit of the statutory financial statements of Sika AG and of practically all subsidiaries as well as the audit of the consolidated financial statements. Ernst & Young AG received additional fees totaling CHF 0.8 million for tax consultancy and CHF 0.1 million for additional services. These additional services related to legal advise in connection with local compliance requirements, the merger of two local subsidiaries and legal services in connection with employment law matters.

## INFORMATION POLICY

Sika provides extensive information on the development of business in its annual, half-year 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 media releases regarding important developments (https://www.sika.com/en/group/Media/Mediareleases/2018.html ) are also integral components in Sika's communication activities. As a company listed on SIX Swiss Exchange, Sika is also obligated to comply in particular with the requirements of ad hoc disclosure, i.e., the publication of price-sensitive facts. Anyone who would like to receive ad hoc publications of Sika can register for the push service on Sika's website under: https://www.sika.com/en/group/Media/registration-media-release-en.html. In addition, Sika maintains a dialog with investors and the media through special events and road shows. Official publications of the company are made in the Swiss Official Gazette of Commerce. In the download version of this report (available at https://www.sika.com/en/group/Publications/annual_reports01.html), the financial calendar with important publication dates in 2018 can be found on page 159 and the contact details of the company (address of head office, telephone, e-mail etc.) on page 160.

## MATERIAL CHANGES

Material changes having occurred between the balance sheet date (December 31, 2017) and the editorial deadline for the Annual Report are referenced in the report.

# COMPENSATION REPORT

# COMPENSATION REPORT

The Compensation Report describes the compensation principles and programs as well as the governance framework related to the compensation of the Board of Directors and the members of Group Management of Sika. The report also provides details around the compensation programs and the payment made to members of the Board of Directors and of Group Management in the 2017 business year.

The Compensation Report is written in accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations, the standard relating to information on Corporate Governance of the SIX Swiss Exchange and the principles of the Swiss Code of Best Practice for Corporate Governance of economiesuisse. It has the following structure:

# INTRODUCTION BY THE CHAIRMAN OF THE NOMINATION AND COMPENSATION COMMITTEE

DEAR SHAREHOLDERS,

In the name of the Board of Directors and the Nomination and Compensation Committee, I am pleased to introduce the 2017 Compensation Report.

2017 has again been a very good year for Sika, with an 8.7% revenue growth in Swiss francs (9.0% in local currencies) and 12.7% EBIT increase. The positive development of business in all regions, together with investments in new factories, the founding of further national subsidiaries and the market launch of new products all contributed to Sika's strong growth. In terms of relative performance, Sika outperformed its peers both in terms of sales growth and profitability improvement. The Compensation Report explains how these results impacted the variable incentive payments made to the members of Group Management under the different compensation plans.

During 2017, changes to Group Management occurred with Paul Schuler succeeding Jan Jenisch as the new Chief Executive Officer on July 1, 2017 and the appointments of Ivo Schädler as Head Region EMEA, Mike Campion as Head Region APAC, Frank Höfflin as Chief Technology Officer and Thomas Hasler as Head Industry and Automotive. Thanks to our strong and well-established talent pool, all vacancies were filled with experienced internal candidates promoted within or onto Group Management.

During the reporting year, following last years' amendments to the share-based compensation of Group Management and the introduction of a shareholding ownership guideline, the Nomination and Compensation Committee decided not to implement any further changes to the compensation system. In addition to the nominations to the Group Management mentioned above, the Committee performed its regular activities throughout the year such as the succession planning for the positions on the Board of Directors and Group Management, the performance goal setting at the beginning of the year and the performance assessment at year end, the determination of the compensation of the members of Group Management, as well as the preparation of the Compensation Report and of the say-on-pay vote at the Annual General Meeting.

At the 2017 Annual General Meeting, a binding vote on the aggregate maximum compensation amounts for the Board of Directors and for the Group Management was conducted, as well as a consultative vote on the Compensation Report, so that shareholders could express their opinion on our compensation policies and principles. The shareholders approved the compensation amount for the Group Management with a result of 99.56%, however the compensation amount for the Board of Directors (binding vote) and the Compensation Report (consultative vote) were again rejected mainly because of the majority voting rights of the main shareholder.

Looking ahead, we will continue to assess and review our compensation programs to ensure that they are still fulfilling their purpose in the evolving context in which the company operates and are aligned to the interests of our shareholders. We will also continue to maintain an open dialog with our shareholders and their representatives. We would like to thank you here for sharing your perspectives on executive compensation with us and trust that you will find this report informative.

Sincerely,

Frits Van Dijk
Chairman of the Nomination and Compensation Committee

# COMPENSATION GOVERNANCE

**NOMINATION AND COMPENSATION COMMITTEE**

In accordance with the Articles of Associations and the organizational regulations of Sika AG, the Nomination and Compensation Committee is composed of three members of the Board of Directors that are elected individually by the Annual General Meeting for a period of one year. Since the Annual General Meeting 2017, Mr. Frits van Dijk (Chairman), Mr. Urs Burkard and Mr. Daniel Sauter are re-elected members of the Nomination and Compensation Committee.

It is the responsibility of the Nomination and Compensation Committee to

- review and determine the compensation policy, including the principles for the variable compensation and shareholding programs according to the provisions specified in the Articles of Association;
- propose to the Board of Directors the maximum aggregate amounts of compensation of the Board of Directors and of Group Management to be submitted to the shareholders vote at the Annual General Meeting;
- propose to the Board of Directors the compensation level for the members of the Board of Directors, the CEO and the other members of the Group Management, within the maximum aggregate compensation amounts approved by the Annual General Meeting;
- provide the Board of Directors with a performance assessment of the CEO and of the other members of Group Management, together with a recommendation for the short-term and long-term incentives to be awarded to them based on their individual performance and the performance of the company;
- propose to the Board of Directors the Compensation Report;
- prepare the succession planning of the CEO and other members of Group Management, and propose to the Board of Directors the appointment of new members of Group Management.

LEVELS OF AUTHORITY

| | **CEO** | **BoD Chairman** | **NCC** | **BoD** | **AGM** |
|---|---|---|---|---|---|
| Compensation policy and principles | | | Proposes | Approves | |
| Maximum aggregate compensation amounts of BoD and GM | | | Proposes | Reviews | Approves (binding votes) |
| Compensation of BoD Chairman | | | Decides | Is informed | |
| Individual compensation of BoD members | | | Proposes | Approves | |
| Compensation of CEO | | Proposes | Reviews | Approves | |
| Individual compensation of members of GM | Proposes | | Reviews | Approves | |
| Compensation Report | | | Proposes | Approves | Consultative vote |

CEO = Chief Executive Officer, BoD = Board of Directors, NCC = Nomination and Compensation Committee, AGM = Annual General Meeting, GM = Group Management

In 2017, the Nomination and Compensation Committee held five ordinary meetings according to the following predetermined annual agenda, as well as one extraordinary meeting and one extraordinary conference call (both related to the changes in Group Management):

| | Feb | Apr | Mai | Oct | Dec |
|---|---|---|---|---|---|
| **Review of overall compensation policy and compensation governance** | | | | | |
| Review of overall compensation strategy | | | | ■ | |
| Review of external stakeholder feedback on compensation disclosure | | | ■ | | |
| Preparation and approval of Compensation Report | ■ | | | | ■ |
| Preparation of say-on-pay vote for next Annual General Meeting | ■ | | | | |
| Review of committee duties, accountabilities, and responsibilities | ■ | | | | |
| Approve meeting schedule | ■ | | | | |
| Self-assessment NCC | ■ | | | | |
| **Compensation of Board of Directors** | | | | | |
| Determination of compensation for following compensation period | | ■ | | | |
| **Compensation of Group Management** | | | | | |
| Preliminary performance evaluation (previous year) | ■ | | | | |
| Final performance evaluation (previous year) | | ■ | | | |
| Determination of short-term incentive payout for previous year | | ■ | | | |
| Determination of long-term incentive vesting (previous performance period) | ■ | | | | |
| Preliminary compensation review for following year | | | | ■ | |
| Determination of compensation (at target) for following year | | | | | ■ |
| Determination of performance objectives for following year | | | | | ■ |
| **Nomination items** | | | | | |
| Review of Board constitution | | | ■ | | |
| Succession planning for Group Management positions | ■ | | | ■ | |

In 2017, all members attended all Committee meetings. The meetings' duration extended from one and a half to two and a half hours.

The Chairman of the Nomination and Compensation Committee reports to the Board of Directors after each meeting on the activities of the Committee. The minutes of the committee meetings are made available to the members of the Board of Directors. As a general rule, the Chairman of the Board of Directors and the CEO attend the meetings in an advisory capacity. They do not attend the meeting when their own compensation and/or performance are being discussed.

The Nomination and Compensation Committee may decide to consult an external advisor from time to time for specific compensation matters. In 2017, Agnès Blust Consulting continued to provide services related to executive compensation matters. This company does not have other mandates with Sika. In addition, support and expertise are provided by internal compensation experts such as the Head of Human Resources and the Head of Compensation & Benefits.

## SHAREHOLDER INVOLVEMENT

The role of the shareholders on compensation matters has gained in importance in recent years. First of all, shareholders annually approve the maximum aggregate compensation amounts of the Board of Directors and Group Management. In addition, the principles of compensation are governed by the Articles of Associations, which are also approved by the shareholders. The provisions of the Articles of Associations on compensation are summarized below (please refer to http://www.sika.com/de/group/investors/corporate-governance/articles-of-association.html for the full version of the articles of association):

– PRINCIPLES OF COMPENSATION APPLICABLE TO THE BOARD OF DIRECTORS (Articles 11.1, 11.3, and 11.8): The Board of Directors receives fixed compensation in cash and/or in shares;
– PRINCIPLES OF COMPENSATION APPLICABLE TO GROUP MANAGEMENT (Articles 11.1, 11.4 to 11.6, and 11.8): Group Management receives fixed and variable compensation. The variable compensation consists of a performance bonus paid in cash and possibly partially in shares (share purchase plan) and of a long-term incentive in form of equity compensation. For the CEO, the variable compensation (value of paid-out performance bonus and grant value of the long-term incentive) does not exceed 300% of the fixed compensation. For the other members of Group Management in total, the variable compensation does not exceed 200% of the fixed compensation;

- BINDING VOTE BY THE ANNUAL GENERAL MEETING (Article 11.2): The Annual General Meeting annually approves the total fixed compensation amount for the Board of Directors for the period until the next ordinary Annual General Meeting and the maximum total fixed and variable compensation amount for Group Management for the next fiscal year;
- ADDITIONAL AMOUNT FOR NEW MEMBERS OF GROUP MANAGEMENT (Article 11.7): The total additional compensation for each new member of Group Management may not exceed the average total compensation of Group Management in the previous fiscal year by more than 200%, or 400% for a new CEO. Proven disadvantages from a change of position may be compensated within this additional amount;
- CREDIT FACILITIES, LOANS, AND POST-EMPLOYMENT BENEFITS (Article 12): The company does not offer any loans, credit facilities, guarantees, or other securities to members of the Board of Directors and Group Management. Pension benefits are offered only in accordance with the occupational pension plans, which are specified in the respective regulations.

In addition, the Compensation Report is submitted to a consultative shareholders' vote, so that shareholders can express their opinion on the compensation policy and programs.

**METHOD FOR DETERMINING COMPENSATION**

PERIODIC BENCHMARKING

The compensation of the Board of Directors is regularly reviewed against prevalent market practice of other multinational industrial companies. In 2012, a thorough review had been conducted to determine the competitiveness of the Board compensation in terms of structure and overall level. For this purpose, a peer group of Swiss multinational companies of the industry sector listed on the SIX Swiss Exchange had been selected for the benchmarking analysis. The peer group consists of Clariant, Geberit, Georg Fischer, LafargeHolcim, Lonza, Schindler, Sonova and Sulzer and is well balanced in terms of market capitalization, revenue size and headcount. The compensation model of the Board of Directors has not changed since 2012, consequently, no further analysis has been made since then.

Regarding the compensation of the Group Management, a benchmarking analysis is conducted every two years with the support of an independent consultant, Willis Towers Watson. The same peer group of companies has been chosen as for the review of compensation of the Board of Directors. Willis Towers Watson gathers the relevant benchmarking data through a so-called club survey and summarizes them in a report that serves as basis for the Nomination and Compensation Committee to analyze the compensation of the CEO and the Group Management and to set their target compensation levels. The policy of Sika is to target market median compensation for solid performance and to provide for compensation above median in case of strong performance.
Such compensation benchmarking analysis was undertaken in 2016 and served as basis for the Nomination and Compensation Committee to analyze the compensation of the CEO and the Group Management and to set their target compensation levels for the business year 2017. No benchmarking analysis was conducted in 2017.

PEER GROUP FOR BENCHMARKING PURPOSES

| In CHF thousands | **Market capitalization** (12/31/2016) | **Revenue** (12/31/2016) | **Headcount** (12/31/2016) |
|---|---|---|---|
| **Sika** | 12,425 | 5,748 | 17,419 |
| 1st quartile | 5,147 | 2,931 | 11,769 |
| Median | 8,615 | 3,886 | 14,339 |
| 3rd quartile | 16,055 | 6,703 | 27,100 |

PERFORMANCE MANAGEMENT

The actual compensation paid to the individual members of Group Management in a given year depends on the company and on the individual performance. Individual performance is assessed through the annual performance management process, which aims to align individual and collective objectives, to stretch performance and to support personal development. The objectives for the CEO and members of Group Management are approved by the Nomination and Compensation Committee at the beginning of the business year and achievement against those objectives is assessed at year-end. The performance assessment of the members of Group Management is conducted by the CEO, while that of the CEO is conducted by the Chairman of the Board of Directors. The Nomination and Compensation Committee reviews the performance assessment of the CEO and the other members of Group Management before submitting them to the Board of Directors for approval. In discussing performance, the Nomination and Compensation Committee reflects on the achievement of the individual objectives of each member of Group Management. The Committee also considers the extent to which individuals have carried out their duties in line with company values and expected leadership behaviors. The individual performance assessments, together with the company's performance, form the basis for the determination of incentive payout levels.

## COMPENSATION PRINCIPLES

COMPENSATION OF THE BOARD OF DIRECTORS

In order to guarantee the independence of the members of the Board of Directors in exercising their supervisory duties, their compensation consists of a fixed remuneration only. The compensation is delivered partially in cash and partially in restricted shares, in order to strengthen the alignment to shareholders' interests.

COMPENSATION OF GROUP MANAGEMENT

Sika's compensation programs reflect a commitment to attract, develop and retain qualified, talented and engaged executives. They are designed to motivate executives to achieve the overall business objectives and to create sustainable shareholder value. The compensation programs are based on the following principles:

**Pay for performance and sustainable success**

The compensation of Group Management is linked to Sika's performance and to individual performance. Through a well-balanced combination of incentive programs, both the annual performance and long-term success are rewarded.

**Alignment with shareholder interests**

A significant portion of compensation is delivered in the form of shares to align the interests of executives with those of the shareholders.

**Market competitiveness**

Compensation is regularly benchmarked and is in line with competitive market practice.

**Transparency**

Compensation programs are straightforward and transparent.

The compensation programs include key features that align the interests of executives with those of shareholders and are in line with good practice in corporate governance.

**WHAT WE DO**
- Conduct an annual review of the compensation policy and programs
- Maintain compensation plans with a strong link between pay and performance
- Conduct a rigorous performance management process
- Maintain compensation plans designed to align executive compensation with long-term shareholder interest
- Offer employment contracts with a notice period of a maximum of twelve months

**WHAT WE DON'T DO**
- Provide discretionary compensation payments
- Reward inappropriate or excessive risk taking or short-term profit maximization at the expense of the long-term health of the company
- Pay dividend equivalents on performance-contingent-deferred units that have not been earned yet based on the company's performance
- Guarantee future base salary increases, nonperformance-based incentive payments, or unrestricted equity compensation
- Have prearranged individual severance agreements or special change-in-control compensation agreements

## ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

In order to ensure their independence in their supervisory duties, the members of the Board of Directors receive a fixed compensation only, consisting of a retainer for services to the Board and an additional fee for assignments to committees of the Board. The retainer is paid partially in cash and partially in restricted shares, while the committee fees are paid in cash. The restricted shares are blocked from trading for a period of four years. The restriction on the shares may lapse in case of change of control or liquidation. The shares remain blocked in all other instances.

The cash payment and the shares are transferred shortly after the Annual Shareholders Meeting for the previous year of office, being defined as the period between Annual General Meetings. The members of the Board of Directors receive no additional reimbursements of business expenses beyond actual expenditures for business travel. The members of the Board do not participate in Sika's employee benefit plans.

STRUCTURE OF BOARD COMPENSATION

| in CHF | in cash | in shares |
|---|---|---|
| **Retainer (gross p.a.)** | | |
| Chairman of the Board of Directors | individually determined | individually determined |
| Members of the Board of Directors | 150,000 | 50,000* |
| **Committee fees (gross p.a.)** | | |
| Committee Chairman | 50,000 | |
| Committee members | 30,000 | |

* Converted into shares on the basis of the average closing share price in the five first trading days of April before the beginning of the year of office. Shares are allocated to the members of the Board of Directors shortly after the end of the year of office.

The compensation of the Chairman of the Board of Directors is defined individually, based on the person's skills and experience, and includes the following components: an annual retainer, paid partially in cash (monthly) and partially in shares (after the Annual General Meeting for the previous year of office), and a representation allowance paid in cash (monthly). The Chairman of the Board of Directors is not eligible for committee fees.

## ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF GROUP MANAGEMENT

### COMPENSATION MODEL AND COMPENSATION ELEMENTS

The compensation for members of Group Management includes the following elements:
- Fixed base salary
- Variable compensation: short-term and long-term incentives
- Benefits and perquisites

STRUCTURE OF COMPENSATION OF GROUP MANAGEMENT

| | Vehicle | Purpose | Drivers | Performance measures |
|---|---|---|---|---|
| **Annual base salary** | Monthly cash salary | Attract and retain | Position, market practice, skills, and experience | |
| **Performance bonus (STI)** | Annual bonus in cash and restricted shares | Pay for performance | Annual performance | Group EBIT<br>Group net sales<br>Individual goals |
| **Long-term incentive (LTI)** | PSU with a 3-year performance vesting | Reward long-term performance<br>Align to shareholders | Business performance over 3 years | Return on capital employed |
| **Benefits** | Pension and insurances<br>Perquisites | Protect against risks<br>Attract and retain | Market practice and position | |

### FIXED ANNUAL BASE SALARY

Annual base salaries are established on the basis of the following factors:
- Scope, size, and responsibilities of the role, skills required to perform the role;
- External market value of the role;
- Skills, experience, and performance of the individual in the role.

To ensure market competitiveness, base salaries of the members of Group Management are reviewed every year taking into consideration the company's affordability, benchmark information, market movement, economic environment and individual performance.

### PERFORMANCE BONUS (SHORT-TERM INCENTIVE)

The performance bonus is a short-term variable incentive designed to reward the collective performance of the company ("Group performance") and the individual performance ("Individual performance") of the incumbent, over a time horizon of one year. This variable compensation allows employees to participate in the company's success while being rewarded for their individual performance.

The performance bonus target (i.e. bonus at 100% target achievement) is expressed as percentage of base salary and amounts to 100% for the CEO and ranges from 44% to 77% for the other members of Group Management. Group performance accounts for 60% of the total bonus, while the achievement of individual objectives accounts for 40%.

GROUP PERFORMANCE

The performance measures for the Group performance are proposed by the Nomination and Compensation Committee and approved by the Board of Directors. For 2017, they were the same as in the previous years:
- EBIT (earnings before interest and tax) improvement during the year, relative to a peer group of companies;
- Net sales growth during the year relative to the same peer group.

EBIT improvement is weighted twice as much as net sales growth.

EBIT and net sales performance are measured based on an evaluation provided by an independent consulting firm, Obermatt. This benchmark compares and ranks Sika amongst the performance of a selected peer group of 23 companies, all industrial firms which were chosen because they have a comparable base of products, technology, customers, suppliers or investors and are thus exposed to similar market cycles.

PEER GROUP (OBERMATT BENCHMARK)

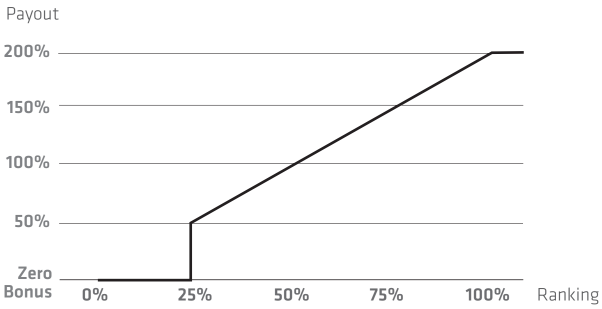
3M – Industrial & Transportations
Armstrong World Industries Inc.
Ashland – Performance Materials
BASF – Functional Solutions
Beacon Roofing Supply, Inc.
Beiersdorf – Tesa
Carlisle – Construction Materials
Cemedine Co., Ltd.
EMS Chemie Holding AG
Forbo – Flooring Systems
Fuller HB Company
Geberit
Grace – Construction
Henkel – Adhesive Technologies
Hilti Corporation
Huntsman – Performance Products
Owens Corning
Pidilite Industries Limited
RPM
Saint-Gobain – Construction Products
SK Kaken Co., Ltd.
Sto AG
Uzin Utz AG

Following reorganization and merger, the segment Coating- & Infrastructure of Dow is no longer part of the peer group.

The intention is to reward the relative performance of the company rather than its absolute performance because absolute performance may be strongly impacted by market factors that are outside the control of senior management.

For both EBIT and net sales, the objective is to reach at least the median performance of the peer group, which corresponds to a 100% payout factor. There is no payout for any performance below the lower quartile of the peer group. Performance at the lower quartile of the peer group corresponds to a payout factor of 50%. Performance at the upper quartile leads to a 150% payout factor and being the best in the peer group leads to a 200% payout factor. Any payout factor between those levels is interpolated linearly.

PAYOUT CURVE FOR THE OBERMATT BENCHMARK




INDIVIDUAL PERFORMANCE
The individual performance includes personal objectives that are set as part of the annual performance management process. For the CEO and for the other members of Group Management, they are reviewed and approved by the Nomination and Compensation Committee. The personal objectives are mainly of financial nature, are clearly measurable and are set in three different categories:
– Bottom line contribution: profitability of the business under responsibility (EBIT target expressed as an improvement versus previous year);
– Return on invested capital: net working capital of the business under responsibility (NWC target expressed as an improvement versus previous year);
– People and projects management: includes strategic objectives, such as for example entry into new markets, introduction of new products, improvement of processes and operational efficiency, and leadership objectives.

At the end of the financial year, the actual achievement is compared with the targets that were set at the beginning of the year. The level of achievement for each objective corresponds to a payout percentage for that target, which is always between 0% and 200%. The overall bonus payout under the short-term incentive is capped and cannot exceed 150% of the performance bonus target. The bonus is paid out in April of the following year.

OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING

| | | | CEO, Corporate Functions | Regional Heads |
|---|---|---|---|---|
| Performance | ← Relative Group performance | ← **EBIT improvement (2/3)** relative to peer group | 40% | 40% |
| | | **Net sales growth (1/3)** relative to peer group | 20% | 20% |
| | ← Individual performance | ← Bottom line/profitability | 20% (EBIT Group) | 20% (EBIT region) |
| | | Net working capital | 10% (NWC Group) | 10% (NWC region) |
| | | People & projects | 10% | 10% |

**SIKA SHARE PURCHASE PLAN**

Under the Sika Share Purchase Plan (SSPP), the members of Group Management may convert part of the performance bonus into Sika shares that are subject to a blocking period of four years. The objective of this program is to encourage members of Group Management to directly participate in the long-term success of the company and to strengthen the link between their compensation and the company performance, as the portion of the bonus invested into shares is exposed to the change in share value during the four-year blocking period. In return, Sika provides one matching share for every five shares purchased under the SSPP. The SSPP allows participants to defer either 0%, 20% or 40% of the bonus into shares, therefore maximum 40% in total. The shares are allocated at their fair market value, shortly after the Annual General Meeting in the month of April of the following year. Fair market value is defined as the average closing share price during the five first trading days of the month of April of the payout year. The calculation of the share grant is made as follows:

CALCULATION OF THE NUMBER OF SHARES GRANTED

[Deferred percentage of bonus (0%, 20% or 40%) × Bonus amount × 1.2 (matching share one for five)] : Average closing share price of five first trading days in April = Number of shares purchased

In case of change of control or liquidation or of termination of employment due to retirement, death or disability, the blocking period of the shares is accelerated. The shares remain blocked in all other instances.

**LONG-TERM INCENTIVE**

Sika's compensation policy is to also align a significant portion of compensation of Group Management to the long-term company's performance and to strengthen the alignment to shareholders' interests. Members of Group Management are eligible for a long-term equity incentive. The long-term incentive target amounts to 104% of annual base salary for the CEO and ranges from 40% to 86% for the other members of Group Management.

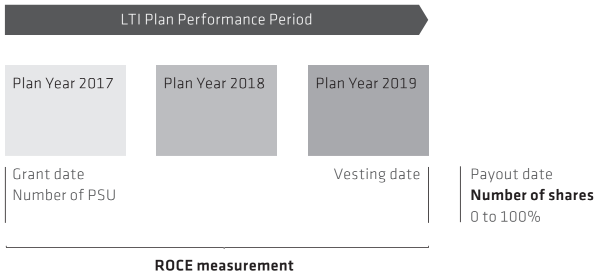
The long-term incentive plan is a performance share unit plan. At the beginning of the vesting period, a number of Performance Share Units (PSU) is granted to each member of Group Management. The PSU vest after a period of three years, conditionally upon fulfilling a performance condition, the return on capital employed (ROCE). The ROCE target is determined at the beginning of the vesting period by the Board of Directors and is measured at the end of the vesting period as the average ROCE of the first year, the second year and the third year of the vesting period. Acquisitions are excluded of the ROCE calculation in the year of acquisition and for two additional calendar years.

The final share allocation is determined after the three-year performance period, based on the following vesting rules:
- ROCE at or above target: 100% of the PSU vest into shares
- ROCE at threshold level: 50% of the PSU vest into shares and 50% of the PSU forfeit
- ROCE between threshold and target levels: linear interpolation
- ROCE below the threshold level: 0% of PSU vest into shares (100% forfeiture).

There is no overachievement in the long-term incentive, meaning the maximum payout is 100%.

For the grant made in 2017 (performance period 2017–2019), the ROCE target was set at 29%, excluding acquisitions, and the threshold was set at 24%. The shares are allocated at their market value (closing price at grant date on the SIX Swiss Exchange), shortly after the Annual General Meeting in the month of April following the three-year vesting period. In some countries where the allocation of shares may be illegal or impractical, the award may be settled in cash after the performance period.

LONG-TERM INCENTIVE PLAN PERIOD




In case of termination of employment due to retirement, death, disability, or in case of liquidation or change of control, the unvested PSU are subject to an early vesting, prorated for the number of months that have expired from the grant date until the termination date and based on an achievement payout of 75%. In case of termination for any other cause, such as resignation or involuntary termination, the unvested PSU forfeit.

## SHAREHOLDING OWNERSHIP GUIDELINE

A shareholding ownership guideline was implemented as of business year 2017. The members of Group Management are required to own at least a minimum multiple of their annual base salary in Sika shares within four years of their appointment to Group Management, as set out in the table below.

| | |
|---|---|
| CEO | 300% of annual base salary |
| Members of Group Management | 200% of annual base salary |

In the event of a substantial rise or drop in the share price, the Board of Directors may, at its discretion, amend that time period accordingly.

To calculate whether the minimum holding requirement is met, all vested shares are considered regardless of whether they are restricted or not. However, unvested PSU are excluded. The Compensation Committee reviews compliance with the share ownership guideline on an annual basis.

## BENEFITS: PENSIONS

As the Group Management is international in its nature, the members participate in the benefits plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to the risk of retirement, disability, death and health. The members of Group Management with a Swiss employment contract participate in Sika's pension plans offered to all employees in Switzerland. These consist of the pension fund of Sika Schweiz AG, in which base salaries up to an amount of CHF 133,950 per annum are insured, as well as a supplementary plan in which base salaries in excess of this limit are insured up to the maximum amount permitted by law. Sika's pension funds exceed the legal requirements of the Swiss Federal Law on occupational Retirement, Survivors and Disability Pension Plans (BVG). Members of Group Management under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and is, as a minimum, in accordance with the legal requirements of the respective country.

Moreover, an early retirement plan is in place for members of the top management of Sika. The plan, entirely financed by the employer, is administered by a Swiss foundation. Beneficiaries may opt for early retirement from the age of 60, provided that they have been in a top management position for at least five years. Benefits under the plan are twofold:

- Fixed pension payment until the age of legal retirement. The amount of pension depends on the last fixed salary and the actual age at early retirement.
- Partial financing of the reduction in the regular pension due to early retirement. The amount, which may be received as life-long pension payment or as a capital contribution, depends on the actual age at early retirement and benefits already accrued in existing pension plans. This portion of the plan is only applicable to beneficiaries insured under a Swiss pension plan.

## BENEFITS: PERQUISITES

Members of Group Management are also provided with certain executive perquisites such as a company car allowance and other benefits in kind, according to competitive market practice in their country of contract. The monetary value of these other elements of compensation is evaluated at fair value and is included in the disclosure in the compensation tables.

## EMPLOYMENT CONTRACTS

The members of Group Management are employed under employment contracts of unlimited duration and are all subject to a notice period of one year. Members of Group Management are not contractually entitled to termination payments or any change-in-control provisions other than the early vesting and early unblocking of share awards mentioned above. Their contract may foresee non-competition provisions that are limited in time to maximum two years and which allow compensation up to maximum six months.

## COMPENSATION AWARDED TO THE BOARD OF DIRECTORS IN 2017

This section is audited according to Article 17 of the Ordinance against Excessive Compensation in Listed Stock Corporations.

In 2017, the members of the Board of Directors received no compensation because the compensation of the Board of Directors for the period from the 2017 Annual General Meeting to the 2018 Annual General Meeting has not been approved by the shareholders and therefore could not be paid out. The compensation of the Board of Directors for the period from the 2016 Annual General Meeting to the 2017 Annual General Meeting had not been approved by the shareholders either and therefore could not be paid out.

### COMPENSATION EFFECTIVELY PAID

| in CHF | Retainer (cash)[1] | Committee Fees (cash) | Value of Shares[2] | Social security | **Total 2017** | Retainer (cash)[1] | Committee Fees (cash) | Value of Shares[2] | Social security | **Total 2016** |
|---|---|---|---|---|---|---|---|---|---|---|
| Paul Hälg, Chairman | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Jürgen Tinggren | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Urs F. Burkard, NCC Member | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Willi K. Leimer, AC Member | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Monika Ribar, AC Chairwoman | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Christoph Tobler, AC Member | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Daniel J. Sauter, NCC Member | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Ulrich W. Suter | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| Frits van Dijk NCC Chairman | 0 | 0 | 0 | 0 | **0** | 0 | 0 | 0 | 0 | 0 |
| **TOTAL** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

1) Includes the representation allowance for the Chairman of the Board of Directors.
2) Fair market value is defined as the average closing price of the first five trading days in April before the beginning of the year of office.

The table below discloses the remuneration that will be paid out to the Board of Directors for the year 2017 under the assumption of a positive shareholders' vote on compensation.

The amounts for the retainer in cash, the committee fees and the allocation of restricted shares have remained unchanged since 2012.

