

SIKA BUSINESS YEAR 2016

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BUILDING TRUST



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FACTS & FIGURES

RECORD YEAR AND CONTINUED INVESTMENTS

in CHF mn

5,747.7 net sales +4.7%

795.3 EBIT +18.1%

566.6 net profit +21.8%

586.5 operating free cash flow +29.9%

28.7% ROCE +18.1%

9 new factories

4 new national subsidiaries

4 acquisitions

72 new patents filed

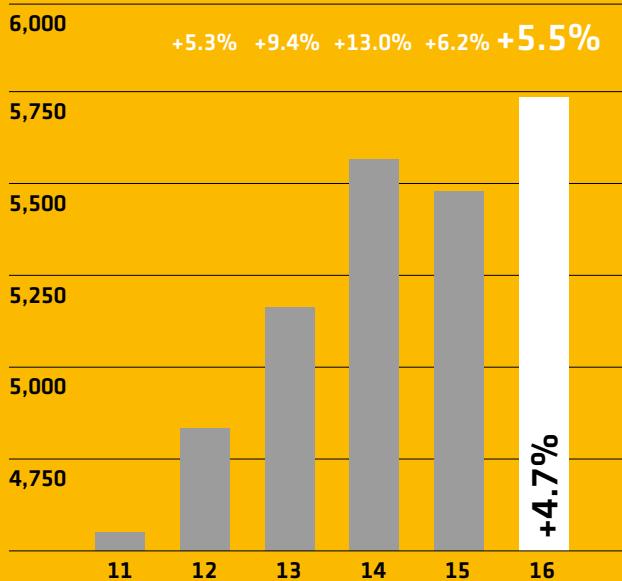
17,419 employees

12 hours of training per employee

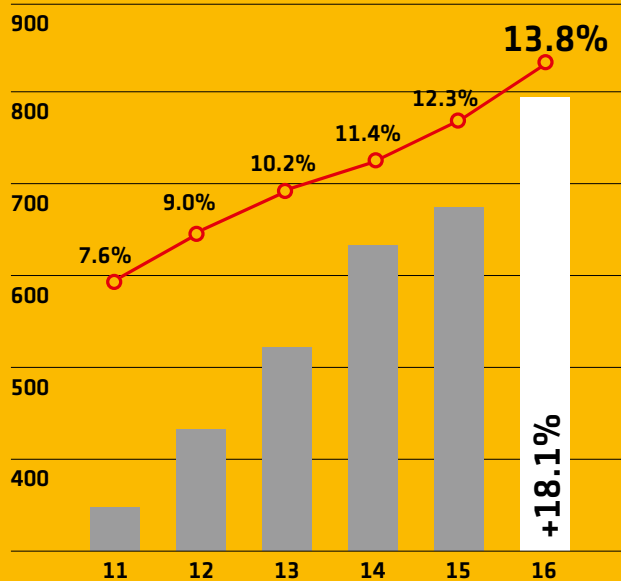
896 employees in R&D

20 Global Technology Centers

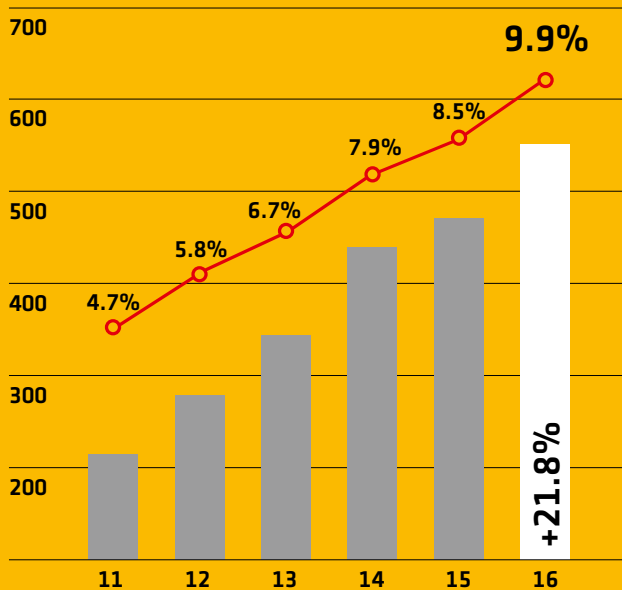
NET SALES (consolidated)
in CHF mn % growth in local currencies



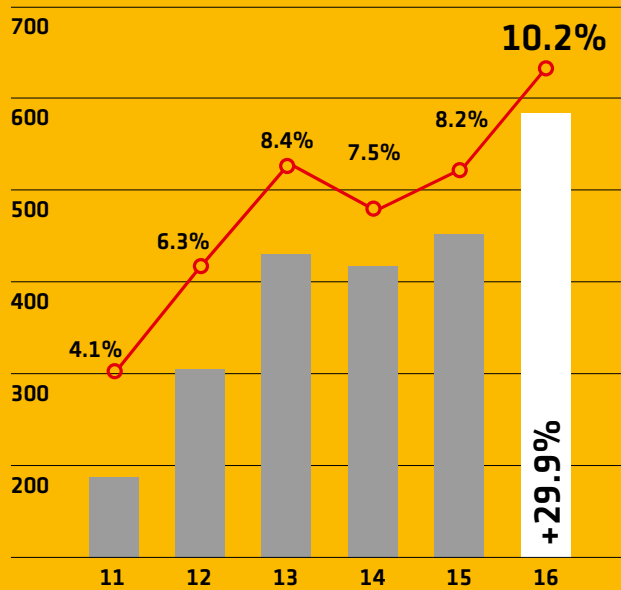
EBIT
in CHF mn as % of net sales



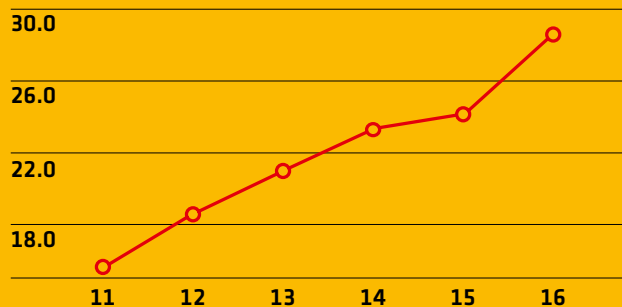
NET PROFIT
in CHF mn as % of net sales



OPERATING FREE CASH FLOW
in CHF mn as % of net sales



ROCE
in %



LETTER TO SHAREHOLDERS

RECORD PROFIT ACHIEVED



Dr. Paul Hälgi, Chairman of the Board

Jan Jenisch, Chief Executive Officer

Dear Shareholders

The Sika success story continued in 2016, another record year. In local currencies, sales increased by 5.5% to CHF 5,747.7 million in 2016. Growth momentum coupled with disciplined cost management led to new record figures of CHF 795.3 million (+18.1%) for the operating profit and CHF 566.6 million (+21.8%) for net profit. 17 key investments made in the period under review will drive future growth further forward. Since the targets for Strategy 2018 have been reached ahead of schedule, they are once again being revised upward.

Sika successfully continued its growth strategy in the 2016 business year, with sales up more than 5% and record figures for the operating profit and net profit. All regions managed to lift sales and gain further market share. Strong, above-average growth rates were recorded in the USA, Mexico, the UK, Africa, Southeast Asia, Australia and the automotive segment. In cumulative terms and in local currencies, sales were up 5.5%. The strength of the franc led to conversion effects of -0.8%, and thus to a 4.7% increase in sales in Swiss franc terms to CHF 5,747.7 million.

RECORD PROFIT ACHIEVED

The growth momentum produced disproportionately high increases in operating profit and net profit. The 20th consecutive quarter of margin improvement combined with sustained cost management were the key positive drivers. In the business year 2016, Sika posted record EBIT (CHF 795.3 million, +18.1%) and net profit (CHF 566.6 million, +21.8%). The operating free cash flow came to CHF 586.5 million (+29.9%).

GROWTH IN ALL REGIONS

Sales in the EMEA region (Europe, Middle East, Africa) rose by 4.6% in local currencies. The core markets Germany, France, Spain and Italy achieved good growth rates. Strong above-average growth was reported in the UK, Russia, Eastern Europe and Africa.

