

# SIKA BUSINESS YEAR 2018

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BUILDING TRUST



# 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 regarding the compensation programs and the payment made to members of the Board of Directors and of Group Management in the 2018 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:

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## INTRODUCTION BY THE CHAIRMAN OF THE NOMINATION AND COMPENSATION COMMITTEE

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DEAR SHAREHOLDERS,

In the name of the Board of Directors and the Nomination and Compensation Committee, I am pleased to introduce the 2018 Compensation Report.

2018 has again been a successful year with net sales growth of 13.4% in Swiss francs (13.6% in local currencies), the company reached a double-digit growth. EBIT has been increased by 5.5% despite increasing material cost and one-off cost. The positive development of the business in all regions, together with investments in new factories, the founding of an additional national subsidiary, the market launch of new products and the acquisition activities all contributed to Sika's strong growth. With regard to relative performance, Sika outperformed its peers in terms of sales growth and matched the industry average in terms of profitability improvement. The Compensation Report outlines how these results impacted the variable incentive payments made to the members of Group Management under the different compensation plans.

During the reporting year, the Nomination and Compensation Committee conducted a thorough review of the compensation programs applicable to the Board of Directors and Group Management, on the basis of which the Committee decided to make the following changes, applicable as of business year 2019:

- Board compensation: the board fees, which have been unchanged since 2012, will be adjusted and the proportion paid in blocked shares will be increased.
- Compensation of Group Management:
  - Benchmarking peer group: the peer group for benchmarking levels of compensation has been extended to 18 industrial companies with an international footprint and which are listed on the SIX Swiss Exchange.
  - Performance bonus: the voluntary deferral in blocked shares (including matching shares) will be discontinued.
  - Long-term incentive: the long-term incentive will include relative total shareholder return (TSR) as performance condition, in addition to the return on capital employed (ROCE). Furthermore, the maximum payout potential will be increased from 100% to 150%, in line with our pay-for-performance philosophy and with market practice.
  - Clawback and malus provisions will be added to the performance bonus and long-term incentive plans.

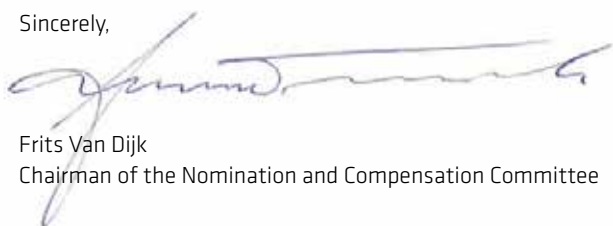
Further details on those changes are provided in this Compensation Report.

In addition, 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 of Group Management, 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 2018 Annual General Meeting, a binding vote on the aggregate maximum compensation amounts for the Board of Directors and for 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 Group Management with a result of 99.6%, 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 former main shareholder. Following the resolution of the dispute with the former main shareholder, an Extraordinary General Meeting was held on June 11, 2018, during which shareholders approved the proposed compensation of the Board of Directors for the terms of office from the Annual General Meeting 2015 to the Annual General Meeting 2019.

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 with 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 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 Association 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. At the Annual General Meeting 2018, Mr. Frits van Dijk (Chairman), Mr. Urs Burkard and Mr. Daniel Sauter were re-elected members of the Nomination and Compensation Committee. At the Extraordinary General Meeting, Mr. Justin Howell was elected as a new member of the Board of Directors and of the Nomination and Compensation Committee, while Mr. Urs Burkard stepped down.

