

NOTE ON RESOLUTION 5.1 – ADVISORY VOTE ON COMPENSATION REPORT 2018

ISS has recommended to vote AGAINST the proposal of the Board of Directors with regard to Resolution 5.1, i.e. the approval (advisory vote) of the compensation report 2018. ISS mentions the following reasons for their AGAINST recommendation:

- *The introduction of the TSR criterion under the LTIP will allow for vesting at below peer-median performance levels and the company is increasing the cap on overall total vesting under the LTIP from 100 to 150 percent of the target grant.*
- *Based on available information, it is impossible to exclude that higher payouts under the new plan are counterbalanced by more rigorous target setting.*

On the other hand, ISS also mentions that *some shareholders may wish to support this item because the company provides reasonable assurance that ROCE targets are rigorous.*

ISS considers a ‘LOW Concern’ on the CEO pay-for-performance (on a rating scale from Low, Medium to High Concern) in the pay-for-performance assessment of their report.

Sika asks its shareholders to consider the following elements before casting their vote:

Performance measurement and rigorous target setting:

- Sika has been disclosing the prospective target for ROCE under the LTIP for seven years. As rightly noted by ISS, such disclosure goes beyond market practice in Switzerland where companies generally do not disclose their actual target setting. Sika has continuously demonstrated a rigorous target setting in the past with a ROCE target of 20% for the LTI awards granted in 2012, 2013 and 2014, up to a ROCE target of 30% for the LTI award granted in 2018. The ROCE performance increased substantially over that period of time and a ROCE of 30% can be considered quite extraordinary compared to peer companies and industry standards. In its report, ISS recognizes the rigorous target setting in the past.
- The relative TSR target has been added to the LTIP in order to strengthen the link between executive compensation and shareholders’ returns. The set objective is to reach the median of the peer group. Statistically speaking, the probability to reach median performance amounts to 50% (i.e., by definition, 50% of companies perform below median and 50% of companies perform above median).
- Sika is aware of the ISS guideline requesting a zero payout for below-median performance. However, it is not the compensation strategy at Sika to design incentive

plans that are set to not pay out in 50% of the cases or that have extreme leverages (“all or nothing” plans). The leverage in the incentive plans is kept at a conservative level. This means that a minimal payout is possible in case of performance below target, while there is no payout below a certain threshold performance. On the other side, a maximum payout of 150% applies in case of extraordinary performance. This plan design combines both the pay-for-performance philosophy of the company and its commitment to sustainable compensation programs that do not set unintended signals to management or wrong incentives.

- The same payout curve which is proposed to measure the relative TSR performance in the LTIP has been used for over seven years in the short-term incentive plan (STIP) to measure the relative performance of Sika in terms of revenue growth and EBIT growth. There is a clear and robust link between company performance and executive compensation in those past years and even in years of extraordinary performance, the incentive plans never generated unreasonable payouts.
- As a final note on the topic of performance management and target setting, Sika is one of the few Swiss listed companies where the performance of executives is measured compared to peer companies to a large extent (60% of the STIP in the past seven years and as of 2019, 50% of the LTIP). Again, this is a commitment to pay for “true” performance rather than for achieving own-set targets.

Maximum payout potential

- The increase of the maximum payout potential from 100% to 150% in the LTIP is in line with the pay-for-performance philosophy of the company and with current market standards, where the maximum payout in LTI plans usually amounts to 150% to 200% of target. Again, Sika is committed to design incentive plans with reasonable leverage that reward for outperformance and yet do not set wrong signals or generate unreasonable payouts.

The re-design of the LTIP, and the incentive plan design overall, is well balanced and aligned with shareholders’ interest. While there is a strong link between the company’s performance and executive compensation, incentive plans never generated unreasonable payouts.

Sika therefore asks its shareholders to vote FOR resolution 5.1, in accordance with the recommendation of the Board of Directors.