# SIKA BUSINESS YEAR 2021

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BUILDING TRUST

# RISK MANAGEMENT AND TCFD RECOMMENDATIONS

As a global player, Sika is exposed to a variety of risks. Ensuring the Group's freedom of action, safeguarding its reputation, and protecting the capital invested in Sika requires the timely analysis of potential risks and their integration into strategic decision-making processes. Sika also recognizes that climate change will have an impact on the world it is operating in, and it therefore needs to be addressed in the risk management process and the strategic planning. Evaluating climate-related risks and opportunities related to its business and developing appropriate response measures, as required by the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, are of vital importance to ensure long-term sustainable performance and the business continuity of Sika. Disclosures recommended by the TCFD are presented in different sections throughout this Annual Report 2021. The following "TCFD Mapping Table" shows the sections in which the relevant information can be found. In accordance with the recommendations of the TCFD, the table is divided into the four areas of governance, strategy, risk management, key figures and targets, as well as the eleven recommended disclosures.

**TCFD MAPPING TABLE**

| Areas | Recommended Eleven Disclosures | Sections |
|---|---|---|
| **Governance**<br>Disclose the organization's governance around climate-related risks and opportunities | a) Describe the board's oversight of climate-related risks and opportunities | "Risk Management and TCFD Recommendations" chapter, p.24–25. |
| | b) Describe management's role in assessing and managing climate-related risks and opportunities | "Risk Management and TCFD Recommendations" chapter, p.25. |
| **Strategy**<br>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 | "Risk Management and TCFD Recommendations" chapter, p.28, 36–44. |
| | b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning | "Risk Management and TCFD Recommendations" chapter, p.32.<br>Sustainability Report 2021, "Products" chapter, p.127–137. |
| | c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario | "Risk Management and TCFD Recommendations" chapter, p.33–36. |
| **Risk management**<br>Disclose how the organization identifies, assesses, and manages climate-related risks | a) Describe the organization's processes for identifying and assessing climate-related risks | "Risk Management and TCFD Recommendations" chapter, p.25–26.<br>Sustainability Report 2021, "Suppliers" chapter, p.98–101, "Planet" chapter, p.111–113, 118–126. |
| | b) Describe the organization's processes for managing climate-related risks | "Risk Management and TCFD Recommendations" chapter, p.24–26. |
| | c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management | "Risk Management and TCFD Recommendations" chapter, p.26, 28. |

| Areas | Recommended Eleven Disclosures | Sections |
|---|---|---|
| **Metrics and Targets**[1] Disclose the metrics and targets used to assess and 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 | "Risk Management and TCFD Recommendations" chapter, p.24. Sustainability Report 2021, "Strategic Foundation" chapter, p.59–60. |
| | b) Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks | Sustainability Report 2021, "Planet" chapter, p.121–124. |
| | c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets | Sustainability Report 2021, "Strategic Foundation" chapter, p.59–60. Compensation Report 2021, p.174–175. |

1 In the TCFD publication Guidance on Metrics, Targets, and Transition Plan (available at https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf) the Task Force has identified seven categories of climate-related metrics from the eleven recommended disclosures and guidance for all sectors that all organizations should disclose, recognizing that for some categories, implementation may take time as data and methodologies evolve. These categories are: GHG Emissions, Transition Risks, Physical Risks, Climate-related Opportunities, Capital Deployment, Internal Carbon Prices, and Remuneration. For this year, Sika has decided not to further develop the "Metrics & Targets" table published in 2020 and instead refers to those sections of the Annual Report 2021 which fully or partially cover five of the seven categories identified by the Task Force: GHG Emissions, Transition Risks, Physical Risks, Climate-related Opportunities, and Remuneration.

## GOVERNANCE: BOARD OF DIRECTORS, 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 re-assessment of the risk situation at Group level. All risks, namely both financial and non-financial ones, are assessed based on the following key questions:

- Does the risk persist on a global or regional level?
- What implications does the risk have for the Group?
- What is the probability of losses occurring?
- What measures need to be implemented to prevent the risk or mitigate its consequences?

If a risk is rated critical in the overall assessment, effective measures are then taken to reduce the probability, prevent its occurrence, or limit its implications. Sika pursues a risk-based management approach for Group-wide risks and along the entire value chain, from procurement and production to marketing and sales.

The BoD is also the highest governance level of climate-related risks and opportunities. It is responsible for reviewing and endorsing the development and implementation of sustainability policies and strategies and the Chair of the Board steers and 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 has approved the Group's climate ambition to reduce scope 1 and 2 $CO_2$eq emissions by 50% until 2030 and to achieve net zero greenhouse gas emissions by 2050. Please see the box: "Scope 3 assessment and Net Zero Target" at p.124 of the Sustainability Report 2021 for more information on Sika's development and projects in this area.

The Board of Directors relies on two 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, as well as 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 "More Value – Less Impact". 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 and the Chief Financial Officer (CFO), as well as the CEO, take part in these meetings in an advisory capacity. Meetings are generally held every

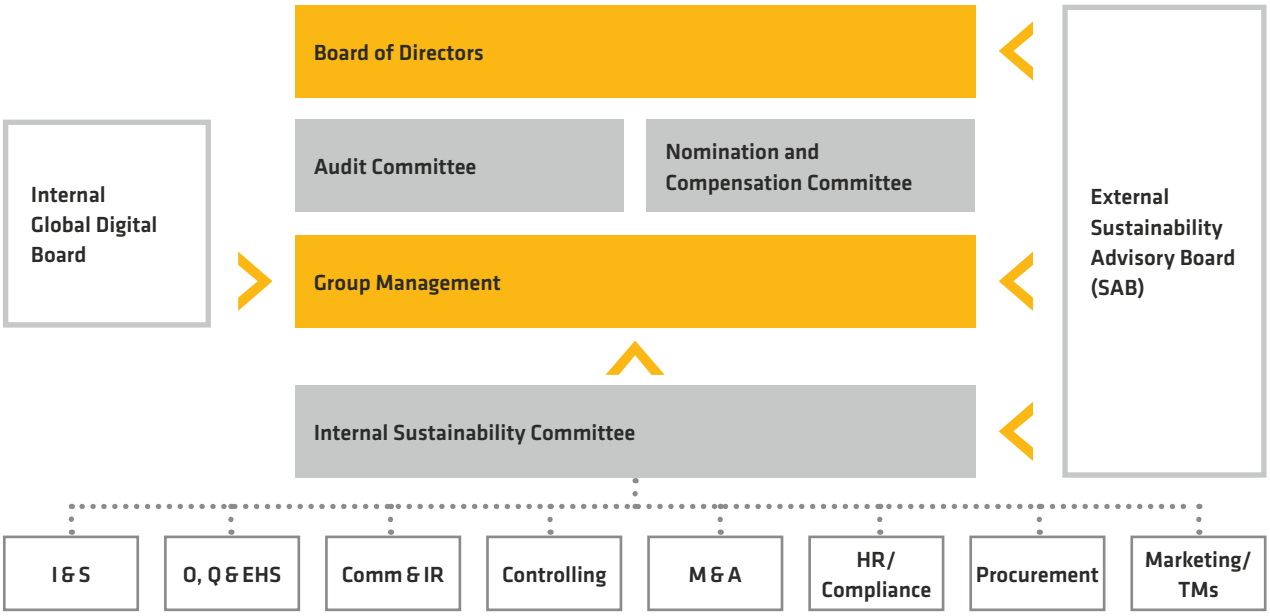
two to three months, lasting between three and five hours. In the year under review, the Audit Committee met five times, with all members present at all meetings. The Chair of the Board of Directors, the CEO, CFO, and the Head of Internal Audit participated in all five meetings. The auditor participated in three of the five meetings.

