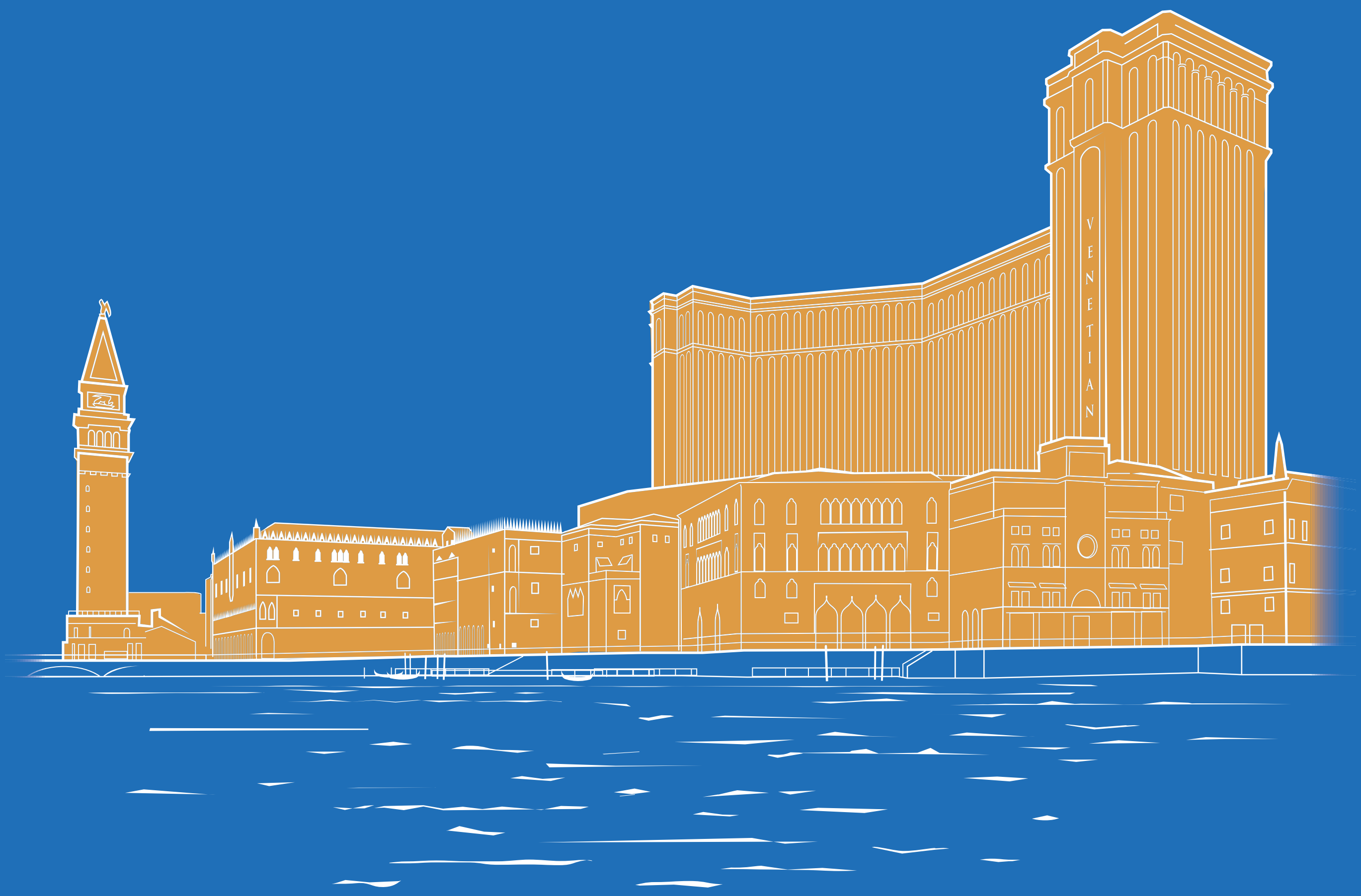
Annual Report 2007



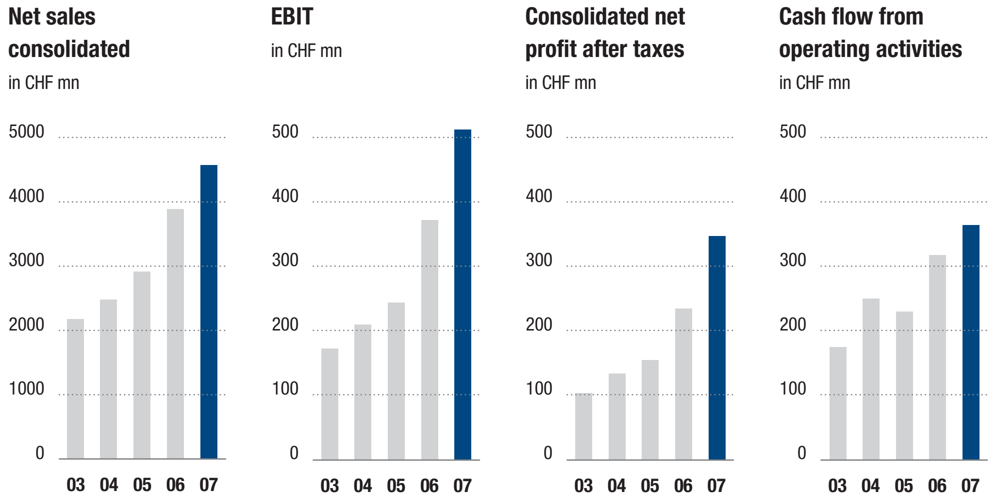
A good opening hand. Las Vegas was yesterday. Today Macau prospers beyond its own dreams. With ever higher buildings, ever more dazzling casinos, increasingly grandiose worlds of experience. Since autumn a new landmark sparkles: The Venetian – the largest casino in the world. The gigantic casino costs USD 7 billion dollars, and will be complete by 2015. The project comprises 8 phases, of which the first one just opened. 10 000 employees will eventually cater to the guests' every care: on 54 000 m² of playing surface, in the sports stadium, congress centre, in 30 restaurants and 350 retail businesses, in cinemas and wellness areas. And of course: in the 3 000 suite hotel. Here one pilgrimages through the setting of an artificial Venice, steered through canals by gondoliers, wandering over bridges, past street performers to seat oneself in a café on the piazza. Just like in Venice.

From the foundation to the roof, the Sika concrete admixtures provide quality – creating conditions for optimal economic use of the property. The admixture Sika® ViscoCrete® stabilizes the concrete of which dreams are built – 350 000 m³ was supplied by Macau Concrete for the first construction phase. For the phases still under construction, concrete in excess of 2 million m³ will be used. Sika® ViscoCrete® is and will be used wherever high performance concrete is involved. The admixture makes thinner walls and smaller concrete joists possible and thereby optimizes the usable surface of the property. And Sika keeps guests' spirits afloat: parts of the hotel's own ferries to and from Hong Kong have been sealed with Sikaflex®.

Key Data

in CHF mn	2006	as % of net sales	2007	as % of net sales
Sika Group				
Net sales consolidated	3 896		**4 573**	
Operating profit before depreciation (EBITDA)	515	13.2	**640**	**14.0**
Depreciation, amortization and impairment	–144	–3.7	**–127**	**–2.8**
Operating profit (EBIT)	371	9.5	**513**	**11.2**
Consolidated net profit after taxes	235	6.0	**346**	**7.6**
Consolidated earnings per share (EPS) in CHF [1]	91.4		**137.1**	
Cash flow from operating activities	316	8.1	**363**	**7.9**
Free cash flow	146	3.7	**183**	**4.0**
Operating free cash flow	191	4.9	**191**	**4.2**
Balance sheet total	3 064		**3 311**	
Shareholders' equity	1 274		**1 472**	
Equity-ratio in % [2]	42		**44**	
ROCE in %	20		**26**	
Number of employees	11 309		**11 723**	
Net sales per employee in 1000 CHF [3]	352		**397**	

[1] excluding minority interests
[2] Shareholders' equity divided by balance sheet total
[3] calculated based on the annual average of number of employees



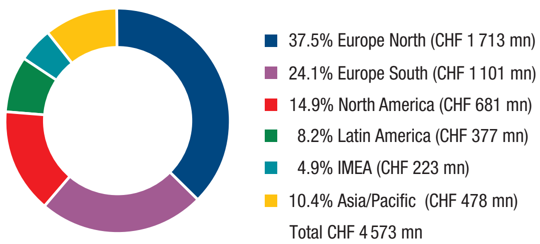
Sika Group. All key performance indicators increased substantially during the year under review. Consolidated net sales rose by 17.4% to CHF 4 573 million, while consolidated net profit rose by 47.6% to CHF 346.1 million.

Construction. The Construction Division gained market share worldwide and increased consolidated net sales by 18.4% to CHF 3 600 million.

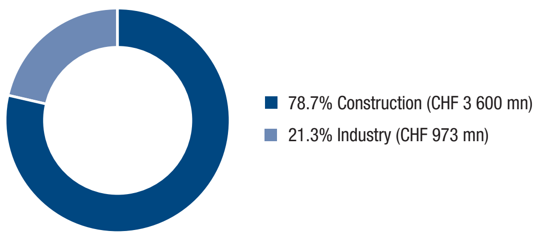
Industry. Demand for light and energy-efficient methods of construction is increasing continuously. The Industry Division profited from this and reported 13.9% higher consolidated net sales of CHF 973 million.

Outlook. The Group will grow at an average annual rate of eight to ten percent during the coming years.

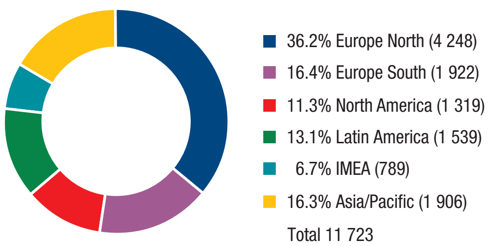
Net sales consolidated 2007 by region



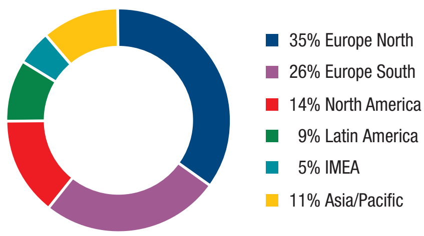
Net sales consolidated 2007 by division



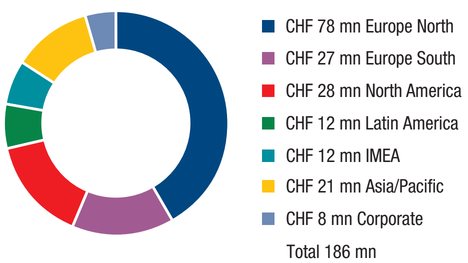
Number of employees 2007 by region



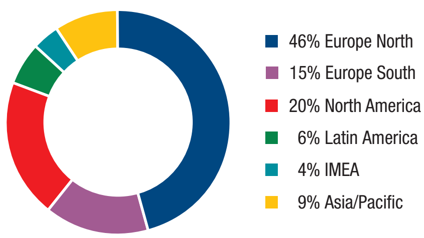
Construction Division
Net sales 2007 (consolidated)



Investments 2007 by region



Industry Division
Net sales 2007 (consolidated)



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Dr. Walter Grüebler, Chairman of the Board; Ernst Bärtschi, Chief Executive Officer

Strong profit growth

Although our strategy has enabled above average growth for years, developments in 2007 can still be characterized as extraordinary. Organic sales growth of 13%, once again considerably above the industry average, led to a remarkable increase in net profit of 48%, which so cannot be repeated year on year. It is evident that the benevolent economic climate in virtually all geographic regions and the exchange rate developments which were favorable for Sika have thereby contributed. This however does not suffice to explain the outstanding result. We succeeded on one hand in passing on increases in raw material prices to the market through raising our sales prices, and on the other in improving the efficiency of our organization, as can be seen for example in proportionally sinking personnel costs and net working capital. This increase in efficiency was possible because the Sika enterprise structure, employee focus and the supportive instruments continually were so adapted that the sought-after growth of our market share led to a profitable expansion of volume.

Focused growth

Sika has a very versatile product and solution portfolio that can be employed for various targeted customer groups according to market maturity. Without neglecting existing customers, Sika has concentrated on promoting customer groups with great potential and on growing with them in a focused manner. In the last two years at Group level as well as in all regions and countries Sika has added four "Business Units" to the previous sales structure "Construction" and "Industry". These are oriented towards the various customer groups "Concrete," "Contractors," "Distribution" and "Industry." This has led to improved customer proximity. The supporting CRM tool (Customer Relationship Management) assists our sales personnel in customer care and in concentrating on customers who promise success. New pricing instruments facilitate the selection of main products and the setting of prices. Customer focus cannot be just a catchword, but must be filled with tangible content directly related to customer groups that is also perceived as such by customers.

Speed in research, development and market launch of new solutions

There is hardly a customer group which cannot be positively influenced through swift reaction with new products and system solutions. In this annual report, various customers from the "Concrete" segment who have been impressed with Sika solutions express themselves. Sika has substantially accelerated the market introduction process for new products through organizational measures, and has positioned a series of new technologies in the market. In addition, through strengthened regionalization, local product adaptations can be more quickly carried out and local raw materials can be increasingly considered. This spring Sika is opening a new research center in Zurich offering space for 200 employees. The provision of new technologies is one thing – but increasing market share will only then be possible if Sika succeeds in explaining the customer benefit of our new products and solutions to concrete producers, contractors, distributors and industrial customers earlier and better than our competitors.

Speed and efficiency in the supply chain

The doubling of sales within four years was a massive challenge in some areas. In several production plants in Europe, during the last year alone, nearly 50% more roofing membranes could be delivered than in the previous year. The massive increase in production and logistical volume requires – at first in Europe and North America – new structures and processes. Without establishment of European coordination in a "Sika Supply Center" in Sarnen, Switzerland, coping with this enormous increase in volumes would not have been possible. Additionally, new manufacturing methods raise the capacity, process efficiency and the quality of our products. Sika still has great potential here, which will first be fully realized in the coming years.

Geographic market penetration

In some markets the improvement in result derived primarily from a substantially bettered market penetration. Page 15 of this Report presents how Sika USA consistently advanced market penetration in the area of concrete admixtures and today covers all economically relevant regions to their full extent. Decisive for success of these endeavors are customer-oriented products, the build-up of sufficient resources, above all in sales and logistics, focused sales personnel and a local management which keeps larger goals in sight with empathy and stamina.

Market maturity

Sika products are situated by majority in the uppermost technology sectors. In many markets – primarily in India and China – to some extent technologies are still in use that are no longer employed by Sika due to lacking technological efficiency or for environmental reasons. The education of customers and the desired higher recoverability of their investments as well as alterations in local construction and industry regulations are leading to increased use of higher-value technologies. Sika profits from such developments – especially in times of stagnation, when our customers are dependent on environmentally friendlier and more efficient solutions.

Outlook

Many of the aforementioned developments also hold true for 2008 – independently of the course of economies. Sika is convinced of growing eight to ten percent yearly on average in the coming years and of increasing our results again with mildly disproportional gain.

We expect possible critical developments – alongside the great uncertainty of the economic environment due to the financial crisis – in the appropriation of sufficiently qualified employees, particularly in the strong growth markets, as well as in the timely provision of infrastructure for production, logistics and electronic data processing.

Sika is active in global markets that are consolidating strongly, and will therefore evaluate all acquisition possibilities, purchasing companies conformant with our strategy at justifiable prices. We have the corresponding financial resources at our disposal.

Proposal by the Board of Directors

The Board of Directors proposes to the Annual General Meeting the payment of a gross dividend of CHF 45.00 (CHF 31.20) per bearer share, and respectively of CHF 7.50 (CHF 5.20) per registered share. The dividend increase correlates to the achieved increase in profit. The payout sum thereby amounts to CHF 114.3 million, representing roughly 33% of consolidated net profit.

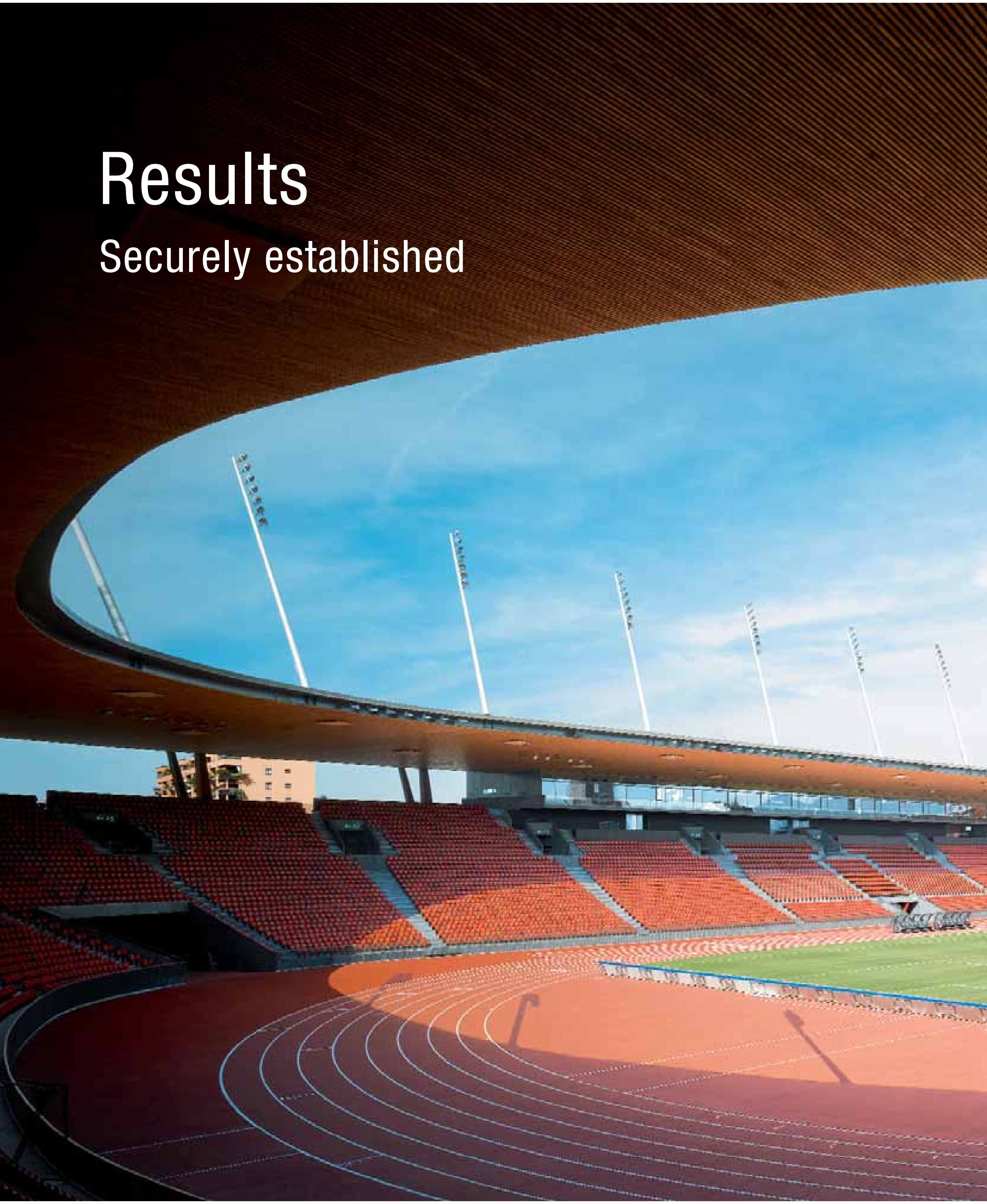
The successes that Sika achieved in the business year 2007 are the result of close collaboration between customers, suppliers, partners, shareholders and our employees, whom we especially thank for their fully engaged efforts.

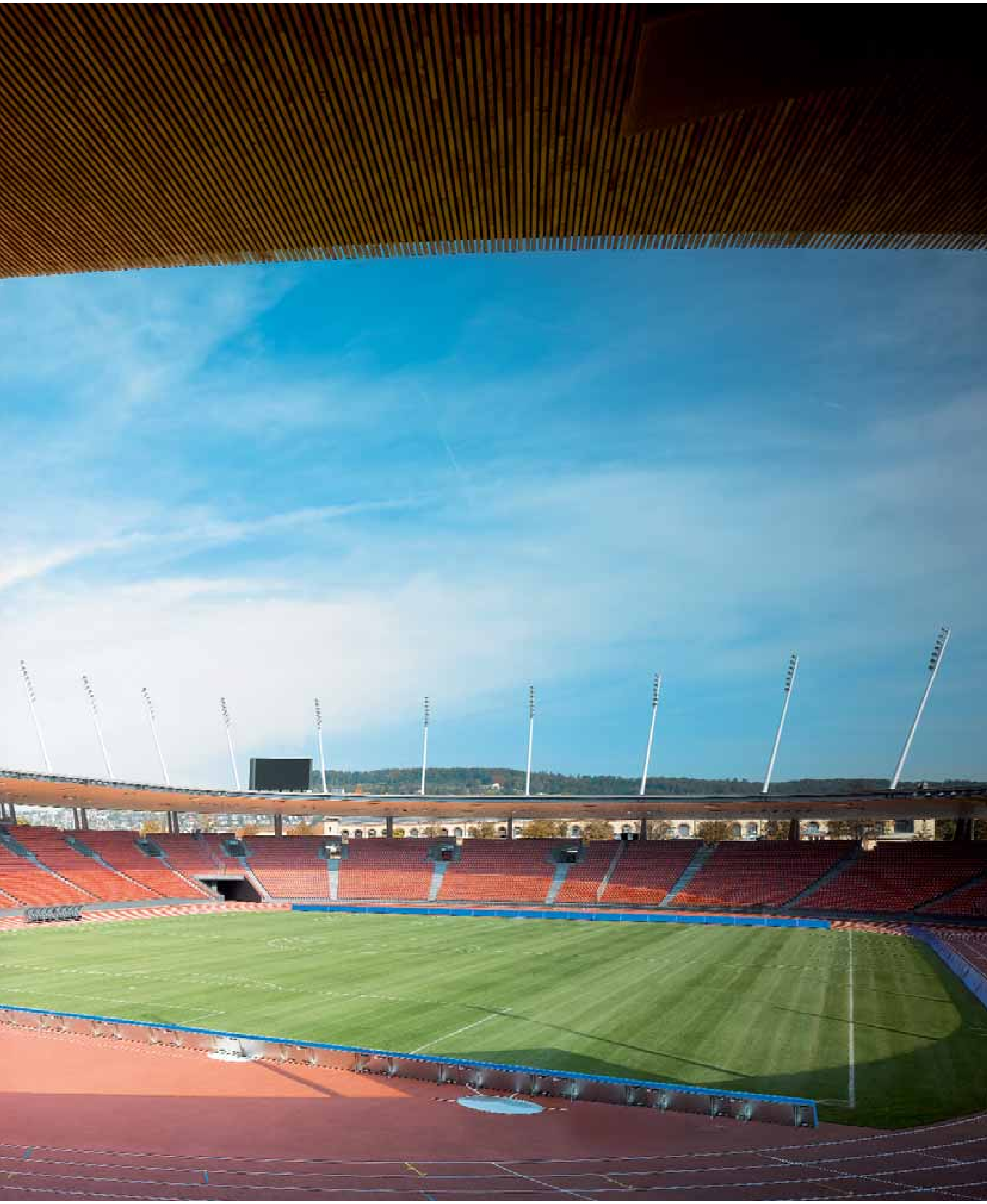
Sincerely,

Dr. Walter Grüebler	Ernst Bärtschi
Chairman of the Board	Chief Executive Officer

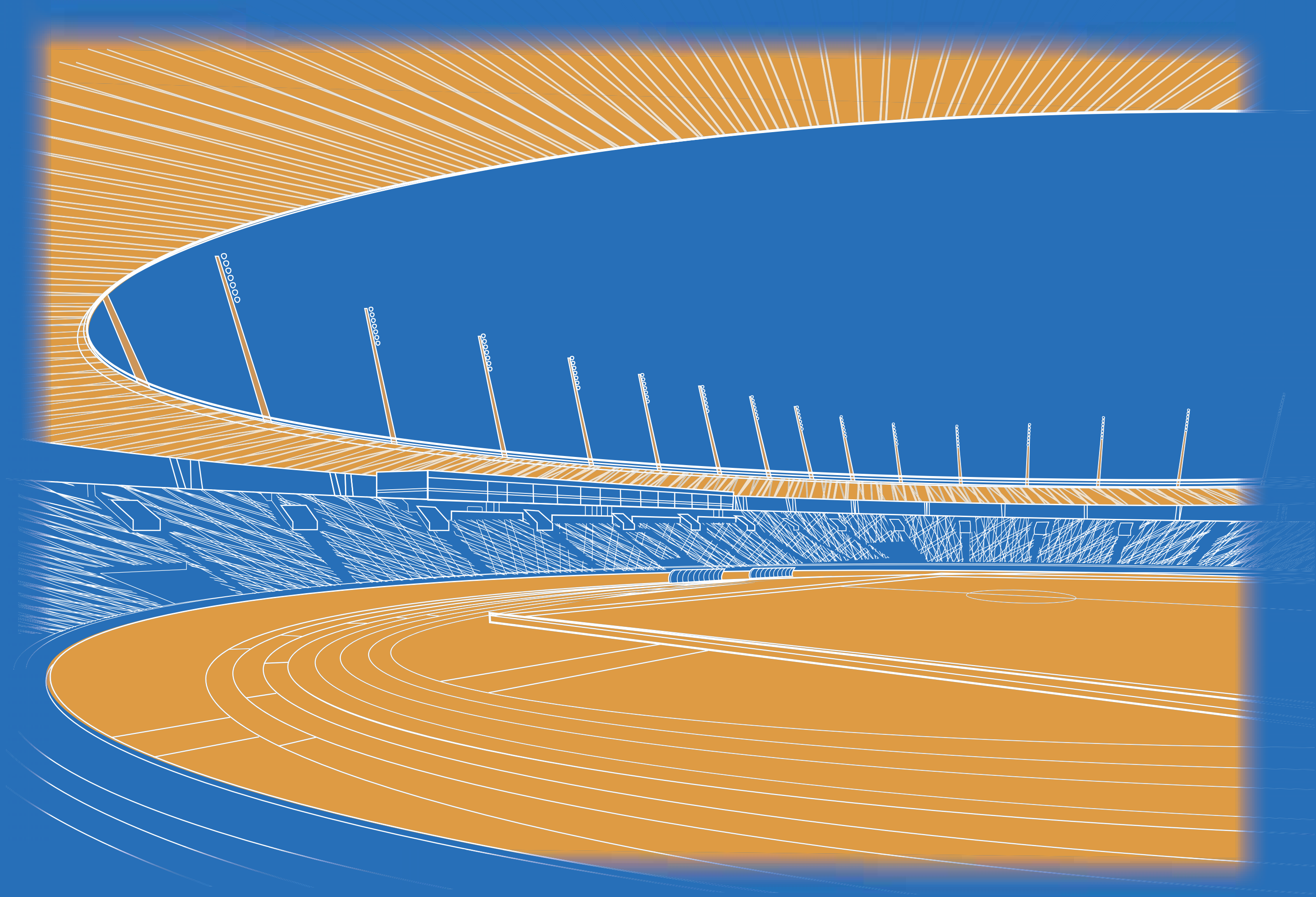
Results

Securely established





On the ball with technical skill: During the European Football Championships UEFA EURO 2008, considerable attention will be focused on the Letzigrund Stadium in Zurich: favorites France and Italy contend their group matches here, and will put their players' creativity on display. Sika also demonstrated creativity in the construction of this jewel. New constructive and environmental paths should be blazed.



Grand appearance. The new Letzigrund is more than a stadium. It is an event. Whoever enters its gates finds himself not in the belly of the arena, but rather beneath the rolling, cantilevered wooden roof above the rows of seats: instead of being erected in height, the stadium was built in depth. The playing field and the track-and-field course lie seven meters below street level. The open ramp beneath the roof has become a meeting place. One is amazed at how light the arena appears. How elegantly the shell rests in its environment. How majestically the unique roofing construction crowns the stadium: 31 lighting masts, circularly arranged, provide shadow-free illumination – and an unusual glamour for a sports complex.

Sika contributed essentially to the new environmental strides taken in Letzigrund. Only through continuous optimization of admixtures could large portions of excavated material be processed into high-quality concrete, thereby saving 6 000 trucking runs. And Sika also played in other areas of the stadium: the company supplied corrosion protection for the steel lighting fixtures and for the 22 000 m^2 large steel roof construction, a complete sealing system for the vegetated roof, concrete joint seals and 4 500 m^2 of flooring. In globally tried and tested manner, Sika was able to realize a sustainable, comprehensive solution – from the foundation to the roof.

Dynamic Development in Sales and Profit continue

The Sika Group achieved net sales in 2007 of CHF 4 573 billion, thereby reaching a growth rate in Swiss francs of 17.4%. All earnings variables increased clearly. Operating profit before depreciation (EBITDA) grew by 24.3%, operating profit (EBIT) by 38.2% and consolidated net profit before taxes by 44.4%. The return on capital employed (ROCE) improved during the year under review from 20.2% to 26.1%.

Income statement
Net sales rose in the year under review in Swiss francs from CHF 3896.1 million by CHF 677 million or 17.4% to CHF 4 573.2 million. Underlying organic growth in local currencies amounted to 13.3%. Acquisitions less divestments contributed 1.6% to sales growth. Exchange rate fluctuations resulted in growth of 2.5%. As in the previous year all regions and customer groups delivered a contribution to this dynamic growth development.

The basis for success in the Construction Division was on one hand a good market environment and on the other an effectively implemented and focused volume strategy. Global key account and key project management on the customer side, new technologies as well as strengthened market penetration and more mature markets led to improvements in volume as well as in profit. Due to its product portfolio, Sika was hardly influenced by the slowdown in residential construction activity observed in some countries. The Industry Division profited from the continually increasing use of modern damping and bonding technologies in automobile construction. With its constantly improving key account management, the division could exploit this dynamic trend and improve its customer penetration.

Prices for various raw materials continued to rise in the year under review. Overall, material expenses increased slightly and lay in relation to net sales 0.3 percentage points above the previous year. Raw material price increases could be passed on to customers. Thanks to greater efficiency particularly in personnel assignment, operating profit before depreciation (EBITDA) rose disproportionately in comparison to net sales from CHF 514.6 million by 24.3% to CHF 639.9 million. The EBITDA margin of 14.0% was 0.8 percentage points higher than the previous year.

Sika increased its operating profit (EBIT) from CHF 371.2 million by 38.2% to CHF 512.9 million. The EBIT margin rose by 1.7 percentage points to 11.2%, which can be ascribed to the high capacity utilization of production facilities.

Consolidated net profit before taxes lay 44.4% higher than that of the previous year and amounted to CHF 481.8 million. After deduction of income taxes of 28.2% (previous year 29.7%) a consolidated net profit of CHF 346.1 million remained, with corresponding growth of 47.6% in comparison with the previous year's profit of CHF 234.5 million. The profit margin of 7.6% clearly surpassed the set target of 6.0%.

Cash flow
Cash flow from operating activities rose in the year under review from CHF 316.7 million by 14.8% to CHF 363.7 million. Cash flow from investing activities, in comparison with the previous year, was influenced by CHF 50 million or 38% higher investments in property, plant and equipment, while the proportion for acquisitions dropped considerably. The operating free cash flow adjusted for investments and divestments thus remained at CHF 191.9 million nearly unchanged in comparison with the previous year. Cash flow from financing activities primarily reflects the increase in purchases of own shares on the market, for future bonus programs and as a liquidity placement, during the reporting year.

Balance sheet
The return on capital employed (ROCE), based on EBIT, improved during the year under review from 20.2% to 26.1% and thereby lay above the target corridor of 20 to 25%. Net working capital receded from 21% to 20.2% of net sales. Net debt dropped from CHF 389 million to CHF 352 million, and thereby the ratio of net debt to shareholders' equity (gearing) from 31% to 24%. Shareholders' equity as a percentage of the balance sheet total rose from 41.6% to 44.4%.

Greater volume, innovations and new markets

In the Construction Division all three customer groups brought convincing results. Market share gains were made among concrete and cement producers in the major markets, among contractors the acquisition of Sarnafil had a particularly positive effect, and among distributors innovations in adhesives contributed essentially to a good overall result.

Market environment
In its Construction Division Sika increased net sales in comparison with the previous year from CHF 3 042 million by CHF 558 million to CHF 3 600 million The growth rate of 18.4% included 14.0% organic growth in local currencies, 1.8% due to acquisitions and disinvestments and a currency effect of 2.6%.

The basis for the division's success were on one hand the successfully implemented volume strategy in selected markets and business activities, and on the other the remarkably effective acquisition of projects based on the "Roof to Floor" strategy. In addition, markets could be further penetrated with new technologies such as Sika® ViscoCrete® or Sikaflex® AT (Advanced Technology for elastic bonding and sealing). The result before depreciation (EBITDA) amounted to CHF 530 million and thereby lay 26.2% above the previous year, reflecting a clearly disproportional increase in comparison with sales growth and the division's improved efficiency.

As was the case in the previous year, market conditions in 2007 were also very good, and Sika expanded its market share. In the USA and some European countries there was a slackening of construction activity for private residences, from which however Sika is hardly impacted due to the composition of its product portfolio. Since activity in the areas of infrastructure and industrial construction continued briskly, sales growth was pleasing in these countries also.

Concrete producers
Similarly to 2006, sales in the year under review grew strongly in the customer group concrete producers. Market share was gained in the most important markets above all with the product group Sika® ViscoCrete®. Sales growth in some countries rose up to 50 percentage points higher than the growth in cement use.

Dynamic development is unbroken worldwide. To satisfy rising demand for Sika concrete admixtures where sales development was particularly positive, additional production and management capacity were established in China, Europe and the Middle East. Even in the USA, where demand in residential construction was lower due to the credit crisis, Sika could increase sales significantly. This growth was carried by the unchanged brisk construction activity in the areas of infrastructure and industrial construction, in which special demands are placed on concrete quality and the demand for Sika products is correspondingly high. Sika strengthened its position in the Canadian concrete market in March of the reporting year with the acquisition of MRT Construction Products in Canada.

In all regions growth was buttressed by numerous major projects. Consolidation in the construction industry continues, primarily among cement and ready-mix concrete producers. Sika observes this trend and focuses on large, international key accounts. This key account management is also of central significance among internationally active construction firms, because major projects such as new airports or bridges are generally prepared at enterprise headquarters and then locally implemented. Here Sika can leverage all the advantages of its global organization and its wide array of products. Significant additional orders in various countries are the result of this successful strategic orientation.

With an optimized toolbox, Sika made its admixture Sika® Visco Crete®, which stems from the range of high-value concrete admixtures, marketable for mid-range quality applications and thereby extended its market penetration. This development is of substantial significance above all in the growth markets of Asia and Eastern Europe, since up-and-coming local competitors' market share can thereby be contested and conventional admixture technologies supplanted.

With its Sika® ViscoCrete® technology Sika also advanced into other markets in the period under review. The company now also supplies grinding aids, with which cement producers lower the energy consumption of their manufacturing processes while simultaneously improving cement quality. Furthermore, the use of Sika® ViscoCrete® with dry mortar is soon to be introduced into the market, which could lead to considerable additional sales.

Contractors

Within the customer group contractors the growth rate in the reporting year was again solidly double-digit. Organic growth contributed strongly, boosted by integrated businesses acquired in recent years such as Sarnafil, Covercrete and Protective Coatings from Dupont. The "Roof to Floor" strategy, with which large projects could be won, also contributed a significant portion. The Sarnafil acquisition had a particularly positive effect, since in design and planning of modern buildings the roof as a rule receives special attention, and the Sarnafil assortment leaves architects and planners enormous freedom of design.

During the reporting year in the growth markets of China, India and Eastern Europe, Sika continued building up the market for products

"Sika's strength is not only in the technical solution, but that they think about our business from our point of view. For example, concrete is a special construction material, subject to on-site conditions and variable raw materials. To minimize problems which may be encountered by the end user, we look for additives that can cope with variable conditions. We communicate and cooperate with Sika closely to review the best combinations of admixtures; their expert backup team with global experience and knowledge of chemical and industrial fields provides us powerful support."

Henry Lee, Technical Manager, Macau Concrete Co Ltd.
The Macau Cement group are the largest suppliers of cement and ready mix concrete to the Macau construction market.

in the waterproofing sector. In China, where quality demands are continuously rising, Sika already has its own capacity for manufacturing roofing membranes and can thus satisfy germinating demand with local production.

Sikafloor® 263/264 proved itself a successful support in the acquisition of trade and service industry buildings. This industrial flooring system for large surfaces has a well-balanced price-to-performance ratio that creates a competitive advantage for epoxy resin contractors. Large-scale orders in the area of underground and tunnel sealing came in from the Near East as well as from Eastern Europe within the reporting year. For the major project "Niagara Falls" water tunnel the company is supplying Sikaplan® waterproofing membranes.

The key to success in the customer group contractors lies most importantly in the comprehensive system solutions that offer advantages to building owners, architects and contractors. Accordingly, Sika pursues comprehensive project and customer management in the contractors customer group that also includes building owners.

Distribution

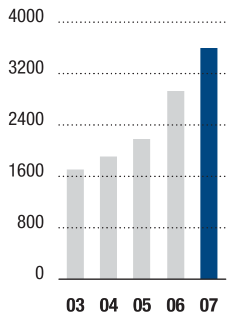
2007 was an outstanding year for the customer group distribution in every respect. Sales as well as margins could be improved also in countries in which market penetration is already high. All ten global key accounts in the customer group distribution showed steadfast and disproportionately high rates of increase lying above the total result of the entire customer group. Our focus on the most important customers thus demonstrated its effect and confirmed Sika's strategy.