Sales in the North America region rose by 7.8% in local currency. This is due in particular to the accelerated expansion of the supply chain and the investments in the sales force in fast-growing metropolitan areas.

The Latin America region recorded a 5.1% sales increase in local currencies. Mexico, Argentina and Chile all developed strongly. By contrast, the continuing economic crisis in Brazil and a significant fall in the value of some local currencies led to a downturn in business activity in several countries in the region.

Growth in the Asia/Pacific region was reported at 3.6%. The dynamic performance of the markets in Southeast Asia and the Pacific area translated into substantial sales gains. Sika also posted stable second-half growth rates in China.

17 KEY INVESTMENTS AS GROWTH DRIVERS

The accelerated expansion into growth markets continued in 2016 as well, with a total of 17 key investments in nine new factories, four further national subsidiaries and four acquisitions.

In the EMEA region, a new concrete admixture plant was opened in the Ethiopian capital Addis Ababa and a mortar factory came on stream in Kyroni, near Athens. New national subsidiaries were established in Kuwait, Cameroon and Djibouti.

With the aim of generating momentum for future growth, three acquisitions were made in the North America region: L.M. Scofield, a leading producer of color additives for ready-mix concrete, and FRC Industries, a manufacturer of fibers for concrete, both joined the Group. The Rmax acquisition enables the expansion of the portfolio for building envelope, wall and roofing insulation technologies.

Investments in Latin America included a new plant for mortar products in Guayaquil, Ecuador, an automotive factory for adhesives and acoustic solutions in São Paulo, Brazil, as well as the establishment of a new national subsidiary in Nicaragua in the capital Managua.

In the Asia/Pacific region, leading mortar producer Ronacrete Ltd. in Hong Kong was acquired. New factories were also opened in Perth, Australia, in Saraburi, Thailand, in Phnom Penh, Cambodia, and in Yangon, Myanmar.

72 NEW PATENTS

Our 896 employees in R&D drive our innovative strength, many of them working on basic research and the development of new products at the 20 Global Technology Centers. In the 2016 financial year, 72 new patent applications were filed, and a large number of new products were launched in all target markets.

GROWTH STRATEGY CONFIRMED – TARGETS 2020 RAISED

Since the targets of Strategy 2018 had been achieved two years early, Sika's strategic goals were reviewed in the second half of 2016 in conjunction with senior managers worldwide. This review resulted in the Board of Directors confirming the growth model and raising the strategic targets. Sika is now aiming for an EBIT margin of 14-16% (previously 12-14%) and an operating free cash flow greater than 10% (previously over 8%). The aim is to achieve a return on capital employed in excess of 25%. By 2020, 30 new factories are to be commissioned and 8 new national subsidiaries established. The annual sales growth target remains at 6-8%. Sika aims to achieve an EBIT of more than CHF 1 billion by 2020.

COURT SUPPORTS POSITION OF THE BOARD OF DIRECTORS

In its decision of October 27, 2016, the Cantonal Court Zug denied all requests of Schenker-Winkler Holding AG (SWH). The Court held that the share transfer restriction ("Vinkulierung," art. 4 of Sika's articles of association) applies to the sale of the Sika shares held by SWH to Saint-Gobain. This clear decision by the court of first instance reinforces the position of the independent members of the Board of Directors and legitimizes Sika's actions over the last two years.

DIVIDEND INCREASE OF 31% PROPOSED

At the Annual General Meeting, the Board of Directors will propose to shareholders a 31% increase in the dividend to CHF 102.00 per bearer share (2015: CHF 78.00) and CHF 17.00 per registered share (2015: CHF 13.00).

The 17 key investments, our well-filled product pipeline and our strong sales organization give us reason to look to the future with optimism. Our thanks go to the global management team and our more than 17,000 employees, whose efforts are

responsible for Sika achieving another record year. We would like to thank all of them for their hard work and loyalty over the past year.

A special debt of gratitude is also due to our customers, business partners and suppliers for their outstanding cooperation and the strong business relations we enjoy with them.

We would particularly like to thank our shareholders for their great loyalty to Sika and the continuing trust they place in the Board of Directors and management.

Sincerely,



DR. PAUL HÄLG
Chairman of the Board



JAN JENISCH
Chief Executive Officer

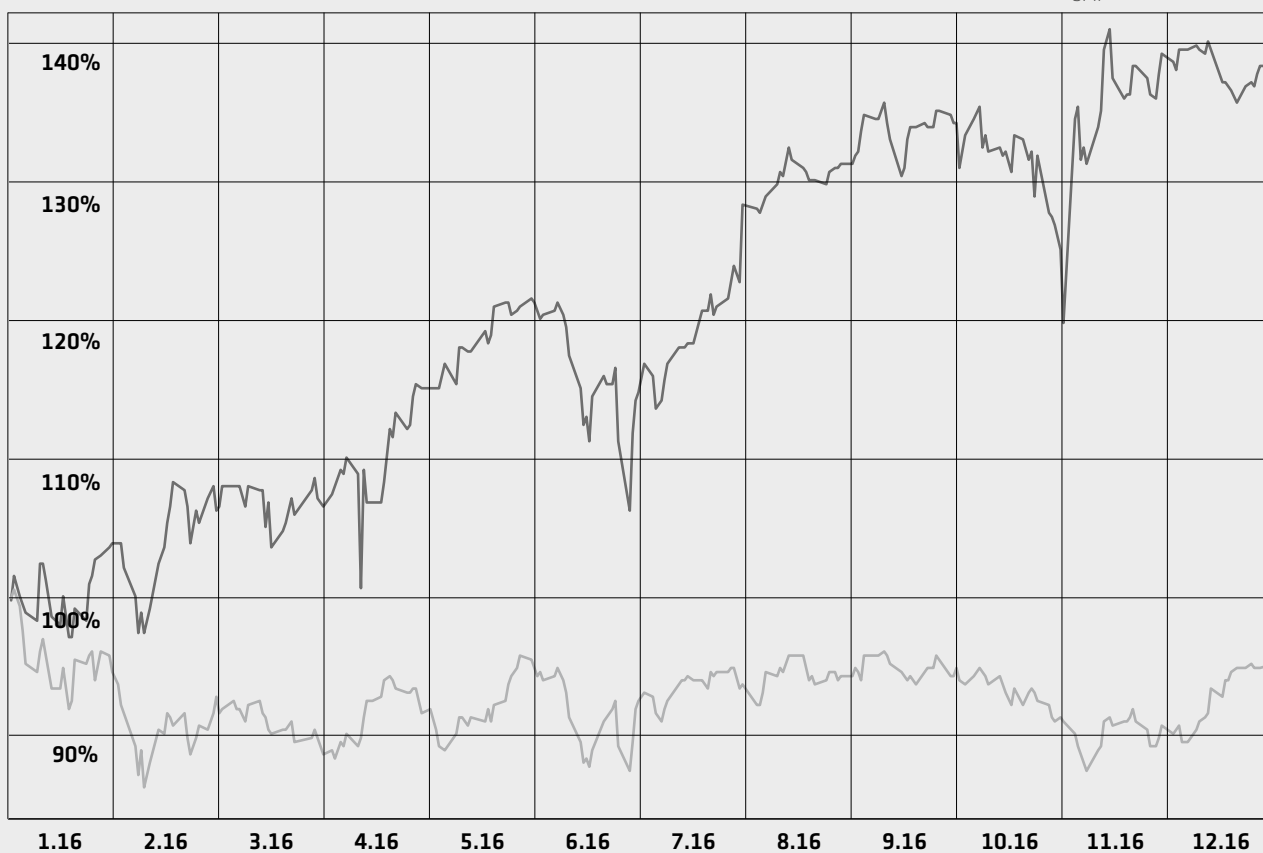
INVESTMENT IN SIKA

STOCK PRICE DEVELOPMENT

MARKET CAPITALIZATION EXCEEDS CHF 10 BILLION FOR THE FIRST TIME

In 2016, the Sika share price showed an above-average performance (+35.1%) compared to the relevant stock indices, as for example the SMI (-6.8%).