2) **The Nomination and Compensation Committee (NCC)** is responsible for succession planning and assessments as well as the compensation strategy and remuneration system at the level of the Board of Directors and Group Management. More information is provided in the Corporate Governance Report on p.159–160. How the Group Management's performance is evaluated based on achievements related to strategic targets, incl. ESG (environmental, social, and governance) targets such as climate performance, is explained in the Compensation Report on p. 173.

In February 2022, the Board of Directors decided to install a Sustainability Committee which will consist of three Board members with expertise in different areas of ESG. The group will prepare sustainability-related topics for discussion and decision-making in the Board. The Sustainability Committee will focus on the following areas: assure a formal ESG risk and opportunity assessment, including the materiality analysis; ensure measurable goals which are aligned with the strategy; assure the proper organization and allocation of resources; and assure appropriate reporting and stakeholder communication. The Sustainability Committee plans to meet two to three times per year and to hold the first meeting in April 2022. After each meeting, a report will be issued to the full BoD.

Group Management regularly reviews the processes underlying risk management, and it is responsible for the development and implementation of initiatives and actions addressing risks (incl. 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 (incl. climate change-related risks) falls under the domain of the Corporate Finance department, headed by the CFO. Climate-related issues have been assigned to the CFO because he oversees financial and non-financial information and data. Regarding Mergers & Acquisitions (M&A), those reviews and consultations take place as part of the due diligence process.

**RISK GOVERNANCE**



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

1) **The external Sustainability Advisory Board (SAB),** established in 2016, provides an independent expert view regarding the direction and implementation of Sika's sustainability strategy and gives further input on sustainability issues to Sika's Group Management and to the internal Sustainability Committee. The SAB consists of four members with academic, consultancy, and NGO backgrounds and was initially created to further reduce the company's environmental footprint along the whole supply chain. The Chair of the Board is permanently invited to attend the meetings of the Sustainability Advisory Board. In 2021, the SAB met three times (in April, September, and November) with the corporate functions – Innovation and Sustainability, Communication & Investor Relations, Operations, Quality & EHS, and Human Resources & Compliance. During these meetings, the main topics discussed, among others, were the scope 3 assessment project and net zero roadmap; sustainable solutions and the circular economy; the topic of "biodiversity"; the updated Supplier Code of Conduct; Sika's performance in ESG assessments; the TCFD framework, the outcome of COP26 in Glasgow, and Sika's contributions to the United Nations Sustainable Development Goals (UN SDGs).
2) **The internal Sika Sustainability Committee,** established in 2021, steers and 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 (O, Q&EHS), Communications & Investor Relations, Controlling, Mergers & Acquisitions, Human Resources and Compliance, Procurement, Marketing and Target Markets.
3) **The internal Global Digital Board** was established in 2020, in response to the increasing relevance of the topics "digitalization" and "cyber security risks". Digitalization is one of the three major societal challenges of the 21st 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. The Board is composed of the CEO, CFO, Head of Region EMEA, Head of Region Americas, Head of Corporate Construction, Head of Operations, Quality & EHS, and the Head of IT Sika Group. It oversees the alignment of initiatives in five digital building blocks – "Customer Centricity", "Operational Efficiency", "New Business Models & Innovation", "Effective Knowledge Worker" and "IT Excellence" – with Sika's Growth Strategy 2023. The Global Digital Board's main responsibilities are the approval of digital strategies and roadmaps as well as Sika's digital architecture. To facilitate global digital activities, it can grant funds to projects that demonstrate high potential for Sika's digital transformation. It ensures that digital initiatives adhere to the application and data strategy defined for effective global implementation. And it nominates the team leads and core members of the global teams that drive the activities in the five digital building blocks. A dedicated cyber security organization – Cyber Defense Team (CDT) – has been set up to continuously monitor and improve Sika's security posture by preventing, detecting, analyzing, and responding to cybersecurity incidents worldwide. This includes tooling, processes, and people. CDT defends against security breaches based on newest industry relevant threat intelligence, and actively participates in the vulnerability management programs that help reduce cyber security risks. Additionally, Sika has set up an Incident Response retainer contract with an external partner. The effectiveness of Sika's cyber security framework is tested regularly. The Group Management monitors and approves actions and progress, and reports on cyber security activities to the Audit Committee.

### SIKA'S RISK MANAGEMENT FRAMEWORK

Sika has a comprehensive risk management system structured at Group level and effective for all its subsidiaries. Risks are identified at an early stage and integrated into strategic decision-making processes. Risk management assists in the identification of new opportunities and thereby helps to generate added value to the business performance. Sika's Risk Management Framework is in line with the Enterprise Risk Management (ERM) framework, and it provides reasonable assurance that business objectives can be achieved and obligations to customers, shareholders, employees, and society can be met. Identification, assessment, and management of climate-related risks are integrated into the ERM framework since unexpected environmental, climate-related disasters, and economy fluctuation might have an impact on global and local markets. Locally, climate-related risks are assessed and 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 report to Area Managers who in turn report to 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 build-up of expertise to catch and evaluate the impact of unexpected risks. In 2021, regular risk management education was ensured at various levels within the company.

FOR EXECUTIVE MANAGERS

- **Business ethics and anti-corruption:** Sika's Senior and General Managers (GMs), 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-learnings). In 2021, Sika organized 14 training courses for 112 GMs and 13 Area and Regional Managers.
- **Sustainability and climate change:** during 2021, several official meetings were organized to allow Sika's management to discuss the topic of sustainability and climate change, for example the Group Management scope 3 emissions workshop held in July with external and internal experts, and the Sika Senior Management Meeting (SSMM), held in September, where the Board of Directors, 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. Furthermore, in 2021, the Chief Innovation and Sustainability Officer completed the course "Circular Economy and Sustainability Strategies" from the University of Cambridge. The program has been designed to help business professionals understand the growing business case for sustainable solutions and what the future of business looks like with sustainability in mind.

FOR ALL EMPLOYEES

- **Business ethics and anti-corruption:** all sales, procurement, finance, and R&D employees are regularly invited to participate in anti-corruption trainings. The targeted trainings are delivered either face-to-face or online (via virtual workshops or focused e-learnings). In 2021, the Corporate Compliance team launched a global anti-bribery and anti-corruption e-learning course, addressed to employees mostly exposed to such risk (roughly 15,000 employees). The pass rate was extremely high.
- **Ethical Leadership, speak-up culture, incident Management:** in 2021, Sika organized 12 training courses for 450 employees including procurement managers, HR managers and regional and local compliance officers.
- **Innovation and sustainability:** in 2021, Sika organized a series of internal "Innovation and Sustainability" webinars in conjuction with the global Sika Technology Centers, to discuss and further develop topics and projects in the domain of innovation, technology, and sustainability. The program range encompassed aspects like Safety at Work, Formulation Efficiency, Sustainability Portfolio Management, Talent Management ("The Sika Global Innovation Challenge"), and Strategic Performance Management.
- **Product development and marketing:** Sika has a global program in place to minimize the risks in advisory and sales activities that could provide grounds for product complaints. Thanks to a host of measures, including the regular training of employees, clearly formulated standards, detailed causal analyses, and stricter controls, expenditure for product-related claims is steadily being reduced. 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 reviewed with the help of external specialists and adapted in line with any new situations that may arise. In 2021, the new anti-fraud online training was launched, aiming to raise awareness about cyber fraud, primarily among those employees most exposed to cyber risks. All Sika employees had to complete the training, and all new joiners are expected to do it.
- **Supplier engagement and assessment:** in 2021, internal trainings were provided to around 80 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 the following: scope, procurement process, supplier audit process, audit technique, audit checklist, reporting, and a personalized workshop on audit planning. In 2021, four online training courses were executed covering all regions and business units. A total of over 300 Sika employees successfully concluded this training.