One of the most important factors driving the distribution business is the strong Sika brand. Distributors and end customers trust the quality, performance and service that stand behind every Sika product and is embodied in the brand. A worldwide communication campaign with the banner idea "Know-how from Site to Shelf" should clarify what Sika stands for in the distribution business: Sika sells through distributors exclusively high-value, quality products that have proven their performance capability on the largest construction sites in the world, and from there find their way directly to the shelf in building material stores in convenient packaging. Customers of every magnitude worldwide profit from this quality advantage. (See also page 26)

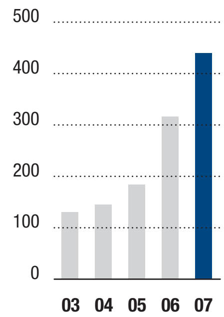
In the reporting year all regions superseded general market growth. Sales grew above-average foremost in the emerging markets of Brazil, Russia and India. Local production of the lion's share of its distribution assortment is thereby a competitive advantage for Sika opposite international competitors. The real estate crisis in the USA and the ebbing activity in the private home sector in select European countries had no influence on the distribution business, which is based mainly on the extensions and renovations sector, itself relatively independent of economic cycles. Group investments in more efficient production of adhesives and sealants benefited the distribution business in the form of lower costs. The integration of FOSROC New Zealand, acquired in 2006, into the existing distribution business is now complete and showed a positive effect in the reporting year with respect to market penetration and profitability. The worldwide roll-outs of the adhesive innovations Sikaflex® AT and SikaBond® AT as well as the use of SikaBond® PU technology for wood floor bonding are in full swing and made essential contributions to the overall result. Sealant and wood flooring distributors showed great interest in both new technologies and won over their own customers for these products. In addition in the year under review Sika began incorporating volume products such as mortar and tiling adhesive in its distribution activities.

Construction Division

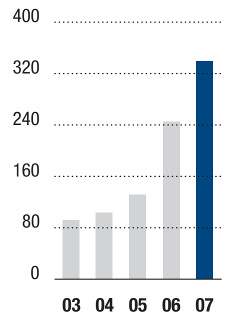
Net sales (consolidated)
in CHF mn



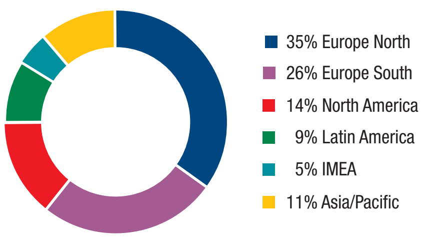
EBIT
in CHF mn



Segment profit
in CHF mn



Net sales 2007 (consolidated)



Sika's solutions for industry follow current trends

Demand for light and energy efficient construction methods continues increasing. With its comprehensive product portfolio in the Division Industry, Sika is thus very well positioned. In the market areas Automotive and Components growth was even significantly higher than that of the market. Solely in the USA could sales not yet be increased markedly, due to a restructuring.

Market environment

In the Industry Division Sika increased net sales in comparison with the previous year from CHF 854 million to CHF 973 million. The overall growth rate of 13.9% comprised 11.0% organic growth in local currencies, 0.7% contributed by acquisitions and a currency effect of 2.2%. The largest growth occurred in the transportation industry as well as in the appliance and equipment and building components markets.

As in the last year, Sika profited from increasing use of modern damping and bonding technologies in automobile construction. With its continually improved key account management, the Industry Division exploited this dynamic trend to better customer penetration. A number of new customers were won in emerging markets. Sika satisfied customers' expanded need for new system solutions with appropriate offerings.

Only in the USA was the division unable to increase sales, because particularly in the market sector automobile unattractive business was discontinued in order to focus entirely on profitability. Although this corresponding new business has nearly offset discontinued volumes, its full effect will first become manifest in two to three years. Demand in the automotive aftermarket sector in the USA remained below expectations but above that of the previous year, influenced primarily by the rather mild winter.

Operating profit before depreciation (EBITDA) amounted to CHF 169 million and thereby lay 33.1% above the previous year (CHF 127 million). The EBITDA margin of 17.4% exeeded the previous year's level (14.9%) which was affected by one-time items.

Business development in 2007 again demonstrated that in the face of worldwide consolidation in the automobile market, key account management is gaining crucial significance. Sika can pursue this development with its global organization. With its comprehensive product portfolio, the company is very well positioned for the unbroken trend toward lighter and more energy efficient construction methods, now also more clearly recognizable in the growth markets of Asia and Eastern Europe.

Automotive

The market sector automotive encompasses direct glazing, noise damping and direct reinforcement of the load-bearing structure. Along with these come structural adhesives for automotive bodies and laminating adhesives for interiors. In 2007 Sika again grew faster than the market in the automotive sector primarily in Europe. Despite the strong drop in production in North America – particularly among the Big Three – notable successes were achieved in consolidation of the automotive business and new inroads made with the product groups SikaBaffle® and SikaReinforcer®. The successful launch of new vehicle models in which Sika products are used drove sales up clearly among auto manufacturers (OEM) in France, Germany and Italy and among system suppliers (OES) across Europe and in Asia.

Due to rising fuel costs and the continuing debate concerning carbon dioxide emissions in road traffic, technologies with which vehicle weight can be reduced are more sought after than ever. Fiber-reinforced plastics are thus being used more and more; they are considerably lighter than steel while at the same time increasing the strength of automotive bodies and thereby their safety. These composite materials can only be integrated into auto bodies with adhesives, and here the structural adhesive SikaPower® can be applied. In addition, with SikaReinforcer® the Industry Division delivers complete structural components. Sika collaborates intensively with materials specialists, simulation experts, raw material suppliers and customers' specialist departments on the reinforcer system to broaden know-how and find new application possibilities. This collaboration begins quite early in the development of a new vehicle model, because structural components must be stringently calculated, reviewed and tested, above all in crash tests. With the start of new model generations these structural reinforcements and bonds are gradually introduced into a series.

Business with Sikaflex®, a core Sika technology, could be broadened mostly in Europe and Mexico. European customers have converted further production lines to direct glazing with Sikaflex®. The new generation of booster systems with Sika's patented "Latent Hardeners Technology" for direct glazing (hardening without blister formation) was successfully introduced in the year under review. The strongly rising demand in this sector can be met through additional capacity for Sikaflex® production in Switzerland, the USA, and in future also in China and Japan.

Automotive aftermarket

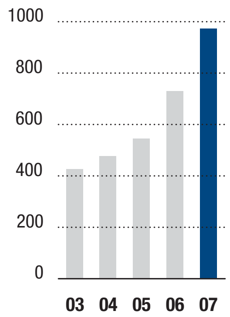
In the aftermarket sector glass repair (AGR) Sika is successful with SikaTack®-MOVE GC, SikaTack®-Drive New Formulation and Sikaflex®-256 New among other products. The three products form a system with which defective auto glass can be replaced very quickly and the vehicle, depending on the product, can be driven again within an hour after a glass has been bonded. Existing key accounts in this segment were further developed and sales in additional countries were built up. New products and technologies were introduced, leading to above-average growth overall. Heavy price pressure and rising raw material prices nonetheless led to slightly reduced margins. Sales with SikaGard® products, a corrosion protection system for automotive construction, doubled during the reporting year following a new product line launch.

Transportation industry

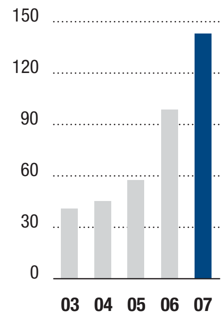
In 2007 the market sector transportation industry, including busses, trucks, specialty vehicles and railroad cars as well as ships, recorded clear growth in all segments, especially among busses and ships. Growth was carried on one hand by new applications and on the other by the outstanding economic climate and resulting higher production numbers among customers, particularly in Asia. Key customers contributed decisively to the successful result, with whom the so-called full-range approach led to considerably better penetration. Full-range approach means selling not only individual products but entire system solutions with which customers can optimize their production processes. Thereby not only sales are increased, but at the same time customer loyalty is strengthened. In the marine segment the continuously growing number of cruise ships boosted demand markedly. The customer base in the trucks segment expanded during the year under review, particularly in Europe and China.

Industry Division

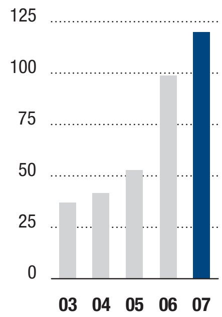
Net sales (consolidated)
in CHF mn



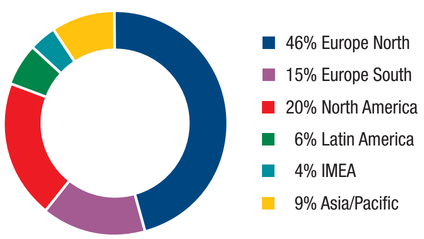
EBIT
in CHF mn



Segment profit
in CHF mn



Net sales 2007 (consolidated)



Appliance and equipment, building components

Sales grew nearly 30% in the appliance and equipment and building components sector in the year under review. Sales development was extraordinarily positive above all in the areas of windows and façades, the market cultivation of which was fused in the reporting year. The acquisition of the German Proxan Dichtstoffe GmbH at the end of 2006 also contributed to the good result. In Eastern Europe and the Middle East sales with silicon products for construction of glass façades increased strongly. Volumes could be greatly expanded with key customers from the wind energy segment because construction of wind energy installations has increased noticeably in some countries due to higher energy prices and government subsidizing. To satisfy this demand Sika installed a production facility for SikaForce® at its new factory in Suzhou, China, from where the world's largest producers of wind energy installations are supplied.

"Holcim has in Sika an exceedingly reliable and innovative construction partner. In the laboratory in mutual development of specialty cement as well as on construction sites, where customer-oriented concrete solutions are required, we can always rely on a professional team of Sika employees. Our partnership, always oriented towards mid to long-term goals, also rests on the outstanding relationships between contact persons in the two companies."

Kaspar E. A. Wenger, Country Manager Switzerland, Holcim (Schweiz) AG
Holcim (Schweiz) AG is a subsidiary of the globally active building materials Group Holcim Ltd., which is a leading supplier of cement, aggregates and concrete.

Market share gained in key markets

The strongest momentum for growth for Sika came from the East. In Europe, business boomed especially in Russia and Romania. But very high rates of growth were also achieved in Asia and the newly created region India, Middle East and Africa. In North America the mortgage crisis in the USA had no impact on business.

Europe North

Construction markets in the region developed above expectations just about everywhere in the year under review. On one hand this development could be attributed to weather conditions beneficial for construction activity in the first months of the year. On the other hand the investment climate was very good, resulting in numerous new projects in the segments infrastructure and industrial construction. In Germany residential construction activity dropped off during the second half of the year because the governmental first-home buyer allowance, with which the creation of property ownership had been subsidized, was discontinued.

As in the previous year Sika attained the highest growth rates in Russia and Romania. In addition in the roofing and waterproofing segments large acquisitions occurred in the second half of the reporting year.

In the region Europe North Sika achieved sales growth of 19.1%. Eastern Europe (+36%) and Central Europe (+24%) were the areas with the strongest organic growth, as was so in 2006. Gross margin pressure due to rising raw material costs could be closely compensated with price increases.

In the year under review the brand strategy for roofing membranes formulated following the Sarnafil acquisition was successfully expanded in Europe North. In Scandinavia the AT-technology based on Sikaflex® products was particularly successful.

The setup of the Sika Supply Center (SSC) in Swiss Sarnen in Canton Obwalden represented a special challenge for Sika's management in Europe North. First the production planning and logistics for the product group roofing membranes for Europe were combined in order to optimize supply chain management. An additional practical test was the increase in sales quantity by 50% at unvaried production capacity.

The joint-venture part GmbH founded in the previous year with sia Abrasives developed successfully. Part stands for Premium Automotive Repair Technologies and is a distribution model with which the joint-venture partners offer a combined product palette for automotive repair.

In Romania construction began during the year under review of a production facility for admixtures including a respective quality laboratory; these should be completed in March 2008. With the purchase of an appropriate land parcel near Moscow the first step has been taken towards construction of new capacity in Russia.

Europe South

In the most important countries in Europe South economic development in the reporting year 2007 was just as dynamic as in the previous year, and growth rates for gross national product lay in part well above the European average. Though in some countries weakening demand was expected as a result of sharpened credit conditions, investments in infrastructure projects and industrial construction remained on a high level. In Spain, Great Britain, Ireland and France, where prices for private homes rose strongly, the trend reversed and demand for construction services in this segment relaxed.

In the reporting year Sika extended its market share further in Europe South. Measures for sales growth focused on customer groups demonstrated clear effect. Broad training opportunities for contractors improved knowledge of the use of Sika products and generated new business. In the roofing segment Sika succeeded in attaining market leadership with its brand strategy that has also worked in other regions. In Europe South the flooring segment was extended such that all regional needs for industrial flooring systems can now be fulfilled. Strongly rising sales in this segment also showed the success of corresponding key account management. Demand development for bonding systems for wooden floors was pleasing, stimulated by more frequent use of in-floor heating. In the customer group distribution the assortment at existing sales points as well as market penetration broadened.

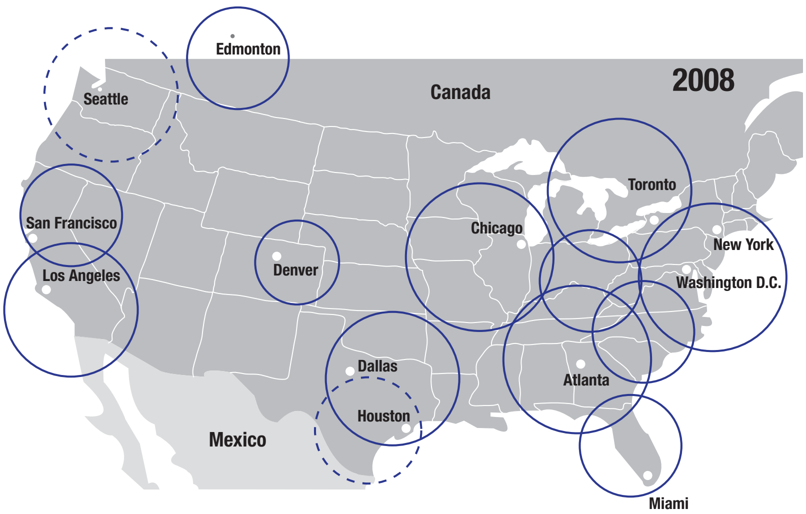
Overall sales in Europe South rose 16.3%. Growth rates in smaller markets such as Tunisia or Serbia in parts registered well above 40%, but growth was also remarkable in established markets like Great Britain (+23%) or Portugal (+29%). Sika lowered costs in the region still further with projects for supply chain improvement or for increase in production efficiency. Higher prices for raw materials could in large part be passed on to customers.

North America

While in Canada the economic environment consistently developed in a positive manner due to continued high demand for raw materials, the economic situation in the USA was influenced by the mortgage crisis, with a dramatic downswing in residential construction as a consequence. In the automotive industry the weak market development carried over from the previous year, and local producers continued to lose market share to foreign competitors.

Sika held its own well in this generally difficult environment, with clear gains in market share in a number of key markets. In the customer group concrete producers, investments in new production facilities paid off and led to considerable volume growth, though concrete production in the USA was reduced overall and a hard pricing battle was carried out on the part of competition. The industrial flooring segment developed with sales growth of some 20% very well, among other reasons due to the acquisition of the Canadian Covercrete in 2006.

Despite regressive automobile production above all among the so-called Big Three, Sika could maintain sales in this market and achieved important successes in consolidation of the automotive business. New orders were acquired primarily for the products SikaBaffle® and SikaReinforcer®. New platforms were won for SikaReinforcer® technology also in the commercial vehicles segment.



In North America, Sika was at first represented primarily in the eastern states of the USA. But to be successful with concrete admixtures, geographic proximity between the production facility and the customer is decisive. Since 2002 Sika has therefore systematically expanded its geographic penetration in North America, and can today deliver competitively in nearly all relevant areas of North America. The success of these investments, which will also be continued in 2009 (dotted circles), is demonstrated in the continuous growth among the customer group concrete producers.

Overall, sales in North America rose from CHF 637 million by 7.0% to CHF 681 million, whereby the Construction Division clearly grew more than the Industry Division. Margins could be improved slightly, because on one hand sales prices could be increased, while on the other new regional production capacity made product import superfluous in part.

In the year under review Sika took over MRT Construction Products in Edmonton, Canada, active in the area of concrete admixtures. With this takeover, Sika rounded out its activities geographically in the region North America. The capacity for the Sikaflex® product palette at the Lyndhurst, New Jersey location has been considerably extended on the basis of a continuous process. In January 2008 Sika bought the polymer-based industrial flooring business of The Valspar Corporation, decidedly building up its position in this important market.

Latin America

Economic conditions in Latin America were pleasantly positive, as in the previous year. The political situation remained stable despite new elections in some countries and inflation stayed largely under control with the exceptions of Venezuela and Argentina. The appreciation of some countries' currencies opposite the U.S. dollar made the import of products and raw materials from the USA easier.

In the entire region the construction sector retained the dynamism observed during recent years. Major projects such as the subways in Sao Paulo and Caracas and other wide-ranging infrastructure measures in Colombia, Chile and Argentina set special accents. Distribution is growing evermore important in Latin American countries; it consistently shows double-digit growth rates and Sika has attained market leadership nearly everywhere. In the Industry Division Sika achieved notably higher growth rates in comparison with the previous year, primarily due to delivery of complete solutions for efficiency improvement to bus manufacturers.

Sika's sales in total in the region grew by 24.7% and thereby clearly faster than in the previous year; profit also rose markedly. In Brazil a concrete admixture developed on the basis of Sika® ViscoCrete® for producers of precast elements was introduced into the market. In addition a number of countries have launched Sika's wood floor bonding technology.

In Colombia Sika has started with the construction of a new production facility in order to be able to satisfy the country's high demand also in the future. The new plant will replace existing capacity in Bogota. Also in Peru, existing facilities in Lima will be relocated to another factory with higher capacity. In the reporting year Sika established throughout Latin America the management structures necessary for the customer group approach.

IMEA

In the region India, Middle East and Africa per capita gross domestic product varies extremely from country to country and the different economies are correspondingly disparate in their development. Many national currencies are either directly coupled to the U.S. dollar or closely linked to it, meaning the region had to accept notable price increases on imports from Europe and Asia.

The large and rapidly growing population in many countries in the region and their need for promising employment positions determines growth in the construction and industrial sectors similarly to the enormous need for modern infrastructure.

Sika is known in the region as a supplier of qualitatively high-value products and is participating in various major projects, for example with concrete admixtures for the new metro system in Dubai. In 2007 sales grew by 35.8% with an average growth in gross domestic product of 8 to 10%. This means that Sika made remarkable gains in market share, though the absolute value remains low.

Sika established the region IMEA on 1 January 2007 in order to be able to concentrate on the rapidly growing markets primarily in India, Saudi Arabia and the United Arab Emirates as well as to satisfy the close ties between India and the Middle East. The essential task during the year under review consisted consequently in establishing the necessary management structures. Key positions in the regional management and in customer group areas were occupied and a regional headquarters set up in Dubai, from which the region should be developed further. In spring of 2007 a new production facility began operation in Turkey, from which location large parts of the region can be supplied.

Asia/Pacific

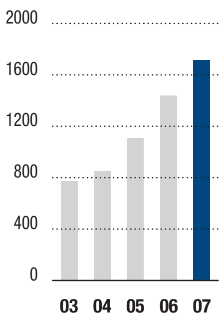
Growth rates in Asia are unwaveringly high and the economy boomed in almost all sectors. All Asian countries have large foreign currency reserves at their disposal, which lend them control of exchange rates. Growth of the leading national economies of Asia, particularly China, is increasingly being carried by investments in infrastructure as well as by consumer spending. A central question for the region remains whether qualified workers can be found, and perhaps more difficult, how to retain them.

In the region Sika profits from major infrastructure projects and from the continuously rising quality demands in the industrial and commercial construction segment. In addition the topic of energy efficiency is increasingly gaining importance, particularly in China, which stimulates demand for Sika products additionally. The success of newly-launched products in the roofing and flooring sectors were above expectations. The Industry Division profited in the year under review from growth in the Asian automobile industry, and especially of busses and trucks. The automobile industry in China increased its production numbers markedly and offered Sika additional sales potential.

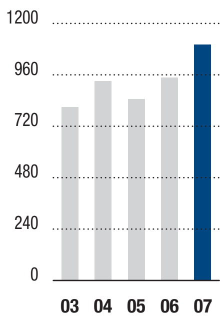
Sika increased sales in Asia by 17.3%. Solely in Japan could volume not be expanded, although the market there has substantial potential for the Construction Division as well as for the Industry Division. One reason for the absence of success is the loyalty of Japanese customers toward their suppliers, a hurdle that is difficult to surmount. Nevertheless in order to make progress in Japan Sika undertook important changes in personnel during the reporting year and improved market knowledge further.

In the year under review Sika opened its sixth production plant in China. This is situated in Suzhou, outside of Shanghai, and produces polyurethane adhesives (Sikaflex®) adapted to local needs, concrete admixtures (Sika® ViscoCrete®) and mortar. Located in Suzhou are also a technology center and development laboratory as well as the headquarters of Sika China. In order to leverage further growth opportunities in the region optimally, Sika has adjusted its organization to market needs and built up resources. The search for qualified new employees stood thereby in focus.

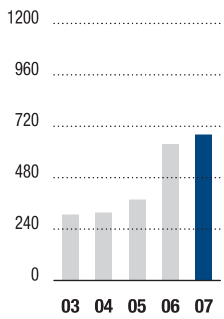
Net sales
Europe North
in CHF mn



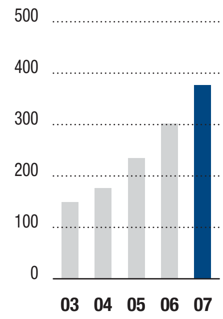
Net sales
Europe South
in CHF mn



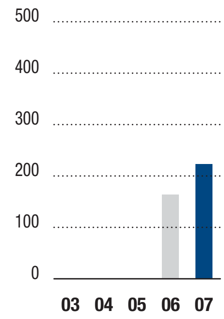
Net sales
North America
in CHF mn



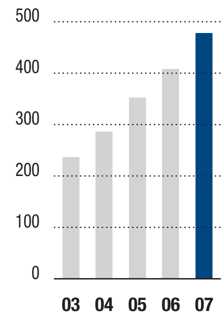
Net sales
Latin America
in CHF mn



Net sales
IMEA
in CHF mn



Net sales
Asia/Pacific
in CHF mn



Investments as key to potential growth

Due to continuously growing demand Sika has invested substantially in the expansion of production capacity for the product groups with the greatest growth potential. A new research and development center underscores again the significance of innovation for the future of the enterprise.

Growing demand requires investments

Due to continuously growing demand for Sika® ViscoCrete® and Sikaflex® products as well as for roofing and flooring systems, Sika has ongoing need of additional production capacity, because existing plants are in large part operating at capacity and have only limited potential to increase production through higher efficiency. As a result the company has invested in the year under review, as it did in the previous year, in considerably more property, plant and equipment than it did earlier. Investments flowed on one hand into new plants and on the other into the expansion or modernization of existing production facilities.

The largest single investment in the reporting year was the new Sikaflex® production facility in Düdingen, Switzerland, the construction of which began in 2006 and was largely completed in the year under review. The entire investment volume for this plant amounted to CHF 100 million. Production capacity for Sikaflex® products in Europe is thereby doubled, and at the same time a new, distinctly more profitable production process based on continuous operation has been introduced. With this new capacity, large-volume products can be manufactured for customers in automobile, façade and window construction. The new facility should take up operation in the first quarter of 2008. The capacity of this plant can be doubled in a second stage if necessary with an investment in the range of CHF 60 million.

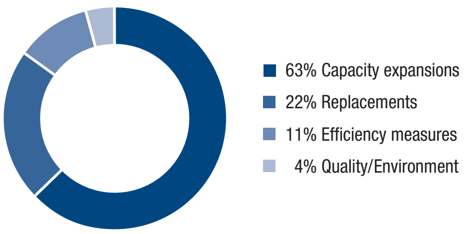
A new Sika research and development center, of which construction also started in 2006, made great strides in the reporting year and will be given over to its purpose in spring of 2008. With this investment of CHF 40 million at the location of Zurich in Switzerland, Sika again underscores the significance of research and development for the future of the enterprise.

In the year under review expansion of capacity for the highly successful roofing membranes commenced in Düdingen, Switzerland. In all Sika is investing through 2008 some CHF 30 million in this project for a new production line. In Colombia, Russia and Belgium the starting signal was also given for construction of new production facilities.

During the reporting period two new production plants assumed operation. In March, Sika opened its sixth production facility in China. This lies in Suzhou, outside of Shanghai, and produces the polyurethane adhesives Sikaflex® and SikaForce® as well as concrete admixtures (Sika® ViscoCrete®) and mortar. Sika supplies mainly the Chinese Eastern Coast from the respective warehouse. Located in Suzhou are also a technology center and a development laboratory as well as the headquarters of Sika China.

In June a new production plant went into operation in Turkey. The factory is part of a modern industrial park in Tuzla in the Asian part of Istanbul. There Sika manufactures concrete admixtures, mortar and coatings as well as resins for flooring. The modern facilities substantially expand production capacity in Turkey. For Sika, Turkey is a significant sales market and an important manufacturing location, from which Central Asia and the Golf Region are supplied. The opening thus marks a further step in Sika's expansion in the growth markets of the region IMEA (India, Middle East, Africa).

2007 Investments



Investments in property, plant and equipment

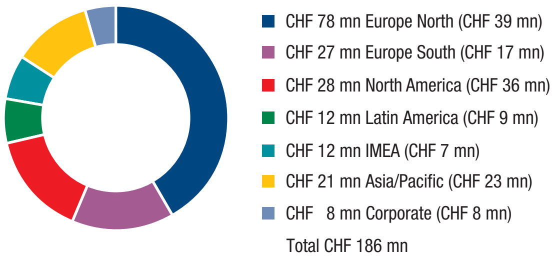
In the reporting year investments in property, plant and equipment increased from CHF 140 million to CHF 186 million, which corresponds to 4.1% of net sales. As in the previous year, the focus of investments targeted the worldwide expansion of Sikaflex® and Sika® ViscoCrete® production, since these product groups exhibit the highest growth potential.

The portion of investments dedicated to capacity extension rose from 60 to 63%, reflecting the sustainable growth of the company. Although remaining investments increased in absolute terms, they dropped slightly on a relative basis in comparison with the previous year: 11% (14%) were put into rationalization, 22% (22%) were necessary for the replacement of existing plants and 4% (4%) went into the areas of quality and environment.

To preserve liquidity Sika financed large investments of CHF 44 million on an operational leasing basis.

Investments in property, plant and equipment in the regions

Investments were distributed as follows throughout the regions:



Future investments

In the coming years Sika will continue investing in the extension of production capacity for the especially high-growth product groups Sikaflex®, Sika® ViscoCrete® and membranes. Regions in which new markets are opened up stand thereby in focus. Belonging among these are Eastern Europe, China, the USA, India and the Middle East. With an overall investment quotient of 3–5% of net sales, production facilities not being especially capital-intensive, a yearly growth of 8–10%, as envisioned in the “Strategy 2010”, can be ensured.

Acquisitions

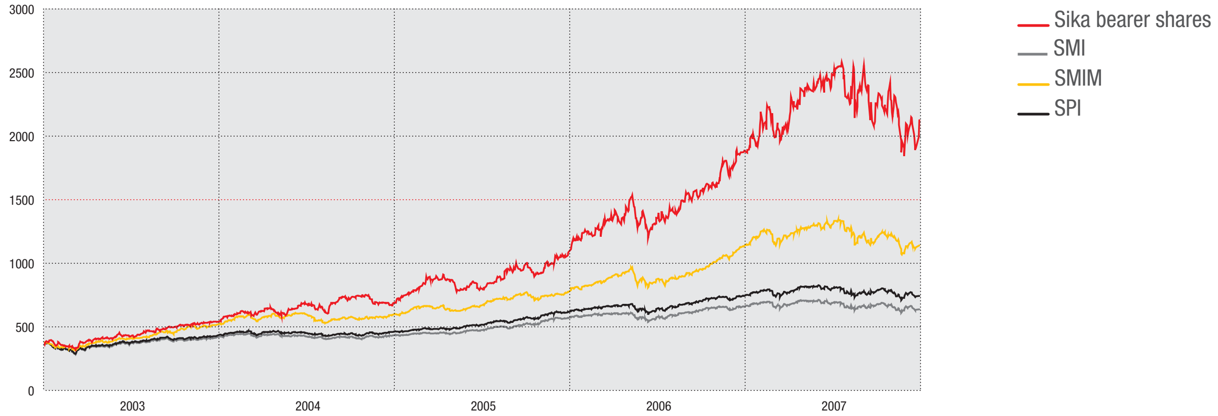
For Sika, organic growth is at the center of enterprise strategy. The acquisition strategy derived from this therefore targets above all the purchase of new technologies that strengthen or compliment the core business and can be applied worldwide. Thus the volume of investments generally lies below CHF 100 million per year. Acquisition of market share is then attractive for Sika if strategically significant geographic gaps can thereby be filled (for example in North America and Asia) or fragmented markets consolidated.

In the year under review Sika took over MRT Construction Products in Edmonton, Canada. The company is active in Canada in the area of concrete admixtures and generated sales of roughly CHF 3 million in 2006. With this takeover Sika accelerated the geographic rounding out of the concrete admixtures sector in the region North America.

On 9 January 2008, meaning after the balance deadline date, Sika acquired the business of the German Tricosal GmbH & Co. KG in Illertissen, one of the leading companies in the area of watertight sealing of buildings and civil engineering works. Included thereby are also the production and distribution activities of Tricosal BBZ AG in Hauptwil in Switzerland. With this purchase Sika expands its product palette and know-how in structural sealing, and with Tricosal’s area-wide distribution comprising four branches, also strengthens construction site services and project business in the German market. Alongside the waterproofing activities Sika also acquires the product area gypsum. Completion of the transaction is still dependent on approval by the relevant anti-trust authorities and is expected by mid-2008. Tricosal generated an annual turnover in the last year of some EUR 22 million.

Also after the balance deadline date, Sika acquired the polymer-based industrial flooring business of The Valspar Corporation in the USA. The transaction also took place on 9 January 2008. With this acquisition the company has strengthened its position in the flooring systems sector. The acquired flooring business encompasses a broad product portfolio based on epoxy and polyurethane technologies and is an outstanding fit for Sika’s growth strategy in North America, where its position in the flooring market has previously been weak for historical reasons. The established product palette of the purchased business and its network of employees, applicators and distributors improve Sika’s present position sustainably. The turnover of the acquired activities in the last year amounted to USD 17 million.

Performance of Sika AG bearer shares in Swiss francs (1/1/2003–12/31/2007)
Bearer shares, nominal value CHF 9.00 (Share price as of 12/31/2007: CHF 2 136.–)



Acquisition of Sika stock

All legal entities and individuals are entitled to acquire Sika stocks. The Board of Directors is authorized to restrict the registration per shareholder to 5% of all bearer shares. Sika AG bearer shares are listed on SWX, the Swiss stock exchange.

Standard & Poor's Credit Rating

long-term: A-/stable short-term: A-2

Stock price development

From January 1 to December 31, 2007 the Sika stock rose 13.0% from CHF 1 890 to CHF 2 136. The absolute high reached by shares during the period under review was already achieved in mid-July with a price of some CHF 2 600. Following this, also Sika shares were ensnared in the increasing nervousness of financial markets and murky prognosis for the global economy.

On January 11 the Group published sales figures that lay somewhat above analysts' expectations. On January 16 Sika announced the sale of Sarna Plastec AG in Sarnen, Switzerland, within the framework of a management buyout. In March the Group published its profit figures for 2006. These were 51 percent higher than in the previous year. An outlook judged as conservative led to profit-taking among some market participants. In the same month it was announced that Sika purchased MRT Construction Products, a Canadian manufacturer of concrete admixtures, and that it would sell its business for manufacture of bituminous coatings in Germany in the associated market segment of the cast piping industry. Also in that month, Sika opened its sixth production plant in China. In April the Group announced a good start in the new year (increase of sales by 19 percent) and a positive outlook. At the Annual General Meeting shareholders approved the payment of a gross dividend of CHF 31.20 per bearer share and CHF 5.20 per registered share. In the following months Sika stock experienced high demand on share markets. The price rose to new records. In June the company announced the opening of a new production facility in Turkey. On August 10 Sika made public its profit increase of 63 percent in the first half year and a boost in sales of 19 percent. Nonetheless at this time the mortgage crisis in the USA cast its first shadows over the construction industry. Broad losses in share prices were the consequence.

In September it was announced that CFO Markus Zenhäusern would leave the Group and be replaced by Ronald Trächsel. The result in November after three quarters with a gain of 18.3 percent in net sales surpassed the expectations of analysts. The strong increase in the price of oil and the reputed slowdown in the world economy led however to further wide scale share price drops until a temporary rebound set in shortly before Christmas.

Overall, two contrary poles shaped the year: the global economic boom manifested primarily in Asia, and the financial market crisis in the USA that afflicted almost all large banks. As of 1 June the barometer Swiss Market Index (SMI) achieved a new high with 9 531 points. But shortly thereafter the first negative reports from the U.S. real estate sector reached the financial markets. From this point waves went mostly downward. In the course of the year the SMI forfeited in total 3.5 percent. The more broadly composed Swiss Performance Index (SPI), on the other hand, closed the year on the same level at which it had begun. The Dow Jones Industrial Average rose by 7 percent and the German DAX by even 22 percent.

Per share data

Bearer shares[1]: Nominal value 9.00

		2003	2004	2005	2006	2007
Number of shares as of December 31		2 151 021	2 151 199	2 151 199	2 151 199	**2 151 199**
of which entitled to dividend		2 115 223	2 149 766	2 149 202	2 149 205	**2 117 179**
of which entitled to vote		2 115 223	2 149 766	2 149 202	2 149 205	**2 117 179**
Gross dividend or repayment of nominal value, resp.	CHF	15.00	16.80	19.20	31.20	**45.00**[2]
Stock quotations						
high	CHF	537	750	1 090	1 900	**2 595**
low	CHF	312	540	683	1 108	**1 850**
year-end	CHF	534	682	1 090	1 890	**2 136**
Stock price performance	%	49.6	27.7	59.8	73.4	**13.0**
Average daily trading volume[3]	Share	2 284	5 034	5 827	4 757	**8 870**

Security no. 58797 / ticker symbol: SIK (Telekurs AG), SIKZ (Reuters)

Registered shares[4]: Nominal value CHF 1.50

		2003	2004	2005	2006	2007
Number of shares as of December 31		2 333 874	2 333 874	2 333 874	2 333 874	**2 333 874**
of which entitled to dividend		2 325 402	2 333 874	2 333 874	2 333 874	**2 333 874**
of which entitled to vote		2 325 402	2 333 874	2 333 874	2 333 874	**2 333 874**
Gross dividend or repayment of nominal value, resp	CHF	2.50	2.80	3.20	5.20	**7.50**[2]

The registered shares of Sika AG were delisted in the SWX, the Swiss stock exchange, on September 4, 2003.

Key data per bearer share[5]

		2003	2004	2005	2006	2007
Consolidated net profit per share (EPS)[6]						
basic EPS	CHF	37.2	47.8	60.1	91.4	**137.1**
diluted EPS	CHF	37.2	47.8	60.1	91.4	**137.1**
EPS development	%	17.7	27.6	25.8	52.0	**50.0**
Cash flow per share	CHF	81.1	91.4	104.3	152.5	**198.3**
Equity per share	CHF	339	369	428	498	**582**
Price earnings ratio (P/E), year-end	CHF	14.4	14.4	18.1	20.7	**16.8**
Dividend / repayment of nominal value yield	%	2.8	2.5	1.8	1.7	**2.0**[2]

Other information

		2003	2004	2005	2006	2007
Market capitalization[7] (year-end)	CHF million	1 356	1 732	2 769	4 801	**5 426**
in % of equity	%	160	185	255	380	**369**
Total dividend / repayment of nominal value amount[5]	CHF million	38.1	42.7	48.8	79.3	**114.3**[2]
in % of consolidated net profit (payout ratio)	%	41	35	32	34	**33**

[1] of which, in 2007, Sika AG owned 34 020 (1 994) bearer shares not entitled to dividend or voting rights.

[2] pursuant to proposal to Annual General Meeting

[3] average daily volume traded on SWX, the Swiss stock exchange (Source: Swiss Stock Exchange SWX, Zurich)

[4] of which, in 2007, Sika AG owned none (0) registered shares not entitled to dividend or voting rights.