It is the responsibility of the Nomination and Compensation Committee to

- review and determine the compensation policy, including the principles for 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 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 each of 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			Proposes	Approves	
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 2018, the Nomination and Compensation Committee held five ordinary meetings according to the following predetermined annual agenda, as well as one extraordinary conference call related to the review of the compensation system applicable to Group Management:

	Feb	Apr	Mai	Oct	Dec
<b>Review of overall compensation policy and compensation governance</b>					
Review of overall compensation strategy			■	■	■
Review of external stakeholder feedback on compensation disclosure			■		
Preparation and approval of Compensation Report	■				■
Review of shareholdings of member of Group Management (shareholding ownership guideline)	■				
Preparation of say-on-pay vote for next Annual General Meeting	■				
Review of committee duties, accountabilities, and responsibilities	■				
Approve meeting schedule of NCC	■				
Self-assessment NCC	■				
<b>Compensation of Board of Directors</b>					
Determination of compensation for following compensation period (AGM to AGM)		■			
Benchmark of compensation of the Board of Directors (every 3–4 years)					■
<b>Compensation of Group Management</b>					
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 (including benchmarking analysis)				■	
Determination of compensation (at target) for following year					■
Determination of performance objectives for following year					■
<b>Nomination items</b>					
Review of Board of Directors constitution			■		
Appraisal and management development plan for members of Group Management			■	■	
Succession planning for Group Management positions				■	

In 2018, all members attended all Committee meetings (Mr. Urs Burkard attended the Committee meetings until the Extraordinary General Meeting in June and Mr. Justin Howell attended the Committee meetings thereafter). The meetings' duration extended from one and a half to three 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 2018, Agnès Blust Consulting continued to provide services related to executive compensation matters. In addition, Willis Towers Watson was mandated to conduct a benchmarking analysis of the compensation levels of Group Management. These companies do 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 <https://www.sika.com/en/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 will 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 business 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 business 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 2018, a thorough review was conducted to determine the competitiveness of the Board compensation in terms of structure and quantum. For this purpose, a peer group of Swiss multinational companies of the industry sector listed on the SIX Swiss Exchange were selected for the benchmarking analysis. The peer group consists of ABB, Adecco, Barry Callebaut, Clariant, EMS-Chemie, Geberit, Givaudan, Kühne+Nagel, LafargeHolcim, Lindt, Lonza, Richemont, Schindler, SGS, Sonova, Straumann, Swatch, and Swisscom and is well balanced in terms of market capitalization, revenue size, and headcount. This analysis showed that the compensation system is broadly in line with prevalent market practice, however compensation levels are slightly below market. Consequently, the decision was made to increase the overall fee levels of the Board of Directors and to deliver a higher portion of compensation in blocked shares.

Regarding the compensation of Group Management, a benchmarking analysis is conducted every two years with the support of an independent consultant, Willis Towers Watson. The analysis was performed in 2018, again on the basis of the same peer group of companies as for the review of compensation of the Board of Directors, excluding EMS Chemie (no data available). Willis Towers Watson gathered the relevant benchmarking data and summarized them in a report that served as a basis for the Nomination and Compensation Committee to analyze the compensation of the CEO and Group Management, and to set their target compensation levels for 2019. Sika's policy is to target market median compensation for solid performance and to provide for compensation above the median in case of strong performance.

### PEER GROUP FOR BENCHMARKING PURPOSES

In CHF thousands	Market capitalization (12/31/2017)	Revenue (12/31/2017)	Headcount (12/31/2017)
Sika	20,941	6,248	18,484
1st quartile	11,859	3,803	11,387
Median	18,709	6,594	19,231
3rd quartile	23,183	14,366	64,412

## PERFORMANCE MANAGEMENT

The actual compensation paid to the individual members of Group Management in a given year depends on the company's 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 blocked 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 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 interests
- ⊕ 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 or non-performance-based incentive payments
- ⊗ 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 annual 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 blocked shares, while the committee fees are paid in cash. The shares are blocked from trading for a period of four years. The blocking period 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 General Meeting for the previous term 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
<b>Retainer (gross p.a.)</b>		
Chairman of the Board of Directors	individually determined	individually determined
Members of the Board of Directors	150,000	50,000*
<b>Committee fees (gross p.a.)</b>		
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
<b>Annual base salary</b>	Monthly cash salary	Attract and retain	Position, market practice, skills, and experience	
<b>Performance bonus (STI)</b>	Annual bonus in cash and restricted shares	Pay for performance	Annual performance	Group EBIT Group net sales Individual goals
<b>Long-term incentive (LTI)</b>	PSU with a 3-year performance vesting	Reward long-term performance Align to shareholders	Business performance over 3 years	Return on capital employed
<b>Benefits</b>	Pension and insurances Perquisites	Protect against risks 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 a percentage of base salary and amounts to 100% for the CEO and ranges from 44% to 73% 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 2018, they were the same as in 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)