## TOP RISKS

Sika's risk management process is reviewed and updated on a regular basis, allowing the company to better identify potential risks and secure well-structured mitigation practices. Sika continues to use this risk management process stringently to ensure that any potential impact on the company and its customers is mitigated. The list of top risks was approved by the Board of Director and Audit Committee in October 2021.

| Top Risk | Description | Risk Mitigation | Trend |
|---|---|---|---|
| **CATEGORY: STRATEGIC** | | | |
| **Pressure on margins** | Supply chain disruptions may lead to pressure on margins | – 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.<br>– Sika maintains Group-wide systems to monitor raw material prices as well as sales prices to actively measure and manage the material margin. | ↗ |
| **Changing EHS requirements and regulations for products** | Changing EHS-related customer requirements and regulations for products, product solutions, and production processes | – Close monitoring of regulatory changes with the help of a global network of experts and the close involvement of relevant commercial and technical functions.<br>– Regular communication to global/regional/local functions.<br>– As part of the Due Diligence process for acquisitions, a special focus is placed on whether potential targets are in full compliance with prevailing laws and regulations.<br>– As part of the capital investment process, a specific focus is placed on zoning compliance, production processes, and regulatory requirements.<br>– Ensure compliance of raw materials and products to regional and local laws and regulations.<br>– Sustainability targets are aligned with accepted practice and clear improvement path. | → |
| **Country risks** | Political and economic instability | – Constant monitoring of development of critical countries.<br>– Implement risk reducing measures.<br>– Review investment/acquisition strategy in affected countries. | → |
| **Climate change risk** | Climate change brings increased frequency and severity of extreme weather events and might lead to reduced availability of natural resources. Increasing awareness of the severe consequences of climate change will lead to changes in consumption and investment behavior | – Operational efficiency programs are implemented worldwide to reduce $CO_2$ emissions, energy, and water consumption.<br>– Sika is an active member of Together for Sustainability (TfS), a global, industry-driven initiative including major chemicals companies.<br>– 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.<br>– Sika focuses on research efforts to better understand how consumers' lives and decisions may be affected by environmental change and to anticipate needs related to climate change and offer sustainable solutions.<br>– Sika initiated a company-wide initiative to systematically identify and calculate emissions from its material scope 3 GHG categories in accordance with the requirements of the Greenhouse Gas Protocol (GHGP).<br>– Since 2020, Sika has been reporting in accordance with TCFD recommendations to assess the impact of climate change on its business. | ↗ |

| Top Risk | Description | Risk Mitigation | Trend |
|---|---|---|---|
| **CATEGORY: OPERATIONAL** | | | |
| **Product-related claims** | Selling of products carries the risk of product-related claims. | – To properly control the risk, a strict Product Creation Process (PCP) is established within Sika.<br>– Long-term behavior of products is tested in technical service depending on the real application.<br>– Proper quality controls set up in production.<br>– Regular trainings of employees assure the necessary competence.<br>– Corporate technical services define the necessities in the regional and local organizations and check and audit the compliance with the specifications.<br>– To avoid the risk of customers using Sika's products incorrectly, Sika provides systematic instructions, application training, and support to customers.<br>– Sika is continuously improving systems and processes to have proper and up-to-date product documentation across multiple channels. | → |
| **Talent shortage** | Challenge to attract and retain talent. Sika's growth will require a strong pipeline of future successors for business-critical key positions. | – Sika's Talent Management on a global, regional, and local level prepares future generations of the workforce for challenging tasks. Solid performance, succession, and development processes pave the way to a high-performance organization and a unique leadership culture.<br>– Embedding Sika employer branding concept in all recruitment activities and redefining recruitment strategy of talents at all hierarchy levels.<br>– Conducting an annual talent review on regional and functional level among Corporate/Regional Management with a focus on succession planning of business-critical key positions.<br>– Policies for international assignments to provide more flexibility and adapting to the business needs.<br>– Integrating SuccessFactors as a global HRIS database to enhance people analytics and provide cross-regional alignment across talent population. | → |
| **Business interruption** | Business interruptions can jeopardize daily business continuity and impact operational business profit. | – Crisis management on a country level allows for a swift adaptation to meet country-specific events and regulations.<br>– Corporate Crisis Management organization steers and monitors execution on local level.<br>– Ensure sufficient liquidity of the Sika Group and subsidiaries with diverse sources of funding from either capital markets or local banks.<br>– Existence of a corporate insurance program with worldwide coverage. | ↓ |

| Top Risk | Description | Risk Mitigation | Trend |
|---|---|---|---|
| **Supply chain – direct material sourcing** | Sourcing of critical direct materials could be at risk due to single sourced material, supplier discontinuity, and capacity shortage. | – All materials are systematically evaluated within Sika to identify potential risks and to develop risk 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.<br>– In the case of key raw materials with limited availability or large purchase volumes, Sika mandates at least two suppliers whenever possible.<br>– For unique, highly innovative technologies, Sika seeks to manufacture raw materials itself, or source them in close collaborative partnerships with innovative suppliers.<br>– 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.<br>– 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.<br>– 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. | ↗ |
| **Cyber security risk** | International corporations are exposed to cyber-attacks which can be any type of offensive maneuver that targets computer information systems, infrastructures, computer networks, and/or personal computer devices by various means of malicious acts. | – Sika has established a comprehensive Cyber Incident Management Framework and processes for effective cyber response and IT Continuity Planning.<br>– The company constantly assesses cyber maturity.<br>– Sika builds up internal cyber security skills that are backed up by support from external specialists.<br>– Regular training of the Sika workforce on developments in cyber risks and the correct way to counter these risks. | ↗ |
| **Technology risk for PU & SMP sealant products** | The risk that innovations or other market developments would have a severe effect on the actual product offering. | – Development of technologies with the same performance and better EHS or sustainability footprint.<br>– Sika is well positioned with future-proof Purform® technology, water-based systems, and sustainability initiatives. | ↓ |
| **CATEGORY: FINANCIAL** | | | |
| **Impairments** | Risk of impairments of tangible and intangible assets with corresponding negative P&L impact. In phases of volatile markets there is a risk that acquisitions will not perform according to the underlying business plan/valuation parameters and thus would lead to an impairment. | – Sika focuses on continued strong cash flow generation of all operational entities aligned with the strategy and group targets.<br>– Group-wide reporting and controlling systems are used to track business development, quickly identify shortcomings, and swiftly initiate corrective actions.<br>– The integration of acquisitions is monitored and steered very closely by a dedicated integration management team. | → |
| **Currency fluctuation/ FX risk** | Volatility of foreign currencies and uncertainty in today's financial markets. | – Group-wide FX exposure reporting and constant monitoring in place. Appropriate actions taken whenever required.<br>– FX exposures related to IC Financing fully hedged.<br>– Group internal transactions netted monthly and hedged at corporate level.<br>– All other FX exposures kept at minimum level. | → |