SIKA VERSUS SMI
1/1/2016-12/31/2016



OVERVIEW

- Performing at +35.1%, the Sika share price developed stronger than the SMI index (-6.8%).
- Closing price of the Sika share in 2015: CHF 3,620
Closing price of the Sika share in 2016: CHF 4,892
This corresponds to a performance of 35.1%.
- The key global share indices performed as follows:
 - SMI -6.8%
 - SLI -2.6%
 - DAX +6.9%
 - Dow Jones +13.4%
 - Nikkei +0.4%

STOCK EXCHANGE RATIOS

in CHF	2016
Market capitalization in CHF mn	12,427
Yearly high	5,000
Yearly low	3,409
Year-end	4,892
Dividend 2015	78.00
Dividend 2016 ¹	102.00
Earnings per share (EPS)	221.81

1) Pursuant to proposal to Annual General Meeting

RISK MANAGEMENT

EARLY IDENTIFICATION OF POSSIBLE RISKS

As a global player, Sika is exposed to a variety of risks. Ensuring the Group's freedom of action at all times, safeguarding its image, and protecting the capital invested in Sika necessitate the timely analysis of potential risks and their integration into strategic decision-making processes.

RISKS AND OPPORTUNITIES

Flawed risk assessments may seriously impair a company's reputation, limit its freedom of action or, at worst, lead to insolvency. Well aware of this, Sika reacted years ago by introducing a comprehensive risk management system at Group level and for all its subsidiaries. Risks should be identified at an early stage and integrated into strategic decision-making processes. Risk management may sometimes assist in the identification of new opportunities and thereby help to generate added value.

GROUP MANAGEMENT AND BOARD OF DIRECTORS

Whereas Sika's Group Management regularly reviews the processes underlying risk management, the Board of Directors bears ultimate responsibility for risk assessment. Its duties include the annual reassessment of the risk situation at Group level. All risks are assessed in terms of a few basic questions:

- Is the risk global or regional in scope?
- What implications does the risk have for the Group?
- How high is the probability of losses occurring?
- What measures need to be implemented to prevent the risk or mitigate its consequences?

If a risk is rated critical in the overall assessment, effective measures are then taken to reduce the probability of or prevent its occurrence, or limit its implications.

Sika pursues a risk-based management approach along the entire value chain from procurement and production to marketing.

SUPPLIER MANAGEMENT AND RAW MATERIAL PROCUREMENT

The raw materials that Sika processes into superior-grade products are the Group's biggest cost factor. This is why they are high on the risk assessment agenda. Almost 70% of the materials used by Sika in production – e.g., polyols, epoxy resins, acrylic dispersions, and polycarboxylates – are based on fossil fuels or their derivatives. Purchase prices consequently vary according to the supply and demand situation for each raw material and fluctuations in the price of oil. To reduce its dependency on crude oil, Sika is increasingly relying on renewable raw materials such as sugar derivatives, bioethanol derivatives, and natural oils. Moreover, recycled raw materials are used wherever possible, and many production plants implement their own or externally operated recycling loop systems. Mineral substances, such as calcium carbonate, sand, and cement, make up the remaining raw materials.

Sika purchases its base chemicals in accordance with strict quality requirements from certified suppliers offering the best value for money. In the case of key raw materials with limited availability or large purchase volumes, Sika mandates at least two suppliers whenever possible. For unique, highly innovative technologies, the Group seeks to manufacture raw materials itself or source them in close collaborative partnerships with innovative suppliers. In respect of all the materials used, compliance with the relevant statutory registration requirements (e.g., REACH or TSCA) is monitored and ensured by a network of global and local specialists as well as external consultants.

Sika's purchasing specialists and technical experts work closely with suppliers' technical units to fully understand the raw material flows and continually optimize costs, quality, availability, and sustainability.

Potential suppliers are closely screened by Sika. Before working with the company, they are required to sign the Supplier Code of Conduct, which covers all principles of sustainability.

Suppliers are regularly evaluated by Sika. The corresponding findings are incorporated into the risk assessment, along with the suppliers' self-appraisals and data available in the public domain. If a relevant risk is identified, Sika will conduct an audit of the supply company in question to ensure the functionality of the latter's internal risk management system. Potential risks are systematically identified and addressed, particularly in the case of local suppliers.

Raw materials are systematically evaluated within Sika to assess possible risks relating to quality and availability, and to determine relevant measures such as maintaining safety stocks or securing long-term supply contracts.

PRODUCTION AND LOGISTICS

Sika sets defined standards for risk provisions that are binding for its production and logistics operations. These standards form part of the Group-wide "Sika Corporate Management System" and determine, for example, processes and guidelines in the areas of purchasing, quality, environment, health, and safety. Following the launch in 2016 of Sika's new (SikaWorld) intranet platform, the "Sika Corporate Management System" is now accessible to employees all around the world. Together with the statutory regulations, the standards are also documented in the management systems of local Sika companies. Additionally, Sika production companies are certified to ISO 14001 (environmental protection) and ISO 9001:2015 (quality), and many also to OHSAS 18001 (safety and health). A growing number of larger facilities are also certified to ISO 50001 (energy management). The current certification status of individual Group companies is shown on page 114 et seq. of the download version of this report.

Audits and inspections are core elements of the comprehensive management system. They provide management at Group, regional and local company level with a regular, independent assessment of compliance with official requirements as well as with Sika's internal risk management guidelines and principles. The audits and inspections ensure the effectiveness of processes and related controls. Quality, environment, safety and risk factors, technology, legal matters, IT security, suppliers and products are all subject to audit. Group-wide, Sika conducted over 160 audits in 2016.

Supplier audits are carried out by the purchasing and quality assurance departments on the basis of the risk assessment, and the number of reviews is steadily being increased. Over 60 purchasing and quality assurance employees have undergone training in audit methods since 2015.

Sika also regularly audits production and logistics at local companies. This includes recording any risks that may result in production downtime, personal injury, property damage, or liability claims. The probability and significance of these risks are assessed, and measures are subsequently defined and implemented to minimize the risk potential at the site and enhance safety. Sika is also insured against production losses.

Over recent years, Sika has succeeded in reducing the number of accidents significantly and is constantly working on further improvements. The company is focusing more closely on accident prevention and, since 2015, has also operated a global, Web-based emergency notification and crisis management service solution.

PRODUCT DEVELOPMENT AND MARKETING

For products and services, Sika implements a structured product development process that factors in potential risks. The Group monitors ecological and safety aspects during the development, production, and product-handling stages. For this purpose, it has introduced the specific checking of new developments against a sustainability profile. Sika also focuses on market opportunities and risks, product sustainability performance, and the protection of intellectual property.

Over a period of many years, Sika has had a global program in place to minimize the risks in advisory and sales activities that could provide grounds for product complaints. Thanks to a host of additional measures, including the regular training of employees, clearly formulated standards, detailed causal analyses, and stricter controls, expenditure for product-related claims is steadily being reduced. To avoid the risk of customers using Sika's products incorrectly, Sika provides systematic instructions, application training, and support to customers, as well as extensive documentation and quality control.

CUSTOMERS AND MARKETS

Sika has a policy of strategic diversification to limit market and customer-related risks. Geographical diversification is tremendously important in the locally based construction industry given the sometimes contrary business trends witnessed in this sector in different regions of the world. Customer diversification – with no single customer accounting for more than 1.5% of Sika's turnover – is another stabilizing factor. As a further safeguard against economic fluctuations, Sika operates both in the new-build sector and in the less cyclical renovation and maintenance market.

FINANCIAL RISKS

The purpose of financial risk management is to optimize funding and achieve a liquidity position geared to financial obligations. Liquidity is ensured by means of long-term bonds.

Liquidity is optimized by means of a cash-pooling arrangement. Sika also manages its net working capital with the utmost prudence. For example, the local companies have precisely defined processes for handling accounts receivable. A cost structure dovetailed to the prevailing market conditions ensures adequate cash generation. Sika attaches high priority to open and cost-efficient access to capital markets. Of significance here is the Standard & Poor's rating of A-/stable (long term). Due to the legal disputes surrounding Saint-Gobain's hostile takeover bid, the outlook for our rating has been downgraded from "stable" to "negative."