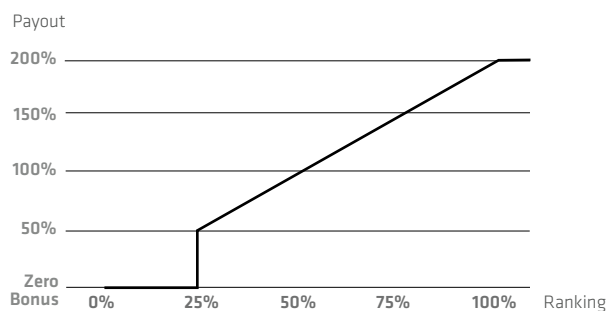
3M – Industrial & Transportations	EMS Chemie Holding AG	Owens Corning
Armstrong World Industries Inc.	Forbo – Flooring Systems	Pidilite Industries Limited
Ashland – Performance Materials	Fuller HB Company	RPM
BASF – Construction Chemicals	Geberit	Saint-Gobain – Construction Products
Beacon Roofing Supply,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

There was no change in the peer group in 2018.

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 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 lowest quartile of the peer group. Performance at the lowest quartile of the peer group corresponds to a payout factor of 50%. Performance at the uppermost 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 financial in 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



### 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 company performance, as the portion of the bonus invested in 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 in shares. 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

$$\begin{array}{|c|} \hline \text{Deferred percentage} \\ \text{of bonus} \\ \text{(0\%, 20\% or 40\%)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Bonus amount} \\ \hline \end{array} \times \begin{array}{|c|} \hline 1.2 \text{ (matching share one} \\ \text{for five)} \\ \hline \end{array} : \begin{array}{|c|} \hline \text{Average closing share} \\ \text{price of five first trading} \\ \text{days in April} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Number of shares} \\ \text{granted} \\ \hline \end{array}$$

In case of a change of control or liquidation or of termination of employment due to retirement, death or disability, the blocking period of the shares lapses. 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 company's long-term performance and to strengthen Group Management's alignment with 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 42% to 74% 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 from the ROCE calculation in the year of acquisition and for two additional calendar years.

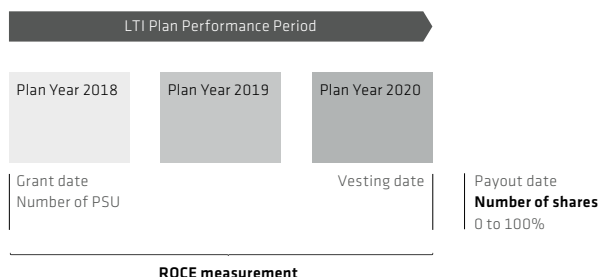
The final share allocation is determined after the three-year performance period, based on the following vesting rules:

- 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 2018 (performance period 2018–2020), the ROCE target was set at 30%, excluding acquisitions, and the threshold was set at 25%. 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 a 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

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 blocked or not. However, unvested PSU are excluded. The Compensation Committee reviews compliance with the share ownership guideline on an annual basis.

## BENEFITS: PENSIONS

As 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 illness. 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 compensation tables below.

## **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 of 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 a maximum of two years and which allow compensation up to a maximum of six months.

## COMPENSATION AWARDED TO THE BOARD OF DIRECTORS IN 2018

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

At the Extraordinary General Meeting of June 11, 2018, shareholders approved the compensation to be paid to the Board of Directors for the compensation periods from the 2015 Annual General Meeting until the 2019 Annual General Meeting. The compensation for the periods between the 2015 Annual General Meeting and the 2018 Annual General Meeting has been paid out in 2018 and had already been disclosed in the compensation reports of the respective years 2015, 2016, and 2017.

