

SIKA  
BUSINESS YEAR

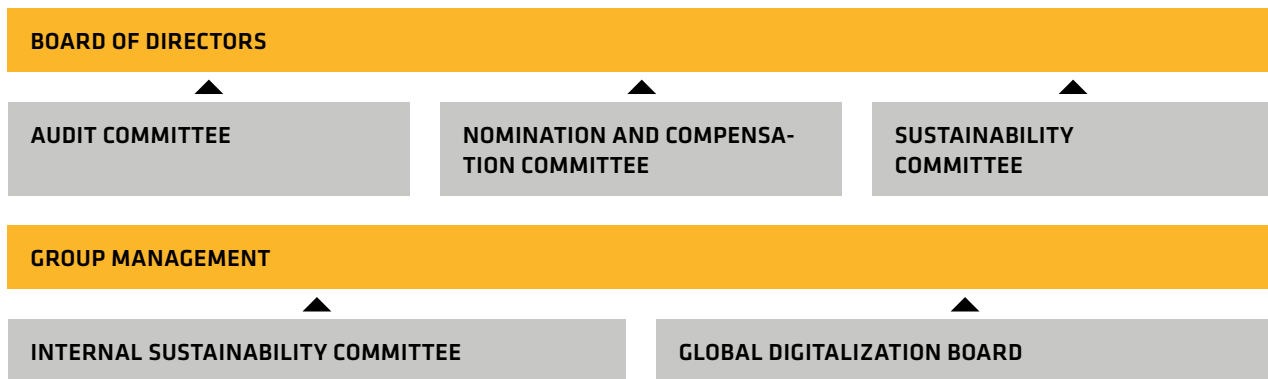
2022

# RISK MANAGEMENT AND TCFD RECOMMENDATIONS

As a global player in specialty chemicals, Sika is exposed to a variety of risks. To ensure the Group's freedom of action, safeguard its reputation, and protect the capital invested in Sika, the Group management must regularly analyze potential risks and integrate them into the strategic decision-making process. Sika recognizes that climate change is impacting the world, and it must be addressed in the risk management process and strategic planning. Evaluating how climate-related risks and opportunities affect Sika and developing appropriate response measures as recommended by the Task Force on Climate-related Financial Disclosures (TCFD) helps the company ensure long-term sustainable performance and business continuity. The company's disclosure will continuously develop since managing climate-related risks and opportunities evolves and reporting frameworks regarding climate-related financial disclosures are reinforced. Thus, Sika is applying a phased approach to integrat-

ing the recommendations of TCFD over time. In 2020, the company committed to reporting annually about issues that consider TCFD recommendations and disclosing a high-level analysis of two climate scenarios. In 2021, Sika presented its second annual disclosure by extending the analysis to three global warming scenarios and listing the related risks and opportunities that may arise. In 2022, the company worked to progress the implementation of TCFD recommendations by strengthening its 2022 scenario analysis with a focus on two scenarios (+1.5°C and +4.4°C), assessing financial implications of potential climate-related physical risks on manufacturing sites and reviewing the list of climate-related transition risks and opportunities. A summary of TCFD 2022 results and a mapping table are presented at the end of this chapter, while a detailed [TCFD report 2022](#) is available on the corporate website.

## GOVERNANCE: BOARD OF DIRECTORS, COMMITTEES, GROUP MANAGEMENT AND RELEVANT BODIES



The Board of Directors (BoD) is Sika's highest governing body and is responsible for the assessment of risk management. Its duties include the annual reassessment of the risk situation at Group level, and it is also the highest governance level of climate-related risks and opportunities. It is responsible for reviewing and endorsing the implementation of sustainability policies, while the Chair of the Board oversees climate-related topics by receiving regular updates from the Group Management. The Chair of the Board is permanently invited to add climate-related topics to the agenda of the Chief Executive Officer (CEO) and the BoD. The Board of Directors is committed to the Science Based Target initiative (SBTi) to achieve net zero greenhouse gas emissions by 2050.

The Board of Directors relies on three committees:

- 1) The Audit Committee (AC) approves the annual audit plan and Internal Audit conducts audits accordingly. The AC then reviews the results of internal and external audits, the Enterprise Risk Management report, and monitors the implementation of corrective actions. Internal Audits cover a broad set of processes in the areas of sales, accounts receivable and accounts payable management, product development, purchasing, production, quality control, inventory management, financial and operational reporting, compensation and benefits, and IT management. Furthermore, conducting internal audits focused on non-financial information, the AC verifies the company's alignment with its sustainability strategy. The Internal Audit function reports to the Audit Committee. The governance structure, compliance with the Code of Conduct, and the internal control system are assessed at Group level.