INTERNAL AUDIT

Internal Audit carries out inspections as set out in the annual audit plan. The audits primarily include inspections of Group companies in the areas of product development, purchasing, production, goods management, financial and operational reporting, sales, payroll processes, accounts receivable and accounts payable management, and IT management. In addition to the global audit of sales and production companies, regular in-depth audits are carried out in the area of headquarters functions and Group-wide support processes. Internal Audit is an instrument of the Board of Directors and reports to the Audit Committee.

Financial risk management is described in greater detail on page 120 et seq. of the download version of this report.

LEADERSHIP

ORGANIZATION & LEADERSHIP

FOCUSING ON THE CUSTOMER

Sika's organizational structure is decentralized, with the management teams in the regions and national subsidiaries playing a pivotal role. The company is customer-focused and is characterized by its traditional flat leadership structures.

ORGANIZATIONAL STRUCTURE

Sika conducts its worldwide activities according to countries that have been classed into regions with area-wide managerial functions. The heads of the regions are members of Group Management.

The regional and national management teams bear full profit and loss responsibility, and – based on the Group strategy – set country-specific growth and sustainability targets, and allocate resources. An overview of the organization by regions for the 2016 financial year can be found on page 47 of the download version of this report.

Sika's regional breakdown is based on unified economic areas and supply chain structures. Overarching leadership responsibility ensures integrated management from production to the customer. Sika's sales organization is geared to seven target markets: Concrete, Waterproofing, Roofing, Flooring, Sealing & Bonding, Refurbishment, and Industry. This market-oriented distribution enables Sika to sharpen its customer focus, optimize its technical market support activities, and concentrate its R&D operations on market needs.

GROUP MANAGEMENT

Sika's Group Management is made up of nine experienced managers, whose diverse careers led them to Sika companies across the globe. The photo shows the team in the Gotthard Base Tunnel in Switzerland. Sika played a significant role in the construction of the 57 km rail tunnel, the longest in the world, by supplying products such as concrete admixtures, waterproofing and joint sealing systems. In response to the extremely demanding requirements, Sika developed groundbreaking innovations throughout the 14 years the tunnel was under construction – innovations that today are influencing building techniques all around the world.



From left to right

HEINZ GISEL

Asia/Pacific
With Sika for 26 years in Switzerland,
USA, Austria, and Asia

CHRISTOPH GANZ

North America
With Sika for 21 years in Switzerland,
France, and the USA

THOMAS HASLER

Technology (CTO)
With Sika for 28 years in
the USA and Switzerland

PAUL SCHULER

EMEA
With Sika for 29 years in
Switzerland, Germany, and the USA

ADRIAN WIDMER

CFO
With Sika for 11 years in
Switzerland

YUMI KAN

Building Systems & Industry
With Sika for 25 years in Switzerland
and Asia

ERNESTO SCHÜMPERLI

Concrete & Waterproofing
With Sika for 30 years
in Colombia and Switzerland

JOSÉ LUIS VÁZQUEZ

Latin America
With Sika for 33 years in
Spain and Latin America

JAN JENISCH

CEO
With Sika for 21 years in Switzerland,
Germany, and Asia

GROUP MANAGEMENT

JAN JENISCH, lic. rer. pol.
CEO

Nationality: German; Year of birth: 1966
CEO since 2012; Member of Group Management since 2004; 2007–2011: Regional Manager Asia/Pacific; 2004–2006: Head of Industry Division; 1998–2004: Head Automotive Europe; General Manager Sika Tivoli GmbH, Germany; Managing Director Sika Automotive Belgium SA; Director Hayashi Sika Automotive Ltd., Japan; 1996–1997: Market Development Manager, Industry Division.

CHRISTOPH GANZ, lic. oec. HSG
Regional Manager North America

Nationality: Swiss; Year of birth: 1969
Regional Manager North America since 2013; Member of Group Management since 2007; since 2013: General Manager Sika USA; 2007–2012: Head of Corporate Business Unit Distribution; 2009–2012: General Manager Sika France; Area Manager France, North Africa, Mauritius; 2003–2006: Head of Business Unit Distribution; 1999–2003: Corporate Market Field Manager Distribution; 1996–1999: Project Manager Distribution, Sika Switzerland.

HEINZ GISEL, Executive MBA
Regional Manager Asia/Pacific

Nationality: Swiss; Year of birth: 1965
Regional Manager Asia/Pacific and Member of Group Management since 2012; 2009–2011: General Manager Greater China, Sika China; 2007–2009: General Manager Singapore; Head of Business Unit Industry Region Asia/Pacific; Area Manager Southeast Asia; 2004–2006: Head Appliances & Components; Head Transportation, Industry Division; 1999–2004: Industry Manager Sika Switzerland and Sika Austria; 1996–1998: Industry Sales Manager Sika China and Sika Hong Kong 1995–1996: Area Sales Manager Industry, Sika USA; 1991–1994: Area Sales Manager, Sika Switzerland.

THOMAS HASLER, Dipl. Ing. Chem. HTL, Executive MBA
Technology (CTO)

Nationality: Swiss; Year of birth: 1965
CTO and Member of Group Management since 2014; 2011–2013: Head Global Automotive; 2008–2010: Senior Vice President of Industry and Automotive, Sika USA; 2005–2008: Senior Vice President Automotive North America, Sika USA; 2004–2005: Automotive Manager Europe; 2000–2003: Automotive Manager Switzerland; 1995–2000: Business Development Manager; 1992–1995: R&D Head Automotive OEM Adhesives; 1989–1992: Research Chemist Industry Adhesives.

YUMI KAN
Head Building Systems & Industry

Nationality: Vietnamese, Taiwanese; Year of birth: 1970
Head Building Systems & Industry since 2016; Member of Group Management since 2016; 2015–2016: Head Target Market Concrete Asia/Pacific; 2011–2016: Area Manager Vietnam, Philippines, Laos, Cambodia, Thailand, Myanmar; 1995–2014: General Manager Sika Vietnam; 2001–2005: Area Manager Indochina; 1994: Deputy General Director Sika Vietnam; 1992–1993: Sales and Marketing Manager Sika Vietnam.

PAUL SCHULER, MBA
Regional Manager EMEA

Nationality: Swiss; Year of birth: 1955
Regional Manager EMEA since 2013; Member of Group Management since 2007; 2007–2012: Regional Manager North America; General Manager Sika USA; 2003–2006: General Manager Sika Germany; 1988–2002: Product Manager, Head of Sales Industry; Marketing Manager Industry; Business Unit Leader Industry; 1982–1988: International Key Account Sales Manager Switzerland, EMS Chemie AG, Switzerland; 1980–1982: Project Manager Air Condition Plants, Luwa AG, Hong Kong, China; 1976–1980: Production Manager, Hemair AG, Switzerland.

ERNESTO SCHÜMPERLI, MSc C Eng, MBA
Head Concrete & Waterproofing

Nationality: Swiss; Year of birth: 1955
Head Concrete & Waterproofing since 2013; Member of Group Management since 2007; 2007–2012: Head Corporate Business Unit Concrete; 1991–2006: General Manager Sika Switzerland; Area Manager Central Europe; Head of Sika Tunneling & Mining; Head of Sales Switzerland; Head of Marketing Construction; Market Development Manager Concrete Sika Switzerland; 1987–1990: Head of Marketing Sika Colombia; Key Account Manager Latin America; 1986–1987: Project Manager Structural Engineering, Wenaweser & Wolfensberger AG, Switzerland; 1976–1985: University and postgraduate studies, Research Engineer at ETH Zurich and UAS Basel, Switzerland; 1971–1975: Project Manager Infrastructure, Frey + Gnehm AG, Switzerland.

JOSÉ LUIS VÁZQUEZ, Dr. Ing., MBA
Regional Manager Latin America

Nationality: Spanish; Year of birth: 1947
Regional Manager Latin America since 2009; Member of Group Management since 2002; 2002–2008: Regional Manager Europe South; 1984–2002: Head of Marketing; General Manager Spain; 1999: Area Manager Southern Europe; 1983–1984: Manager National Sport Insurance Company, Sport Ministry, Cabinet of Ministers, Spain; 1977–1983: Vice President, Oil Business Division, Explosivos Rio Tinto, Spain; 1972–1976: Director of numerous global projects in the area of road construction, harbors, factories; Helma (Cádiz), Boskalis (Cádiz), Laing (Valencia/Bilbao), Caminos y Puertos (Barcelona); 1970–1972: Laboratorio Central des Ponts et Chaussées, France; Instituto Eduardo Torroja, Spain.