TOTAL COMPENSATION (PROPOSED)[1]

| in CHF | Retainer (cash)[2] | Committee Fees (cash) | Value of Shares[3] | Social security | **Total 2017** | Retainer (cash)[2] | Committee Fees (cash) | Value of Shares[3] | Social security | **Total 2016** |
|---|---|---|---|---|---|---|---|---|---|---|
| Paul Hälg, Chairman | 510,000 | 0 | 303,409 | 60,067 | **873,476** | 510,000 | 0 | 302,017 | 59,964 | **871,981** |
| Jürgen Tinggren | 150,000 | 0 | 53,055 | 15,580 | **218,635** | 150,000 | 0 | 50,893 | 15,414 | **216,307** |
| Urs F. Burkard, NCC Member | 150,000 | 30,000 | 53,055 | 17,759 | **250,814** | 150,000 | 30,000 | 50,893 | 17,594 | **248,487** |
| Willi K. Leimer, AC Member | 150,000 | 30,000 | 53,055 | 17,759 | **250,814** | 150,000 | 30,000 | 50,893 | 17,594 | **248,487** |
| Monika Ribar, AC Chairwoman | 150,000 | 50,000 | 53,055 | 19,212 | **272,267** | 150,000 | 50,000 | 50,893 | 19,048 | **269,941** |
| Christoph Tobler, AC Member | 150,000 | 30,000 | 53,055 | 17,759 | **250,814** | 150,000 | 30,000 | 50,893 | 17,594 | **248,487** |
| Daniel J. Sauter, NCC Member | 150,000 | 30,000 | 53,055 | 17,759 | **250,814** | 150,000 | 30,000 | 50,893 | 17,594 | **248,487** |
| Ulrich W. Suter | 150,000 | 0 | 53,055 | 12,570 | **215,625** | 150,000 | 0 | 50,893 | 12,436 | **213,329** |
| Frits van Dijk NCC Chairman | 150,000 | 50,000 | 53,055 | 15,973 | **269,028** | 150,000 | 50,000 | 50,893 | 15,837 | **266,730** |
| **TOTAL** | **1,710,000** | **220,000** | **727,849** | **194,438** | **2,852,287** | **1,710,000** | **220,000** | **709,161** | **193,075** | **2,832,236** |

1) Includes the compensation proposed for the calendar year that is still to be paid out upon AGM approval.
2) Includes the representation allowance for the Chairman of the Board of Directors.
3) Fair market value is defined as the average closing price of the first five trading days in April before the beginning of the year of office.

In the year under review, no compensation was paid to former members of the Board of Directors. No compensation was paid to parties closely related to members of the Board of Directors.

In accordance to the Articles of Association, no member of the Board of Directors was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

## COMPENSATION AWARDED TO THE CEO AND TO GROUP MANAGEMENT IN 2017

This section is audited according to Article 17 of the Ordinance against Excessive Compensation in Listed Stock Corporations.

In 2017, the members of the Group Management received a total compensation of CHF 18.7 million (2016: CHF 16.7 million). This amount comprises fixed salaries of CHF 5.5 million (2016: CHF 4.8 million), short-term bonus of CHF 5.1 million (2016: CHF 5.0 million), long-term incentives of CHF 4.1 million (2016: CHF 3.5 million), other expenses of CHF 1.6 million (2016: 1.3 million) and contributions to social security and post-employment benefits of CHF 2.4 million (2016: CHF 2.1 million).

The highest paid individual in 2017 was Paul Schuler, Head of Region EMEA until June 30, 2017, and Group CEO as of July 1, 2017. During 2017, three new members were nominated to Group Management as internal appointments, and two members changed roles within Group Management.

| In CHF thousands | CEO 2017 [1] | CEO 2016 [2] | Total 2017 [3] | Total 2016 [4] |
|---|---|---|---|---|
| Fixed base salary [5] | 790 | 908 | 5,469 | 4,774 |
| Performance bonus (STI) cash [6] | 601 | 1,322 | 3,865 | 4,539 |
| Performance bonus (STI) shares [6] | 476 | 0 | 1,263 | 469 |
| Long-term incentive (LTI) [7] | 1,009 | 1,003 | 4,103 | 3,489 |
| Other payments [8] | 44 | 46 | 1,610 | 1,286 |
| Social security and pension contributions [9] | 451 | 503 | 2,354 | 2,131 |
| **TOTAL** | **3,371** | **3,782** | **18,664** | **16,688** |

1) Includes the full year compensation of Paul Schuler, appointed Group CEO as of July 1, 2017.
2) Includes the full year compensation of Jan Jenisch, Group CEO until June 30, 2017.
3) On the basis of 11 members (including the former and the current CEO), 5 of whom served during the full year in 2017.
4) On the basis of 10 members, 8 of whom served during the full year in 2016.
5) Includes annual base salary and children/family allowances. All compensation amounts are gross payments.
6) Estimated performance bonus (STI) for the reporting year that will be paid in April of the following year, split between immediate cash and deferred shares (including matching shares).
7) Grant value of the LTI in the reporting year. For newly promoted members, includes the pro-rata participation in previous LTI that are still in the vesting period. Includes CHF 1.5 million of 2017 LTI grants that have already forfeited due to termination/stepping down of Group Management..
8) Includes other benefits in kind and perquisites at fair value such as anniversary payments and cost allowances (tax equalization, housing, schooling, home leave) for the international assignees and international transfers.
9) Includes social security contributions as well as contributions to company-provided pension plans, including the service cost to the preretirement plan.

Explanatory comments to the compensation table:

- From 2016 to 2017, the target compensation (fixed base salary, target bonus and grant value of long-term incentive) of the new CEO and other members of Group Management has been reviewed in light of the reorganization of Group Management (new appointments and changes in roles) outlined above.
- The fixed compensation has increased by 15% compared to the previous year. This is mainly due to the different composition of Group Management mentioned above. Corresponding to the notice period in their contract, the compensation of members who have stepped down from Group Management but remained employed within the company has been kept unchanged for a period of 12 months. The portion of compensation which is in excess of the standard compensation for their new role has been fully included as fixed compensation in the table above.
- The "other" payments have increased by 25% mainly driven by the fact that a new member of Group Management is an international assignee and received expatriate benefits such as relocation support, housing, home leave and tax services. The number of members of Group Management with such benefits in the reporting year has increased to three (two in previous year).
- The social security and pension contributions have increased by 10% in line with the increases in base salaries mentioned above.
- The performance achievement under the performance bonus was higher in 2017 than in 2016. Further details are provided below.
- The grant value of the long-term incentive has substantially increased compared to the previous year (+18%). This increase is due to the following factors:
  1. The value reported corresponds to the full fair value at grant of the LTI awarded to Jan Jenisch (CEO until June 30, 2017) despite the fact that this award was fully forfeited upon termination of employment.
  2. The value reported includes the full fair value of the LTI awards of two members who stepped down from Group Management. Those awards are partially forfeited upon stepping down from Group Management (pro-rata vesting at regular vesting date, considering that those two members remain employed with the company). The value forfeited amounts to CHF 492,004.
  3. The reported value includes a special grant to Paul Schuler (CEO as of July 1, 2017) corresponding to the difference between the CEO grant size and the grant size as Head Region EMEA, calculated pro-rata for the remaining time of the respective vesting period of the 2016 and 2017 LTI plans (e.g. for the period since nomination as CEO until vesting date). Concretely, a special grant of CHF 196,274 was awarded to mirror the 2016 LTI plan (vesting date December 31, 2018) and a total of CHF 842,838 was awarded under the 2017 LTI plan (vesting date December 31, 2019).

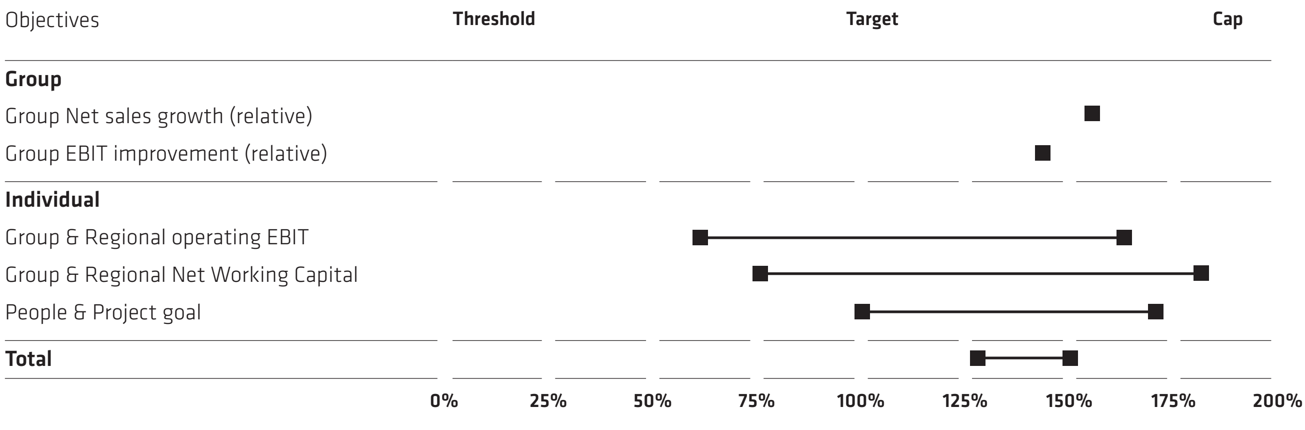
The total amount of compensation of CHF 18.7 million awarded to Group Management in 2017 is above the maximum aggregate amount of compensation of CHF 18 million approved by the shareholders at the 2016 Annual General Meeting for business year 2017. This is due to the appointment of three new members into Group Management and to the fact that the members who have stepped down from Group Management while remaining employed within the company continue to receive their compensation for a period of 12 months according to their contract of employment as Group Management member. The compensation in excess of the standard compensation for their new role has been fully included in the table above.

Pursuant to the provisions of the Articles of Association, the Board may award each new member of Group Management a maximum of 200% over the average total compensation of the Group Management during the previous fiscal year. For 2017, this allows for a potential maximum additional amount of CHF 5.6 million for each new member of Group Management. The compensation for the three new members of Group Management Mike Campion, appointed Head of APAC as from April 1, 2017, Frank Höfflin, appointed CTO as from April 1, 2017 and, Ivo Schädler, appointed Head EMEA as from July 1, 2017, was first allocated in the amount of CHF 2 million to exhaust the approved maximum aggregate compensation amount of CHF 18 million and then in the amount of CHF 663,755 against the additional amount of which CHF 248,908 relate to the compensation for Mike Campion, CHF 248,908 for Frank Höfflin and CHF 165,939 for Ivo Schädler.

**PERFORMANCE IN 2017 (NOT AUDITED)**

The business year 2017 has been a strong year for Sika, with an 8.7% revenue growth (in local currencies 9.0%) and 12.7% profitability increase (earnings before interest and tax). In the performance bonus, Sika has outperformed the peer companies both in terms of net sales growth (ranked 6th, payout of 157%) and in terms of EBIT improvement year on year (ranked 7th, payout of 144%). The group performance achievement is estimated at 148.5% (best-estimate at time of publication) and will be calculated by Obermatt based on the annual report publications of the peer companies before the payout date in April 2018. This compares to a strong year 2016, where Sika outperformed its peers (13th rank on net sales growth and 8th rank on EBIT improvement), with a payout of 127%.

Individual performance, which is mainly measured by EBIT and net working capital improvement versus previous year, at Group and regional level, ranges from 103% to 168% for members of Group Management and amounts to 118% for the CEO (average of target achievement as CEO and as Head EMEA). Consequently, the overall bonus payout percentage ranges from 130% to 150% (cap) for Group Management and amounts to 136% for the CEO (average of target achievement as CEO and as Head EMEA). This compares to a payout range of 122% to 150% for Group Management and to a payout of 147% for the CEO in 2016.




In the Long-Term Incentive that has been granted in 2017 (LTI 2017–2019), 414 performance share units have been granted to the members of Group Management. Those PSU had an overall grant value of CHF 1'769'338 million and will vest on December 31, 2019 based on the average ROCE performance during 2017–2019 and upon the continuous employment of the participant.

In the long-term incentive that vested in 2017 (LTI 2015–2017), the performance condition of 24% average ROCE over the vesting period has been overachieved: The average three-year ROCE, excluding acquisitions, amounts to 29.7%, leading to a payout of 100% (cap). Therefore, the 439 units granted to the current members of Group Management (including the new CEO) have vested with a vesting value of CHF 3.4 million. The value at vesting is higher than the value at grant due to the positive development in the share price during the vesting period (2015–2017).

OVERVIEW OF THE UNVESTED PSU GRANTS (INCLUDES MEMBERS OF GROUP MANAGEMENT AS OF DECEMBER 31, 2017)

| **Plan** | | **Grant date (PSU)*** | **Performance Period** | **Vesting date (PSU)** | **Number of PSU granted** | **Total value at grant (CHF)** | **Vesting level in % of grant** | **Number of shares (Vesting)** | **Total value at vesting (CHF)** |
|---|---|---|---|---|---|---|---|---|---|
| LTI 2015 | Group Mgt. (incl. CEO) | 01.01.2015 | 2015 - 2017 | 31.12.2017 | 439 | 1,534,745 | 100% | 439 | 3,397,860 |
| | CEO | 01.01.2015 | 2015 - 2017 | 31.12.2017 | 116 | 400,418 | 100% | 116 | 897,840 |
| LTI 2016 | Group Mgt. (incl. CEO) | 01.01.2016 | 2016 - 2018 | 31.12.2018 | 481 | 1,902,852 | To be determined | To be determined | To be determined |
| | CEO | 01.01.2016 | 2016 - 2018 | 31.12.2018 | 141 | 596,704 | To be determined | To be determined | To be determined |
| LTI 2017 | Group Mgt. (incl. CEO) | 01.01.2017 | 2017 - 2019 | 31.12.2019 | 414 | 1,769,338 | To be determined | To be determined | To be determined |
| | CEO | 01.01.2017 | 2017 - 2019 | 31.12.2019 | 141 | 842,838 | To be determined | To be determined | To be determined |

* For new members of Group Management, grant date may be different (pro-rata participation in the previous LTI that are still in the vesting period).

In the year under review, no compensation was paid to former members of Group Management. No compensation was paid to parties closely related to members of Group Management.

No member of the Group Management was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

## SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT IN 2017

At the end of 2017, members of the Board of Directors held a total of 3,292 bearer shares of Sika AG (2016: 3,292). At the end of 2017, members of the Group Management held a total of 2,982 bearer shares of Sika AG (2016: 5,795). This figure includes both privately acquired shares and those allocated under the Group's compensation schemes. Because of the new composition of Group Management, the figures cannot be compared on an exact basis.

At the end of 2017, members of the Board of Directors and of Group Management did not hold any options.

Information regarding participations of the Board of Directors and Group Management in Sika AG can be found in the Sika AG Financial Statements (on page 154 of the download version of this report).

**EQUITY OVERHANG AND DILUTION AS OF DECEMBER 31, 2017**

In total as of December 31, 2017, the equity overhang, defined as the total number of share units and restricted shares outstanding divided by the total number of outstanding shares (2'151'199 bearer shares and 2'333'874 registered shares) amounts to 11'617 units, 0.26%.

The company's "burn rate," defined as the number of equities (shares and share units) granted in 2017 (3'412 units) divided by the total number of common shares outstanding is 0.08%.

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF SIKA AG, BAAR

**REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT**

We have audited pages 66 to 69 of the Compensation Report of Sika AG for the year ended December 31, 2017.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation Report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the accompanying Compensation Report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation Report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation Report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Compensation Report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Compensation Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Compensation Report for the year ended December 31, 2017, of Sika AG complies with Swiss law and articles 14–16 of the Ordinance.

Zurich, February 21, 2018

ERNST & YOUNG LTD

CHRISTOPH MICHEL
Licensed audit expert
(Auditor in charge)

MARC RÜEGSEGGER
Licensed audit expert

# GROUP REVIEW

# GROUP REPORT

## RECORD RESULT ON THE BACK OF STRONG GROWTH MOMENTUM

The Sika success story continued in 2017 with another record year. In local currencies, 2017 sales increased by 9.0% to CHF 6,248.3 million. Strong growth momentum and disciplined cost management led to new record figures of CHF 896.3 million (+CHF 101.0 million, +12.7%) for operating profit and CHF 649.0 million (+14.5%) for net profit. In the reporting year, 19 key investments were executed with a view to driving future growth. The strategic targets for 2020 were confirmed, and the growth target for 2018 raised to more than 10%.

### GROWTH IN ALL REGIONS

In 2017, sales in the EMEA region (Europe, Middle East, Africa) increased by 7.5% in local currencies (previous year: 4.6%). The major EU countries with the core markets of France, Italy, and the UK recorded strong growth rates. The Middle East, Eastern Europe, and Africa delivered double-digit growth.

At 18.4%, it was the North America region that posted the strongest growth (previous year: 7.8%), of which 8.5% was through acquisitions. Sika reported a significant increase in its business volume in the USA, growing much more rapidly than the local construction market in the reporting year. The positive development of the North American business was attributable in particular to the targeted investment in this region over the last few years.

The Latin America region increased sales by 3.3% (previous year: 5.1%). Both Mexico and Argentina generated above-average growth. By contrast, construction activity continued to develop modestly in the more commodity-based countries of this region, such as Brazil, Peru, and Chile.

Sales in the Asia/Pacific region rose by 5.2% (previous year: 3.6%). High growth rates were recorded in China, while double-digit growth was achieved in Australia, New Zealand, and Thailand.

In the "Other segments and activities" area, Sika generated growth of 14.0% in local currencies (previous year: 11.7%). The automotive business, which is managed centrally on a global basis, forms a key part of these areas of operation. Posting organic growth of 20.2% in the fourth quarter, Sika significantly exceeded the growth of the market as a whole.

In local currencies, Sika increased its sales of special chemical products for the construction industry by 9.0%. Sales of solutions for industrial applications were up 8.7% in local currencies.

### 2020 STRATEGIC TARGETS SET TO BE MET

The Group's accelerated expansion into growth markets continued in 2017, with a total of 19 key investments in nine new factories, three newly established national subsidiaries, and seven acquisitions (see Group Report Regions, download PDF p. 76). Along with its annual growth target of 6–8%, Sika is seeking to achieve an EBIT margin of 14–16% and operating free cash flow of more than 10% of net sales by 2020. At the same time, the return on capital employed (ROCE) should amount to more than 25%.

The Group's international expansion will be further driven over the same period with 21 additional factories and five new national subsidiaries.

### RECORD PROFIT

The high growth momentum produced above-average increases in the operating result and profit. Commodity price increases and volatility posed a challenge, with access to commodities in China, for example, being limited by environmental regulations imposed by the state. Thanks to persistent cost management, margins were boosted further while record figures were recorded for both EBIT (CHF 896.3 million, +12.7%) and net profit (CHF 649.0 million, +14.5%).

The tax rate decreased to 24.7% (previous year: 25.0%).

## SELECTIVE INVESTMENTS, IMPROVED KEY PROFIT AND LOSS FIGURES

Sika invested in production capacity expansion in order to be able to act fast and tap into the business potential offered by high-growth markets. At CHF 163 million, investments in new factories and maintenance of existing manufacturing facilities were higher year on year (previous year: CHF 155 million).

At 19.0%, the ratio of net working capital to net sales rose slightly, partly as a result of the sharp increase in acquisition activity (previous year: 18.4%). The management of inventories and accounts receivable remains a major priority. As at year-end, cash and cash equivalents amounted to CHF 1,037.9 million (previous year: CHF 1,155.0 million). The net credit balance once again remained high in the reporting year at CHF 293.8 million (previous year: CHF 415.6 million), while gearing likewise remained at a solid level, namely –8.6% (previous year: –14.1%). Return on capital employed (ROCE) reached a new record level of 29.8% (previous year: 28.7%).

The equity ratio now stands at 58.9% (previous year: 57.8%), thereby confirming Sika's solid financial base.

# GROUP REPORT REGIONS

## GROWTH IN ALL REGIONS

All regions reported higher sales and were able to further increase market share. Particularly high growth rates were achieved in the USA, Mexico, Argentina, China, Southeast Asia, the Pacific area, the Middle East, Eastern Europe, and Africa, as well as in the automotive area.

### EMEA

Reporting a sustained phase of solid growth, the eurozone countries saw positive momentum in 2017. Stable investment and export revenues, extremely low interest rates, and a dynamic global economy stimulated the majority of EU markets. Gross domestic product growth of more than 2% energized the European construction industry.

In the 2017 financial year, Sika's sales in the EMEA region (Europe, Middle East, Africa) were up by 7.5% in local currencies (previous year: 4.6%). The major EU countries with the core markets of France, Italy, and the UK recorded strong growth rates. The Middle East, Eastern Europe, and Africa delivered double-digit growth.

In Africa, Sika's presence was further strengthened through the founding of a new national subsidiary in Senegal and the commencement of operations at three new factories. In both Dar es Salaam, Tanzania, and Douala, Cameroon, the first factories for concrete admixtures came into service, while a second factory for the local production of mortar products was established in Luanda, Angola. In Kazakhstan, concrete admixture and mortar production in Almaty was transferred to a larger site. In Russia, a new production line for PVC membranes was set up at the factory in Lobnya, near Moscow. Furthermore, manufacturing capacity was expanded at Lahore, Pakistan, with the opening of a new factory for mortar products and concrete admixtures. A new facility for the production of high-performance concrete fibers for customers in the EMEA region began operations at the Troisdorf site in Germany.

Bitbau Dörr, a leading supplier of waterproofing systems, was acquired in Austria, while ABC Sealants, a well-known manufacturer of sealants and adhesives for the interior finishing sector, was taken over in Turkey. Through the purchase of KVK Holding, which is based in the Czech capital, Prague, the Sika Group also acquired an established supplier of waterproofing and roofing systems as well as mortar products.

### NORTH AMERICA

Economic growth and investment sentiment in the USA stayed strong in the year under review and remained at a high level. A significantly larger number of building projects than in the preceding years led to 4% growth in the construction industry. The tax reform is expected to provide sustained stimulus for the US economy and construction sector. Canada's construction industry found itself in slightly negative territory – a recovery is projected for 2018.

At 18.4%, it was the North America region that posted the strongest sales growth within the Sika Group (previous year: 7.8%), of which 8.5% was through acquisitions. Sika significantly boosted its business volume in the USA, thus growing at a much faster rate than the local construction market in 2017. Targeted investments in North America over the last few years contributed substantially to this positive business performance. These include the development of the sales organization, the implementation of the growth strategy through the acquisition of companies, and the significant expansion of the supply chain with new factories located close to fast-growing metropolitan areas. At the end of 2017, a new factory for concrete admixtures and mortar was opened near Houston, with a view to tapping into the huge growth potential of the construction market in Texas and the wider southwest of the USA.

The offering for concrete contractors was expanded with the takeover of Butterfield Color Inc., a leading manufacturer of decorative concrete floors and systems in the USA. At the end of the year, Sika also acquired Emseal Joint Systems, Ltd., a high-performance supplier of structural expansion joints.

### LATIN AMERICA

The markets in Latin America presented a very varied picture. Brazil, as the largest economy with a significant construction market in the region, saw a further downturn owing both to an absence of public and private investment as well as to continuing political instability. The Argentinian economy gained traction in the wake of political reforms, and Mexico and Colombia posted further growth.

The Latin America region increased sales by 3.3% (previous year: 5.1%). Both Mexico and Argentina generated above-average growth. Construction activity is still subdued in the countries within the region that are more dependent on the raw material sector, such as Brazil, Peru, and Chile. The supply chain in Mexico, a high-growth market, was further expanded through investment in a new factory for mortar products and concrete admixtures in Coatzacoalcos. Sika's presence in Central America was also reinforced by the foundation of a new national subsidiary in El Salvador.

The acquired brands of Grupo Industrial Alce have strengthened Sika's presence in Mexico in respect of both major projects and local specification capabilities. Moreover, the additional production site close to Mexico City facilitates the rapid supply of liquid-applied and bituminous membranes to this huge metropolis.

## ASIA/PACIFIC

China's economy continued to grow in the year under review, thanks to a sound real estate market and continuous investments in infrastructure, both of which lifted demand in the construction supplies industry. In the Pacific area, Australia achieved a consistently positive performance owing to low interest rates, a stable economy, and investment in major projects. In South- east Asia, further economic growth was, for example, reported by Malaysia, and Thailand, with investments in infrastructure expansion proving growth drivers in local construction markets.

Sales in the Asia/Pacific region rose by 5.2% (previous year: 3.6%). High growth rates were achieved in China, and double-digit increases in Australia, New Zealand, and Thailand.

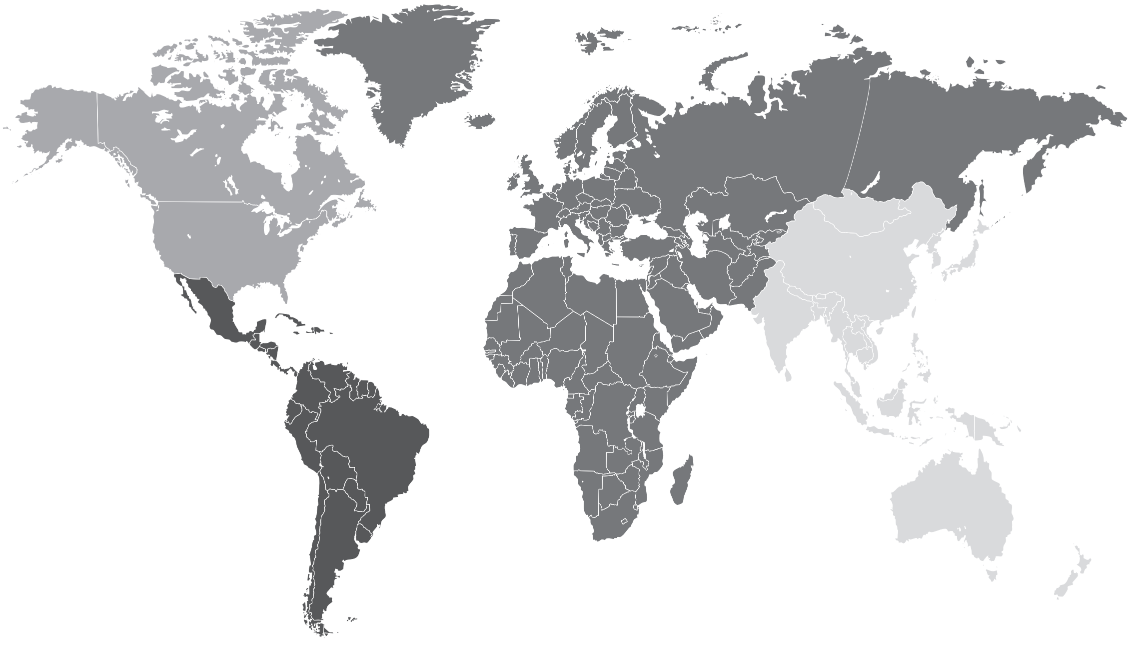
Sika reached a major milestone in Asia: following the founding of a new national subsidiary in Bangladesh, the Group is now represented in 100 countries worldwide.

## OTHER SEGMENTS

With 95 million new vehicles sold, global car production grew by 2.1% year on year. In 2017 as well, the automotive sector was dominated by the megatrends lightweight construction, electro mobility, eco-friendliness, and safety combined with increased comfort. Numerous automakers responded by making large-scale investments in the development of electric drive systems in readiness for the announced changes to the regulatory framework in various countries. Sika aims to profit more than average from the electro mobility megatrend and increase its share in components per vehicle by over 20%.

Sika's "Other segments and activities" generated sales growth of 14.0% in local currencies (previous year: 11.7%). The automotive business, which is managed centrally on a global basis, forms a key part of these areas of operation. Posting organic growth of 20.2% in the fourth quarter, Sika significantly exceeded market growth. At the end of the year, the acquisition of Faist ChemTec Group was announced. Headquartered in Worms, Germany, the company is a leading provider of acoustic systems for the automotive industry. The acquisition brings technology and know-how that will accelerate Sika's growth and further drive penetration of the automotive sector.

## THE REGIONS IN BRIEF



| | EMEA | North America | Latin America | Asia/Pacific | Other Segments and Activities |
|---|---|---|---|---|---|
| Net sales in CHF mn (2016) | 2,874.9 (2,695.3) | 1,094.0 (922.6) | 590.0 (564.3) | 1,132.7 (1,080.7) | 556.7 (484.8) |
| **Growth in local currencies** | **7.5%** | **18.4%** | **3.3%** | **5.2%** | **14.0%** |
| Currency impact | -0.8% | 0.2% | 1.3% | -0.4% | 0.8% |
| Acquisition effect | 2.5% | 8.5% | 0.1% | 0.6% | 0% |
| Employees | 9,822 | 2,142 | 2,479 | 4,041 | |

# GROUP REPORT OUTLOOK

## CONTINUATION OF SUCCESSFUL GROWTH STRATEGY

The foundations for future growth were laid in 2017 with the opening of nine new factories, the establishment of three further national subsidiaries, and the acquisition of seven companies. The strong sales organization, the well-filled product pipeline, and these 19 key investments give the Group reason to look to the future with optimism.

For the 2018 business year Sika is anticipating an increase in sales of more than 10%. Commodity price increases and volatility remain a challenge in the current year, with access to commodities in China, for example, being limited by environmental regulations imposed by the state. Operating profit (EBIT) should continue to grow at a disproportionately high rate in 2018. The unknown outcome of Saint-Gobain's hostile takeover attempt remains an element of uncertainty for the future.

# SUSTAINABILITY REPORT

## ENHANCING CUSTOMER VALUE, REDUCING ENVIRONMENTAL IMPACTS, AND ASSUMING SOCIAL RESPONSIBILITY

As a global company, Sika is committed to sustainable development. The company honors its responsibilities by offering sustainable solutions for energy-efficient construction and economical vehicles. It also implements numerous projects and measures aimed at boosting the Group's business, social, and ecological sustainability.

### SIKA'S SUSTAINABILITY STRATEGY

Sika continued to implement its 2014–2018 sustainability strategy during the year under review. With the aim of "enhancing utility and reducing impacts," the company continued to pursue its six strategic target areas, focusing on economic performance, sustainable solutions, local communities/society, energy, waste/water, and occupational safety.

Through its products, systems, and solutions, Sika strives to create long-term benefits and added value for all its stakeholders, and to significantly reduce resource consumption and the impacts associated with production processes.

Included among the tactics employed to globally implement the sustainability strategy were the "More Value – Less Impact" campaign, and the introduction at a local level of the target and reporting system in line with the Global Reporting Initiative (GRI) standards. A summary of the key results and findings is presented on the following pages. Full details are available online at www.sika.com/gri.

### MATERIALITY ASSESSMENT

Sika has taken a long-term perspective on the development of its business. Through its products, systems, and solutions, Sika seeks to generate benefits for stakeholders that outweigh the negative consequences of the production process and resource consumption. An effective strategy, trust in the company, and the dedication of all employees are the pillars of Sika's success. The Sika journey to global leadership is founded on the company's entrepreneurial philosophy and the Sika Spirit, which is a synonym for the strong set of five values and principles that make up the DNA and culture of the company: customer first, courage for innovation, sustainability & integrity, empowerment & respect, and manage for results.

Sika considers the materiality analysis to be an important tool for identifying the most relevant economic, environmental and social aspects that are consistent with its business strategy, and to define the contents of the sustainability strategy according to the GRI-Standards. In terms of sustainability reporting, the aspects deemed as material (or relevant) are those that have a significant impact on the economic, social, and environmental performance of the company or that may substantially influence stakeholders' perceptions and decisions. Accordingly, the materiality analysis is two-fold, as it takes account of the standpoint of the company and of its stakeholders.

Sika regularly reviews the materiality matrix to ensure that the sustainability agenda remains relevant as the business and the external context may be subject to changes (see GRI Standards). The company originally developed its sustainability materiality matrix in 2013 to identify and prioritize strategic target areas, based on extensive consultation with all stakeholders, through surveys and interviews with employees, customers, suppliers, investors and analysts, and NGOs, and some additional desk research. This shaped the six strategic target areas for the sustainability strategy.

Over the years Sika has developed metrics and targets in each strategic target area to measure the progress, and to meet the evolving expectations of stakeholders. Sika concentrates on the highest priority items in its Annual Report and gives a more detailed review in the annual GRI report. As a result of the review in 2015 the original findings were confirmed. The materiality of the topics was defined by taking into account:

- The main sustainability topics raised by Sika's stakeholders
- The relevance for Sika's core business
- Potential reputational impacts
- Potential of Sika to influence/impact the topic
- Relevant laws and regulations, compliance
- Sika's risk management

# SUSTAINABILITY: TARGETS AND IMPLEMENTATION

## MORE VALUE OR ENHANCING UTILITY

Sika takes a long-term perspective on the development of its business, and acts with respect and responsibility towards all internal and external stakeholders. The company maintains a strong focus on safety, quality, environment, fair treatment, social involvement, responsible growth, and value creation during all business activities.