[5] excluding minority interests

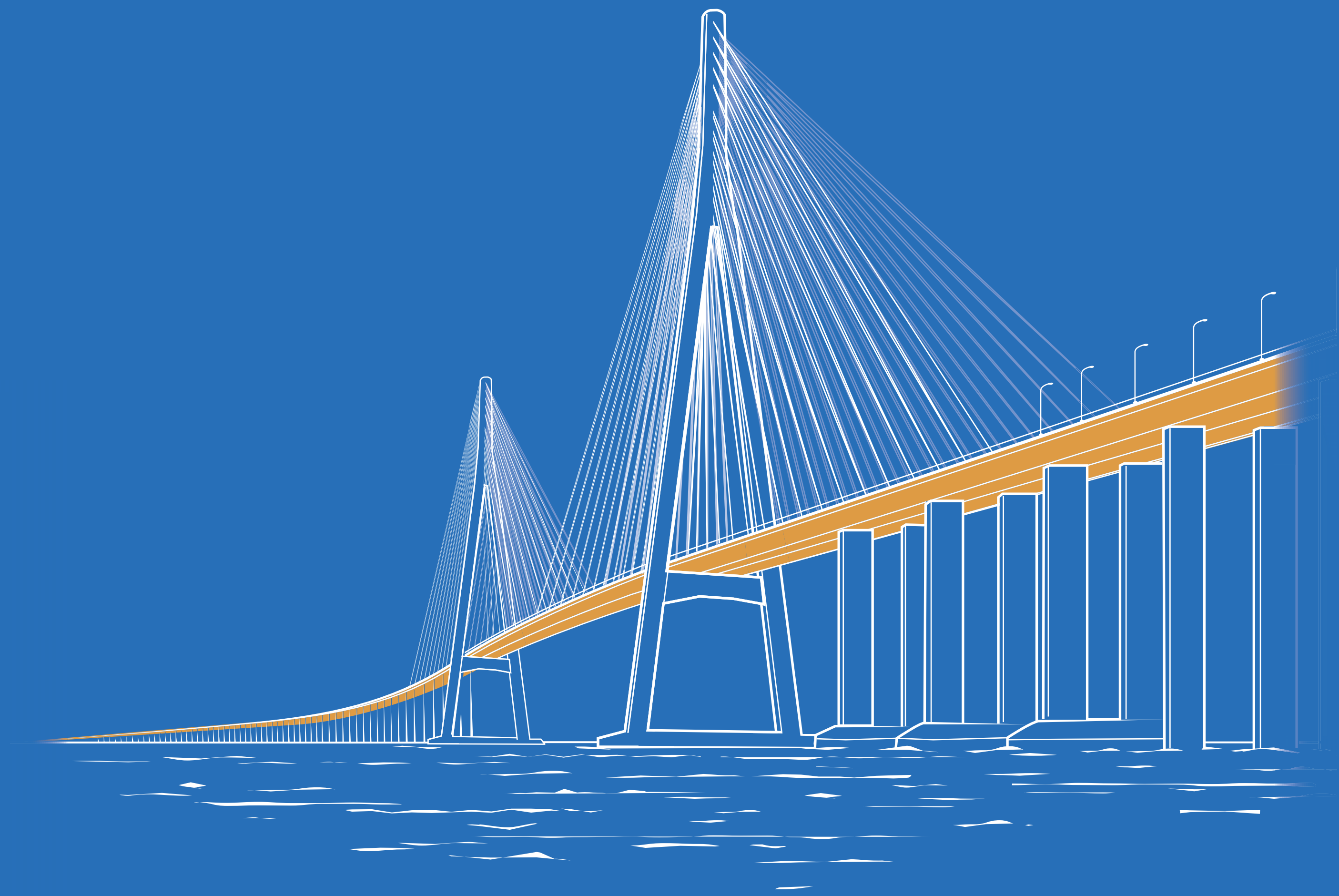
[6] for EPS calculation, see note 32 on page 103 (IAS 33)

[7] The registered shares were delisted from the Swiss stock exchange in 2003. In our calculation these are taken into account with 1/6 of the bearer share price December 31, 2007.

Competencies

Constantly innovative

Bonded by strong ideas: The Sutong Bridge across the Yangtze is the longest cable-stayed bridge in the world, and is considered an architecturally outstanding, highly complex project. The bridge's official opening is in Spring 2008. Sika supplied admixtures for the gigantic concrete elements and the adhesive that holds them together.



All things in flow. With a span of 1 088 meters, the Sutong Bridge opens a new chapter in the construction of cable-stayed bridges. The previous record holder extended 890 meters, and 1 000 meters were considered the “sound barrier.” This has now been broken, with a project the data of which are truly impressive: the bridge measures 8.2 kilometers, the entire new construction 32.4 kilometers. 200 000 tons of steel were used, 1 000 000 m^3 of concrete and 3 000 000 m^3 of filling earth. The six-lane expressway is supported by 143 pylons, of which 92 stand in water. And the central pylons from which the roadway is suspended are at 306 meters the highest in the world. The bridge does not span just any river: the Yangtze, also called Yangtze Kiang, is the longest river in Asia.

It was an honor for Sika to assume a major role in this project. More than 1 000 precast concrete parts were poured. The concrete admixture Sika® ViscoCrete® thereby ensured quality and efficiency. Modified concrete is thus on one hand quickly and easily processed, hardening rapidly in the casting mold, and on the other hand lends the finished part high strength and a smooth surface. The parts of the bridge are held together, among other things, with the adhesive mortar Sikadur®. Only Sika was able to deliver products which allowed optimal processing during the bridge construction independent of prevailing temperatures.

The best solution with combined competencies

More safety, comfort and quiet, greater stability and load-bearing capacity – every day presents tasks and demands. Where human spirit challenges the laws of physics and asks for the seemingly impossible, innovative solutions are required. Sika accepts these challenges and focuses its engagement on the needs and requirements of customers. Our core competencies lie in sealing, bonding, damping, reinforcing and protecting load-bearing structures in construction and industry.

Intelligent solutions

Sika's core competencies of sealing, bonding, damping, reinforcing and protecting load-bearing structures find broad possibilities for application in construction as well as in industry, for example in automobiles, commercial vehicles, ships and machines of all types. As intelligent solutions, Sika applications almost always combine a number of competencies, thereby fulfilling various tasks simultaneously. In the bonding of parquet flooring for example, the adhesive at the same time also dampens the sound of foot fall. Or in the construction of windows, the bonding technique increases structural rigidity, also eliminating undesired thermal bridges. And in vehicle manufacturing, damping materials shut out not only noise, but also dust and moisture, thereby protecting load-bearing structures long term. In this way a single product unifies a number of core competencies, delivering – in combination with expert advice – the best solution for the customer. That's why more and more partners rely on Sika competence.

Sealing

Sealing minimizes the flow of gases and liquids between cavities and interstices as well as the dissemination and transfer of heat or cold. Large flat roofs, difficult tunnel constructions, easily damageable water reservoirs and challenging façades are durably impervious to wind and rain, resistant to temperature, age and vibration. The functionality and comfort of rooms within is thereby enhanced.

Bonding

Bonding joins different materials permanently, elastically and securely. Vehicles, windows and even concrete elements for bridges weighing many tons are bonded using new processes. Sika bonding technologies increase the safety of end products and enable greater freedom of design. These applications also optimize the manufacturing process through reduction of cycle times.

Damping

In fixed and moving objects, damping reduces vibrations of all wavelengths, resulting in fewer reverberations and noise emissions in load-bearing structures and cavities. Noise in interiors for example is abated, thereby significantly increasing comfort – whether in a vehicle, in convention centers or a majestic sailing yacht like the Athena.

Reinforcing

Reinforcing targets the increased carrying capacity of statically as well as dynamically stressed load-bearing structures, from light window frames to crash-resistant automotive bodies to imposing concrete bridges. Solutions for reinforcing improve existing load-bearing structures and optimize new ones.

Protecting

Protecting boosts the durability of load-bearing structures and preserves the substance of new and renovated objects. Sika solutions guarantee sustained protection against climatic conditions, chemical influence and pollution for concrete structures, water reservoirs and historical buildings.

Brand Sika guarantees quality

The Sika brand stands for innovation, quality and service, and is a solid bond between the company and its customers – worldwide, whether on large construction sites or in building material stores. In order to preserve the high value of the brand, its protection holds high priority.

The Sika logo – proven through 90 years

Since the company's founder Kaspar Winkler invented the Sika name and also created the triangular Sika logo, brand protection at Sika holds high priority. Thanks to the farsightedness of that time, the Sika brand has been able to develop to what it is today. The logo that since its first creation has practically not changed thereby embodies continuity and solidity, and is recognized all over the world as a sign of quality, innovation and service.

Through the continuous expansion of the Sika Group throughout the world over decades, the more than ninety-year old trademark has become well established. The word "Sika" as well as the logo and its red and yellow colors are applicable in all the cultural circles in which Sika is active. Because Sika possesses a high degree of recognition primarily as a trademark, the company places great value on consistent and standardized use of the logo and checks compliance with the corresponding design guidelines. Customers in the whole world can thus rely on receiving Sika quality and service wherever the Sika logo appears. And the attempts observed to copy the trademark during the last few years prove in the end what great immaterial value Sika has with its logo.

Trademark protection

The Sika family brand as well as 556 Sika trademarks such as Sikaflex®, Sika® ViscoCrete® or SikaBond® create essential market advantages for the company. Accordingly, trademark protection is an important management responsibility, administered globally at the Group level as well as locally at the country level. In total Sika holds over 12 654 trademark registrations in 148 countries. Sika monitors its trademarks constantly and immediately initiates pertinent legal measures in cases of infringement.

Trademark ambassadors

In sponsoring the Swiss bobsled, luge and skeleton federation, the Sika triangle is represented internationally by the Swiss national bobsled team as well as Gregor Stähli in the discipline skeleton. In addition, some country subsidiaries have their own trademark ambassadors, for example in motorcycle racing or cross-country skiing.

Know-how from Site to Shelf

The concept "Know-how from Site to Shelf" clarifies what Sika stands for in the distribution business: Sika sells through distributors exclusively high-value, quality products that have proven their performance capability on the largest construction sites in the world, and from there find their way directly to the shelf in building material stores in convenient packaging. Customers of every magnitude worldwide profit from this quality advantage.

Innovation is the key to success

The capacity to innovate is a key factor for success in rapidly changing markets. Sika continuously takes the pulse of customers, investing consistently in new and advanced development of solutions. These should protect people and the environment, fulfill the highest safety requirements and at the same time generate value added for customers. This strategy bore fruit also in 2007.

R&D strategy

Innovation is the key to growth and sustainable increase in profitability. Sika is conscious of the significance of research and development and has always undertaken great efforts to attain first-class results. The budget has risen continuously during recent years, which is reflected in a large number of patents and new products. The research and development (R&D) strategy adopted in 2000 and modified in 2005 within the framework of the general enterprise strategy revision has proven highly successful.

R&D strategy includes centralized and decentralized components that complement each other perfectly. The centrally organized research handles long term research programs, delivers analytical services and establishes R&D management for the entire Sika Group. These responsibilities are bundled in the subsidiary Sika Technology AG. The objective of a long term research program is, for example, to analyze, explain and optimize the interaction between components of concrete and Sika admixtures. Improvements in product properties and progress in the manufacturing of admixtures are based on this. Sika works similarly in the area of sealants and adhesives. The Group places its focus on the development of new binding materials and innovative additives. Furthermore, new binding material technologies are developed for use in highly structured adhesives and structural reinforcements for automotive construction.

The second component in R&D strategy is the regional adaptation of products, solutions and applications. Nine technology centers in America, Europe and Asia take on this challenge. In collaboration with regional support centers proximal to customers the technology centers additionally adapt Sika products to local conditions and the individual needs of customers. In this way the support centers can adjust for example concrete admixtures from the Sika® ViscoCrete® assortment better and more quickly to local climatic conditions or to locally sourced aggregates such as gravel and sand. The support centers are also responsible for finding suitable local raw materials to cost-optimize onsite product manufacturing. In the year under review Sika generated 34% (33%) of net sales with products launched within the last five years.

R&D management

Spending for research and development in the Group amounted to CHF 62.3 million in the year under review (2006: CHF 52 million) or some 1.4% of sales (2006: 1.4%). The R&D budget was apportioned in accordance with strategic priorities. So as in previous years roughly three-fourths of the budget went into product development and maintenance.

The Sika Group's R&D organization was adapted in 2005 to the requirements of the revised enterprise strategy and since then concentrates increasingly on research in technology platforms and strategically important R&D projects. The product development process is now uniform worldwide in order to be as quick as possible to market with new and patented products. Sika does not want to be only quick, but also especially efficient, and therefore strives for cost leadership for its products in all target markets.

In collaboration with corporate operations the R&D organization also works to tighten the comprehensive product assortment and thereby to simplify processes in marketing, production and distribution and lower costs.

As also in previous years Sika participated in the reporting year in various international projects and was active in the NanoCem Consortium among other organizations. This European research network studies phenomena occurring in nano and micro dimensions that can influence the performance of cementitious materials and products and structures made from them. Sika Technology AG also actively took part in various projects sponsored by the European Union, listed here as follows.

– FUTURA: modular concept for automotive construction of the future
– MUST: interactive pigments for adhesives and sealants as well as coatings
– I-SBB: safe and intelligent construction for earthquake-endangered areas
– TunnelConstruct: new tunnel concepts for urban areas

Since this reporting period Sika Technology AG is also active within the United Nations Sustainable Building & Construction Initiative.

Because Sika has limited capacity for basic research, the company collaborates with first-class universities, among others in Switzerland, the USA, in Germany, Spain, France, China and India. Professional and geographic proximity often lead to fruitful cooperation offering unbureaucratic solutions that are quickly found, bringing advantages for both parties. In addition Sika attempts through its engagement to counteract the prevalent shortage of engineers and chemists in some countries by attracting candidates suitable for the company.

Product development and market introduction process

On the way from an initial idea to market introduction new developments traverse a clearly defined, seven-stage "Product Creation Process" (PCP), and must thereby repeatedly fulfill very stringent standards for cost-effectiveness and environmental, health and safety protection. The PCP has the objectives of reducing risks, minimizing costs, shortening time-to-market (TTM) and continuously improving product quality.

Due to the great significance of the PCP for the innovation capability of Sika AG, the responsible employees in the regional companies are regularly schooled in the application of the process. In addition an interactive training program is available for all Sika employees; this is actively used and thus sensitizes all participants for Sika's high standards.

The regional technology support centers are responsible for observance of the PCP in their region and review the quality of processes regularly with the help of PCP audits. It is thereby ensured that employees' standard of knowledge is always current and corresponds to the Sika norm. Local chemists are made conversant with the newest technologies while in parallel innovative ideas from the regions are recorded and leveraged for the Group's benefit. In the year under review PCP audits were conducted in a number of European countries as well as in the regions Asia/Pacific and Latin America.

The revised PCP 2007, binding for all Sika employees, was introduced in all departments during the reporting period following the principle "Train the Trainer." PCP workshops took place in China, South America and Europe.

Patents and market introductions

Sika filed for 60 patents in 2007 (2006: 52). The number of invention disclosures rose from 59 in the previous year to 90 in the reporting year. As in the previous year both divisions introduced numerous new, promising products into the market. Some examples of these follow:

Innovations for the Construction Division

In 2007 Sika focused on the formulation of cost-optimized products for volume business and brought the first of an entire series of new polymers to market in China. Sika® ViscoCrete® flakes and various polymer powders were sold or made ready for market, including Sika® ViscoCrete® 225 powder, targeted for use in the area of dry mortar. The powder provides for shorter mixing times and reduces the sensitivity of the mix as compared with cement properties. The Sika® ViscoCrete® technology is also the basis for new grinding aids, with which cement manufacturers can lower the energy consumption of their production processes while simultaneously improving cement quality.

Within the European research initiative Eureka, Sika has worked during recent years on the development of a new generation of concrete. With Ceracem, an ultra-high performance, fiber-reinforced concrete introduced in 2007, a great advancement has been made. Use of Ceracem offers architects and engineers new possibilities for very slender but durable structures. Among other things, elegant, light, broadly-strained beams can be manufactured with Ceracem, giving enhanced significance to constructive design. Sika is one of five European industry partners, through whose collaboration the project was realized. Ceracem is not only especially resistant to chemicals, water and fire, but also withstands extreme mechanical strain. In addition, considerably less concrete is required for construction than is the case with conventional building materials. Although this new material was originally developed foremost for construction of bridges, tunnels and buildings, it is in the meantime also favored among furniture designers and interior decorators.

The successful product palette for wood floor bonding was supplemented in the period under review with the silane-terminated adhesives SikaBond® AT-82 and SikaBond® AT-84.

Sikaflex®-650 WT-1A is a new polyurethane-based (PUR) adhesive for bonding glass panes into window frames. The product is compatible with SikaGlaze® IG-50, used for production of insulating glass panes. Sika can thus now offer the window industry a complete PUR-based package.

In the market segment flooring Sika introduced a number of new flooring systems, among others for parking decks, for the electronic industry and for the automotive industry.

"High Concrete Group is a recognized industry leader in manufacture of precast concrete structures, headquartered in Denver, Pennsylvania and awarded for excellence in Architectural and Engineering Design. Sika offered us a cost effective solution for increasing productivity in a marketplace that continually demands quality improvement. The solution came not only in the form of innovative products, but also in hands-on service. In the fast-paced world of Precast Concrete, you need to be partnered with suppliers who can respond to change immediately: Sika has proven that ability."

Paul Ramsburg, Director of Quality, High Concrete Group, USA
High Concrete Group is one of the world's leaders in the precast concrete industry.

With the integration of the protective coatings business unit from DuPont in Germany, Sika was in position to supplement its own product line and to develop a sprayable, flame-retardant liquid membrane.

Sika also presented new products in the market segment roofing during the reporting year, among them two new membranes for gabled roofs and a self-adhesive membrane with a foamed back-side for roof gardens.

Innovations for the Industry Divison

In the year under review the company succeeded in winning over various automobile manufacturers as new customers, and brought new applications to market for automotive construction as well as the aftermarket. Following a one year test phase with two large, German manufacturers a new generation of adhesives for direct glazing was introduced which measurably shortens processing times and thereby reduces manufacturing costs.

In the area of hot-melt adhesives, SikaMelt® was developed, a new, reactive polyolefin for the bonding of laminates in automobile construction.

In water-based bonding systems the mono-component (1K) Sika-Therm® technology entered the market in 2007, also for bonding of laminates. Sika won a technology prize in Germany with this innovation: in the wake of the symposium "Bonding in Manufacturing Technology" 2007, organized among others by the Fraunhofer Institute for Manufacturing Technology and Applied Materials Research, a Sika Automotive GmbH employee won first prize in a young talent competition with a contribution to the new, isocyanate-free, mono-component lamination technology. Evaluated in the competition among other criteria were the degree of innovation of the technologies presented and their significance for the bonding technology as a whole. With the newly patented 1K SikaTherm® product family, Sika sets new standards in the area of lamination technology and thereby for bonding technology.

Sika brought a second generation of structural adhesives (Sika Power®) on the market in the year under review which was required beforehand to prove its performance in comprehensive crash tests. SikaForce® for bonding of mounted parts not only for automobiles but also in the busses, trucks and railcar segment entered the marked in advanced quality.

The reinforcer technology is a promising, structural reinforcement system for automobile construction. The lightweight construction elements serve the stiffening of automotive bodies and contribute essentially to the fulfillment of increasing requirements placed on vehicles regarding economy, safety and driving comfort. SikaReinforcer® was further developed in 2007 and worldwide product introduction was continued.

In Aftermarket Glass Repair (AGR), Sika® Aktivator PRO was developed. With this activating agent the bond for an auto glass reaches a high strength within the shortest length of time, including in winter at very low temperatures. A customer can thus leave the body shop with the vehicle already after just a few minutes.

The modernization of the product palette for pre-treatment made further progress in the year under review. The new bonding agent Sika® Primer-209 thus replaces two older products in the area of plastics and coatings. A new bonding agent was also introduced for wood applications, used in the installation of teak decks in ship construction.

Sika – 11 723 employees make a strong team

Sika is and remains a popular employer. Surveys reflect high employee satisfaction and a low rate of fluctuation. The cooperative management style, targeted employee development and systematic knowledge transfer are reasons for good team spirit.

The Sika Group wants to expand successfully. This is also evident in our workforce. The number of employees has continually increased over the last years. Again in 2007, new positions could be created at almost all locations. Worldwide in the year under review, the Group employed 11 723 people, 414 more than in the previous year (2006: 11 309). In the year under review divestments and acquisitions resulted overall in a reduction of 92 employees.

The regional distribution of employees is as follows: Europe North 4 248 employees (2006: 4 151), Europe South 1 922 (2006: 1 869), North America 1 319 (2006: 1 330), Latin America 1 539 (2006: 1 365), IMEA[1] 789, Asia/Pacific 1 906 (2006: 2 098). New jobs were created primarily in Eastern Europe and in the Middle East.

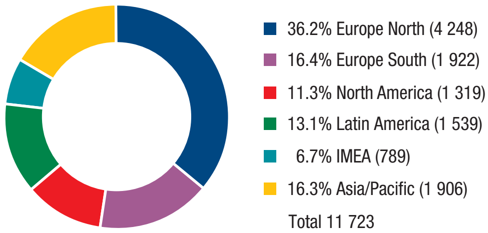
Together all Sika employees in 2007 generated a net added value of CHF 1 437 million (2006: CHF 1 217 million). Relative to total compensation they produced a net value added of 156% (144%). The net value added achieved per employee rose by some 13.7% from CHF 109 800 to CHF 124 800 (see page 135 in this Report).

Employee satisfaction and management philosophy

Sika promotes an operating climate in which employees can develop in accordance with their professional qualifications and personal capacities. A cooperative management style with delegation of responsibility to the lowest level possible favors participation of employees at all levels. No form of discrimination is tolerated.

The company upholds continuity and the preservation of ethical values, whereby mutual respect as well as trust in management and colleagues are of central significance. Sika's dynamic development at the same time requires new forms of collaboration and readiness for change. Important in this are the integration of widely differing people and the global exchange of knowledge and experience, promoted by line and human resource managers through various new platforms and committees, for example through a "Sounding Board" for exchange of so-called "Best Demonstrated Practices." The company is proud to have created a work and management environment which encourages individual freedom of action and decision-making as well as enthusiasm for one's own work, openness to change and genuine employee commitment. Sika desires that employees experience satisfaction in their work and in the success of the company. The slogan "Be proud of Sika and let Sika be proud of you!" bears witness to this.

Number of employees by region

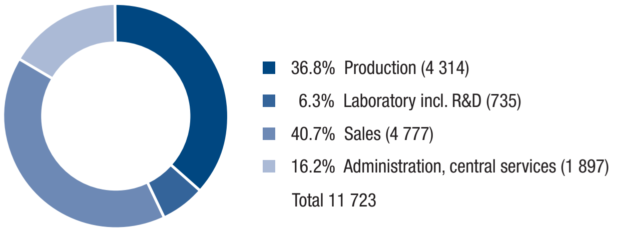


National companies conduct detailed analyses of employee satisfaction on a local level. At the global level the employee fluctuation rate serves as an indicator for employee satisfaction. In the year under review this amounted to 13.4% (2006: 11.8%). The increase in the fluctuation rate had various causes. On one hand, successful managers at Sika are increasingly targeted in external headhunting attempts. On the other hand the booming economy worldwide in developed industrial nations as well as in the emerging markets of Asia makes it easier for employees to find new challenges outside Sika. Simultaneously, managers are confronted with considerable internal changes brought on by growth and the new Group organization. Sika is therefore undertaking great efforts above all in Asia to offer employees prospects that will improve their company loyalty.

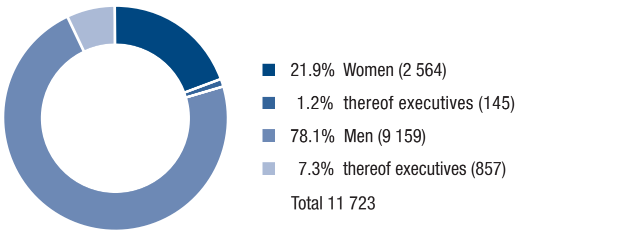
[1] India, Middle East, Africa (IMEA). Separate reporting for the region IMEA was instituted on January 1, 2007.

To raise the attractiveness as an employer still further, Sika relies on global human resources management, at the core of which lies a modern system for identification and further development of performance and capability. The system supports employee succession planning and assists the company to identify additional talented individuals and consciously promote them in view of its own growth. In the year under review various talent pools for different management functions were created in this way, in which some 150 talent pool members are being prepared for possible new responsibilities. In the current business year the talent search will be extended into lower levels of management to include some 800 employees.

Number of employees by area of activity 2007



Women/Men/Executives 2007



Adjusted for growth, Sika employees could be considered for almost one third of all newly staffed positions. At the management level this proportion lay at 50 percent. In the year under review more than 700 Sika employees found a new challenge within the company.

As a globally operating company Sika also sees to it that potential leaders can gather multifaceted experience in other countries and cultures. Group-internal guidelines create security and transparency for employees that leave their home country on behalf of Sika as well as a fair contract adapted to the specific circumstances of the host country. At the same time Sika grants all delegates so-called "home harbor rights," guaranteeing employment upon return to their country of origin.

Knowledge transfer

The rapid growth of the Group along with concomitant changes in the organization and in working processes require a continuous and systematic flow of information and knowledge transfer on all levels. At the global level during the reporting year the first so-called Executive Management Training sessions took place at the Institute for Management Development IMD in Lausanne, Switzerland. Heavily promoted by Group Management, this training gives executives deep insight into Sika's strategy process, conveying necessary resources for coming change processes.

Employee development and advancement

Committed, competent and responsible employees are crucial for achieving the company's goals. The "Training and Development" function positioned at Group level is responsible for the systematic education and advanced training of employees.

In the year of report the "Sika Business School," mandated to realize the idea of a learning organization, was developed further. All study units were revised and updated, and new units were developed for independent, online training and made available worldwide through the Intranet. In the current business year the Business School will also be expanded further. Systematic and targeted schooling and advancement in various subjects such as management, systems, applications and technology will thereby receive foremost attention.

During the year under review Sika spent in all some CHF 9.2 million (2006: CHF 7.2 million) for employee development. Included thereby are specific training sessions organized on a decentralized basis in regions and countries as well as worldwide sales training.

Compensation policy

In the reporting year a comprehensive functional evaluation and salary analysis was conducted for various functions and organizational units with the objective of formulating a globally uniform compensation policy, thereby ensuring the marketability of the company as well as internal justification of salaries.

The compensation model for Sika's management is performance-based. Group Management, the senior management and other top executives are compensated in accordance with delivered performance and goals achieved. The variable portion of compensation depends upon the management level. In 2007 the target salary (base salary and bonus) of the CEO was nearly 50% dependent upon the degree of achievement of the Sika Group's goals. The variable portion of compensation for members of Group Management amounted to approximately 35%.

Variable compensation is dependent to one third each on the result of the entire Group, of the executive's business division as well as on personal goals achieved. Operating free cash flow and operating profit (EBIT) at Group level and in the executive's own area of responsibility and influence are taken as key indicators. Members of Group Management receive at least 20% of their variable salary in the form of Sika shares that are restricted from sale during a period of four years.

"Argos was founded more than 70 years ago and has grown to one of the largest cement and concrete suppliers in Latin America, with substantial foreign operations. Sika partnered in product innovations like Fast Track concrete for heavily-used urban roads, low-shrinkage concrete for refurbishment, or in major infrastructure projects such as the La Linea tunnel in the Andes Mountains. Sika also works closely together with the Argos subsidiary Southern Star Concrete, one of the largest ready-mix suppliers in the USA, jointly developing and implementing new and better solutions."

José Alberto Vélez, CEO, Cementos Argos SA, Colombia
Argos is one of the largest cement and concrete suppliers in Latin America, exporting to 27 countries and having a strong presence in the USA.

Trust in Sika products creates the bond with customers

The customer is king. For Sika employees it is thus imperative to attain the highest quality in their work. Manufacturing and business processes in all business units are continuously improved and further developed to produce more quickly, better and more cost effectively for our customers.

Quality and customer satisfaction are for Sika always and everywhere the measure of all things. All over the world on construction sites and in industry, the Group's specialty chemicals are put to work. With these products, load-bearing structures are sealed, bonded, damped, protected and reinforced. The quality of the products is decisive in securing the trust of customers. Sika's quality concept comprises three aspects: the individual product quality, the quality of the relationship to customers and partners, and the quality of service. Comprehensive service and competent advice is especially important in customer relationships because Sika products are process materials that undergo changes in use. The damping material SikaBaffle® for example foams when an auto body is heated. The epoxy adhesive Sikadur® becomes rock hard upon application, thereby durably bonding concrete components weighing tons. Sika® ViscoCrete® enables the user to control the consistency and curing time of concrete precisely, adjusting it optimally to specific requirements.

Integrating product and advice

Sika understands itself not just as a product supplier, but rather offers the customer complete solutions that consist of products, advice and onsite service. Customer consultants begin by analyzing the customer's needs precisely and suggesting a solution that best suits the application area. The company places great value on product documentation that is readily understandable for the user. Sales representatives in the field, usually chemical or construction engineers, support customers on a construction site or in a production facility to ensure trouble-free application of process materials. Through an instrument for Customer Relationship Management, now introduced internationally, Sika records customer relationship assessments quantitatively in order to derive continuous improvements.

Long-standing development partnerships in the automobile industry or the implementation of innovative Sika solutions for prestigious construction projects throughout the world, for example the Sutong Bridge in China or the Letzigrund Stadium in Switzerland, bear testimony to the trust that customers worldwide place in Sika.

Global quality standards

Ceaselessly high product quality at competitive prices – this is the goal of all Sika production plants. In order to attain this Sika sets obligatory standards for raw materials, formulations and processes as well as in equipment and quality requirements. Business area-related expert teams ensure at local and also at Group level that standards are upheld, offering the necessary support to this end. These interdisciplinary teams are made up of Sika specialists from research and development, engineering and quality assurance as well as marketing.

Highest quality is a Group obligation. Sika products are therefore only released for market entry after their properties both in application as well as in durability have been examined comprehensively and tested under realistic conditions according to defined procedures. Internal and external standards and audits thereby assure a uniformly high quality of testing.

Audits and certifications

In 2007 Sika passed all repeat audits: 14 in accordance with ISO 9001:2000 (quality) and 14 in conformance with ISO 14001 (environment). Of the 62 (55) producing companies (acquisitions and reorganizations included), 55 (51) received a quality certification and 47 (46) an environmental certification by the end of the year under review. It is our goal to have two further companies ISO 9001-certified and at least two others obtain the environmental certification by the end of 2008.

Sika's management system for optimization of process cycles and product quality also conforms to the detailed guidelines of the automobile industry. The six locations that supply the automobile industry passed their annual monitoring audits for certification according to the process-oriented TS 16949 of the automobile industry as well as numerous demanding customer audits. Certification and successful customer audit completion are prerequisites for Class A supplier status, which Sika holds with all leading automobile manufacturers.

Learning from the best

The company continuously optimizes its manufacturing processes with the objective of producing faster, better and more cost-effectively for our customers. To do this, engineers and economists simplify and make the existing processes more flexible. Oftentimes small adjustments lead to significant improvements. In addition Sika pursues new technical solutions that advance productivity and quality still further. External and internal comparisons and process analyses demonstrate further potential for improvement. Sika also takes unconventional paths. We try to learn from industries that at first glance do not have much in common with our own. For example, Sika analyzes procedures and processes in the food industry, which mixes, kneads, fills and packs, just as Sika does.

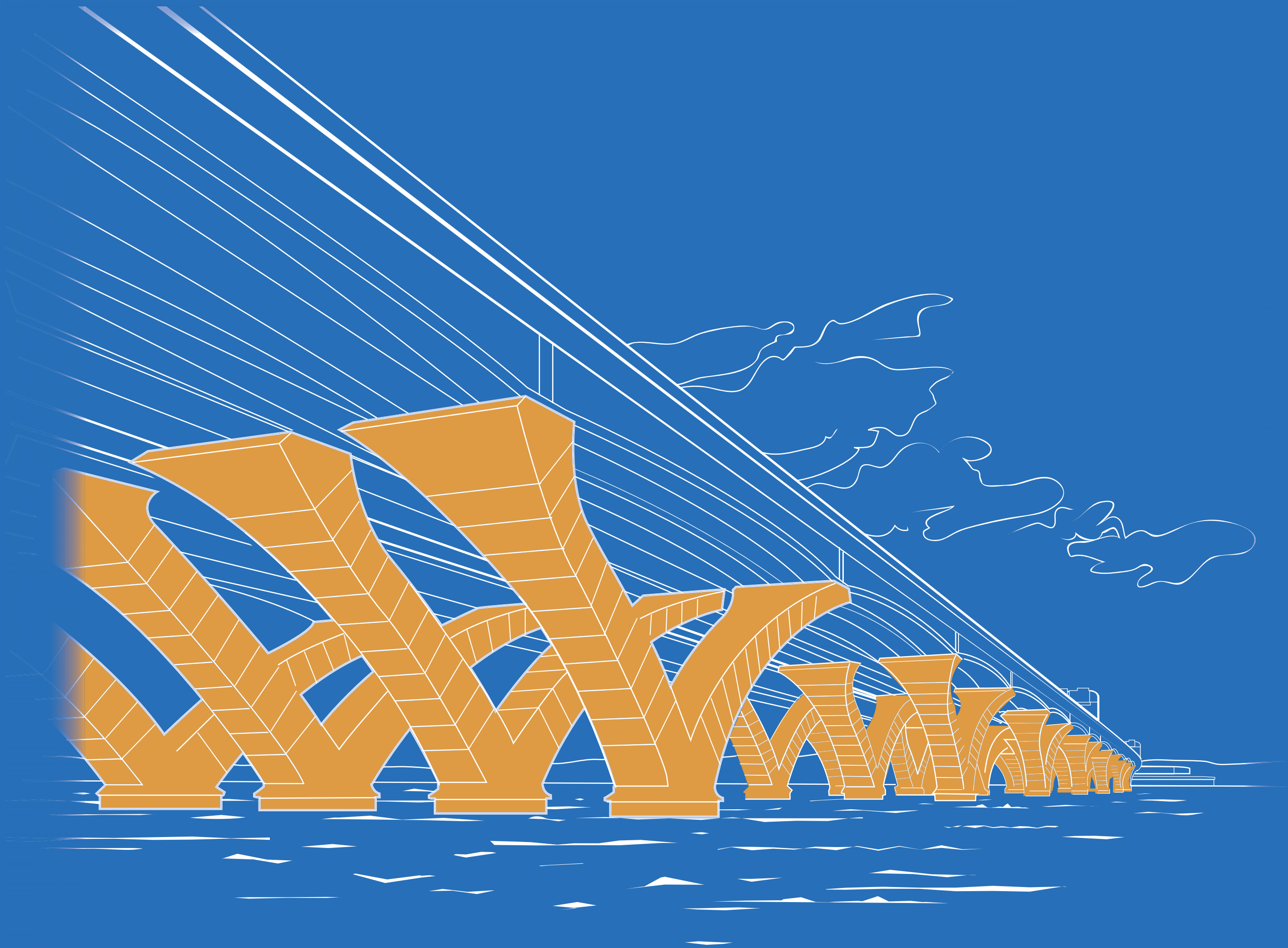
Learning from the best also holds true internally. Internal communication measures promote the exchange of know-how and see to it that success stories and experiences are made available as far as possible to all Sika employees.

The "Sounding Board" is also a great success, at which specific themes can be discussed and experiences exchanged between the best employees and decision makers in the Group. In addition, selected leading indicators for each company help to compare the individual Sika units and the efficiency of manufacturing facilities at different production locations in order to align with the best in the Group.

Responsibilities

Ideally interlinked

Trusted with complex demands: Old Wilson Bridge near Washington D.C. threatened to collapse under its heavy load of traffic. A new bridge now spans the Potomac River, 16 years after the start of the project. Knowledge and product solutions from Sika, who have further plans in the USA, stood the test in this large-scale project.



Lovely drive. Officially, the span is called Woodrow Wilson Memorial Bridge, named after the 28th president of the United States, who hailed from Virginia and drove two hours daily as a form of relaxation. However, commuters between Maryland and Virginia speak only of Wilson Bridge – and the decades of traffic chaos caused by the bottleneck. Designed in 1961 for 75 000 vehicles, the original bridge had been clogged daily with 250 000 cars, which became especially dramatic whenever the drawbridge section was raised to enable passage for large ships. The new bascule bridge has been under construction for eight years; it is twelve lanes wide and somewhat higher than the old bridge, remaining passable for most ships even when the draw-bridge section is closed. Inauguration will take place in May 2008. Many commuters between Maryland and Virginia have circled this date on their calendars.

Sika's solution, a total bridge product package for precast, post-tensioned, segmental construction, included: concrete admixtures to improve flow characteristics, reduce water, retard, entrain air and inhibit corrosion as well as adhesives for segment bonding and two types of grout for cable duct post-tensioning and anchorage protection. Local representation provided invaluable service support for this landmark project. The expansion of American infrastructure and the massive need for renovation of existing structures are opportunities for Sika to grow in the American market. Thanks to new production facilities in the USA, Sika can serve the entire North American market and is well-equipped for anticipated growth.

Commitment, Respect and Responsibility

Sika's mission statement is the foundation for an environmentally-conscious strategic management. Sika takes on responsibility for the environment and for safety along the entire value-added chain. Shaping this foundation are goals for continuous improvement, the high individual responsibility of every Sika employee, respect for regulations and norms, and constant dialogue with relevant authorities and communities.

Environmental management

Sika puts a variety of resources to work for environmentally-conscious management. Since 1992 manufacturing subsidiaries in some 40 countries have participated in the chemical industry's Responsible Care Program. Sika is also committed to introducing and maintaining an environmental management system according to ISO 14001 worldwide. In the year under review Sika achieved ISO 14001 certification in Ecuador. Today 47 Sika companies, generating roughly 90% of Group sales, produce and sell according to ISO 14001 norms. 14 Sika companies passed the certification board's repeat audit during the reporting year.

Another important basis for environmentally-conscious management is internal and external training and continued education of employees. The palette of themes is extensive: raw materials handling, work safety, packaging, labelling, transport of products, legal foundations. Frequent internal audits and controls ensure that rules and procedures are observed.

Investments in safety and environmental protection

In the year under review Sika invested CHF 7.9 million (CHF 5.8 million) in safety and environmental protection, an increase of 36% above the previous year. Thereby primarily factory security, preventive fire protection and alarm systems were improved and optimized. The number of full time employees in environmental protection and safety rose in view of Sika's expansion from 67 to 70 people. Due to optimizations and efficiency increases, costs for environmental protection and safety per 1 000 tons of production were reduced further from CHF 12 457 to CHF 11 065. The costs per franc of sales sank correspondingly from 0.56% to 0.48%. Overall the costs for maintenance of current projects, installations and systems rose from CHF 21.9 million to CHF 22.0 million.