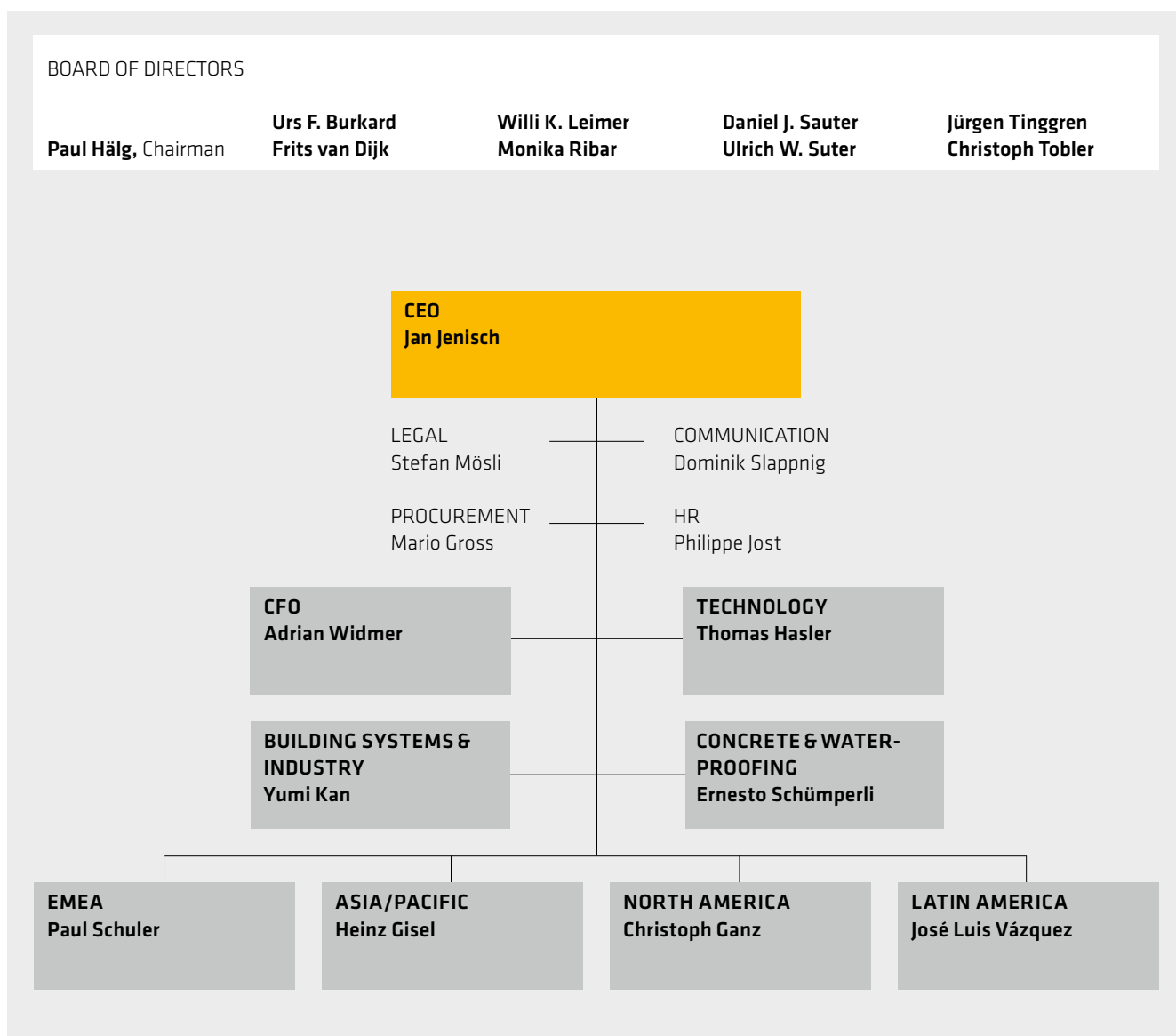
ADRIAN WIDMER, lic. oec. publ.
Chief Financial Officer (CFO)

Nationality: Swiss; Year of birth: 1968
CFO and Member of Group Management since 2014; 2007–2014: Head Group Controlling and M&A; 2005–2007: General Manager Construction Systems Germany/Austria/Switzerland, BASF (Degussa) Construction Chemicals, Switzerland; 2000–2005: CFO Degussa Construction Chemicals Switzerland; Finance Director Business Line Flooring Europe; Manager Corporate Finance, Degussa Construction Chemicals, Switzerland; 1997–2000: Manager M&A, Textron Industrial Products, United Kingdom/Switzerland; 1995–1997: Market Development Manager, Textron Inc., USA/United Kingdom; 1994–1995: Business Analyst, Nordostschweizer Kraftwerke (NOK), Switzerland.

ORGANIZATIONAL DIAGRAM

INTEGRATED MANAGEMENT, FLAT HIERARCHIES

We take the long view when it comes to developing our business. Our relationship with customers, employees and other stakeholders is shaped by respect and responsibility. Sika operates with a strong focus on safety, quality, environmental protection, fair treatment, social responsibility, responsible growth, and value creation.



BOARD OF DIRECTORS

PAUL HÄLG, Dr. sc. techn., ETH Zurich
Chairman

Nationality: Swiss; Year of birth: 1954
Member since: 2009; 2004–2016: CEO, Dätwyler Group, Altdorf; 2001–2004: Executive Vice President, Forbo International SA, Eglisau; 1987–2001: Product Manager, Commercial Director, CEO, Gurit Essex AG, Freienbach; 1981–1986: Project and Group Leader, Schweizerische Aluminium AG (Alusuisse), Zurich; Member of the Board: Swissmem (Swiss mechanical and electrical engineering association), Zurich; Chairman: Welfare Foundation Sika, Baar; Welfare Fund Dätwyler Holding AG, Altdorf.

WILLI K. LEIMER, Dr. oec. HSG

Nationality: Swiss; Year of birth: 1958
Member since: 2010; Committees: Audit Committee; since 2002: Member of the Board, WMPartners Wealth Management Ltd., Zurich; since 2003: Partner and Chairman of the Board, ISPartners Investment Solutions AG, Zurich; 1990–2002: Managing Director, Private Wealth Management, Bank Morgan Stanley AG, Zurich; 1988–1990: Associate, Goldman Sachs & Co., New York and Zurich; Chairman of the Board: Mojo Capital, Luxembourg; Member of the Board: Helvetica Capital AG, Zurich; Canica Holding AG and Canica International AG, Freienbach.

DANIEL J. SAUTER, Financial Expert

Nationality: Swiss; Year of birth: 1957
Member since: 2000; Committees: Nomination and Compensation Committee; 1994–2001: CEO and Delegate of Board of Directors, Xstrata AG, Zug; 1983–1998: Senior partner and CFO, Glencore International AG, Baar; 1976–1983: Various banks, incl. Bank Leu, Zurich; Chairman of the Board: Julius Bär Gruppe AG, Zurich; Trinsic AG, Zug; Tabulum AG, Zug; Hadimec AG, Mägenwil; Member of the Board: ARAS Holding AG, Lenzburg; AS Print AG, Villmergen; Richnerstutz AG, Villmergen; Member of the Foundation Board: Avenir Suisse, Zurich.

FRITS VAN DIJK, School of Economics (HES), Rotterdam

Nationality: Dutch; Year of birth: 1947
Member since: 2012; Committees: Chairman Nomination and Compensation Committee; 1970–2011: Career within Nestlé (focus region Asia), of which the last 10 years as member of the Nestlé SA Executive Board, responsible for Asia, Oceania, Africa & Middle East; Member of the Board: Nestlé Malaysia Berhad.

URS F. BURKARD, Carpenter/Interior Designer

Nationality: Swiss; Year of birth: 1957
Member since: 1990; Committees: Nomination and Compensation Committee; since 1989: Principal, Burkard Office Design GmbH, Rotkreuz; 1987–1989: Head of planning, Denz Office Furniture, Zurich; Chairman of the Board: Unitrend Burkard AG, Rotkreuz; Vice Chairman of the Board: Schenker-Winkler Holding AG, Baar; Member of the Board: Gazet Holding AG, Baar.