In addition to audits of the operating companies, regular in-depth audits are carried out in headquarter functions and Group-wide support processes. Internal Audit is an instrument of the Board of Directors and Reports to the Audit Committee. The committee convenes at the request of its chairperson as often as business demands. Customarily, the Chair of the Board of Directors, the Chief Financial Officer (CFO), and the CEO take part in these meetings in an advisory capacity. In the year under review, the Audit Committee met six times. More information is provided in the Corporate Governance Report on p.166.

- 2) The Nomination and Compensation Committee (NCC) is responsible for succession planning, assessments, and the compensation strategy and remuneration system at the level of the Board of Directors and Group Management. In the year under review, the NCC met five times. More information is provided in the Corporate Governance Report on p.166. The Group Management's performance is evaluated based on achievements related to strategic targets, including ESG (environmental, social, and governance) targets such as climate performance, and health and safety. This is explained in more detail in the Compensation Report on p.177.
- 3) The Sustainability Committee (SC) consists of three Board members with expertise in different areas of ESG. The group prepares sustainability-related topics for discussion and decision-making in the Board. The Sustainability Committee focuses on the following four areas: ensuring a formal ESG risk and opportunity assessment, including the materiality analysis; setting measurable goals that are aligned with the strategy; organizing and allocating resources; and providing the appropriate reporting and communication with stakeholders. In the year under review, the SC met four times. More information is provided in the Corporate Governance Report on p.166.

Group Management regularly reviews the processes underlying risk management, and it is responsible for the development and implementation of actions to address risks (including climate-change-related risks) in line with the defined sustainability strategy and targets. Group Management is responsible for risk management at the highest executive level and gives regular updates to the Board. Risk management (including climate-change-related risks) falls under the domain of the Corporate Finance department, headed by the CFO. The CFO oversees financial and non-financial information and data, while Mergers & Acquisitions (M&A) reviews and consultations take place as part of the due diligence process.

Two bodies ensure that sustainability-related aspects are considered in the Group's strategy and operations:

- 1) The internal Sustainability Committee, established in 2021, coordinates all sustainability-related projects aimed at achieving sustainability targets and monitoring proper implementation of the sustainability strategy throughout the Group. It also prepares the decision-making of Group Management on such topics. The Committee is chaired by the Chief Innovation and Sustainability Officer and meets monthly. It includes the following corporate functions: Innovation and Sustainability, Operations, Quality & EHS, Communications & Investor Relations, Controlling, Mergers & Acquisitions, Human Resources and Compliance, Procurement, Marketing and Target Markets.
- 2) The Global Digitalization Board was established in 2020 in response to the increasing relevance of topics like digitalization and cyber security. Digitalization is one of the three major societal challenges of the 21<sup>st</sup> century, alongside climate change and growing social inequalities. For this reason, it has become a major topic of responsible investment and environmental, social, and governance (ESG) analysis. For more information, please read the "Digitalization and IT landscape" chapter in the Sustainability Report on p.140.

#### **SIKA'S RISK MANAGEMENT FRAMEWORK**

Sika has a comprehensive risk management system structured at Group level which is effective for all its subsidiaries. Risks are identified at an early stage and integrated into strategic decision-making processes. Risk management helps identify new opportunities and adds value to the business. Sika's risk management framework is in line with the Enterprise Risk Management (ERM) framework. It ensures that business objectives can be achieved and obligations to customers, shareholders, employees, and society can be met. Climate-related risks are integrated into the ERM framework since any unexpected climate-related disasters, and corresponding economic fluctuations, might have an impact on global and local markets. Locally, climate-related risks are evaluated by EHS and Operations Managers in collaboration with Regional Operations Managers and General Managers (GMs). GMs consolidate all risks falling under their domain and via the Area Managers report to their Regional Managers. All Regional Managers are part of the Sika Group Management. The information is consolidated at corporate level and aligned with the overall strategy.

## TRAININGS DEDICATED TO RISK MANAGEMENT

The governance structure fosters the buildup of expertise to evaluate the impact of unexpected risks. In 2022, regular risk management education was provided for staff at various levels within the company.

