SIKA
BUSINESS YEAR
2017

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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 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 Group net sales Individual goals
Long-term incentive (LTI)	PSU with a 3-year performance vesting	Reward long-term performance Align to shareholders	Business performance over 3 years	Return on capital employed
Benefits	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 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)

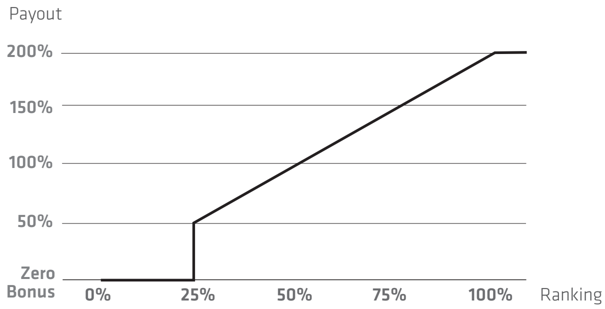
3M – Industrial & Transportations
Armstrong World Industries Inc.
Ashland – Performance Materials
BASF – Functional Solutions
Beacon Roofing Supply, Inc.
Beiersdorf – Tesa
Carlisle – Construction Materials
Cemedine Co., Ltd.
EMS Chemie Holding AG
Forbo – Flooring Systems
Fuller HB Company
Geberit
Grace – 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.

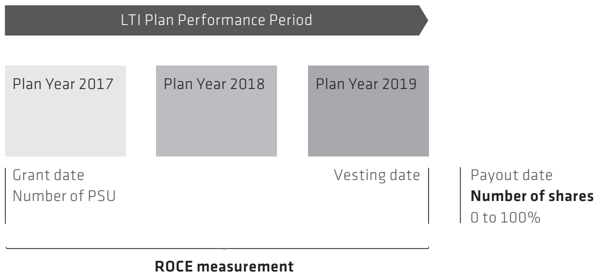
The long-term incentive plan is a performance share unit plan. At the beginning of the vesting period, a number of Performance Share Units (PSU) is granted to each member of Group Management. The PSU vest after a period of three years, conditionally upon fulfilling a performance condition, the return 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).

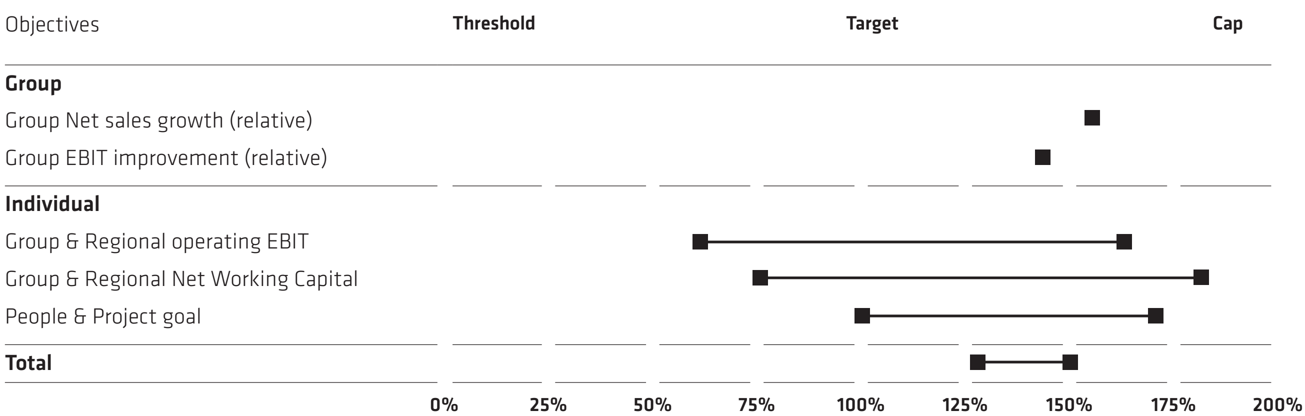
The total amount of compensation of CHF 18.7 million awarded to Group Management in 2017 is above the maximum aggregate amount of compensation of CHF 18 million approved by the shareholders at the 2016 Annual General Meeting for business year 2017. This is due to the appointment of three new members 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

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