| Top Risk | Description | Risk Mitigation | Trend |
|---|---|---|---|
| **Tax Risk** | Uncertainty associated with tax matters, liabilities resulting from changes in legislation, interpretation of existing tax rules and regulations, and/or audits or litigations. Governmental authorities in the countries where Sika operates may increase or impose new income or indirect taxes, or revise interpretations of existing tax rules and regulations. | – Risks are reviewed and assessed on a regular basis considering ongoing developments with respect to tax audits and tax cases, as well as ongoing changes in legislation and tax laws.<br>– Sika's Tax Policy provides binding rules for all countries where Sika operates, in line with the Organisation for Economic Cooperation and Development (OECD) and local arm's-length standards.<br>– The Group Tax team continuously works with the Controlling team on aligning, improving, and implementing processes and controls within Group Tax and countries. It is also continuously developing the right in-house skills. | → |
| **CATEGORY: ORGANIZATIONAL** | | | |
| **Reputation risk** | Reputation damage due to any substantial incident or personal misconduct. | – The Sika Code of Conduct as well as Sika's Values and Principles are the guiding principles of integrity and ethical conduct. All employees and anybody joining the company are trained on the Code of Conduct and on how to use the Sika Trust Line (whistleblower line).<br>– Comprehensive Group-wide compliance program is in place.<br>– External tools support the monitoring and managing of potential reputational issues.<br>– Zero tolerance for compliance violations. Compliance violations lead to consequent imposition of sanctions. | → |
| **Hostile takeover/ activism** | 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. | – A continuous monitoring of the market, close contact with investors, review of Sika's performance, and an emergency organization reduce the risk.<br>– Best protection against hostile takeover/activism is good performance and an appropriate valuation of the company. | → |
| **Loss of Sika's unique culture/ entrepreneurship** | Sika's unique corporate culture can be defined as a "Unique Selling Proposition (USP)". The high pace of acquisitions bringing new employees on board, and a constantly changing working environment requires proactive and dynamic management measures to mitigate the risk of diluting the corporate culture. Factors that accelerate the immediate need for actions are, among others, an increasing digitalization of the workplace and business model (remote work, less travelling), the need to integrate working environments with various cultures. And to adequately attract different generations and engage with their needs. | – 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.<br>– Embed Sika's Values and the Leadership Commitment Framework in the entire employee lifecycle.<br>– 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.<br>– Hire, reward, and promote people based also on qualitative criteria that demonstrate the "Sika Spirit".<br>– Ensure an inclusive environment and a clear communication about the Sika culture/values/leadership when welcoming and on-boarding acquired employees.<br>– Continue to invest in employees' learning and development, internal promotions/careers, and international professional exposure/assignments. | ↗ |

# FOCUS: CLIMATE CHANGE

As a specialty chemicals company with a leading position in the development and production of systems and products for bonding, sealing, damping, reinforcing, and protecting in the building sector and motor vehicle industry, Sika takes the impact of climate change and the underlying risks seriously. This chapter describes how climate change may impact our business and how transitioning to a lower-carbon economy by 2050 represents an opportunity for Sika. Thanks to the strategy, projects, initiatives, and the collaboration with internal and external experts across the globe, Sika's understanding of climate change and the challenges it brings to our business continuously evolves and improves. This further drives Sika's mitigation plans.

Climate change has been identified as a strategic risk for Sika. Within the Group, climate-related risks are divided into two categories:

- **Physical risks:** can be acute (event-driven, i.e., droughts, floods, extreme precipitation, and wildfires) and chronic (longer-term shifts in climate patterns, i.e., temperature, humidity, and precipitation). These risks may carry financial implications for companies, such as direct damage to assets, and indirect impacts from supply chain disruption. Companies' financial performance may also be affected by changes in water availability, sourcing, and quality; food security and extreme temperature changes affecting entities' premises, operations, supply chain, transportation needs, and employee safety.
- **Transition risks:** moving to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements relating to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputation risk to companies.

Sika operates its own facilities throughout the world and recent extreme weather events (e.g. heatwaves and droughts) have shown that low-, middle-, and high-income countries feel the impact of climate change more clearly than ever before. Effective climate change mitigation and adaptation is therefore mandatory for all Sika organizations worldwide.

Moreover, global climate change and related local, regional, and global regulations can impact Sika's day-to-day business in many ways and/or influence demand for our products. By offering products and solutions for durable, resource-saving construction and infrastructure, the company can help customers implement measures to prevent and mitigate adverse effects of climate change in all regions.

As a framework to disclose the impact of climate change on Sika's business and to increase the understanding of the related risks and opportunities, the Group has adopted the TCFD recommendations and structured the Risk Management chapter accordingly. 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 integrating the recommendations of TCFD over time. In 2020, the company committed to producing annual reporting that considers TCFD recommendations and to disclose a high-level analysis of two climate scenarios. In 2021, Sika presents its second annual disclosure by extending the analysis to three global warming scenarios and detailing the list of related risks and opportunities that may arise. This analysis demonstrates that all three scenario narratives present financial risks and market opportunities and that actions taken by Sika to mitigate risks and capture opportunities will contribute to the resilience of the organization's long-term performance.

For the future, Sika plans to improve its analysis by developing a regional perspective, by analyzing climate-related risks and opportunities in view of different time horizons (short-, medium-, and long-term), and by quantifying the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

The changes in the underlying scenarios will be monitored by a cross-functional team consisting of the following departments: Innovation and Sustainability, Operations, Quality & EHS, Procurement, Marketing and Target Markets, Controlling, and Communications & Investor Relations. The analysis will also be used in the strategy review process that will start in 2022 to improve Sika's resilience to the impact of climate change.

## CLIMATE SCENARIOS

To face the global challenge, Sika is addressing climate change comprehensively in its strategic development with the goal of becoming a net zero company. Since 2019, Sika has defined a strategic target for reducing scope 1 and 2 $CO_2$eq emissions by 12% until 2023. Moreover, the compensation scheme of Top Management and Sika Senior Managers is linked to the $CO_2$ performance of the company (scope 1 and 2). In 2021, Sika performed its first scope 3 assessment based on 2020 data, which clearly demonstrated that scope 3 emissions are of great relevance for Sika. The company will keep analyzing and reporting on scope 1, 2, and 3 emissions with the aim to develop a net zero roadmap aligned with the objective of the Paris Agreement to limit the increase of global temperature to 1.5°C by 2050. For more information on Sika's roadmap, please see the Sustainability Report 2021 on p.54-57.

To have a realistic view on these goals, and capture the relationships between people's choices, emissions, and temperature change, Sika performed a high-level assessment of the following global warming scenarios:

- **"Most optimistic":** 1.5°C scenario, in line with the Paris Agreement.
- **"Middle of the road":** 2.7 °C scenario, relying on existing and planned policies without any additional measures taken to curb emissions.
- **"To avoid at any cost"**: 4.4°C scenario, consistent with continued dependence on fossil fuels.

These scenarios correspond to the temperature increase between the pre-industrial level (1900) and the long-term (2100). They allow Sika to explore and develop an understanding of how various combinations of climate-related risks and opportunities, both transition and physical, might impact Sika's business and the value chain.

The three scenarios' narratives are based upon assumptions which consider research done by organizations such as the International Energy Agency (IEA), the Food and Agriculture Organization (FAO), the Central Banks and Supervisors Network for Greening the Financial System (NGFS), and the Intergovernmental Panel on Climate Change (IPCC).

## SCENARIO 1 – MOST OPTIMISTIC (1.5°C)

The sustainable and "green" pathway describes an increasingly sustainable world where global $CO_2$ emissions are cut to net zero around 2050.

Global commons are being preserved, and the limits of nature are being respected. More focus on human well-being and not exclusively on GDP growth per capita which would be higher at global level but medium in High Income Countries (HICs). The population growth is low and investments in education and health go up. Social standards are reinforced at a global scale through a higher level of international cooperation. Income inequalities between and within states are being reduced. Consumption is oriented towards minimizing material resources and energy usage. Circularity becomes mainstream.