### FOR EXECUTIVE MANAGERS

- Business ethics and anti-corruption: Sika's Senior (SSM) and General Managers (GMs) as well as the participants of Regional or Global Leadership Programs are invited regularly to participate in anti-corruption trainings. The targeted trainings are delivered either face-to-face or online (via virtual workshops or focused e-learning). In 2022, Sika organized 17 training courses for a total of 560 SSMs, GMs, Regional and Global Leaders.
- Sustainability and climate change: During 2022, several official meetings were organized to allow Sika's management to discuss the topic of sustainability and climate change. For instance, in September, the Board of Directors visited the Sika Global Technology Center in Lyon (France), meeting the General Manager and employees to address topics like health and safety, and sustainability through innovation. Moreover, the BoD visited the warehouse of a Sika distributor and a Sika production site. In Paris, the BoD visited construction projects where advanced, sustainable building methods are implemented, and a wide range of Sika solutions are used. In the same month, the company organized the Sika Senior Management Meeting (SSMM), where the BoD, Group Management, and all Sika Senior Managers took part in several sessions focusing on ESG-related topics, scope 1, 2, 3 emissions and the development of the net zero roadmap.

### FOR ALL EMPLOYEES

- Business ethics and anti-corruption: All sales, procurement, finance, and R&D employees are regularly invited to participate in anti-corruption training. The targeted training is delivered either face-to-face or online (via virtual workshops or focused e-learning). In 2022, hundreds of local employees were re-assigned the global anti-bribery and anti-corruption e-learning course. In addition, nearly 100 focused face-to-face and online compliance trainings were offered to nearly 4,000 employees exposed to ABC risks.
- Ethical leadership, speak-up culture, incident management: In 2022, Sika organized hundreds of local, regional and corporate training courses for thousands of employees including controllers, procurement managers, HR managers and regional and local compliance officers. GMs around the world confirmed that they organized at least one local ethics & speak-up training for all their employees in 2022.
- Innovation and sustainability: In October 2022, representatives of Sika Technology Centers worldwide gathered at the Technology Center Management Meeting (TCMM) in Konstanz, Germany. Seminars and workshops were focused on multiple aspects of innovation, sustainability, collaboration, and digitalization. Safety at Work, Sustainability and Compliance, Risk Management and levers for product development supporting net zero were important parts of the agenda too.
- Product development and marketing: Sika operates a global

program to minimize the risks in advisory and sales activities that could generate product complaints. Thanks to various measures, including regular employee training, clearly formulated standards, detailed causal analyses, and stricter controls, expenditure for product-related claims has steadily declined. To avoid the risk of customers using Sika's products incorrectly, Sika provides systematic instructions, application training, and support to customers, as well as extensive documentation and quality control.

- Cyber security risks: Sika provides its staff with the requisite training, and it has reinforced its IT organization within the Group accordingly. The measures to combat and defend against such attacks are continually being reviewed with the help of external specialists and adapted in line with any new situations that may arise. All Sika employees must complete the IT Security E-Learning yearly.
- Supplier engagement and assessment: In 2022, internal trainings were provided to around 50 employees working in the procurement function to improve their skills in fostering suppliers' engagement and implementing supplier sustainability assessments within the framework of the "Together for Sustainability" (TfS) initiative.
- Supplier auditor training program: The program is an internal initiative conducted over two days of training for procurement, technical experts, and quality responsible. It is part of the Sika Audit Charter and covers scope, procurement process, supplier audit process, audit technique, audit checklist, reporting, and a personalized workshop on audit planning. In 2022, three online training courses were executed covering all regions and business units. 140 Sika employees successfully completed this training.

## TOP RISKS

Sika's risk management process is reviewed regularly, allowing the company to better identify potential risks and establish well-structured mitigation practices. Sika continues to use this process stringently to ensure that any potential risk for the company and its customers is mitigated. The list of top risks was approved by the Board of Director and Audit Committee in October 2022.