Energy efficiency

In comparison with total production output that rose 13% (previous year 19%), energy consumption fell slightly in the year under review by 1.5% (+17%), dropping from 1 253 TJ* to 1 234 TJ, since the particularly inefficient coal-based power generation in China was shut down. Energy efficiency per ton sold thereby improved by 13% (previous year –9%) from 713 MJ to 621 MJ. Europe accounted for 70% (66%) of energy consumption, North America 18% (16%) and the Far East for 8% (13%). The remainder was distributed among other regions.

During the past year Sika drew 53% (48%) of its energy consumption in the form of electricity. The natural gas portion rose to 29% (27%), while the percentage in heating oil dropped to 12% (13%). The Sika Chinese subsidiary decommissioned its coal-based power generation. District heating accounted for 4% (5%) of overall energy consumption.

Emissions to the atmosphere

Emissions to the atmosphere are closely connected to the use of fossil fuels such as gas, heating oil and coal. With the discontinuation of emissions-intensive coal combustion for power generation in the production plant in Dalian, China, as well as the increased portion of electrical energy, emissions to the atmosphere dropped in the year under review. The CO_2 output fell as a result by 18% from 37 000 t to 30 200 t (previous year +13%). NO_x emissions dropped by 27% (+11%) from 62 t to 45 t. SO_2 emissions also sank by 45% (+7%) from 29 t to 16 t.

The quantity of VOC emissions increased due to the greater need for volatile organic solvents for cleaning of production facilities by 10% (+22%) from 78 t to 86 t. Due to the discontinued coal incineration in China, dust emissions fell by 20% (+12%) from 96 t to 77 t.

*1 TJ = 1 Terajoule = 10^{12} Joule

Water consumption

Parallel to increased production of 13%, water consumption rose 19% from 1 780 000 m³ to 2 110 000 m³. Cooling water accounts for 64% (63%) of the overall quantity. Only 13% (14%) was consumed for sanitary purposes, as well as 4% (5%) as process water in production. The remaining 19% (18%) was consumed in the composition of formulations.

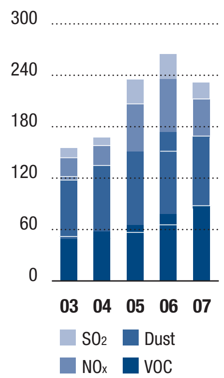
Emissions to water

The quantity of organic carbon compounds transported through wastewater to the treatment plant decreased further in the year under review by 3% (–13%) from 35 t to 34 t. The dissolved inorganic salt content in wastewater fell by 11% (–7%) from 130 t to 116 t. Further optimized, Sika-own wastewater treatment facilities were the reason for these regressive emissions values.
Heavy metal emissions to wastewater have been monitored for years at all Sika companies; values at all locations lie below officially allowed levels.

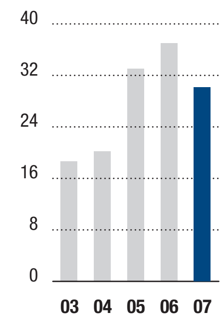
Solid waste

In comparison with the overall increased production output of 13% (previous year 19%), the entire solid waste quantity rose by just 6% (22%) from 32 200 t to 38 500 t. Thereby the average waste quantity per sold ton amounted to 19 kg (21 kg). At the same time the portion of hazardous waste sank by 3% from 11 040 t to 10 750 t. The quantity of remaining waste rose almost in parallel with the overall increase in production by 10% (36%) from 25 150 t to 27 700 t.

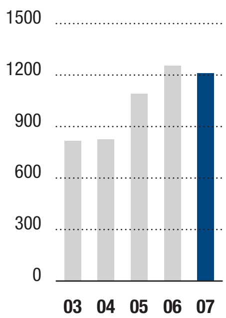
Emissions to atmosphere
in tons



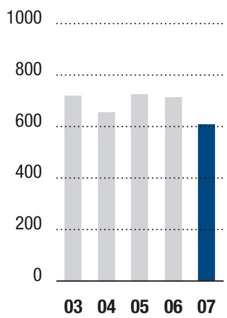
CO_2-emissions
in 1 000 tons



Energy consumption
in TJ



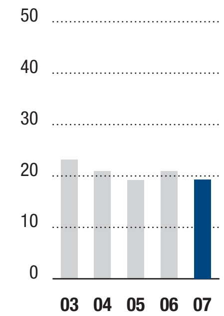
Energy consumption
in MJ per ton of sales



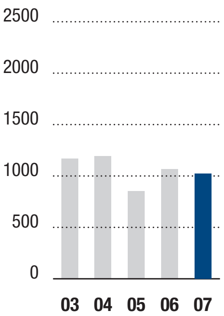
Abbreviations

CO_2	carbon dioxide
NO_x	nitrogen oxide
SO_2	sulfur dioxide
MJ / TJ	megajoule / terajoule
VOC	volatile organic compounds

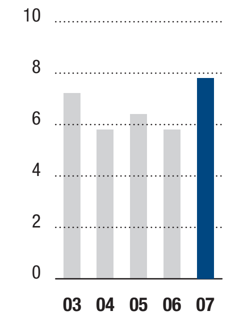
Safety
Reportable accidents
per 1 000 employees



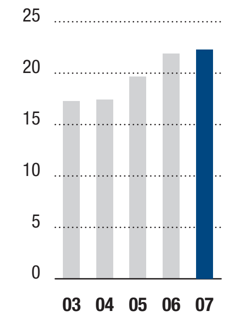
Safety
Working days lost
per mn working days



Investments
in Environment and Safety
in CHF mn



Operating expense
for Environment and Safety
in CHF mn



Safety

Efforts to prevent accidents at work and to lower the number of lost workdays were rigorously continued in the year under review and remain a safety focus in the current business year. The number of accidents at work could be slightly reduced during the reporting year. In the entire Group the number of at-work accidents with a workday loss of greater than one day dropped from 21 to 19 accidents per 1 000 full-time employees. 62% (69%) of all at-work accidents treated in Sika occurred in Europe, 42% (52%) in Sika companies in Switzerland and Germany.

The number of lost workdays per million workdays remained at roughly the same level of 1 060 (1 067). This yields an average workday loss of 13 workdays (12 workdays) per at-work accident.

"I have known Sika with its customer-oriented and project-specific solutions since 1976. I am pleased that there is a Swiss corporation of international reputation that today still distinguishes itself through customer proximity and personal contact up to the highest levels. For us in the Tunneling and Mining Division as well as in the area of concrete, Sika is an integral partner. So global – and yet so nearby in Switzerland."

Luzi R. Gruber, Member of Executive Board Implenia Ltd. – Group Division Tunnel+Total Solutions, Switzerland
Implenia is the largest construction group in Switzerland.

Public service commitments

In 2005 the Board of Directors founded the "Romuald Burkard Foundation" in honor of Dr. Romuald Burkard. The Foundation provides financial support to social and ecological projects in emerging markets in which Sika has subsidiaries. Areas of project focus include:

- Buildings and infrastructure installations that serve a social or ecological purpose such as water reservoirs, wastewater treatment facilities etc.,
- Technical education in building professions,
- Water projects with ecological and social goals.

Sika seeks to promote self-help locally. Sika subsidiaries must therefore apply for support and see projects through to completion along with local partners.

Children from the orphanage "Pan de Vida" supported by Sika in Mexico.

Projects supported in the year under review

Iran: Support of research in the area of strengthening masonry with locally available natural fibers. This application increases buildings' resistance to earthquakes at low cost. People in earthquake-endangered regions should thereby be provided with an affordable solution to reinforce their homes. Sika supports the project with technical consultation (structural reinforcement), material and a financial contribution (overall supportive contribution: CHF 51 000).

India: Support of schoolhouse renovation for underprivileged children, particularly in the areas of water and corrosion protection (CHF 200 000).

Lebanon: Commitment to involvement in sport and playground projects for children and teens affected by military conflict to promote long-term dialogue between young Christians and Muslims, and to provide recreational facilities for teens in the suburbs of Shiah, which was heavily damaged during the war in the summer of 2006 (CHF 156 000).

Peru: Promotion of milk production, cheese-making cooperatives and cheese sales in the Allpachaka sector, Ayacucho Region (CHF 150 000).

Romania: Reconstruction in the village Sacuieni of the school that was entirely destroyed in the floods of the summer of 2005 (CHF 340 000).

Mexico: Expansion of the infrastructure of the orphanage "Pan de Vida," where abused or abandoned children live and learn in a safe environment. The project consists of various measures: expansion of the school, renovation of the gymnasium roof, improvement of the water supply and renovation of the playground and the access road (CHF 245 000).

Greece: Expansion of protection against forest fires. In the community of Kryoneri the "Romuald Burkard Foundation" is financing a new fire-fighting vehicle with four-wheel drive and ten additional water tanks to support the efforts of the residents to protect the densely wooded environment (CHF 50 000).

In addition Sika supports the Global Nature Fund (GNF) within the framework of the international lake network "Living Lakes." This global network with some 70 partner organizations from lake regions around the globe is committed to sustainable development and protection of potable water, lakes and wetlands. Concrete models of successful projects demonstrate how environmentally compatible developments in different climatic zones and societies are practiced, and at the same time are able to protect nature and the environment. Local populations are thereby always expressly involved. GNF, a non-profit foundation with its headquarters in Radolfzell on Lake Constance in Germany, coordinates "Living Lakes." Since 1998 the network has promoted dialogue between representatives of public and private interests involved in water protection. This enables a valuable exchange of knowledge, technology and experience between NGOs and businesses.

Sika supported four GNF project areas in the year under review:

Colombia: Reforestation of the cloud forests in the watershed area of the naturally diverse Laguna Fúquene in the Eastern Andes. Networking with local communities in the area of ecological tourism via inclusion of all representative interests. Establishment of an ecotourism plan as well as realization of first ecotouristic travel packages. Distribution of learning material on ecotourism and on environmental education. Construction of a facility for marketing of artisan crafts and organic compost.

Sri Lanka: Reforestation of mangrove forests on Lake Maduganga and Lake Madampe on the southwest coast. Nets and tools for fishing families. Training in two newly built environmental education centers. Post-tsunami conference.

Baleares: Support of the United Nations campaign "Year of the Dolphin" for protection of whales and dolphins in the Mediterranean, where seven whale and four dolphin species live and suffer the overfishing and pollution of the Sea. Development of a new protection concept with volunteer assistance, development of alternative, environmentally compatible fishing methods.

South America: Support for preservation of Pantanal, the largest wetlands region of the world, located between Bolivia and Paraguay. The region is threatened by deforestation, slash and burn, gold and diamond mining, monoculture agricultural practices and intensive livestock raising. Environmental education and public information in Brazil and Germany.

"Hanson Australia commenced a major business relationship with Sika in 2004 after Sika impressed our concrete technical staff with the speed with which new admixtures could be created to solve pressing issues. Since then, Sika has met all the challenges of the diverse Australian environment from in-situ concrete to architectural Precast applications. In Precast, consistency of the concrete mix is of utmost importance, and through the use of Sika's admixtures we are able to pour, strip and lift within 18 hours, six days a week, all year round."

Chris Parsons, Manager, Hanson Precast, Australia
Hanson is one of the world's leading heavy building materials companies.
The company is a part of the HeidelbergCement Group, which employs 70 000 people across five continents.

Risk management at Sika is part of our compulsory program, not a freestyle exercise

Risks are part of every business. Therefore it is all the more important to limit imponderabilities as much as possible through appropriate measures. Risk management is this instrument. For Sika this has long been a component of enterprise management at all levels.

The housing mortgage crisis in the USA and the emerging consequences for some banking institutions have illustrated how significant risk management is for international corporations. If risks are assessed in a manner that is systematically false, this can lead to large financial losses and can damage a company's reputation sustainably. Because of this Sika instituted a comprehensive risk management for the Group and all subsidiaries a number of years ago.

Risk management is thereby not simply a means of avoiding risks, but rather the possibility to recognize dangers and to integrate them in business procedures and the strategic decision process. Taking provisions for risk serves not merely risk avoidance, but also helps to recognize chances and create value. The risk management process thus passes through four basic steps: risk identification, risk assessment, risk monitoring and risk controlling.

Group Management responsibility

While Group Management regularly reviews the processes that form the basis of risk management for Sika, the Board of Directors is the highest authority for risk assessment. Among its responsibilities is the annual assessment of risks at every level of the Group. Those strategic and operative risks that could lead to a material endangerment of the Group stand thereby in the forefront. The risks are assessed by means of fundamental questions:

- Is this a global or a regional issue?
- How significant is this issue for the Group?
- How high is the probability of damage?
- Which measures have to be taken to confront the risk?

If the overall assessment of a risk is critical, measures are then planned and implemented.

Suppliers and raw materials

The cost of raw materials is one of the largest cost factors for Sika. They therefore constitute a main factor in risk assessment. As has been demonstrated in previous years, the price of crude oil has a certain influence on purchase prices. Crude oil is the basis for the semi-finished materials used by Sika for its own production. But alongside this are numerous other factors that influence prices, such as the interplay of supply and demand, the general economic environment or sporadic interruptions in the processing and logistics chain from crude oil to purchased material. Cost increases of base materials during the past year can be traced primarily to exceedingly strong worldwide demand. Some materials were temporarily not obtainable on the world market because all existing production capacity was fully utilized. But thanks to solid alliances Sika succeeded in mastering these difficult situations and experienced only a brief suspension of production in a manufacturing facility. The Group limits the market price risk of raw materials for important products through suitable warehousing and Group contracting (lead buying). The most important raw materials for Sika are polymers such as polyurethanes, epoxy resins, polyvinyl chloride and cementitious base materials. Other measures for safeguarding prices such as hedging are not employed, because a market for these semi-finished materials does not exist for Sika.

Production and logistics

Risk management in the areas of production and logistics includes the systematic annual analysis of possible operational risks that could lead to breaks in production or other operational disturbances, and the corresponding preventive measures. The practical and organisational implementation in the handling of operational or any other risks is laid down in the "Sika Risk Management Policy." This policy is based on compulsory EHS Standards (Environment, Health, Safety). The risk analyses of external specialists, in many cases in close collaboration with insurance companies, complement internal examinations. In large factories external inspections take place on average every three years. Sika factories worldwide are analyzed within the framework of an insurance program. Together with local safety officers and their teams, external specialists record during the course of inspections the dangers that could lead to interruptions in production or to property or liability damage. The probability and impact of these occurrences are subsequently assessed and measures are established to reduce this risk potential as much as possible. Every organization conducts an annual, routine and internal risk analysis in the areas of production and logistics with the same methodology. Agreed measures help improve fire prevention above all: quicker fire detection using smoke and flame detectors, installation of automatic fire doors for limitation of damage and/or sprinkler installation for more effective fire fighting.

Product risk factors

The risk factors ecology, safety, raw materials, market and success probabilities as well as patents and know-how are considered in the mandatory procedures of product development and product advancements, the so-called "Product Creation Process" (PCP) and the "Product Maintenance Process" (PMP). Both processes are subject to strictest controls. Since 1999 a worldwide program has existed with the objective of minimizing risks in our consultation and sales business. A number of measures including consistent and regular training of employees, clear standards and improved controls continuously lower expenses for product damage claims.

Customer and market diversification

Sika limits its dependence on particular markets and customers through targeted diversification based on various aspects. On one hand geographic diversification in construction is of great significance, since construction business tends to be locally oriented, and markets in distant global regions in part demonstrate contrary development. On the other hand diversification among customers – no single customer yields more than 1.5% of Sika sales – in the Construction as well as the Industry Division also has a stabilizing effect on business. In order to cushion economic fluctuations as far as possible, Sika is in addition active in its core areas – Construction and Industry – not only in new developments business but also in the largely cycle-independent repair and maintenance business.

Finance

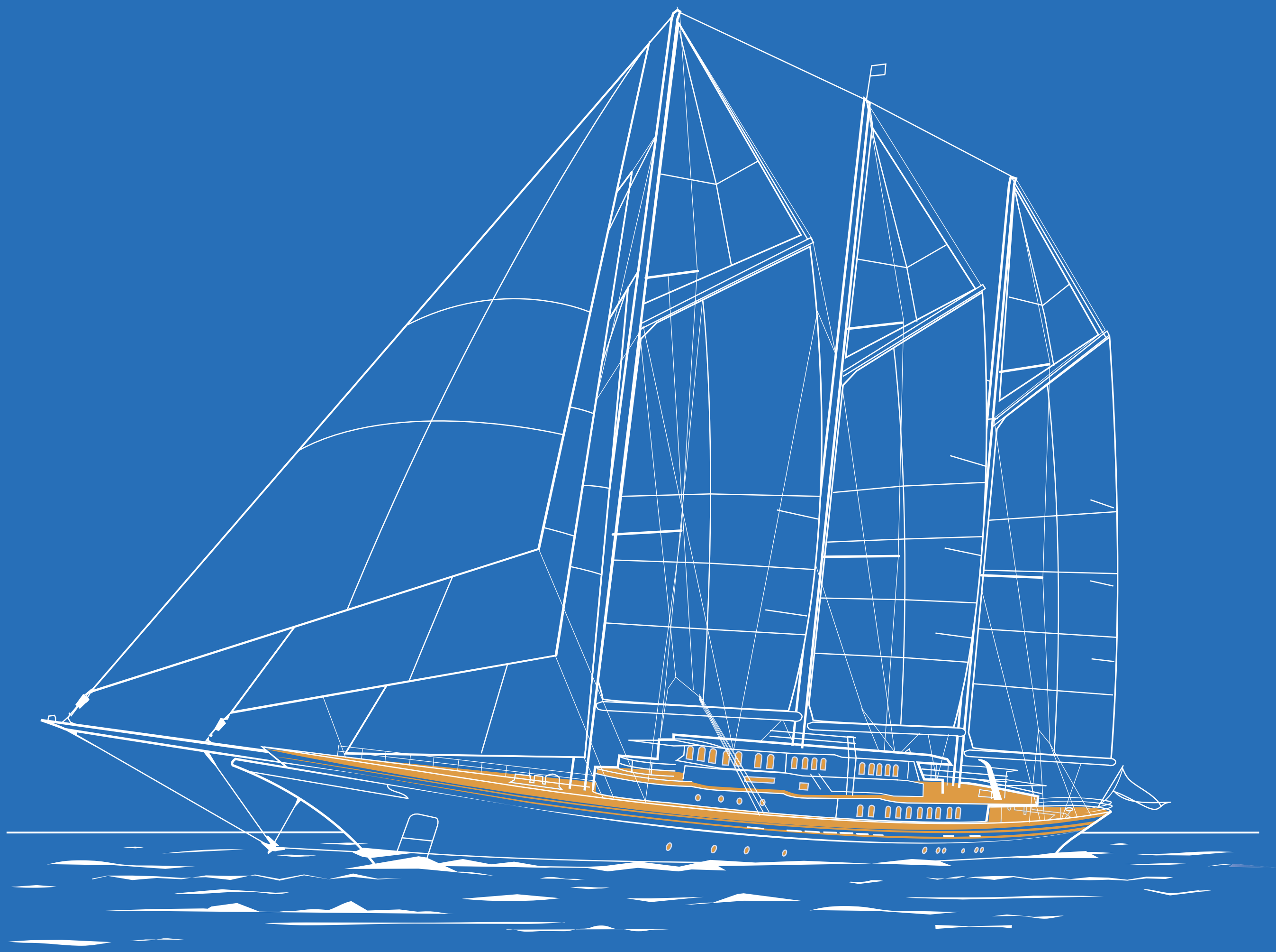
The objective of the financial risk management is optimal capital procurement as well as a liquidity position oriented towards payment obligations. Liquidity assurance is provided by three long-term, staggered (5, 7 and 10 year) bonds, two in the amount of CHF 250 million and another for CHF 275 million, as well as a CHF 450 million credit facility through 2010, made available through a bank syndicate. An optimal liquidity position results from cash pooling. For selected activities in the treasury area Sika relies on additional third party services.

Financial risk management is described in detail on page 104 of this Report.

Management

Dynamically en route

On course with full sails: Wherever the Athena appears, admiring looks are assured her: at 90 metres from bow to stern she is the largest private sailing yacht in the world – and with her elegant, stylish exterior she is also one of the most beautiful. Sika supplied among other components 11 000 linear meters of caulking for Athena's teak deck.



Idolized icon. The combination of nostalgic charm and modern technology, traditional materials and all contemporary comforts make the Athena the queen of the seas. More than 2 500 m² of sailcloth billow in the wind and drive the yacht with up to 19 knots through the waves. But mostly one takes life easy on board the Athena. She is, after all, dedicated to enjoyment with her mahogany-clad salons, soft upholstery, stately library and marble-floored bathrooms. An 18-member crew attends to fresh flower arrangements, gourmet cuisine and up to ten guests. The Royal Huisman Wharf is proud of this marvel, to which some of the best known boat designers have contributed.

Sika is also proud of the Athena, one of the largest projects of the Marine department. With a comprehensive solution for everything on board that needs bonding and sealing, Sika employees accompanied Athena's construction from the planning phase to the launch. Large parts of the interior decoration, windows, cable ducts and various applications on deck withstand wind, weather and the roughest state of the seas thanks to Sikaflex®.

With focus towards the goal

In its clearly defined target markets in construction and industry with process materials for sealing, bonding, damping, reinforcing and protecting, Sika strives for technology and cost leadership, and the market leadership derived from it. This goal of growth overrides the importance of profit maximization. That enterprise growth be harmonic is nonetheless aspired and will be evaluated in targets for growth, EBITDA, consolidated net profit, operating free cash flow and return on capital employed (ROCE).

Long term potential

Sika's long term growth potential is significant: markets are still fragmented in almost all enterprise technologies and in some customers groups. With better market penetration and advancement of market maturity, especially in emerging markets, Sika can grow as well as with innovation and convincing customer solutions. Comprehensive (single-source) solutions and global key-customers and key-projects lie in the trend of contemporary globalization. Sustainable growth is contingent on optimally attuned management and highly motivated employees. With these it can be assured that sales will grow more strongly than the corresponding necessary costs.

Special attention falls on "Emerging Markets" – foremost Eastern Europe, the BRIC nations (Brazil, Russia, India, China) and the Middle East. Market growth is indeed very high and in individual countries will require up to 30% of world consumption (e.g. concrete admixtures in China). The maturity of technologies employed in these markets is often still below the standard of Western countries, which compels massive investment in education and extremely opportune solutions to be able to participate in market development. Sika confronts this challenge with the goal of achieving long term market leadership in these markets also.

Focused processes and structures

During the last 2 years Sika has entirely converted its internal organization with a matrix structure from a functional to a process structure, orienting it towards target customers. Sika's focused growth strategy concentrates on 4 customer groups which have strongly differing needs and sales processes:

1. **Concrete producers** ("Concrete") need cost-optimized solutions that are aligned with the application and the cement, and must be adjusted in ready-mix concrete plants, on construction sites and in precast element factories.
2. **Contractors** ("Contractors") purchase and process Sika products such as membranes for a leak proof roof or for waterproofing in basements or tunnels. Liquid polymers are processed to industrial flooring or protective coatings, bonding and sealing materials to impervious building joints or bonded wooden floors. Such jobs are always part of a larger assembly, so that Sika advises owners, architects, engineering firms etc. as early as possible with the corresponding Sika know-how. The key to success here lies in training and advising all concerned.
3. **Distributors** ("Distribution") supply mainly generalists such as craftsmen and builders, but also contractors. They advise them and assure short term availability of supply. Training is a central theme in this area also – and in addition from Sika's standpoint the professional furnishing of the distributor's sales displays.
4. **Industrial customers** ("Industry") usually need large quantities of Sika products that are specially adapted to their needs – especially in the areas of bonding and sealing. Here Sika offers technologies with focus in automotive construction including busses, trucks, railroad, but also in such related applications as fenestration and wind turbines.

This focusing of employees on the four customer groups pervades the entire company: in Group Management there are the 4 Business Unit managers just as in the regions and local subsidiaries. New products are defined and launched along this track, training of "Best Demonstrated Practice" – the best solutions – driven on it and assortment and pricing policy for corporate products established. Result responsibility lies however as before within the line organization (with the exception of global key accounts), meaning with the regional manager and country head, who must keep the larger Sika picture in mind. It is their duty to determine the growth targets and resource allocation, and to attain the expected result improvements.

The new organization of factory structures and of logistics is not yet complete. To ensure advantages of scale and rapid service of markets, new processes in manufacturing and logistics will be installed on a continental basis during the coming years.

Financial targets

Financial targets reflect the build-up costs in new markets. On one hand growth must be financed, which influences the relation between sales and operating cash flow. On the other hand Sika expects that the striven growth will lead to an EBITDA that is higher in absolute terms. Through the year 2010 the mid-term financial targets have therefore been defined as follows:

– Net sales growth in local currencies per annum	8–10%
– EBITDA in % of net sales	12–14%
– Profit in % of net sales	> 6%
– Operating free cash flow in % of net sales (5 year average)	4–6%
– ROCE *	20–25%

*Return On Capital Employed (see also page 126)

Operative performance figures

While most companies evaluate performance figures on a daily basis, the Group operates with monthly closures including EBIT calculations and free cash flow elements per division. New pricing instruments allow the evaluation of cost and price developments and of measures at the product and customer level. CRM (Customer Relationship Management) enables customer-specific targets and success evaluations – as well as debit analyses and the appraisal of global customers. The introduction of these systems has occurred; the area-wide application will yet take some time.

Responsible Corporate Governance

Sika has transparent structures, clearly assigned areas of responsibility, efficient chains of decision and effective control mechanisms. Corporate Governance ensures that strategic and operative leadership are on Best Practice level, guaranteeing that the rights and interests of shareholders are observed. The creation of true value for shareholders, customers and employees is our objective. Corporate Governance reporting adheres to the guidelines of the Swiss Stock Exchange SWX.

Group structure and shareholders

Sika AG, headquartered in Baar, Canton Zug, is the only Sika company listed on the stock exchange. The bearer shares of Sika AG (Registration No. 58797) is listed on SWX, the Swiss Stock Exchange. Information on Sika AG's stock market capitalization is found on page 21. In the year under review the Sika Group encompassed unlisted subsidiaries in 71 countries. All 104 companies are included in the scope of consolidation (for details see page 118 et.seq.). Companies of which Sika holds less than 50% of shareholder votes are not consolidated. These are namely Sika Gulf B.S.C., Bahrain, the part GmbH joint venture in Germany as well as Addiment Italia S.r.l.. Organizationally the Group consists of two segments:

The primary segmentation is formed by the two business Divisions Construction and Industry, while the secondary segmentation comprises the six geographic regions Europe North, Europe South, North America, Latin America, IMEA (India, Middle East, Africa) and Asia/Pacific. Group management consists of twelve members. They lead the Group operatively in a matrix organization. Sika's management structure is essentially formed by the dual segmentation as well as the central services of finance, production and logistics as well as research & development. All Group business is conducted by Sika AG, the holding company, itself in turn under the supervision of the Board of Directors. The organizational structures of Sika AG as well as of the entire Group are presented on the pages 54–57 of this Report.

The Burkard-Schenker family is the majority shareholder in accordance with Art. 663c OR (Swiss Code of Obligations). According to information furnished by the family, it owned as of December 31, 2007 53.6% of all voting shares, in part through Schenker-Winkler Holding AG, Baar. In the year under review one notification was filed pursuant to Art. 20 BEHG, the Swiss Federal Act on Stock Exchanges and Securities Trading. According to this notification, Lone Pine Capital LLC, headquarters in Greenwich, Connecticut, owned 3.46% of all voting shares as of December 31, 2007. There are no crossover holdings exceeding 3%, either in terms of capital or in votes.

Capital structure

As of December 31, 2007 the share capital totalled CHF 22 861 602.00 and represented 2 151 199 bearer shares with a nominal value of CHF 9.00, and 2 333 874 registered shares with a nominal value of CHF 1.50. Both types of shares earn the same dividend, with payout adjusted to nominal value. One share represents one vote. In addition there is CHF 2 338 398.00 in contingent capital, temporally unrestricted, comprising 259 822 bearer shares with a nominal value of CHF 9.00. These shares are foreseen for the exercise of option or conversion rights. Shareholders are excluded from subscription rights. There are currently no conversion or option rights outstanding. Sika granted no participation, profit-sharing certificates or stock options. Option plans do not exist for members of the Board of Directors, Group Management or employees. Changes in capital stock, reserves as well as retained earnings during the last five years are posted on the pages 124 and 125. All legal and natural persons are entitled to acquire Sika bearer and registered shares. The Board of Directors can deny purchase of registered shares if the purchaser's registered share holdings exceed 5% of the total number of registered shares listed in the commercial register. In the year under review no new shareholder exceeded this 5% threshold. Nominees, i.e. shareholders who acquire shares in their own name but on the account of third parties are registered as shareholders without voting rights.

Board of Directors

The Board of Directors is Sika's highest level of management and mainly responsible for the:

– corporate mission statement and corporate policies,
– decisions on corporate strategy and organizational structure,
– appointment and recall of members of Group Management,
– development of finance and accounting,
– establishment of the three-year plan as well as the annual and investment budgets.

The members of the Board of Directors are elected by the Annual General Meeting for a period of three years. Their tenures are staggered. They can be reelected at any time. Upon reaching the age of seventy, directors resign their commission. Detailed information on individual members of the Board of Directors is listed on pages 56 and 57 of this Report. No directorships are maintained with other listed companies on a reciprocating basis. The Board of Directors constitutes itself, electing the Chairman and Vice Chairman from its ranks. Sika's Board of Directors currently consists of nine non-executive members. As business demands, the Board convenes at the Chairman's behest. In fiscal 2007 the Board met six times. The President of Group Management, the CEO, participates in the Board meetings in an advisory capacity. The other members of Group Management take part as necessary, but at least three times per year, also as advisors. Company officers report regularly and comprehensively to the Chairman concerning implementation of Board decisions. The CEO as well as the CFO report to the Board in writing on the development of business at least once per month. Extraordinary occurrences are reported immediately to the Chairman or the Audit Committee, insofar as such events relate to the latter's area of responsibility. The auditing staff report to the Chairman as well as the Audit Committee on a scheduled basis.

Board committees

Sika has two committees of the Board of Directors: the Audit Committee as well as the Nomination and Compensation Committee. The chairpersons of these committees are elected by the Board. The Committees otherwise organize themselves. Information on the members of the Committees can be found on pages 56 and 57 of this Report.

– The Audit Committee mainly monitors the results of internal and external audits as well as risk management. The committee assembles on request of its chairperson as required. Customarily the Chairman of the Board and the CFO, as well as the CEO as necessary, take part in these meetings in an advisory capacity. In the year under review the Audit Committee met four times.

– The Nomination and Compensation Committee prepares personnel plans at Board and Group Management level and handles compensation issues. The committee meets on request of its chairperson as business demands. Usually the Chairman of the Board and the CEO participate in these meetings in an advisory capacity. In the year under review the Nomination and Compensation Committee met five times.

Group Management

Within the framework of Board decisions, Sika operative leadership is incumbent on Group Management. The members of Group Management and their functions are listed on page 54 of this Report. Detailed information on their backgrounds, as well as on interests and activities, can be found on our website under www.sika.com/gen-about/gen-about-management.htm. Sika had no management contracts with third parties in the year under review.

Compensation, participations and loans
The compensation of Group Management consists mainly of a base salary and a bonus. The bonus is contingent on the EBIT and the operating free cash flow of the Group and the respective area of responsibility, as well as on the achievement of individual goals. A certain portion of the bonus is awarded in Sika shares that remain frozen for a period of four years. The members of the Board of Directors receive a set fee and remuneration for attendance of meetings. The Nomination and Compensation Committee proposes the base salary and bonus of Group Management to the Board, as well as the compensation of the Board of Directors. The Committee also determines the Chairman's remuneration. Details on the remuneration of the Board of Directors and Group Management can be found on page 149 et.seq. of this Report.

Shareholder participation rights
Sika upholds restrictions to voting rights neither on the basis of by-laws nor by other means, and thus also no rules for granting exceptions. Accordingly no exceptions were made in the year under review with respect to voting rights restrictions. Every shareholder can exercise share votes through representation by another shareholder with voting rights, a registered representative of securities accounts or an independent proxy. Information on what constitutes a quorum under the by-laws can be found in Art. 704 OR (Swiss Code of Obligations), as well as § 15 paragraph 3 of Sika's articles of association (see www.sika.com/gen-about/gen-about-articles.htm.). The orders of business for which a majority is required are defined therein. The invitation modalities and deadlines for the Annual General Meeting are conformant with legal requirements. In addition, shareholders representing a nominal share value of CHF 150 000 can request in writing to have an item placed on the agenda during a 14-day period approximately two and a half months prior to the Annual General Meeting. New registered shares will not be registered by the company in the 20 days prior to the Annual General Meeting. Therefore registered shares sold between the deadline and the Annual General Meeting are not entitled to vote.

Change in corporate control and defense measures
In accordance with § 6 of the Sika articles of association, purchasers of shares are not obligated to make a public offering as generally prescribed by articles 32 and 52 of the Swiss Federal Act on Stock Exchange and Securities Trading. There are no clauses governing changes in corporate control.

Auditor
At each Annual General Meeting the auditor is elected to serve Sika AG and the Group for a period of one year. In the year under review Ernst & Young AG, Zug, listed as auditor in the commercial register since February 2, 1995, served in this capacity. The current audit team leader has been active on behalf of Sika since 2003. During the year under review Ernst & Young billed CHF 3.9 million for its services. These charges covered the audit of individual Sika AG closings and practically all subsidiaries as well as Group financial statements. Ernst & Young received fees totalling CHF 1.1 million for audit-related support and consulting services. The Audit Committee monitors the auditor's activities as mandated by the Board of Directors. In fiscal 2007 the Committee examined the audit of the Sika AG and the consolidated financial statements as well as the management analysis and received relevant commentary from the auditors. In addition, the auditors participated in two meetings of the Audit Committee in the year under review.

Communications
Sika informs extensively concerning the development of business in annual and quarterly reports, at the annual media and financial analyst conference as well as at the Annual General Meeting. The continually updated website – www.sika.com – as well as press releases regarding important developments are important components of communications. As a company listed on the SWX, the Swiss Stock Exchange, Sika is obligated to comply with requirements of ad-hoc disclosure, i.e. the release of news which may affect its stock price. In addition Sika maintains dialogue with investors and the media through special events and road shows. Information on important dates in 2008 are found in this Report on page 155.