Sustainability has always been part of Sika's identity. The company aims to continually measure and improve sustainable value creation and communicate activities and progress. "More Value – Less Impact" refers to Sika's obligation to maximize the value of its solutions and contributions for all stakeholder groups, while simultaneously minimizing the risks and resource consumption associated with value generation.

The development and launch of a Regional Sustainability Academy program for Asia Pacific and Latin America, within the framework of the Sika Business School, was one key activity in the year under review. The regional Academy aims to train employees from local subsidiaries to become sustainability experts, therefore enabling them to drive and accelerate the implementation of the "More Value – Less Impact" strategy at a regional and local level. Commercial and marketing-oriented people were trained to be local champions for "More Value" and operations and EHS people to be the local champions for "Less Impact". On completion of the program, these "ambassadors" have a deeper understanding about Sika's Sustainability strategy, targets, principles and tools, the benefits of using sustainability as a value creation concept, and how to initiate, manage and coordinate local sustainability activities and projects from both perspectives. The Sustainability Academy will be repeated in the future and is set to become an integral part of the Sika Business School's training program. The goal is to initiate even more activities in the area of sustainability and achieve further progress.

## MANAGEMENT AND ORGANIZATION

Group Management tasked the department Environment, Health, Safety & Sustainability (EHS&S) with implementing the sustainability strategy. It is implemented and anchored locally by the line organization. A particular degree of responsibility lies with the general managers, target market managers, and operations managers, who drive the development and implementation of local action plans.

The existing network of local and regional EHS&S officers supports the local Sika companies in ideation, planning, and implementation of higher-level regional measures. Through the "More Value – Less Impact" communication campaign, Sika informed all internal stakeholders about the sustainability strategy and included them in planning and implementing respective measures. These activities were extended and intensified in 2017.

Sika has installed a Sika Sustainability Advisory Board (SAB) which became operational in 2016. The SAB has been established to support a business model based on sustainability. An independent expert opinion aims to provide Sika management with further impulses regarding the direction and implementation of Sika's sustainability strategy.

The SAB reviews the Sika sustainability practices step by step and has issued a number of recommendations during 2017, which were reviewed. This will lead to an adaptation of the measuring and reporting structure. As a consequence, Sika will refine the training and education structure as well as the target setting principles for sustainability for line managers. In addition, a more detailed monitoring of the many social projects will be initiated, so that the company will have an insight into the benefits delivered.

## ECONOMICAL: PERFORMANCE

### STANDARDS AND COMPLIANCE

Sika is pursuing a holistic approach to compliance, and its compliance management system involves the whole organization throughout hierarchies, functions, and geographical areas. The Sika compliance management system aims to ensure that governance, risk management, and other structures and processes within the Group are not only compliant with regulatory requirements, but also as effective as possible within the organization to mitigate risks and prevent financial losses.

STRENGTHENING OF THE SIKA COMPLIANCE ORGANIZATION: In the year under review, Sika continued to strengthen and train the Sika Compliance Organization. Sika held several Compliance Meetings, attended by the four Regional Compliance Officers.

GLOBAL AWARENESS-RAISING CAMPAIGN ON COMPLIANCE: In 2017, as part of the internal Global Awarenes Raising Campaign on Compliance, Sika continued in the joint roll-out of the new digital e-learning module on the company's Code of Conduct and the new internal web-based reporting system for serious misconducts ("Sika Trust Line"), covering an additional 25 countries and training more than 5,000 employees in the different regions. In 2017 two alleged cases for minor misconduct (1 HR and 1 conflict of interest) were submitted through the Sika Trust Line. There has been no case of abuse or misuse of the new reporting platform.

CODE OF CONDUCT: In the year under review, Sika has increased the number of languages in which the Code of Conduct is available from 26 to 32. All 32 Code of Conduct official translations are available and accessible internally on the Corporate Policies and Manuals page on SikaConnect (internal collaboration platform) and SikaWorld (intranet).

COMPLIANCE CONFIRMATION, COMMITMENT AND CHECKLIST 2018 (COMPLIANCE AUDITS): General Managers of all Sika companies confirm for each fiscal year compliance of the corresponding Sika Company with the Code of Conduct principles, including information to and training of all staff. This annual confirmation allows Sika to receive assurance that the business had been conducted throughout the organization in compliance with the Code of Conduct principles, with particular focus on the following specific topics: Environment, Anti-corruption, Anti-trust and Human Rights Assessments. General Managers have also renewed, in the year under review, their commitment to lead with integrity by signing a "Compliance Commitment". All Sika Senior Managers have signed the Compliance Commitment 2018-2019.

TRAININGS: More than 220 managers have been trained. With regard to compliance training, Sika continues to align the content of the Sika Business School to enhance ethical leadership. In 2017, trainings and presentations on regional and local level informed about the importance of the Code of Conduct, an introduction on the new compliance organization, and the main tools available to support management in mitigating risks.

### INSPECTIONS AND AUDITS

Inspections and audits are core elements of Sika's comprehensive management system. They provide management at Group, regional, and local company level with a regular, independent assessment on whether activities in scope comply with official requirements, as well as with Sika's own internal guidelines, principles, and risk management specifications. The inspections and audits thereby ensure the effectiveness of the relevant processes and controls at Sika.

Audits are performed by various assurance functions across the group covering quality, environment, safety, health, risk, technology, application, legal and compliance, branding, IT security, suppliers, and products. The results and subsequent corrective actions of these audits are regularly presented to the Group Management. Besides those assurance functions, an independent Corporate Internal Audit function, reporting to the Audit Committee of the Board of Directors, validates the effectiveness of internal controls in both legal entity audits and reviews of group processes and functions. In total, Sika conducted 117 audits in the reporting year and implemented associated improvements wherever necessary.

To ensure that suppliers also meet the official requirements and labor standards, they are required to perform self-assessments. Sika conducts supplier audits themselves. In the year under review, all new suppliers were assessed according to the new vendor evaluation process.

To improve supplier qualification, Sika trains sales teams in planning and performing supplier audits themselves. Most of these inspections are overseen by safety, quality, or technology experts. This makes it possible to work on improvements together with the suppliers, including improvements in sustainability.

As a supplier to major customers – particularly from the automotive and industrial sectors – Sika is itself often subject to external audits. These audits are designed to ensure compliance with international labor standards and prescribed quality, environment, safety, and health criteria.

### INVOLVEMENT OF ALL STAKEHOLDERS

The goal of sustainable development requires the involvement of every participant along the entire value chain and the identification of shared topic areas of significance to all those involved. A new relevance (materiality) analysis covering the most important internal and external stakeholder groups was performed in 2015. The survey endorsed the strategies adopted under the "More Value – Less Impact" banner. This, in turn, prompted Sika to intensify its existing ties and partnerships with important stakeholders – including customers, suppliers, associations and sponsorship partners/communities – by engaging in numerous projects and collaborations at various levels in the year under review. The focus was on key issues, such as occupational health and safety, customer health and safety, sustainable solutions, and energy/water/waste.

## TAX APPROACH

Through its tax principles, internal policies, and actions, Sika is committed to being a "good corporate fiscal citizen"in pursuit of a long-term sustainable tax strategy, while fully and efficiently complying with national and international tax laws and regulations. Sika's tax approach is in line with OECD/G20 guidelines and their general objectives.

By following a business-oriented approach, based on functions, assets, and operating risks when determining processes and transactions, Sika has a market-based outcome where a fair amount of taxes is paid in each jurisdiction in which the company operates. The outcome of the business-oriented approach is always checked for its compliance with all applicable laws. Such an approach results in an Effective Group Tax Rate which reflects Sika's global footprint, the decentralized nature of the business, and the Group's successful local operations.

Sika's 2016 Country-by-Country Report, following the relevant OECD Guidelines, demonstrates that Sika's Corporate Tax proactively implements new international tax rules and complies with new requirements where applicable. As a new standard, the OECD/G20 requires countries to request multinational enterprises to prepare and file a Country-by-Country Report containing aggregate tax information per country relating to the global allocation of the income, the taxes paid, and certain other indicators. For the Sika Group, the 2016 Country-by-Country Report was filed during 2017 with the Swiss Tax Administration on a voluntary basis making Sika one of the first Swiss Groups to start filing for the financial year 2016, two years ahead of the time when the reporting obligation will come into effect in Switzerland. As foreseen by the OECD, the Swiss Tax Administration will share this report with other countries where Sika has a taxable presence in order for their authorities to monitor that Sika is paying its fair amount of taxes.

## SUSTAINABLE SOLUTIONS

Sika aims to be an industry leader with a portfolio of sustainable products, systems, and services. The company makes an essential contribution to customers in construction and other industries to meet their sustainability targets, for example, energy- and material-efficient vehicles and buildings. Sustainability is a key component of the company's capacity for innovation and an important driver of product development. Sika strives to extend the service life of buildings and industrial applications, to reduce maintenance effort, to improve energy and material efficiency, and to further enhance user-friendliness and health and safety profiles. One of the company's main objectives is to reduce resource consumption, energy consumption, and the associated $CO_2$ emissions along the value chain – both internally and for partners and customers who place their trust in Sika products and solutions. The Group goals are:

TARGET 1: All new product developments are reviewed against sustainability criteria using a standardized methodology, including a documented sustainability profile and an appropriate improvement plan where necessary.

IMPLEMENTATION: A uniform sustainability appraisal process (including guidelines and work aids) was established throughout the company that addresses the relevant sustainability indicators and forms part of the official Sika product development process. The objective of the sustainability appraisal process is to assess all relevant sustainability aspects of a new development over its entire life cycle, compared with the company's own or competitors' solutions. Economic, environmental and social aspects are assessed and serve as the basis for deciding what measures are needed to improve the sustainability profile of a development. If a new solution fails to provide an improvement over the existing product, it may not be worthwhile to further pursue a particular development. On the other hand, if a significant improvement over the existing product is achieved, the relevant projects must be prioritized for special attention.

In the year under review, the sustainability appraisal process was used to assess 108 new local and global product developments. Of these, 12% were identified as relevant and have undergone or are undergoing closer scrutiny as they offer an improvement over the existing product and are therefore of particular importance for the company's sustainability.

In 2017, a new one-component moisture-triggered polyurethane roof waterproofing base coat (Sikalastic®-631) was developed as part of the Sika® CoolRoof i-Cure / SikaRoof®i-Cure system. The product is based on a novel latent hardener that prevents gassing in the finished film, which can often be seen in conventional polyurethanes when applied in harsh environments. The new technology allows the final product to be formulated with reduced VOC's (volatile organic compounds), odor, and most importantly emissions to the environment. The Sika® CoolRoof i-Cure / SikaRoof®i-Cure system fulfills LEED v4 requirements and is a high-end cool roof solution to help reduce the operational energy consumption of buildings.

Another example is Sarnafil® G-410, a self-adhered thermoplastic roofing membrane which was successfully launched in North America. The membrane design includes a pre-applied adhesive, which is covered with a release liner at the factory, providing more consistent coverage versus adhesive applied on site and double the speed and ease of application on the roof. By eliminating the use of liquid membrane adhesives, VOCs and adhesive odors were eliminated from potentially harming applicators and entering the building. The membrane is ideal for any project, but especially for those buildings that are sensitive to adhesive odors and fumes, such as schools, healthcare facilities and office buildings.

TARGET 2: The major Sika national subsidiaries prepare a sustainability action plan and implement all key projects planned in this context. The plan is aligned with local trends and with market requirements and encompasses the key projects and topics that are geared to the global initiative.

IMPLEMENTATION: All of the bigger countries in the key regions North America, Southern Europe, Northern Europe, Central Europe, and Eastern Europe further developed product sustainability road maps in the year under review. A priority in the year under review was to extend the scope of the road map activities into the Asia/Pacific and Latin America region. In this regard, the newly created regional Sustainability Academy programs played an important role in involving further national subsidiaries and increasing the future number of projects and activities.

The regional Sustainability Academy courses in Bangkok in July and Bogota in November were attended by 37 employees from various business segments from 19 country organizations in the Asia/Pacific and Latin America region. The participants were empowered to draw up and implement local market-oriented road maps with the support of local teams. Here, the commercial and marketing-oriented persons were nominated to be trained to be local champions for "more value" and operations and EHS persons to be the local champion for "less impact". On completion of the program, the "ambassadors" have a deeper understanding of Sika's sustainability strategy, targets, principles and tools, the benefits of using sustainability as a value creation concept and how to initiate, manage and coordinate local sustainability activities and projects from both perspectives. Based on the learnigs of the Sustainability Academy, initial action plans were locally developed for Japan, China, Vietnam, Indonesia, Malaysia, and New Zealand. Roadmaps for the key Latin America countries Mexico, Colombia, Brazil, Chile, Peru, Ecuador, Argentina, and Uruguay will follow in 2018.

Customers, as well as legislature, increasingly demand that companies make the environmental performance or environmental impact of its products more transparent. This calls for sound data and knowledge about the effects of product manufacturing and the added value of finished products in their application and use phase. In the year under review, as in years before, Sika expanded the existing reference database for Environmental Product Declarations (EPD) for its products and systems in accordance with the international ISO and EN standards, which creates an increase in confidence by providing information on the environmental performance of Sika solutions. Examples include the preparation of various EPDs for major polyurethane liquid-applied membranes for roof waterproofing solutions under the UK BRE standard. With this, Sika has published product-specific EPDs for all its major European single-ply and LAM (liquid applied membrane) roofing brands and technologies. Furthermore, Sika was the first company in the North American roofing market to publish third party certified cradle-to-grave Environmental Product Declarations (EPD). They include the full life cycle from resource extraction to factory gate, through the use phase and end of life treatment. Thanks to the long life expectancy of the Sarnafil membranes and the company's recycling program to take back old membranes at the end of their service life, the figures show very good results. In 2018 the EPD activities in the North American market will be further extended to other product categories utilizing local US EPD standards.

The interest in EPDs has grown significantly since recent versions of the US Green Building Council's (USGBC) LEED, the Green Building Initiative's (GBI) Green Globes program and the UK's British Research Establishment Environmental Assessment Method (BREEAM), amongst others, award credits for buildings incorporating products with EPD, which provide added value and comprehensive information for assessing buildings and other structures. With the increasing number of green building projects in commercial and public construction, and having a product portfolio that contributes to multiple green building requirements, Sika is in a good position to benefit.

With buildings having extensive direct and indirect impacts on the environment, operational energy efficiency is an essential aspect for the building design. In the reporting year, Sika has developed an "energy-saving calculator", which enables customers to quantify the contribution of the roof design on energy and cost savings during a building's use phase. Possible energy savings can be achieved through improved thermal insulation characteristics and/or reflectivity of roofing membranes. With this tool, our clients can interpret the benefits of selecting Sika's high-quality roofing systems into economies of scale. The tool also allows a simulation of the effect of the roof design dependent on various climate conditions. With its energy-saving approach, Sika strives to create value for its customers via customized sustainable and energy-efficient roofs. The company plans to collect various case studies by introducing the new concept into a limited number of countries step by step in order to ensure the reliability of the tool.

All of this underscores Sika's aim to move further in the direction of being a solution supplier, providing customers with innovative solutions to decisively enhance the efficiency, durability, and aesthetic appeal of buildings, infrastructure facilities, and installations. The integrated concepts and solutions address the entire life cycle of a built structure, from initial construction and maintenance through to refurbishment or expansion or ultimately demolition.

Brochures, product and project case studies, and videos containing more detailed information from a range of target markets can be found at www.sika.com/sustainability. They show how Sika solutions support sustainable construction and help to save energy, raw materials, and water, and reduce $CO_2$ emissions while meeting sustainable building standards.

# SOCIAL: PEOPLE

## SOCIAL RESPONSIBILITY

Social, economic, and environmental issues are closely intertwined, and social responsibility is a necessary component of success. Mindful of its obligations, Sika actively engages in sustainable and humanitarian development projects, either as a member of international organizations or directly on the spot. Sika's social involvement also embraces the sponsorship of organizations and initiatives in the fields of science, culture, and sport.

Sika aims to build trust and create value – with customers, local communities, and society as a whole. The Group goal is:

TARGET: 5% more social projects per year. Social projects benefit all non-commercial stakeholder groups of local companies and their neighborhoods. They encompass monetary benefits or material donations, local projects and community engagement programs, dialog with stakeholder groups, communal consultation procedures, social activities and programs, training, environmental projects, or recovery programs. In 2017, this target was achieved.

IMPLEMENTATION: Sika sponsored 118 projects during the year under review (previous year: 90 projects). This equates to a year-on-year increase of 31%.

The projects can be classed under the headings "social" (including donations), "ecological," "scientific," and "sports and cultural."

### SOCIAL SPONSORSHIPS AND DONATIONS

The main goals, among others, are to support communities in infrastructure development for social projects, to promote training in construction professions and trades, and to provide emergency aid to disaster-stricken regions. Sika also seeks to promote on-the-ground self-help. The local Sika companies thus put forward specific aid applications and, working with local partners, supervise the projects from site up to completion. Sika endeavors to provide intelligent support for projects through the application of company-specific expertise, voluntary work by its employees, and long-term collaboration with partners.

Support of children and young people: Projects sponsored by Sika in the year under review include initiatives like the continued support of the non-profit organization Operation Smile in Vietnam and Thailand. Sika has supported the activities of Operation Smile in Vietnam since 2010, and in Thailand since 2014. Thanks to the assistance of committed volunteers, the organization has, since 1989, arranged operations for some 220,000 children and youths with cleft lips and palates or similar facial disfigurements. Likewise, in 2017 Sika continued the support of children's homes throughout the world, for example in Lurín, Peru, Brasov, Romania, Madh Island, India and in Querètaro, Mexico.

Education and schooling: Another focus was to support schools. In China, Sika supports the Library Project, a nationwide initiative to sponsor libraries in public schools. In the year under review Sika donated 18,450 books to establish libraries at 20 schools.

Overall Sika has established 61 school libraries since 2015, benefiting 53,159 children. Sika was also involved in work to renovate 21 school libraries in the mountainous regions of the Chongqing and Sichuan provinces in the south and less developed areas of the country. In 2017, Sika also continued its support of a new school for girls and young women in Madagascar. The school prepares the young women for careers in education and is located in Tulear, a city of 150,000 inhabitants over 900 kilometers southwest of Antananarivo.

Sika Cambodia intensified its cooperation with "Smiling Gecko", an NGO which runs several construction projects in the country. The projects are headed by architect and Professor Dirk E. Hebel of ETH Zurich and supported by the Center for Development and Cooperation (CDC) of the Berner Fachhochschule. With the support of Sika, Smiling Gecko was able to open a carpentry, which provides nine additional jobs and training places for young Cambodians. Furthermore, five bungalows and a restaurant have been completed in the "farmhouse project".

Improving lives of people with a disability: In the year under review, Sika increased its engagement for improving the lives of people with physical or intellectual disabilities. The team from Sika Spain, for example, is helping to improve the recreation areas of the "Carmen Pardo Valcarce" Foundation, a pioneer in defending the fundamental rights of people with intellectual disabilities. At Sika's facility in Gournay-en-Bray, France, a partnership with the local governmental initiative "ESAT" ('Centre d'Aide par le Travail') supports the professional reinsertion of disabled people.

Volunteering: Sika aims to vigorously support volunteering work in relation to social activities and personal development. In the year under review, Sika teams in Switzerland provided a group of refugees with an enjoyable and productive day out and brought help and assistance to mentally impaired working individuals. Volunteering work was carried out by Sika teams in all regions: volunteers from Sika USA, Construction Specifications Institute (CSI), and the local AEC community joined forces with "Rebuilding Together San Francisco" to take part in the "Give-Back Day." The goal was to help provide maintenance and refurbishment to the popular community garden at Adam Rogers Park in San Francisco's Hunter's Point neighborhood. In Chile, students, teachers, and Sika staff worked together to improve the access to the pre-elementary school area, including the playground, the bicycle parking, and the trees.

## ECOLOGICAL SPONSORSHIP

The focus of Sika's ecological sponsorship is on water, building, infrastructure, and renewable energy projects. The main sponsorship partner in this field is the Global Nature Fund (GNF). Sika has supported the GNF and its international Living Lakes environmental program since 2004. Made up of over 100 partner organizations from various lake regions across the globe, the Living Lakes network aims to promote sustainable development and the protection of drinking water, lakes, and wetlands. The initiative uses concrete projects to demonstrate how, with the involvement of the local population, positive social and economic developments can be achieved in different regions and societies without any threat to nature and the environment. In the reporting year, Sika sponsored drinking water and environmental projects in Ivory Coast, Tanzania, and Mexico. In the year under review the GNF obtained the Energy Globe Award for Green Filter Projects. These projects have been supported by Sika for some years, and focus on innovative and cost-effective systems for sewage treatment.

## SCIENTIFIC SPONSORSHIP

As project sponsor, Sika engages in a lively dialog with ETH Zurich (Swiss Federal Institute of Technology in Zurich), the University of Fribourg, EPFL (Swiss Federal Institute of Technology in Lausanne), the ESPCI ParisTech (School of Industrial Physics and Chemistry of the City of Paris), the University of Burgundy, Princeton University, the Beijing University of Chemical Technology, the University of Tokyo, and similar institutions across the globe. Sika's local subsidiaries co-operate with research institutes and provide mutual support.

ETH Zurich, Switzerland: In the year under review Sika continued to support the chair in Soft Materials at the ETH Zurich. Research interests focus on soft materials – i.e., materials that are thermally deformable at room temperature – such as gels, molten polymers, and rubber and their boundary surfaces. Research into composites made of soft materials as well as colloid systems and bacteria are further main aspects.

2017 was the eighth year in which the Sika Master Award was presented to the author of an outstanding master's thesis in the field of applied chemistry, based on the recommendation of ETH's Department of Chemistry and Applied Biosciences. Sika also participates in ETH Zurich's Partnership Council Sustainable Construction. This interdisciplinary forum promotes dialog on current research topics, supports resources and knowledge transfer, and encourages the launch of joint research projects in the field of sustainable construction.

In 2014 a research group on management in emerging markets was established at the Faculty of Economics and Social Sciences of the Fribourg University, Switzerland. Since then, the University of Fribourg and Sika have carried out work to address the growing significance of emerging markets for the strategies of Western companies. Professor Dirk Morschett is an active member of Sika's newly formed Sustainability Advisory Board.

In the year under review, Sika received the "Research Cooperation Prize" from the Technical University of Madrid for its socio-economic impact and relations with the university. The accolade recognizes the company's commitment to innovation and its model relationship with the university, which has been close for more than 20 years.

## SPORTS AND CULTURAL SPONSORSHIP

Sika supports sports and cultural projects throughout the world. The focus of sponsorship in Switzerland is on the Lucerne Symphony Orchestra, the EV Zug ice hockey club, the Oberwil Rebells, and the Swiss Sliding sports association. Sika France sponsors the French national handball team, who won the world championship in 2017. Furthermore, Sika was presenting partner of the Zug Sports festival where athletes and sport clubs had the opportunity to inspire the people of Zug/Switzerland.

Throughout the weekend of August 19-20, 2017, the Zug Sports festival offered a variety of activities for everyone to participate in or watch.

### OCCUPATIONAL SAFETY

The health, safety, and well-being of all Sika employees are essential to the success of the company's business and are core concerns throughout the organization. This requires focus and a systematic approach: occupational standards, management commitment, employee involvement, work site and risk analysis, hazard recognition and resolution, training and education are all key components of Sika's health and safety framework. A culture of safety and a healthy work environment are at the center of everything the company does.

Sika has the ambitious goal of ensuring every employee leaves the workplace healthy. The Group goal is:

TARGET: 5% fewer accidents per year. This refers to the number of work-related accidents leading to injuries and covers all Sika employees, including temporary and subcontracted staff, at the company's operating companies and units, and both industrial and nonindustrial sites. Construction projects are not factored in. In 2017, this target was achieved.

IMPLEMENTATION: The number of occupational accidents leading to lost work time of more than one day showed a year-on-year decrease of 8.4%. In the year under review, 8.7 occupational accidents per 1,000 employees were recorded (previous year: 9.5). In 2017, injuries again caused absences of an average of around 22 days (previous year: 22). This figure was strongly influenced by longer absences due to injuries to the system caused by accidents while walking.

Sika will continue to make constant improvements to safety in 2018, placing greater emphasis on employee participation. In the US, the comprehensive safety concept, which was launched in 2015 under the name "Sika Safe", led again to a significant reduction in accident numbers in 2017 resulting in approximately 70% less accidents per 1,000 employees over the past two years.

## ECOLOGICAL: PLANET

### LESS IMPACT: REDUCING THE NEGATIVE FOOTPRINT

The following details relate to all business operations of the Sika Group, including the activities of newly acquired companies, and focus on the core themes of energy, water/waste, occupational safety, and $CO_2$ emissions at the more than 200 Sika production sites.

Sika is continually improving its environmental protection and safety performance through its routine investment planning and maintenance activities. During the year under review, Sika spent CHF 6.5 million on technical equipment to prevent accidents and illness. This corresponds to roughly 4% of total investments of CHF 163.4 million. Sika also implemented numerous further health, safety, environment, and sustainability measures during the year under review. Expenditures in these areas came to CHF 26 million (previous year: CHF 24 million). The total worldwide headcount in this field runs to over 100. Sika employs environment, safety, and sustainability specialists at all its major sites.

### ENERGY

Global megatrends, such as energy and raw material shortages, urbanization, and population growth are confronting companies and communities with major economic, social, and ecological challenges. Availability and efficient use of energy and resources are crucial to sustainable development and poverty reduction. Sika sees it as its responsibility to minimize the impact on climate change by reducing energy consumption from nonrenewable sources with the positive effect of lowering costs and increasing competitiveness. The Group goal is:

TARGET: 3% less energy consumption per ton and year. This includes the total energy produced and consumed by all Sika operating companies and units, both industrial and nonindustrial sites. In 2017, this target was not achieved.

IMPLEMENTATION: In 2017 Sika consumed 1,961 terajoules of energy (previous year: 1,779 terajoules). Approximately 55% of Sika's energy requirements were met by electrical power from the local grid. The remaining demand was mainly covered by natural gas and liquid fuels.

Energy consumption per ton sold added up to 450 megajoules (previous year: 428 megajoules).
This increase is mainly due to acquisitions of factories with very energy-intensive production processes (resulting in plus 2.5% of total energy consumption in comparison to last year, adjusted for acquisitions). It is part of the integration process to review and analyze the impact performance, such as energy consumption, of newly acquired sites. This will consequently initiate local improvement projects to align with Sika expectations and targets. However these improvements not only need time but also investments on shop floor level.

However, overall energy consumption reduced by 17% (target 12%) from 2013 to 2017 from 541 MJ/t to 450 MJ/t which is an average of 4.25% per year.

### $CO_2$ EMISSIONS

$CO_2$ is a consequence of fossil energy consumption, and can only be limited within Sika by increasing energy efficiency. This is why Sika controls its $CO_2$ emissions via its energy target and has not set a specific reduction target at Group level. The total emissions fluctuate due to the energy mix consumed by the individual Sika entities and acquisitions. Sika's total $CO_2$ emissions run to around 193,000 tons compared to 187,800 tons in 2016.

$CO_2$ EMISSIONS (DIRECT): $CO_2$ emissions from energy consumed directly by all Sika operating companies and units, both industrial and nonindustrial sites, and by its own vehicles are calculated based on the reported fuel quantities. In 2017, $CO_2$ emissions from the use of primary energy sources ran to around 53,000 tons (previous year: 45,000 tons). Two factories in China still rely on locally sourced coal as fuel. However overall, coal consumption was cut by approximately 50%. Coal has a low gross calorific value and entails higher $CO_2$ emissions than natural gas. Emissions were reduced at two plants by adjusting the product mix, partially replacing a coal-intensive process with a coal-free process.

$CO_2$ EMISSIONS (INDIRECT): $CO_2$ emissions from indirect energy consumption, i.e., emissions not due to Sika's own primary energy usage, including leased vehicles and business travel, are derived from the reported energy quantities. $CO_2$ emissions caused by purchased electricity are calculated using current emission factors from the Greenhouse Gas protocol (GHG), applying average values for electric power production in each particular country. In 2017, $CO_2$ emissions caused by electricity consumption were calculated at 102,000 tons (previous year: 109,000 tons), i.e. approximately twice as high as direct $CO_2$ emissions. Leased vehicles and business travel caused additional $CO_2$ emissions of 22,000 and 16,000 tons respectively (previous year: 20,000 and 13,800 tons).

### WATER

Sika aims to boost the sustainability performance of its production sites by reducing water consumption and treating water locally. The company implements measures to reduce consumption or to use lower-grade water qualities, especially in geographic regions where water is scarce. Efficient production means closed loop cooling and switching from public to surface and ground water, reducing the amount of drinking water used in production. By reusing wastewater, Sika aims to reduce its water consumption on a larger scale. The Group goal is:

TARGET: 3% less water consumption per ton and year. This includes water consumed by all Sika operating companies and units, both industrial and nonindustrial sites, whether from public utilities or from ground or surface water sources. In 2017, this target was not achieved.

IMPLEMENTATION: In 2017 Sika used approximately 1.4 million cubic meters of water (previous year: 1.3 million cubic meters). The water consumption per ton sold was around 0.32 cubic meters (previous year: 0.32 cubic meters).

From 2016 to 2017 there was no change in the water consumption. However overall, the water consumption was significantly reduced by 52% (target 12%) from 2013 to 2017 from 0.67 $m^3/t$ to 0.32 $m^3/t$, which is an average of 13% per year.

### WASTE

Efficient use of input materials is extremely important to all Sika companies, as production processes are material-intensive and use high volumes of nonrenewable resources. Efficient production in this context means reducing and reusing production scrap, reducing and reusing packaging materials, and improving packaging design, leading to higher productivity and lower material use. The Group goal is:

TARGET: 3% less waste per ton and year. This includes all waste material sent to external contractors for disposal – except for materials returned to suppliers – and covers all Sika operating companies and units, including industrial and nonindustrial sites. In 2017, this target was not achieved.

IMPLEMENTATION: With an increased production volume, the company generated some 80,000 tons of waste (previous year: 74,000 tons). This corresponds to 18.4 kilograms of waste per ton sold (previous year: 17.8 kilograms per ton sold) or an increase of 3.4%. This significant increase is mainly due to newly enforced regulations in Pennsylvania, USA, in regard to the discharge of sewage water. This has an impact of more than 8% of the total generated waste. As a consequence Sika is in the process of designing its own, local waste water treatment station in order to reduce the main amount of waste and to recycle regenerated water for its production processes.