In this scenario, global economies shift away from fossil fuel-based consumption. Decarbonizing the power sector is a central pillar and requires switching to alternative sources of energy such as solar, wind, or nuclear, as well as some targeted deployment of carbon capture and storage (CSS) for new and existing power plants. Complementary investments are needed in new grid management and storage solutions to ensure continued reliability. Fossil-fired power plants risk losing revenues and becoming stranded. As a result, electricity from renewables increases five-fold over the next three decades. Energy intensity decreases by almost 60% between 2020 and 2050. More than half of the energy for buildings, industry, and transport will be electric by 2050. Innovative technologies could be developed to electrify the production of steel, cement, and other industrial products.

Global economies switch to carbon neutral-fuels (i.e., green hydrogen, biofuels, and synthetic fuels) and 40% of gaseous, liquid, and solid fuels are carbon neutral in 2050. Investments and policy incentives are required to bring these fuels to scale. Additionally, investment strategies for companies will require an accelerated shift to innovative technologies that reduce or eliminate GHG emissions and therefore a portion of their capital expenditure budget will be allocated for GHG reduction.

Land use is strongly regulated to avoid environmental trade-offs. Agriculture, thanks to the restoration of biodiversity and more sustainable agricultural practices, experiences productivity increases, and due to effective international cooperation, there is a rapid diffusion of best practices. Increasing forest cover, as well as reversing deforestation and land clearing, become essential to meet net zero targets. People follow a low-meat diet.

This is the only setting where global economies meet the Paris Agreement's goal of keeping global warming to around 1.5°C above preindustrial temperatures, with warming hitting 1.5°C but then dipping back down and stabilizing around 1.4°C by the end of the century. Such an outcome implies that around 5 gigatons of $CO_2$ should be removed from the atmosphere every year. Physical and transition risks can be summarized as follows:

- **Physical risks:** a warming world has already led to the increased severity and frequency of many climate risks – including flooding, wildfires, extreme precipitation, coastal storms, rising sea level, and expanding ranges of tropical diseases and pests. Risk severity depends on the exposed environment, with coastal systems facing different risks than inland areas, for example, rising sea level and coastal flooding versus inland drought events. As a result of unfavorable working conditions, labor productivity decreases by around 4% on average globally. Nonetheless, the world has dodged the worst impacts of climate change.
- **Transition risks:** strong environmental regulations and policies are enforced around the globe, leading to a high price on carbon, strong incentives towards renewable energies and increased energy efficiency, high building energy costs, and tighter regulations of pollutants. Moreover, since material resource and energy usage must be minimized, raw material prices and manufacturing costs increase. Rapid low-carbon technology development and innovation, and high investments in low-carbon electricity, support the shift from a fossil fuel-based economy towards a low-carbon economy. Households' income might be affected since they bear some of the costs of the transition from higher taxes (e.g., on fuel), higher energy and/or food prices. Labor market frictions might result from a fundamental shift in energy and land-use distribution, affecting every sector of the economy (stranded assets). Behavioral changes in customer demand lead to a stringent focus on sustainable products and solutions in all sectors.

**SCENARIO 2 – MIDDLE OF THE ROAD (2.7°C)**

The "middle of the road" or medium pathway extrapolates the current global development into the future. $CO_2$ emissions hover around current levels before starting to fall mid-century, but do not reach net zero by 2100.

Socio-economic factors follow their historic trends, with no notable shifts. GDP growth per capita is moderate and unevenly distributed. Progress toward sustainability is slow, with development and income growing unevenly. The world faces a progressive degradation of environmental systems. Some regions suffer drastic environmental damage. Investments in education and technological development are decreasing. The population growth remains moderate, levelling off in the second half of the century. There is a certain cooperation between states, but it is barely expanded. As a result, global and regional institutions work toward the achievement of sustainable development goals but with slow progress and unimpressive results. The gap between globally cooperating developed societies and those stalling at a lower developmental stage with low income and a low level of education is widening. Income trends in different countries are diverging significantly and inequality is rising. A revival of nationalism and regional conflicts pushes global issues into the background. Policies increasingly focus on questions of national and regional security. The population is oriented towards material and energy intensive usage. Even if the economy is less dependent on fossil fuels, there is no radical innovation or technological breakthrough trend happening to push towards a low-carbon one. Fossil fuel-based resources are still commonly used, albeit with a slight decrease.

In this scenario, global economies are not reluctant to use fossil fuels. Land-use regulations are moderate, leading to a slow decline in the rate of deforestation. People follow a medium meat consumption diet. There is a medium pace of technological change in the agricultural sector and entry barriers to this market are reduced slowly.

Temperatures rise to 2.7°C by the end of the century. Physical and transition risks can be summarized as follows:

- **Physical risks:** greater severity and frequency of climate risks. Mean temperatures rise, showing a non-linear increase in severe and irreversible climate impacts. Labor productivity is significantly reduced by 12% on average globally due to hot and humid climate conditions. The global population is exposed to extreme events: 50 times more by heatwaves, eight times more by drought, four times more by crop failure, three times more by river floods, and almost two times more by wildfires as today. Impacts of climate change differ at regional and country levels depending on their latitude and local climate. Direct losses and associated damages from tropical cyclones are up to 45% compared to today (i.e., +45% in the US, +30% in Bangladesh, +16% in Japan, +12% in Philippines). Consequently, various disruptions occur, for instance, in companies' direct operation and their supply chain, and in economic activities and/or health systems which in turn negatively affect households' income. Overall, the world faces extreme and devastating impacts of climate change in some regions.
- **Transition risks:** more stringent environmental regulations arise and stronger market-based incentives towards renewable energy and energy efficiency improvements are implemented but in a disparate way, and would be successful in tackling local problems in some regions, but not in others. There is concern for local pollutants but only moderate success in implementation. Global systems and countries do not consistently rely on Carbon Dioxide Removal (CDR) in carbon policies. The world faces a lack of cooperation with certain areas still relying on lagging carbon pricing systems. Behavioral changes occur slowly and differ around the globe. Nonetheless, the intensity of resource and energy use declines and the demand for alternative materials increases.

**SCENARIO 3 – TO AVOID AT ANY COST (4.4°C)**

This is a future where there is no effort to mitigate emissions. Resources are devoted to adapting to the consequences of climate change. $CO_2$ emissions levels will double by 2050.

In the short term, the global economy grows quickly, GDP per capita is high and people experience a strong open economy where materialism as consumption-orientation is well established. International cooperation is effective for economic development, but not for environmental protection and conservation. Exploitation of fossil fuel resources is intensified with a high usage of oil, coal, and natural gas. Energy investments are directed towards fossil fuels and alternative sources are not actively pursued. Energy efficiency improves only slightly. High population growth and a lower rate of technology development and innovation result in an energy-intensive lifestyle worldwide. There is lower awareness of severe consequences of climate change, resulting in weaker and few environmental and sustainable development goals, decarbonizing trends, and no harmonized carbon taxes implementation. There are no stringent regulations to reduce climate change globally, air pollution, or toxic waste. In the medium and long term, due to the severe consequences of climate change, the global economy pathway declines and faces negative growth and drawbacks. Large scale displacements of populations take place, with consequences for human security, economic, and trade systems stability.

In this scenario, global economies do not shift away from fossil fuels. Land-use regulations are weak, leading to a slow decline in the rate of deforestation. The agricultural sector is highly exploited and animal pollination of both wild and cultivated plant species is under threat due to multiple environmental pressures acting in concert (use of pesticides, invasive species, land-use changes such as habitat fragmentation, and climate change). The use of cropland and grasslands increases, mostly driven by an increasing global population. People follow a meat-rich diet. Loss of biodiversity not only threatens natural ecosystems but also affects economic activities, such as the health sector which heavily relies on natural or synthetic products inspired by nature.