MONIKA RIBAR, lic. oec. HSG

Nationality: Swiss; Year of birth: 1959
Member since: 2011; Committees: Chairman Audit Committee; 2006–2013: CEO, Panalpina AG, Basel; 2005–2006: CFO, Panalpina AG, Basel; 2000–2005: Chief Information Officer (CIO), Panalpina AG, Basel; 1991–2000: Various functions within Controlling, IT and Global Project Management, Panalpina AG, Basel; Chairman of the Board: SBB AG (Swiss Federal Railways), Berne; Member of the Board: Lufthansa Group, Frankfurt am Main; Rexel SA (until April 2016), Paris; Chain IQ Group, Zurich.

CHRISTOPH TOBLER, Dipl. El. Ing. EPFL

Nationality: Swiss; Year of birth: 1957

Member since: 2005; Committees: Audit Committee; since 2004: CEO, Sefar Holding AG, Thal SG; 1998–2004: Head of Industry Division and Member of Group Management, Sika AG, Baar; 1994–1998: Adtranz Schweiz; 1988–1994: McKinsey & Company, Zurich; Chairman of the Board: AG Cilander, Herisau; Member of the Board: Sefar Holding AG, Thal SG; economiesuisse, Zurich; Member of Regional Advisory Board: Swiss National Bank.

JÜRGEN TINGGREN, MBA

Nationality: Swedish; Year of birth: 1958

Member since: 2014; 2011–2013: CEO Schindler Group, Ebikon; 2007–2011: President of the Schindler Group Executive Committee; 1997–2007: Member of the Schindler Group Executive Committee; 1985–1997: Sika AG, Baar. Final position: Member of the Management Committee with responsibility for North America; Member of the Board: Johnson Controls International Ltd., Dublin; The Conference Board, New York.

ULRICH W. SUTER, Dr. sc. techn., Professor

Nationality: Swiss; Year of birth: 1944

Member since: 2003; 2001–2005: Vice President Research, ETH Zurich; 1988–2008: Professor, ETH Zurich, Department of Materials; 1982–1989: Professor, MIT, Department of Chemical Engineering, Cambridge, USA; Chairman of the Board: WICOR Holding AG, Rapperswil SG; Member of the Board: Rainbow Photonics AG, Zurich; President of the Foundation Council: Werner Oechslin Library Foundation; Member of the Board of Trustees: Pension Fund of the Weidmann Group of Companies; Swisscontact; Swiss National Science Foundation. Consultant to the National Research Foundation, Singapore.

STRATEGY & FOCUS

STRATEGY

GROWTH STRATEGY CONFIRMED – TARGETS RAISED

The Sika Growth Model is synonymous with long-term success and profitable growth. By focusing on market penetration, innovation, emerging markets, and acquisitions, and driven by its strong corporate values, Sika is growing successfully. Since the targets of Strategy 2018 had been achieved two years early, Sika's strategic goals were reviewed in the second half of 2016 in conjunction with senior managers worldwide. This review resulted in a confirmation of the growth model and a raising of the strategic targets.

Sika is now aiming for an EBIT margin of 14–16% (previously 12–14%) and an operating free cash flow greater than 10% (previously over 8%). The aim is to achieve a return on capital employed in excess of 25%. By 2020, 30 new factories are to be commissioned and 8 new national subsidiaries established. The annual sales growth target remains at 6–8%. Sika aims to achieve an EBIT of more than CHF 1 billion by 2020.

STRATEGY IMPLEMENTATION SINCE 2012

Market Penetration



- Successful target market concept
- Megatrends driving growth

Innovation



- 370 new patents filed
- 20 Global Technology Centers

Emerging Markets



- 51 new plants opened
- 20 new national subsidiaries

Acquisitions



- 21 acquisitions in all regions
- CHF 671 million sales added

Values



- Strong corporate culture
- High employee loyalty

STRATEGIC TARGETS 2020

Market Penetration

Innovation

Emerging Markets

Acquisitions

Values

6-8% annual growth

30 new plants

105 national subsidiaries

14-16% EBIT margin per year

>10% operating free cash flow per year

>25% ROCE per year

WE BRING STRATEGY TO LIFE

KNOWLEDGE SECURES FUTURE



SIKA NEW ZEALAND - FLOORING TEAM

When new colleagues join our organization, we share knowledge and help to grow their skills. We want to create an empowering environment and we want them to succeed. The success of all our colleagues is not only rewarding to each of us - it also helps Sika to grow. Our cooperative corporate culture gives us a real advantage in a competitive market.

SIKA GERMANY - R&D TEAM INDUSTRIAL COATINGS

Our lab manager, who has accumulated significant expertise in coatings development in a career spanning over 45 years, will retire at the end of 2017. The transfer of his know-how is essential. To retain this knowledge, a successor was appointed in early 2016. Due to the long duration of their know-how transfer they can cover all the relevant subjects and ensure a smooth transition.





SIKA TEAM ETHIOPIA

We are a multicultural team that shares a passion for Sika's ideals. For us, as one of the newest Sika countries, not only the transfer of knowledge related to products, strategy, processes and production technology is important, but also the conveyance of Sika's values such as the empowerment and involvement of all employees, and a strong customer focus.



SIKA RUSSIA – PRODUCTION AND WAREHOUSE TEAM MOSCOW

We recently opened our plant for polymer production. The engineering support provided by corporate experts and specialists from other subsidiaries enabled us to design the plant according to the latest technical standards. Our dedicated team is now excellently equipped to offer innovative local products on the Russian construction market.



SIKA PAKISTAN – MARKETING AND HR TEAM

Sika invests in the continuous professional development of its employees in order to pass on know-how within the organization. This, together with the experience gained by our people during personal contact with customers in the market, offers the most solid foundation to build on for the future.



SIKA AUSTRIA – FLOORING TEAM

We regularly organize application training for new and existing sales representatives. Not only theoretical knowledge is important. Practical training is needed to learn how the materials behave under real conditions on the building site. With this hands-on approach we can give the best support to our customers in their daily work.



SIKA CHINA - IT TEAM

We integrated all the entities of Sika China into a unified management and controlling system in line with the corporate guidelines. This enables a country-wide alignment of the business processes and allows for a more efficient flow of information and knowledge within the whole Sika organization.



GLOBAL SikaPower® TEAM: CORPORATE TEAM (1), SIKA USA (2), SIKA CHINA (3), SIKA BRAZIL (4)

As demand for SikaPower® structural adhesives is growing fast all over the world, we transferred the technology to all regions. A team of representatives from the local R&D and Operations departments, together with the Corporate SikaPower® experts, transferred the technology to Brazil, China and the USA. Now we are able to serve our Automotive customers with locally produced SikaPower® adhesives at constant quality in all regions. The parallel roll-out in a very short time was only possible thanks to excellent collaboration between the dedicated project teams.



SIKA USA - TEAM WATERPROOFING

Our production technology is constantly developing. To accomplish the critical transfer of information it begins with the onboarding process of each new employee and committed mentoring by our more seasoned employees. A combination of technical training with on-the-job coaching ensures that our innovative processes are continuously implemented.



SIKA COLOMBIA - DEVELOPMENT PROGRAM

The Regional Development Program was an enriching experience for us. It conveys technical knowledge and gives young talents an opportunity to learn from senior employees - which is rewarding for both parties. We all aspire to grow within the company, and this type of program gives us the chance to make it possible.



SIKA MEXICO - TEAM OPERATIONS AND R&D

We believe that new ideas brought in by young people can make a solid contribution to the further development of formulations and production processes. Combined with the knowledge acquired over the years by the senior Operations and R&D staff, this creates a strong foundation for the future.

SIKA ITALY - TECHNICAL SERVICE TEAM

Through detailed technical communication, laboratory tests and personal advice, we pass on our extensive know-how and the passion for our company to our Italian customers. Our aim is to help them be successful with their projects.





SIKA PORTUGAL - TEAM INDUSTRY

When you start at Sika you experience the Sika Spirit from the beginning. Later on you yourself pass it on to new colleagues joining the company. The cooperative mentality and willingness to share information across management levels, departments, and national borders are part of the DNA of Sika's corporate culture.