# FINANCIAL REPORT

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

| in CHF mn | Notes | 12/31/2016 | 12/31/2017 |
|---|---|---|---|
| Cash and cash equivalents | 1, 26 | 1,155.0 | 1,037.9 |
| Accounts receivable | 2, 26 | 1,043.1 | 1,188.1 |
| Inventories | 3 | 600.8 | 729.5 |
| Prepaid expenses and accrued income | | 89.0 | 116.2 |
| Other current assets | 4, 26 | 9.1 | 12.7 |
| **Current assets** | | **2,897.0** | **3,084.4** |
| Property, plant, and equipment | 5 | 959.2 | 1,065.2 |
| Intangible assets | 6 | 1,021.2 | 1,314.2 |
| Investments in associated companies | 7 | 6.3 | 6.2 |
| Deferred tax assets | 8 | 159.7 | 228.1 |
| Other non-current assets | 4, 26 | 55.8 | 94.1 |
| **Non-current assets** | | **2,202.2** | **2,707.8** |
| **ASSETS** | | **5,099.2** | **5,792.2** |
| Accounts payable | 9, 26 | 587.0 | 730.9 |
| Accrued expenses and deferred income | 10 | 223.9 | 253.4 |
| Bond | 12, 13, 26 | 0.0 | 150.0 |
| Income tax liabilities | | 92.0 | 147.0 |
| Current provisions | 14 | 20.8 | 20.0 |
| Other current liabilities | 11, 13, 26 | 44.3 | 48.7 |
| **Current liabilities** | | **968.0** | **1,350.0** |
| Bonds | 12, 13, 26 | 698.7 | 549.0 |
| Non-current provisions | 14 | 57.5 | 56.4 |
| Deferred tax liabilities | 8 | 110.2 | 129.3 |
| Employee benefit obligations | 15 | 274.6 | 260.0 |
| Other non-current liabilities | 11, 13, 26 | 42.5 | 36.4 |
| **Non-current liabilities** | | **1,183.5** | **1,031.1** |
| **LIABILITIES** | | **2,151.5** | **2,381.1** |
| Capital stock | | 1.5 | 1.5 |
| Treasury shares | | -11.0 | -6.6 |
| Reserves | | 2,933.8 | 3,389.8 |
| **Equity attributable to Sika shareholders** | | **2,924.3** | **3,384.7** |
| Non-controlling interests | | 23.4 | 26.4 |
| **SHAREHOLDERS' EQUITY** | 16 | **2,947.7** | **3,411.1** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | **5,099.2** | **5,792.2** |

# CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

| in CHF mn | Notes | % | 2016 | % | 2017 | Change in % |
|---|---|---|---|---|---|---|
| **Net sales** | 17, 29 | **100.0** | **5,747.7** | **100.0** | **6,248.3** | **8.7** |
| Material expenses | 18 | -44.7 | -2,566.6 | -45.6 | -2,849.2 | |
| **Gross result** | | **55.3** | **3,181.1** | **54.4** | **3,399.1** | **6.9** |
| Personnel expenses | 19 | -20.1 | -1,159.1 | -19.4 | -1,212.1 | |
| Other operating expenses | 20 | -18.4 | -1,056.3 | -17.9 | -1,118.5 | |
| **Operating profit before depreciation** | | **16.8** | **965.7** | **17.1** | **1,068.5** | **10.6** |
| Depreciation and amortization expenses | 5, 6, 21 | -3.0 | -170.4 | -2.8 | -172.2 | |
| **Operating profit** | 29 | **13.8** | **795.3** | **14.3** | **896.3** | **12.7** |
| Interest income | 23 | 0.0 | 2.6 | 0.0 | 1.9 | |
| Interest expenses | 22 | -0.3 | -20.4 | -0.3 | -18.3 | |
| Other financial income | 23 | 0.1 | 5.2 | 0.2 | 5.9 | |
| Other financial expenses | 22 | -0.5 | -27.4 | -0.4 | -24.0 | |
| Income from associated companies | 23 | 0.0 | 0.5 | 0.0 | 0.3 | |
| **Profit before taxes** | | **13.1** | **755.8** | **13.8** | **862.1** | **14.1** |
| Income taxes | 8 | -3.2 | -189.2 | -3.4 | -213.1 | |
| **Net profit** | | **9.9** | **566.6** | **10.4** | **649.0** | **14.5** |
| Profit attributable to Sika shareholders | | 9.8 | 563.1 | 10.3 | 643.5 | |
| Profit attributable to non-controlling interests | 24 | 0.1 | 3.5 | 0.1 | 5.5 | |
| Undiluted/diluted earnings per bearer share (in CHF) | 25 | | 221.81 | | 253.52 | 14.3 |
| Undiluted/diluted earnings per registered share (in CHF) | 25 | | 36.97 | | 42.25 | 14.3 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in CHF mn | Notes | % | 2016 | % | 2017 | Change in % |
|---|---|---|---|---|---|---|
| **Net profit** | | **9.9** | **566.6** | **10.4** | **649.0** | **14.5** |
| Actuarial gains (+)/losses (-) on employee benefit obligations | 15 | 0.7 | 44.4 | 1.0 | 63.9 | |
| Income tax effect | 8 | -0.1 | -6.4 | -0.2 | -11.6 | |
| **Items that will not be reclassified to profit or loss** | | **0.6** | **38.0** | **0.8** | **52.3** | |
| Exchange differences taken to equity | | 0.0 | 0.1 | 0.1 | 5.8 | |
| **Items that may be reclassified subsequently to profit or loss** | | **0.0** | **0.1** | **0.1** | **5.8** | |
| **Other comprehensive income** | | **0.6** | **38.1** | **0.9** | **58.1** | |
| **Comprehensive income** | | **10.5** | **604.7** | **11.3** | **707.1** | **16.9** |
| Attributable to Sika shareholders | | 10.4 | 600.7 | 11.2 | 702.1 | |
| Attributable to non-controlling interests | | 0.1 | 4.0 | 0.1 | 5.0 | |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in CHF mn | Capital stock | Capital surplus | Treasury shares | Currency translation differences | Retained earnings | Equity attributable to Sika shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **January 1, 2016** | **1.5** | **203.1** | **-0.9** | **-543.3** | **2,870.4** | **2,530.8** | **21.3** | **2,552.1** |
| Net profit | | | | | 563.1 | 563.1 | 3.5 | 566.6 |
| Other comprehensive income | | | | -0.4 | 38.0 | 37.6 | 0.5 | 38.1 |
| **Comprehensive income** | **0.0** | **0.0** | **0.0** | **-0.4** | **601.1** | **600.7** | **4.0** | **604.7** |
| Transactions with treasury shares [1] | | | -10.1 | | -8.6 | -18.7 | | -18.7 |
| Share-based payments | | | | | 7.7 | 7.7 | | 7.7 |
| Dividends [2] | | | | | -198.0 | -198.0 | -1.9 | -199.9 |
| Inflation adjustment [4] | | | | | 1.8 | 1.8 | | 1.8 |
| **December 31, 2016** | **1.5** | **203.1** | **-11.0** | **-543.7** | **3,274.4** | **2,924.3** | **23.4** | **2,947.7** |
| **January 1, 2017** | **1.5** | **203.1** | **-11.0** | **-543.7** | **3,274.4** | **2,924.3** | **23.4** | **2,947.7** |
| Net profit | | | | | 643.5 | 643.5 | 5.5 | 649.0 |
| Other comprehensive income | | | | 6.3 | 52.3 | 58.6 | -0.5 | 58.1 |
| **Comprehensive income** | **0.0** | **0.0** | **0.0** | **6.3** | **695.8** | **702.1** | **5.0** | **707.1** |
| Transactions with treasury shares [1] | | | 4.4 | | -8.7 | -4.3 | | -4.3 |
| Share-based payments | | | | | 5.4 | 5.4 | | 5.4 |
| Dividends [3] | | | | | -243.7 | -243.7 | -2.0 | -245.7 |
| Inflation adjustment [4] | | | | | 0.9 | 0.9 | | 0.9 |
| **December 31, 2017** | **1.5** | **203.1** | **-6.6** | **-537.4** | **3,724.1** | **3,384.7** | **26.4** | **3,411.1** |

1 Including income tax of CHF 0.4 million (CHF 0.1 million) in retained earnings.
2 Dividend per bearer share: CHF 78.00, dividend per registered share: CHF 13.00.
3 Dividend per bearer share: CHF 96.00, dividend per registered share: CHF 16.00.
4 Hyperinflation accounting has been applied since January 1, 2010, and concerns the subsidiary in Venezuela.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| in CHF mn | Notes | 2016 | 2017 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxes | | 755.8 | 862.1 |
| Depreciation and amortization expenses | 5, 6, 21 | 170.4 | 172.2 |
| Increase (+)/decrease (-) in provisions/ employee benefit obligations and assets | | 12.3 | -9.6 |
| Increase (-)/decrease (+) in net working capital [1] | | -29.5 | -86.5 |
| Non-liquidity-related other financial expenses (+)/income (-) as well as cash flow from hedging transactions [1] | | 26.4 | -38.2 |
| Other adjustments [1] | 28 | 0.7 | 5.9 |
| Income taxes paid | | -200.4 | -254.0 |
| **Cash flow from operating activities** | | **735.7** | **651.9** |
| | | | |
| **Investing activities** | | | |
| Property, plant, and equipment: capital expenditures | 5 | -149.5 | -158.5 |
| Property, plant, and equipment: disposals | | 5.5 | 8.3 |
| Intangible assets: capital expenditures | 6 | -5.4 | -4.9 |
| Intangible assets: disposals | | 0.2 | 0.0 |
| Acquisitions less cash and cash equivalents | | -23.6 | -320.4 |
| Acquisitions (-)/disposals (+) of financial assets | | 0.1 | -2.7 |
| **Cash flow from investing activities** | | **-172.7** | **-478.2** |
| | | | |
| **Financing activities** | | | |
| Increase in financial liabilities | 13 | 13.0 | 17.0 |
| Repayment of financial liabilities | 13 | -3.8 | -55.4 |
| Repayment of a bond | 12 | -250.0 | 0.0 |
| Purchase of treasury shares | | -56.7 | -31.4 |
| Sale of treasury shares | | 24.1 | 26.3 |
| Dividend payment to shareholders of Sika AG | | -198.0 | -243.7 |
| Dividends related to non-controlling interests | | -1.9 | -2.0 |
| **Cash flow from financing activities** | | **-473.3** | **-289.2** |
| | | | |
| **Exchange differences on cash and cash equivalents** | | **-9.1** | **-1.6** |
| | | | |
| **Net change in cash and cash equivalents** | | **80.6** | **-117.1** |
| Cash and cash equivalents at the beginning of the year | 1 | 1,074.4 | 1,155.0 |
| Cash and cash equivalents at the end of the year | 1 | 1,155.0 | 1,037.9 |
| | | | |
| **Cash flow from operating activities contains:** | | | |
| Dividends from associated companies | | 0.6 | 0.5 |
| Interest received | | 2.6 | 1.8 |
| Interest paid | | -20.4 | -14.4 |

1 Prior year restated due to the reclassification and separate disclosure of non-liquidity related other financial expenses/income as well as cash flows from hedging transactions.

# APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

## PRINCIPLES OF CONSOLIDATION AND VALUATION

### CORPORATE INFORMATION

Sika is a specialty chemicals company active in the development and production of systems and products for bonding, sealing, damping, reinforcing, and protecting in the building sector and the motor vehicle industry.

### ACCOUNTING POLICIES

#### BASIS OF PREPARATION

The financial statements of the Sika Group have been prepared in conformity with the provisions of the International Accounting Standards Board (IASB). All standards (IAS/IFRS) and interpretations (IFRIC/SIC) applicable as of December 31, 2017, were taken into account. The financial statements have been prepared according to the going-concern principle. The Consolidated Financial Statements have been prepared under the historical cost principle with the exception of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed on page 97 of the download version of this report.

#### CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting standards applied conform to those standards that were valid in the prior year. Exceptions are the following revised and new standards, which Sika applies since January 1, 2017. The application of these standards does not have any material impact on the Consolidated Financial Statements of the Group.

- Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses
- Amendments to IAS 7 – Cash flow statement disclosure initiative (see note 13 "Reconciliation of financial liabilities")
- Annual improvements (2014 – 2016 Cycle) – Collective standard with amendments to various IFRS standards with the primary goal of eliminating inconsistencies and clarifying terminology

A number of new standards and amendments to standards and interpretations are effective for the financial year 2018 and later, and have not been applied in preparing these Consolidated Financial Statements. If they had been applied in 2017 they would have had no significant effect on the Consolidated Financial Statements of the Group, except for IFRS 16:

- Amendments to IFRS 2 – Classification and measurement of share-based payment transactions (effective as of January 1, 2018)
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Hedge accounting (applicable as of January 1, 2018)
- IFRS 9 – Financial instruments (applicable as of January 1, 2018)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (applicable as of January 1, 2018)
- IFRIC 23 – Uncertainty over Income Tax Treatments (applicable as of January 1, 2019)
- IFRS 15 – Revenue from contracts with customers (applicable as of January 1, 2018):
  Entities need to apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Based on an detailed analysis there is no material effect on the Consolidated Financial Statements of the Group, only certain additional disclosures will be required. Sika's customer contracts primarily include the delivery of goods with no separate performance obligations.
- IFRS 16 – Leases (applicable as of January 1, 2019):
  The new leases standard will substantially change the financial statements. The differentiation between finance and operating lease arrangements which was required until now under IAS 17 is dropped in future for the lessee. The standard provides a single lessee accounting model, requiring lessees to recognize liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. In addition, a right to use the underlying asset needs to be recognized. The current operating lease commitments (see note 5) provide an indication of the impact of the implementation of IFRS 16 on the Group's consolidated balance sheet. In the income statement a shift from other operating expenses towards depreciation expenses will be caused. The leasing and rent payments will be replaced by the deprecation expenses of the recognized underlying assets. Operating profit will be released from the interest rate component on the leasing liability and charged to interest expenses.

New standards and interpretations are usually applied on the applicable date. However, the options for early adoption are considered individually by Sika.

## CONSOLIDATION METHOD

### BASIS
The Consolidated Financial Statements are based on the balance sheets and income statements of Sika AG, Baar, Switzerland, and its subsidiaries as of December 31, 2017, prepared in accordance with uniform standards.

### SUBSIDIARIES
Companies which are controlled by Sika are fully consolidated. The consolidation includes 100% of their assets and liabilities as well as expenses and income; non-controlling interests in shareholders' equity and net income for the year are excluded and shown separately as part of non-controlling interests.

### ASSOCIATED COMPANIES
The equity method is applied to account for investments ranging from 20% to 50%, provided that Sika exercises significant influence. The investments are included in the balance sheet under "Investments in associated companies" based on the Group's percentage share in net assets including goodwill; in the income statement the Group's share in the net income for the year is disclosed in "Income from associated companies".

### OTHER NON-CONTROLLING INTERESTS
Other non-controlling interests are carried at fair value.

### INTRA-GROUP TRANSACTIONS
Transactions within the Group are eliminated as follows:
- Intra-Group receivables and liabilities are eliminated in full.
- Intra-Group income and expenses and the unrealized profit margin from intragroup transactions are eliminated in full.

### BUSINESS COMBINATIONS AND GOODWILL
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquired company. For each business combination, the acquirer measures the non-controlling interests in the acquired company either at fair value or at the proportionate share of the acquired company's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value on the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in the income statement. A contingent consideration that is classified as equity is not revalued, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit and loss.

Goodwill is subject to an annual impairment test. Impairments are recognized in the income statement. The impairment is not reversed at a later date.

When subsidiaries are sold, the difference between the selling price and the net assets including goodwill plus cumulative translation differences is recognized in the Consolidated Financial Statements as an operating result. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition of control or up to the effective date of loss of control.

### SEGMENT REPORTING
Sika carries out its worldwide activities according to regions. Heads of regions are members of Group Management. Group Management is the highest operating executive body measuring the profit and loss of segments and allocating resources.

## SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future, as well as details of other key sources of estimation uncertainty on the balance sheet date, that entail a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### IMPAIRMENT OF GOODWILL

The Group tests for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units or groups of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates such as expected future cash flows and discount rates. The carrying value of goodwill as of December 31, 2017, was CHF 889.3 million (CHF 678.7 million). Further details are presented in note 6.

### FAIR VALUE OF ACQUISITION

In connection with acquisitions, all assets, liabilities, and contingent liabilities are valued at fair value. Newly identified assets and liabilities are also recognized in the balance sheet. Fair value is determined in part based on assumptions regarding factors that are subject to a degree of uncertainty, such as interest rates and sales.

### TRADEMARKS WITH INDEFINITE USEFUL LIVES

Trademarks with indefinite useful lives are tested annually for impairment. The impairment test is performed on the cash-generating unit or group of cash-generating units to which the trademark is allocated. This group can comprise several operating segments. The calculations of the recoverable amount require the use of estimates such as expected future cash flows and discount rates. The carrying value of trademarks with indefinite useful lives as of December 31, 2017, was CHF 72.4 million (CHF 72.4 million). Further details are presented in note 6.

### CUSTOMER RELATIONS

Customer relations are amortized over their estimated useful life. The estimated useful life is based on estimates of the time period during which this intangible asset generates cash flows, as well as historic empirical data concerning customer loyalty. Calculation of the present value of estimated future cash flows includes significant assumptions, particularly in respect of future sales. Additionally, discounting is also based on assumptions and estimations concerning business-specific capital costs, which are themselves dependent on country risks, credit risks, and additional risks resulting from the volatility of the respective business.

### DEFERRED TAX ASSETS

Deferred tax assets resulting from the carry forward of unrealized tax losses or timing differences are recognized to the extent that a realization of the corresponding tax advantage is probable. Assessing the probability of realizing the tax benefit requires assumptions based on planning data.

### EMPLOYEE BENEFIT OBLIGATIONS

The Group maintains various employee benefit plans. Several statistical analysis and other variables are used in the calculation of expenses and liabilities to estimate future developments. These variables include estimations and assumptions concerning the discount rate established by management within certain guidelines. In addition, actuaries employ statistical information for the actuarial calculation of benefit liabilities such as withdrawal or death probabilities, which can deviate significantly from actual results due to changes in market conditions, the economic situation as well as fluctuating rates of withdrawal and shorter or longer live expectancy of benefit plan participants.

### PROVISIONS

The calculation of provisions requires assumptions regarding the probability, size, occurrence, and timing of a cash outflow. As long as an outflow of resources is probable and a reliable estimation is possible, a provision is recognized.

# VALUATION PRINCIPLES

**CONVERSION OF FOREIGN CURRENCIES**
Foreign currency transactions are translated into the functional (local) currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency on every balance sheet date by applying exchange rates valid on the balance sheet date. The resulting exchange rate differences are recognized in the income statement.

The financial statements of the foreign subsidiaries are translated into Swiss francs as follows:
- Balance sheet at year-end rates
- Income statements at annual average rates

The effects from the translation of the functional currency into Swiss francs are recognized in other comprehensive income.

The rates listed below were applied:

| Country | Currency | Quantity | 2016 Balance sheet[1] CHF | 2016 Income statement[2] CHF | 2017 Balance sheet[1] CHF | 2017 Income statement[2] CHF |
|---|---|---|---|---|---|---|
| Egypt | EGP | 100 | 5.59 | 10.05 | 5.49 | 5.52 |
| Argentina | ARS | 100 | 6.41 | 6.68 | 5.10 | 5.95 |
| Australia | AUD | 1 | 0.74 | 0.73 | 0.76 | 0.75 |
| Brazil | BRL | 100 | 31.30 | 28.19 | 29.45 | 30.87 |
| Chile | CLP | 10,000 | 15.23 | 14.55 | 15.87 | 15.16 |
| China | CNY | 100 | 14.67 | 14.83 | 14.99 | 14.56 |
| Euro zone | EUR | 1 | 1.07 | 1.09 | 1.17 | 1.11 |
| Great Britain | GBP | 1 | 1.24 | 1.33 | 1.32 | 1.27 |
| India | INR | 100 | 1.50 | 1.47 | 1.53 | 1.51 |
| Indonesia | IDR | 100,000 | 7.58 | 7.40 | 7.21 | 7.36 |
| Japan | JPY | 100 | 0.87 | 0.91 | 0.87 | 0.88 |
| Canada | CAD | 1 | 0.76 | 0.74 | 0.78 | 0.76 |
| Colombia | COP | 10,000 | 3.39 | 3.23 | 3.27 | 3.33 |
| Mexico | MXN | 100 | 4.93 | 5.28 | 4.95 | 5.21 |
| Poland | PLN | 100 | 24.35 | 25.00 | 28.02 | 26.05 |
| Russia | RUB | 1,000 | 16.70 | 14.66 | 16.86 | 16.86 |
| Sweden | SEK | 100 | 11.24 | 11.52 | 11.89 | 11.52 |
| Thailand | THB | 100 | 2.85 | 2.79 | 2.99 | 2.90 |
| Turkey | TRY | 100 | 28.97 | 32.70 | 25.74 | 27.00 |
| USA | USD | 1 | 1.02 | 0.98 | 0.98 | 0.98 |
| Vietnam | VND | 100,000 | 4.48 | 4.40 | 4.30 | 4.33 |

1 Year-end rates.
2 Annual average rates.

## CONSOLIDATED BALANCE SHEET

### CASH AND CASH EQUIVALENTS

This position includes cash and cash equivalents with a maturity of less than three months.

### RECEIVABLES

Accounts receivable are recorded following the deduction of an allowance for doubtful debts necessary for business purposes. A specific provision for impairment is carried out on accounts receivable balances for which payment is considered at risk.

### INVENTORIES

Raw materials and merchandise are stated at historical cost and finished and semi-finished products are stated at production cost, however not exceeding net realizable sales value. The production costs comprise all directly attributable material and manufacturing costs as well as other costs incurred in bringing the inventories to their present location and condition. Acquisition or production costs are determined using a standard cost approach, or alternatively using the weighted average cost method. Net realizable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the selling costs. Allowances are made for obsolete and slow-moving inventories.

### PREPAID EXPENSES AND ACCRUED INCOME

This item includes prepaid expenses and accrued income unrelated to accounts receivable.

### PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are carried at historical cost, less accumulated depreciation required for business purposes. The capitalization is made based on components. Value-enhancing expenses are capitalized and depreciated over their useful lives. Repair, maintenance, and replacement costs are charged directly to the income statement. Depreciation is calculated using the straight-line method and is based on the anticipated useful life of the asset, including its operational usefulness and age-related technical viability. The acquisition costs include borrowing costs for long-term construction projects if the recognition criteria are met.

### DEPRECIATION SCHEDULE

| | |
|---|---|
| Buildings | 25 years |
| Infrastructure | 15 years |
| Plants and machinery | 5 – 15 years |
| Furnishings | 6 years |
| Vehicles | 4 years |
| Laboratory equipment and tools | 4 years |
| IT hardware | 3 – 4 years |

### INTANGIBLE ASSETS

Internally generated patents, trademarks, and other rights are not capitalized. Research and development expenditures for new products are recognized in the income statement, since these do not fulfill the recognition criteria. Acquired intangible assets are usually capitalized and amortized using the straight-line method.

Development costs for software are capitalized as intangible assets, provided that the software will generate a future economic benefit through sale or through use within the Group and that its cost can be reliably measured. Conditions for capitalization are the technical feasibility of the asset and the intention and ability to complete its development, as well as the availability of adequate resources. Sika has created an SAP platform with standard processes that a number of companies have been using since 2010. The further rollout will take several years to complete. The capitalized costs are transferred to the companies in the year of first use.

### AMORTIZATION SCHEDULE

| | |
|---|---|
| Software | 3 – 5 years[1] |
| Patents | 5 – 10 years |
| Customer relations | 1 – 20 years |
| Trademarks | 3 – 10 years |

1 Software is usually written off over three years with the exception of the SAP platform. For details see note 6.

Acquired trademarks are amortized insofar as a useful life can be determined. Otherwise trademarks are not amortized. The indefinite useful life assessment is reviewed annually.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

The recoverability of property, plant, and equipment as well as intangible assets is reviewed if events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life as well as goodwill are not subject to amortization and are tested annually for impairment. If the carrying amount exceeds the recoverable amount, a special depreciation allowance is recorded on the higher of fair value less cost to sell and the value in use of an asset which corresponds to the discounted, anticipated future cash flows. For the purpose of impairment tests, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### LEASING

Fixed assets acquired under finance leasing contracts and therefore owned by the Group in respect to risks and rewards of ownership, are classified as finance leases. Such assets are carried at the fair value of the lease property or, if lower, present value of the minimum lease payments and are reported as non-current assets and financial liabilities. Assets classified as finance leasing are depreciated over their estimated useful life or any shorter term of the lease. Unrealized earnings from sale and leaseback transactions that fall under the definition of finance leasing are shown as a liability and are realized over the lease term. Payments for operating leases are recorded as operating expenses and are charged accordingly to the income statement.

### DEFERRED TAXES (ASSETS/LIABILITIES)

Deferred taxes are calculated using the liability method. According to this method the effects on income taxes resulting from temporary differences between Group-internal and taxable balance sheet values are recorded as deferred tax assets or deferred tax liabilities, respectively. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recognized or the liability is settled based on the rates (and tax laws) that have been substantively enacted. Changes in deferred taxes are reflected in the income tax expense, the statement of comprehensive income, or directly in equity. Deferred income tax liabilities are provided for taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets including those that can be applied to carried forward tax losses are recognized to the extent that their realization is probable. Deferred tax liabilities are recognized for all taxable temporary differences insofar as the accounting regulations foresee no exception.

### LIABILITIES

Current liabilities consist of liabilities with maturities of less than twelve months. Income tax liabilities include taxes due and accrued. Non-current liabilities include loans and provisions with a term of more than one year.

### PROVISIONS

Provisions required for liabilities arising from guarantees, warranties, and environmental risks as well as restructuring costs are recognized as liabilities. Provisions are only recognized if Sika has a third-party liability that is based on a past event and can be reliably measured. Contingent liabilities (see note 27) are not recognized in the balance sheet but only for acquisitions. Potential losses due to future incidents are not recognized in the balance sheet.

### EMPLOYEE BENEFIT OBLIGATIONS

The Group maintains various employee benefit plans that differ in accordance with local practices. Group contributions to defined contribution plans are recognized in the income statement. Defined benefit plans are administered either through self-governed pension funds (funded) or recognized directly in the balance sheet (unfunded). The amount of the liabilities resulting from defined benefit plans is regularly determined by independent experts under application of the projected unit credit method. Actuarial gains and losses are recognized directly in the statement of other comprehensive income and are not reclassified subsequently to profit and loss. Asset surpluses of employee pension funds are considered under application of IFRIC 14 only to the extent of possible future reimbursement or reduction of contributions.

### CAPITAL STOCK

The capital stock is equal to the par value of all issued bearer and registered shares.

### CAPITAL SURPLUS

This item consists of the value of paid-in capital in excess of par value (less transaction costs).

### TREASURY SHARES

Treasury shares are valued at acquisition cost and deducted from shareholders' equity. Differences between the purchase price and sales proceeds of treasury shares are shown as a change in retained earnings.

### CURRENCY TRANSLATION DIFFERENCES

This item consists of the differential amount that arises from the translation into Swiss francs of assets, liabilities, income, and expenses of Group companies that do not use Swiss francs as their functional currency.

## HYPERINFLATION

In countries experiencing hyperinflation, prior to conversion into the presentation currency the annual financial statements are adjusted for local inflation in order to eliminate changes in purchasing power. Adjustment for inflation is based on the relevant price indices at the end of the period under review.

## RETAINED EARNINGS

Retained earnings mainly comprise accumulated retained earnings of the Group companies that are not distributed to shareholders as well as profit/loss of treasury shares. Profit distribution is subject to local legal restrictions.

## FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are classified into the following categories:

- Financial assets and financial liabilities held for trading as well as designated by the Group and derivatives, "at fair value through profit and loss": these are initially recognized at fair value. Gains and losses arising from changes in the fair value are presented in the financial result. The designation as at fair value through profit and loss is consistent with the entity's risk management and investment strategy.
- Loans and receivables: this category includes loans granted and credit balances. The valuation occurs at nominal value insofar as repayment within one year is foreseen. Otherwise they are classified as assets carried at amortized cost using the effective interest method.
- All other financial assets are classified as available-for-sale. The assets are carried at fair value and gains and losses arising from changes in the fair value are presented in other comprehensive income. Upon sale, permanent depreciation in value or other divestiture, the cumulative gains and losses that had been recognized in other comprehensive income are reclassified from equity to the income statement.
- Non-current financial liabilities are carried at amortized cost. Once they have been settled, financial liabilities are derecognized.

All purchases and sales of financial assets and liabilities are recognized on the settlement date. Financial assets are derecognized when Sika loses the rights to receive cash flows from the investment. Normally this occurs through the sale of assets or the repayment of granted loans or accounts receivable. The financial liabilities include financing debts that are carried at amortized cost using the effective interest method.

On each balance sheet date the Group assesses whether a financial asset is impaired. If objective evidence exists that an impairment of financial assets carried at amortized cost has occurred, then the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If in the case of accounts receivable there is objective evidence that not all amounts due will be rendered according to the originally agreed invoicing conditions (for example when there is a high probability of insolvency or significant financial difficulties at a debtor), an impairment is recognized through use of an allowance account. The derecognition of receivables occurs when they are assessed as uncollectible. If an available-for-sale asset is impaired in its value, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is removed from equity and recognized in the income statement.

## INCOME STATEMENT

### NET SALES
Proceeds from the sale of goods and services are only reported in the income statement if risks and rewards of ownership have been substantially transferred to the purchaser, revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Net sales include all revenues from the sale of goods and services less discounts granted.

### CONSTRUCTION CONTRACTS
Contract revenue and contract costs are recognized in accordance with the stage of completion. An expected loss is recognized as an expense immediately.

### PERSONNEL EXPENSES
Personnel expenses include all payments to persons operating in an employment relationship with Sika. This item also encompasses such expenditures as pension fund contributions, health insurance contributions, and taxes and levies directly associated with personnel compensation.

### EMPLOYEE PARTICIPATION PLAN – SHARE-BASED PAYMENTS
The Group operates a number of share-based compensation plans. The total amount to be recognized in profit and loss is determined by reference to the fair value at grant date of the equity instrument. The expenses are recognized in personnel expenses over the vesting period.

### RESEARCH AND DEVELOPMENT
Research expenses are recognized in the income statement. Development expenses are not capitalized if the recognition criteria have not been met.

### DEPRECIATION AND AMORTIZATION EXPENSES
Property, plant, and equipment are depreciated using the straight-line method based on the expected useful life of the asset. Intangible assets are ususally amortized using the straight-line method.

### INTEREST EXPENSE/OTHER FINANCIAL EXPENSES
In general, all interests and other expenses paid for the procurement of loans are recognized in the income statement. Any borrowing costs accrued in the course of development projects, e.g. the construction of new production facilities or software development, are capitalized together with the assets created.

### INTEREST INCOME/OTHER FINANCIAL INCOME
Interest income is recognized pro rata temporis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

### INCOME TAXES
Income tax expenses include income taxes based on current taxable income and deferred taxes.

# SCOPE OF CONSOLIDATION AND ACQUISITIONS

The Consolidated Financial Statements of the Sika Group comprise the financial statements of Sika AG, Zugerstrasse 50, 6340 Baar, Switzerland, as well as its subsidiaries (see list starting on page 135 et seq. of the download version of this report) and associated companies (see note 7). In the year under review the scope of consolidation was expanded to include the newly acquired companies (see the next pages) and the following companies:

- Sika El Salvador S.A. de C.V., Antiguo Cuscatlán, El Salvador
- Sika Sénégal SARLU, Dakar, Senegal
- Sikalkoat de México, S.A. de C.V., Corregidora, Mexico
- Sika Bangladesh Limited, Dhaka, Bangladesh

The scope of consolidation was reduced to exclude the following companies:

- Schönox GmbH, Rosendahl, Germany, was merged with Sika Deutschland GmbH, Stuttgart, Germany.
- FRC Fiber, Limited Company, Tuscaloosa, USA, was merged with Sika Corporation, Lyndhurst, USA.
- Sika Automotive Ltda., São Paulo, Brazil, was merged with Sika SA, Osasco, Brazil.

### ACQUISITIONS 2016

In 2016, Sika acquired various companies or parts of companies. The purchase prices and their allocation (PPA) did not change and are now final.

### ACQUIRED NET ASSETS AT FAIR VALUES

| in CHF mn | Acquisitions 2016[1] |
| --- | --- |
| Cash and cash equivalents | 3.6 |
| Accounts receivable | 4.3 |
| Inventories | 3.3 |
| Other current assets | 0.5 |
| Property, plant, and equipment | 4.7 |
| Intangible assets | 12.0 |
| **Total assets** | **28.4** |
| Current bank loans | 0.2 |
| Accounts payable | 2.0 |
| Other current liabilities | 2.0 |
| Provisions | 0.2 |
| Deferred tax liabilities | 2.2 |
| Other non-current liabilities | 0.4 |
| **Total liabilities** | **7.0** |
| **Acquired net assets** | **21.4** |
| Goodwill | 23.7 |
| **Total purchase price** | **45.1** |
| Cash in acquired assets | -3.6 |
| Use of Sika bearer shares | -14.0 |
| Payments still due (per December 31, 2016) | -3.9 |
| **Net cash outflow** | **23.6** |

1 L.M. Scofield, FRC Industries, Ronacrete (Far East) Ltd.; individually not material.

Since the purchase, the acquisitions have contributed sales of CHF 15.9 million and net profit of CHF 0.5 million in 2016. If the acquisitions had taken place on the first day of the accounting period, their additional contribution to consolidated net sales would have been CHF 21.1 million. Consolidated net profit would have been CHF 1.3 million higher.

The directly attributable transaction costs of all acquisitions amounted to CHF 0.5 million and were charged to other operating expenses.