In 2018, members of the Board of Directors received a total compensation of CHF 2.6 million (2017: CHF 2.8 million) in the form of a retainer of CHF 1.5 million (2017: CHF 1.7 million), committee fees of CHF 0.2 million (2017: CHF 0.2 million), social security contributions of CHF 0.2 million (2017: CHF 0.2 million), and shares of CHF 0.7 million (2017: CHF 0.7 million). The decrease in compensation compared to the previous year is due to the fact that three members of the Board of Directors stepped down with immediate effect at the Extraordinary General Meeting of June 11, 2018 and were replaced by one new member of the Board of Directors.

in CHF	Retainer (cash) <sup>1</sup>	Commit- tee fees (cash)	Value of shares <sup>2</sup>	Social security	<b>Total 2018</b>	Retainer (cash) <sup>1</sup>	Commit- tee fees (cash)	Value of shares <sup>2</sup>	Social security	<b>Total 2017</b>
Paul Hälg, Chairman	510,000	0	302,970	58,117	<b>871,087</b>	510,000	0	303,409	60,067	<b>873,476</b>
Urs F. Burkard, NCC Member	62,500	12,500	22,530	7,271	<b>104,801</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Justin M. Howell, NCC Member	87,500	27,500	30,135	0	<b>145,135</b>	0	0	0	0	<b>0</b>
Willi K. Leimer, AC Member	62,500	12,500	22,530	7,271	<b>104,801</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Monika Ribar, AC Chairwoman	150,000	50,000	52,665	18,817	<b>271,482</b>	150,000	50,000	53,055	19,212	<b>272,267</b>
Christoph Tobler, AC Member	150,000	30,000	52,665	17,345	<b>250,010</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Daniel J. Sauter, NCC Member	150,000	30,000	52,665	17,345	<b>250,010</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Ulrich W. Suter	150,000	0	52,665	13,551	<b>216,216</b>	150,000	0	53,055	12,570	<b>215,625</b>
Jürgen Tinggren	62,500	0	22,530	6,350	<b>91,380</b>	150,000	0	53,055	15,580	<b>218,635</b>
Frits van Dijk, NCC Chairman	150,000	50,000	52,665	16,963	<b>269,628</b>	150,000	50,000	53,055	15,973	<b>269,028</b>
<b>TOTAL</b>	<b>1,535,000</b>	<b>212,500</b>	<b>664,020</b>	<b>163,030</b>	<b>2,574,550</b>	<b>1,710,000</b>	<b>220,000</b>	<b>727,849</b>	<b>194,438</b>	<b>2,852,287</b>

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 compensation disclosed in the compensation reports always includes the respective calendar year (January to December). However, shareholders approve the compensation to be paid for the period between Annual General Meetings (May to April). The compensation paid for the periods between Annual General Meetings is disclosed below, including a comparison with the compensation amount approved by the shareholders. The amounts for the retainer in cash, the committee fees and the allocation of blocked shares have remained unchanged since 2012.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,530,000 for the Board of Directors for the term of office from the 2018 Annual General Meeting until the 2019 Annual General Meeting. The compensation effectively paid for the portion of this term of office included in this Compensation Report (May 1, 2018, until December 31, 2018) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2019.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,900,000 for the Board of Directors for the term of office from the 2017 Annual General Meeting until the 2018 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,864,340 and is therefore within the approved limits.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,870,000 for the Board of Directors for the term of office from the 2016 Annual General Meeting until the 2017 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,823,755 and is therefore within the approved limits.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,870,000 for the Board of Directors for the term of office from the 2015 Annual General Meeting until the 2016 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,849,185 and is therefore within the approved limits.