Top Risk	Description	Risk Mitigation	Trend	Status
<b>CATEGORY: STRATEGIC</b>				
<b>Pressure on margins</b>	Supply chain disruptions, raw material price increases may lead to pressure on margins.	<ul style="list-style-type: none"> <li>– Sika actively manages the material margin through value and system selling, continued sales price increases, and product formulation optimizations, combined with a Group-wide coordinated procurement process.</li> <li>– Sika maintains Group-wide systems to monitor raw material prices and sales prices to measure and manage the material margin.</li> </ul>	↗	<b>Mature</b>
<b>Changing EHS requirements and regulations for products</b>	Changing EHS-related customer requirements and regulations for products, product solutions and production processes. Net zero commitments of regions and countries will drive regional and local compliance.	<ul style="list-style-type: none"> <li>– Close monitoring of regulatory changes with the help of a global network of experts and the close involvement of relevant commercial and technical functions.</li> <li>– Regular communication to global/regional/local functions.</li> <li>– As part of the due diligence process for acquisitions, potential targets are examined to ensure that they operate in full compliance with prevailing laws and regulations.</li> <li>– As part of the capital investment process, attention is given to zoning compliance, production processes and regulatory requirements.</li> <li>– Ensure compliance of raw materials and products to regional and local laws and regulations.</li> <li>– Sustainability targets are aligned with accepted practice and a clear improvement path, including the net zero commitment.</li> </ul>	↗	<b>Mature</b>
<b>Country risks</b>	Political and economic instability.	<ul style="list-style-type: none"> <li>– Constant monitoring of development in the critical countries.</li> <li>– Implement risk-reducing measures.</li> <li>– Review investment/acquisition strategy in affected countries.</li> </ul>	↗	<b>Mature</b>

Top Risk	Description	Risk Mitigation	Trend	Status
<b>Climate change risk</b>	Climate change is increasing the frequency and severity of extreme weather events and reducing the availability of natural resources. Increasing awareness about the severe consequences of climate change will lead to changes in consumption and investment behavior, which can lead to increased business costs for additional transparency, due diligence, reporting, R&D, and innovation.	<ul style="list-style-type: none"> <li>– Sika committed to the Science Based Targets initiative to achieve net zero by 2050. The company is currently developing a CO<sub>2</sub> emissions reduction roadmap (scopes 1, 2 and 3) with mid-term (2030) and long-term (2050) targets.</li> <li>– Ongoing company-wide initiative to systematically identify and calculate emissions from material scope 3 GHG categories in accordance with the requirements of the Greenhouse Gas Protocol (GHGP).</li> <li>– Reporting in accordance with TCFD recommendations to assess and quantify the impact of climate change on Sika's business.</li> <li>– Operational efficiency programs implemented worldwide to reduce CO<sub>2</sub> emissions, energy, and water consumption.</li> <li>– Sika cooperates with its suppliers to improve factory resource efficiency, which can help maintain production capacity and manage costs through regional water and energy shortages.</li> <li>– Sika focuses its research on better understanding how consumers may be affected by environmental change, and therefore, the company can better anticipate needs and offer sustainable solutions.</li> </ul>	↗	<b>Mature</b>
<b>Multipolar world</b>	Geopolitical instability and a rise in protectionism may impact international trade and the global economy.	<ul style="list-style-type: none"> <li>– Maintain and reinforce geographical balance of the businesses across regions and countries.</li> <li>– Maintain an agile supply chain to mitigate single source supply and to react rapidly to supply chain disruptions, changes in tariffs and sanctions.</li> <li>– Centralization of key technologies and intellectual proprietaries at Sika Technology to protect Sika's core values.</li> <li>– Strengthen capabilities of local organizations to maintain know-how locally.</li> </ul>		<b>Emerging</b>
<b>CATEGORY: OPERATIONAL</b>				
<b>Product-related claims</b>	Selling of products carries the risk of product-related claims.	<ul style="list-style-type: none"> <li>– To properly control risk, a strict Product Creation Process (PCP) is established within Sika (including the SPM framework).</li> <li>– Long-term behavior of products is tested in technical service depending on the real application.</li> <li>– Proper quality control is set up in production.</li> <li>– Regular training of employees ensures the necessary competence.</li> <li>– Corporate technical services define the needs of the regional and local organizations, and check compliance with specifications.</li> <li>– To avoid the risk of customers using Sika's products incorrectly, Sika provides systematic instructions, application training, and support to customers.</li> <li>– Sika is continuously improving systems and processes to have proper and up-to-date product documentation across multiple channels.</li> </ul>	→	<b>Mature</b>