## ACQUISITIONS 2017

In 2017, Sika acquired various companies.

| Company | Type of transaction | Stake in % | Closing date |
|---|---|---|---|
| Rmax Operating LLC, USA | Share deal | 100.0 | 1/31/2017 |
| Bitbau Dörr GmbH, Austria | Share deal | 100.0 | 2/21/2017 |
| ABC Sealants, Turkey | Share deal | 100.0 | 8/23/2017 |
| KVK Holding a.s., Czech Republic | Share deal | 100.0 | 10/5/2017 |
| Butterfield Color Inc., USA | Share deal | 100.0 | 10/31/2017 |
| Grupo Industrial Alce, Mexico | Asset deal | | 12/15/2017 |
| Emseal Joint Systems, Ltd., USA | Share deal | 100.0 | 12/19/2017 |

### RMAX OPERATING LLC

On January 31, 2017, Sika acquired Rmax Operating LLC, an US-based market leader in the production of insulation products for complete building envelope solutions (roofing and wall systems). The acquisition brings technology and know-how that will accelerate Sika's growth in the North American market.

Since the purchase, Rmax has contributed sales of CHF 66.6 million and net profit of CHF 5.7 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 5.4 million. Consolidated net profit would have been CHF 0.8 million higher. Accounts receivable of Rmax had a gross value of CHF 8.2 million and were adjusted since CHF 0.5 million were classified as non-recoverable.

### KVK HOLDING A.S.

In October, Sika further acquired KVK Holding headquartered in Prague, Czech Republic. KVK is a leading manufacturer of waterproofing and roofing systems and produces a wide range of mortar products. With the strategically located facilities Sika will strengthen its production platform and expand its geographical footprint in the Czech market. Furthermore, KVK's strong relationships with major builders' merchants will allow Sika to significantly enhance its presence in the Czech market.

Since the purchase, KVK has contributed sales of CHF 11.9 million and net loss of CHF 1.2 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 38.0 million. Consolidated net profit would have been CHF 3.2 million higher. Accounts receivable of KVK had a gross value of CHF 10.1 million and were adjusted since CHF 0.1 million were classified as non-recoverable.

### EMSEAL JOINT SYSTEMS, LTD.

On December 19, 2017, Sika acquired Emseal Joint Systems, Ltd., an US-based market leader in the development and manufacturing of structural expansion joint products for new construction and refurbishment. The acquisition perfectly complements Sika's range of sealing and bonding products and offers extensive cross-selling opportunities for other Sika technologies. With manufacturing in Westborough, Massachusetts, and Toronto, Canada, Emseal is well-positioned geographically to supply the North American market.

As the acquisition was completed shortly before the end of the year, Emseal has not yet contributed any share of sales. Due to the tax rate reduction in the USA, however, there has been a profit since the purchase of CHF 5.0 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 39.7 million. Consolidated net profit would have been CHF 4.1 million higher. Accounts receivable of Emseal had a gross value of CHF 3.9 million and none were classified as non-recoverable.

### OTHER ACQUISITIONS

In February, Sika further acquired Bitbau Dörr GmbH, a leading waterproofing system manufacturer, headquartered in Innsbruck, Austria. The acquisition of Bitbau Dörr will enable Sika to expand its product portfolio. The product portfolio includes complete waterproofing systems for roofs, buildings, and civil engineering applications.

In August, Sika acquired ABC Sealants, a leading manufacturer of sealants and adhesives, headquartered in Istanbul, Turkey. The acquisition will strengthen Sika's market position in Turkey and further establish Sika as a comprehensive supplier of solutions for interior finishing applications.

On October 31, Sika further acquired Butterfield Color, Inc., a US-based market leader in the production of decorative concrete floor products and systems. The products range from colors and sealers to innovative tools for stamping and texturing. Acquiring Butterfield now adds an unmatched contractor presence and, establishes Sika as the clear market leader in this fast-growing market.

In addition, Sika acquired certain assets of Grupo Industrial Alce, Mexico, in mid-December to expand its own portfolio of waterproofing systems for roofs and buildings and to further expand its manufacturing footprint in Mexico. The product offerings will allow Sika to become market leader in bituminous membranes and number two in liquid-applied membranes.

The other acquisitions have contributed sales of CHF 58.8 million and a net profit of CHF 1.9 million. If the acquisitions had taken place on the first day of the accounting period, their additional contribution to net sales would have been CHF 42.8 million. Consolidated net profit would have been 3.5 million higher.

Accounts receivable have a gross value of CHF 11.2 million and were adjusted since CHF 1.4 million were classified as non-recoverable.

### ACQUIRED NET ASSETS AT FAIR VALUE

| in CHF mn | Rmax | KVK | Emseal | Other acquisitions[1] |
|---|---|---|---|---|
| Cash and cash equivalents | 0.0 | 0.9 | 0.3 | 5.2 |
| Accounts receivable | 7.7 | 10.0 | 3.9 | 9.8 |
| Inventories | 5.6 | 8.6 | 2.4 | 12.2 |
| Other current assets | 0.7 | 1.9 | 0.7 | 0.8 |
| Property, plant, and equipment | 5.1 | 22.1 | 1.9 | 11.2 |
| Intangible assets | 45.9 | 12.6 | 38.4 | 23.4 |
| **Total assets** | **65.0** | **56.1** | **47.6** | **62.6** |
| Short-term loans and bank overdrafts | 1.2 | 6.9 | 0.0 | 4.2 |
| Accounts payable | 3.0 | 5.2 | 2.2 | 6.8 |
| Other current liabilities | 1.1 | 3.2 | 1.5 | 2.5 |
| Long-term loans and financial liabilities | 0.0 | 20.0 | 9.4 | 0.5 |
| Provisions | 0.9 | 1.2 | 0.5 | 0.0 |
| Employee benefit liabilities | 0.0 | 0.3 | 0.0 | 1.9 |
| Deferred tax liabilities | 0.1 | 4.0 | 13.8 | 1.8 |
| Other non-current liabilities | 0.1 | 0.0 | 0.0 | 0.0 |
| **Total liabilities** | **6.4** | **40.8** | **27.4** | **17.7** |
| **Acquired net assets** | **58.6** | **15.3** | **20.2** | **44.9** |
| Goodwill | 53.1 | 25.0 | 66.1 | 44.9 |
| **Total purchase consideration** | **111.7** | **40.3** | **86.3** | **89.8** |
| Cash in acquired assets | 0.0 | -0.9 | -0.3 | -5.2 |
| Payments still due (per December 31, 2017) | 0.0 | 0.0 | 0.0 | -1.3 |
| **Net cash outflow** | **111.7** | **39.4** | **86.0** | **83.3** |

1 Bitbau Dörr, ABC Sealants, Butterfield, and Grupo Industrial Alce; individually not material.

The purchase price of the other acquisitions include performance-related contingent considerations for which a market value of CHF 1.3 million was estimated.

Since the purchase prices and the purchase price allocations for all acquisitions still entail some uncertainty, all positions with the exception of “Cash and cash equivalents” are provisional. Product synergies and combined distribution channels and product portfolios justify the goodwill recognized. Goodwill in the amount of CHF 82.0 million is tax-deductible.

The directly attributable transaction costs of all acquisitions amounted to CHF 3.9 million and were charged to other operating expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1. CASH AND CASH EQUIVALENTS** CHF 1,037.9 MN (CHF 1,155.0 MN)
The cash management of the Group includes cash pooling, in which cash and cash equivalents available within the Group are pooled. The item "Cash and cash equivalents" includes cash and cash equivalents with a maturity of less than three months, bearing interest at a respectively valid rate.

**2. ACCOUNTS RECEIVABLE** CHF 1,188.1 MN (CHF 1,043.1 MN)
The following tables show accounts receivable, the development of the allowance for doubtful debts as well as the portion of not overdue and overdue receivables including their age structure. Accounts receivable are non-interest-bearing and are generally due within 30 to 90 days.

**MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS**

| in CHF mn | 2016 | 2017 |
|---|---|---|
| January 1 | 65.4 | 65.9 |
| Additions to or increase in allowances | 17.1 | 18.2 |
| Reversal of allowances | -5.3 | -7.0 |
| Utilization of allowances | -9.7 | -9.4 |
| Exchange differences | -1.6 | 0.8 |
| **December 31** | **65.9** | **68.5** |

**AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE**

| in CHF mn | 2016 | 2017 |
|---|---|---|
| **Net accounts receivable** | **1,043.1** | **1,188.1** |
| Of which | | |
| Not overdue | 793.7 | 908.5 |
| Past due < 31 days | 158.1 | 174.7 |
| Past due 31 – 60 days | 43.8 | 48.1 |
| Past due 61 – 180 days | 36.5 | 43.9 |
| Past due > 181 days | 11.0 | 12.9 |

The increase and decrease of allowances for doubtful debts are recognized in other operating expenses. Amounts entered as allowances are usually derecognized when payment is no longer expected.

## 3. INVENTORIES CHF 729.5 MN (CHF 600.8 MN)

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Raw materials and supplies | 182.4 | 227.6 |
| Semi-finished goods | 44.4 | 52.7 |
| Finished goods | 311.3 | 378.5 |
| Merchandise | 62.7 | 70.7 |
| **Total** | **600.8** | **729.5** |

## 4. OTHER ASSETS CHF 106.8 MN (CHF 64.9 MN)

The assets contained in this category and any changes in them can be seen in the following table.

### OTHER CURRENT ASSETS

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Derivatives (at fair value through profit and loss) | 4.3 | 5.1 |
| Loans (loans and receivables) | 3.0 | 5.3 |
| Securities (at fair value through profit and loss) | 1.8 | 2.2 |
| **Other financial assets** | **9.1** | **12.6** |
| Other non-financial assets | 0.0 | 0.1 |
| **Other current assets** | **9.1** | **12.7** |

### OTHER NON-CURRENT ASSETS

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Securities (at fair value through profit and loss) | 38.3 | 45.3 |
| Loans (loans and receivables) | 1.7 | 1.5 |
| **Other financial assets** | **40.0** | **46.8** |
| Employee benefit assets [1] | 15.8 | 47.3 |
| **Other non-current assets** | **55.8** | **94.1** |

1 Includes the excess of assets for employee benefit plans with defined benefits, see note 15.

## 5. PROPERTY, PLANT, AND EQUIPMENT CHF 1,065.2 MN (CHF 959.2 MN)

| in CHF mn | Property | Plant | Equipment | Plants and buildings under construction | Total |
|---|---|---|---|---|---|
| **At January 1, 2016** | | | | | |
| Acquisition cost | 113.5 | 641.0 | 1,489.6 | 83.1 | 2,327.2 |
| Cumulative depreciation and impairment | -1.4 | -388.7 | -1,012.2 | -0.6 | -1,402.9 |
| **Net values at January 1, 2016** | **112.1** | **252.3** | **477.4** | **82.5** | **924.3** |
| Additions | 2.9 | 10.5 | 59.7 | 76.4 | 149.5 |
| Acquired on acquisition | 1.7 | 1.1 | 1.8 | 0.1 | 4.7 |
| Exchange differences | 0.3 | 0.0 | 1.7 | 1.4 | 3.4 |
| Disposals | -0.7 | -1.2 | -1.9 | 0.0 | -3.8 |
| Reclassifications [1] | 7.5 | 41.4 | 57.5 | -107.0 | -0.6 |
| Depreciation charge for the year | 0.0 | -20.9 | -97.4 | 0.0 | -118.3 |
| **At December 31, 2016** | **123.8** | **283.2** | **498.8** | **53.4** | **959.2** |

| in CHF mn | Property | Plant | Equipment | Plants and buildings under construction | Total |
|---|---|---|---|---|---|
| **As January 1, 2017** | | | | | |
| Acquisition cost | 125.3 | 692.5 | 1,582.6 | 53.4 | 2,453.8 |
| Cumulative depreciation and impairment | -1.5 | -409.3 | -1,083.8 | 0.0 | -1,494.6 |
| **Net values at January 1, 2017** | **123.8** | **283.2** | **498.8** | **53.4** | **959.2** |
| Additions [2] | 7.7 | 31.9 | 41.3 | 102.1 | 183.0 |
| Acquired on acquisition | 6.3 | 6.6 | 25.0 | 2.4 | 40.3 |
| Exchange differences | 1.7 | 4.8 | 6.6 | 0.1 | 13.2 |
| Disposals | -2.6 | -0.9 | -2.7 | 0.0 | -6.2 |
| Reclassifications [1] | 0.1 | 7.3 | 60.4 | -67.8 | 0.0 |
| Depreciation charge for the year | 0.0 | -21.2 | -103.1 | 0.0 | -124.3 |
| **At December 31, 2017** | **137.0** | **311.7** | **526.3** | **90.2** | **1,065.2** |
| Acquisition cost | 138.7 | 748.6 | 1,702.0 | 90.2 | 2,679.5 |
| Cumulative depreciation and impairment | -1.7 | -436.9 | -1,175.7 | 0.0 | -1,614.3 |
| **Net values at December 31, 2017** | **137.0** | **311.7** | **526.3** | **90.2** | **1,065.2** |

1 Plants and buildings under construction are reclassified after completion within property, plant, and equipment as well as intangible assets.
2 The cash outflows from investments amount to CHF 158.5 million.

In principle all plants are owned by subsidiaries. Some smaller plants as well as the adhesive plant in Düdingen, Switzerland, and a Swiss logistics center are financed by operating leases. Operating leases also relate to data processing equipment and copiers as well as vehicles used by the sales force. Leasehold contracts are insignificant. Plant and equipment includes machinery, vehicles, equipment, furnishings, and hardware. Rent and operating lease expenses in the amount of CHF 112.4 million (CHF 104.7 million) were recognized.

| | Operating leases | | Finance leases | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2016 | | | 2017 | | |
| in CHF mn | Minimum payments | Minimum payments | Minimum payments | Interest | Present value of payments | Minimum payments | Interest | Present value of payments |
| Within 1 year | 88.9 | 88.8 | 0.1 | 0.0 | 0.1 | 0.2 | 0.0 | 0.2 |
| 1 – 5 years | 170.7 | 151.2 | 0.3 | 0.0 | 0.3 | 0.3 | 0.0 | 0.3 |
| Over 5 years | 57.6 | 67.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **317.2** | **307.8** | **0.4** | **0.0** | **0.4** | **0.5** | **0.0** | **0.5** |

## 6. INTANGIBLE ASSETS CHF 1,314.2 MN (CHF 1,021.2 MN)

| in CHF mn | Goodwill | Software | Trademarks | Customer relations | Other intangibles | Total |
|---|---|---|---|---|---|---|
| **At January 1, 2016** | | | | | | |
| Acquisition costs | 669.2 | 147.9 | 124.8 | 319.9 | 102.0 | 1,363.8 |
| Cumulative amortization and impairment | -7.5 | -106.0 | -22.4 | -133.7 | -56.3 | -325.9 |
| **Net values at January 1, 2016** | **661.7** | **41.9** | **102.4** | **186.2** | **45.7** | **1,037.9** |
| Additions | 0.0 | 5.2 | 0.0 | 0.0 | 0.2 | 5.4 |
| Acquired on acquisition | 23.7 | 0.0 | 3.7 | 6.7 | 1.6 | 35.7 |
| Exchange differences | -6.7 | 0.1 | 0.5 | 0.0 | -0.1 | -6.2 |
| Disposals | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | -0.1 |
| Reclassifications (net) | 0.0 | 0.8 | 0.0 | 0.0 | -0.2 | 0.6 |
| Amortization for the year | 0.0 | -13.8 | -7.1 | -22.8 | -8.4 | -52.1 |
| **At December 31, 2016** | **678.7** | **34.1** | **99.5** | **170.1** | **38.8** | **1,021.2** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **At January 1, 2017** | | | | | | |
| Acquisition costs | 685.7 | 148.4 | 108.5 | 310.4 | 103.2 | 1,356.2 |
| Cumulative amortization and impairment | -7.0 | -114.3 | -9.0 | -140.3 | -64.4 | -335.0 |
| **Net values at January 1, 2017** | **678.7** | **34.1** | **99.5** | **170.1** | **38.8** | **1,021.2** |
| Additions | 0.0 | 4.4 | 0.3 | 0.0 | 0.2 | 4.9 |
| Acquired on acquisition | 189.1 | 0.1 | 19.0 | 87.7 | 13.5 | 309.4 |
| Exchange differences | 21.5 | 0.8 | 0.0 | 4.1 | 0.2 | 26.6 |
| Amortization for the year | 0.0 | -9.2 | -6.4 | -24.7 | -7.6 | -47.9 |
| **At December 31, 2017** | **889.3** | **30.2** | **112.4** | **237.2** | **45.1** | **1,314.2** |
| Acquisition costs | 896.4 | 154.1 | 127.9 | 403.8 | 117.6 | 1,699.8 |
| Cumulative amortization and impairment | -7.1 | -123.9 | -15.5 | -166.6 | -72.5 | -385.6 |
| **Net values at December 31, 2017** | **889.3** | **30.2** | **112.4** | **237.2** | **45.1** | **1,314.2** |

The intangible assets (except for goodwill and trademarks with indefinite useful lives) each have finite useful lives over which the assets are amortized. The internally developed SAP platform used since 2010 will be amortized on the basis of its effective use within the Group. The carrying value was CHF 20.4 million (CHF 23.3 million) as of December 31, 2017. The remaining useful life is estimated to be between 4 and 7 years.

Trademarks may have an indefinite useful life because they are influenced by internal and external factors such as strategic decisions, competitive and customer behavior, technical development, and changing market requirements. The carrying value of trademarks with indefinite useful lives amounts to CHF 72.4 million (CHF 72.4 million) and is subject to an annual impairment test.

GOODWILL ITEMS TESTED FOR IMPAIRMENT. Impairment tests were performed on all goodwill items. The carrying amounts of trademarks with indefinite useful lives are allocated to the carrying amounts of the cash-generating units in accordance with the proportionate share of sales. The impairment tests are based on the discounted cash flow method. The calculation of the value in use is based on the target figures and cash flow forecasts. The forecasting horizon is three years as approved by the Board of Directors. The growth rates upon which the forecast is set correspond to the market expectations of the cash-generating units and range between 4.7% and 11.8% (4.3% and 10.0%) per year. The sensitivity analysis carried out shows that a realistic change in the key assumptions (-1% in growth rates or +0.5% of the discount rate) would not result in the realizable value falling below the book value. The cash flow forecast beyond the planning period is extrapolated using a growth rate of 2.0% to 3.9% (2.5% to 4.5%). The discount rates are determined on the basis of the weighted average cost of capital of the Group, with country- and currency-specific risks within the context of cash flows taken into consideration. The business segments within the regions constitute the cash-generating units.

## GOODWILL ASSIGNED TO CASH-GENERATING UNITS

| in CHF mn | Growth rates (%)[1] | Discount rates (%)[2] | Trademarks with indefinite useful lives | Goodwill |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Construction business EMEA | 2.5 | 8.3 | 29.1 | 403.0 |
| Industrial manufacturing EMEA | 2.6 | 8.3 | | 19.6 |
| Construction business North America | 2.8 | 10.6 | 43.3 | 107.4 |
| Construction business Latin America | 4.5 | 18.4 | | 11.0 |
| Construction business Asia/Pacific | 3.5 | 10.7 | | 89.2 |
| Automotive | 3.2 | 9.6 | | 48.5 |
| **Total** | | | **72.4** | **678.7** |
| **December 31, 2017** | | | | |
| Construction business EMEA | 2.1 | 7.2 | 27.7 | 466.5 |
| Industrial manufacturing EMEA | 2.2 | 7.4 | | 20.9 |
| Construction business North America | 2.3 | 9.8 | 44.7 | 238.3 |
| Construction business Latin America | 3.9 | 17.7 | | 22.3 |
| Construction business Asia/Pacific | 2.5 | 9.8 | | 90.1 |
| Automotive | 2.0 | 8.7 | | 51.2 |
| **Total** | | | **72.4** | **889.3** |

1 Growth rate beyond the planning period.
2 Pre-tax discount rates (%).

**7. INVESTMENTS IN ASSOCIATED COMPANIES** CHF 6.2 MN (CHF 6.3 MN)
The following associated companies are included in the Consolidated Financial Statements as of December 31, 2017: Condensil SARL, France (Sika stake 40%), Part GmbH, Germany (50%), Sarna Granol AG, Switzerland (50%), Hayashi-Sika Automotive Ltd., Japan (50%), Chemical Sangyo Ltd., Japan (50%), and Seven Tech Co. Ltd., Japan (50%). The stakes are unchanged compared to the prior year.

The following amounts represent the Group's stake in net sales, and net income of associates.

**ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%)**

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Sales | 20.2 | 21.7 |
| Profit | 0.4 | 0.3 |

## 8. INCOME TAXES

**CARRY FORWARD OF TAX LOSSES, FOR WHICH NO DEFERRED TAX ASSETS HAVE BEEN RECOGNIZED**

| in CHF mn | 2016 | 2017 |
|---|---|---|
| 1 year or less | 0.0 | 0.0 |
| 1 – 5 years | 5.6 | 7.8 |
| Over 5 years or non-expiring | 2.6 | 6.0 |
| **Total** | **8.2** | **13.8** |

The underlying average tax rate is 27.1% (24.8%).

**RECONCILIATION OF NET DEFERRED TAX ASSETS**

| in CHF mn | 2016 | 2017 |
|---|---|---|
| **January 1** | **16.3** | **49.5** |
| Credited (+)/debited (-) to income statement | 40.0 | 81.0 |
| Credited (+)/debited (-) to other comprehensive income | -6.4 | -11.6 |
| Exchange differences | 1.8 | -0.4 |
| Acquisitions/divestments | -2.2 | -19.7 |
| **December 31** | **49.5** | **98.8** |

**ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES**

| | | | 2016 | | | 2017 |
|---|---|---|---|---|---|---|
| in CHF mn | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Tax losses brought forward | 20.1 | | 20.1 | 13.6 | | 13.6 |
| Current assets | 22.5 | -10.1 | 12.4 | 22.1 | -13.3 | 8.8 |
| Property, plant, and equipment | 7.9 | -31.7 | -23.8 | 8.1 | -28.8 | -20.7 |
| Other non-current assets [1] | 29.3 | -56.4 | -27.1 | 115.9 | -70.3 | 45.6 |
| Liabilities | 79.9 | -6.0 | 73.9 | 68.4 | -7.7 | 60.7 |
| Withholding taxes on dividends | 0.0 | -6.0 | -6.0 | 0.0 | -9.2 | -9.2 |
| **Total** | **159.7** | **-110.2** | **49.5** | **228.1** | **-129.3** | **98.8** |

1 Increase in deferred tax assets of CHF 94.6 million in 2017 due to the transfer of intangible assets for CHF 1,000.0 million from Sika AG to Sika Technology AG, a wholly-owned subsidiary of Sika AG.

In the year under review, deferred tax assets from carried forward tax losses of CHF 5.6 million (CHF 4.0 million) were offset and deferred carried forward tax losses of CHF 0.7 million (CHF 0.6 million) were generated. As a result of valuation adjustments, they increased by CHF 0.5 million (reduction of CHF 12.9 million).

The tax rate decreased to 24.7% (25.0%). Income taxes of CHF 213.1 million (CHF 189.2 million) consist of:

### INCOME TAXES

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Income tax during the year under review | 227.9 | 291.9 |
| Deferred income tax | -40.0 | -81.0 |
| Income tax from prior years | 1.3 | 2.2 |
| **Total** | **189.2** | **213.1** |

### RECONCILIATION BETWEEN ANTICIPATED AND EFFECTIVE TAX EXPENSE

| in CHF mn | % | 2016 | % | 2017 |
|---|---|---|---|---|
| Profit before taxes | | 755.8 | | 862.1 |
| **Anticipated tax expense** | **24.0** | **181.4** | **23.4** | **201.7** |
| Non-taxable income/non-tax-deductible expenses | 0.4 | 3.5 | 0.6 | 5.6 |
| Change in anticipated tax rate | 0.0 | 0.1 | -0.1 | -1.0 |
| Adjusted tax expense from earlier periods | 0.2 | 1.3 | 0.2 | 2.2 |
| Valuation adjustment on deferred tax assets | -1.4 | -10.8 | 0.2 | 1.7 |
| Withholding tax on dividends, licenses, and interests | 2.2 | 16.9 | 2.5 | 21.4 |
| Other [1] | -0.4 | -3.2 | -2.1 | -18.5 |
| **Tax expense as per consolidated income statement** | **25.0** | **189.2** | **24.7** | **213.1** |

1 In 2017, this includes a net tax effect of CHF -16.3 million (income taxes of CHF 78.3 million and deferred tax income of CHF 94.6 million) resulting from the sale of intangible assets for CHF 1,000 million from Sika AG to Sika Technology AG.

The anticipated average Group income tax rate of 23.4% (24.0%) corresponds with the average tax on profits of the individual Group companies in their respective fiscal jurisdictions. The change in the anticipated tax rate is attributable to changing profits of the Group companies in their respective fiscal jurisdictions and to changes in their tax rates in some cases.

### 9. ACCOUNTS PAYABLE CHF 730.9 MN (CHF 587.0 MN)

Accounts payable do not bear interest and will usually become due within 30 to 60 days.

### 10. ACCRUED EXPENSES AND DEFERRED INCOME CHF 253.4 MN (CHF 223.9 MN)

Accrued expenses and deferred income relate to outstanding invoices and liabilities for the past financial year, including performance-based compensation payables to employees and social security expenses in the following year. In addition, deferred revenues for warranty extensions in the amount of CHF 4.0 million (CHF 4.1 million) are included (see note 17).

## 11. OTHER LIABILITIES CHF 85.1 MN (CHF 86.8 MN)

### OTHER CURRENT LIABILITIES

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Derivatives (at fair value through profit and loss) | 10.5 | 5.7 |
| Bank loans | 19.8 | 22.6 |
| Other financial liabilities | 14.0 | 20.4 |
| **Other current liabilities** | **44.3** | **48.7** |

A number of Group companies have their own credit lines. The total amount is insignificant in scale. The credit lines are used in individual cases when intra-Group financing is not permitted or there are benefits from local financing.

### OTHER NON-CURRENT LIABILITIES

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Bank loans | 0.0 | 0.9 |
| Other financial liabilities | 8.7 | 3.4 |
| Other non-financial liabilities [1] | 33.8 | 32.1 |
| **Other non-current liabilities** | **42.5** | **36.4** |

1 Includes deferred revenue in the amount of CHF 32.1 million (CHF 33.8 million). For details see note 17.

## 12. BONDS CHF 150.0 MN SHORT-TERM/CHF 549.0 MN LONG-TERM (CHF 0.0 MN/CHF 698.7 MN)

Sika AG has the following bonds outstanding:

| | 2016 | | 2017 | |
|---|---|---|---|---|
| in CHF mn | Book value | Nominal | Book value | Nominal |
| 1.000% 2012 – 2018 | 149.9 | 150.0 | 150.0 | 150.0 |
| 1.125% 2013 – 2019 | 199.7 | 200.0 | 199.8 | 200.0 |
| 1.750% 2012 – 2022 | 149.9 | 150.0 | 149.9 | 150.0 |
| 1.875% 2013 – 2023 | 199.2 | 200.0 | 199.3 | 200.0 |
| **Total** | **698.7** | **700.0** | **699.0** | **700.0** |

## 13. RECONCILIATION OF FINANCIAL LIABILITIES

| in CHF mn | Bank loans | Bonds | Other financial liabilities | Total financial liabilities |
|---|---|---|---|---|
| **As January 1, 2017** | **19.8** | **698.7** | **33.2** | **751.7** |
| Proceeds | 14.4 | 0.0 | 2.6 | 17.0 |
| Repayments | -46.9 | 0.0 | -8.5 | -55.4 |
| **Cash flow** | **-32.5** | **0.0** | **-5.9** | **-38.4** |
| Acquired on acquisition | 37.2 | 0.0 | 5.0 | 42.2 |
| Exchange differences | -1.0 | 0.0 | 0.4 | -0.6 |
| Other changes | 0.0 | 0.3 | -3.2 | -2.9 |
| **Non-cash movements** | **36.2** | **0.3** | **2.2** | **38.7** |
| **At December 31, 2017** | **23.5** | **699.0** | **29.5** | **752.0** |

## 14. PROVISIONS CHF 76.4 MN (CHF 78.3 MN)

Provisions for guarantees reflect all known claims anticipated in the near future. The amounts of the provision are determined on the basis of experience and are therefore subject to a degree of uncertainty. The outflow of funds depends on the timing of the filing and conclusion of warranty claims. Provisions for sundry risks include loan guarantees as well as open and anticipated legal and tax cases with a probability of occurrence above 50%.

From the sum of provisions, CHF 56.4 million (CHF 57.5 million) are shown as non-current liabilities, since an outflow of funds is not expected within the next twelve months.

For provisions of CHF 20.0 million (CHF 20.8 million), an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

| in CHF mn | Warranties | Sundry risks | Provisions Total |
|---|---|---|---|
| Current provisions | 13.1 | 6.9 | 20.0 |
| Non-current provisions | 29.2 | 27.2 | 56.4 |
| **Provisions** | **42.3** | **34.1** | **76.4** |
| | | | |
| **Reconciliation** | | | |
| **At January 1, 2017** | **45.8** | **32.5** | **78.3** |
| Additions | 16.9 | 8.6 | 25.5 |
| Assumed on acquisition | 0.3 | 2.3 | 2.6 |
| Exchange differences | 0.9 | 0.1 | 1.0 |
| Utilization | -15.6 | -5.3 | -20.9 |
| Reversal | -6.0 | -4.1 | -10.1 |
| **At December 31, 2017** | **42.3** | **34.1** | **76.4** |

## 15. EMPLOYEE BENEFIT OBLIGATIONS

To complement the benefits provided by state-regulated pension schemes, Sika maintains additional employee pension plans for a number of subsidiaries. In principle these fall into the following categories:

DEFINED CONTRIBUTION PENSION FUNDS. The majority of Sika subsidiaries operate defined contribution pension plans. In these, employees and employer regularly contribute to funds administered by third parties. This does not give rise to any assets or liabilities in the consolidated balance sheet.

DEFINED BENEFIT PENSION FUNDS. Defined benefit pension plans for staff exist at 41 Group companies. The biggest plans are in Switzerland, accounting for 78.5% ( 79.5 %) of Sika's entire defined benefit pension obligations and 96.2% (96.2%) of plan assets.

SWISS PENSION PLANS. Sika companies in Switzerland have legally independent foundations for this purpose, thereby segregating their pension obligation liabilities. In accordance with local statutory requirements, Sika has no obligations to these pension plans beyond the regulatory contributions and any recapitalization contributions that may become necessary. According to IAS 19, the Swiss pension plans qualify as defined benefit plans, so the actuarially calculated surplus or deficit is recognized in the consolidated balance sheet.

The supreme governing body of the pension fund is composed of equal numbers of employee and employer representatives. There is also a management pension scheme and a welfare foundation, which provide statutory benefits, and a scheme that enables employees to take early retirement.

Both the Sika pension fund and the welfare foundation bear the investment risks and the age risk themselves. As the supreme governing body of the pension fund, the Board of Trustees is responsible for investment. The investment strategy is defined so as to ensure that the benefits can be provided when they become due. The pension fund has concluded a contract for matching reinsurance for the risks of death and invalidity. The insurance-related and investment risks of the management pension scheme are fully reinsured. The retirement pension is calculated using the retirement assets available at the time of retirement multiplied by the conversion rates specified in the regulations. The employee has the opportunity to withdraw pension benefits in the form of a lump sum.

The Federal Law on Occupational Retirement, Survivors', and Disability Pensions (BVG) governs the way in which employees and employer must jointly participate in any restructuring measures in the event of a significant deficit, such as by making additional contributions. In the current year, as in the prior year, the Swiss pension plans are showing a surplus under BVG and it is not expected that additional contributions will be necessary for the next year.