Ernst Bärtschi
lic. oec. HSG,
1952
Swiss,
CEO

Silvio Ponti
Dipl. Bau-Ing. ETH,
MBA, 1953
Swiss,
Deputy CEO,
Europe North

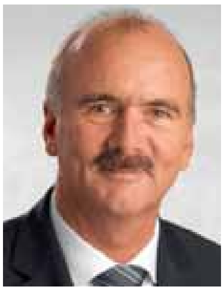
Alexander Bleibler
Dipl. Bau-Ing. HTL,
1953
Swiss,
Construction,
Contractors

Bruno Fritsche
BBA, 1952
Swiss,
Industry

Christoph Ganz
lic. oec. HSG,
1969
Swiss,
Construction,
Distribution

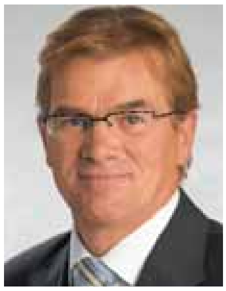
Jan Jenisch
lic. rer. pol.,
1966
German,
Asia/Pacific

Peter Krebser
Dr. sc. techn.,
Dipl. Chem. Ing. ETH,
1951
Swiss,
Operations



Urs Mäder
Dr. rer. nat.,
Dipl. Chem. Ing. HTL,
1955
Swiss,
Research
and Development

Ernesto Schümperli
Dipl. Bau-Ing. ETH,
MBA, 1955
Swiss,
Construction,
Concrete



Paul Schuler
MBA, 1955
Swiss,
North America

Ronald Trächsel
lic. rer. pol.,
1959
Swiss,
CFO

José Luis Vázquez
Dr.-Ing., MBA,
1947
Spanish,
Europe South

Board of Directors

Chief Executive Officer

Ernst Bärtschi*

Construction

- **Contractors,** Alexander Bleibler*
- **Distribution,** Christoph Ganz*
- **Concrete,** Ernesto Schümperli*

Industry

- Bruno Fritsche*

Research and Development

- Urs Mäder*

Finance

- Ronald Trächsel*, from 1/1/2008
- Markus Zenhäusern*, till 12/31/2007

Operations

- Peter Krebser*

Europe North

- Silvio Ponti*

Europe South

- José Luis Vázquez*

IMEA

- Iven Chadwick

North America

- Paul Schuler*

Latin America

- Fernando Rudolph

Asia/Pacific

- Jan Jenisch*

*Members of Group Management

	Elected first in	Remaining term	Committees
Chairman **Walter Grüebler** Dr. oec. HSG, 1942, Swiss **1968–1974** Project Leader and Member of Executive Board,Hayek Engineering AG, Zurich **1974–1990** CEO and Vice Chairman of the Board of Directors, Airex AG, Sins **1990–1999** Member of Group Management, alusuisse, Zurich **2000–2004** CEO Sika AG, Baar **Chairman, Board of Directors** Adval Tech AG, Niederwangen **Member, Board of Directors** Nationale Suisse, Basel; Quadrant AG, Lenzburg; Petroplus Holdings AG, Zug **Member of Board** Swiss Society of Chemical Industries, Zurich	2004	2010	
Vice Chairman **Thomas W. Bechtler** Dr. iur., L.L. M., 1949, Swiss **1975–1977** Managing Assistant, Luwa AG **1977–1982** Divisional Manager, Luwa AG **since 1982** CEO, Hesta AG and Hesta Tex AG, Zug **Member, Board of Directors** Credit Suisse, Zurich; Swiss Re, Zurich; Bucher Industries, Niederweningen; Conzzeta Holding AG, Zurich **Chairman of the Board** Human Rights Watch Committee, Zurich	1989	2010	Chairman Nomination & Compensation Committee
Members **Urs F. Burkard** Carpenter/Interior Designer, 1957, Swiss **1987–1989** Head of planning, Denz Office Furniture, Zurich **since 1989** Principal, Burkard Office Design GmbH, Rotkreuz **Chairman, Board of Directors** Unitrend Burkard AG, Rotkreuz **Vice Chairman, Board of Directors** Schenker-Winkler Holding AG, Baar	1990	2008	Nomination & Compensation Committee
Urs B. Rinderknecht lic. iur., 1946, Swiss **since 1972** Schweizerische Bankgesellschaft/UBS **since 1987** General Manager **Currently** Head Group Mandates, UBS AG, Zurich **Chairman, Board of Directors** Scintilla AG, Solothurn; Widder Hotel AG, Zurich **Vice Chairman, Board of Directors** Grand-Hotel Victoria-Jungfrau AG, Interlaken; Robert Bosch Int. Beteiligungen AG, Zurich **Member of the Supervisory Council** Robert Bosch GmbH, Stuttgart **Chairman Foundation Council** of UBS Foundation for Social Affairs and Education, Zurich, as well as of UBS Cultural Foundation, Zurich **Member of Board** economiesuisse, Zurich	1998	2010	Nomination & Compensation Committee
Toni Rusch Dr. oec. publ., 1944, Swiss **1969–1974** Project Leader, Ciba-Geigy AG, Basel **1974–1979** Corporate Development, Bühler AG, Uzwil **1979–1985** CFO, Togo Group, Romanshorn **1985–2005** CEO, Filtrox Group, St. Gallen, equity-holder since 1992 **Chairman, Board of Directors and Delegate** Filtrox Group, St. Gallen **Chairman, Board of Directors** of Sefar Holding AG, Thal SG	2000	2009	Chairman Audit Committee

	Elected first in	Remaining term	Committees
Daniel J. Sauter Financial Expert, 1957, Swiss **1976–1983** Several banks, incl. Bank Leu, Zurich **1983–1998** Senior partner and CFO, Glencore International AG, Baar **1994–2001** CEO and Delegate of Board of Directors, Xstrata AG, Zug **Chairman, Board of Directors** Alpine Select AG, Zug **Member, Board of Directors** Sulzer AG, Winterthur; Charles Vögele Holding AG, Pfäffikon; Model Holding AG, Weinfelden; Julius Bär Holding AG, Zurich	**2000**	**2009**	**Audit Committee**
Fritz Studer Banking Expert, 1943, Swiss **1965–1978** National/International Loan Specialist incl. Export Financing, Schweizerische Volksbank **1979–1982** Head of Directorate-General, Schweizerische Volksbank **1983–1993** Member of Executive Board, Luzerner Kantonalbank **1994–2003** CEO Luzerner Kantonalbank; Member of the Board of Directors, Swiss Bankers Association and Association of Swiss Cantonal Banks; Member of the Board of Directors and periodically Vice President or President, Mortage bond clearing house of the Swiss Cantonal Banks, AGI Holding AG, Swisscom IT Services AG, Adler & Co. Privatbank AG **2004–2006** Chairman of the Board of Directors, Sarna Polymer Holding Inc. **Chairman, Board of Directors** Luzerner Kantonalbank **Member Bank Council** Swiss National Bank	**2006**	**2009**	**Audit Committee from 1/1/2008**
Ulrich W. Suter Dr. sc. techn., Professor, 1944, Swiss **1982–1989** Professor, MIT, Department of Chemical Engineering, Cambridge, USA **since 1988** Professor, ETH Zurich, Departement of Material Science **2001–2005** Vice President for Research, ETH Zurich **Member, Board of Directors** WICOR Holding AG, Rapperswil SG; Global Surface AG, Nussbaumen TG **Member Foundation Council** Academia Engelberg; Werner Oechslin Library Foundation; Foundation Entwicklungsfonds Seltene Metalle ESM	**2003**	**2009**	
Christoph Tobler dipl. El. Ing. EPFL, 1957, Swiss **1988–1994** McKinsey & Company, Zurich **1994–1998** Adtranz Schweiz **1998–2004** Sika AG, Head of Industry Division and Member of Group Management **since 2004** CEO Sefar Holding AG, Thal SG **Member, Board of Directors Committee** Sefar Holding AG, Thal SG **Member, Board of Directors** Schenker-Winkler Holding AG, Baar; AG Cilander, Herisau **Member of Board Committee** economiesuisse, Zurich	**2005**	**2010**	**Audit Committee till 12/31/2007**

Robert Fürböck Dr. iur., Internal Audit

Auditors

Ernst & Young AG, Zug

Financial Report

Successfully positioned

Planned with great farsightedness: Actually the Nina Tower in Hong Kong was supposed to become the world's tallest building. But the proximity of the Chep Lap Kok Airport confounded those plans. At 319 meters high, the elegant double tower is nonetheless impressive. Sika contributed substantially to its successful construction.

New landmark. The Nina Tower commemorates Nina Wang, the wealthiest woman in Asia (1937 – 2007). Her Chinachem Group originally planned the tower with a height of 518 meters. Due to the proximity of the airport a height of 319 meters had to suffice, and it was decided to construct two towers instead of one. The higher building, with 80 stories, Nina Wang named in remembrance of her husband Teddy Tower, and lent the smaller building her own name. Despite this the entire project ran under the name Nina Tower. The uppermost 40 stories house a five-star hotel with 800 suites, the lowest 10 an exclusive department store including a train line to the international airport. In between mirrored office windows sparkle in the evening sun. The Nina Tower dominates the shore in the central city district Tsuen Wan and is regarded as the fifth-highest building in Hong Kong. In a worldwide comparison it stands in 24th place.

Sika supplied its proven, high-performance concrete admixtures for the entire facility (150 000 cubic meters of concrete). Thereby it was guaranteed that the concrete would reach a height of 319 meters in optimal condition: a task not easy to perform. Concrete comes under extremely high pressure if it is to be transported to great heights in a single stage. Cohesiveness and stability must remain intact in the process. At the same time flow characteristics must be optimized, so that the pumps at the foot of a tower can operate at all. Sika mastered the task with 880 tons of admixture.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Five-Year Reviews

Sika AG Financial Statements

Important Dates

Listed Company
Sika AG
Zugerstrasse 50
CH-6341 Baar
Switzerland

Legal Form
Limited liability company according
to the Swiss Code of Obligations

Members of the Board of Directors

Chairman
Walter Grüebler Dr. oec. HSG, 1942, Swiss

Vice Chairman
Thomas W. Bechtler Dr. iur., 1949, Swiss

Members
Urs F. Burkard Carpenter/Interior Designer, 1957, Swiss
Urs B. Rinderknecht lic. iur., 1946, Swiss
Toni Rusch Dr. oec. publ., 1944, Swiss
Daniel J. Sauter Financial Expert, 1957, Swiss
Fritz Studer Banking Expert, 1943, Swiss
Ulrich W. Suter Dr. sc. tech. Professor, 1944, Swiss
Christoph Tobler Dipl. El.-Ing. EPFL, MBA, 1957, Swiss

Assets

in CHF mn	Notes		2006		2007
Current assets					
Cash and cash equivalents	1		427.7		**438.1**
Securities	2		6.1		**5.4**
Accounts receivable	3		789.9		**861.1**
Inventories	4		412.5		**499.7**
Accrued income	5		47.1		**57.6**
Other current assets	5		58.5		**53.9**
Total current assets			1 741.8		**1 915.8**
Non-current assets					
Property, plant and equipment	6				
Property		107.8		**120.5**	
Plant		253.8		**269.1**	
Equipment		402.7	764.3	**441.8**	**831.4**
Financial assets					
Investments in associated companies	7	2.7		**16.0**	
Other financial assets	8	7.3	10.0	**18.0**	**34.0**
Intangible assets	9				
Goodwill		248.9		**245.0**	
Software		16.0		**13.5**	
Trademarks		72.4		**73.2**	
Customer Relations		111.2		**101.5**	
Other intangible assets		37.9	486.4	**29.4**	**462.6**
Deferred tax assets	10		44.7		**55.1**
Employee benefit assets	11		10.4		**10.4**
Other non-current assets			2.0		**2.0**
Total non-current assets			1 317.8		**1 395.5**
Assets held for sale	12		4.0		**0.0**
Total assets			3 063.6		**3 311.3**

Liabilities and Shareholders’ Equity

in CHF mn	Notes	2006	2007
Liabilities			
Current liabilities			
Bank loans	13	34.3	**9.6**
Non current liabilities due in the next 12 months	14	3.9	**7.6**
Accounts payable	15	386.5	**438.5**
Taxes payable	16	76.5	**64.8**
Deferred income and accrued expenses	17	180.9	**195.6**
Current provisions	19	14.8	**16.0**
Other current liabilities	20	16.3	**10.2**
Total current liabilities		713.2	**742.3**
Non-current liabilities			
Bank loans and mortgages	19	8.7	**7.7**
Bonds	18	765.1	**766.5**
Other non-current liabilities		11.1	**3.6**
Provisions	19	104.2	**128.0**
Deferred tax liabilities	10	54.2	**53.7**
Employee benefit obligation	11	133.1	**138.0**
Total non-current liabilities		1 076.4	**1 097.5**
Total liabilities		1 789.6	**1 839.8**
Shareholders’ Equity			
Capital stock		22.9	**22.9**
Capital surplus		256.0	**256.0**
Treasury shares		–2.4	**–65.1**
Currency translation differences		–117.5	**–115.5**
Fluctuations in value of financial instruments		–0.6	**–1.3**
Retained earnings		1 105.1	**1 372.0**
Equity attributable to Sika shareholders		1 263.5	**1 469.0**
Minority interests	21	10.5	**2.5**
Total shareholders’ equity	22	1 274.0	**1 471.5**
Total liabilities and shareholders’ equity		3 063.6	**3 311.3**

in CHF mn	Notes	%	2006	%	2007	Change in %
Consolidated Income Statement						
Consolidated net sales	23	100.0	3 896.1	**100.0**	**4 573.2**	**17.4**
Other operating income		0.2	7.9	0.1	6.6	
Changes in inventory		0.2	6.2	–0.2	–7.0	
Operating revenue	24	100.4	3 910.2	**100.0**	**4 572.8**	**16.9**
Material expenses	25	–46.4	–1 809.1	–46.7	–2 136.8	
Gross result		53.9	2 101.1	**53.3**	**2 436.0**	**15.9**
Personnel expenses	26	–21.7	–845.4	–20.2	–924.0	
Other operating expenses	26	–19.0	–741.1	–19.1	–872.1	
Operating profit before depreciation (EBITDA)	26	13.2	514.6	**14.0**	**639.9**	**24.3**
Depreciation	27	–2.6	–101.6	–2.2	–101.2	
Amortization	27	–0.8	–30.9	–0.6	–26.9	
Impairment	27	–0.3	–10.9	0.0	1.1	
Operating profit (EBIT)		9.5	371.2	**11.2**	**512.9**	**38.2**
Interest income	29	0.1	3.4	0.2	9.2	
Interest expenses	28	–0.6	–21.8	–0.7	–30.9	
Other financial income	29	0.0	0.8	0.1	2.9	
Other financial expenses	28	–0.5	–21.2	–0.4	–16.2	
Income from associated companies	29	0.0	1.2	0.1	3.9	
Consolidated profit before taxes		8.6	333.6	**10.5**	**481.8**	**44.4**
Income taxes	30	–2.5	–99.1	–3.0	–135.7	
Consolidated net profit		6.0	234.5	**7.6**	**346.1**	**47.6**
Profit attributable to Sika shareholders		6.0	231.9	7.6	345.7	
Profit attributable to minority interests	31	0.1	2.6	0.0	0.4	
Consolidated earnings per bearer share (in CHF)	31		91.4		**137.1**	**50.0**

in CHF mn	Capital stock	Capital surplus	Treasury shares [1]	Currency translation differences	Fluctuations in value of financial instruments	Retained earnings	Total Sika shareholders'	Minority interests	Total Shareholders' equity[2]
December 31, 2005	**71.6**	**256.0**	**–2.1**	**–110.4**	**–1.5**	**872.8**	**1 086.4**	**9.6**	**1 096.0**
Currency translation differences				–7.1			–7.1	0.1	–7.0
Fluctuations in value of financial instruments					0.9		0.9		0.9
Total income / expense recognised directly in equity				**–7.1**	**0.9**		**–6.2**	**0.1**	**–6.1**
Profit of the year						231.9	231.9	2.6	234.5
Total profit and loss				**–7.1**	**0.9**	**231.9**	**225.7**	**2.7**	**228.4**
Sale / purchase of treasury shares			–0.3				–0.3		–0.3
Gains / losses on treasury shares						0.4	0.4		0.4
Repayment of nominal value	–48.8						–48.8		–48.8
Change in minority interests								–1.8	–1.8
December 31, 2006	**22.9**	**256.0**	**–2.4**	**–117.5**	**–0.6**	**1 105.1**	**1 263.5**	**10.5**	**1 274.0**
Currency translation differences				2.0			2.0	–0.2	1.8
Fluctuations in value of financial instruments					–0.7		–0.7		–0.7
Total income / expense recognised directly in equity				**2.0**	**–0.7**		**1.3**	**–0.2**	**1.1**
Profit of the year						345.7	345.7	0.4	346.1
Total income / expense for the year				**2.0**	**–0.7**	**345.7**	**347.0**	**0.2**	**347.2**
Sale / purchase of treasury shares[3]			–62.7				–62.7		–62.7
Gains / losses on treasury shares						0.4	0.4		0.4
Dividends						–79.2	–79.2	–0.7	–79.9
Change in scope of consolidation[4]								–7.5	–7.5
December 31, 2007	**22.9**	**256.0**	**–65.1**	**–115.5**	**–1.3**	**1 372.0**	**1 469.0**	**2.5**	**1 471.5**

[1] At cost
[2] See Note 22
[3] Treasury shares as of December 31, 2007: 34 020 bearer shares
[4] The decrease in minority interests of subsidiaries is due to the deconsolidation of Addiment Italia S.r.l. (recorded at equity).

in CHF mn		2006	2007
Operating activities			
Consolidated net profit		234.5	**346.1**
Income taxes		99.1	**135.7**
Net financial result		38.8	**35.0**
Depreciation / amortization / impairment		143.4	**127.0**
Increase (+) / decrease (–) in provisions		11.7	**27.4**
Other non cash items		–16.4	**–8.9**
Increase (–) / decrease (+) in net working capital		–83.1	**–97.4**
Interest received		3.4	**9.1**
Interest paid		–7.8	**–35.1**
Other financial income / expenses		–9.6	**–12.5**
Cash flow from operations		414.0	**526.4**
Income taxes paid		–97.6	**–163.7**
Cash flow from operating activities		316.4	**362.7**
Investing activities			
Property, plant and equipment:	Capital expenditures	–129.8	**–179.0**
	Disposals	14.1	**14.5**
Intangible assets:	Capital expenditures	–10.2	**–6.8**
Acquisitions less cash and cash equivalents		–50.4	**–3.7**
Disposals less cash and cash equivalents		0.0	**11.4**
Deconsolidation of Addiment Italia S.r.l.[1]		0.0	**–7.2**
Acquisitions (–) / Disposals (+) of financial assets		5.8	**–9.2**
Cash flow from investing activities		–170.5	**–180.0**
Financing activities			
Repayment of short-term loans		–583.3	**–20.1**
Increase in long-term loans		764.2	**0.0**
Repayment of long-term loans		–3.2	**–8.5**
Acquisitions (–) / disposals (+) in treasury shares		0.1	**–63.2**
Repayment of nominal value / dividend payment to shareholders of Sika AG		–48.8	**–79.2**
Capital transactions / dividends related to minorities		–1.8	**–0.7**
Cash flow from financing activities		127.2	**–171.7**
Exchange differences on cash and cash equivalents		–0.3	**–0.6**
Net change in cash and cash equivalents		272.8	**10.4**
Cash and cash equivalents at the beginning of the year		154.9	**427.7**
Cash and cash equivalents at the end of the year		427.7	**438.1**
Free cash flow[2]		145.9	**182.7**
Acquisitions / divestitures less cash and cash equivalents plus deconsolidation		50.4	**–0.5**
Acquisition (+) / Disposal (–) of financial assets		–5.8	**9.2**
Operating free cash flow		190.5	**191.4**

[1] refer to note 9, page 89

[2] Cash flow from operating activities ± cash flow from investing activities.

Sika's operations (2007 sales: CHF 4.6 billion) encompass research, production, sales and customer service in the area of process materials for sealing, bonding, damping, reinforcing and protecting load-bearing structures in construction (buildings and infrastructure elements) and in industry (vehicle, building component and equipment production). Sika's product lines feature high-quality concrete admixtures, specialty mortars, sealants and adhesives, damping and reinforcing materials, structural strengthening systems, industrial flooring and membranes.

Sealing
Sealing minimizes the flow of gases and liquids between cavities and interstices as well as the dissemination and transfer of heat or cold. Flat roofs, tunnel constructions, water reservoirs and façades are durably impervious to wind and rain, resistant to temperature, age and vibration. The functionality and comfort of rooms within is thereby enhanced.

Bonding
Bonding joins different materials permanently, elastically and securely. Vehicles, windows and concrete elements for bridges are bonded using new processes. Sika bonding technologies increase the safety of end products and enable greater freedom of design. These applications also optimize the manufacturing process through reduction of production times.

Damping
In fixed and moving objects, damping reduces vibrations of all wavelengths, resulting in fewer reverberations and noise emissions in load-bearing structures and cavities. Noise in interiors for example is abated, thereby significantly increasing comfort.

Reinforcing
Reinforcing targets the increased carrying capacity of statically as well as dynamically stressed load-bearing structures, from light window frames to crash-resistant automotive bodies to concrete bridges. Solutions for reinforcing improve existing load-bearing structures and optimize new ones.

Protecting
Protecting boosts the durability of load-bearing structures and preserves the substance of new and renovated objects. Sika solutions guarantee sustained protection against climatic conditions, chemical influence and pollution for concrete structures, water reservoirs and historical buildings.

Sika's core business is divided into two divisions: the Construction Division (79% of sales), and the Industry Division (21% of sales).

Sika is active worldwide in 71 countries with 11 723 employees in local companies. Sika achieves 61% of sales in Europe, 23% in the Americas, 5% in the region IMEA (India, Middle East, Africa) and 11% in Asia/Pacific.

Principles of Consolidation

General principles

The financial statements of the Sika Group are prepared in conformity with the provisions of the International Accounting Standards Board (IASB).
All standards (IAS/IFRS) and interpretations (IFRIC) applicable as of December 31, 2007 were taken into account.
In the event of a changed presentation comparative data from the consolidated financial statements of the prior year was, if necessary, reclassified or supplemented.
The financial statements are prepared according to the going-concern principle.

Changes in the accounting standards

The accounting standards observed last year continue to apply with the exception of those that did not become binding until January 1, 2007. The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 revised – Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

Adoption of these revised standards and interpretations did not have any effect on the financial position or performance of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- **IFRS 7 Financial Instruments: Disclosures**
  This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.
- **IAS 1 Presentation of Financial Statements**
  This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 33.
- **IFRIC 8 Scope of IFRS 2**
  This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued as consideration which appears to be less than fair value. The interpretation had no impact on the financial statements of the Group.
- **IFRIC 9 Reassessment of Embedded Derivatives**
  IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.
- **IFRIC 10 Interim Financial Reporting and Impairment**
  The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

As of 2009 Sika will adopt the following new and revised standards that are relevant for the Group, from which however no impact on the financial position, performance or cash flow of the Group will result:

- IAS 23 (revised) Borrowing Costs
- IFRS 2 (amended) Share-based payment
- IFRS 8 Operating Segments

IFRS 3 (revised) Business Combinations will be adopted as of January 1, 2010. The revision brings into effect changes in the application of the purchase method such as purchase of minority interests, treatment of transaction costs and other questions of detail.
Likewise as of January 1, 2010, IAS 27 (revised) Consolidated and Separate Financial Statements will be applied.
Use of the following interpretations is expected to have no essential effect on the financial position, performance or cash flow of the Group:

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Scope of consolidation

The consolidated financial statements of the Sika Group encompass the financial statements of Sika AG, Baar, Switzerland, as well as its subsidiaries and associated companies (see list on page 118 et seq.). In the year under review the scope of consolidation was expanded to include the following company:

- Sika Viscocrete Belgium NV

The impact of such first-time consolidation on the consolidated net profit amount is insignificant.

The scope of consolidation was reduced to exclude the following companies:

- Addiment Italia S.r.l. (The company was deconsolidated due to changes in its Board of Directors and is now considered an associated company.)
- Sarnafil Nordic A/S (merged with Sika Danmark A/S)
- Sarnafil S.r.l. (merged with Sika Italia S.p.A.)
- Sarna Plastec AG (sold)
- Sarnafil Canada Ltd. (merged with Sika Canada Inc.)

Consolidation method

- **Basis**
  The consolidated financial statements are based on the balance sheets and income statements of Sika AG, Baar, Switzerland and its subsidiaries as of December 31, 2007, prepared in accordance with uniform standards.

- **Subsidiaries**
  Companies at least 50% owned by Sika and managed by Sika are fully consolidated. Their consolidation includes 100% of their assets and liabilities as well as expenses and income; minority interests in shareholders' equity and net income for the year are excluded and shown separately as part of minority interests.

- **Associated companies**
  The equity method is applied to account for investments ranging from 20% to 50%, provided that Sika has a controlling influence. The investments are included in the balance sheet under "Investments in associated companies" in terms of their percentage share in net assets; in the income statement their share in the net income for the year is reflected in "Income from associated companies".

- **Other minority interests**
  Other minority interests are carried at fair value.

- **Intragroup transactions**
  Transactions within the Group are eliminated as follows:
  - Intragroup receivables and liabilities are eliminated in full.
  - Intragroup income and expenses and the unrealized profit margin on inventories from intragroup sales are eliminated in full.

The list reflects the exchange rates of foreign currencies in Sika's major markets on various continents.

	Country	Currency		2006 Balance sheet[1] CHF	2006 Income statement[2] CHF	2007 Balance sheet[1] CHF	2007 Income statement[2] CHF
Europe	Euro zone	EUR	1	1.61	1.57	**1.66**	**1.64**
	Denmark	DKK	100	21.55	21.09	**22.22**	**22.07**
	Great Britain	GBP	1	2.39	2.31	**2.25**	**2.40**
	Norway	NOK	100	19.51	19.53	**20.79**	**20.45**
	Sweden	SEK	100	17.78	17.00	**17.59**	**17.79**
	Poland	PLZ	1	0.42	0.40	**0.46**	**0.43**
	Turkey	TRY	1	0.86	0.88	**0.97**	**0.92**
North America	Canada	CAD	1	1.05	1.11	**1.15**	**1.12**
	USA	USD	1	1.22	1.26	**1.13**	**1.21**
Latin America	Argentina	ARS	1	0.40	0.41	**0.36**	**0.39**
	Brazil	BRL	1	0.57	0.58	**0.63**	**0.62**
	Chile	CLP	100	0.23	0.24	**0.23**	**0.23**
	Colombia	COP	10000	5.45	5.34	**5.58**	**5.88**
	Mexico	MXN	100	11.24	11.55	**10.33**	**11.06**
Asia / Pacific	Australia	AUD	1	0.96	0.95	**0.99**	**1.01**
	China	CNY	1	0.16	0.16	**0.15**	**0.16**
	India	INR	100	2.75	2.78	**2.86**	**2.91**
	Indonesia	IDR	10000	1.37	1.36	**1.20**	**1.33**
	Japan	JPY	100	1.02	1.08	**1.01**	**1.02**
	Korea	KRW	100	0.13	0.13	**0.12**	**0.13**
	Malaysia	MYR	1	0.35	0.34	**0.34**	**0.35**
	Thailand	THB	100	3.44	3.32	**3.81**	**3.71**
Africa	Egypt	EGP	1	0.21	0.22	**0.20**	**0.21**
	South Africa	ZAR	1	0.17	0.19	**0.17**	**0.17**

[1] year-end rates
[2] annual average rates

Business Combinations

Business combinations are recorded under the purchase method. Details on business combinations during the year under review are shown in the Notes to the Consolidated Financial Statements.

The assets, liabilities and contingent liabilities of acquired companies are valued at fair value on the date of acquisition. If the cost of an acquisition exceeds the fair value of the acquired identifiable assets, liabilities and contingent liabilities, the balance is reported as goodwill. Every negative balance resulting from the cost of an acquisition and the acquired identifiable assets and liabilities (i.e. a discount at acquisition) is directly recognized in the income statement. The interests of minority shareholders are reported at the corresponding share of fair value of the recorded assets and liabilities. Any losses attributable to minority interests that exceed the minority interest are set against the interests of the parent company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

Significant accounting estimates

- **Estimation uncertainty**

  The key assumptions concerning the future and other key sources of estimation uncertainty on the balance sheet date that have a risk of causing a material adjustment to reported amounts of assets and liabilities within the next financial year are discussed below.

  Impairment of Goodwill

  The Group determines at least once annually or upon corresponding indication whether an impairment of goodwill has occurred. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The book value of goodwill as of December 31, 2007 was CHF 245.0 mn (2006 CHF 248.9 mn). Further details are presented in Note 9.

  Fair value of acquisitions

  Under IFRS 3, all assets, liabilities and contingent liabilities are valued at fair value. Newly identified assets and liabilities are also included in the balance sheet. Fair value is determined in part based on assumptions regarding factors that are subject to a degree of uncertainty, such as interest rates and sales.

  Provisions (book value: CHF 144.0 mn)

  Declaration of provisions requires assumptions about the probability, size and timely occurrence of an outflow of resources that represent economic value. As far an outflow of resources representing an economic value is probable and a reliable estimation is possible, a provision is recorded.

Trademarks (book value: CHF 73.2 mn)

Trademarks with an indefinite lifetime undergo an annual impairment test in which the cash value of future payments is calculated and compared with the book value. Future cash inflows must be estimated. Actual cash inflows can thereby deviate widely from estimations. Discounting is in addition based on assumptions and estimations concerning business specific capital costs, which are themselves dependent on national risks, credit risks, and additional risks resulting from the volatility of the respective business and the pertinent capital structure of the respective group segment.

Customer relations (book value: CHF 101.5 mn)

Customer relations are depreciated over their estimated useful life. The estimated useful life is based on estimates of the time period during which this intangible asset generates cash flows, as well as historic empirical data concerning customer loyalty. Calculation of the present value of estimated future cash flows includes essential assumptions, especially of future sales. Discounting is in addition also based on assumptions and estimations concerning business specific capital costs, which are themselves dependent on national risks, credit risks, and additional risks resulting from the volatility of the respective business and the pertinent capital structure of the respective group segment.

Employee benefits obligations (book value: CHF 138.0 mn)

The Group maintains various employee benefit plans. Diverse statistical and other variables are used in the calculation of expenses and liabilities to estimate future developments. These variables include estimations and assumptions concerning the discounting interest rate, expected income from plan assets as well as projected benefits obligations established by the management within certain guidelines. In addition for actuarial calculation of benefit liabilities actuaries employ statistical information such as withdrawal or death probabilities, which can deviate significantly from actual results due to changes in market conditions, the economic situation as well as fluctuating rates of withdrawal and shorter or longer lifespan of benefit plan participants.

Deferred tax assets (book value: CHF 55.1 mn)

Deferred tax credits resulting from unrealized tax losses brought forward or timing differences are recorded to the extent that a realization of the corresponding tax advantage is probable. The assessment of the probability of the realization of a tax advantage requires assumptions based on the history of the respective company and on data budgeted for the future.

Valuation principles

Conversion of foreign currencies

The financial statements of subsidiaries outside Switzerland are converted into Swiss francs as follows:

– Balance sheet at year-end rates
– Income statements at annual average rates
– Cash flow at annual average rates

Resulting differences in valuation are recorded separately under changes in shareholders' equity.

Exchange rate differences from continuing business are recognized in income.

Financial statements of foreign subsidiaries with high-inflation currencies are prepared in compliance with IAS 29. Gains or losses on the net currency position are reflected under "Other operating expenses". In 2006 and 2007 none of the countries in which Sika has subsidiaries experienced hyperinflation.

Local currencies were converted into Swiss francs on the basis of rates listed on page 72.

Segment reporting

Segment reporting reflects the Sika Group structure and its division into business areas (primary segment) and regional sectors (secondary segment).

The primary segment encompasses the Construction as well as the Industry Divisions.

The secondary segment represents the geographic regions: Europe North and South, North and Latin America, IMEA (India, Middle East, Africa) and Asia/Pacific.

Assets and liabilities include all balance sheet items that are directly attributable to a segment or which could logically be assigned to an operating division.

Financial assets and liabilities

Distinctions are made between the following categories of financial assets and financial liabilities:

– Financial assets at fair value through profit or loss include financial assets held for trading and derivatives: These are primarily obtained for the purpose of profiting from price fluctuations. They are set in the balance sheet at fair value and adjusted to its development. All fluctuations in value are represented in the financial result.
– Held-to-maturity investments: These include fixed-term investments that the Group is willing and able to hold until maturity. They are measured at amortized cost using the effective interest method.
– Loans and receivables: This category includes loans granted and credit balances. The valuation occurs at nominal value insofar as repayment within one year is foreseen. Otherwise they are classified as assets held-to-maturity.
– All other financial assets are classified as disposable available-for-sale. The valuation occurs at fair value, with fluctuations in value recorded in shareholders' equity. Upon sale, permanent depreciation in value or other divestiture, the cumulative profits or losses recorded in shareholders' equity are shown in the financial result of the current period.

Available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss. All purchases and sales of financial assets are recognised on the settlement date. Financial assets are derecognised when Sika loses the right to dispose over the asset. Normally this occurs through the sale of assets or the repayment of granted loans or accounts receivable.

Financial liabilities include debt which is valued at original cost. Long-term debts are valued at amortized cost (see page 103). Financial liabilities are derecognised when repaid.

On each balance sheet date the Group assesses whether a financial asset is impaired.

If objective evidence exists that an impairment loss of financial assets carried at amortized cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

If in the case of accounts receivable there is objective evidence that not all due amounts will be rendered according to originally agreed invoicing conditions (as for example in the probability of insolvency of a debtor), then the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost and its current fair value is transferred from equity to profit or loss.

Consolidated balance sheet

– **Cash and cash equivalents**
Time deposits with an initial term of three months or less are included in cash and cash equivalents. They are recorded at nominal value.

– **Securities**
Marketable securities including fixed deposits with a term of 3 to 12 months are carried under current assets. Sika has classified all securities and fixed deposits as available-for-sale since they were not purchased to derive profits from short-term price fluctuations.

- **Receivables**
  Accounts receivable are recorded after provisions for doubtful debts determined on the basis of prudent commercial principles. Calculations of doubtful debts are based on a general valuation adjustment, which in turn depends on the default period. In addition, a special provision is applied to receivables classified as doubtful.

- **Inventories**
  Raw materials are reported at acquisition cost (weighted average), finished products at manufacturing costs, or at the lower net realizable value. Valuation adjustments are applied to non-marketable inventories.

- **Other current assets**
  This item includes accrued income unrelated to accounts receivable.

- **Depreciation in value of non-current assets (impairment)**
  The recoverable value of property, plant and equipment as well as intangible assets is reviewed if events or changed circumstances indicate that assets may be impaired. If the book value exceeds the recoverable value, a special depreciation allowance is recorded to reduce the book value to the estimated recoverable level on the basis of discounted, anticipated future cash flows. Details on impairment of goodwill are found under "intangible assets" on page 86.

- **Property, plant and equipment**
  Property, plant and equipment are stated at acquisition cost, less accumulated depreciation required for business purposes. The capitalization is made based on components. Leased property, plant and equipment are capitalized if qualified as finance lease. Value-enhancing expenses are capitalized and depreciated over their useful life. Repair, maintenance and replacement costs are charged directly to the income statement. Depreciation under the straight-line method is based on the anticipated useful life of the asset, including its operational usefulness and age-related technical viability. Impairments are recorded when the book value no longer appears recoverable. Property, plant and equipment are grouped into cash-generating units for impairment testing purposes.

Depreciation schedule

Buildings	25 years
Infrastructure	15 years
Plants and machinery	10 years
Furnishings	6 years
Vehicles	4 years
Laboratory equipment and tools	4 years
IT Hardware	4 years

- **Leasing**
  Fixed assets acquired under finance leasing contracts and therefore owned by the Group in respect to use and hazards, are classified under finance leasing. Such assets are posted at current market value or the lower present value of future, irrevocable lease payments as non-current assets and financial indebtedness. Assets classified as finance leasing are depreciated over their estimated useful life or amortized over a shorter leasing contract. Unrealized earnings from sale and leaseback transactions that fall under the definition of finance leasing are shown as a liability and realized over the term of the leasing contract.
  Payments on operating leases are recorded as operating expense and accordingly charged to the income statement.

- **Deferred taxes (Assets/Liabilities)**
  Deferred taxes are applied under the Comprehensive Liability method. Deferred taxes on differences between Group and taxable balance sheet values are recorded as non-current liabilities or, respectively, non-current assets. The actual or anticipated tax rates are decisive. Changes in deferred taxes are reflected in the tax expense. Accrued taxes including those that can be applied to tax losses brought forward are recognized as assets if they are likely to be realized. Deferred taxes are charged against all taxable temporary differences, insofar as the accounting regulations do not provide for exceptions.

- **Intangible assets**
  In-house developed patents, trademarks and other rights are not capitalized. Research and development is included in the income statement, since it does not fulfil the criteria of capitalization. Acquired intangible assets are as a rule capitalized and written off using the straight-line method.
  Regular write-offs of intangible assets are recorded under "Amortizations" in the income statement.

Amortization schedule	
Software	1–3 years
Patents	5 years
Customer relations	1–20 years

Goodwill arising from acquisitions, technology and customer relations is capitalized and subject to an annual impairment test. Impairments are recognized in the income statement. The original value is not reinstated at a later date. Acquired trademarks are amortized insofar as a useful life can be determined. Otherwise trademarks are not amortized but undergo an annual impairment test.

– **Assets held for sale**
This item consists of long-term assets designated to be disposed of through sale or other means. Long-term assets held for sale are shown at book value or at market value less disposal costs if lower. Book value is not derived from continued use, but rather from a sales transaction with high probability. Assets held for sale are shown on the balance sheet separately.

– **Liabilities**
Current liabilities consist of liabilities with maturities of less than twelve months and deferred income. Tax liabilities include taxes due and accrued.
Non-current liabilities include loans and provisions with a term of more than one year.

– **Provisions**
Provisions required for liabilities from guarantees, warranties and environmental risks as well as restructuring are stated as liabilities.
Provisions are only recognised if Sika has a third-party liability that is based on a past event and can be reliably assessed. Potential losses due to future incidents are not reflected in the balance sheet.

– **Employee benefit plans**
The Group maintains benefit plans that differ in accordance with local practices. Defined-contribution plans are recognized in the income statement. Defined-benefit plans are administered either through self-governed pension funds or recorded in the balance sheet. The amount of the liabilities resulting from defined-benefit is regularly determined by independent experts under application of the projected unit credit method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date.These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans. A net pension asset is recorded only to the extent of possible future refunds from the plan or reduction in the future contributions.

– **Capital stock**
The capital stock is equal to the par value of all issued bearer and registered shares.

– **Capital surplus**
This entry consists of the value of paid-in capital in excess of par value (less transaction costs).

– **Treasury shares**
Treasury shares are valued at acquisition cost in the consolidated balance sheet and as a negative entry in shareholders’ equity. Differences between purchase price and sales proceeds of treasury shares are shown as a change in retained earnings.

– **Currency translation differences**
This entry consists of the differential amount of asset values, liabilities, income and expenses of group companies not reporting in Swiss francs, translated into in Swiss francs for consolidation purposes.

– **Fluctuations in value of financial instruments**
Fluctuations in value of financial instruments are recorded in shareholders’ equity and deleted from the accounts in the income statement in case of a sustained depreciation or disposal.

– **Retained earnings**
Retained earnings comprise accumulated retained earnings of the group companies that are not distributed to shareholders as well as profit/loss of treasury shares. Profit distribution is subject to legal restrictions, which may have an impact depending on the geographic allocation of group companies.

Income statement

- **Net sales**

  Proceeds from the sale of goods are only reported in the income statement if risks and rewards of ownership have been substantially transferred to the purchaser, the proceeds can be determined reliably and payment is assumed likely. Sales represent the invoiced sales and service transactions with customers, at sales prices less discounts granted.

- **Personnel expenses**

  Personnel expenses include all payments to employees. This item also encompasses such costs as pension contributions, bonuses, retirement packages, health insurance premiums as well as taxes and levies directly associated with personnel compensation.

- **Research and development**

  Research and development expenses are recorded in the income statement. Development expenses are not capitalized because the conditions for capitalization have not been met.

- **Depreciation**

  Assets are depreciated using the straight-line method based on the useful life of the asset and its recoverable value.

- **Interest expense/other financial expenses**

  All interest and other expenses paid for the procurement of loans are charged to the income statement.

- **Interest income/other financial income**

  Interest income is recorded and timely apportioned using the effective interest method. Dividend income is recorded at the time at which the right of receipt occurs.

- **Taxes**

  The reported tax expense includes income taxes based on current taxable income, and deferred taxes. Taxes on equity and withholding taxes from the transfer of dividends and licenses are included in “Other operating expenses”.