Top Risk	Description	Risk Mitigation	Trend	Status
<b>Talent shortage</b>	Challenge to attract and retain talent. Sika's growth and the diversification of the markets will require a strong pipeline of future successors for business-critical key positions.	<ul style="list-style-type: none"> <li>– Sika's Talent Management across global, regional, and local levels prepares its workforce for challenging tasks. Solid performance, succession, and development processes foster a high-performance organization and a unique leadership culture.</li> <li>– Embed the Sika employer brand in all recruitment activities and redefining the recruitment strategy of talent at all hierarchy levels.</li> <li>– Conduct an annual talent review of Corporate/Regional Management with a focus on succession planning for business-critical key positions.</li> <li>– Conduct an annual talent review of Corporate/Regional Management with a focus on succession planning for business-critical key positions.</li> <li>– Policies for international assignments should provide more flexibility and adapt to the business needs.</li> <li>– Integrate SuccessFactors as a global HRIS database to enhance people analytics and provide cross-regional alignment across the talent population.</li> </ul>	→	<b>Mature</b>
<b>Business interruption</b>	Business interruptions can jeopardize daily business continuity and impact operational business profit.	<ul style="list-style-type: none"> <li>– Implement Crisis Management on country level for a swift adaptation to meet country-specific events and regulations.</li> <li>– The Corporate Crisis Management organization steers and monitors execution on local level.</li> <li>– Ensure sufficient liquidity of the Sika Group and subsidiaries with diverse sources of funding from either capital markets or local banks.</li> <li>– Maintain a corporate insurance program with worldwide coverage.</li> </ul>	↓	<b>Mature</b>
<b>Supply chain – direct material sourcing</b>	Sourcing of critical direct materials could be at risk due to single-sourced material, supplier discontinuity and capacity shortage.	<ul style="list-style-type: none"> <li>– All materials are systematically evaluated within Sika to identify potential risks and to develop mitigation plans accordingly. These plans contain short-term mitigation strategies, such as safety stocks, and long-term crisis management plans including approval of alternatives and closer collaboration with suppliers.</li> <li>– In the case of key raw materials with limited availability or large purchase volumes, Sika mandates at least two suppliers whenever possible.</li> <li>– For unique, highly innovative technologies, Sika seeks to manufacture raw materials itself, or source them in close collaborative partnerships with innovative suppliers.</li> <li>– Sika's procurement specialists and technical experts work closely with suppliers' technical units to fully understand the raw material flows, and continually optimize costs, quality, availability, and sustainability.</li> <li>– To reduce its dependency on crude oil, Sika is increasingly relying on renewable raw materials, such as sugar derivatives, bioethanol derivatives, and natural oils. Moreover, recycled raw materials are used wherever possible, and many production plants implement their own, or externally operated, recycling loop systems.</li> <li>– In respect of all the materials used, compliance with the relevant statutory registration requirements (e.g., REACH or TSCA) is monitored and ensured by a network of global and local specialists, as well as external consultants.</li> </ul>	↗	<b>Mature</b>

