

SIKA BUSINESS YEAR 2017

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BUILDING TRUST



CORPORATE GOVERNANCE

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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 pre-

sented 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_reports/01.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 sig-

nificant 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 Hälgi	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 bi-monthly 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, regis-

tered 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 advice 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.

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