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 with 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 2018

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

In 2018, the members of Group Management received a total compensation of CHF 16.5 million (2017: CHF 18.7 million). This amount comprises fixed salaries of CHF 4.9 million (2017: CHF 5.5 million), short-term bonus of CHF 4.3 million (2017: CHF 5.1 million), long-term incentives of CHF 3.9 million (2017: CHF 4.1 million), other expenses of CHF 1.5 million (2017: 1.6 million) and contributions to social security and post-employment benefits of CHF 1.9 million (2017: CHF 2.4 million).

The highest paid individual in 2018 was Paul Schuler, Group CEO.

In CHF thousands	CEO 2018	CEO 2017	Total 2018 <sup>1</sup>	Total 2017 <sup>2</sup>
Fixed base salary <sup>3</sup>	960	790	4,914	5,469
Performance bonus (STI) cash <sup>4</sup>	710	601	2,987	3,865
Performance bonus (STI) shares <sup>4</sup>	568	476	1,279	1,263
Long-term incentive (LTI) <sup>5</sup>	1,004	1,009	3,858	4,103
Other payments <sup>6</sup>	115	44	1,507	1,610
Social security and pension contributions <sup>7</sup>	513	451	1,928	2,354
<b>TOTAL</b>	<b>3,870</b>	<b>3,371</b>	<b>16,473</b>	<b>18,664</b>

1) Includes nine members of Group Management on a full-year basis.

2) Includes eleven members, six of whom served during the full year 2017.

3) Includes annual base salary and children/family allowances. All compensation amounts are gross payments.

4) 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). Allocation at fair market value.

5) Grant value of the LTI in the reporting year (for newly promoted members, includes pro-rata participation in previous LTI that were still in the vesting period).

6) Includes all other benefits in kind, and perquisites at fair value such as service anniversary payments, including cost allowances (tax equalization, housing, schooling, home leave) for the international assignees and international transfers.

7) Includes social security contributions, as well as contributions to company provided pension plans, including the service cost to the pre-retirement plan.



Explanatory comments to the compensation table:

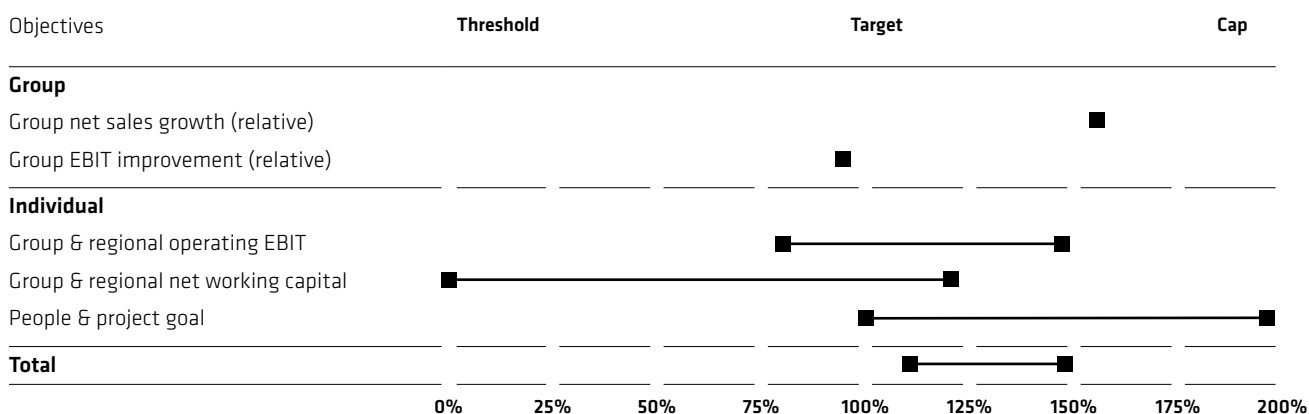
- The fixed compensation has decreased by 10% compared to the previous year. This is mainly due to the different composition of Group Management (nine members during the full year in 2018, versus eleven members in 2017, from which six were employed during the entire year). For the CEO, the fixed remuneration increased by 22% compared to previous year due to the full-year CEO position in 2018, while he was CEO for the half year in previous year (head of EMEA the other half year).
- The “other” payments have decreased by 6% in line with the above.
- The social security and pension contributions have decreased by 18% in line with the overall decrease in compensation mentioned above.
- The performance achievement under the performance bonus was lower in 2018 than in 2017. Further details are provided below.
- The grant value of the long-term incentive has decreased compared to the previous year by 6% in line with the above.