Top Risk	Description	Risk Mitigation	Trend	Status
<b>Cyber security risk</b>	International Corporations are exposed to cyberattacks which can be any type of an offensive maneuvers that target computer information systems, infrastructures, computer networks, and/or personal computer devices by various means of malicious acts.	<ul style="list-style-type: none"> <li>– Sika has established a comprehensive Cyber Incident Management Framework and processes for effective cyber response and IT Continuity Planning.</li> <li>– The company constantly assesses its cyber maturity.</li> <li>– Building up internal cyber security skills that are backed up by support from external specialists.</li> <li>– Regular training of the Sika workforce on developments in cyber risks and the correct way to counter these risks.</li> </ul>	→	<b>Mature</b>
<b>Technology risk for PU &amp; SMP sealant products</b>	The risk that innovations or other market developments would have a severe effect on the product offering.	<ul style="list-style-type: none"> <li>– Develop technologies with the same performance and better EHS or sustainability footprint.</li> <li>– Sika is well-positioned with future-proof Purform technology, water-based systems, and sustainability initiatives.</li> </ul>	→	<b>Mature</b>
<b>CATEGORY: FINANCIAL</b>				
<b>Impairments</b>	The risk that tangible and intangible assets may be impaired with a corresponding negative P&L impact. In volatile markets, there is a risk that acquisitions will not perform according to the business plan/valuation, and therefore, finances may be impaired.	<ul style="list-style-type: none"> <li>– Sika focuses on continued strong cash flow generation of all operational entities aligned with the strategy and Group targets.</li> <li>– Group-wide reporting and controlling systems are used to track business development, to quickly identify shortcomings and to swiftly initiate corrective actions.</li> <li>– The integration of acquisitions is monitored very closely by a dedicated integration management team.</li> </ul>	↗	<b>Mature</b>
<b>Currency fluctuation/ FX risk</b>	Volatility of foreign currencies and uncertainty in financial markets.	<ul style="list-style-type: none"> <li>– Report and constantly monitor the FX exposure of Sika Group. Appropriate actions taken whenever required.</li> <li>– FX exposures related to IC Financing are fully hedged.</li> <li>– Group internal transactions are netted monthly and hedged at the corporate level.</li> <li>– All other FX exposures are kept at a minimum.</li> </ul>	→	<b>Mature</b>
<b>Tax risk</b>	Uncertainty associated with tax matters, liabilities resulting from changes in legislation, interpretation of existing tax rules and regulations, and/or audits or litigations. Government authorities in the countries where Sika operates may increase or impose new taxes or revise the interpretations of existing tax rules.	<ul style="list-style-type: none"> <li>– Risks are assessed on a regular basis considering ongoing developments with tax audits and tax cases, as well as any changes in legislation and tax laws.</li> <li>– Sika's Tax Policy provides binding rules for all countries where Sika operates. These rules are aligned with the Organisation for Economic Cooperation and Development (OECD) and local arm's-length standards.</li> <li>– The Group Tax team continuously works with Internal Control on aligning, improving, and implementing processes and controls within Group Tax and countries. It also continuously develops the right skills in-house.</li> </ul>	→	<b>Mature</b>
<b>CATEGORY: ORGANIZATIONAL</b>				
<b>Reputation risk</b>	Reputation damage due to any substantial incident or personal misconduct.	<ul style="list-style-type: none"> <li>– The Sika Code of Conduct and Sika's Values and Principles provide clear standards for employee integrity and ethical conduct. All employees and new joiners are trained on the Code of Conduct and on how to use the Sika Trust Line (whistleblower line).</li> <li>– A comprehensive, Group-wide compliance program is in place.</li> <li>– External tools support the monitoring and managing of potential reputational issues.</li> <li>– There is zero tolerance for compliance violations. Compliance violations lead to consequent imposition of sanctions.</li> </ul>	↗	<b>Mature</b>



Top Risk	Description	Risk Mitigation	Trend	Status
<b>Hostile takeover/ activism</b>	Companies are increasingly targeted by unfriendly actions of investors or third parties to influence the strategic direction of the company or launch hostile take-over attempts.	<ul style="list-style-type: none"> <li>– Continuously monitor the market, maintain close contact with investors, review of Sika's performance and rely on crisis management plans in an emergency to reduce risk.</li> </ul>	→	<b>Mature</b>
<b>Loss of Sika's unique culture/ entrepreneurship</b>	Sika's unique corporate culture can be defined as a Unique Selling Proposition (USP). The fast pace of acquisitions brings new employees on board regularly. This constantly changing work environment requires proactive and dynamic management to mitigate the risk of diluting the corporate culture. Factors that accelerate the immediate need for actions are, amongst others, an increasing digitalization of the workplace and business model (remote work, less travelling), the need to align working environments among various cultures and to engage different generations.	<ul style="list-style-type: none"> <li>– Preserve Sika's unique culture and the high employee engagement through global initiatives: e.g., rollout and implementation of the new Global Leadership Commitment Campaign; annual, global celebration of the Sika culture on the Sika Day.</li> <li>– Embed Sika's Values and the Leadership Commitment Framework in the entire employee life cycle.</li> <li>– Regular training of all Sika managers to "walk the talk" within their departments through designated workshops on the Leadership Commitment pillars on a country level.</li> <li>– Hire, reward, and promote people based not only on traditional measures, but also on qualitative criteria that demonstrate the Sika Spirit.</li> <li>– Ensure an inclusive work environment and a clear communication about the Sika culture/values/leadership when welcoming and onboarding acquired employees.</li> <li>– Continue to invest in employees' learning and development, internal promotions/careers, and international professional exposure/assignments.</li> </ul>	↗	<b>Mature</b>

## FOCUS: CLIMATE CHANGE

As recommended by the TCFD, Sika monitors the impact of climate-related risks and opportunities on its business through the company risk management framework and strategic planning. Sika understands that climate change is still an evolving topic that requires regular climate impact analysis with further implications on business, strategy, and reporting robustness. Assessing climate-related risks under different scenarios helps Sika to better understand the implications on its current business model and to drive the respective mitigation activities.