SIKA JAPAN - MANAGEMENT, COMMUNICATION AND HR

Sika is like a large family, but it can be challenging to reach every-one. "Coffee with the GM" is a great way of communicating our company's know-how and values to all our employees; in smaller groups and in a more personal way. Our "Kick-Off Company Meeting" is another platform we use to spread the Sika Spirit.



SIKA URUGUAY - LOGISTICS TEAM

It is extremely valuable to our team that our Logistics Supervisor has been with Sika for more than 30 years. We can learn a lot from him. He not only passes on professional knowledge, but also his ideas about work ethics - always acting as a role model for us all.



SIKA COLOMBIA - WOMEN IN SALES PROGRAM

The sales program was key for our development. We were trained by senior members of the company to enhance our technical and professional skills. Our participation in this program gave us an excellent opportunity to gain experience and build a network. Now we are planning initiatives for the rest of Latin America - we would like to make an impact on the whole company.



SIKA IRELAND - SIKA EVERBUILD TEAM

The integration and knowledge transfer following the acquisition of Everbuild in 2014 has run smoothly thanks to the support and dedication of both the Everbuild and Sika teams. The operation has benefited immensely from adopting the Sika strategy and we are delighted to have fully embraced the Sika Spirit.



SIKA TUNISIA - MANAGEMENT TEAM

A dynamic and enthusiastic organization is key in a fast-moving market such as Tunisia. In our aim to achieve this, we consider it a strength to be a highly diversified team. The motivation and commitment of our employees come from the feeling of being part of a team you can rely on, across cultures, educational level and gender diversity.



SIKA SWITZERLAND - CORPORATE HR TEAM

HR strives to provide the business with programs designed to attract, motivate and retain highly qualified and dedicated employees, and to support Sika's growth strategy. The Head of Corporate HR brings many years of experience from Sika's concrete business, and can share his know-how in designing HR activities to suit the needs of the business.



SIKA CHILE - EHS AND QUALITY TEAM

Our team is guided by Sika's values and principles. We pursue operational excellence and can profit from the good cooperation between different areas within the company. The top priorities are our customers and assuring our products' high quality standards.



SIKA CANADA - PRODUCTION TEAM VANCOUVER

Sika's strong growth has given us the chance of a career change. Having worked for several years in production in Montreal, we were offered the opportunity to set up the factory in Vancouver. We are now applying our knowledge to the production of concrete admixtures and mortar products and transferring it to our new colleagues.

THE SIKA BRAND

THE SIKA BRAND STANDS FOR QUALITY,
INNOVATION, AND SERVICE

Sika is a strong brand. It allows the Group to present a uniform identity in all target markets and with all products.

SIKA AS A BRAND

Branding lends products a distinct identity and associates them with a specific set of values. This fact was recognized early in Sika's history by founder Kaspar Winkler, who coined the company's name and designed its logo. The considerable standing acquired by the Sika brand over the years is a tribute to this far-sightedness. Having changed only slightly since its creation, the logo epitomizes continuity and solidity. It is recognized across the globe as synonymous with innovation, quality, and service. The combined word/picture trademark has proved a valuable asset throughout the world during the Sika Group's decades-long expansion. It has been successfully launched and is readily accepted across all cultural boundaries. Customers throughout the world can rest assured that they will receive Sika quality and service wherever they see the Sika logo.

WORLDWIDE TRADEMARK PROTECTION

Given the high awareness of the Sika brand, particularly the graphic word trademark, the company attaches high priority to a consistent and standardized use of the logo and the associated corporate image guidelines, and verifies compliance with them. The various attempts, in recent years, to copy the logo only serve to underline its enormous intangible value for the company. Sika ranked 39th in Interbrand's Best Swiss Brands in 2016.

The Sika umbrella brand and some 833 Sika product trademarks, such as Sika® ViscoCrete®, SikaBond® or Sikaflex®, sharpen the company's competitive edge. Hence the crucial role of trademark protection as a management task, performed both globally at Group level and locally at national level. In total, Sika held 10,911 trademark registrations in 165 countries at the end of 2016. Sika AG continuously monitors its trademarks and takes appropriate legal action in cases of infringement.

CORPORATE IDENTITY

The rollout of Sika's revamped corporate identity in 2013 gave the company's public face a fresh and modern look. The aim of the corporate identity process preceding this was to achieve a clear-cut positioning of the brand based on uniform corporate design guidelines. Additional elements of these guidelines were rolled out in 2016, focusing primarily on the packaging layout and also enhancements to web applications.

CORPORATE CULTURE – MAKING AN IMPACT ON THE OUTSIDE AND THE INSIDE

The second core element of the Sika brand, alongside its positioning, is the brand personality. Three attributes form the backbone of this personality: pioneering, team-oriented and committed. Today they shape the awareness of Sika employees worldwide. To ensure that internal collaboration remains very strong in the digital age as well, in the year under review the possibilities offered by our social intranet were tapped into to create new perspectives. Complementing internal measures, employer branding campaigns have also been stepped up in external communications to make the Sika Spirit visible and tangible outside the company.

BUILDING TRUST

Sika successfully integrates the "Building Trust" tagline into its communication strategy. The implications of this pledge for Sika's brand positioning can be described as follows:

"Specialty chemicals are our business and trust is the foundation of our success. For more than a century, we have focused on the quality of our products while constantly bringing to our industry a spirit of reinvention. We are committed to delivering reliable, innovative, and long-lasting solutions to our customers in the construction, building and manufacturing industries. This truly represents the value and the impact of the full range of Sika's core competencies: sealing, bonding, damping, reinforcing, and protecting. Willing and able to meet future challenges of our clients and partners, we provide innovative products with added value, comprehensive services, expert answers, well-founded training, and custom-designed solutions. We're proud of our achievements and eager to prove ourselves. Sika provides a seal of quality you can rely on.

Committed to excellence.

Inspired by innovation.

Building Trust."

TARGET MARKETS

FOCUS ON THE TOP POSITION



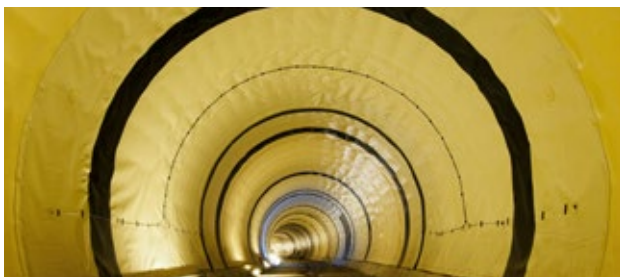
CONCRETE

Sika develops and markets a complete range of admixtures and additives for use in concrete, cement, and mortar production. These products enhance specific properties of the fresh or hardened concrete, such as workability, watertightness, durability, load-bearing capacity, or early and final strength. The demand for admixtures and additives is currently on the rise, particularly due to the increased performance requirements placed on concrete and mortar, especially in urban areas and for infrastructure construction. Furthermore, the growing use of alternative cementitious materials in cement, mortar, and therefore also in concrete, is increasing the need for admixtures.



ROOFING

Sika provides a full range of single-ply and built-up flat roofing systems incorporating both flexible sheet and liquid applied membranes as well as thermal insulation and various roofing accessories. A more than 50-year history has documented that Sika roofing solutions are outstanding performers, reliable, sustainable, and long-lasting. Demand in this segment is driven by the need for eco-friendly, energy-saving solutions such as green roof systems, cool roofs, and solar roofs, which simultaneously help to reduce CO₂ emissions. While refurbishment projects continue to gain in significance in the mature markets, the emerging markets are moving towards higher-quality roof solutions.



WATERPROOFING

Sika's system solutions for waterproofing cover the full range of technologies used for below and aboveground waterproofing: flexible membrane systems, liquid-applied membranes, waterproofing admixtures for mortars, joint sealants, waterproofing mortars, injection grouts, and coatings. Key market segments include basements, underground parking garages, tunnels, and all types of water-retaining structures (for example reservoirs, storage basins, and storage tanks). Waterproofing systems are faced with increasingly stringent requirements regarding sustainability, ease of application, and total cost management. Therefore the selection of appropriate waterproofing systems to suit the needs and requirements of owners as well as the treatment of specific project-related details are key for long-lasting and watertight structures.