Prior year ( )

Notes to the Consolidated Financial Statements

Notes on accounting principles and general notes to the statements are presented in the "Principles of Consolidation and Valuation" on page 70 et seq.

Consolidated balance sheet

1 Cash and cash equivalents
CHF 438.1 mn (CHF 427.7 mn)

As part of the Group cash management the Group's cash and cash equivalents are pooled. The entry "Cash and cash equivalents" contains payment instruments with a duration of less than three months, with interests earned at current interest rates.

2 Securities
CHF 5.4 mn (CHF 6.1 mn)

This item contains marketable securities, including fixed deposits with a term of 3 to 12 months which are available for sale.

3 Accounts receivable

CHF 861.1 mn (CHF 789.9 mn)

The following table shows accounts receivable, the development of the allowance for doubtful accounts as well as the portion of not overdue and overdue receivables including their age distribution. Accounts receivable are non-interest-bearing and are generally due within 30–90 days.

Accounts receivable

in CHF mn	2006	2007
Receivables	838.1	**922.1**
Allowance for doubtful accounts	–48.2	**–61.0**
Net accounts receivable	789.9	**861.1**

Movements on the allowance for doubtful accounts

in CHF mn	2006	2007
January 1	47.3	**48.2**
Allowance for acquired / sold businesses	–0.5	**–0.2**
Allowances charged and loss	35.3	**45.9**
Reversal or utilization of allowances	–33.8	**–33.1**
Exchange differences	–0.1	**0.2**
December 31	48.2	**61.0**

Age distribution of accounts receivable

in CHF mn	2006	2007
Net accounts receivable	789.9	**861.1**
of which		
not overdue	606.3	**663.1**
past due < 31 days	118.7	**135.4**
past due 31 – 60 days	40.0	**45.9**
past due 61 – 180 days	33.4	**36.1**
past due > 181 days	39.7	**41.6**
allowance for doubtful accounts	–48.2	**–61.0**

The allowance for doubtful accounts is the difference between the nominal value of receivables and the actually realizable amount. The building up and reversal of allowances for doubtful accounts are recorded in other operating expenses. Amounts entered as allowances are usually deleted when payment is no longer expected.

4 Inventories
CHF 499.7 mn (CHF 412.5 mn)

Inventory write-offs amount to CHF 12.8 mn (CHF 16.3 mn). Material expenses have been adjusted for this amount.

in CHF mn	2006	2007
Raw materials and supplies	112.9	**145.5**
Semi-finished goods	27.1	**34.8**
Finished goods	222.8	**274.7**
Merchandise	49.7	**44.7**
Total	412.5	**499.7**

5 Accrued income and other current assets
CHF 111.5 mn (CHF 105.6 mn)

This item includes accrued income, prepayments as well as derivatives of CHF 8.4 mn (CHF 0.3 mn).

6 Property, plant and equipment
CHF 831.4 mn (CHF 764.3 mn)

in CHF mn	Property	Plant	Equipment	Total
As of January 1, 2006				
Acquisition cost	106.0	553.1	1 075.9	**1 735.0**
Cumulative depreciation and impairment	–3.5	–293.8	–689.6	**–986.9**
Net values as of January 1, 2006	**102.5**	**259.3**	**386.3**	**748.1**
1/1–12/31 2006				
As of January 1, 2006	**102.5**	**259.3**	**386.3**	**748.1**
Additions	4.5	14.1	111.2	**129.8**
Acquired on acquisition[1]	3.1	10.8	5.8	**19.7**
Exchange differences	–1.1	–3.4	–5.0	**–9.5**
Disposals	–1.3	–2.8	–4.3	**–8.4**
Disposal of subsidiary[2]	–0.1	–0.9	–0.2	**–1.2**
Assets held for sale	–0.9	–1.1	–1.9	**–3.9**
Reclassifications	1.1	3.6	–6.8	**–2.1**
Depreciation charge for the year	0.0	–24.8	–76.8	**–101.6**
Impairment	0.0	–1.0	–5.6	**–6.6**
As of December 31, 2006	**107.8**	**253.8**	**402.7**	**764.3**
As of January 1, 2007				
Acquisition cost	111.0	559.8	1 133.0	**1 803.8**
Cumulative depreciation and impairment	–3.2	–306.0	–730.3	**–1 039.5**
Net values as of January 1, 2007	**107.8**	**253.8**	**402.7**	**764.3**
1/1–12/31 2007				
As of January 1, 2007	**107.8**	**253.8**	**402.7**	**764.3**
Additions	8.6	14.6	155.8	**179.0**
Acquired on acquisition[3]	0.0	0.0	0.3	**0.3**
Exchange differences	0.4	–0.9	–2.0	**–2.5**
Disposals	–0.9	–2.5	–4.8	**–8.2**
Disposal of subsidiary[4]	0.0	–0.2	–1.0	**–1.2**
Reclassifications[5]	2.0	26.0	–28.2	**–0.2**
Depreciation charge for the year	0.0	–21.9	–79.3	**–101.2**
Impairment	0.0	–0.3	–1.7	**–2.0**
Reversal of impairment	2.6	0.5	0.0	**3.1**
As of December 31, 2007	**120.5**	**269.1**	**441.8**	**831.4**
Acquisition cost	121.3	581.9	1 221.7	**1 924.9**
Cumulative depreciation and impairment	–0.8	–312.8	–779.9	**–1 093.5**
Net values as of December 31, 2007	**120.5**	**269.1**	**441.8**	**831.4**

[1] Sucoflex / Covercrete / Haberkorn / Protective Coatings / Proxan
[2] Exclusion of Granol (consolidated at equity)
[3] MRT Conctruction Products
[4] Sarna Plastec AG and bituminous coatings
[5] Plants and buildings under construction are reclassified after completion

Sika applied the cost model to all classes of property disclosed in this table.

Note 27 describes impairments and reversal of impairments for the period under review.

Property, plant and equipment

The item "property, plant and equipment" includes revenue-generating real estate with a book value of CHF 12.3 mn (CHF 14.8 mn). Real estate held as a financial investment is valued at acquisition cost and depreciated on a straight-line basis over 25 years. Deviations from fair value are insignificant.

Real estate held as financial investment in CHF mn	2006	2007
As of January 1	20.1	**14.8**
Additions / value-increasing investments	0.1	**0.0**
Disposals	–2.9	**–2.0**
Depreciation expense	–2.5	**–0.5**
As of December 31	14.8	**12.3**

Amounts included in profit and loss	2006	2007
Rental revenue	2.3	**1.8**
Operational expenses	2.7	**0.5**

All plants, except Sika plants in Taiwan, Sika Engineering Silicones in Italy and Sarnafil Inc. in USA, are owned by subsidiaries. Leasehold contracts are insignificant. Plant and equipment includes machinery, vehicles, equipment, furnishings and hardware. Book value of the mortgaged properties are insignificant.

The new adhesive plant, the new R&D center and the logistics center of Sika Schweiz AG are financed by means of operating lease. Operating leases relate also to data processing equipment and copiers as well as vehicles used by the sales force.

Finance leasing includes plant and equipment of Sarnafil Inc., USA of CHF 8 mn.

Insurance values are adjusted on an ongoing basis.

in CHF mn	2006	2007
Allocation of PPE by regions		
Europe North	306	**348**
Europe South	141	**143**
North America	150	**145**
Latin America	44	**48**
IMEA	22	**35**
Asia / Pacific	73	**82**
Corporate	28	**30**
Total net balance sheet value	764	**831**

in CHF mn	Operating leases		Finance leases					
	2006	2007	2006			2007		
	Minimum payments	Minimum payments	Minimum payments	Interest	Present value of Payments	Minimum payments	Interest	Present value of Payments
1 year or less	29.8	38.6	3.2	0.4	2.8	7.3	0.4	6.9
2–5 years	53.0	88.4	9.0	0.7	8.3	1.5	0.4	1.1
over 5 years	35.2	113.7	1.2	0.2	1.0	0.9	0.1	0.8
Total	**118.0**	**240.7**	**13.4**	**1.3**	**12.1**	**9.7**	**0.9**	**8.8**

2007 values in major countries

in CHF mn	CH	DE	FR	US	JP
Buildings					
Insurance values	300	134	73	106	15
Book values	74	13	14	48	3
Equipment					
Insurance values	336	225	74	235	25
Book values	132	52	34	77	7

Insurance values vs. book values in CHF mn	2006	2007
Buildings		
Insurance values	883	**942**
Book values	254	**269**
Equipment		
Insurance values	1 124	**1 226**
Book values	403	**442**

7 Associated companies (Participations between 20% and 50%)
CHF 16.0 mn (CHF 2.7 mn)

Sika Gulf B.S.C., Bahrain[1]	2006	2007
Capital stock in CHF mn	3.2	**3.0**
Held by Sika AG, Baar 45%	1.5	**1.4**
Sales	22.8	**37.0**
Profit	3.1	**4.4**
Assets	12.5	**25.8**
Liabilities	12.0	**23.7**
Addiment Italia S.r.l.[2]		
Capital stock in CHF mn		**0.0**
Held by Sika AG, Baar 50%		**0.0**
Sales		**35.5**
Profit		**3.1**
Assets		**26.9**
Liabilities		**9.6**
All others[3]		
Capital stock in CHF mn	0.9	**0.9**
Held by Sika AG, Baar	0.4	**0.4**
Sales	35.2	**44.8**
Profit	2.2	**2.4**
Assets	14.6	**16.8**
Liabilities	6.7	**8.5**

1 Sika Gulf B.S.C., Bahrain, manufactures concrete admixtures and ready-to-use mortar for the supply of countries in the Middle East.
2 Deconsolidated on 1/1/2007 (see page 89), capital stock amounts to EUR 10000
3 part GmbH, Germany; Condensil SARL, France; Hayashi-Sika, Japan; Chemical Sangyo, Japan; Sarna Granol AG, Switzerland

8 Other financial assets
CHF 18.0 mn (CHF 7.3 mn)

Other financial assets consist of financial assets held for sale of CHF 9.2 mn (CHF 7.3 mn) and a loan to an associated company of CHF 8.8 mn (0).

9 Intangible assets

CHF 462.6 mn (CHF 486.4 mn)

in CHF mn	Goodwill	Software	Trade-marks	Customer relations	Other intangible assets	Total
As of January 1, 2006						
Acquisition costs	255.9	75.6	72.4	122.2	62.1	**588.2**
Cumulative amortization and impairment	–7.0	–58.2	0.0	0.0	–28.2	**–93.4**
Net values as of January 1, 2006	**248.9**	**17.4**	**72.4**	**122.2**	**33.9**	**494.8**
1/1 – 12/31/2006						
As of January 1, 2006	**248.9**	**17.4**	**72.4**	**122.2**	**33.9**	**494.8**
Additions	0.0	8.3	0.0	0.0	1.7	**10.0**
Acquired on acquisition	5.7	0.0	0.0	1.9	13.2	**20.8**
Exchange differences	–1.5	0.1	0.0	–3.1	–0.3	**–4.8**
Disposals	0.0	0.1	0.0	0.0	0.0	**0.1**
Reclassifications (net)	0.0	0.4	0.0	0.0	0.0	**0.4**
Amortization for the year	0.0	–10.3	0.0	–9.8	–10.6	**–30.7**
Impairment	–4.2	0.0	0.0	0.0	0.0	**–4.2**
As of December 31, 2006	**248.9**	**16.0**	**72.4**	**111.2**	**37.9**	**486.4**
As of January 1, 2007						
Acquisition costs	256.9	77.0	72.4	120.9	62.6	**589.8**
Cumulative amortization and impairment	–8.0	–61.0	0.0	–9.7	–24.7	**–103.4**
Net values as of January 1, 2007	**248.9**	**16.0**	**72.4**	**111.2**	**37.9**	**486.4**
1/1 – 12/31/2007						
As of January 1, 2007	**248.9**	**16.0**	**72.4**	**111.2**	**37.9**	**486.4**
Additions	0.0	6.7	0.0	0.0	0.1	**6.8**
Acquired on acquisition	1.1	0.0	0.0	0.0	2.0	**3.1**
Exchange differences	–0.5	0.1	0.0	–2.5	0.1	**–2.8**
Disposals	0.0	–0.2	0.0	0.0	0.0	**–0.2**
Disposals of subsidiaries	–4.5	0.0	0.0	0.0	0.0	**–4.5**
Reclassifications (net)	0.0	0.2	1.6	0.0	–1.4	**0.4**
Amortization for the year	0.0	–9.3	–0.8	–7.2	–9.3	**–26.6**
As of December 31, 2007	**245.0**	**13.5**	**73.2**	**101.5**	**29.4**	**462.6**
Acquisition costs	254.0	81.4	75.2	114.6	60.5	**585.7**
Cumulative amortization and impairment	–9.0	–67.9	–2.0	–13.1	–31.1	**–123.1**
Net values as of December 31, 2007	**245.0**	**13.5**	**73.2**	**101.5**	**29.4**	**462.6**

Intangible Assets

The intangible assets included on page 85 (except goodwill and trademarks) are amortized over a finite useful life. Acquired trademarks are amortized insofar as a useful life can be determined. In other cases trademarks are not amortized but undergo an annual impairment test. Trademarks usually have an indefinite useful life because they are influenced by internal and external factors such as strategic decisions, competitive and customer behaviour, technical development and altered market requirements. The carrying value of trademarks with an indefinite useful life amounts to CHF 72.4 mn.

Goodwill items tested for impairment

All goodwill items were tested for impairment based on the discounted cash flow method using management-approved plan data and cash flow forecasts. The forecast horizon is generally five years. The forecast is based on growth rates of 5–20%, in line with market expectations. The cash flow forecasts for periods beyond the planning horizon are projected using growth rates of 1–3%. The applied discount rates varied by country from 10–18% (prior year: 8–17%) and are based on the interest rate for risk-free investments plus a risk premium. Minor adjustments to the test parameters have no negative impact on the value of goodwill items.

Carrying value assigned to cash-generating units

in CHF mn	Growth rates	Interest rates	2006	2007
Sarnafil USA	1.0%	10.9%	49.5	45.8
Sarnafil Europe	1.7%	10.2%	98.7	97.1
Automotive Europe	3.0%	10.2%	63.3	65.3
Construction business Germany	1.1%	10.2%	18.9	20.6
Various	1–3%	10–18%	18.5	16.2
Total			**248.9**	**245.0**

The individual local companies were identified as the lowest cash-generating units. In the context of the Sarna acquisition, goodwill has been allocated to the regional markets. In the year under review no impairments were recorded.

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Acquisitions 2006

In 2006 Sika acquired various businesses or parts of businesses. The purchase price allocation (PPA) required no adjustment and is thereby final.

Acquired net assets

in CHF mn	**Book value**	**Market value adjustments**	**Market value**
Cash in bank and cash on hand	2.3	0.0	2.3
Accounts receivable and other receivables	5.1	0.0	5.1
Inventories	16.5	0.9	17.4
Property, plant and equipment	19.7	0.0	19.7
Intangible assets	0.2	14.9	15.1
Financial assets	0.3	0.0	0.3
Total assets	**44.1**	**15.8**	**59.9**
Accounts payable and other liabilities	8.2	0.3	8.5
Provisions	0.9	0.9	1.8
Employee benefit assets	1.0	0.0	1.0
Taxes payable	0.0	1.6	1.6
Total liabilities	**10.1**	**2.8**	**12.9**
Goodwill from acquisitions			5.7
Total purchase price			52.7
Offset by			
Cash			52.7
Directly attributable costs			0.0
Net cash outflow from the acquisition			
Cash payment			52.7
Cash in bank and cash on hand			2.3
Net cash outflow			50.4

Overall the following acquisitions were recorded:
- Covercrete, Canada, total purchase price CHF 5.4 mn
- Sucoflex from Huber+Suhner AG, Switzerland, total purchase price CHF 18.1 mn
- Haberkorn from Haberkorn Holding AG, Austria, total purchase price CHF 8.2 mn
- Protective Coatings from DuPont, Germany, total purchase price CHF 16.9 mn
- Proxan Dichtstoffe GmbH, Germany, total purchase price CHF 5.4 mn

Had all acquisitions occurred on the first day of the business year, consolidated net sales would have been CHF 33.6 mn higher and consolidated net profit attributable to shareholders CHF 1.4 mn higher.

Acquisition MRT Construction Products, Canada

On March 12, 2007 Sika acquired assets of MRT Construction Products, Canada.

Acquired net assets

in CHF mn	Book value	Market value adjustments	Market value
Inventories	0.3	0.0	0.3
Property, plant and equipment	0.3	2.0	2.3
Intangible assets	0.0	2.0	2.0
Total assets	**0.6**	**4.0**	**4.6**
Total liabilities	**0.0**	**0.0**	**0.0**
Goodwill from acquisition			1.1
Total purchase price			3.7
Net cash outflow from the acquisition			3.7

If the company had been acquired on the first day of the business year, Sika would have posted additionally CHF 1.7 mn in consolidated net sales and unchanged EBIT. Since the acquisition, chargeable sales and earnings of CHF 1.3 mn and CHF 0.3 mn, respectively, have been posted.

Deconsolidation of Addiment Italia S.r.l.

At the start of the year Addiment Italia S.r.l. was deconsolidated due to changes in its Board of Directors. The company is now therefore considered an associated company. As a result of this reclassification the equity capital was reduced by CHF 7.5 mn, equal to the share of the joint venture partner. The cash flow from investing activities reflects CHF 7.2 mn in deconsolidated bank deposits and cash on hand. In the previous year sales by the company amounted to CHF 30.9 mn.

Divestment of a subsidiary
Sika made the sale of Sarna Plastec AG, Sarnen, Switzerland, public on January 15, retroactively as of January 1, 2007.
Sika also sold the production of bituminous coatings retroactively as of the start of the year.

Net assets sold in CHF mn	**Total**
Cash in bank and cash on hand	0.9
Current receivables	1.3
Inventories	1.6
Property, plant and equipment	3.5
Total assets	**7.3**
Current liabilities	1.3
Non-current liabilities	1.2
Total liabilities	**2.5**
Net assets	**4.8**
Sales price	13.8
Net assets sold	–4.8
Goodwill	–1.6
Gain on sale	7.4
Net cash inflow from sale	
Sales price	13.8
Loan to purchaser	–1.5
Cash in bank and cash on hand	–0.9
Net cash inflow	11.4

The consolidated financial statement of the group was not affected by the business activities of the divested subsidiary. The divested subsidiary attained sales of CHF 17.0 mn and a profit of CHF 0.5 mn in the preceding year.

10 Deferred taxes

CHF 1.4 mn (CHF –9.5 mn)

Losses brought forward

in CHF mn	2006	%	2007	%
1 year or less	0.0	0.0	0.1	0.7
2–5 years	0.6	7.1	0.5	3.2
over 5 years	8.2	92.9	16.0	96.1
Total	**8.8**	**100.0**	**16.6**	**100.0**

in CHF mn			2006			2007
Category	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
January 1	50.6	68.7	–18.1	44.7	54.2	–9.5
Net change	–5.9	–14.5	8.6	10.4	–0.5	10.9
December 31	**44.7**	**54.2**	**–9.5**	**55.1**	**53.7**	**1.4**

Allocation of assets and liabilities

in CHF mn			2006			2007
Category	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Losses brought forward	1.1	0.0	1.1	2.0	0.0	2.0
Current assets	12.0	5.2	6.8	19.9	8.1	11.8
Property, plant and equipment	6.1	20.0	–13.9	4.5	20.3	–15.8
Other non-current assets	3.7	27.9	–24.2	1.5	23.1	–21.6
Liabilities	21.8	1.1	20.7	27.2	2.2	25.0
Total	**44.7**	**54.2**	**–9.5**	**55.1**	**53.7**	**1.4**

Reconciliation between anticipated and effective tax expense

in CHF mn	2006	%	2007	%
Consolidated net profit before taxes	333.6	–	481.8	–
Anticipated tax rate[1]	–	28.9	–	28.1
Anticipated tax expense	96.4	28.9	135.3	28.1
Non-tax-deductible expense	4.5	1.4	0.7	0.2
Change in anticipated tax rate	–2.0	–0.6	–1.3	–0.3
Adjusted tax expense from earlier periods	–0.8	–0.3	1.5	0.3
Other	1.0	0.3	–0.6	–0.1
Tax expense as per consolidated income statement	99.1	29.7	135.7	28.2

[1] The anticipated tax rate is based on the weighted tax rates applicable to each individual Group company.

11 Employee benefit plans and expenses

Employee benefit plans

Contained in the CHF 10.4 mn (CHF 10.4 mn) assets reported in the balance sheet under employee benefit plans are CHF 10.0 mn capitalized from an employer contribution reserve. The CHF 138.0 mn (CHF 133.1 mn) in employee benefit obligation posted in the balance sheet consist of the following:

in CHF mn	2006	2007
Employee benefit plans with defined benefits	108.0	106.7
Other employee commitments	25.1	31.3
Total	**133.1**	**138.0**

The majority of the subsidiaries maintain defined-contribution plans in line with the laws of the country in which they operate. The plans are usually carried by insurance companies.

31 Group companies maintain defined-benefit plans. Among these companies are the German and French subsidiaries, which post employee benefit obligation in their respective balance sheets and the Sika companies in Switzerland, which rely on independent foundations for this purpose. Sika companies in Switzerland also maintain a plan that allows for early retirement; in the year under review 18 employees took advantage of this opportunity.

Pension liabilities and terminal payments are determined by actuarial appraisals. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans. IAS 19 prescribes immediate recognition in the income statement under certain circumstances. For specific plans this rules had to be applied.

Other employee benefit plans contain jubilee premiums and similar benefits.

Defined-benefit plans

Actuarial present value of defined benefit obligation (DBO)

in CHF mn	2006	2007
Opening balance	**465.5**	**515.8**
Current service cost	33.4	21.0
Interest cost	15.3	16.3
Actuarial gains(–)/losses(+)	18.6	14.8
Exchange differences	3.9	3.6
Benefits paid	–23.6	–19.2
Change in scope of consolidation	1.5	–15.6
Curtailments	1.1	0.0
Settlements	0.1	–0.4
Closing balance	**515.8**	**536.3**

Analysis of the defined benefit obligation from funded and unfunded plans

in CHF mn	2006	2007
Funded plans	414.2	430.1
Unfunded plans	101.6	106.2
Total	**515.8**	**536.3**

Fair value of plan assets

in CHF mn	2006	2007
Opening balance	**385.7**	**456.3**
Expected return on plan assets	20.2	19.7
Actuarial gains(+)/losses(–)	39.5	1.3
Exchange differences	0.3	0.2
Contributions by employer	19.8	13.6
Contributions by plan participants	9.8	8.1
Benefits paid	–18.6	–13.7
Change in Scope of consolidation	0.0	–23.2
Settlements	–0.4	0.0
Closing balance	**456.3**	**462.3**

Expense for defined-contribution plans: CHF 41.5 mn (CHF 32.4 mn). Anticipated contributions to defined benefit plans for 2008 amount to CHF 13.9 mn.

Employee benefit plans and expenses

Defined-benefit plans

Status **in CHF mn**	**2006**	**2007**
Actuarial present value of defined benefit obligations (DBO)	515.8	536.3
Fair value of plan assets	456.3	462.3
Deficit (+)/Surplus (–)	**59.5**	**74.0**
Unrecognized actuarial loss (–)/gain (+)	1.2	–1.1
Unrecognized past service costs	0.0	–0.1
Net liability before value adjustments	**60.7**	**72.8**
Value adjustments (IAS 19 par. 58b)	37.3	23.9
Net liability recognised in balance sheet[1]	**98.0**	**96.7**

Income statement **in CHF mn**	**2006**	**2007**
Service costs	33.4	21.0
Interest expenses	15.3	16.3
Anticipated return on investments	–20.2	–19.7
Employee contributions	–9.8	–8.1
Actuarial gains(–)/losses(+)	5.3	14.0
Past service costs	0.8	0.0
Curtailments and settlements	0.5	3.4
Effect of value adjustments (IAS 19 par. 58b)	0.0	–13.4
Total	**25.3**	**13.5**
Actual return on plan assets	59.7	21.0
Experience adjustments on plan liabilities	–	16.5
Experience adjustments on plan assets	–	2.5

Major categories of total plan assets **in % of market value**	**2006**	**2007**
Shares	39.7	38.6
Bonds	39.1	39.2
Real estate	14.5	14.1
Other assets	6.7	8.1
Total	**100.0**	**100.0**

Plan assets include own occupied property with a market value of CHF 0.4 mn (CHF 12.9 mn), shares of Sika AG valued at CHF 20.3 mn CHF 17.4 mn) and bonds of Sika AG valued at CHF 0.6 mn (0).

[1] Of net liability recognised in balance sheet after value adjustments, CHF 10.0 mn are contained in assets, while CHF 108 mn for 2006 and CHF 106.7 mn for 2007 are shown under liabilities.

Employee benefit plans and expenses

Annual comparison in absolute terms in CHF mn	2003	2004	2005	2006	2007
Actuarial present value of defined benefit obligations (DBO)	282.9	301.3	465.5	515.8	536.3
Fair value of plan assets	198.6	216.4	385.7	456.3	462.3
Deficit (+)/Surplus (–)	**84.3**	**84.9**	**79.8**	**59.5**	**74.0**

Healthcare cost increases do not have an influence on future service cost nor the present value of retirement pension commitment.

Actuarial assumptions	2006	2007
Discount rate in the year under review (%)	3.3	3.5
Return[1] on investment in the year under review (%)	4.5	4.5
Pension trend (%)	0.6	0.7
Salary trend (%)	2.1	2.1
Number of insured employees	3 936	4 372
Number of insured retired persons	1 051	1 252
Total number of benefit plans	24	28
plans with retired assets	8	8
plans without retired assets	16	20

[1] The return on investment was established for the individual investment categories based on investment strategies and anticipated returns.

The assumed rate of inflation with respect to health care has no significant impact on the amounts recognized in the income statement.

Personnel expenses

The Group's entire expense for personnel is recorded in the Consolidated Income Statement under "Personnel expenses".

Employee stock participation plan

Executive managers receive Sika AG shares as a component of their salary. The shares are valued at market prices and subject to selling restrictions. All shares were acquired on the market and the associated expense is posted as personnel expenses. The stock was therefore not diluted. In the year under review 482 shares were granted at the currently prevailing market value of CHF 1.0 mn. They were granted at market prices. The Sika Group does not issue stock options.

12 Assets held for sale
CHF 0.0 mn (CHF 4.0 mn)

In 2007 no assets were held for sale.

13 Bank overdrafts
CHF 17.3 mn (CHF 43.0 mn)

Short-term bank loans amounted to CHF 9.6 mn (CHF 34.3 mn). In addition long-term bank loans and mortgages of CHF 7.7 mn (CHF 8.7 mn) are reported. To safeguard the liquidity of Sika AG a syndicated credit facility of CHF 450 mn (CHF 450 mn) is available until November 15, 2010. In addition, within the Group's cashpooling, a credit limit of CHF 50 mn (CHF 50 mn) is available. Some Group companies have proprietary but overall insignificant credit limits at their disposal.

14 Non-current liabilities due in the next 12 months
CHF 7.6 mn (CHF 3.9 mn)

Non-current liabilities due in the next twelve months are being classified as current liabilities. Included are bank loans of CHF 0.7 mn (CHF 0.7 mn) and other financial liabilities (mainly finance leasing) amounting to CHF 6.9 mn (CHF 3.2 mn).

15 Accounts payable
CHF 438.5 mn (CHF 386.5 mn)

Accounts payable do not bear interest and will usually become due within 30 to 60 days.

16 Taxes payable
CHF 64.8 mn (CHF 76.5 mn)

Due to the increased result, higher income taxes were paid. Consequently, taxes payable decreased in comparison with the previous year.

17 Deferred income and accrued expenses
CHF 195.6 mn (CHF 180.9 mn)

Deferred income and accrued expenses relate to outstanding invoices and liabilities of the current year, including performance-based compensation payable to employees in the following year and social security expenses.

18 Bonds
CHF 766.5 mn (CHF 765.1 mn)

Included are the following bonds:

Bond in CHF mn	amortized costs	nominal
2.750% 2006–2011	273.1	275.0
2.375% 2006–2013	246.6	250.0
2.875% 2006–2016	246.8	250.0
Total	**766.5**	**775.0**

19 Provisions

CHF 144.0 mn (CHF 119.0 mn)

Provisions for guarantees reflect all known or anticipated claims in the near future which are not covered by insurance. The provision amounts are determined on the basis of experience and are therefore subject to a degree of uncertainty. The outflow of funds depends on the timing of the filing and conclusion of warranty claims. Provisions for sundry risks include loan guarantees as well as open and anticipated legal cases with a probability of above 50%. From the sum of provisions, CHF 128.0 mn (CHF 104.2 mn) are shown under non-current liabilities, since an outflow of funds is not expected within the next 12 months.
For provisions of CHF 16.0 mn (CHF 14.8 mn), an outflow of funds is expected during the next 12 months. These amounts are shown as short-term provisions.

	Short-term provisons				Long-term provisions
in CHF mn		**Warranties**	**Restruc-turings**	**Sundry risks**	**Total**
As of January 1, 2006	15.4	51.8	0.9	51.7	**104.4**
Exchange differences	–0.1	–0.7	0.0	0.2	**–0.5**
Assumed on acquisition and reclassification	2.6	–2.2	0.0	–0.5	**–2.7**
Additions	10.5	13.9	0.2	13.4	**27.5**
Utilization	–13.0	–7.4	–0.7	–12.3	**–20.4**
Reversal	–0.6	–2.1	0.0	–2.0	**–4.1**
As of December 31, 2006	14.8	53.3	0.4	50.5	**104.2**
As of January 1, 2007	14.8	53.3	0.4	50.5	**104.2**
Exchange differences	–0.2	–0.7	–0.1	0.7	**–0.1**
Assumed on acquisition and reclassification	0.0	–0.1	0.0	0.0	**–0.1**
Additions	15.5	29.0	2.1	14.3	**45.4**
Utilization	–11.4	–7.6	–0.3	–2.2	**–10.1**
Reversal	–2.7	–4.5	0.0	–6.8	**–11.3**
As of December 31, 2007	16.0	69.4	2.1	56.5	**128.0**

20 Other current liabilities
CHF 10.2 mn (CHF 16.3 mn)

Included here are open derivative financial instruments of the category “fair value through profit or loss” of CHF 0.5 mn (CHF 5.4 mn). The Group does not apply hedge accounting (see also Note 33).

21 Minority interests
CHF 2.5 mn (CHF 10.5 mn)

Minority interests decreased mainly as a result of deconsolidation of Addiment Italia S.r.l. (consolidated at equity).

22 Shareholders' equity

CHF 1 471.5 mn (CHF 1 274.0 mn)

The equity share in total assets amounts to 44.4% (41.6%).

Capital stock in CHF mn	2006	2007
Registered shares	3.5	**3.5**
Bearer shares	19.4	**19.4**
Capital stock	22.9	**22.9**

Consolidated income statement

23 Net sales

CHF 4 573.2 mn (CHF 3 896.1 mn)

Sales of goods account for practically all of the net sales. Swiss franc denominated net sales rose 17.4% in comparison with the preceding year. Acquisitions less Divestments contributed 1.6% to this growth. Furthermore, the growth rate contains a currency effect of 2.5%, so that Sika achieved organic growth in local currencies of 13.3%.

24 Operating revenue

CHF 4 572.8 mn (CHF 3 910.2 mn)

In contrast to net sales, operating revenue includes other operating income and changes in inventory.

25 Material expenses

CHF 2 136.8 mn (CHF 1 809.1 mn)

Material expenses increased by 0.3 percentage points as a percentage of net sales. This was primarily caused by a rise in raw material prices.

26 Operating profit before depreciation (EBITDA)
CHF 639.9 mn (CHF 514.6 mn)

While personnel expenses increased by CHF 78.6 mn in absolute terms, relative to net sales they decreased however by 1.5 percentage points. Sales per employee climbed by 12.8%. Achieved value-added relative to personnel expenses amounted to 156% (144%). Research and development expenses are included in "Other operating expenses" because they do not meet the criteria for capitalization. In the year under review Sika invested 1.4% (1.4%) of net sales in research and development. This amount includes the total operating expense of Sika Technology AG as well as the technology centers around the globe. Expenses of plant laboratories operated by subsidiaries are not included in this item.
Compared to prior year, other operating expenses rose in absolute terms by CHF 131.0 mn. Relative to net sales they increased 0.1 percentage points.

in CHF mn	2006	2007
Gross result	2 101.1	**2 436.0**
Personnel expenses	–845.4	**–924.0**
Other operating expenses	–741.1	**–872.1**
Operating profit before depreciation (EBITDA)	514.6	**639.9**

Personnel expenses

in CHF mn	2006	2007
Wages and salaries	677.5	**746.4**
Social charges	167.9	**177.6**
Total personnel expenses	845.4	**924.0**

27 Depreciation/amortization/impairment
CHF 127.0 mn (CHF 143.4 mn)

The impairment of CHF 2.6 mn of the production facility in Turkey was released. Impairment was necessary in 2004 due to a halt in construction. With some delay the construction project could be continued and completed in the year under review.
The impairment of CHF 0.5 mn on a warehouse in Poland was released.
A production facility in China was impaired by CHF 1.9 mn and is carried at value in use. The facility is not operating at full capacity and a change in these circumstances is not anticipated.
An impairment of CHF 0.1 mn was recorded in New Zealand.

28 Interest expenses/other financial expenses
CHF 47.1 mn (CHF 43.0 mn)

Interest expenses rose to CHF 30.9 mn (CHF 21.8 mn). Currency effects led in addition to lower other financial expenses of CHF 16.2 mn (CHF 21.2 mn).
The effective interest on bonds amounted to CHF 22.1 mn (CHF 13.8 mn). Included in other financial expenses are net losses on foreign exchange futures of CHF 10.1 mn (CHF 10.5 mn).

29 Interest income/other financial income/ income from associated companies
CHF 16.0 mn (CHF 5.4 mn)

Short-term surpluses in liquidity in various countries led to interest income of CHF 9.2 mn (CHF 3.4 mn). Income from associated companies rose to CHF 3.9 mn (CHF 1.2 mn), due particularly to income from Addiment Italia S.r.l. Since the deconsolidation Addiment Italia S.r.l is shown as investment in associated companies (consolidated at equity). Other financial income rose to CHF 2.9 mn (CHF 0.8 mn) due to foreign exchange effects.

30 Income taxes
CHF 135.7 mn (CHF 99.1 mn)

The income tax rate decreased over the previous year from 29.7% to 28.2%.

The income tax amounting to CHF 135.7 mn consists of
– CHF 143.9 mn in income taxes during the year under review
– CHF 1.5 mn in income taxes from prior years
– CHF –9.7 mn in deferred income taxes

31 Minority interests
CHF 0.4 mn (CHF 2.6 mn)

Most important company with minority interests:
– Consorzio IGS, Switzerland (35%)

32 Earnings per share

CHF 137.1 (CHF 91.4)

		2006	2007
Undiluted ("basic EPS")			
Consolidated net profit[1]	CHF mn	231.91	**345.7**
Weighted average number of shares[2]			
Bearer shares[3]	units	2 149 204	**2 133 192**
Registered shares[4]	units	2 333 874	**2 333 874**
Earnings per share			
Bearer shares[3]	CHF	91.4	**137.1**
Registered shares[4]	CHF	15.2	**22.8**

[1] Consolidated net profit after minority interests
[2] Excluding registered treasury shares held in the Group at a nominal value of CHF 1.50 (CHF 1.50) and bearer treasury shares at a nominal value of CHF 9.00 (CHF 9.00)
[3] Nominal value: CHF 9.00 (CHF 9.00)
[4] Nominal value: CHF 1.50 (CHF 1.50)

Consolidated earnings per share (EPS) amount to CHF 137.1 (CHF 91.4).The EPS is calculated on the basis of consolidated net profit after minority interests and the number of shares entitled to dividend, weighted over the course of the year. The dilution effect has not to be taken into account because no options or convertible bonds are outstanding.

33 Financial instruments and management of financial risks

The financial instruments and financial risk management of the Sika Group is presented in the following Note.

Market value of financial assets and financial liabilities

in CHF m	2006		2007	
	Book value	**Market value**	**Book value**	**Market value**
Financial assets				
Cash and cash equivalents	427.7	427.7	**438.1**	**438.1**
Available-for-sale financial assets	13.4	13.4	**14.6**	**14.6**
Loans and receivables	789.9	789.9	**869.9**	**869.9**
Financial assets at fair value through profit and loss	0.3	0.3	**8.4**	**8.4**
Total	1 231.3	1 231.3	**1 331.0**	**1 331.0**
Financial liabilities				
Bank overdrafts	43.7	43.7	**18.0**	**18.0**
Bonds	765.1	762.2	**766.5**	**744.2**
Accounts payable	386.5	386.5	**438.5**	**438.5**
Other financial liabilities	14.3	14.3	**9.7**	**9.7**
Financial liabilities measured at amortized cost	1 209.6	1 206.7	**1 232.7**	**1 210.4**
Financial liabilities at fair value through profit and loss	5.4	5.4	**0.5**	**0.5**
Total	1 215.0	1 212.1	**1 233.2**	**1 210.9**

Whenever possible, market values are determined on the basis of prevailing market rates.

A valuation loss of CHF 0.1 mn (profit CHF 0.8 mn) was recorded in shareholders' equity on assets available-for-sale. Through sale or depreciation, losses of CHF 0.6 mn (profit CHF 0.1 mn) were transferred from shareholders' equity to the consolidated income statement.