To face the global challenge, Sika is addressing climate change comprehensively in its strategy with its commitment to become a net zero company. Since 2019, Sika has defined a strategic target for reducing scope 1 and 2 CO<sub>2</sub>e emissions by 12% until 2023. Moreover, the compensation scheme of Group Management and Sika Senior Managers is linked to the CO<sub>2</sub> performance of the company (scope 1 and 2). In October 2022, Sika finalized a two-year company-wide initiative to systematically identify and calculate emissions from its material scope 3 GHG categories. The continuous assessment and reporting of overall scope 1, 2 and 3 emissions will contribute to the definition of Sika's climate strategy and carbon reduction pathway to reach net zero by 2050. More information on Sika's Net Zero commitment is available in the "Planet" chapter, "Climate Change" section on p.88 of the Sustainability Report 2022. Sika's detailed 2022 [TCFD Report 2022](#) is available in the download center of the corporate website.

In 2022, Sika strengthened its scenario analysis with a focus on two scenarios for 2050 (+1.5 °C and +4.4 °C) for its transition and physical risks<sup>1</sup>. A first assessment of climate-related physical risks on manufacturing sites and the respective financial implications related to turnover and assets was conducted for both scenarios. Physical risks will increase significantly in a +4.4°C trajectory in 2050 compared to a +1.5°C scenario. With more than 300 production sites globally there are regional variations in exposure to risk and intensity. This first quantification demonstrates that the financial impact for Sika would not significantly change in a +4.4°C scenario in 2050 compared to today's baseline. In fact, compared to the baseline, maximum revenues at risk would slightly reduce by -0.2% while the share of assets at risks would remain the same at Group level.

The list of climate-related transition risks and opportunities disclosed in 2021 for both scenarios was again analyzed in 2022 and has been reviewed by an internal cross-functional team. Considering Sika's commitment to SBTi and its target to become a net zero company by 2050, there will be various transition risks and opportunities in a +1.5°C aligned scenario. Sika has identified various external factors which create risks and opportunities arising from efforts to address environmental change, including, but not limited to, abrupt or disorderly introduction of public policies, technological changes, shifts in consumer demand, investor sentiment, and disruptive business model innovation. By offering products and solutions for durable, resource-saving buildings and infrastructure, the company can help customers implement measures to prevent and mitigate adverse effects of climate change in all regions.

In order to limit global warming to +1.5°C, significant changes in legislation, policy and technology will be required. These changes in market dynamics will impact Sika's business practices. The efforts required to align with this +1.5°C trajectory represent transition risks and opportunities. In a +4.4°C world however, the significant impact lies mainly in potential business interruption arising from a continued increase in severe physical climate events, which outweigh transition efforts.

<sup>1</sup> In 2021, Sika focused its analysis on three scenarios (1.5°C, 2.7°C, and 4.4°C). Based on the conclusions of this first qualitative assessment, Sika decided to exclude the 2.7°C scenario for further analysis since the most significant risks lie in the two extreme scenarios (1.5°C and 4.4°C).

## TCFD MAPPING TABLE

In accordance with the recommendations of the TCFD, the table is divided into the governance, strategy, risk management, metrics and targets areas, and the eleven recommended disclosures. The table shows in which report, chapter, section or link the specific information can be found.

Areas	Recommended Disclosures	Annual report reference pages/links
<b>Governance</b> Disclose the organization's governance around climate-related risks and opportunities.	a) Describe the Board's oversight of climate-related risks and opportunities.	p.25-26 <a href="#">Board of Directors</a>
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	p.25-26 <a href="#">TCFD Report 2022</a>
<b>Strategy</b> Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	p.33 <a href="#">TCFD Report 2022</a>
	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	p.33 <a href="#">TCFD Report 2022</a>
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	p.33 <a href="#">TCFD Report 2022</a>
<b>Risk management</b> Disclose how the organization identifies, assesses, and manages climate-related risks.	a) Describe the organization's processes for identifying and assessing climate-related risks.	p.33 <a href="#">TCFD Report 2022</a>
	b) Describe the organization's processes for managing climate-related risks.	p.25-26
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	p.26
<b>Metrics and targets</b> Disclose the metrics and targets set to manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	<a href="#">TCFD Report 2022</a>
	b) Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks.	p.90-92 <a href="#">Sika Methodology for Scope 3 Emissions Calculation</a>
	c) Describe the targets set by the organization to manage climate-related risks and opportunities and performance against targets.	p.19, p.187