By 2100, the average global temperature is 4.4°C higher, and physical and transition risks can be summarized as follows:

- **Physical risks:** exacerbated severity and frequency of climate risks. In the medium- and long-term, due to adverse working conditions, labor productivity decreases strongly at a global level. The mortality and morbidity rates of the world population increase strongly. Some parts of the planet might become unlivable during the hottest times of the year. Extreme weather events such as flooding, precipitation, wildfires, and coastal storms destroy properties and infrastructures around the world, with devastating effects on companies' direct operations and supply chain, as well as on the global economy. There is a decrease in natural capital availability due to disruptions of agricultural and other ecosystem services. Companies divert their financial resources and investments from usual business growth plans into reconstruction and replacement. The world faces the worst impacts of climate change on a global scale.

– **Transition risks:** environmental regulations and policies are enforced at local level, with little focus on global environmental issues. Climate change mitigation is not on the world agenda, and the global economy keeps relying intensively on fossil fuel in the short-term. Carbon Dioxide Removals (CDR) are rarely used. The scarcity of energy sources, natural resources, and land-use opportunities has an adverse impact on every sector of the economy and on geopolitical stability. Household incomes are dramatically hampered by climate change impacts and inequalities are strongly growing at global level. There is extremely low interest in purchasing sustainable products and solutions, and so is the demand for alternative raw materials. The focus is on products and solutions for climate change adaptation only.

### PHYSICAL CLIMATE-RELATED RISKS AND OPPORTUNITIES

According to the latest IPCC Assessment Report (2021), physical risks related to global warming will continue for at least a few decades in every scenario. For instance, a warmer climate will intensify very wet and very dry weather and climate events and seasons, with implications for flooding or drought, sea levels will continue to rise for hundreds or thousands of years due to continuing deep ocean warming and ice sheet melting, and the Arctic will be practically free of sea ice in at least one summer in the next 30 years. But how quickly seas will rise and how dangerous weather events might get still depends on which path the world opts to take.

| Drivers | "Most optimistic" 1.5°C | "Middle of the road" 2.7°C | "To avoid at any cost" 4.4°C |
|---|---|---|---|
| **Global warming (chronic)** | Global warming of 2°C is extremely unlikely to be exceeded. | Global warming of 2°C is extremely likely to be exceeded. | Global warming of 2°C, is exceeded during the 21st century. |
| **Global surface temperature (chronic)** | Compared to 1850–1900, very likely to be higher by 1.0°C to 1.8°C. | Compared to 1850–1900, very likely to be higher by 2.1°C to 3.5°C. | Compared to 1850–1900, very likely to be higher by 3.3°C to 5.7°C. |
| **Global water cycle (acute/chronic)** | **Precipitation:** the average annual global land precipitation is projected to increase by 0–5%. **Droughts:** significantly reduced probability of droughts in some regions, particularly in the Mediterranean, Southern Africa, Central and South America, including the Amazon, and Australia. | **Precipitation:** the average annual global land precipitation is projected to increase by 1.5–8%. **Droughts:** the land area affected by increasing drought frequency and severity will expand with increasing global warming as warming over land drives an increase in evaporation which reduces soil moisture. | **Precipitation:** the average annual global land precipitation is projected to increase by 1–13%. **Droughts:** the land area affected by increasing drought frequency and severity will expand with increasing global warming as warming over land drives an increase in evaporation which reduces soil moisture. |
| **Sea level rise (acute/chronic)** | Continued sea level rise: 0.4 m relative to 1900. | Continued sea level rise: <0.5 m relative to 1900. | Continued sea level rise: >0.6 m relative to 1900. |
| **Ocean and land carbon sink effectiveness (chronic)** | $CO_2$ concentrations peak and decline during the 21st century, the land and ocean begin to take up less carbon in response to declining atmospheric $CO_2$ concentrations and turn into a weak net source of $CO_2$ emissions by 2100. | $CO_2$ rates taken up by the land and ocean are projected to decrease in the second half of the 21st century. | $CO_2$ emissions are extremely high. Thus, the proportion of $CO_2$ emissions taken up by land and ocean carbon sinks from the atmosphere is smaller, making them less effective. They will not turn into a source by 2100. |

The physical risks described above are larger in frequency and intensity with every additional increment of global warming, but also depending on the time horizon. The more we move away from a short-term view, towards a medium- and long-term one, the more physical risks outnumber opportunities at a global level. It appears in fact that, in the short term, a company like Sika might be favored by a global economy highly impacted by climate-related events that requires, for instance, buildings and infrastructures to be continuously refurbished. On the other hand, diverging from the "most optimistic" scenario would increase the likelihood and severity of climate-related physical risks which might impact Sika's business in the medium- and long-term in the following ways:

- **Global warming and related extreme weather events:** extreme weather events, such as wildfires, tropical cyclones, and storms, can cause physical damage to operational assets, value chain disruptions – partial or total – involving upstream and downstream suppliers and distribution networks, resulting in lower operational efficiency and production capacity, early retirement of existing assets, increased operational costs and capital expenditures, increased insurance premiums and reduced availability of insurance on assets located in high-risk areas, shortages and price increase of raw materials, and revenue losses.
- **Global surface temperature and water scarcity/droughts:** cities intensify human-induced warming locally, and further urbanization, together with more frequent hot extremes, will increase the severity of heatwaves and droughts. As a result, uncomfortable working conditions might affect workers' health and safety, reducing productivity and operational efficiency, which would require further investments in offices and plants, leading to higher capital expenditures. Furthermore, if the company fails to improve working conditions, due to a lack of effective measures or inaction, this might also lead to reputation risks. Water stress would also affect the water supply, reducing production capacity in water stressed areas and jeopardizing the production of water-based product ranges of concrete admixtures, coatings, and adhesive solutions.
- **Global water cycle and sea level rise:** in coastal areas, the combination of more frequent extreme sea-level events (due to ice melting and heavy precipitation) and extreme rainfall/river flow events, will make heightened erosion, salinizing groundwater, enhanced storm surges, and flooding more probable. Urbanization also increases mean and heavy precipitation over and/or downwind of cities and resulting runoff intensity. Sika's, suppliers', and customers' facilities located in coastal areas, close to rivers or in cities, would be greatly exposed, resulting in relocation costs, higher investments due to damages or potential damages to plants, offices, and shops. Thus, availability and distribution of products might be negatively affected, potentially resulting in customer losses.

## TRANSITION CLIMATE-RELATED RISKS AND OPPORTUNITIES

Risks and opportunities arising from efforts to transition to a lower-carbon economy may lead to various policy, legal, technology, and market changes, such as abrupt or disorderly introduction of public policies, technological changes, shifts in consumer demand, investor sentiment, and disruptive business model innovation. Addressing mitigation and adaptation requirements related to climate change may pose varying levels of financial impact as well as reputation risks to the company. In the following tables, for each driver, potential high-level risks and opportunities arising from the three selected scenarios are described.