Management of financial risks

Basic Principles

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risks, interest rate risk and price risks), credit risk and liquidity risk. The Group's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.
The Corporate Finance Department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

To secure own obligations, pledged or ceded assets (encumbered assets)

in CHF mn	2006	2007
Receivables	1.8	**2.4**
Property, plant and equipment	17.6	**18.9**
Total encumbered assets	19.4	**21.3**

Open derivatives 2006				Contractual value upon maturity	
in CHF mn	Replacement value		Contract value	up to 3 months	3 to 12 months
	(+)	(–)			
Forward contracts (foreign exchange)	0.0	0.0	0.0	0.0	0.0
Swaps	0.3	5.4	453.3	275.7	177.6
Total derivatives	**0.3**	**5.4**	**453.3**	**275.7**	**177.6**
Open derivatives 2007					
Forward contracts (foreign exchange)	0.1	0.0	2.8	0.0	2.8
Swaps (foreign exchange)	8.3	0.0	554.5	371.0	183.5
Swaps (interests)	0.0	0.5	25.0	0.0	25.0
Total derivatives	**8.4**	**0.5**	**582.3**	**371.0**	**211.3**

Foreign exchange risks

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar. Foreign exchange risk arises when commercial transactions, recognised assets or liabilities and net investments in foreign operations are denominated in a currency that is not the entity's functional currency.

The Group makes every effort to offset the impact of exchange rate movements as far as possible by utilizing natural hedges. Foreign exchange forward contracts / swaps are the main instrument used to hedge foreign exchange risks. Gains and losses on foreign exchange hedges and assets or liabilities carried at fair value are recognized through profit or loss. The Group does not apply hedge accounting.

Sika carries out a sensitivity analysis for the dominant foreign currencies Euro and US Dollar. The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments, Group-internal finances and foreign currency hedge transactions in the corresponding currencies.

The following table demonstrates the sensitivity of consolidated net profit before tax to a reasonably possible shift in exchange rates with all other variables held constant. The impact on shareholders' equity is insignificant.

Currency and assumed rate of change against CHF		Effect on profit before tax	
	%	2006	**2007**
EUR	3	–0.9	**–0.6**
	–3	0.9	**0.6**
USD	8	–8.0	**–5.8**
	–8	8.0	**5.8**

Price risk
The Group is exposed to purchasing price risks because cost of materials represents one of the Group's largest cost factors. Purchasing prices are influenced far more by the interplay between supply and demand, the general economic environment and intermittent disruptions of processing and logistics chains, ranging from crude oil to purchased merchandise, than by crude oil prices themselves. Temporary crude oil price escalations were only reflected in raw material prices to a limited extent. Sika limits market price risks for important products by means of maintaining corresponding inventories and Group contracts (lead buying). Our most important raw materials are polymers such as polyurethane, epoxy resins, polyvinyl chloride and cementitious basic materials. Other measures such as hedging are not practical because there is no corresponding market for these semi-finished products.

Interest rate risk
Interest rate risks result from changes in interest rates, which could have a negative impact on the Group's financial position, cash flow and earnings situation. Interest rate risk is limited through emission of fixed interest long-term bonds (nominal CHF 775 mn). A change in the rate of interest would therefore alter neither annual financial expenses nor shareholders' equity materially. Local bank loans and mortgages are insignificant. Interest rate development is closely monitored by management.

Credit risk
Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge their obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and banks. Otherwise trades are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis via internal reporting procedures. Potential concentrations of risks are reduced by the large number of customers and their geographic dispersion. No customer represents more than 1.5% of the Group's net sales. The maximum exposure is the carrying amount of those receivables

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities (see Note 13, page 96). Management monitors the Group's liquidity reserve on the basis of expected cash flow.

The table below summarises the maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted payments.

Maturity profile of financial liabilities	less than 1 year	between 1 and 5 years	over 5 years	Total
in CHF mn				
December 31, 2006				
Bank loans	35.0	4.2	4.5	43.7
Bonds	20.7	357.8	547.8	926.3
Accounts payable	386.8	0.0	0.0	386.8
Other financial liabilities	8.6	9.9	1.2	19.7
Financial liabilities measured at amortized cost	**451.1**	**371.9**	**553.5**	**1 376.5**
Financial liabilities at fair value through profit and loss	5.4	0.0	0.0	5.4
Total	**456.5**	**371.9**	**553.5**	**1 381.9**
December 31, 2007				
Bank loans	10.3	7.6	0.1	18.0
Bonds	20.7	350.2	534.7	905.6
Accounts payable	438.5	0.0	0.0	438.5
Other financial liabilities	6.9	1.8	1.0	9.7
Financial liabilities measured at amortized cost	**476.4**	**359.6**	**535.8**	**1 371.8**
Financial liabilities at fair value through profit and loss	0.5	0.0	0.0	0.5
Total	**476.9**	**359.6**	**535.8**	**1 372.3**

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2007 and December 31, 2006. The Group monitors the equity ratio, which is equity divided by total capital.

Future obligations

Operating leases
Operating leases are described under “Property, plant and equipment” (see page 82).

Raw material supply contracts
Sika concludes collective lead-buying purchase contracts at Group level for important raw materials.

Delivery contracts for finished goods
Supply contracts are in effect with major customers.
No other future obligations in excess of normal business activities were recorded as of the date of this Report.

Future obligations

in CHF mn	2006	2007
Raw material supply contracts[1]	121	**210**
Delivery contracts for finished goods[2]	436	**550**

[1] Contract runs until 2012, maximum
[2] Contract runs until 2016, maximum

Contingent liabilities

In ongoing business activity the group is involved in legal proceedings such as lawsuits, claims, investigations and negotiations due to product liability, mercantile law, environmental protection, health and safety etc. There are no current proceedings of this nature pending which could have significant influence on business operations, on the Group’s financial position or income. The Group is active in countries in which political, economic, social and legal developments could impair business activity. The effect of such risks as can occur in the course of normal business operations is unforeseeable. In addition, their probability of occurrence lies below 50%. As a result these risks are shown as contingent liabilities and are not contained in the consolidated financial statements.

in CHF mn	2006	2007
Guarantees and similar items	24	**31**

The two largest letters of guarantee and letters of comfort totalling CHF 9.6 mn (CHF 9.8 mn) in sum pertain to associated companies.

Construction contracts

Sales from construction contracts in the year under review amounted to CHF 6.2 mn (CHF 12.6 mn). On the date of the balance sheet accrued construction costs and recognized profit (less recognized losses) were CHF 37.5 mn (CHF 31.3 mn), which amount was invoiced in full, and in the meantime largely settled. On the date of the balance sheet there were insignificant receivables and no liabilities from construction contracts. Order sales and order costs are recorded on the balance sheet date as income and expenses in accordance with progress of construction.

Cash flow analysis

Compared to the prior year the cash flow in the year under review was characterized by:
- a higher consolidated net profit (CHF +111.6 mn)
- a higher net liquidity outflow due to financing activity (CHF –298.9 mn)
- a lower liquidity outflow due to reduced acquisition activity (CHF +46.7 mn)
- liquidity outflow due to higher investment in property, plant and equipment (CHF –49.2 mn)

in CHF mn	2006	2007
Inflow (+) / outflow (–) from		
Operating activities	316.4	**362.7**
Investment activities	–170.5	**–180.0**
Financing activities	127.2	**–171.7**
Exchange differences	–0.3	**–0.6**
Net change in cash and cash equivalents	272.8	**10.4**

Free cash flow and operating free cash flow

in CHF mn	2006	2007
Cash flow from operating activities	316.4	**362.7**
Net investment in		
Property, plant and equipment	–115.7	**–164.5**
Intangible assets	–10.2	**–6.8**
Acquisitions / Disposals less cash and cash equivalents	–50.4	**0.5**
Acquisitions (–) / Disposals (+) of financial assets	5.8	**–9.2**
Free cash flow	145.9	**182.7**
Acquisitions / Disposals less cash and cash equivalents	50.4	**–0.5**
Acquisitions (+) / Disposals (–) of financial assets	–5.8	**9.2**
Operating free cash flow	190.5	**191.4**

Segment information

The Sika Group's global operations are conducted by two distinct divisions (primary segmentation):
- Construction: Buildings and infrastructure construction; product applications directly on-site
- Industry: Vehicle, building component and equipment production; product applications in industrial manufacturing.

The Group does not operate in other areas. Transactions between the two business segments Construction and Industry are insignificant.

The geographic distribution by continent (secondary segmentation) parallels the internal management structure (regional management). "Corporate" encompasses Sika AG, Sika Services AG, Sika Technology AG and Sika Informationssysteme AG.

Segment Information by Division

in CHF mn	Construction				Industry				Corporate				Total			
	2006	%	**2007**	**%**	2006	%	**2007**	**%**	2006	%	**2007**	**%**	2006	%	**2007**	**%**
Balance sheet																
Current assets	1 115	54.2	**1 268**	**56.4**	330	57.7	**402**	**59.7**	297	68.4	**246**	**62.9**	1 742	56.9	**1 916**	**57.9**
Non-current assets	939	45.6	**979**	**43.6**	242	42.3	**271**	**40.3**	137	31.6	**145**	**37.1**	1 318	43.0	**1 395**	**42.1**
Total assets[1]	2 058	100	**2 247**	**100**	572	100	**673**	**100**	434	100	**391**	**100**	3 064	100	**3 311**	**100**
Total liabilities	705		**725**		198		**218**		887		**897**		1 790		**1 840**	
Capital expenditures	101		**132**		30		**46**		9		**8**		140		**186**	
Income statement																
Consolidated net sales	3 042	100	**3 600**	**100**	854	100	**973**	**100**					3 896	100	**4 573**	**100**
EBITDA	420	13.8	**530**	**14.7**	127	14.9	**169**	**17.4**	–32		**–59**		515	13.2	**640**	**14.0**
Depreciation / Amortization	95	3.1	**90**	**2.5**	23	2.7	**28**	**2.9**	15		**10**		133	3.4	**128**	**2.8**
Impairment	10	0.3	**0**	**0.0**	1	0.1	**–1**	**–0.1**	0		**0**		11	0.3	**–1**	**–0.0**
EBIT	316	10.4	**440**	**12.2**	103	12.1	**143**	**14.7**	–48		**–70**		371	9.5	**513**	**11.2**
Segment profit	247	8.1	**341**	**9.5**	81	9.5	**120**	**12.3**	–93		**–115**		235	6.0	**346**	**7.6**

[1] 2006, Construction Division: includes assets held for sale of CHF 4.0 mn

Segment Information by Region

in CHF mn	Europe North				Europe South				North America				Latin America			
	2006	%	2007	%	2006	%	2007	%	2006	%	2007	%	2006	%	2007	%
Balance sheet																
Current assets	494	45.3	**551**	**51.3**	421	72.8	**508**	**64.5**	159	38.5	**168**	**40.6**	109	67.3	**129**	**68.6**
Non-current assets	597	54.7	**523**	**48.7**	157	27.2	**279**	**35.5**	254	61.5	**246**	**59.4**	53	32.7	**59**	**31.4**
Total Assets	1 091	100	**1 074**	**100**	578	100	**787**	**100**	413	100	**414**	**100**	162	100	**188**	**100**
Total liabilities	349		**337**		237		**277**		115		**119**		52		**66**	
Capital expenditures	39		**78**		17		**27**		36		**28**		9		**12**	
Income statement																
Consolidated net sales	1 439	100	**1 713**	**100**	947	100	**1 101**	**100**	637	100	**681**	**100**	302	100	**377**	**100**
Construction	1 061	73.7	**1 269**	**74.1**	818	86.4	**951**	**86.4**	439	68.9	**485**	**71.2**	254	84.1	**320**	**84.9**
Industry	378	26.3	**444**	**25.9**	129	13.6	**150**	**13.6**	198	31.1	**196**	**28.8**	48	15.9	**57**	**15.1**
EBITDA	210	14.6	**278**	**16.2**	148	15.6	**189**	**17.2**	76	11.9	**90**	**13.2**	41	13.6	**56**	**14.9**
Depreciation / amortization	49	3.4	**50**	**2.9**	21	2.2	**21**	**1.9**	30	4.7	**26**	**3.8**	6	2.0	**6**	**1.6**
Impairment	6	0.4	**–1**	**–0.1**	0	0.0	**0**	**0.0**	1	0.2	**0**	**0.0**	0	0.0	**0**	**0.0**
EBIT	155	10.8	**229**	**13.4**	127	13.4	**168**	**15.2**	45	7.1	**64**	**9.4**	35	11.6	**50**	**13.3**
Segment profit	125	8.7	**182**	**10.6**	92	9.7	**132**	**12.0**	40	6.3	**53**	**7.8**	29	9.6	**39**	**10.3**

[1] India, Middle East, Africa (IMEA). Regional reporting for IMEA has been established on January 1, 2007.

IMEA[1]				Asia / Pacific				Corporate				Total			
2006	%	**2007**	**%**	2006	%	**2007**	**%**	2006	%	**2007**	**%**	2006	%	**2007**	**%**
70	70.7	**99**	**69.7**	192	67.8	**215**	**68.3**	297	68.4	**246**	**62.9**	1 742	56.9	**1 916**	**57.9**
29	29.3	**43**	**30.3**	91	32.2	**100**	**31.7**	137	31.6	**145**	**37.1**	1 318	43.1	**1 395**	**42.1**
99	100	**142**	**100**	283	100	**315**	**100**	434	100	**391**	**100.0**	3 060	100	**3 311**	**100**
29		**40**		121		**104**		887		**897**		1 790		**1 840**	
7		**12**		23		**21**		9		**8**		140		**186**	
164	100	**223**	**100**	407	100	**478**	**100**					3 896	100	**4 573**	**100**
137	83.5	**186**	**83.4**	333	81.8	**389**	**81.4**					3 042	78.1	**3 600**	**78.7**
27	16.5	**37**	**16.6**	74	18.2	**89**	**18.6**					854	21.9	**973**	**21.3**
23	14.0	**29**	**13.0**	49	12.0	**57**	**11.9**	–32		**–59**		515	13.2	**640**	**14.0**
2	1.2	**2**	**0.9**	10	2.5	**13**	**2.7**	15		**10**		133	3.4	**128**	**2.8**
1	0.6	**–1**	**–0.4**	3	0.7	**1**	**0.2**	0		**0**		11	0.3	**–1**	**–0.0**
20	12.2	**29**	**13.0**	36	8.8	**43**	**9.0**	–48		**–70**		371	9.5	**513**	**11.2**
17	10.4	**24**	**10.8**	25	6.1	**31**	**6.5**	–93		**–115**		235	6.0	**346**	**7.6**

Segment information

Net sales

in CHF mn	1/1 – 12/31/2006	1/1 – 12/31/2007	Change compared to prior year (+/– in %)		
			in Swiss Francs	in local currencies[2]	Currency impact
By region					
Europe North	1 438.7	**1 713.3**	19.1	14.5	4.6
Europe South	946.6	**1 101.0**	16.3	11.5	4.8
North America	636.7	**681.2**	7.0	10.9	–3.9
Latin America	302.1	**376.6**	24.7	23.6	1.1
IMEA[1]	164.4	**223.2**	35.8	34.7	1.1
Asia / Pacific	407.6	**477.9**	17.3	16.0	1.3
Consolidated net sales	3 896.1	**4 573.2**	17.4	14.9	2.5
By operating division					
Construction	3 041.5	**3 599.6**	18.4	15.8	2.6
Industry	854.6	**973.6**	13.9	11.7	2.2
Consolidated net sales	3 896.1	**4 573.2**	17.4	14.9	2.5

[1] India, Middle East, Africa (IMEA). Regional reporting for IMEA has been established on January 1, 2007.
[2] including acquisitions / divestments

Operating profit before depreciation (EBITDA)

in CHF mn	1/1–12/31/2006	1/1–12/31/2007	(+/–)	Change compared to prior year (+/– in %)
By region				
Europe North	210	**278**	68	32.4
Europe South	148	**189**	41	27.7
North America	76	**90**	14	18.4
Latin America	41	**56**	15	36.6
IMEA[1]	23	**29**	6	26.1
Asia / Pacific	49	**57**	8	16.3
EBITDA	547	**699**		
By operating division				
Construction	420	**530**	110	26.2
Industry	127	**169**	42	33.1
EBITDA	547	**699**		
Share of central services	–32	**–59**	–27	84.4
EBITDA of the Group	515	**640**	125	24.3

Operating profit (EBIT)

in CHF mn	1/1–12/31/2006	1/1–12/31/2007	(+/–)	Change compared to prior year (+/– in %)
By region				
Europe North	155	**229**	74	47.7
Europe South	127	**168**	41	32.3
North America	45	**64**	19	42.2
Latin America	35	**50**	15	42.9
IMEA[1]	20	**29**	9	45.0
Asia / Pacific	36	**43**	7	19.4
EBIT	418	**583**		
By operating division				
Construction	316	**440**	124	39.2
Industry	103	**143**	40	38.8
EBIT	419	**583**		
Share of central services	–48	**–70**	–22	45.8
EBIT of the Group	371	**513**	142	38.2

[1] India, Middle East, Africa (IMEA). Regional reporting for IMEA has been established on January 1, 2007.

Related parties

The Burkard-Schenker family is a major shareholder pursuant to Article 663c of the Swiss Code of Obligations. According to information supplied by the family, as of December 31, 2007 it holds 53.6% of all voting shares, in part through Schenker-Winkler Holding AG, Baar. In the year under review one notification was filed pursuant to Article 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading. Thereby Lone Pine Capital LLC, headquartered in Greenwich, Connecticut, held 3.46% of all voting shares as of December 31, 2007. There are no cross-participations in which capital or voting share participation on either side exceeds 3%.

Associated companies

In the year under review goods totalling CHF 15.2 mn (CHF 16.6 mn) were sold by the Sika Group to Sika Gulf B.S.C. Goods totalling CHF 9.6 mn (consolidated in the previous year) were sold to Addiment Italia S.r.l. In addition deliveries were made by the Sika Group to other associated companies with a sum value of CHF 10.5 mn.

Employee benefit plans

In Switzerland employee benefit plans are handled through legally independent foundations, to which a total of CHF 16.5 mn (CHF 16.5 mn) was paid in the year under review. As of the balance sheet date no material receivables or payables were due from these foundations.
Sika offices are located in a building leased from the pension fund foundation. Rent for 2007 amounted to CHF 0.4 mn (CHF 0.4 mn).
No further major transactions were conducted with related parties.

Members of the Board of Directors

In the year under review CHF 4.0 mn (CHF 0.3 mn) was spent on property, plant and equipment and CHF 0.3 mn (CHF 0.3 mn) on services by companies of two directors. These transactions were conducted at market conditions.

Remuneration of the Board of Directors and Group Management

The Board of Directors and Group Management were remunerated as follows in the business year:

in CHF mn	2006	2007
Current benefits[1]	10.1	**11.8**
Pension fund contribution	0.8	**1.3**
Total	10.9	**13.1**

[1] 20% or 40% has to be drawn in the form of shares. The allocation occurs at market values.

Release of financial statements for publication

The Board of Directors of Sika AG released the consolidated financial statements for publication on February 22, 2008.

Events after the balance sheet date

Between December 31, 2007 and the approval of the current consolidated financial statements the following event took place:
Sika acquired the business of the German Tricosal GmbH & Co. KG in Illertissen, Germany. Included are also the production and distribution activities of Tricosal BBZ AG in Hauptwil, Switzerland. Completion of the transaction is still dependent on approval of the relevant anti-trust authorities and is expected for mid-2008. During the previous year Tricosal generated annual sales of approximately EUR 22 mn.

Acquisition of business activities

Sika also acquired the business for polymer-based industrial flooring from The Valspar Corporation in the USA. The transaction was completed on January 9, 2008. Sales of the acquired activities amounted to USD 17 mn annually as of the previous year. This business will be consolidated for the first time in reporting year 2008. Due to the short-term nature of the transaction before the publication of the Consolidated Financial Statements there are uncertainties regarding the purchase price allocation which was made provisionally.

Acquired net assets

in CHF mn	**Book value**	**Market value adjustments**	**Market value**
Accounts receivable and other receivables	3.2	0.0	3.2
Inventories	2.2	0.2	2.4
Intangible assets	0.0	5.5	5.5
Total assets	**5.4**	**5.7**	**11.1**
Total liabilities	**0.0**	**0.0**	**0.0**
Goodwill from acquisition			4.8
Total purchase price			15.9
Offset by			
Cash			15.6
Directly attributable costs			0.3

Country		Company	Capital stock in thousands		% holding
Europe					
Austria	❍	Sika Österreich GmbH, Bludenz-Bings	EUR	2 500	100
Aserbaijan	❍	Sika Limited Liability Comp., Baku	CHF	250	100
Belgium	✜	Sika SA, Brussels	EUR	2 500	100
	❍	Sika Automotive Belgium SA, Saintes	EUR	1 649	100
	❍	Sika Viscocrete Belgium, Brussels	EUR	7 000	100
Bulgaria	✜	Sika Bulgaria EOOD, Sofia	BGL	340	100
Croatia	✜	Sika Croatia d.o.o., Zagreb	HRK	4 000	100
Czech Republic	✜	Sika CZ, s.r.o., Brno	CZK	30 983	100
Denmark	❍	Sika Danmark A/S, Fredensborg	DKK	15 000	100
Finland	❍	Oy Sika Finland Ab, Espoo	EUR	850	100
France	❍	Sika France SA, Paris	EUR	14 794	100
Germany	▲	Sika Holding GmbH, Stuttgart	EUR	56 000	100
	❍	Sika Deutschland GmbH, Stuttgart	EUR	50	100
	❍	Proxan Dichtstoffe GmbH, Greiz-Dölau	EUR	102	100
	❍	Sika Korrosionsschutz GmbH, Stuttgart	EUR	25	100
	❍	Sika Automotive GmbH, Hamburg	EUR	5 300	100
	❍	Sika-Trocal GmbH, Troisdorf	EUR	3 835	100
	▲	Sarnafil Lager- und Dienstleistungs GmbH, Hückelhoven	EUR	1 278	100
Great Britain	❍	Sika Ltd., Welwyn Garden City	GBP	10 000	100
	✜	Sarnafil Ltd., Bowthrope	GBP	200	100
Greece	❍	Sika Hellas ABEE, Athens	EUR	3 000	100
Hungary	✜	Sika Hungária Kft., Budapest	HUF	483 000	100
Ireland	✜	Sika Ireland Ltd., Ballymun, Dublin	EUR	635	100
Italy	❍	Sika Italia S.p.A., Milan	EUR	5 000	100
	❍	Sika Engineering Silicones S.r.l., Milan	EUR	1 600	100

❏ Production, sales, construction contracting
❍ Production and sales
✜ Sales
▲ Real estate and service companies
▮ Construction contracting
✧ Associated companies (see page 84) are recorded in the balance sheet using the equity method

Country		Company	Capital stock in thousands		% holding
Europe (continuation)					
Kazakhstan	❍	Sika Kazakhstan LLP, Almaty	CHF	200	100
Latvia	✜	Sika Latvija SIA, Riga	LVL	42	100
Netherlands	✜	Sika Nederland BV, Utrecht	EUR	1 589	100
	❍	BV Descol Kunststof Chemie, Deventer	EUR	1 588	100
	▮	BV DIAC, Deventer	EUR	681	100
Norway	❍	Sika Norge A/S, Skytta	NOK	22 000	100
Poland	❍	Sika Poland Sp.z.o.o., Warsaw	PLZ	12 188	100
Portugal	❍	Sika Portugal – Productos Construção e Indústria SA, Vila Nova de Gaia	EUR	1 500	100
Romania	✜	Sika Romania S.R.L., Brasov	RON	1 285	100
Russia	✜	000 “Sika”, Moscow	RUB	55 346	100
	✜	LLC Sarnafil, Moscow	RUB	277	100
Serbia	✜	Sika d.o.o. Beograd, Zemun	EUR	373	100
Slovakia	✜	Sika Slovensko spol. s.r.o., Bratislava	SKK	34 058	100
Slovenia	✜	Sika Slovenija d.o.o., Trzin	EUR	1 029	100
Spain	❍	Sika SA, Alcobendas	EUR	19 867	100
Sweden	❍	Sika Sverige AB, Järfälla	SEK	10 000	100
Switzerland	❍	Sika Schweiz AG, Zurich	CHF	52 000	100
	▮	IGS Consorzio, Zurich	CHF	0	65
	▲	Sika Services AG, Zurich	CHF	300	100
	▲	Sika Technology AG, Baar	CHF	300	100
	▲	Sika Informationssysteme AG, Widen	CHF	400	100
	▮	Sika Bau AG, Zurich	CHF	5 300	100
	▲	Sarna Kunststoff Holding AG, Sarnen	CHF	2 400	100
	▲	Sarna Immobilien AG, Sarnen	CHF	600	100
	❍	Sika Sarnafil Manufacturing AG, Sarnen	CHF	14 000	100
	▲	Sika Supply Center AG, Sarnen	CHF	1 000	100
	❍	Sucoflex AG, Pfäffikon	CHF	1 000	100
	✜	Sika Sarnafil AG, Sarnen	CHF	2 750	100
Turkey	❍	Sika Yapi Kimyasallari A.S., Istanbul	TRY	6 700	100
Ukraine	✜	LLC “Sika Ukraina”, Kiev	UAH	2 933	100

Country		Company	Capital stock in thousands		% holding
Africa, Near and Middle East					
Algeria	❑	Sika Outre-Mer Sàrl, Eucalyptus Alger	EUR	38	100
Bahrain	✧ ❍	Sika Gulf B.S.C., Adliya	BHD	1 000	45
Egypt	❍	Sika Egypt for Construction, Chemicals S.A.E., Cairo	EGP	10 000	100
	❍	Sika Manufacturing for Construction Products, S.A.E., Cairo	EGP	2 000	100
Iran	✜	Sika Parsian P.J.S. Co., Teheran	IRR mn	3 000	100
Lebanon	❍	Sika Near East SAL, Sin El-Fil, Jisr El-Bacha	LBP	400	100
Mauritius	❍	Sika Mauritius Ltd., Plaine Lauzun	MUR	2 600	100
Morocco	❍	Sika Maroc SA, Casablanca	MAD	5 000	100
South Africa	❍	Sika South Africa (Pty) Ltd., Pinetown	ZAR	25 000	100
Tunisia	❑	Sika Tunisienne Sàrl, Douar Hicher	TND	150	86
North America					
Canada	❍	Sika Canada Inc., Pointe Claire, QC	CAD	5 600	100
USA	❍	Sika Corporation, Lyndhurst, NJ	USD	70 000	100
	❍	Sika Sarnafil Inc., Canton, MA	USD	109	100
	✜	Sarna Michigan Inc., Michigan	USD	25 000	100
Latin America					
Argentinia	❍	Sika Argentina SAIC, Buenos Aires	ARS	7 600	100
Bolivia	✜	Sika Bolivia SA, La Paz	BOB	1 800	100
Brazil	❍	Sika SA, São Paulo	BRL	10 000	100
Chile	❍	Sika SA Chile, Santiago	CLP mn	4 430	100
Colombia	❍	Sika Colombia SA, Bogotá	COP mn	14 500	100
Costa Rica	✜	Sika productos para la construcción SA, Heredia	CRC	153 245	100
Dominican Republic	✜	Sika Dominicana SA, Santo Domingo D.N.	DOP	12 150	100
Ecuador	❍	Sika Ecuatoriana SA, Guayaquil	USD	1 382	100
Guatemala	✜	Sika Guatemala SA, Ciudad de Guatemala	GTQ	2 440	100
Mexico	❍	Sika Mexicana SA de CV, Querétaro	MXN	40 000	100
Panama	✜	Sika Panamá SA, Ciudad de Panamá	USD	200	100
Peru	❍	Sika Perú SA, Lima	PEN	3 500	100
Uruguay	❍	Sika Uruguay SA, Montevideo	UYP	22 800	100
Venezuela	❍	Sika Venezuela SA, Valencia	VEB mn	3 398	100

Country		Company	Capital stock in thousands		% holding
Asia/Pacific					
Australia	❍	Sika Australia Pty. Ltd., Wetherill Park	AUD	4 000	100
Cambodia	✜	Sika (Cambodia) Ltd., Phnom Penh	KHR	20 000	100
China	❍	Sika Guangzhou Ltd., Guangzhou	CNY	80 730	100
	❍	Sika Ltd., Dalian	CNY	45 317	100
	❍	Sika (China) Ltd., Suzhou Jiangsu	USD	16 000	100
	❍	Sarnafil Waterproofing Systems, (Shanghai) Ltd., Shanghai	USD	10 000	100
	✜	Jinan Sika Engineering Co. Ltd., Jinan	CHF	5 380	100
Hong Kong	❍	Sika Hongkong Ltd., Shatin N.T.	HKD	30 000	100
India	❍	Sika India Private Ltd., Calcutta	INR	10 000	100
Indonesia	❍	P.T. Sika Indonesia, Bogor	IDR mn	3 282	100
Japan	❍	Sika Ltd., Hiratsuka-Shi, Kangawa	JPY	490 000	100
Korea	❍	Sika Korea Ltd., Anyang-Si Kyunggi-Do	KRW mn	5 596	100
Malaysia	❍	Sika Kimia Sdn. Bhd., Nilai	MYR	5 000	100
	▲	Sika Harta Sdn. Bhd., Nilai	MYR	10 000	100
New Zealand	❍	Sika (NZ) Ltd., Auckland	NZD	1 100	100
Philippines	❍	Sika Philippines Inc., Manila	PHP	56 000	100
Singapore	✜	Sika (Singapore) Pte. Ltd., Singapore	SGD	400	100
	▲	Sika Asia Pacific Mgt. Pte. Ltd., Singapore	SGD	100	100
Taiwan	❍	Sika Taiwan Ltd., Taoyuan County	TWD	40 000	100
Thailand	❍	Sika (Thailand) Ltd., Cholburi	THB	200 000	100
Vietnam	❍	Sika Limited (Vietnam), Dong Nai Province	VND mn	44 190	100

Report of the Group Auditors to the General Meeting of Sika AG, Baar

As group auditors, we have audited the consolidated financial statements (balance sheet, income statement, statement of shareholders' equity, cash flow statement and notes, pages 64 to 121) of Sika AG for the year ended December 31, 2007.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

Zug, February 22, 2008

Ernst & Young AG

Edgar Christen	**Bernadette Koch**
Swiss Certified Accountant	Swiss Certified Accountant
(Auditor in Charge)	

in CHF mn		2003	2004	2005	2006	2007
Balance sheet total	a	1 726	1 694	2 610	3 064	**3 311**
Current assets	b	971	952	1 293	1 742	**1 916**
Cash, cash equivalents and securities		158	110	168	434	**444**
Accounts receivable	c	491	509	692	790	**861**
Inventories	d	258	273	371	413	**500**
Other current assets		64	60	62	106	**112**
Non-current assets	e	755	742	1 317	1 318	**1 396**
Property, plant and equipment		555	563	748	764	**831**
Financial assets		10	5	8	10	**34**
Intangible assets		143	127	495	486	**463**
Other = Employee benefit assets, other non-current assets, deferred taxes		47	47	66	57	**68**
Assets held for sale		0	0	0	4	**0**
Current liabilities	f	531	575	1 201	713	**742**
Bank overdrafts		20	18	540	34	**10**
Accounts payable	g	222	248	344	387	**439**
Other current liabilities		289	309	317	292	**294**
Non-current liabilities		339	176	313	1 076	**1 098**
Long-term debt[1]		11	7	24	20	**11**
Provisions, employee benefit liabilities[2]		150	143	220	237	**266**
Deferred taxes		28	26	69	54	**54**
Bonds		150	0	0	765	**767**
Shareholders' equity	h	856	942	1 096	1 274	**1 472**
Capital stock		152	114	72	23	**23**
Capital surplus		256	256	256	256	**256**
Treasury shares		–19	–1	–2	–2	**–65**
Currency translation differences		–136	–150	–110	–118	**–116**
Fluctuations in value of financial instruments		–4	–4	–2	–1	**–1**
Retained earnings		598	720	873	1 105	**1 372**
Minority interests		9	7	9	11	**3**

[1] Bank loans, mortgages and other long-term debt.
[2] "Provisions with a reversal within 12 months" are posted under current liabilities.

Consolidated Income Statement from January 1 to December 31

in CHF mn		2003	2004	2005	2006	2007
Net sales		2 268	2 560	2 917	3 896	**4 573**
Operating revenue		2 269	2 569	2 924	3 910	**4 573**
Material expenses		904	1 067	1 298	1 809	**2 137**
Gross result		1 365	1 502	1 626	2 101	**2 436**
Personnel expenses		590	629	687	845	**924**
Other operating expenses		507	552	587	741	**872**
Operating profit before depreciation (EBITDA)		268	321	352	515	**640**
Depreciation / amortization / impairment		96	111	107	143	**127**
Operating profit (EBIT)	i	172	210	245	371	**513**
Interest income / expense		14	11	5	18	**22**
Financial income / expense		5	7	6	19	**9**
Consolidated net profit before taxes		153	192	234	334	**482**
Income taxes		59	70	79	99	**136**
Consolidated net profit		94	122	155	235	**346**
Free cash flow		83	124	–249	146	**183**
Gross result as % of net sales		60.2	58.7	55.7	53.9	**53.3**
Operating profit (EBIT) as % of net sales		7.6	8.2	8.4	9.5	**11.2**
Consolidated net profit as % of net sales (ROS)		4.2	4.8	5.3	6.0	**7.6**
Consolidated net profit as % of shareholders' equity (ROE)		11.0	13.0	14.1	18.4	**23.5**

Key balance sheet data

in CHF mn	Calculation[1]	2003	2004	2005	2006	2007
Current ratio in %	(b : f)	183	166	108	244	**258**
Net working capital	(c+d–g)	527	534	719	816	**922**
Net working capital as % of net sales		23	21	25	21	**20**
Non-current assets as % of balance sheet total	(e : a)	44	44	50	43	**42**
Shareholders' equity as % of non-current assets	(h : e)	113	127	83	97	**105**
Net debt[2]	j	172	58	480	389	**352**
Leverage in %	(j : h)	20	6	44	31	**24**
Equity ratio in %	(h : a)	50	56	42	42	**44**

[1] See page 124 and 125, Five-year reviews: Balance Sheet and income statement
[2] Net debt: Interest-bearing indebtedness (short and long-term bank debt + bonds) ./. interest-bearing current assets (cash, cash equivalents and securities) ./. capital investments

Value-based key data

in CHF mn	Calculation[1]	2003	2004	2005	2006	2007
Capital employed [1]		1 149	1 125	1 792	1 884	**2 041**
Annual average of capital employed	k	1 134	1 137	1 459	1 838	**1 963**
EBIT	i	172	210	245	371	**513**
Return on capital employed (ROCE) in %	(i : k)	15	18	17	20	**26**

[1] Capital employed=Operating assets./.cash./.non interest bearing short term liabilities

in CHF mn (consolidated)	2003	2004	2005	2006	2007
Net sales by geographic area / country					
Europe North	774	851	1 106	1 439	**1 713**
Switzerland	187	203	228	347	**332**
Germany	439	430	396	516	**644**
Europe South	808	930	846	947	**1 101**
France	191	204	220	253	**293**
North America	300	316	376	637	**681**
USA	266	281	333	576	**606**
Latin America	148	177	235	302	**377**
Brazil	27	30	42	50	**66**
IMEA[1]				164	**223**
Asia / Pacific	238	286	354	407	**478**
Japan	61	79	89	84	**79**
Consolidated net sales	2 268	2 560	2 917	3 896	**4 573**

[1] India, Middle East, Africa (IMEA). Regional reporting for IMEA has been established on January 1, 2007.

in CHF mn	Construction										Industry							
	2003	%	2004	%	2005	%	2006	%	**2007**	**%**	2003	%	2004	%	2005	%	2006	%
Balance sheet																		
Assets																		
Current assets	599	54.1	624	55.7	871	50.7	1 115	54.3	**1 268**	**56.4**	285	55.4	294	57.2	338	55.6	330	57.7
Non-current assets	509	45.9	497	44.3	848	49.3	939	45.7	**979**	**43.6**	229	44.6	220	42.8	270	44.4	242	42.3
Total Assets	1 108	100	1 121	100	1 719	100	2 054	100	**2 247**	**100**	514	100	514	100	608	100	572	100
Total liabilities			377		606		705		**725**				182		212		198	
Capital expenditures			67		67		101		**132**				29		30		30	
Income statement																		
Consolidated net sales	1 699	100	1 909	100	2 177	100	3 042	100	**3 600**	**100**	569	100	651	100	740	100	855	100
EBITDA	192	11.8	225	11.8	254	11.7	420	13.8	**530**	**14.7**	98	17.2	120	18.4	128	17.3	127	14.9
Depreciation / amortization			66	3.5	59	2.7	95	3.1	**90**	**2.5**			19	2.9	23	3.1	23	2.7
Impairment			14	0.7	11	0.5	10	0.3	**0**	**0.0**			9	1.4	9	1.2	1	0.1
EBIT	131	7.7	145	7.6	184	8.5	316	10.4	**440**	**12.2**	72	12.7	93	14.3	97	13.1	103	12.1
Segment profit	92	5.4	103	5.4	132	6.1	247	8.1	**341**	**9.5**	48	8.4	65	10.0	72	9.7	81	9.5