The total amount of compensation of CHF 16.5 million awarded to Group Management in 2018 is below the maximum aggregate amount of compensation of CHF 19 million approved by the shareholders at the 2017 Annual General Meeting for business year 2018.

### PERFORMANCE IN 2018 (NOT AUDITED)

The business year 2018 has been a strong year for Sika, with a 13.4% revenue growth (in local currencies 13.6%) and 5.5% profitability increase (earnings before interest and tax). In the performance bonus, Sika has outperformed the peer companies in terms of net sales growth (ranked 6th, payout of 157.5%) and matched the industry average in terms of EBIT improvement year on year (ranked 12th, payout of 99.4%). The group performance achievement is estimated at 119% (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 2019. This compares to a strong year 2017, where Sika outperformed its peers (6th rank on net sales growth and 7th rank on EBIT improvement), with a pay-out of 148.5%.

Individual performance, which is mainly measured by EBIT and net working capital improvement versus previous year, at Group and regional level, ranges from 105% to 200% for members of Group Management and amounts to 130% for the CEO. Consequently, the overall bonus payout percentage ranges from 111% to 150% (cap) for Group Management and amounts to 123% for the CEO. This compares to a payout range of 103% to 168% for Group Management and to a payout of 118% for the CEO in 2017 (average of target achievement as CEO and as Head EMEA).



In the Long-Term Incentive that has been granted in 2018 (LTI 2018–2020), 22,620 performance share units have been granted to the members of Group Management. Those PSU had an overall grant value of CHF 2.8 million and will vest on December 31, 2020, based on the average ROCE performance during 2018–2020 and upon the continuous employment of the participant.

In the long-term incentive that vested in 2018 (LTI 2016–2018), the performance condition of 28% average ROCE over the vesting period has been overachieved: The average three-year ROCE, excluding acquisitions, amounts to 30.6%, leading to a payout of 100% (cap). Therefore, the 24,000 units granted to the current members of Group Management (including the new CEO) have vested with a vesting value of CHF 3 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 (2016–2018).

OVERVIEW OF THE OUTSTANDING PSU GRANTS (INCLUDES MEMBERS OF GROUP MANAGEMENT AS OF DECEMBER 31, 2018)

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 2016	Group Mgt. (incl. CEO)	01.01.2016	2016–2018	31.12.2018	24,000	1,648,918	100%	24,000	2,999,400
	CEO	01.01.2016	2016–2018	31.12.2018	8,460	596,704	100%	8,460	1,054,116
LTI 2017	Group Mgt. (incl. CEO)	01.01.2017	2017–2019	31.12.2019	23,520	2,226,721	To be determined	To be determined	To be determined
	CEO	01.01.2017	2017–2019	31.12.2019	8,460	842,838	To be determined	To be determined	To be determined
LTI 2018	Group Mgt. (incl. CEO)	01.01.2018	2018–2020	31.12.2020	22,620	2,845,973	To be determined	To be determined	To be determined
	CEO	01.01.2018	2018–2020	31.12.2020	7,980	1,004,017	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).

\*\* Number of PSU after the share split following the Extraordinary General Meeting

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 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 2018

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At the end of 2018, members of the Board of Directors held a total of 206,240 bearer shares of Sika AG (2017: 197,520). At the end of 2018, members of Group Management held a total of 160,680 bearer shares of Sika AG (2017: 178,920). This figure includes both privately acquired shares and those allocated under the Group's compensation schemes.

At the end of 2018, 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 157 of the download version of this report).

### **EQUITY OVERHANG AND DILUTION AS OF DECEMBER 31, 2018**

In total as of December 31, 2018, the equity overhang, defined as the total number of share units and blocked shares outstanding divided by the total number of outstanding shares (141,781,160 registered shares) amounts to 534,690 units, 0.38%.