This year the benefits of the insurance plan were adjusted by reducing the conversion rate and increasing the savings contributions. This led to an adjustement in the pension plan and is therefore recognized in the income statement as a gain on a plan curtailment (CHF 9.9 million).

| | | | 2016 | | | 2017 |
|---|---|---|---|---|---|---|
| **in CHF mn** | **Assets**[1] | **Liabilities** | **Net** | **Assets**[1] | **Liabilities** | **Net** |
| Employee benefit plans with defined benefits | 15.8 | 210.0 | 194.2 | 47.3 | 184.5 | 137.2 |
| Other employee commitments | 29.2 | 64.6 | 35.4 | 35.3 | 75.5 | 40.2 |
| **Total** | **45.0** | **274.6** | **229.6** | **82.6** | **260.0** | **177.4** |

1 Includes employee benefit assets recognized in balance sheet for employee benefit plans with defined benefits (see note 4) as well as financial assets for non-qualifying pension plans recognized in other non-current financial assets (securities).

Other long-term liabilities arise from long-service bonuses and similar benefits that Sika grants to its employees.

### MOVEMENT IN THE NET DEFINED BENEFIT OBLIGATION

| in CHF mn | Present value of obligation | Fair value of plan assets | Impact of asset ceiling | Total |
|---|---|---|---|---|
| **At January 1, 2016** | **-883.9** | **657.7** | **-0.9** | **-227.1** |
| Current service cost | -31.4 | | | -31.4 |
| Interest expense/interest income | -10.6 | 6.5 | | -4.1 |
| **Total expense recognized in income statement** | **-42.0** | **6.5** | | **-35.5** |
| thereof Switzerland | -31.7 | 5.7 | | -26.0 |
| thereof others | -10.3 | 0.8 | | -9.5 |
| | | | | |
| Return on plan assets, excluding amounts included in interest income | | 24.3 | | 24.3 |
| Gains (+)/losses (-) from change in financial assumptions | 4.3 | | | 4.3 |
| Gains (+)/losses (-) from change in demographic assumptions | 10.3 | | | 10.3 |
| Experience gains (+)/losses (-) | 4.6 | | | 4.6 |
| Change in asset ceiling | | | 0.9 | 0.9 |
| **Total remeasurement recognized in other comprehensive income** | **19.2** | **24.3** | **0.9** | **44.4** |
| thereof Switzerland | 35.8 | 22.3 | 0.9 | 59.0 |
| thereof others | -16.6 | 2.0 | 0.0 | -14.6 |
| | | | | |
| Exchange differences | 1.1 | -0.3 | | 0.8 |
| Contributions by employers | | 18.4 | | 18.4 |
| Contributions by plan participants | -12.1 | 12.1 | | 0.0 |
| Benefits paid | 28.9 | -22.8 | | 6.1 |
| Settlements paid | 1.5 | -1.5 | | 0.0 |
| Acquired in a business combination and others | -1.3 | 0.0 | | -1.3 |
| **At December 31, 2016** | **-888.6** | **694.4** | **0.0** | **-194.2** |
| thereof Switzerland | -706.7 | 667.7 | 0.0 | -39.0 |
| thereof others | -181.9 | 26.7 | 0.0 | -155.2 |

| in CHF mn | Present value of obligation | Fair value of plan assets | Impact of asset ceiling | Total |
|---|---|---|---|---|
| **At January 1, 2017** | **-888.6** | **694.4** | **0.0** | **-194.2** |
| Current service cost | -28.7 | | | -28.7 |
| Interest expense/interest income | -8.4 | 5.3 | | -3.1 |
| Past service cost and gains and losses on settlements and curtailments | 9.9 | | | 9.9 |
| **Total expense recognized in income statement** | **-27.2** | **5.3** | | **-21.9** |
| thereof Switzerland | -16.8 | 4.7 | | -12.1 |
| thereof others | -10.4 | 0.6 | | -9.8 |
| | | | | |
| Return on plan assets, excluding amounts included in interest income | | 61.1 | | 61.1 |
| Gains (+)/losses (-) from change in financial assumptions | 4.2 | | | 4.2 |
| Gains (+)/losses (-) from change in demographic assumptions | -0.1 | | | -0.1 |
| Experience gains (+)/losses (-) | 0.3 | | | 0.3 |
| Change in asset ceiling | | | -1.6 | -1.6 |
| **Total remeasurement recognized in other comprehensive income** | **4.4** | **61.1** | **-1.6** | **63.9** |
| thereof Switzerland | 0.3 | 62.3 | -1.6 | 61.0 |
| thereof others | 4.1 | -1.2 | 0.0 | 2.9 |
| | | | | |
| Exchange differences | -12.9 | 1.7 | | -11.2 |
| Contributions by employers | | 19.1 | | 19.1 |
| Contributions by plan participants | -13.2 | 13.2 | | 0.0 |
| Benefits paid | 40.7 | -32.0 | | 8.7 |
| Settlements paid | 0.1 | 0.0 | | 0.1 |
| Acquired in a business combination and others | -1.7 | 0.0 | | -1.7 |
| **At December 31, 2017** | **-898.4** | **762.8** | **-1.6** | **-137.2** |
| thereof Switzerland | -705.6 | 734.0 | -1.6 | 26.8 |
| thereof others | -192.8 | 28.8 | 0.0 | -164.0 |

The contributions that are expected to be paid into the defined benefit pension plans for 2018 amount to CHF 21.3 million.

The Group's total expenses for employee benefits are included in the Consolidated Financial Statements under "Personnel expenses".

The stated deficit results mainly from the defined benefit obligation of the unfunded benefit plans of CHF 146.9 million (CHF 139.2 million). Schemes in Germany, in particular, do not have segregated assets. For the Swiss pension plans the result is a surplus of CHF 26.8 million (underfunding of CHF -39.0 million).

## MAJOR CATEGORIES OF TOTAL PLAN ASSETS

| in CHF mn | Switzerland | Others | 2016 Total | Switzer-land | Others | 2017 Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 25.0 | 14.2 | 39.2 | 45.7 | 6.4 | 52.1 |
| Equity instruments | 269.7 | 2.6 | 272.3 | 308.1 | 2.5 | 310.6 |
| Debt instruments | 235.8 | 1.8 | 237.6 | 230.7 | 1.9 | 232.6 |
| Real estate investments | 114.2 | 0.0 | 114.2 | 126.7 | 10.2 | 136.9 |
| Other assets | 23.0 | 8.1 | 31.1 | 22.8 | 7.8 | 30.6 |
| **Total** | **667.7** | **26.7** | **694.4** | **734.0** | **28.8** | **762.8** |

Most of the plan assets of the pension schemes are invested in assets with quoted market prices. In the year under review, 10.6% (12.7%) of the investments in real estate and 8.5% (6.1%) of the other assets did not have a quoted market price.

## AMOUNTS INCLUDED IN PLAN ASSETS

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Shares Sika AG | 23.9 | 31.7 |
| Own property occupied by Sika | 9.4 | 11.0 |
| **Total** | **33.3** | **42.7** |

## ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

| | 2016 | | 2017 | |
|---|---|---|---|---|
| | Switzerland | Others | Switzerland | Others |
| Discount rate in the year under review (%) | 0.7 | 1.9 | 0.7 | 2.1 |

## THE SENSITIVITY OF THE DEFINED BENEFIT OBLIGATION TO CHANGES IN THE PRINCIPAL ASSUMPTIONS

| in CHF mn | Change in assumption | Impact on defined benefit obligation | |
|---|---|---|---|
| | | Switzerland | Others |
| Discount rate | +0.25% | -27.0 | -7.3 |
| Discount rate | -0.25% | 28.9 | 7.7 |

## NUMBER OF PLANS AND INSURED PERSONS

| | 2016 | | 2017 | |
|---|---|---|---|---|
| | Switzerland | Others | Switzerland | Others |
| Total number of defined benefit plans | 5 | 37 | 5 | 38 |
| thereof number of defined benefit plans funded | 4 | 10 | 4 | 10 |
| thereof number of defined benefit plans unfunded | 1 | 27 | 1 | 28 |
| Average weighted duration in years | 16.2 | 16.8 | 15.9 | 16.2 |

**16. SHAREHOLDERS' EQUITY** CHF 3,411.1 MN (CHF 2,947.7 MN)
Equity accounts for 58.9% (57.8%) of the balance sheet total.

## CAPITAL STOCK

| in CHF mn | Number | 2016 | 2017 |
|---|---|---|---|
| Registered shares, nominal value CHF 0.10 | 2,333,874 | 0.2 | 0.2 |
| Bearer shares, nominal value CHF 0.60 | 2,151,199 | 1.3 | 1.3 |
| **Capital stock** | | **1.5** | **1.5** |

The Board of Directors proposes to the Annual General Meeting payment of a dividend of CHF 18.50 per registered share and of CHF 111.00 per bearer share, in the total amount of CHF 281.8 million, to the shareholders of Sika AG.

The capital stock is divided into the following categories:

| | Bearer shares[1] nominal value CHF 0.60 | Registered shares nominal value CHF 0.10 | Total[1] |
|---|---|---|---|
| 12/31/2016 (units) | 2,151,199 | 2,333,874 | 4,485,073 |
| Nominal value (CHF) | 1,290,719 | 233,387 | 1,524,107 |
| 12/31/2017 (units) | 2,151,199 | 2,333,874 | 4,485,073 |
| Nominal value (CHF) | 1,290,719 | 233,387 | 1,524,107 |

1 Includes treasury shares, 1,098 bearer shares, and 270 registered shares (2,666 bearer shares), which do not carry voting and dividend rights.

**17. NET SALES** CHF 6,248.3 MN (CHF 5,747.7 MN)
Sales of goods account for practically all net sales. In comparison with the prior year, net sales denominated in Swiss francs increased by 8.7%. Taking currency effects amounting to -0.3% into consideration, sales increased in local currencies by 9.0%, including a growth from acquisitions of 2.7%.

Extended warranty contracts are sold for certain products on installed roofing systems. Revenue for separately priced extended warranties is deferred and recognized on a straight-line basis over the extended warranty period. In 2017, revenues of CHF 4.2 million (CHF 4.2 million) were recognized. The contract balances are included in accrued expenses and deferred income (see note 10) as well as in other non-current non-financial financial liabilities (see note 11).

**18. MATERIAL EXPENSES** CHF 2,849.2 MN (CHF 2,566.6 MN)
Material expenses increased as a percentage of net sales by 0.9 percentage points mainly due to higher raw material costs and acquisition effects. The gross result decreased from 55.3% to 54.4%. Material expenses include the value adjustment expenses for unsaleable goods and depreciation and amortization due to inventory differences in the amount of CHF 25.5 million (CHF 24.0 million).

**19. PERSONNEL EXPENSES** CHF 1,212.1 MN (CHF 1,159.1 MN)
Personnel expenses decreased in relation to sales from 20.1% to 19.4%, mainly due to further efficiency improvements and selective structural adjustments in some countries.

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Wages and salaries | 941.0 | 990.9 |
| Social charges | 218.1 | 221.2 |
| **Personnel expenses** | **1,159.1** | **1,212.1** |

## EMPLOYEE BENEFIT COSTS

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Employee benefit plans with defined benefits [1] | 31.4 | 18.8 |
| Other employee benefit plans | 38.5 | 41.3 |
| **Employee benefit costs** | **69.9** | **60.1** |

1 Includes pension expense recognized in income statement (see note 15) without interest income/interest expenses.

EMPLOYEE PARTICIPATION PLAN – SHARE-BASED PAYMENTS
Sika operates the following share-based compensation plans:

PERFORMANCE BONUS (SHORT-TERM INCENTIVE). Sika Senior Management (by definition, Sika Senior Management includes the management level reporting into Group Management, 167 participants) and Group Management receive shares of Sika AG as a component of their variable compensation. The shares are granted at the average market price of the first five trading days in April of the subsequent business year. The allocated shares are subject to a blocking period of four years. The following different share plans are in place:

Sika Senior Managers may draw optionally 0%, 20% or 40% of the performance bonus in the form of shares of Sika AG. As remuneration for the services rendered by them in 2016, they drew 591 shares at a fair value of CHF 3.6 million in 2017 (CHF 6,075 per share). In 2016, the fair value of the compensation for 2015 amounted to CHF 3.2 million (824 shares at CHF 3,870).

Members of the Group Management may draw optionally 0%, 20% or 40% of the performance bonus in the form of shares of Sika AG. As compensation for the services rendered by them in 2016, in 2017, they drew 103 shares at a fair value of CHF 0.6 million (CHF 6,075 per share). In 2016, the fair value of the compensation for 2015 amounted to CHF 1.2 million (303 shares at CHF 3,870).

LONG-TERM INCENTIVE (LTI-PLAN). The long-term incentive for members of the top management (extended Group Management) is granted in performance share units (PSU) that will be paid out in shares of Sika AG after a three-year vesting period. In 2017, 1,242 shares at a fair value of CHF 7.5 million (CHF 6,075 per share) were allocated to the members of the top management as part of the LTI. In 2016, the fair value of the compensation for 2015 amounted to CHF 5.7 million (1,477 shares at CHF 3,870).

The long-term variable remuneration for Sika Senior Managers is granted in performance share units (PSU). The PSUs are paid out in cash after a three-year vesting period. For senior managers who are transferred to another country during the vesting period, a pro-rata payout is made immediately in form of shares for the time of the vesting period that has elapsed until the transfer. The shares are granted at the fair value of the grant date and are blocked until the end of the vesting period. In 2017, 63 shares at a fair value of CHF 0.5 million were allocated. In 2016, the fair value of the compensation for 2015 amounted to CHF 0.2 million (40 shares).

Share-based remunerations are made by means of the transfer of treasury shares of Sika AG. The personnel expenses recognized for services received in the 2017 business year totaled CHF 30.1 million (CHF 26.7 million) of which the amount of CHF 5.4 million (CHF 7.7 million) was taken to equity and the amount of CHF 24.7 million (CHF 19.0 million) was recognized under liabilities.

No dilution effect has resulted because no additional shares have been issued.

**20. OTHER OPERATING EXPENSES** CHF 1,118.5 MN (CHF 1,056.3 MN)
Other operating expenses showed a below-average development compared to volume growth, with the cost ratio improving from 18.4% to 17.9%. Cost savings were recorded in particular in other administrative expenses and warranty costs. Furthermore, the costs for logistics and distribution have developed slightly above average.

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Production and operation [1] | 373.0 | 398.8 |
| Logistics and distribution | 264.6 | 295.1 |
| Sales, marketing, and travel costs | 206.2 | 218.5 |
| Administration and other costs [2] | 212.5 | 206.1 |
| **Total** | **1,056.3** | **1,118.5** |

1 This position includes primarily rental and lease expenses as well as costs for maintenance, repairs, and energy.
2 This position includes primarily costs of services and consulting in the fields of law, tax, and information technology. Furthermore it covers training costs and government fees as well as costs for warranty settlements and legal claims.

Expenditures on research and development in the Group during the year under review totaled CHF 180.8 million (CHF 172.1 million), roughly equivalent to 2.9% (3.0%) of sales. Research and development expenses are included in personnel expenses, other operating expenses, as well as in depreciation and amortization expenses.

**21. DEPRECIATION AND AMORTIZATION EXPENSES** CHF 172.2 MN (CHF 170.4 MN)
The amount includes the regular depreciation and amortization expenses of tangible and intangible assets.

**22. INTEREST EXPENSES/OTHER FINANCIAL EXPENSES** CHF 42.3 MN (CHF 47.8 MN)
Interest expenses consist mainly of interest expenses for bond issues outstanding in the amount of CHF 10.4 million (CHF 12.2 million). Other financial expenses include foreign exchange gains and losses from the management of foreign currency as well as net gains and losses from hedging and revaluation of loans to Group companies denominated in foreign currencies. Other financial expenses decreased to CHF 24.0 million (CHF 27.4 million). A net loss of CHF 56.0 million (net loss of CHF 13.4 million) on financial assets and liabilities held at fair value through profit or loss was recognized in the income statement under other financial expenses.

**23. INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES** CHF 8.1 MN (CHF 8.3 MN)
Short-term surpluses in liquidity in various countries led to interest income of CHF 1.9 million (CHF 2.6 million). Income from associated companies is CHF 0.3 million (CHF 0.5 million).

**24. NON-CONTROLLING INTERESTS** CHF 5.5 MN (CHF 3.5 MN)
Most important companies with non-controlling interests:
- Sika Arabia Holding Co. WLL, Bahrain (49%)
- Sika UAE LLC, UAE (49%)
- Sika Saudi Arabia Co. Ltd., Saudi Arabia (49%)
- Sika Gulf B.S.C., Bahrain (49%)
- Sika Qatar LLC, Qatar (49%)

## 25. EARNINGS PER SHARE CHF 253.52 (CHF 221.81)

| | 2016 | 2017 |
|---|---|---|
| **Undiluted ("basic EPS")** | | |
| Net profit (in CHF mn) | 563.1 | 643.5 |
| **Weighted average number of shares [1]** | | |
| Bearer shares [2]/units | 2,149,695 | 2,149,317 |
| Registered shares [3]/units | 2,333,874 | 2,333,739 |
| **Earnings per share** | | |
| Bearer share [2]/CHF | 221.81 | 253.52 |
| Registered share [3]/CHF | 36.97 | 42.25 |

1 Excluding treasury shares held in the Group.
2 Nominal value: CHF 0.60.
3 Nominal value: CHF 0.10.

Earnings per share (EPS) amount to CHF 253.52 (CHF 221.81). The EPS have been calculated on the basis of net profit after non-controlling interests and the number of shares entitled to dividend, weighted over the course of the year. No dilution effect resulted because no options or convertible bonds are outstanding. For the business year 2016 the dividend amounted to CHF 96.00 per bearer share and to CHF 16.00 per registered share.

## 26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial instruments and the related risk management of the Sika Group are presented in this note.

### FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

| in CHF mn | Level | 2016 Book value | 2016 Fair value | 2017 Book value | 2017 Fair value |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | | 1,155.0 | | 1,037.9 | |
| Loans and receivables | | 1,047.8 | | 1,194.9 | |
| Financial assets at fair value through profit and loss | 1 | 40.1 | 40.1 | 47.5 | 47.5 |
| Financial assets at fair value through profit and loss (derivatives) | 2 | 4.3 | 4.3 | 5.1 | 5.1 |
| **Total** | | **2,247.2** | | **2,285.4** | |
| **Financial liabilities** | | | | | |
| Bank overdrafts | | 19.8 | | 23.5 | |
| Bonds | 2 | 698.7 | 738.0 | 699.0 | 736.6 |
| Accounts payable | | 587.0 | | 730.9 | |
| Other financial liabilities | | 22.7 | | 23.8 | |
| **Financial liabilities measured at amortized cost** | | **1,328.2** | | **1,477.2** | |
| Financial liabilities at fair value through profit and loss (derivatives) | 2 | 10.5 | 10.5 | 5.7 | 5.7 |
| **Total** | | **1,338.7** | | **1,482.9** | |

The book value of cash and cash equivalents, loans and receivables, bank overdrafts, accounts payable, and other financial liabilities almost equals the fair value.

The hierarchy below classifies financial instruments, by valuation method. The different levels have been defined as follows:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: procedures in which all input parameters having an essential effect on the registered market value are either directly or indirectly observable.
- Level 3: procedures applying to input parameters that have an essential effect on the registered market value but are not based on observable market data.

An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis.

Sika does not own any financial instruments requiring evaluation according to level 3 procedures.

MANAGEMENT OF FINANCIAL RISKS
BASIC PRINCIPLES. The Group's activities expose it to a variety of financial risks: market risks (primarily foreign exchange risks, price risks, and interest rate risks), credit risks, and liquidity risks. The Group's financial risk management program focuses on hedging volatility risks.

The corporate finance department identifies, evaluates, and hedges financial risks in close cooperation with the Group's operating units.

## PLEDGED OR CEDED ASSETS (ENCUMBERED ASSETS), TO SECURE OWN OBLIGATIONS

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Receivables | 1.7 | 0.0 |
| Property, plant, and equipment | 0.6 | 1.1 |
| **Total book value of encumbered assets** | **2.3** | **1.1** |

## OPEN DERIVATIVES

| | | | Contractual value upon maturity | | |
|---|---|---|---|---|---|
| | Replacement value | | Contract value | Up to 3 months | 3 to 12 months |
| in CHF mn | (+) | (-) | | | |
| **Open derivatives 2016** | | | | | |
| Forward contracts (foreign exchange) | 2.4 | -2.1 | 183.9 | 50.6 | 133.3 |
| Swaps (foreign exchange) | 1.9 | -8.4 | 965.6 | 328.0 | 637.6 |
| **Total derivatives** | **4.3** | **-10.5** | **1,149.5** | **378.6** | **770.9** |
| **Open derivatives 2017** | | | | | |
| Forward contracts (foreign exchange) | 0.3 | -1.7 | 166.9 | 90.8 | 76.1 |
| Swaps (foreign exchange) | 4.8 | -4.0 | 1,013.0 | 335.8 | 677.2 |
| **Total derivatives** | **5.1** | **-5.7** | **1,179.9** | **426.6** | **753.3** |

FOREIGN EXCHANGE RISKS. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar. Foreign exchange risks arise when commercial transactions as well as recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group makes every effort to offset the impact of exchange rate movements as far as possible by utilizing natural hedges. Foreign exchange forward contracts/swaps are used to hedge foreign exchange risks. Gains and losses on foreign exchange hedges and assets or liabilities carried at fair value are recognized through profit or loss. The Group does not apply hedge accounting.

Sika carries out a sensitivity analysis for the dominant foreign currencies Euro and US Dollar. The assumption is that the Euro and US Dollar respectively change against all other currencies by +/- 10%. The other currencies remain constant. The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments, Group-internal financing, and foreign currency hedge transactions in the corresponding currencies. The following table demonstrates the sensitivity of consolidated net profit before tax to a reasonably possible shift in exchange rates related to financial instruments held in the balance sheet. All other variables are held constant. The impact on shareholders' equity is insignificant.

SENSITIVITY ANALYSIS ON EXCHANGE RATES

| **Impact on profit before tax in CHF mn** | **2016** | **2017** |
|---|---|---|
| EUR: +10% | -6.3 | -6.0 |
| EUR: -10% | 6.3 | 6.0 |
| USD: +10% | -5.8 | -12.1 |
| USD: -10% | 5.8 | 12.1 |

PRICE RISKS. The Group is exposed to purchasing price risks because the cost of materials represents one of the Group's largest cost factors. Purchasing prices are influenced far more by the interplay between supply and demand, the general economic environment, and intermittent disruptions of processing and logistics chains, ranging from crude oil to purchased merchandise, than by crude oil prices themselves. Short-term crude oil price increases have only limited impact on raw material prices. Sika limits market price risks for important products by means of maintaining corresponding inventories and Group contracts (lead buying). The most important raw materials are polymers such as polyurethane, epoxy resins, polyvinyl chloride and cementitious basic materials. Other measures such as hedging are not practical because there is no corresponding market for these semi-finished products.

INTEREST RATE RISK. Interest rate risks result from changes in interest rates, which could have a negative impact on the Group's financial position, cash flow, and earnings situation. Interest rate risk is limited through the issue of fixed-interest long-term bonds (nominal CHF 700.0 million). A change in the rate of interest would therefore alter neither annual financial expenses nor shareholders' equity materially. Local bank loans and mortgages are insignificant. Interest rate developments are closely monitored by management.

CREDIT RISK. Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge its obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and banks. In addition, receivable balances are monitored on an ongoing basis via internal reporting procedures. Potential concentrations of risks are reduced by the large number of customers and their geographic dispersion. No individual customer represents more than 2.0% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2016 nor at year-end 2017. The largest possible risk represented by these items is the carrying amount of the accounts receivable and any warranties granted.

LIQUIDITY RISK. Liquidity risk refers to the risk of Sika no longer being able to meet its financial obligations in full. Prudent liquidity management includes maintaining sufficient cash and cash equivalents and securing the availability of liquidity reserves which can be called upon at short notice. Group Management monitors the Group's liquidity reserve on the basis of expected cash flows.

The table below summarizes the maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted payments.

MATURITY PROFILE OF FINANCIAL LIABILITIES

| in CHF mn | Less than 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Bank loans | 19.8 | 0.0 | 0.0 | 19.8 |
| Bonds | 10.1 | 381.5 | 360.1 | 751.7 |
| Accounts payable | 587.0 | 0.0 | 0.0 | 587.0 |
| Other financial liabilities | 14.0 | 7.8 | 0.9 | 22.7 |
| **Financial liabilities measured at amortized cost** | **630.9** | **389.3** | **361.0** | **1,381.2** |
| Financial liabilities at fair value through profit and loss | 10.5 | 0.0 | 0.0 | 10.5 |
| **Total** | **641.4** | **389.3** | **361.0** | **1,391.7** |
| **December 31, 2017** | | | | |
| Bank loans | 22.6 | 0.9 | 0.0 | 23.5 |
| Bonds | 160.1 | 377.8 | 203.7 | 741.6 |
| Accounts payable | 730.9 | 0.0 | 0.0 | 730.9 |
| Other financial liabilities | 20.4 | 2.7 | 0.7 | 23.8 |
| **Financial liabilities measured at amortized cost** | **934.0** | **381.4** | **204.4** | **1,519.8** |
| Financial liabilities at fair value through profit and loss | 5.7 | 0.0 | 0.0 | 5.7 |
| **Total** | **939.7** | **381.4** | **204.4** | **1,525.5** |

CAPITAL MANAGEMENT. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies, or processes during the years ended December 31, 2017, and December 31, 2016. The Group monitors its equity using the equity ratio, which is shareholders' equity divided by total capital.

## 27. FUTURE OBLIGATIONS

CONTINGENT LIABILITIES. Given the Group's international operations, there are inherent tax risks which cannot be conclusively estimated. In ongoing business activity the Group may be involved in legal proceedings such as lawsuits, claims, investigations, and negotiations due to product liability, mercantile law, environmental protection, health, and safety, etc. There are no current proceedings of this nature pending which could have significant influence on business operations, or on the Group's financial position or income. The Group is active in countries in which political, economic, social, and legal developments could impair business activity. The effects of such risks which can occur in the normal course of business is unforeseeable. In addition, their probability of occurrence lies below 50%.

CAPITAL COMMITMENTS. Significant capital expenditure for property, plant, and equipments contracted for as at December 31, 2017, but not recognized as liabilities is CHF 61.8 million (no material commitments at the end of 2016).

## 28. CASH FLOW STATEMENT

DETAILS TO THE CASH FLOW STATEMENT. Compared with the prior year, cash flow was influenced by:

- a higher net profit before taxes (CHF 106.3 million)
- an increase in net working capital (CHF -57.0 million)
- changes of non-cash financial income as well as cash flows from hedging transactions (CHF -64.6 million)
- higher tax payments (CHF -53.6 million)
- a strongly higher acquisition activity (CHF -296.8 million)
- no repayment of bonds (CHF 250.0 million)
- a higher dividend payment (CHF -45.7 million)

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Operating activities | 735.7 | 651.9 |
| Investment activities | -172.7 | -478.2 |
| Financing activities | -473.3 | -289.2 |
| Exchange differences | -9.1 | -1.6 |
| **Net change in cash and cash equivalents** | **80.6** | **-117.1** |

FREE CASH FLOW AND OPERATING FREE CASH FLOW

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Cash flow from operating activities | 735.7 | 651.9 |
| Net investment in | | |
| Property, plant, and equipment | -144.0 | -150.2 |
| Intangible assets | -5.2 | -4.9 |
| Acquisitions less cash and cash equivalents | -23.6 | -320.4 |
| Acquisitions (-)/disposals (+) of financial assets | 0.1 | -2.7 |
| **Free cash flow** | **563.0** | **173.7** |
| Acquisitions / disposals less cash and cash equivalents | 23.6 | 320.4 |
| Acquisitions (+)/disposals (-) of financial assets | -0.1 | 2.7 |
| **Operating free cash flow** | **586.5** | **496.8** |

OTHER ADJUSTMENTS. Included in “Other adjustments” are:

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Non-liquidity-related interest expenses (-)/income (+) | -6.7 | 0.0 |
| Profit (-)/loss (+) from disposals of non-financial assets | -1.8 | -2.1 |
| Personnel expenses settled through treasury shares | 7.7 | 5.4 |
| Others [1] | 1.5 | 2.6 |
| **Total** | **0.7** | **5.9** |

1 Prior year restated due to the reclassification and separate disclosure of non-liquidity related other financial expenses/income as well as cash flows from hedging transactions.

## 29. SEGMENT REPORTING

Sika conducts its worldwide activities according to regions. Heads of regions are members of Group Management. Group Management is the highest operative executive body measuring the profit and loss of segments and allocating resources. The key figure of profit by which the segments are directed is that of operating profit, which stands in correlation with the Consolidated Financial Statements. The financing (including financial expenditures and revenues) as well as income taxes are managed uniformly across the Group and are not assigned to the individual segments. The composition of the regions is shown on page 77 of the download version of this report.

Products and services from all product groups are sold in all regions. Customers derive from the building and construction industry or from the area of industrial manufacturing. Sales are assigned according to company locations. Taxes and any effects of financing are allocated to other segments and activities. Transfer prices between segments are calculated according to generally accepted principles.

"Other segments and activities" include the automotive segment, expenditures for Group headquarters, and the proceeds from services. In addition they contain expenses and income that cannot be allocated to an individual region.

The acquired companies Rmax Operating LLC, USA, Butterfield Color Inc., USA, and Emseal Joint Systems, Ltd., USA, were assigned to region North America. Bitbau Dörr GmbH, Austria, and ABC Sealants, Turkey, as well as KVK Holding a.s., Czech Republic, were assigned to region EMEA. The assets of Grupo Industrial Alce, Mexico, were allocated to region Latin America.