		Corporate										Total									
2007	**%**	2003	%	2004	%	2005	%	2006	%	**2007**	**%**	2003	%	2004	%	2005	%	2006	%	**2007**	**%**
402	**59.7**	87	83.7	34	57.6	84	29.8	297	68.4	**246**	**62.9**	971	56.3	952	56.2	1 293	49.6	1 742	56.9	**1 916**	**57.9**
271	**40.3**	17	16.3	25	42.4	198	70.2	137	31.6	**145**	**37.1**	755	43.7	742	43.8	1 316	50.4	1 318	43.1	**1 395**	**42.1**
673	**100**	104	100	59	100	282	100	434	100	**391**	**100**	1 726	100	1 694	100	2 609	100	3 060	100	**3 311**	**100**
218				192		696		887		**897**				751		1 514		1 790		**1 840**	
46				12		17		9		**8**				108		114		140		**186**	
973	**100**											2 268	100	2 560	100	2 917	100	3 896	100	**4 573**	**100**
169	**17.4**	–24		–24		–30		–32		**–59**		268	11.8	321	12.5	352	12.1	515	13.2	**640**	**14.0**
28	**2.9**			4		6		15		**10**				89	3.5	88	3.0	133	3.4	**128**	**2.8**
–1	**–0.1**			0		0		0		**0**				23	0.8	20	0.7	11	0.3	**–1**	**–0.0**
143	**14.7**	–31		–28		–36		–48		**–70**		172	7.6	210	8.2	245	8.4	371	9.5	**513**	**11.2**
120	**12.3**	–46		–46		–49		–93		**–115**		94	4.1	122	4.8	155	5.3	235	6.0	**346**	**7.6**

in CHF mn	Europe North										Europe South							
	2003	%	2004	%	2005	%	2006	%	**2007**	**%**	2003	%	2004	%	2005	%	2006	%
Balance sheet																		
Assets																		
Current assets	358	51.0	313	49.3	377	36.3	494	45.3	**551**	**51.3**	287	64.1	325	65.3	405	69.2	421	72.8
Non-current assets	344	49.0	322	50.7	662	63.7	597	54.7	**523**	**48.7**	161	35.9	173	34.7	180	30.8	157	27.2
Total Assets	702	100	635	100	1 039	100	1 091	100	**1 074**	**100**	448	100	498	100	585	100	578	100
Total liabilities	247		223		301		349		**337**		157		181		216		237	
Capital expenditures			35		37		39		**78**				30		26		17	
Income statement																		
Consolidated net sales	774	100	851	100	1 106	100	1 439	100	**1 713**	**100**	808	100	930	100	846	100	947	100
Construction	621	80.2	649	76.3	777	70.3	1 061	73.7	**1 268**	**74.0**	630	78.0	729	78.4	727	85.9	818	86.4
Industry	153	19.8	202	23.7	329	29.7	378	26.3	**445**	**26.0**	178	22.0	201	21.6	119	14.1	129	13.6
EBITDA	92	11.9	133	15.6	145	13.1	210	14.6	**278**	**16.2**	103	12.7	111	11.9	116	13.7	148	15.6
Depreciation / amortization			17	2.0	31	2.8	49	3.4	**50**	**2.9**			20		19		21	2.2
Impairment			37	4.3	0	0.0	6	0.4	**–1**	**–0.1**			4		7		0	0.0
EBIT	54	7.0	79	9.3	114	10.3	155	10.8	**229**	**13.4**	82	10.1	87	9.4	90	10.6	127	13.4
Segment profit	33	4.3	54	6.3	81	7.3	125	8.7	**182**	**10.6**	57	7.1	60	6.5	64	7.6	92	9.7

		North America										Latin America									
2007	**%**	**2003**	**%**	**2004**	**%**	**2005**	**%**	**2006**	%	**2007**	**%**	**2003**	**%**	**2004**	**%**	**2005**	**%**	**2006**	%	**2007**	**%**
508	**64.5**	73	38.0	76	41.3	143	40.3	159	38.5	**168**	**40.6**	55	56.7	65	61.9	98	65.8	109	67.3	**129**	**68.6**
279	**35.5**	119	62.0	108	58.7	212	59.7	254	61.5	**246**	**59.4**	42	43.3	40	38.1	51	34.2	53	32.7	**59**	**31.4**
787	**100**	192	100	184	100	355	100	413	100	**414**	**100**	97	100	105	100	149	100	162	100	**188**	**100**
277				40		121		115		**119**				28		46		52		**66**	
27				14		15		36		**28**				5		8		9		**12**	
1 101	**100**	300	100	316	100	376	100	637	100	**681**	**100**	148	100	177	100	235	100	302	100	**377**	**100**
951	**86.4**	133	44.3	157	49.7	195	51.9	439	68.9	**485**	**71.2**	121	81.8	146	82.5	193	82.1	254	84.1	**320**	**84.9**
150	**13.6**	167	55.7	159	50.3	181	48.1	198	31.1	**196**	**28.8**	27	18.2	31	17.5	42	17.9	48	15.9	**57**	**15.1**
189	**17.2**	42	14.0	36	11.4	40	10.6	76	11.9	**90**	**13.2**	19	12.8	26	14.7	34	14.5	41	13.6	**56**	**14.9**
21	**1.9**			16		18		30	4.7	**26**	**3.8**			4		5		6	2.0	**6**	**1.6**
0	**0.0**			0		3		1	0.2	**0**	**0.0**			0		0		0	0.0	**0**	**0.0**
168	**15.2**	25	8.3	20	6.3	19	5.1	45	7.1	**64**	**9.4**	15	10.1	22	12.4	29	12.3	35	11.6	**50**	**13.3**
132	**12.0**	17	5.7	16	5.1	18	4.8	40	6.3	**53**	**7.8**	12	8.1	16	9.0	21	8.9	29	9.6	**39**	**10.3**

in CHF mn	IMEA										Asia / Pacific							
	2003	%	2004	%	2005	%	2006	%	**2007**	**%**	2003	%	2004	%	2005	%	2006	%
Balance sheet																		
Assets																		
Current assets							70	70.7	**99**	**69.7**	110	60.1	139	65.6	185	63.8	192	67.8
Non-current assets							29	29.3	**43**	**30.3**	73	39.9	73	34.4	105	36.2	91	32.2
Total Assets							99	100	**142**	**100**	183	100	212	100	290	100	283	100
Total liabilities							29		**40**		69		88		126		121	
Capital expenditures							7		**12**				12		13		23	
Income statement																		
Consolidated net sales							164	100	**223**	**100**	238	100	286	100	354	100	407	100
Construction							137	83.5	**186**	**83.4**	188	79.0	228	79.7	285	80.5	333	81.8
Industry							27	16.5	**37**	**16.6**	50	21.0	58	20.3	69	19.5	74	18.2
EBITDA							23	14.0	**29**	**13.0**	35	14.7	39	13.6	47	13.3	49	12.0
Depreciation / amortization							2	1.2	**2**	**0.9**			8		9		10	2.5
Impairment							1	0.6	**–1**	**–0.4**			2		9		3	0.7
EBIT							20	12.2	**29**	**13.0**	28	11.8	29	10.1	29	8.2	36	8.8
Segment profit							17	10.4	**24**	**10.8**	21	8.8	22	7.7	20	5.6	25	6.1

The region IMEA comprises India, the Middle East and the eastern countries of Africa (see the world map in the Report cover). Separate reporting for this region was introduced as of January 1, 2007. Data for 2006 have been adjusted accordingly.

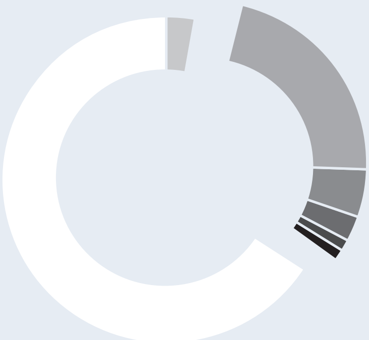
2007	%	Corporate 2003	%	2004	%	2005	%	2006	%	2007	%	Total 2003	%	2004	%	2005	%	2006	%	2007	%
215	**68.3**	87	83.7	34	57.6	84	29.8	297	68.4	**246**	**62.9**	970	56.2	952	56.2	1 292	47.9	1 742	56.9	**1 916**	**57.9**
100	**31.7**	17	16.3	25	42.4	198	70.2	137	31.6	**145**	**37.1**	756	43.8	741	43.8	1 408	52.1	1 318	43.1	**1 395**	**42.1**
315	**100**	104	100	59	100	282	100	434	100	**391**	**100**	1 726	100	1 693	100	2 700	100	3 060	100	**3 311**	**100**
104		334		192		696		887		**897**		807		752		1 506		1 790		**1 840**	
21				12		17		8		**8**		0		108		116		140		**186**	
478	**100**											2 268	100	2 560	100	2 917	100	3 896	100	**4 573**	**100.0**
389	**81.4**											1 693	11.8	1 909	75.0	2 177	74.6	3 042	78.1	**3 600**	**78.7**
89	**18.6**											575	25.0	651	25.0	740	25.4	854	21.9	**973**	**21.3**
57	**11.9**	–22		–24		–30		–59		**–59**		269	11.8	321	12.5	352	12.1	515	13.2	**640**	**14.0**
13	**2.7**			4		6		10		**10**				89	3.5	88	3.0	133	3.4	**128**	**2.8**
1	**0.2**			0		0		0		**0**				23	0.8	20	0.7	11	0.3	**–1**	**–0.0**
43	**9.0**	–31		–28		–36		–48		**–70**		172	7.6	209	8.2	245	8.4	371	9.5	**513**	**11.2**
31	**6.5**	–46		–46		–49		–115		**–115**		94	4.1	122	4.8	155	5.3	235	6.0	**346**	**7.6**

in CHF mn	2003	2004	2005	2006	2007
Employees by region / country (as of December 31)					
Europe North	3 280	3 327	3 417	4 151	**4 248**
Switzerland	1 192	1 235	1 333	1 773	**1 792**
Germany	1 411	1 260	1 167	1 375	**1 302**
Europe South	1 611	1 692	1 709	1 869	**1 922**
France	626	631	643	651	**664**
North America	996	1 049	1 099	1 330	**1 319**
USA	887	943	983	1 192	**1 155**
Latin America	1 031	1 172	1 248	1 365	**1 539**
Brazil	147	155	159	169	**188**
Africa / IMEA[1]	271	402	465	496	**789**
Asia / Pacific	1 449	1 576	1 764	2 098	**1 906**
Japan	150	236	239	210	**211**
Total	8 638	9 218	9 702	11 309	**11 723**
Employees by division					
Construction	6 545	7 182	7 514	8 898	**9 241**
Industry	2 093	2 036	2 188	2 411	**2 482**
Total	8 638	9 218	9 702	11 309	**11 723**
Personnel expenses (in CHF mn)					
Wages and salaries	472	504	548	678	**746.4**
Social charges, other	118	125	138	167	**177.6**
Total personnel expenses	590	629	686	845	**924**
Personnel expenses as % of net sales	26	25	24	22	**20**
Key data per employee (in CHF 1 000)					
Net sales	263	287	308	352	**397**
Contribution	158	168	172	190	**241**
Net value-added[2]	89	94	98	110	**125**

[1] India, Middle East, Africa (IMEA). Regional reporting for IMEA has been established on January 1, 2007.
[2] See page 135, Five-year reviews, Value-Added Statement

in CHF mn	2003	2004	2005	2006	2007
Source of value-added					
Corporate performance (Net sales)	2 268	2 560	2 917	3 896	**4 573**
Intermediate inputs	–1 397	–1 611	–1 873	–2 524	**–2 982**
Gross value-added	871	949	1 044	1 372	**1 591**
Expenses not affecting liquidity					
Depreciation and amortization	–96	–112	–108	–143	**–127**
Change in provisions	–13	2	–5	–12	**–27**
Net value-added	762	839	931	1 217	**1 437**
Distribution of value-added					
To employees					
Wages and salaries	472	504	548	678	**746**
Social charges	118	125	138	167	**178**
To governments (capital and income taxes)	59	70	79	99	**136**
To lenders (financial expenses)	19	18	11	38	**31**
To shareholders (dividend payout, incl. minority interests)	36	38	43	49	**79**
To the company					
Net profit for the year	94	122	155	235	**346**
less dividend payout	–36	–38	–43	–49	**–79**
Net value-added	762	839	931	1 217	**1 437**
Number of employees					
End of year	8 638	9 218	9 702	11 309	**11 723**
Annual average	8 573	8 928	9 460	11 080	**11 516**
Net value-added per employee (in CHF 1 000)	89	94	98	110	**125**

Net Value-Added 2007



65.8% Intermediate inputs (64.8%)
2.8% Expenses not affecting liquid funds (4.0%)

31.4% Net value-added (31.2%)
Distribution of value-added = 100.0%

64.3% Employees (69.4%)

18.6% Company (15.3%)
9.5% Government (8.2%)
5.5% Shareholders (4.0%)
2.2% Lenders (3.1%)

prior year ( )

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Assets

in CHF mn	Notes	2006	2007
Current assets			
Cash in bank	1	270.4	**253.2**
Securities	2	5.5	**4.7**
Accounts receivable from subsidiaries	3	574.0	**667.6**
Accounts receivable from third parties	3	0.5	**10.5**
Treasury shares	4	3.8	**66.1**
Accrued income		0.2	**0.2**
Total current assets		854.4	**1 002.3**
Non-current assets			
Furnishings	5	0.0	**0.0**
Trademark licenses	6	1.0	**0.8**
Investments	7	963.9	**981.7**
Long-term loans and other non-current assets	8	12.7	**12.0**
Total non-current assets		977.6	**994.5**
Total assets		1 832.0	**1 996.8**

Liabilities and shareholders' equity

in CHF mn	Notes	2006	2007
Liabilities			
Accounts payable to subsidiaries	9	128.0	**38.1**
Accounts payable to third parties	9	20.6	**5.1**
Deferred income	10	14.7	**14.3**
Total current liabilities		163.3	**57.5**
Bonds	11	775.0	**775.0**
Provisions for risks related to investments	12	45.1	**60.1**
Total non-current liabilities		820.1	**835.1**
Total liabilities		983.4	**892.6**
Shareholders' equity			
Capital stock	13	22.9	**22.9**
Legal reserve		113.4	**113.4**
Reserve for treasury shares		2.5	**65.1**
Free reserves		119.1	**56.5**
Total reserves	14	235.0	**235.0**
Profit brought forward		527.5	**511.5**
Net profit for the year		63.2	**334.8**
Retained earnings	15	590.7	**846.3**
Total shareholders' equity	16	848.6	**1 104.2**
Total liabilities and shareholders' equity		1 832.0	**1 996.8**

Sika AG Income Statement from January 1 to December 31

in CHF mn	Notes	2006	2007
Income			
Income from subsidiaries	17	416.3	**327.1**
Financial income	18	33.6	**50.8**
Trademark licenses	19	27.9	**36.8**
Other income		1.8	**0.1**
Total income		479.6	**414.8**
Expenses			
Administrative expenses	20	14.9	**14.8**
Financial expenses	21	25.1	**38.7**
Taxes	22	–0.6	**4.6**
Depreciation / change in provisions	23	373.2	**16.1**
Other expenses	24	3.8	**5.8**
Total expenses		416.4	**80.0**
Net profit for the year		63.2	**334.8**

General explanations

- With the establishment of Sika Services AG and Sika Technology AG in 2002, responsibilities, and therefore profits and expenditures, were reallocated. Sika AG is no longer responsible for operating costs; they are charged to Sika Services AG in full and, in turn, to subsidiaries. So-called “stewardship costs” (administrative costs of Sika AG) are fully borne by Sika AG. Research expense and licensing income accrue to Sika Technology AG; however, its proceeds from trademark licenses are transferred to Sika AG.
- Subsidiaries with excess liquidity use special dividends and capital decreases to transfer liquid funds to Sika AG. Loan agreements were concluded between Sika AG and its subsidiaries to cover financial requirements. Under these agreements, flexible loans are issued at market conditions and generally in local currencies. The loans are secured centrally by Sika AG.
- Liquid assets at hand within the Group are centralized at Sika AG. Sika AG places these assets at the disposal of subsidiaries in need of funds.
- To secure liquidity Sika AG extended the 5-year syndicated credit line established February 20, 2003 to November 15, 2010, increasing it from CHF 350 mn to CHF 450 mn.
- To finance the acquisition of Sarna Polymer Holding Inc. as well as other investments three separate bonds were issued totalling CHF 775 mn in 2006.

1 Cash in bank
CHF 253.2 mn (CHF 270.4 mn)

All bank deposits are held in interest-bearing accounts denominated in Swiss francs.

2 Securities
CHF 4.7 mn (CHF 5.5 mn)

The stock of shares was reduced further; the remaining portfolio is available for sale.

3 Accounts receivable
CHF 678.1 mn (CHF 574.5 mn)

Receivables consist mainly of CHF 640.7 mn (CHF 557.8 mn) in loans to subsidiaries. These loans constitute part of the groupwide cash management concept.

in CHF mn	2006	2007
Europe North	209.1	**230.2**
Europe South	114.0	**136.8**
North America	120.8	**129.1**
Latin America	8.0	**11.8**
IMEA	23.5	**29.9**
Asia / Pacific	63.3	**93.4**
Corporate	19.1	**9.5**
Total loans	557.8	**640.7**

Sika has additional receivables of CHF 26.9 mn (CHF 16.2 mn) due from Sika subsidiaries on open accounts.
Receivables from third parties of CHF 10.5 mn (CHF 0.5 mn) include CHF 1.7 mn (CHF 0.3 mn) in credits from the Swiss tax authorities and CHF 8.8 mn due from the associated company Sika Gulf.

4 Treasury shares
CHF 66.1 mn (CHF 3.8 mn)

Treasury shares are appropriated for an expanded Group-wide stock plan and used to invest liquidity.

in CHF mn		Bearer shares nominal value CHF 9.00 Units		Registered shares nominal value CHF 1.50 Units		Total
	as of December 31, 2005	**1 997**	**2.2**	**0.0**	**0.0**	**2.2**
2006	Reductions	–1 003	–1.3	0.0	0.0	–1.3
	Additions	1 000	1.4	0.0	0.0	1.4
	Valuation adjustment	–	1.5	–	0.0	1.5
	as of December 31, 2006	**1 994**	**3.8**	**0.0**	**0.0**	**3.8**
2007	Reductions	–482	–0.9	0.0	0.0	–0.9
	Additions	32 508	63.2	0.0	0.0	63.2
	as of December 31, 2007	**34 020**	**66.1**	**0.0**	**0.0**	**66.1**

5 Furnishings
CHF 1.00 p.m., as in previous year

Acquired furnishings, as well as hardware and software, are depreciated in the year of acquisition and included as memo items at CHF 1.00. The fire insurance value amounts to CHF 0.6 mn (CHF 0.6 mn).

6 Trademark licenses
CHF 0.8 mn (CHF 1.0 mn)

Capitalized trademark licenses are amortized over three years.

7 Investments
CHF 981.7 mn (CHF 963.9 mn)

In the year under review Sarna Plastec AG was sold for CHF 6.5 mn (book value CHF 3.0 mn). One new company was established in Europe with capital totalling CHF 11.5 mn. Capital increases of CHF 9.7 mn were undertaken, while CHF –0.4 mn relates to other changes.

Changes in investments in CHF mn	2006	2007
Europe North	92.6	**11.0**
Europe South	37.0	**0.0**
North America	131.5	**0.0**
Latin America	0.0	**–0.3**
IMEA	0.2	**0.0**
Asia / Pacific	17.8	**7.1**
Corporate	–239.8	**0.0**
Total Net	39.3	**17.8**

8 Loans and other non-current assets
CHF 12.0 mn (CHF 12.7 mn)

Long-term loans of CHF 3.6 mn consist of three shareholders' loans to Sika Argentina SAIC, Argentina, and Sika Venezuela SA, Venezuela, as well as to a third party company. Other non-current assets contain capitalized bond issuance costs as well as premiums for issued bonds.

Liabilities and shareholders' equity

9 Accounts payable
CHF 43.2 mn (CHF 148.6 mn)

The total includes CHF 38.1 mn (CHF 128.0 mn) in liabilities to Sika subsidiaries, resulting from the worldwide cash management concept. The remaining liabilities of CHF 5.1 mn consist of accounts payable to third parties.

10 Deferred income
CHF 14.3 mn (CHF 14.7 mn)

Deferred income includes pro-rated interest of CHF 12.1 mn, as well as other limited expenses of CHF 2.2 mn.

11 Bonds
CHF 775.0 mn (CHF 775.0 mn)

In 2006 three bonds were issued to finance the acquisition of Sarna Polymer Holding Inc. as well as growth of the Group:

2.750% fixed-interest bond, 2006–26.10.2011	CHF 275.0 mn
2.375% fixed-interest bond, 2006–15.2.2013	CHF 250.0 mn
2.875% fixed-interest bond, 2006–23.3.2016	CHF 250.0 mn

12 Provisions for risks related to investments
CHF 60.1 mn (CHF 45.1 mn)

Provisions for risks related to investments were left unchanged at CHF 30.0 mn. They relate to the management, financial and political risks of a globally-operating company.
Provisions to cover credit risks of Group loans were increased from CHF 13.1 mn by CHF 15.0 mn to CHF 28.1 mn.
In 2006 provisions of CHF 2.0 mn were reserved for a newly-established donation fund.

13 Capital stock
CHF 22.9 mn (CHF 22.9 mn)

On December 31, 2007, the company had 53 (53) registered shareholders. Information regarding major shareholders is to be found on page 116.

At the May 27, 1998 Annual General Meeting, 260 000 bearer shares, valued nominally at CHF 60, i. e. CHF 15.6 mn, were issued as contingent capital stock. These shares are allocated for the exercise of option or conversion rights. In 2004 178 new bearer shares were created out of the contingent capital. The contingent capital was adjusted according to the reduction in nominal value.

The capital stock consists of:

	Bearer shares[1] nominal value CHF 9.00	**Registered shares[1] nominal value CHF 1.50**	**Total[1]**
12/31/2006 (units)	2 151 199	2 333 874	4 485 073
Nominal value (CHF)	19 360 791	3 500 811	22 861 602
12/31/2007 (units)	**2 151 199**	**2 333 874**	**4 485 073**
Nominal value (CHF)	**19 360 791**	**3 500 811**	**22 861 602**

[1] Includes non-voting and dividend recipient treasury stock

14 Reserves
CHF 235.0 mn (CHF 235.0 mn)

Reserves remained unchanged at 1 027.9% of the capital stock. In accordance with the Swiss Code of Obligations, reserves for treasury shares are to be reported separately.

The company's portfolio consists of the following:

Bearer shares

in CHF mn	**Units**	**2006**	**Units**	**2007**
Sika AG[1]	1 994	3.8	**34 020**	**66.1**

Registered shares

in CHF mn	**Units**	**2006**	**Units**	**2007**
Sika AG[1]	0	0.0	**0**	**0.0**

[1] Has neither voting rights nor is recipient of dividends

in CHF mn	**2006**	**2007**
General statutory reserve	113.4	**113.4**
Reserve for treasury shares	2.5	**65.1**
Free reserve	119.1	**56.5**
Total	235.0	**235.0**

15 Retained earnings
CHF 846.3 mn (CHF 590.7 mn)

The acquisition of the subsidiaries of Sarna Polymer Holding Inc. is completed. Earnings reflect the regular business activities whereas Sika Spain and Sika Technologie AG paid out dividends totalling CHF 144.2 mn. A dividend for the business year of CHF 79.2 mn was distributed to shareholders in April 2007.

in CHF mn	2006	2007
Profit brought forward	527.5	**511.5**
Net profit for the year	63.2	**334.8**
Retained earnings	590.7	**846.3**

16 Shareholders' equity
CHF 1 104.2 (CHF 848.6 mn)

Shareholders' equity of CHF 1 104.2 mn lies clearly above the level of the prior year. The ratio of shareholders' equity to balance sheet total increased from 46.3% to 55.3%.

Contingent liabilities

Letters of guarantee and letters of comfort are issued to finance business transactions. A subordination agreement of CHF 5.5 mn was issued for Sarna Immobilien AG, Buochs, Switzerland. Sika AG is part of the Sika Schweiz AG value-added tax group and is jointly and severally liable to the tax authorities for the value-added tax obligations of Sika Schweiz AG.

in CHF mn	2006	2007
Letters of guarantee		
issued	61.0	**182.1**
used	29.5	**11.5**
Letters of comfort		
issued	8.6	**8.4**
used	1.8	**1.9**
Credit lines to subsidiaries		
issued	0.0	**4.1**
used	0.0	**4.1**

Income statement

17 Income from subsidiaries
CHF 327.1 mn (CHF 416.3 mn)

Income from subsidiaries includes dividend distributions and liquidation/sales revenue from subsidiaries. In the year under review Sika Spain and Sika Technologie AG paid out dividends totalling CHF 144.2 mn overall.

18 Financial income
CHF 50.8 mn (CHF 33.6 mn)

Financial income includes dividend income and gains from foreign exchange transactions. The increase is primarily due to increased loans to subsidiaries and higher interest rates.

Currency gains must be evaluated relative to foreign exchange losses (see Note 21).

Financial income consists of:

in CHF mn	2006	2007
Interest income from		
subsidiaries	28.0	**39.8**
banks	0.8	**4.1**
Income from securities	0.1	**0.1**
Gains from securities and foreign exchange	2.6	**5.6**
Valuation adjustments to securities	2.1	**1.2**
Total	33.6	**50.8**

19 Trademark licenses
CHF 36.8 mn (CHF 27.9 mn)

Income from trademark licenses has increased in 2007 as a result of growing license fees due to the favourable business development.

20 Administrative expenses
CHF 14.8 mn (CHF 14.9 mn)

Administrative expenses include expenses for the holding and allocated Group management costs.

21 Financial Expenses
CHF 38.7 mn (CHF 25.1 mn)

Financial expenses include the cost of interest on loans and similar expenses as well as foreign currency losses from foreign exchange transactions. Losses from foreign exchange transactions arise from hedging transactions to secure loans granted to local companies and must be evaluated relative to the currency gains resulting from foreign exchange trading (see Note 18). The net difference also includes interest differences on foreign currencies.

Financial expenses consist of:

in CHF mn	2006	2007
Loan and bank interest	16.0	**22.2**
Interest charged to local companies	4.8	**3.1**
Coupon redemption expenses	0.1	**0.2**
Bank fees	0.1	**0.2**
Fees for syndicated credit line	1.4	**0.3**
Foreign exchange losses from foreign currencies, securities, hedges	2.7	**12.7**
Total	25.1	**38.7**

22 Taxes
CHF 4.6 mn (CHF –0.6 mn)

Tax expense consists of regular provisions for the year under review as well as a provision for current tax expenses for the business year 2007.

23 Depreciation/ Change in provisions
CHF 16.1 mn (CHF 373.2 mn)

The acquisition of the subsidiaries of Sarna Polymer Holding Inc. is completed. Provisions for group loans were increased by CHF 15 mn. Trademark licenses were regulary depreciated.

in CHF mn	2006	2007
Provisions for Group loans	0.0	**15.0**
Depreciation / provisions of investments	313.5	**0.0**
Depreciation of investments in associates	0.0	**0.3**
Trademark licenses	59.7	**0.8**
Total	373.2	**16.1**

24 Other expenses
CHF 5.8 mn (CHF 3.8 mn)

This item consists of:
– Non-recoverable withholding taxes: CHF 5.4 mn
– Expenses for trademark licenses: CHF 0.6 mn
– Other (release of provisions): CHF 0.2 mn

Remuneration of the Board of Directors

For the business year 2007 the Board of Directors is entitled to the following remuneration:

in 1 000 CHF	Walter Grüebler Chairman	Thomas W. Bechtler[2] Vice Chairman	Urs F. Burkard[3]	Urs B. Rinderknecht[4]	Toni Rusch
Cash					
Fix fees	157.1	136.7	113.9	100.0	114.0
Fix salary	370.6				
Bonus[1]	426.3				
Other expenses	45.3	18.0	12.0	10.0	14.5
Association fees			5.8		
Benefit obligations					
Management insurance	11.7				
Benefit plan	3.1				
Total	**1 014.1**	**154.7**	**131.7**	**110.0**	**128.5**

in 1 000 CHF	Daniel J. Sauter	Fritz Studer	Ulrich W. Suter	Christoph Tobler	Total
Cash					
Fix fees	113.8	75.0	114.1	110.6	1 035.2
Fix salary					370.6
Bonus[1]					426.3
Other expenses	12.0	5.0	12.0	12.0	140.8
Association fees					5.8
Benefit obligations					
Management insurance					11.7
Benefit plan					3.1
Total	**125.8**	**80.0**	**126.1**	**122.6**	**1 993.5**

[1] 20% or 40% has to be drawn in the form of shares. The allocation occurs at market values.
[2] In the reporting year 2007 CHF0.345 mn was paid for services to a company associated with T. Bechtler.
[3] In the reporting year 2007 CHF 4.001 mn was paid for property, plant and equipment to a company owned by U. Burkard.
[4] Remuneration of U. Rinderknecht is paid to UBS AG.

No member of the Board of Directors was granted a loan during the business year. No loans were outstanding at the end of the year under review.

Remuneration of Group Management

For the business year 2007 the Group Management is entitled to the following remuneration:

in 1 000 CHF	Ernst Bärtschi CEO	Total
Cash		
Fix salary	741.7	5 104.2
Bonus[1]	815.4	4 014.3
Other expenses	47.5	429.9
Payments in kind	0	319.5
Benefit obligations		
Management insurance	158.8	953.2
Benefit plan	7.5	292.4
Total	**1 770.9**	**11 113.5**

[1] 20% or 40% has to be drawn in the form of shares. The allocation occurs at market values.

No member of the Group Management was granted a loan during the business year. No loans were outstanding at the end of the year under review.

Payments to former executives and directors

In the year under review compensation in the amount of TCHF 504.9 was paid to two former members of the board. This included TCHF 321.1 fix salary, bonuses in the amount of TCHF 164.3, expenses of TCHF 13.2 and pension fund contributions of TCHF 6.3.

All bonuses shown are accrued and pertain to entitlements acquired in 2007 that will be paid out in 2008. The entitlements are subject to the Nomination and Compensation Committee, which will decide upon them following approval of the Consolidated Financial Statements.

Participations in Sika AG

Members of the Board of Directors and Group Management hold the following participations in Sika AG:

	Number of shares	Number of warrants (potential voting rights)
Board of Directors		
Walter Grüebler, Chairman	1 774	0
Thomas W. Bechtler, Vice chairman	221	0
Urs F. Burkard[1]	196	175
Urs B. Rinderknecht	1 000	240
Toni Rusch	243	0
Daniel J. Sauter	1 487	0
Fritz Studer	20	0
Ulrich W. Suter	0	0
Christoph Tobler	350	0
Group Management		
Ernst Bärtschi, CEO	1 027	0
Silvio Ponti, deputy CEO	195	0
Alexander Bleibler	376	0
Bruno Fritsche	0	0
Christoph Ganz	40	0
Jan Jenisch	275	0
Peter Krebser	67	0
Urs Mäder	93	0
Ernesto Schümperli	50	0
Paul Schuler	100	0
Ronald Trächsel	0	0
José Luis Vázquez	344	0
Markus Zenhäusern[2]	114	0
Total	**7 972**	**415**

[1] 1 Urs. F. Burkard also has an interest in the Schenker Winkler Holding, which holds 2 405 784 Sika AG shares.
[2] Markus Zenhäusern was CFO of the group until December 31, 2007.

The Board of Directors proposes to the General Meeting the following appropriation of retained earnings

in CHF mn	2006	2007
Composition of retained earnings		
Net profit for the year	63.2	**334.8**
Profit brought forward	527.5	**511.5**
Retained earnings	590.7	**846.3**
Allocation to general statutory reserve [1]	0.0	**0.0**
Allocation to free reserve	0.0	**0.0**
Dividend payment		
Dividend payment	79.2	**114.3**
Balance to be carried forward	511.5	**732.0**
Total	590.7	**846.3**

[1] As the general statutory reserve currently exceeds 20% of capital stock, this allocation was waived.

On approval of this proposal, the following payment will be made

in CHF	2006	2007
Bearer share[1] nominal value CHF 9.00		
Gross dividend	31.2	**45.0**
35% withholding tax on gross dividend	–10.9	**–15.8**
Net dividend	20.3	**29.2**
Registered share[1] nominal value CHF 1.50		
Gross dividend	5.2	**7.5**
35% withholding tax on gross dividend	–1.8	**–2.6**
Net dividend	3.4	**4.9**

[1] Registered and bearer shares held by Sika AG are non-voting shares and do not qualify for a dividend.

Payment is tentatively scheduled for Tuesday, April 15, 2008, upon presentation of coupon Nr. 16 for bearer shares. Registered shareholders will receive payment at the address provided to the company for purposes of dividend distribution.

The General Meeting of Sika AG will be held on Tuesday, April 8, 2008, 3 p.m. in the Lorzensaal in Cham, Switzerland.

Baar, February 22, 2008

For the Board of Directors
The Chairman:
Dr. Walter Grüebler

Report of the Statutory Auditors to the General Meeting of Sika AG, Baar

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes, pages 138 to 152) of Sika AG for the year ended December 31, 2007.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Zug, February 22, 2008

Ernst & Young AG

Edgar Christen
Swiss Certified Accountant
(Auditor in charge)

Bernadette Koch
Swiss Certified Accountant

2008
Tuesday, April 8
40 th Annual General Meeting
Lorzensaal, Cham, Switzerland, 3 pm

Wednesday, April 9
Letter to shareholders (first-quarter report)

Tuesday, April 15
Dividend payment

Thursday, July 31
Letter to shareholders (semi-annual report)

Tuesday, November 4
Letter to shareholders (third-quarter report)

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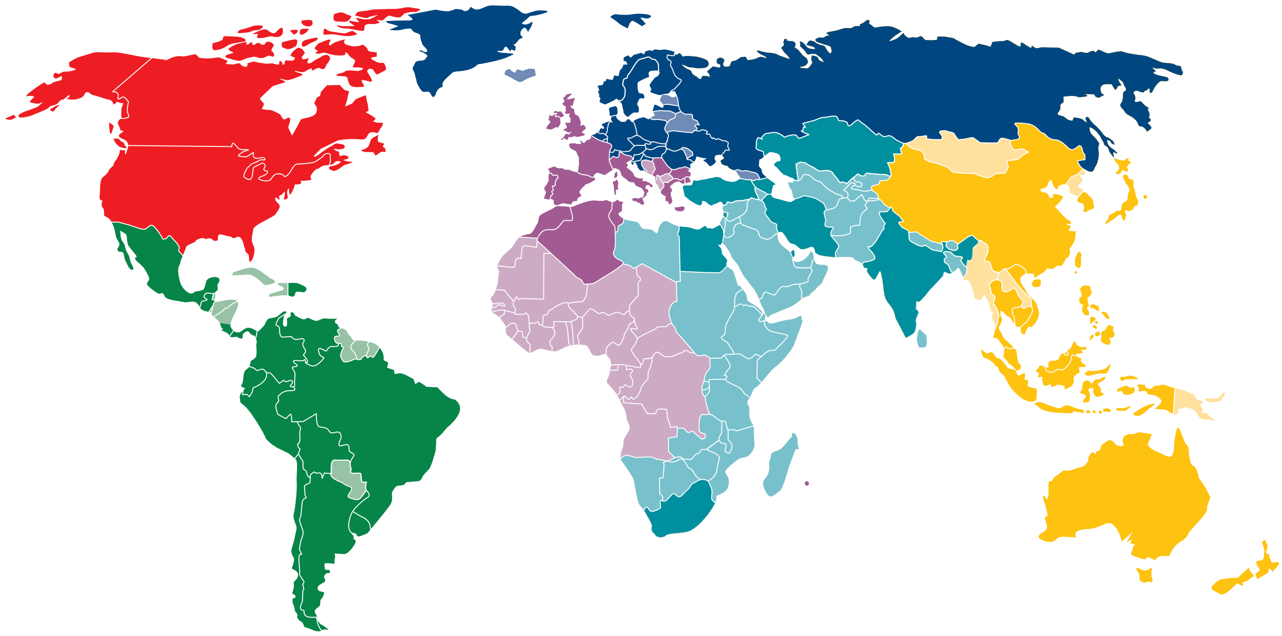
The Sika Annual Report is published in German
and English.

The statements in this review relating to matters that are not historical facts are forward-looking statements. They are no guarantee of future performance and involve risks and uncertainties with regard to future global economic conditions, foreign exchange rates, regulatory rules, market conditions, the actions of competitors and other factors beyond the control of the company.

The consolidated financial statements are prepared according to the International Financial Reporting Standards (IFRS).

This annual report is available in both German and English and can also be accessed on our website www.sika.com. The printed German text is the definitive version.

Sika's Global Market Presence



North America		**Latin America**		**Europe North**		**Europe South**		**IMEA**		**Asia/Pacific**	
Sales in CHF mn	681	Sales in CHF mn	377	Sales in CHF mn	1 713	Sales in CHF mn	1 101	Sales in CHF mn	223	Sales in CHF mn	478
– Construction	485	– Construction	320	– Construction	1 269	– Construction	951	– Construction	186	– Construction	389
– Industry	196	– Industry	57	– Industry	444	– Industry	150	– Industry	37	– Industry	89
Employees	1 319	Employees	1 539	Employees	4 248	Employees	1 922	Employees	789	Employees	1 906

Countries with Sika subsidiary   Countries with sales representative

Sika AG, located in Baar, Switzerland, is a globally integrated company supplying specialty chemicals markets. It is a leader in processing materials used in sealing, bonding, damping, reinforcing and protecting load-bearing structures in construction and industry.

The company's product lines include high-grade concrete admixtures, specialty mortars, sealants and adhesives, damping and reinforcing materials, structural strengthening systems, industrial flooring and sealing films.

Sika systems replace dated technologies like screws, rivets and welds and provide customers with heretofore unheard of opportunities for innovation. The company's mission is to help customers create added value and to constantly keep one step ahead of the competition.

Subsidiaries in 71 countries worldwide and 11 700 employees link customers directly to Sika and guarantee the success of all of its business relationships. With this structure, Sika generates sales of approximately CHF 4.6 billion annually.

In its clearly defined target markets Sika strives for technology and cost leadership, and the market leadership derived from it. This goal of growth overrides the importance of profit maximization. That enterprise growth be harmonic is nonetheless aspired and will be evaluated in targets for growth, EBITDA, consolidated net profit, operating free cash flow and return on capital employed (ROCE).

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