The company's "burn rate," defined as the number of equities (shares and share units) granted in 2018 (165,060 units) divided by the total number of common shares outstanding is 0.12%.

## OUTLOOK ON COMPENSATION ARCHITECTURE FOR 2019

### COMPENSATION OF THE BOARD OF DIRECTORS

Considering that the compensation of the Board of Directors has remained unchanged since 2012, the decision was made to conduct a benchmark analysis and to align compensation structure and levels to evolving market practice. Consequently, the compensation of the Board of Directors will be adjusted as follows, effective for the compensation period starting at the 2019 Annual General Meeting:

#### STRUCTURE OF BOARD COMPENSATION

in CHF	in cash	in shares
<b>Retainer (gross p.a.)</b>		
Chairman of the Board of Directors	450,000 + 30,000 allowances (currently 480,000 + 30,000)	450,000* (currently 300,000)
Members of the Board of Directors	125,000 (currently 150,000)	125,000* (currently 50,000)
<b>Committee fees (gross p.a.)</b>		
Committee Chairman	60,000 (currently 50,000)	
Committee members	40,000 (currently 30,000)	

\* Converted into shares based on 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 shares will be subject to a three-year blocking period (currently a four-year blocking period).

### COMPENSATION OF GROUP MANAGEMENT

Following the thorough review of the compensation system applicable to Group Management, the Nomination and Compensation Committee proposed several changes that were approved by the Board of Directors and that will be implemented as of business year 2019.

#### Performance bonus

The performance bonus will be fully paid out in cash. The voluntary deferral plan that allowed members of Group Management to invest either 20% or 40% of the performance bonus in blocked shares and to receive free matching shares, will be discontinued. This decision was made with the intention to simplify the overall compensation structure for members of Group Management with a clear distinction between short-term cash compensation (base salary and performance bonus) and long-term equity compensation (long-term incentive).

The performance measurement will continue to be based on relative Group performance (Obermatt benchmark) accounting for 60%, and on individual performance accounting for 40% of the total bonus opportunity. Individual performance will continue to include profitability (EBIT target of unit under responsibility) and individual objectives (People & Projects). The net working capital target will be applied selectively only considering that the company overall and all regions made substantial progress on working capital management over the last several years.

#### Long-term incentive

The long-term incentive plan has been enhanced with the introduction of relative total shareholder return (TSR) as a performance condition. Therefore, the vesting of the performance share units will be subject to the relative TSR performance with a weight of 50% and to the ROCE performance with a weight of 50%. ROCE will be measured as it was in the past (average of the three years of the vesting period). Relative TSR will be measured in relation to the peer group, following the same methodology as in the performance bonus, which means that the same peer group and the same payout curve will apply. For both performance conditions, the maximum achievement level will be capped at 200%, however the overall vesting level for the plan will be capped at 150% (currently: 100%). This is in line with the pay-for-performance philosophy of the company and prevalent market practice.

The relative TSR measure has been introduced to further strengthen the link between the compensation of Group Management and the interests of shareholders.

**Clawback and malus provisions**

Clawback and malus provisions are introduced in both the performance bonus and the long-term incentive plans. In case of financial restatement due to non-compliance to accounting standards or fraud, and/or in case of violation of law or of internal rules by a member of Group Management, the Board of Directors may deem any performance bonus payment and/or unvested PSU to forfeit (malus provision) or may seek reimbursement of any paid Performance Bonus and/or allocated shares under the long-term incentive (clawback provision) within a period of three years after the year of restatement or of the fraudulent/non-compliant behavior.

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

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

We have audited pages 81 to 83 of the Compensation Report of Sika AG for the year ended December 31, 2018.

#### 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, 2018, of Sika AG complies with Swiss law and articles 14–16 of the Ordinance.

Zurich, 20 February, 2019

ERNST & YOUNG LTD

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Licensed audit expert  
(Auditor in charge)

Marc Rügsegger  
Licensed audit expert

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