### NET SALES

| | | | 2016 | | | 2017 |
|---|---|---|---|---|---|---|
| in CHF mn | With third parties | With other segments | Total | With third parties | With other segments | Total |
| EMEA | 2,695.3 | 111.5 | 2,806.8 | 2,874.9 | 125.4 | 3,000.3 |
| North America | 922.6 | 22.1 | 944.7 | 1,094.0 | 18.3 | 1,112.3 |
| Latin America | 564.3 | 0.3 | 564.6 | 590.0 | 0.7 | 590.7 |
| Asia/Pacific | 1,080.7 | 12.8 | 1,093.5 | 1,132.7 | 13.9 | 1,146.6 |
| Other segments and activities | 484.8 | – | 484.8 | 556.7 | – | 556.7 |
| Eliminations | | -146.7 | -146.7 | | -158.3 | -158.3 |
| **Net sales** | **5,747.7** | **–** | **5,747.7** | **6,248.3** | **–** | **6,248.3** |
| Products for construction industry | | | 4,518.9 | | | 4,905.4 |
| Products for industrial manufacturing | | | 1,228.8 | | | 1,342.9 |

## CHANGES IN NET SALES/CURRENCY IMPACT

| in CHF mn | 2016 | 2017 | Change compared to prior year (+/- in %) In Swiss francs | In local currencies | Currency impact |
|---|---|---|---|---|---|
| **By region** | | | | | |
| EMEA | 2,695.3 | 2,874.9 | 6.7 | 7.5 | -0.8 |
| North America | 922.6 | 1,094.0 | 18.6 | 18.4 | 0.2 |
| Latin America | 564.3 | 590.0 | 4.6 | 3.3 | 1.3 |
| Asia/Pacific | 1,080.7 | 1,132.7 | 4.8 | 5.2 | -0.4 |
| Other segments and activities | 484.8 | 556.7 | 14.8 | 14.0 | 0.8 |
| **Net sales** | **5,747.7** | **6,248.3** | **8.7** | **9.0** | **-0.3** |
| Products for construction industry | 4,518.9 | 4,905.4 | 8.6 | 9.0 | -0.4 |
| Products for industrial manufacturing | 1,228.8 | 1,342.9 | 9.3 | 8.7 | 0.6 |

## OPERATING PROFIT

| in CHF mn | 2016 | 2017 | Change compared to prior year | (+/- in %) |
|---|---|---|---|---|
| **By region** | | | | |
| EMEA | 395.6 | 425.8 | 30.2 | 7.6 |
| North America | 166.0 | 193.6 | 27.6 | 16.6 |
| Latin America | 109.2 | 112.5 | 3.3 | 3.0 |
| Asia/Pacific | 205.7 | 221.2 | 15.5 | 7.5 |
| Other segments and activities | -81.2 | -56.8 | 24.4 | n.a. |
| **Operating profit** | **795.3** | **896.3** | **101.0** | **12.7** |

## RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

| in CHF mn | 2016 | 2017 |
|---|---|---|
| **Operating profit** | **795.3** | **896.3** |
| Interest income | 2.6 | 1.9 |
| Interest expenses | -20.4 | -18.3 |
| Other financial income | 5.2 | 5.9 |
| Other financial expenses | -27.4 | -24.0 |
| Income from associated companies | 0.5 | 0.3 |
| **Profit before taxes** | **755.8** | **862.1** |
| Income taxes | -189.2 | -213.1 |
| **Net profit** | **566.6** | **649.0** |

| in CHF mn | 2016 Depreciation/ Amortization | 2016 Capital expenditures | 2017 Depreciation/ Amortization | 2017 Capital expenditures |
|---|---|---|---|---|
| EMEA | 84.6 | 75.2 | 85.2 | 60.4 |
| North America | 21.4 | 20.6 | 24.4 | 33.4 |
| Latin America | 11.2 | 18.6 | 12.4 | 24.3 |
| Asia/Pacific | 25.4 | 23.4 | 25.2 | 25.1 |
| Other segments and activities | 27.8 | 17.1 | 25.0 | 44.7 |
| **Total** | **170.4** | **154.9** | **172.2** | **187.9** |

The following countries had a share of greater than 10% of at least one of the Group's key figures:

| | Net sales | | | | Non-current assets[1] | | | |
|---|---|---|---|---|---|---|---|---|
| in CHF mn | 2016 | % | 2017 | % | 2016 | % | 2017 | % |
| Switzerland | 316.5 | 5.5 | 363.4 | 5.8 | 474.2 | 23.9 | 474.8 | 19.9 |
| USA | 955.3 | 16.6 | 1,131.0 | 18.1 | 254.6 | 12.8 | 495.7 | 20.8 |
| Germany | 663.7 | 11.6 | 668.0 | 10.7 | 239.0 | 12.0 | 252.9 | 10.6 |
| All other | 3,812.2 | 66.3 | 4,085.9 | 65.4 | 1,018.9 | 51.3 | 1,162.2 | 48.7 |
| **Total** | **5,747.7** | **100.0** | **6,248.3** | **100.0** | **1,986.7** | **100.0** | **2,385.6** | **100.0** |

1 Non-current assets less financial assets, deferred tax assets and employee benefit assets.

## OTHER INFORMATION

### RELATED PARTIES

As of the balance sheet date of December 31, 2017, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting rights via Schenker-Winkler Holding AG (SWH) as of December 31, 2017. On December 8, 2014, the Burkard-Schenker family announced the sale of their Sika participation to Compagnie de Saint-Gobain ("Saint-Gobain"), and, on December 11, 2014, the Burkard-Schenker family and Saint-Gobain announced the formation of a group. On April 7, 2015, the Burkard-Schenker family and Saint-Gobain announced the dissolution of their group. Saint-Gobain itself announced on April 7, 2015, that it held 52.92% of all voting rights via SWH. Legal proceedings are ongoing in connection with the planned transaction, which, as far as the company is aware, has not yet been completed. (2) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III and Melinda French Gates as well as Bill & Melinda Gates Foundation Trust, which owned 4.77% of all voting rights on the balance sheet date. (3) BlackRock, Inc., which owned 3.41% of all voting shares on the balance sheet date. A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange during the year under review can be found at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html. There are no cross-shareholdings exceeding 3%, either in terms of capital or votes.

As of the balance sheet date of December 31, 2016, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting shares via Schenker-Winkler Holding AG as at December 31, 2016. (2) BlackRock, Inc., which owned 4.93% of all voting shares on the balance sheet date. (3) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III, Melinda French Gates and Bill & Melinda Gates Foundation Trust, which owned 5.00% of all voting shares on the balance sheet date.

ASSOCIATED COMPANIES. In the year under review, goods and services totaling CHF 10.4 million (CHF 10.6 million) were delivered to associated companies. These transactions occurred on the usual conditions between wholesale partners.

EMPLOYEE BENEFIT PLANS. In Switzerland, employee benefit plans are handled through independent foundations, to which a total of CHF 24.0 million (CHF 23.5 million) was paid in the year under review. As of the balance sheet date, no material receivables or payables were due from these foundations. Sika offices are located in a building leased from the pension fund foundation. Rent for 2017 amounted to CHF 0.6 million (CHF 0.6 million).

All transactions were conducted at market conditions.

### REMUNERATION OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

The Board of Directors and Group Management are entitled to the following remuneration:

| in CHF mn | 2016 | 2017 |
|---|---|---|
| Current benefits | 7.0 | 8.1 |
| Share-based payments [1] | 9.5 | 6.4 |
| Pension benefits | 1.2 | 1.2 |
| **Total** | **17.7** | **15.7** |

1 Refer to note 19, employee participation plan - share-based payments.

Detailed information regarding remuneration of the Board of Directors and Group Management are included in the compensation report (as of page 53 of the download version of this report). Information regarding participations of the Board of Directors and Group Management of Sika AG can be found in the Sika AG's Financial Statements (on page 147 of the download version of this report).

### RELEASE OF FINANCIAL STATEMENTS FOR PUBLICATION

The Board of Directors of Sika AG approved the Consolidated Financial Statements for publication on February 21, 2018. The financial statements will be submitted for approval to the Annual General Meeting on April 17, 2018.

## EVENTS AFTER THE BALANCE SHEET DATE

The following events occurred between December 31, 2017, and the release of these Consolidated Financial Statements:

ACQUISITIONS. On January 15, 2018, Sika acquired a 75% majority stake in Index S.p.A. Construction Systems and Products, Italy, a leading manufacturer of roofing and waterproofing systems. By acquiring Index, Sika will extend its product range and significantly strengthen its position in the Italian market. Its product portfolio consists of technologically advanced bituminous membranes for roofing and waterproofing, products for thermal and acoustic insulation, as well as waterproofing and repair mortars. In 2017, Index generated annual sales of around CHF 115 million. A put-and-call agreement has been concluded with the seller for the remaining 25% shares in the company. The owner of the minority interests can exercise his put option from April 2018. Sika can exercise the call option from the beginning of 2019. Therefore, Sika considers the outstanding minority interests to have already been acquired and will consolidate the stake to 100%. The total expected cash outflow is estimated at CHF 185 million. Since the final determination of the purchase price and the conversion of the accounting from a successfully managed family business to Sika's international accounting standards have not yet been completed, the information required to prepare a detailed purchase price allocation is not yet available.

In February 2018, Sika further acquired Faist ChemTec Group, a leading manufacturer of high-performance engineered, structure-borne acoustic solutions for the automotive industry. Faist ChemTec has strong technology and process know-how in modified bituminous and rubber-based extruded products for the structure-borne noise management in the automotive industry. Sika's strength in airborne noise treatments and reinforcing parts is complemented by these acquired technologies. In addition, Sika will gain knowledge in acoustic technology for the white goods market and the construction industry. Faist ChemTec achieved sales of around CHF 190 million in 2017. The cash outflow for the acquisition amounted to CHF 348 million. The antitrust authorities approved the transaction at the beginning of February 2018. The detailed figures were accessed when the transaction was completed on February 16. As the transaction was only completed so shortly before the publication of the Consolidated Financial Statements, it has not yet been possible to make independent valuations of the assets and liabilities.

# LIST OF GROUP COMPANIES

| Country | | Company[1] | | Capital stock in thousands | Voting- and capital share in % | Certifi-cation |
|---|---|---|---|---|---|---|
| **EMEA (Europe, Middle East, Africa)** | | | | | | |
| Albania | ✜ | Sika Albania SHPK, Tirana | ALL | 40,471 | 100 | |
| Algeria | ❏ | Sika El Djazaïr SpA, Les Eucalyptus | DZD | 313,400 | 100 | ◆ |
| Austria | ❍ | Sika Österreich GmbH, Bludenz | EUR | 2,500 | 100 | ◆ ★ |
| | ❍ | Bitbau Dörr GmbH, Innsbruck | EUR | 37 | 100* | |
| Azerbaijan | ❍ | Sika Limited Liability Comp., Baku | AZN | 5,311 | 100 | ◆ |
| Bahrain | ❍ | Sika Gulf B.S.C., Adliya | BHD | 1,000 | 51* | ◆ ★ ✲ |
| | ▲ | Sika Arabia Holding Company WLL, Manama | BHD | 6,000 | 51 | |
| Belarus | ❍ | S I K A Bel LLC, Minsk | USD | 300 | 100 | |
| Belgium | ❍ | Sika Belgium NV, Nazareth | EUR | 10,264 | 100 | ◆ ★ |
| | ✜ | Sika Automotive Belgium S.A., Saintes | EUR | 1,649 | 100 | ◆ ★ |
| Bosnia-Herzegovina | ✜ | Sika BH d.o.o., Sarajevo | BAM | 795 | 100 | |
| Bulgaria | ✜ | Sika Bulgaria EOOD, Sofia | BGN | 340 | 100 | ◆ ★ |
| Cameroon | ✜ | Sika Cameroon SARL, Douala | XAF | 982,500 | 100 | |
| Croatia | ✜ | Sika Croatia d.o.o., Zagreb | HRK | 4,000 | 100 | ◆ ★ |
| Czech Republic | ❍ | Sika CZ, s.r.o., Brno | CZK | 30,983 | 100 | ◆ ★ |
| | ▲ | KVK Holding a.s., Prague | CZK | 2,058 | 100* | |
| | ❍ | KVK PARABIT, a.s., Svoboda nad Upou | CZK | 97,232 | 100* | |
| | ❍ | Krkonošské vápenky Kunčice, a.s., Kunčice nad Labem | CZK | 25,000 | 100* | |
| Denmark | ❍ | Sika Danmark A/S, Farum | DKK | 6,000 | 100 | ◆ ★ |
| Djibouti | ✜ | Sika Djibouti FZE, Djibouti City | USD | 300 | 100 | |
| Egypt | ❍ | Sika Egypt for Construction Chemicals S.A.E., Cairo | EGP | 10,000 | 100 | ◆ ★ ✲ |
| | ❍ | Sika Manufacturing for Construction, S.A.E., Cairo | EGP | 2,000 | 100 | ◆ ★ ✲ |
| Estonia | ✜ | Sika Estonia Oü, Tallinn | EUR | 3 | 100 | |
| Ethiopia | ❍ | Sika Abyssinia Chemicals Manufacturing PLC., Addis Abeba | ETB | 49,760 | 100 | |
| Finland | ❍ | Oy Sika Finland Ab, Espoo | EUR | 850 | 100 | ◆ ★ |
| France | ❍ | Sika France SAS, Paris | EUR | 18,018 | 100 | ◆ ★ ✲ |
| | ❍ | Axson France SAS, Cergy-Pontoise Cedex | EUR | 1,343 | 100* | ◆ ★ ✲ |
| Germany | ▲ | Sika Holding GmbH, Stuttgart | EUR | 26,000 | 100* | |
| | ❍ | Sika Deutschland GmbH, Stuttgart | EUR | 75 | 100* | ◆ ★ |
| | ❍ | Sika Automotive GmbH, Hamburg | EUR | 5,300 | 100* | ◆ ★ |
| | ❍ | Sika Trocal GmbH, Troisdorf | EUR | 4,000 | 100* | ◆ ★ |
| | ▮ | Sika Bauabdichtungs-GmbH, Stuttgart | EUR | 50 | 100* | |
| Greece | ❍ | Sika Hellas ABEE, Kryoneri | EUR | 9,000 | 100 | ◆ ★ ✲ |
| Hungary | ✜ | Sika Hungária Kft., Budapest | HUF | 483,000 | 100 | ◆ ★ |
| Iran | ❍ | Sika Parsian P.J.S. Co., Tehran | IRR mn | 203,424 | 100 | |
| Iraq | ❍ | Sika for General Trading LLC, Erbil | IQD | 1,000 | 100 | |
| Ireland | ✜ | Sika Ireland Ltd., Dublin | EUR | 1,270 | 100 | ◆ |
| Italy | ❍ | Sika Italia S.p.A., Peschiera Borromeo | EUR | 5,000 | 100 | ◆ ★ ✲ |
| | ❍ | Sika Engineering Silicones S.r.l., Peschiera Borromeo | EUR | 1,600 | 100* | ◆ ★ |
| | ❍ | Sika Polyurethane Manufacturing S.r.l., Cerano | EUR | 1,600 | 100 | ◆ ★ ✲ |
| | ✜ | Axson Italia S.r.l., Saronno | EUR | 50 | 100* | |

| Country | | Company[1] | | Capital stock in thousands | Voting- and capital share in % | Certification |
|---|---|---|---|---|---|---|
| Ivory Coast | ❍ | Sika Côte d'Ivoire SARL, Abidjan | XOF | 804,200 | 100 | |
| Jordan | ✜ | The Swiss Construction Chemicals Co. Ltd., Amman | JOD | 50 | 100 | |
| Kazakhstan | ❍ | Sika Kazakhstan LLP, Almaty | KZT | 690,394 | 100 | ◆★ |
| Kenya | ❍ | Sika Kenya Ltd., Nairobi | KES | 50,000 | 100 | |
| Kuwait | ✜ | Sika Kuwait for Construction Materials & Paints Co WLL, Shuwaikh Industrial Area | KWD | 55 | 51* | |
| Latvia | ❍ | Sika Baltic SIA, Riga | EUR | 1,237 | 100 | |
| Lebanon | ❍ | Sika Near East SAL, Beirut | LBP | 400 | 100 | |
| Mauritius | ❍ | Sika (Mauritius) Ltd., Plaine Lauzun | MUR | 2,600 | 100* | ◆ |
| Morocco | ❍ | Sika Maroc, Casablanca | MAD | 55,000 | 100 | ◆★✲ |
| Mozambique | ❍ | Sika Moçambique Limitada, Maputo Province | MZN | 205,691 | 100 | |
| Netherlands | ❍ | Sika Nederland B.V., Utrecht | EUR | 1,589 | 100 | ◆★✲ |
| Nigeria | ❍ | Sika Manufacturing Nigeria Limited, Lagos | NGN | 510,350 | 100 | |
| Norway | ❍ | Sika Norge AS, Skjetten | NOK | 42,900 | 100 | ◆★ |
| Oman | ✜ | Sika LLC, Muscat | OMR | 150 | 51 | |
| Pakistan | ❍ | Sika Pakistan (Pvt.) Ltd., Lahore | PKR | 499,969 | 100 | |
| Poland | ❍ | Sika Poland Sp.z.o.o., Warsaw | PLZ | 12,188 | 100 | ◆★✲ |
| Portugal | ❍ | Sika Portugal – Productos Construção Indústria SA, Vila Nova de Gaia | EUR | 1,500 | 100 | ◆★ |
| Qatar | ✜ | Sika Qatar LLC, Doha | QAR | 200 | 51* | ◆ |
| Romania | ❍ | Sika Romania s.r.l., Brasov | RON | 1,285 | 100 | ◆★✲ |
| Russia | ❍ | Sika LLC, Lobnya | RUB | 535,340 | 100 | ◆★ |
| Saudi Arabia | ❍ | Sika Saudi Arabia Co Ltd., Riyadh | SAR | 41,750 | 51 | ◆★ |
| Senegal | ❍ | Sika Sénégal SARLU, Dakar | XOF | 900,000 | 100 | |
| Serbia | ❍ | Sika Srbija d.o.o., Simanovci | EUR | 373 | 100 | |
| Slovakia | ✜ | Sika Slovensko spol. s.r.o., Bratislava | EUR | 1,131 | 100 | ◆★ |
| | ❍ | Axson Central Europe s.r.o, Zlaté Moravce | EUR | 7 | 100 | ◆★ |
| | ✜ | KVK Slovakia, s.r.o., Bratislava | EUR | 7 | 100* | |
| Slovenia | ✜ | Sika Slovenija d.o.o., Trzin | EUR | 1,029 | 100 | ◆★ |
| South Africa | ❍ | Sika South Africa (Pty) Ltd., Pinetown | ZAR | 25,000 | 100 | ◆★✲ |
| Spain | ❍ | Sika S.A.U., Alcobendas | EUR | 19,867 | 100 | ◆★✲ |
| | ✜ | Axson Technologies Spain S.L., Les Franqueses del Valles | EUR | 80 | 100* | |
| Sweden | ❍ | Sika Sverige AB, Spånga | SEK | 10,000 | 100 | ◆★ |
| Switzerland | ❍ | Sika Schweiz AG, Zurich | CHF | 1,000 | 100 | ◆★✲ |
| | ▲ | Sika Services AG, Zurich | CHF | 300 | 100 | ◆★✲ |
| | ▲ | Sika Technology AG, Baar | CHF | 300 | 100 | ◆★ |
| | ▲ | Sika Informationssysteme AG, Zurich | CHF | 400 | 100 | |
| | ▮ | SikaBau AG, Schlieren | CHF | 5,300 | 100 | ◆ |
| | ▲ | Sika Finanz AG, Baar | CHF | 2,400 | 100 | |
| | ❍ | Sika Manufacturing AG, Sarnen | CHF | 14,000 | 100 | ◆★✲ |
| | ▲ | Sika Supply Center AG, Sarnen | CHF | 1,000 | 100 | ◆★ |
| | ❍ | Sika Automotive AG, Romanshorn | CHF | 3,000 | 100 | ◆★✲ |
| | ▲ | Sika Europe Management AG, Zurich | CHF | 100 | 100 | |
| | ❍ | Klebag AG, Ennetbürgen | CHF | 100 | 100* | |
| Tanzania | ❍ | Sika Tanzania Construction Chemicals Limited, Dar es Salaam | TZS mn | 3,459 | 100 | |
| Tunisia | ❏ | Sika Tunisienne Sàrl, Douar Hicher | TND | 150 | 100* | ◆★ |

| Country | | Company[1] | | Capital stock in thousands | Voting- and capital share in % | Certification |
|---|---|---|---|---|---|---|
| Turkey | ❍ | Sika Yapi Kimyasallari A.S., Tuzla | TRY | 6,700 | 100 | ◆★✲ |
| | ❍ | ABC Kimya Sanayi ve Dış Ticaret Anonim Şirketi, Istanbul | TRY | 5,200 | 100* | |
| UAE | ❍ | Sika UAE LLC, Dubai | AED | 1,000 | 51* | ◆★✲ |
| | ✜ | Sika International Chemicals LLC, Abu Dhabi | AED | 300 | 51* | |
| Ukraine | ❍ | LLC «Sika Ukraina», Kiev | UAH | 2,933 | 100 | ◆ |
| United Kingdom | ❍ | Sika Ltd., Welwyn Garden City | GBP | 10,000 | 100 | ◆★✲ |
| | ❍ | Everbuild Building Products Ltd., Leeds | GBP | 21 | 100* | ◆★✲ |
| | ❍ | Incorez Ltd., Preston | GBP | 1 | 100 | ◆★✲ |
| | ✜ | Axson UK Ltd., Suffolk | GBP | 1 | 100* | |

**North America**

| | | | | | | |
|---|---|---|---|---|---|---|
| Canada | ❍ | Sika Canada Inc., Pointe Claire/QC | CAD | 5,600 | 100 | ◆★ |
| USA | ❍ | Sika Corporation, Lyndhurst/NJ | USD | 72,710 | 100 | ◆★ |
| | ▲ | Sarnafil Services Inc., Canton/MA | USD | 1 | 100* | ★ |
| | ❍ | Axson Tech US Inc., Madison Heights/MI | USD | 4,602 | 100* | ◆★ |
| | ❍ | L.M. Scofield Company, Commerce/CA | USD | 32 | 100* | |
| | ❍ | Rmax Operating LLC, Dallas/TX | USD | 11,220 | 100* | |
| | ❍ | Butterfield Color, Inc., Aurora/IL | USD | 1 | 100* | |
| | ❍ | Emseal Joint Systems Ltd., Westborough/MA | USD | 1,040 | 100* | |
| | ❍ | Emseal LLC, Westborough/MA | USD | 1 | 100* | ◆★ |

**Latin America**

| | | | | | | |
|---|---|---|---|---|---|---|
| Argentina | ❍ | Sika Argentina SAIC, Caseros | ARS | 7,600 | 100 | ◆★✲ |
| Bolivia | ❍ | Sika Bolivia SA, Santa Cruz de la Sierra | BOB | 1,800 | 100 | ◆ |
| Brazil | ❍ | Sika S/A, Osasco | BRL | 280,981 | 100 | ◆★✲ |
| Chile | ❍ | Sika S.A. Chile, Santiago de Chile | CLP mn | 4,430 | 100 | ◆★ |
| Colombia | ❍ | Sika Colombia SA, Tocancipá | COP mn | 14,500 | 100 | ◆★ |
| Costa Rica | ❍ | Sika productos para la construcción S.A., Heredia | CRC | 825,005 | 100 | |
| Dom. Republic | ❍ | Sika Dominicana SRL, Santo Domingo Oeste | DOP | 12,150 | 100 | |
| Ecuador | ❍ | Sika Ecuatoriana SA, Guayaquil | USD | 1,982 | 100 | ◆★ |
| El Salvador | ✜ | Sika El Salvador S.A. de C.V., Antiguo Cuscatlán | USD | 2 | 100 | |
| Guatemala | ❍ | Sika Guatemala SA, Ciudad de Guatemala | GTQ | 2,440 | 100 | |
| Mexico | ❍ | Sika Mexicana SA de CV, Corregidora | MXN | 270,053 | 100 | ◆★ |
| | ❍ | Sikalkoat de México, S.A. de C.V., Corregidora | MXN | 15,050 | 100* | |
| | ❍ | Axson Mexico S.A. de CV, Mexico City | MXN | 700 | 100* | ◆ |
| Nicaragua | ✜ | Sika Nicaragua S.A., Managua | NIO | 20,000 | 100 | |
| Panama | ❍ | Sika Panamá SA, Ciudad de Panamá | USD | 200 | 100 | |
| | ▲ | Sika Latin America Mgt. Inc, Ciudad de Panamá | USD | 10 | 100 | |
| Paraguay | ❍ | Sika Paraguay S.A., Asunción | PYG mn | 40 | 100 | |
| Peru | ❍ | Sika Perú S.A.C., Lima | PEN | 3,500 | 100 | ◆★ |
| Uruguay | ❍ | Sika Uruguay SA, Montevideo | UYP | 22,800 | 100 | ◆★ |
| Venezuela | ❍ | Sika Venezuela SA, Valencia | VEF | 29,441 | 100 | |

| Country | | Company[1] | | Capital stock in thousands | Voting- and capital share in % | Certifi-cation |
|---|---|---|---|---|---|---|
| **Asia/Pacific** | | | | | | |
| Australia | ❍ | Sika Australia Pty. Ltd., Wetherill Park | AUD | 4,000 | 100 | ◆★✲ |
| Bangladesh | ✜ | Sika Bangladesh Limited, Dhaka | BDT | 809 | 100 | |
| Cambodia | ❍ | Sika (Cambodia) Ltd., Phnom Penh | KHR | 422,000 | 100 | |
| China | ❍ | Sika (China) Ltd., Suzhou | USD | 35,000 | 100 | ◆★✲ |
| | ❍ | Sika Sarnafil Waterproofing Systems (Shanghai) Ltd., Shanghai | USD | 22,800 | 100 | ◆★✲ |
| | ❍ | Sika Guangzhou Ltd., Guangzhou | CNY | 80,731 | 100 | ◆★ |
| | ✜ | Sika Ltd. Dalian, Dalian | CNY | 45,317 | 100 | |
| | ✜ | Sika (Guangzhou) Trading Company Ltd., Guangzhou | CNY | 3,723 | 100* | |
| | ❍ | Sika (Sichuan) Building Material Ltd., Chengdu | CNY | 60,010 | 100* | ◆ |
| | ❍ | Sika (Jiangsu) Building Material Ltd., Zhengjiang | CNY | 60,010 | 100* | ◆★✲ |
| | ❍ | Sika (Hebei) Building Material Ltd., Zhengding County | CNY | 30,000 | 85* | ◆★✲ |
| | ❍ | Axson Technologies Shanghai Co. Ltd., Shanghai | CNY | 2,666 | 100* | ◆ |
| | ❍ | Ronacrete (Guangzhou) Construction Products Limited, Guangzhou | CNY | 16,924 | 100* | |
| Hong Kong | ❍ | Sika Hong Kong Ltd., Shatin | HKD | 30,000 | 100 | ◆★ |
| | ✜ | Ronacrete (Far East) Ltd., Shatin | HKD | 450 | 100* | |
| India | ❍ | Sika India Private Ltd., Mumbai | INR | 45,000 | 100 | ◆★ |
| | ✜ | Axson India Private Limited, Pune | INR | 3,000 | 100* | |
| Indonesia | ❍ | Sika Indonesia P.T., Bogor | IDR mn | 3,282 | 100 | ◆★ |
| Japan | ❍ | Sika Ltd., Shinagawa | JPY | 490,000 | 100 | ◆★ |
| | ✜ | Dic Proofing Co. Ltd., Tokyo | JPY | 90,000 | 100* | |
| | ❍ | Dyflex Co. Ltd., Tokyo | JPY | 315,175 | 100 | ◆★ |
| | ▮ | DCS Co. Ltd., Toda-shi | JPY | 30,000 | 100* | |
| | ❍ | Axson Japan K.K., Okazaki-shi | JPY | 10,000 | 100* | |
| Korea | ❍ | Sika Korea Ltd., Seoul | KRW mn | 5,596 | 100 | ◆★ |
| Malaysia | ❍ | Sika Kimia Sdn. Bhd., Nilai | MYR | 5,000 | 100 | ◆★ |
| | ▲ | Sika Harta Sdn. Bhd., Nilai | MYR | 10,000 | 100 | |
| | ❍ | LCS Optiroc Sdn. Bhd., Johor Bahru | MYR | 100 | 100 | ◆★✲ |
| Mongolia | ❍ | Sika Mongolia LLC, Ulaanbaatar | MNT mn | 7,091 | 100 | |
| Myanmar | ❍ | Sika Myanmar Limited, Dagon Myothit (South) Township | MMK | 541,363 | 100 | |
| New Zealand | ❍ | Sika (NZ) Ltd., Auckland | NZD | 1,100 | 100 | ◆★ |
| Philippines | ❍ | Sika Philippines Inc., Las Pinas City | PHP | 55,610 | 100 | ◆★ |
| Singapore | ❍ | Sika Singapore Pte. Ltd., Singapore | SGD | 400 | 100 | ◆ |
| | ▲ | Sika Asia Pacific Mgt. Pte. Ltd., Singapore | SGD | 100 | 100 | |
| | ❍ | LCS Optiroc Pte. Ltd., Singapore | SGD | 1,000 | 100 | ◆★✲ |
| Sri Lanka | ❍ | Sika Lanka (Private) Limited, Ekala | LKR | 129,100 | 100 | ◆★ |
| Taiwan | ❍ | Sika Taiwan Ltd., Taoyuan County | TWD | 40,000 | 100 | ◆★ |
| Thailand | ❍ | Sika (Thailand) Ltd., Chonburi | THB | 200,000 | 100 | ◆★✲ |
| Vietnam | ❍ | Sika Limited (Vietnam), Dong Nai Province | VND mn | 44,190 | 100 | ◆★ |

❑ Production, sales, construction contracting
❍ Production and sales
✜ Sales
▲ Real estate and service companies
▮ Construction contracting

◆ ISO 9001 (Quality Management)
★ ISO 14001 (Environmental Management)
✲ OHSAS 18001 (Occupational Health and Safety)

1 For associated companies see note 7.
* Company indirectly held by Sika AG.

# REPORT OF THE STATUTORY AUDITORS TO THE ANNUAL GENERAL MEETING OF SIKA AG, BAAR

## STATUTORY AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### OPINION

We have audited the consolidated financial statements of Sika AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and appendix to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 89 to 138 of the download version of this report) give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### BASIS FOR OPINION

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

### GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE – VALUATION

AREA OF FOCUS. Goodwill and intangible assets with indefinite useful life represent 17% of the Group's total assets and 28% of the Group's total shareholders' equity as at December 31, 2017. Intangible assets with indefinite useful life is a brand. Goodwill recorded by the Group represents the purchase price in excess of the fair value of net assets of businesses acquired.
As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying amounts of goodwill and intangible assets with indefinite useful life is tested annually or more frequently if impairment indicators are present. The Group performed its annual impairment tests of goodwill and intangible assets with indefinite useful life in the third quarter of 2017 and determined that there was no impairment. Key assumptions as well as the results of the impairment tests are disclosed in note 6 of the consolidated financial statements. In determining the recoverable amount of cash-generating units ("CGU"), management must apply judgment when using assumptions in respect of future market and economic conditions such as the economic growth and expected inflation rates. Due to the significance of the carrying values of goodwill and intangible assets with indefinite useful life and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

OUR AUDIT RESPONSE. We assessed the Group's internal control over its annual impairment test and key assumptions applied as well as the proper authorization and approval. Further, we assessed whether the CGU structure is aligned with the organizational structure. We included in our team a valuation expert to assist us with our assessment of the WACC, expected inflation rates and the model used. We assessed sensitivities in the available headroom of CGUs and whether a possible change in assumptions such as forecasted EBITDAs, growth rate in the first year, long-term growth rate, and WACC could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of the Group's estimates and long-term business plans. Finally, we assessed the adequacy of the Group's disclosures included in note 6 of the consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

### OTHER INFORMATION IN THE ANNUAL REPORT

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report, and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, February 21, 2018

ERNST & YOUNG LTD

| | |
|---|---|
| CHRISTOPH MICHEL | MARC RÜEGSEGGER |
| Licensed audit expert | Licensed audit expert |
| (Auditor in charge) | |

# FIVE-YEAR REVIEWS

## CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31

| in CHF mn | | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | | 1,028.3 | 898.8 | 1,074.4 | 1,155.0 | 1,037.9 |
| Accounts receivable | a | 912.7 | 1,006.0 | 1,014.5 | 1,043.1 | 1,188.1 |
| Inventories | b | 539.0 | 591.3 | 584.9 | 600.8 | 729.5 |
| Other current assets [1] | | 110.9 | 100.0 | 104.3 | 98.1 | 128.9 |
| **Current assets** | | **2,590.9** | **2,596.1** | **2,778.1** | **2,897.0** | **3,084.4** |
| Property, plant, and equipment | | 920.2 | 958.3 | 924.3 | 959.2 | 1,065.2 |
| Intangible assets | | 1,066.9 | 1,074.6 | 1,037.9 | 1,021.2 | 1,314.2 |
| Other non-current assets [2] | | 157.9 | 188.9 | 183.5 | 221.8 | 328.4 |
| **Non-current assets** | | **2,145.0** | **2,221.8** | **2,145.7** | **2,202.2** | **2,707.8** |
| **ASSETS** | | **4,735.9** | **4,817.9** | **4,923.8** | **5,099.2** | **5,792.2** |
| Accounts payable | c | 557.9 | 605.4 | 581.1 | 587.0 | 730.9 |
| Bond | | 299.7 | 0.0 | 249.9 | 0.0 | 150.0 |
| Other current liabilities [3] | | 334.6 | 345.7 | 332.1 | 381.0 | 469.1 |
| **Current liabilities** | | **1,192.2** | **951.1** | **1,163.1** | **968.0** | **1,350.0** |
| Bonds | | 946.9 | 947.6 | 698.4 | 698.7 | 549.0 |
| Non-current provisions, employee benefit obligations | | 282.6 | 373.3 | 360.8 | 332.1 | 316.4 |
| Other non-current liabilities [4] | | 178.0 | 162.6 | 149.4 | 152.7 | 165.7 |
| **Non-current liabilities** | | **1,407.5** | **1,483.5** | **1,208.6** | **1,183.5** | **1,031.1** |
| **LIABILITIES** | | **2,599.7** | **2,434.6** | **2,371.7** | **2,151.5** | **2,381.1** |
| Capital stock | | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Treasury shares | | -13.7 | -10.8 | -0.9 | -11.0 | -6.6 |
| Reserves | | 2,132.3 | 2,376.4 | 2,530.2 | 2,933.8 | 3,389.8 |
| **Equity attributable to Sika shareholders** | | **2,120.1** | **2,367.1** | **2,530.8** | **2,924.3** | **3,384.7** |
| Non-controlling interests | | 16.1 | 16.2 | 21.3 | 23.4 | 26.4 |
| **SHAREHOLDERS' EQUITY** | d | **2,136.2** | **2,383.3** | **2,552.1** | **2,947.7** | **3,411.1** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | e | **4,735.9** | **4,817.9** | **4,923.8** | **5,099.2** | **5,792.2** |

1 Prepaid expenses and accrued income, other current assets.
2 Investments in associated companies, deferred tax assets, and other non-current assets.
3 Accrued expenses and deferred income, income tax liabilities, current provisions, and other current liabilities.
4 Deferred tax liabilities and other non-current liabilities.

## CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

| in CHF mn | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Net sales** | **5,142.2** | **5,571.3** | **5,489.2** | **5,747.7** | **6,248.3** |
| Material expenses | -2,446.6 | -2,620.0 | -2,518.4 | -2,566.6 | -2,849.2 |
| **Gross result** | **2,695.6** | **2,951.3** | **2,970.8** | **3,181.1** | **3,399.1** |
| Personnel expenses | -1,031.1 | -1,093.7 | -1,106.5 | -1,159.1 | -1,212.1 |
| Other operating expenses | -988.6 | -1,059.3 | -1,027.0 | -1,056.3 | -1,118.5 |
| **Operating profit before depreciation** | **675.9** | **798.3** | **837.3** | **965.7** | **1,068.5** |
| Depreciation/amortization/impairment | -152.4 | -165.1 | -164.0 | -170.4 | -172.2 |
| **Operating profit** | **523.5** | **633.2** | **673.3** | **795.3** | **896.3** |
| Interest income/interest expense | -30.9 | -27.8 | -22.0 | -17.8 | -16.4 |
| Financial income/financial expense/income from associated companies | -15.9 | -14.8 | -29.4 | -21.7 | -17.8 |
| **Profit before taxes** | **476.7** | **590.6** | **621.9** | **755.8** | **862.1** |
| Income taxes | -132.0 | -149.4 | -156.8 | -189.2 | -213.1 |
| **Net profit** | **344.7** | **441.2** | **465.1** | **566.6** | **649.0** |
| Free cash flow | 19.0 | 349.8 | 379.5 | 563.0 | 173.7 |
| Gross result as % of net sales | 52.4 | 53.0 | 54.1 | 55.3 | 54.4 |
| Operating profit as % of net sales | 10.2 | 11.4 | 12.3 | 13.8 | 14.3 |
| Net profit as % of net sales (ROS) | 6.7 | 7.9 | 8.5 | 9.9 | 10.4 |
| Net profit as % of shareholders' equity (ROE) | 16.1 | 18.5 | 18.2 | 19.2 | 19.0 |

### KEY BALANCE SHEET DATA

| in CHF mn | Calculation | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Net working capital | (a+b-c) | 893.8 | 991.9 | 1,018.3 | 1,056.9 | 1,186.7 |
| Net working capital as % of net sales | | 17.4 | 17.8 | 18.6 | 18.4 | 19.0 |
| Net debt [1] | f | 271.4 | 82.5 | -94.0 | -415.6 | -293.8 |
| Gearing in % | (f : d) | 12.7 | 3.5 | -3.7 | -14.1 | -8.6 |
| Equity ratio in % | (d : e) | 45.1 | 49.5 | 51.8 | 57.8 | 58.9 |

1 Net debt: interest-bearing indebtedness (short and long-term bank debt, bonds and other current and non-current liabilities «other») less interest-bearing current assets (cash and cash equivalents and securities).

### VALUE-BASED KEY DATA

| in CHF mn | Calculation | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Capital employed [1] | | 2,662.6 | 2,782.0 | 2,760.2 | 2,772.4 | 3,246.3 |
| Annual average of capital employed | g | 2,498.4 | 2,722.3 | 2,771.1 | 2,766.3 | 3,009.4 |
| Operating profit | h | 523.5 | 633.2 | 673.3 | 795.3 | 896.3 |
| Return on capital employed (ROCE) in % | (h : g) | 21.0 | 23.3 | 24.3 | 28.7 | 29.8 |

1 Capital employed: current assets, PPE, intangible assets less cash and cash equivalents, current securities, current liabilities (excluding bank loans and bond).

## SEGMENT INFORMATION

| in CHF mn | 2013[1] | 2014 | 2015 | 2016 | EMEA 2017 | 2013[1] | 2014 | 2015 | 2016 | North America 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 2,470 | 2,734 | 2,600 | 2,695 | 2,875 | 711 | 746 | 839 | 923 | 1,094 |
| Operating profit | 281 | 369 | 368 | 396 | 426 | 89 | 103 | 134 | 166 | 194 |
| in % of net sales | 11.4 | 13.5 | 14.2 | 14.7 | 14.8 | 12.5 | 13.8 | 16.0 | 18.0 | 17.7 |
| Depreciation/amortization | 79 | 85 | 81 | 85 | 85 | 23 | 21 | 20 | 21 | 25 |
| Capital expenditures | 75 | 71 | 67 | 75 | 61 | 11 | 12 | 16 | 21 | 33 |

| in CHF mn | 2013[1] | 2014 | 2015 | 2016 | Latin America 2017 | 2013[1] | 2014 | 2015 | 2016 | Asia/Pacific 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 623 | 638 | 600 | 564 | 590 | 974 | 1,040 | 1,017 | 1,081 | 1,133 |
| Operating profit | 116 | 114 | 110 | 109 | 112 | 138 | 153 | 177 | 206 | 221 |
| in % of net sales | 18.6 | 17.9 | 18.3 | 19.3 | 19.1 | 14.2 | 14.7 | 17.4 | 19.1 | 19.5 |
| Depreciation/amortization | 9 | 11 | 11 | 11 | 12 | 21 | 23 | 24 | 25 | 25 |
| Capital expenditures | 27 | 25 | 16 | 19 | 24 | 25 | 24 | 25 | 23 | 25 |

| in CHF mn | 2013[1] | 2014 | 2015 | 2016 | Other segments and activities 2017 | 2013[1] | 2014 | 2015 | 2016 | Total 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 364 | 413 | 433 | 485 | 556 | 5,142 | 5,571 | 5,489 | 5,748 | 6,248 |
| Operating profit | -101 | -106 | -116 | -81 | -57 | 523 | 633 | 673 | 795 | 896 |
| in % of net sales | | | | | | 10.2 | 11.4 | 12.3 | 13.8 | 14.3 |
| Depreciation/amortization | 20 | 25 | 28 | 28 | 25 | 152 | 165 | 164 | 170 | 172 |
| Capital expenditures | 16 | 21 | 19 | 17 | 45 | 154 | 153 | 143 | 155 | 188 |

1 Restated.

A change in internal reporting practice was implemented effective January 1, 2014. Certain internal allocations were no longer charged to the segment results. Essentially, these internal allocations are understood to be the charges for central marketing as well as production support. In keeping with internal reporting practice, the segment reporting presented here has been adjusted accordingly. The prior-year figures have been restated to allow like-for-like comparison.

## EMPLOYEES

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Employees by region (at December 31)** | | | | | |
| **EMEA** | **8,658** | **8,708** | **9,079** | **9,083** | **9,822** |
| Switzerland | 2,012 | 2,029 | 2,022 | 2,001 | 1,970 |
| Germany | 1,784 | 1,777 | 1,832 | 1,778 | 1,808 |
| United Kingdom | 712 | 728 | 772 | 817 | 837 |
| France | 643 | 637 | 754 | 727 | 701 |
| **North America** | **1,438** | **1,488** | **1,653** | **1,818** | **2,142** |
| USA | 1,216 | 1,275 | 1,432 | 1,580 | 1,911 |
| **Latin America** | **2,329** | **2,609** | **2,437** | **2,349** | **2,479** |
| Brazil | 504 | 755 | 617 | 577 | 574 |
| **Asia/Pacific** | **3,868** | **4,090** | **4,112** | **4,169** | **4,041** |
| China | 1,287 | 1,220 | 1,083 | 1,099 | 1,066 |
| Japan | 614 | 629 | 670 | 673 | 661 |
| **Total** | **16,293** | **16,895** | **17,281** | **17,419** | **18,484** |
| **Personnel expenses (in CHF mn)** | | | | | |
| Wages and salaries | 849 | 894 | 900 | 941 | 991 |
| Social charges, other | 182 | 200 | 207 | 218 | 221 |
| **Personnel expenses** | **1,031** | **1,094** | **1,107** | **1,159** | **1,212** |
| Personnel expenses as % of net sales | 20 | 20 | 20 | 20 | 19 |
| **Key data per employee (in CHF 1,000)** | | | | | |
| Net sales | 326 | 336 | 321 | 331 | 348 |
| Net value-added[1] | 98 | 103 | 103 | 112 | 117 |

1 See next page, five-year reviews, value-added statement.

# VALUE-ADDED STATEMENT

| in CHF mn | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Source of value-added** | | | | | |
| Corporate performance (net sales) | 5,142 | 5,571 | 5,489 | 5,748 | 6,248 |
| Intermediate inputs | -3,440 | -3,691 | -3,572 | -3,631 | -3,994 |
| **Gross value-added** | **1,702** | **1,880** | **1,917** | **2,117** | **2,254** |
| Non-liquidity related expenses | | | | | |
| Depreciation and amortization | -152 | -165 | -164 | -170 | -172 |
| Change in provisions | -8 | 0 | 2 | -12 | 10 |
| **Net value-added** | **1,542** | **1,715** | **1,755** | **1,935** | **2,092** |
| **Distribution of value-added** | | | | | |
| To employees | | | | | |
| Wages and salaries | 849 | 894 | 900 | 941 | 991 |
| Social charges | 188 | 205 | 212 | 222 | 224 |
| To governments (income taxes) | 132 | 149 | 157 | 189 | 213 |
| To lenders (interest expenses) | 28 | 26 | 21 | 16 | 15 |
| To shareholders (dividend payout, incl. non-controlling interests) | 130 | 146 | 183 | 200 | 246 |
| To the company | | | | | |
| Net profit for the year | 345 | 441 | 465 | 567 | 649 |
| Less dividend payout | -130 | -146 | -183 | -200 | -246 |
| **Net value-added** | **1,542** | **1,715** | **1,755** | **1,935** | **2,092** |
| **Number of employees** | | | | | |
| End of year | 16,293 | 16,895 | 17,281 | 17,419 | 18,484 |
| Annual average | 15,763 | 16,594 | 17,088 | 17,350 | 17,952 |
| **Net value-added per employee (in CHF 1,000)** | **98** | **103** | **103** | **112** | **117** |

# SIKA AG, BAAR FINANCIAL STATEMENTS

## SIKA AG BALANCE SHEET AS OF DECEMBER 31

| in CHF mn | Notes | 2016 | 2017 |
|---|---|---|---|
| Cash and cash equivalents | 1 | 448.6 | 362.8 |
| Securities | | 0.1 | 0.1 |
| Other current receivables from subsidiaries | 2 | 1,508.5 | 2,560.9 |
| Other current receivables from third parties | 2 | 2.3 | 2.1 |
| Prepaid expenses and accrued income | | 2.4 | 4.4 |
| **Current assets** | | **1,961.9** | **2,930.3** |
| Investments | 3 | 1,364.7 | 1,612.7 |
| Property, plant, and equipment | | 0.3 | 0.2 |
| Other non-current assets | 4 | 20.7 | 5.8 |
| **Non-current assets** | | **1,385.7** | **1,618.7** |
| **ASSETS** | | **3,347.6** | **4,549.0** |
| Accounts payable to subsidiaries | 5 | 7.9 | 1.7 |
| Accounts payable to third parties | 5 | 1.0 | 0.8 |
| Current interest-bearing liabilities to subsidiaries | 6 | 181.7 | 228.7 |
| Current interest-bearing liabilities to third parties | 6 | 0.0 | 150.0 |
| Other current liabilities to subsidiaries | | 0.0 | 2.0 |
| Accrued expenses and deferred income | 7 | 40.4 | 90.7 |
| Current provisions | 9 | 1.9 | 2.4 |
| **Current liabilities** | | **232.9** | **476.3** |
| Non-current interest-bearing liabilities | 6 | 700.0 | 550.0 |
| Other non-current liabilities | 8 | 2.5 | 2.1 |
| Non-current provisions | 9 | 2.6 | 1.9 |
| **Non-current liabilities** | | **705.1** | **554.0** |
| **LIABILITIES** | | **938.0** | **1,030.3** |
| Share capital | | 1.5 | 1.5 |
| Legal capital reserves | | 56.5 | 56.5 |
| Legal retained earnings | | 4.0 | 4.0 |
| Voluntary retained earnings | | 121.7 | 121.7 |
| Profit brought forward | | 2,236.9 | 3,341.6 |
| Treasury shares | 10 | -11.0 | -6.6 |
| **Shareholders’ equity** | 11 | **2,409.6** | **3,518.7** |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** | | **3,347.6** | **4,549.0** |

# SIKA AG INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

| in CHF mn | Notes | 2016 | 2017 |
|---|---|---|---|
| Dividend income | 12 | 337.4 | 391.9 |
| Financial income | 13 | 20.3 | 37.5 |
| Trademark licenses income | 14 | 71.8 | 48.6 |
| Other income | 15 | 19.3 | 22.5 |
| **Income** | | **448.8** | **500.5** |
| Financial expenses | 16 | -23.4 | -24.5 |
| Personnel expenses | | -16.2 | -16.5 |
| Other operating expenses | 17 | -35.6 | -20.8 |
| **Operating profit before depreciation** | | **373.6** | **438.7** |
| Impairment losses (-)/reversal of an impairment loss (+) on investments | | -2.8 | -1.8 |
| Depreciation and amortization expenses | 18 | -8.0 | -0.1 |
| Extraordinary, non-recurring or prior-period income | 19 | 289.0 | 1,000.0 |
| Extraordinary, non-recurring or prior-period expenses | 20 | -1.0 | 0.0 |
| **Net profit before taxes** | | **650.8** | **1,436.8** |
| Direct taxes | 21 | -28.4 | -88.4 |
| **Net profit for the year** | | **622.4** | **1,348.4** |

# NOTES TO THE SIKA AG FINANCIAL STATEMENT

## PRINCIPLES

### GENERAL
The 2017 financial statements were prepared according to the Swiss Law on Accounting and Financial Reporting. The significant accounting and valuation principles applied are as described below.

### SECURITIES
Securities are valued at historical costs.

### RECEIVABLES
The receivables are recorded at nominal value. If necessary, an allowance for doubtful debts is made on receivables from third parties, whereas for receivables from subsidiaries no allowance for doubtful debts is considered.

### INVESTMENTS
Investments are initially recognized at cost. On an annual basis the investments are assessed individually and adjusted to their recoverable amount if required.

### PROPERTY, PLANT, AND EQUIPMENT, AND INTANGIBLE ASSETS
Property, plant, and equipment, and intangible assets are valued at acquisition cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method based on the useful life of the asset.

### CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES
Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds are recognized as other non-current assets and amortized on a straight-line basis over the bond's maturity period. Premiums (less issue costs) are recognized in the other non-current liabilities and amortized on a straight-line basis over the bond's maturity period.

### PROVISIONS
Provisions are recognized to cover general business risks based on the most probable cash outflow, considering the principle of prudence.

### TREASURY SHARES
Treasury shares are recognized at acquisition cost and disclosed as a negative position within shareholders' equity. In case of a resale, the gain or loss is recognized through the income statement as financial income or financial expenses.

### SHARE-BASED PAYMENTS
For treasury shares used for share-based payment programs, the difference between the acquisition cost and the value at vesting date is recognized as personnel expenses.

## INFORMATION ON BALANCE SHEET AND INCOME STATEMENT ITEMS

**1. CASH AND CASH EQUIVALENTS** CHF 362.8 MN (CHF 448.6 MN)
All bank deposits are held in interest-bearing accounts, whereof CHF 330.3 million (CHF 406.7 million) are invested in Swiss francs and CHF 32.5 million (CHF 41.9 million) in foreign currencies.

**2. OTHER CURRENT RECEIVABLES FROM SUBSIDIARIES AND THIRD PARTIES** CHF 2,563.0 MN (CHF 1,510.8 MN)
Receivables consist of short-term loans to subsidiaries in the amount of CHF 2,548.9 million (CHF 1,497.0 million). The increase is due to the sale of the umbrella brand to Sika Technology AG of CHF 1,000.0 million.

In addition, Sika AG has receivables of CHF 12.0 million (CHF 11.5 million) from Sika subsidiaries and receivables from third parties in the amount of CHF 2.1 million (CHF 2.3 million).

**3. INVESTMENTS** CHF 1,612.7 MN (CHF 1,364.7 MN)
The change in shareholdings is essentially attributable to the acquisition of new subsidiaries and capital increases.

Major participations are indicated on the list of Group companies beginning on page 135 of the download version of this report.

**4. OTHER NON-CURRENT ASSETS** CHF 5.8 MN (CHF 20.7 MN)
The other non-current assets contain the discounts and issue costs for bonds as well as non-current receivables from subsidiaries.

**5. ACCOUNTS PAYABLE TO SUBSIDIARIES AND THIRD PARTIES** CHF 2.5 MN (CHF 8.9 MN)
The total includes liabilities to subsidiaries in the amount of CHF 1.7 million (CHF 7.9 million) and liabilities to third parties in the amount of CHF 0.8 million (CHF 1.0 million).

**6. INTEREST-BEARING LIABILITIES** CHF 378.7 MN CURRENT/CHF 550.0 MN NON-CURRENT (CHF 181.7 MN/CHF 700.0 MN)
The current interest-bearing liabilities consist of loans to subsidiaries resulting from the worldwide cash management concept.

Furthermore, included in interest-bearing liabilities is the following bond:

| | | | |
|---|---|---|---|
| 1.000% | fixed-interest bond | 2012 to 7/12/2018 | CHF 150.0 mn |

The following bonds are disclosed in the non-current interest-bearing liabilities:

| | | | |
|---|---|---|---|
| 1.125% | fixed-interest bond | 2013 to 11/14/2019 | CHF 200.0 mn |
| 1.750% | fixed-interest bond | 2012 to 7/12/2022 | CHF 150.0 mn |
| 1.875% | fixed-interest bond | 2013 to 11/14/2023 | CHF 200.0 mn |

**7. ACCRUED EXPENSES AND DEFERRED INCOME** CHF 90.7 MN (CHF 40.4 MN)
Accrued expenses and deferred income include pro rata interest, employee-related accruals as well as other accrued expenses. Furthermore, accrued taxes in the amount of CHF 82.1 million (CHF 23.6 million) are included in 2017, resulting from the sale of the umbrella brand to Sika Technology AG.

**8. OTHER NON-CURRENT LIABILITIES** CHF 2.1 MN (CHF 2.5 MN)
The other non-current liabilities contain the premium, less issue costs of the bonds in the amount of CHF 1.5 million (CHF 2.0 million).

**9. PROVISIONS** CHF 2.4 MN CURRENT/CHF 1.9 MN NON-CURRENT (CHF 1.9 MN/CHF 2.6 MN)
The current provisions contain commitments of CHF 2.0 million to the Sika pension fund as well as liabilities from forward contracts and conditional purchase price obligations.

The non-current provisions contain accruals for long-term employee retention and bonus programs as well as jubilee payments.

**10. TREASURY SHARES** CHF 6.6 MN (CHF 11.0 MN)
Treasury shares are appropriated for Group-wide share-based payment plans and used to invest liquid assets. The shares are traded at market price; in 2017 the average trading price was CHF 6,450 (CHF 4,119).

| in CHF mn | Units | Share value |
|---|---|---|
| **At January 1, 2016** | **343** | **0.9** |
| Reductions | -8,349 | -33.0 |
| Additions | 14,358 | 56.8 |
| Acquisition Scofield | -3,686 | -13.7 |
| **At December 31, 2016** | **2,666** | **11.0** |
| **At January 1, 2017** | **2,666** | **11.0** |
| Reductions | -6,114 | -33.7 |
| Additions | 5,153 | 31.3 |
| Acquisition Scofield | -337 | -2.0 |
| **At December 31, 2017** | **1,368** | **6.6** |

**11. SHAREHOLDERS' EQUITY** CHF 3,518.7 MN (CHF 2,409.6 MN)
The shareholders' equity exceeds the prior year's level. The ratio of shareholders' equity to balance sheet total increased from 72.0% to 77.4%.

| in CHF mn | Capital stock | Legal capital reserves [1] | Retained earnings [2] | Treasury shares | Share-holders' equity |
|---|---|---|---|---|---|
| **January 1, 2016** | **1.5** | **56.5** | **1,938.2** | **-0.9** | **1,995.3** |
| Dividend payment | | | -198.0 | | -198.0 |
| Transactions with treasury shares | | | | -10.1 | -10.1 |
| Net profit for the year | | | 622.4 | | 622.4 |
| **December 31, 2016** | **1.5** | **56.5** | **2,362.6** | **-11.0** | **2,409.6** |
| **January 1, 2017** | **1.5** | **56.5** | **2,362.6** | **-11.0** | **2,409.6** |
| Dividend payment | | | -243.7 | | -243.7 |
| Transactions with treasury shares | | | | 4.4 | 4.4 |
| Net profit for the year | | | 1,348.4 | | 1,348.4 |
| **December 31, 2017** | **1.5** | **56.5** | **3,467.3** | **-6.6** | **3,518.7** |

1 Thereof CHF 0.3 million capital contribution reserves.
2 Retained earnings: legal retained earnings, voluntary retained earnings, and profit brought forward.

The capital stock remains unchanged. The increase in net profit is mainly due to the sale of the umbrella brand to Sika Technology AG. In April 2017, the dividend of CHF 243.7 million was paid to shareholders from the profit carried forward from 2016.

There is CHF 155,893.20 in contingent capital, unrestricted in time, comprising 259,822 bearer shares with a per-share nominal value of CHF 0.60. These shares are reserved for the exercise of option or conversion rights.

The capital stock consists of:

| | Bearer shares[1] nominal value CHF 0.60 | Registered shares nominal value CHF 0.10 | Total[1] |
|---|---|---|---|
| 12/31/2016 (units) | 2,151,199 | 2,333,874 | 4,485,073 |
| Nominal value (CHF) | 1,290,719 | 233,387 | 1,524,107 |
| 12/31/2017 (units) | 2,151,199 | 2,333,874 | 4,485,073 |
| Nominal value (CHF) | 1,290,719 | 233,387 | 1,524,107 |

1 Includes treasury shares which do not carry voting and dividend rights.

**12. DIVIDEND INCOME** CHF 391.9 MN (CHF 337.4 MN)
Dividends from subsidiaries are recognized in this position.

**13. FINANCIAL INCOME** CHF 37.5 MN (CHF 20.3 MN)
Financial income includes interest income and gains from foreign exchange transactions.

**14. TRADEMARK LICENSES INCOME** CHF 48.6 MN (CHF 71.8 MN)
Sika AG receives license fees for the use of trademarks from subsidiaries. In the previous year, royalties were collected for the umbrella brand and product brands. In the year under review, only royalties for the umbrella brand were collected, as all royalties on product brands are collected by Sika Technology AG.

**15. OTHER INCOME** CHF 22.5 MN (CHF 19.3 MN)
Other income includes valuation adjustments and income from the allocation of cost to subsidiaries.

**16. FINANCIAL EXPENSES** CHF 24.5 MN (CHF 23.4 MN)
Financial expenses include the interest costs on bonds as well as foreign currency losses on loans to subsidiaries.

**17. OTHER OPERATING EXPENSES** CHF 20.8 MN (CHF 35.6 MN)
This position includes the holding company's general expenses. Other operating expenses mainly include legal and consulting fees, costs related to management training as well as marketing expenses. In addition, a provision in the amount of CHF 8.1 million was released in the year under review in connection with trademark rights.

**18. DEPRECIATION AND AMORTIZATION** CHF 0.1 MN (CHF 8.0 MN)
The decrease in depreciation and amortization is due to the fact that, in the previous year, product brand rights which were transferred to Sika Technology AG as of December 31,2016, were still being amortized.

**19. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD INCOME** CHF 1,000.0 MN (CHF 289.0 MN)
Extraordinary income includes the gain from the sale of the umbrella brand to Sika Technology AG, a wholly-owned subsidiary of Sika AG, in the amount of CHF 1,000.0 million. The previous year's income of CHF 289.0 million is attributable to the sale of the product trademarks.

**20. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD EXPENSES** CHF 0.0 MN (CHF 1.0 MN)
The extraordinary expenses in the previous year include a one-off cost allocation from a subsidiary.

**21. DIRECT TAXES** CHF 88.4 MN (CHF 28.4 MN)
In the reporting period the increase in direct taxes is based on the non-recurring profit made from the sale of the umbrella brand to Sika Technology AG.

## OTHER INFORMATION

### FULL-TIME EQUIVALENTS
The number of full-time equivalents for the reporting year is 46 (41) employees.

### CONTINGENT LIABILITIES
Letters of guarantee and letters of comfort are issued to finance business transactions. No guarantees are required for the established zero-balance cash pooling. Sika AG is part of Sika Schweiz AG's value-added tax group and is jointly liable to the tax authorities for the value-added tax obligations of the tax group.

| in CHF mn | 2016 | 2017 |
|---|---|---|
| **Letters of guarantee** | | |
| Issued | 92.2 | 84.9 |
| Used | 0.0 | 0.0 |
| **Letters of comfort** | | |
| Issued | 5.0 | 8.7 |
| Used | 0.3 | 0.5 |
| **Credit lines to subsidiaries** | | |
| Issued | 0.0 | 0.0 |
| Used | 0.0 | 0.0 |

### NET RELEASE OF HIDDEN RESERVES
There is no net release of hidden reserves.

### MAJOR SHAREHOLDERS
On December 31, 2017, the company had 51 (50) registered shareholders. Information regarding major shareholders can be found on page 133 of the download version of this report.

## PARTICIPATIONS IN SIKA AG

Members of the Board of Directors and Group Management hold the following participations in Sika AG:

| | Number of shares | |
|---|---|---|
| | 2016 | 2017 |
| **Board of Directors** | | |
| Paul Hälg, Chairman | 577 | 577 |
| Urs F. Burkard [1] | 67 | 67 |
| Frits van Dijk | 92 | 92 |
| Willi K. Leimer | 67 | 67 |
| Monika Ribar | 89 | 89 |
| Daniel J. Sauter | 2,067 | 2,067 |
| Ulrich W. Suter | 67 | 67 |
| Jürgen Tinggren | 99 | 99 |
| Christoph Tobler | 167 | 167 |
| **Group Management** | | |
| Paul Schuler, CEO | 828 | 942 |
| Jan Jenisch | 1,650 | n.a. |
| Mike Campion | n.a. | 117 |
| Christoph Ganz | 431 | 431 |
| Heinz Gisel | 504 | n.a. |
| Thomas Hasler | 265 | 259 |
| Frank Höfflin | n.a. | 103 |
| Yumi Kan | 86 | 99 |
| Ivo Schädler | n.a. | 92 |
| Ernesto Schümperli | 913 | n.a. |
| José Luis Vásquez | 877 | 678 |
| Adrian Widmer | 241 | 261 |
| **Total** | **9,087** | **6,274** |

1 Urs F. Burkard also has an interest in Schenker-Winkler Holding, which holds 2,330,853 registered shares and, according to information provided by the Burkard-Schenker family, 42,634 bearer shares in Sika AG.

In connection with share-based compensation plans the following number of shares were allocated. The shares are granted at the average market price of the first five trading days of April of the subsequent business year. In the year under review the average market price was CHF 6,290 (CHF 3,870).

| | 2016 | | 2017 | |
|---|---|---|---|---|
| in CHF thousands | Units | Nominal | Units | Nominal |
| Board of Directors | 0 | 0.0 | 0 | 0.0 |
| Group Management | 599 | 2,315.7 | 406 | 2,553.7 |
| Employees | 213 | 823.5 | 139 | 874.3 |
| **Total** | **812** | **3,139.2** | **545** | **3,428.0** |

## PROPOSED APPROPRIATION OF PROFIT BROUGHT FORWARD

### THE BOARD OF DIRECTORS PROPOSES TO THE ANNUAL GENERAL MEETING THE FOLLOWING APPROPRIATION OF PROFIT BROUGHT FORWARD:

| in CHF mn | 2016 | 2017 |
|---|---|---|
| **Composition of the profit brought forward** | | |
| Net profit for the year | 622.4 | 1,348.4 |
| Results carried forward from prior year | 1,614.5 | 1,993.2 |
| **Profit brought forward** | **2,236.9** | **3,341.6** |
| **Dividend payment** | | |
| Dividend payment out of the profit brought forward [1] | 243.7 | 281.8 |
| **Results carried forward** | **1,993.2** | **3,059.8** |

1 Dividend payment for shares entitled to dividends (without treasury shares as per December 31, 2017).

For the year 2016, the Board of Directors' dividend proposal amounted to CHF 102.00 per bearer share and CHF 17.00 per registered share, totalling CHF 258.8 million. Instead, the annual general meeting approved a dividend of CHF 96.00 per bearer share and CHF 16.00 per registered share, resulting in a distribution of CHF 243.7 million in the current financial year.

As the general statutory reserve currently exceeds 20% of shareholders' equity, a further allocation to the reserve was waived.

On approval of this proposal, the following payment will be made:

| in CHF | 2016 | 2017 |
| --- | --- | --- |
| **Bearer share [1] nominal value CHF 0.60** | | |
| Gross dividend | 96.00 | 111.00 |
| 35% withholding tax on gross dividend | 33.60 | 38.85 |
| **Net dividend** | **62.40** | **72.15** |
| **Registered share nominal value CHF 0.10** | | |
| Gross dividend | 16.00 | 18.50 |
| 35% withholding tax on gross dividend | 5.60 | 6.48 |
| **Net dividend** | **10.40** | **12.03** |

1 Bearer shares held by Sika AG are non-voting shares and do not qualify for a dividend.

Payment of the dividend is tentatively scheduled for Monday, April 23, 2018.

Registered shareholders will receive payment of the dividend at the address provided to the company for the purposes of dividend distribution.

The Annual General Meeting of Sika AG will be held on Tuesday, April 17, 2018.

Baar, February 21, 2018

For the Board of Directors
The Chairman:
DR PAUL HÄLG

# REPORT OF THE STATUTORY AUDITORS TO THE ANNUAL GENERAL MEETING OF SIKA AG, BAAR

## REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Sika AG, which comprise the balance sheet, income statement, and notes to the financial statements (pages 147 to 156 of the download version of this report), for the year ended December 31, 2017.

## BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing, and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements for the year ended December 31, 2017, comply with Swiss law and the company's articles of incorporation.

## REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

## INVESTMENTS IN SUBSIDIARIES

AREA OF FOCUS. Sika AG holds investments in subsidiaries that represent 35% of the total assets on stand-alone level. The various investments are disclosed in note "List of Group Companies" of the consolidated financial statements of Sika AG. Total investments are material to the entity and may be subject to changes in value. Accordingly, management performs regular impairment considerations and calculations to determine the value of each single investment. The investments in subsidiaries were considered significant to our audit as the amounts concerned are material and the assessments involve judgment in preparing the underlying key assumptions for the valuation.

OUR AUDIT RESPONSE. Our audit work for the valuation of the investments consisted of auditing management's valuation assessment and the underlying key assumptions. We also assessed the historical accuracy of the Company's estimates and long-term business plans. We performed our own calculations to assess the valuation of each investment.

## REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of profit brought forward complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, February 21, 2018

ERNST & YOUNG LTD

| | |
|---|---|
| CHRISTOPH MICHEL<br>Licensed audit expert<br>(Auditor in charge) | MARC RÜEGSEGGER<br>Licensed audit expert |

# FINANCIAL CALENDAR

| | |
|---|---|
| **SALES FIRST QUARTER 2017** | Tuesday, April 17, 2018 |
| **50TH ANNUAL GENERAL MEETING** | Tuesday, April 17, 2018 |
| **DIVIDEND PAYMENT** | Monday, April 23, 2018 |
| **HALF-YEAR REPORT 2018** | Thursday, July 26, 2018 |
| **RESULT FIRST NINE MONTHS 2018** | Thursday, October 25, 2018 |
| **NET SALES 2018** | Tuesday, January 8, 2019 |
| **FULL YEAR RESULT 2018** | Friday, February 22, 2019 |

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