### POLICY AND LEGAL

| Drivers | "Most optimistic" 1.5°C | "Middle of the road" 2.7°C | "To avoid at any cost" 4.4°C |
|---|---|---|---|
| **Pricing GHG emissions** | **Risk:**<br>– Cost increase in sourcing of raw materials (fossil fuels, cement, sand, etc.), and in manufacturing and products distribution activities around the world which emit $CO_2$.<br>**Opportunities:**<br>– Due to an extensive range of low-carbon products and solutions, Sika is barely impacted by carbon markets and benefits from greater financial indirect returns.<br>– Due to high carbon pricing and transportation costs, shipping of goods between continents is reduced. Sika's decentral organization and local production represent an important competitive advantage. | **Risk:**<br>– Moderate costs increase in sourcing of conventional and carbon intensive raw materials, manufacturing, and distribution activities only in regions where strict carbon pricing systems have been implemented.<br>**Opportunity:**<br>– Due to its range of low-carbon products and solutions, Sika can limit its participation in carbon markets and benefit from indirect financial returns. | **Risk:**<br>– Low costs to transport goods across the globe lead to more fierce competition from companies operating in jurisdictions with weak EHS regulations.<br>**Opportunity:**<br>– Minor additional costs in producing and distributing conventional and carbon intensive products and solutions. |
| **Climate-related reporting requirements and standards** | **Risk:**<br>– Increasing costs (employees, consulting services, IT investments) due to additional reporting requirements and more stringent due diligence processes.<br>**Opportunity:**<br>– Access to cheaper capital as investors favor investing in companies that can provide detailed carbon data over the ones that are not transparent regarding non-financial data. | **Risk:**<br>– Weak harmonization among international reporting requirements and standards that differ at local and regional level. As a result, Sika struggles to efficiently allocate resources and implement a consistent corporate reporting system which is pivotal for developing a group climate strategy.<br>**Opportunity:**<br>– Increased transparency and sustainability commitments and related action plans allows Sika to be a pioneer/best in class vs competitors. | **Risk:**<br>– Lack of internal awareness and capacity to rethink Sika's business model and improve its resilience to climate-related physical risks.<br>**Opportunity:**<br>– There is no harmonization among international reporting requirements and standards. As a result, Sika does not have to cover any additional costs and/or face the pressure to keep a high-quality level in reporting compared to competition. |

| Drivers | "Most optimistic"<br>1.5°C | "Middle of the road"<br>2.7°C | "To avoid at any cost"<br>4.4°C |
|---|---|---|---|
| **Sustainable products regulations** | **Risk:**<br>– Sika's business model must consider new megatrends, which will lead to additional costs for developing/applying innovative technologies and identifying/sourcing alternative raw materials.<br>**Opportunities:**<br>– Sika benefits from availability of public incentives to develop sustainable solutions.<br>– Customer demand for Sika's sustainable solutions and products will enormously increase, resulting in higher revenues, new markets opening and related Unique Selling Propositions, creating new revenue streams. | **Risks:**<br>– Demand for Sika's sustainable solutions will stay low due to fragmented local and regional sustainable product regulations.<br>– Additional R&D spending is needed to ensure that Sika products and solutions are in line with evolving product regulations that are not applicable to all/majority of markets.<br>**Opportunity:**<br>– Customers demand for Sika's sustainable solutions and products will vary among regions, still resulting in higher revenues and opening of new markets. | **Risk:**<br>– Companies that do not comply with sustainable product regulations do not have barriers to enter markets since there are no established minimum requirements, increasing competition.<br>**Opportunity:**<br>– Sika does not have to comply with sustainable products regulations. No extra costs or investment are needed. |
| **Litigation liability** | **Risks:**<br>– Failure to meet the net zero goal, combined with a global transparency obligation, would cause great reputational damage, loss of investors and customers globally, and related financial losses.<br>– Tighter regulations of pollutants increase the possibility of legal actions against Sika and its suppliers, negatively affecting sourcing of raw materials.<br>– Due to the elevated risk of climate change litigation, Sika has to carefully select suppliers and cannot partner with those who are not fully aligned with the decarbonization plan. If suppliers face such climate litigations, Sika might have to terminate the partnership, incurring supply chain disruptions. | **Risks:**<br>– Failure to reduce $CO_2$ emissions and to accelerate its decarbonization plan would cause reputational damage, loss of investors and customers at a local and/or regional level, and related financial losses. There is a growing number of lawsuits related to climate change in specific regions.<br>– Due to the risk of climate change litigation in specific regions, Sika has to carefully select suppliers and cannot partner with those who are not fully aligned with the decarbonization plan. | **Risks:**<br>– Regulations of pollutants are enforced at local level, where Sika might face legal action.<br>– Due to the moderate risk of pollutant litigation, Sika might have to stop working with selected local suppliers.<br>– Sika might face a high number of warranty claims from customers if Sika products and solutions underperform due to extreme climate events and conditions, impacting Sika's reputation. |

| Drivers | "Most optimistic"<br>1.5°C | "Middle of the road"<br>2.7°C | "To avoid at any cost"<br>4.4°C |
|---|---|---|---|
| **TECHNOLOGY** | | | |
| **Products and product innovation** | **Risks:**<br>– To ensure that most of Sika's products become low-carbon and circular (extended product responsibility), Sika faces additional costs/expenditure in R&D, quality, manufacturing, marketing, and customer services.<br>– Procurement spending goes up as the global demand for alternative raw materials increases.<br>– Rapid transitioning to a low carbon economy highly depends on the availability of alternative raw materials. Therefore, Sika highly depends on its suppliers who might not move as fast as Sika.<br>**Opportunities:**<br>– The remarkably high increase in demand for low-carbon solutions reinforces Sika's market share for those solutions that help to prevent and mitigate adverse effects of climate change.<br>– Regional and local public incentives for sustainable product innovation are available on a global scale. | **Risk:**<br>– Due to fragmented customer demand, scaling up the production capacity of low-carbon products and solutions could lead to reduced profitability.<br>**Opportunities:**<br>– Higher demand for products that mitigate adverse effects of climate change leads to additional market shares and revenues for Sika.<br>– Regional and local public incentives for product innovation are available on a local/regional scale. | **Risk:**<br>– Competition from companies that sell products at lower prices without considering social and environmental standards/costs.<br>**Opportunities:**<br>– While innovating products, Sika can focus just on product performance and not on product sustainability, reducing costs/expenditure in R&D, quality, manufacturing, marketing, and customer services.<br>– Market demand for products and solutions that facilitate adaptation to climate change increases at a global level due to the exacerbated severity and frequency of climate-related physical risks. |

| Drivers | "Most optimistic"<br>1.5°C | "Middle of the road"<br>2.7°C | "To avoid at any cost"<br>4.4°C |
|---|---|---|---|
| **New and disruptive technologies** | **Risks:**<br>– Facing strong and aggressive competition from an increasing number of stake-holders (competitors, startups, universities, etc.) that can compete with Sika solutions might lead to market share losses in specific target markets.<br>– Additional investments are needed (R&D, target markets, marketing, customer services) to secure Sika's market position and keep the pace in this low-carbon innovation race.<br>– Additional costs to scale up breakthrough/disruptive low carbon innovative technologies on a global scale to meet customer demand.<br>**Opportunities:**<br>– Possibility to benefit from regional and local public incentives for the development of low-carbon innovative technologies.<br>– Strong in-house innovation and entrepreneurial culture foster the development of breakthrough innovative products and solutions relying on new low-carbon technologies (resource efficiency, carbon capture utilization, and storage technologies), helping customers to decarbonize and prevent and mitigate adverse effects of climate change. Sika's revenues increase on a global scale.<br>– By improving its image as a sustainable company, Sika attracts new talent and a skilled generation of young workers sensitive to environmental issues.<br>– Availability of innovative technologies in the market facilitates the usage of recycled materials into product formulation, reducing procurement costs and improving product circularity. | **Risk:**<br>– Due to fragmented demand for low- carbon energy and sustainable product technologies, Sika struggles to plan investment in production, energy sourcing, and transportation on a global scale. Strategy diversification is pivotal.<br>**Opportunities:**<br>– Possibility to benefit from regional and local public incentives for the development of carbon-efficient production technologies.<br>– By developing new and sustainable technologies, Sika's product performance is improved and helps customers adapt/mitigate climate-related physical risks. Sika's revenues increase at regional/ local level. | **Risks:**<br>– Facing strong and aggressive competition on innovation and technological progress regarding climate adaptation products and solutions from both disruptive and traditional competitors that might beat Sika products and solutions, causing a market share loss in specific target markets.<br>– Additional investments are needed (R&D, Target Markets) to secure Sika's market position in a strong open economy.<br>**Opportunity:**<br>– Reliance on Sika's strong in-house innovation and entrepreneurial culture to further improve current products and solutions' formulations and reinforce the durability of Sika's product ranges with low additional investments. |

| Drivers | "Most optimistic"<br>1.5°C | "Middle of the road"<br>2.7°C | "To avoid at any cost"<br>4.4°C |
|---|---|---|---|
| **MARKET** | | | |
| **Customer behavior and preferences** | **Risk:**<br>– Due to strong customer demand for low-carbon solutions, Sika has to shift its focus towards sustainable solutions very rapidly, which will lead to transitional R&D and operational costs. If the transition is too slow, customers will move to competitors, leading to a loss of market share for Sika.<br>**Opportunity:**<br>– Customers choose Sika over competitors due to its sustainable products and solutions offer. Market shares and revenues increase. | **Risk:**<br>– Due to fragmented customer demand, Sika's product offering is diverse and varies from one region to another, leading to higher operational and R&D costs with limited economy of scale.<br>**Opportunity:**<br>– Being a decentralized company facilitates Sika to offer diversified products and solutions depending on regional/local customer demand. | **Risk:**<br>– Due to raw material scarcity, Sika has to develop/use alternative materials. However, it might be difficult to get the buy-in of customers for such alternative products since "sustainability" is not an added value for them in this scenario.<br>**Opportunity:**<br>– Strong customer preferences for durable buildings and infrastructures due to extreme weather events, increasing the demand for performant products and solutions in the construction sector, strengthening Sika's positioning in the market. |
| **Market signals** | **Risks:**<br>– The market wants to move to a low-carbon economy, higher investments are needed to decarbonize Sika's processes (sourcing, manufacturing, and distribution), and higher spending on alternative raw materials, renewable energy, and low-carbon modes of distribution are needed.<br>– Costs increase to produce and sell conventional and carbon-intensive products and solutions, putting corporate profitability at risks.<br>**Opportunity:**<br>– Possibility to benefit from low-carbon energy sources and transportation infrastructures, and from alternative raw material supplies at a global level which facilitate Sika's business decarbonization. | **Risks:**<br>– Due to disparate market signals, operational and R&D investment plans cannot be standardized at a global scale but defined against regional or local market trends. The offering of an extensive product portfolio results in higher costs for Sika.<br>– Difficulties to coordinate and steer Sika's growth and acquisitions strategy due to a multitude of regulatory frameworks and highly differing market conditions on a local and regional level.<br>– Access to low-carbon energy sources and transportation infrastructures varies among local and regional areas.<br>**Opportunity:**<br>– There is still demand for sustainable solutions, particularly in the construction sector, that will help maintain or gain selected market shares and increase revenues. | **Risk:**<br>– The global market is mostly focused on economic growth, and a strong open economy with lack of regulations leads to harsh competition and instability/lack of certainty regarding profitability. |

| Drivers | "Most optimistic" 1.5°C | "Middle of the road" 2.7°C | "To avoid at any cost" 4.4°C |
|---|---|---|---|
| **Raw materials** | **Risks:**<br>– Cost increases in sourcing raw materials that are scarce or $CO_2$ intensive.<br>– Greater competitiveness over alternative raw materials and higher prices due to their scarcity.<br>– Specific raw materials are stranded or limited in volume at global, regional, and local level, leading to disruptions in Sika's value chain.<br>**Opportunity:**<br>– Development of products and solutions requiring less resources (such as recycled materials) results in cost savings and increased efficiency in production. | **Risks:**<br>– Due to fragmented regional demand, raw materials are unevenly available on the market.<br>– Limited access to specific raw materials that only exist in certain regions, leading to value chain disruption.<br>**Opportunity:**<br>– Demand is mixed, and Sika can source both conventional/ carbon-intensive and alternative raw materials. Prices are more stable and so is competitiveness. | **Risks:**<br>– Exploitation of conventional/ carbon-intensive raw materials leads to raw material scarcity/ shortage and prices increase.<br>– Due to fierce competitiveness in a strong open economy, Sika might face aggressive procurement practices from competitors that could affect Sika's sourcing of raw materials.<br>– Without a strong demand, suppliers do not market alternative raw materials, and Sika struggles to source material inputs needed to develop alternative products and solutions to reduce its dependency on conventional raw materials. |
| **REPUTATION** | | | |
| **Chemical sector perception** | **Risks:**<br>– Commercialization of fossil fuel-based products might damage the company's reputation.<br>– Sika's acquisition strategy must be reviewed considering the net zero goal. Failure to do so would lead to extra costs and investments in newly acquired companies which are not aligned with Sika's decarbonization path.<br>**Opportunities:**<br>– By diversifying its products' portfolio towards more sustainable solutions, Sika reduces its dependencies on fossil fuel, and significantly increases its business resilience and reputation.<br>– By offering sustainable solutions, Sika enables its customers to decarbonize and mitigate adverse effects of climate change. Thanks to that, the company will enjoy an exceptionally good reputation and demand for its products in the global market.<br>– By being a leader in enabling the decarbonization of the construction and transportation industries, Sika attracts the best talents. | **Risks:**<br>– The acquisition of fossil fuel-based intensive companies is negatively perceived by some groups of stakeholders at a regional and local level.<br>– Companies not following the decarbonization path do not attract the right talents in countries with high climate change awareness levels.<br>**Opportunity:**<br>– Sika enables customers from the building sector to prevent and mitigate adverse effects of climate change, leading to an established good reputation in regional markets. | **Risk:**<br>– "Sika as Enabler" is not perceived by stakeholders as a great advantage vs. competitors and does not contribute to Sika's good or bad reputation.<br>**Opportunity:**<br>– Sika does not face any specific climate-related obstacle in executing its business growth strategy and it can focus on profitability, without having any negative impact on its reputation. |

| Drivers | "Most optimistic"<br>1.5°C | "Middle of the road"<br>2.7°C | "To avoid at any cost"<br>4.4°C |
|---|---|---|---|
| **Stakeholder dialogue** | **Risk:**<br>– Inability to identify relevant stakeholders and to establish a dialogue with them, can lead to activist actions against Sika or missed market opportunities due to poor alignment with stakeholders' views.<br>**Opportunities:**<br>– Great cooperation with global, regional, and local stakeholders (customers, suppliers, institutions, universities, etc.) to develop low-carbon solutions for the construction, transportation, and automotive sectors.<br>– Great cooperation with stakeholders along the entire value chain highly supports and contributes to the achievement of Sika's net zero goal. | **Risk:**<br>– Fragmented and complex dialogue due to mixed stakeholders' perception and engagement levels related to the topic of climate change. This reduces Sika's efficiency and increases costs.<br>**Opportunity:**<br>– At a regional level, dedicated stakeholders' groups focusing on climate change adaptation and mitigation help Sika develop tailored low-carbon products and solutions. | **Risk:**<br>– Fierce competition among companies and countries reduces the possibility to cooperate with global, regional, and local stakeholders (customers, institutions, universities, etc.) to develop solutions for the construction, transportation, and automotive sectors which improve performance and mitigate climate change impacts. |