FLOORING

Sika's flooring solutions are based on synthetic resin and cementitious systems for industrial and commercial buildings, for example pharmaceutical and food-sector production plants, public buildings such as educational and health care facilities, parking decks, and private residential properties. Each market segment is subject to its own particular requirements in terms of mechanical properties, safety regulations (for example slip resistance), antistatic performance, and chemical or fire resistance. Trends in the flooring market are being dictated by the growing significance of safety and environmental regulations, as well as customized technical requirements. The high volume of building alteration and conversion projects nowadays has boosted the importance of efficient solutions for the refurbishment of existing flooring systems.



SEALING & BONDING

Sika offers a wide range of high-performance and durable sealants, tapes, spray foams, and elastic adhesives for the building envelope, for interior finishing and for infrastructure construction. Typical applications include the sealing of movement joints between facade elements to make buildings weatherproof, the bonding of wood floors to reduce noise, or the sealing of joints in airport aprons. The growing demand in this market is fueled by an increasing awareness of the importance of high-performance sealants for the overall durability and energy efficiency of buildings, the increasing volume of high-rise projects, and the continued replacement of mechanical fastening systems by adhesives due to better performance.



REFURBISHMENT

This segment features concrete protection and repair solutions, for example repair mortars, protective coatings, grouts, and structural strengthening systems. It also includes products for interior finishing, such as leveling compounds, tile adhesives, and tile grouts. Sika provides technologies for the entire life cycle of commercial buildings, residential properties, and infrastructure constructions. Especially in developed markets, many structures are decades old and need to be refurbished. The present uptrend in demand is attributable to a rising volume of infrastructure rehabilitation projects in the transport, water management, and energy sectors. The global urbanization trend and the increasing need for renovation in developed markets are also fueling demand.



INDUSTRY

The markets served by Sika include automobile and commercial vehicle assembly (structural bonding, direct glazing, acoustic systems, reinforcing systems), automotive aftermarket (auto glass replacement, car body repair), marine vessels, industrial lamination, renewable energies (solar and wind), and facade engineering (structural glazing, sealing of insulating glass units). Sika is a technology leader in elastic bonding, structural adhesives, sealants, reinforcing, and acoustic applications serving the world's leading manufacturers. Customers rely on Sika solutions to enhance product performance and durability while optimizing manufacturing efficiency. For example, Sika's solutions address key megatrends in vehicle design, leading to lighter, stronger, safer, quieter, and more efficient vehicles, while fast-processing materials and compatibility with automation optimize productivity.

PRODUCTS & INNOVATIONS

COURAGE FOR INNOVATION

Sika's success and reputation are based on its long-lasting tradition of innovation. Accordingly, the core of its business is innovation management and the development of quality products and the best solutions for customers. Sika has institutionalized a comprehensive product creation process with a strong focus on consistently developing new products, systems, and solutions for bonding, sealing, damping, reinforcing, and protecting in its defined target markets.

By investing in its technology centers and laboratories across the globe, Sika enhances the cooperation with its worldwide network of scientists, partners, and suppliers, while fulfilling the promise to be close to its customers everywhere.

INNOVATION AND GROWTH

Growth needs innovation, innovation needs research. Research and development (R&D) thus enjoy an accordingly high priority within the company. The R&D strategy that Sika has been operating for several years guarantees a high innovation rate and has spawned many new products, the exclusive use of which the company has secured by patents.

CORE COMPETENCIES

One key factor for the success of Sika's R&D work is its strategic focus on clearly defined core competencies, namely bonding, sealing, damping, reinforcing, and protecting load-bearing structures in building and industry.

Sika products are used to install durable wind-, rain-, and draft-proof barriers in flat roofs, complex tunnel systems, damage-prone water-retaining structures, and sophisticated curtain wall assemblies. Bonding ensures the permanent, elastic or structurally continuous connection of different materials, for example in vehicles, window assemblies, and even segmental bridges, where concrete units weighing several tons are joined together. Damping reduces vibrations in fixed and moving objects, thereby lowering resonance and noise emission in load-bearing structures and in vehicle interiors. Sika's reinforcing solutions using Carbodur® products strategically improve the resistance of structures to static and dynamic loads, while protective elements serve to increase their durability. Sika coatings guarantee long-term protection for concrete and steelwork assemblies against climatic conditions, chemical action, pollution, and fire.

DEVELOPMENT FOCUS IN INDIVIDUAL TARGET MARKETS

CONCRETE

New high-performance molecules were developed to further strengthen the competitiveness of the company. As a result, the launch of new concrete admixtures for example is significantly faster and requires fewer resources. Specific customer requirements are served much more effectively.

Particularly for tunnel and mining applications Sika has developed a new system of concrete additives for pasty filler components. Thanks to its unique composition, the new system enables reduced use of water and cement. This new Sika solution combines quality, sustainability and environmental awareness in one concept.

WATERPROOFING

In this segment, Sika is concentrating its efforts on waterproofing systems for tunnels and buildings. In 2016, multiple industry-first innovations were launched such as the first corrosion-prohibiting acrylic injection, the first tunnel membrane meeting the most stringent requirements for tunnels (ÖBV 4.7), new membranes with 100% recycled PVC or multiple tapes to complement our SikaProof® and Sikaplan® portfolio and boost the efficiency of application and installation.

ROOFING

Liquid applied membrane development continues to focus on low-emission, environmentally friendly products that offer maximum safety during on-site application. This is made possible by the use of patented i-Cure latent hardeners. The drive to advance water-based technology in 2016 led to the development of a new roofing membrane with early rain resistance and a wider application window. Our efforts to provide innovative adhered membranes with efficient installation features for a growing global market continued: a new self-adhered PVC membrane for installation even on moist substrates and at low temperatures was finalized and will be launched in early 2017. In addition, many small improvements were introduced to maintain Sika's edge in the supply of membranes with best-in-class welding and installation behavior.

FLOORING

Development work centers on high-performance cementitious and synthetic resin products that offer reliable application while meeting sustainable building requirements. Key drivers for innovative solutions are low-odor / low-emission, fast-curing and moisture-tolerant products. Recent developments using new patented epoxy hardeners provide significant advantages over traditional epoxy floor products in these areas. To complement the flooring products, Sika offers full-package solutions to customers in which floor solutions are paired with hygienic wall coat-

ings. Several new low-emission hygienic wall coatings have been introduced and these have achieved the top hygiene rating for internal wall coatings.

SEALING & BONDING

To pave the way for the development of future products with outstanding performance, the focus is on R&D work on the fundamental chemistry of polyurethane and PU hybrids, as well as on dispersion technology. To meet the highest EHS standards, we have developed high-performance sealants for special joints in civil engineering and building construction. The regional technology centers have been updated on our latest technologies and products.

REFURBISHMENT

New Sika dry-mix and technical mortars are suitable for use in all phases of the construction life cycle as a sustainable contribution to durable construction. For effective industrial application, mix designs must be geared to high strength, flowability and durability, using locally abundant and cost-effective materials. The recently developed Sika mortars can be used as the preferred materials in various applications due to their high performance, multifunctionality and sustainability compared to conventional mortars. The recent research and development activities for mortars relate to repair, strengthening and retrofitting systems for dilapidated concrete structures, and focus on intelligent repair, waterproofing and reaction to fire in building construction.

INDUSTRY

The improvement of energy efficiency by reducing the weight of moving parts is now a strong global trend for the economic and ecological optimization of products in various industries, such as the transportation or wind sector. However, the use of lightweight materials calls for new structural bonding concepts and smart adhesive designs to achieve strong, durable connections with adequate flexibility to allow small movements and prevent damage to the lightweight material itself. Sika possesses all the relevant adhesive technologies and has developed specific products such as highly toughened epoxies, one- or two-component UHM polyurethanes or acrylate adhe-

sives to master the various bonding challenges posed by composite materials and offer the best solution for the customer.

Automotive

The innovative SikaPower® and SikaSeal® adhesives and sealants, which are used in vehicle body shells and are particularly suitable for lightweight applications, have earned Sika the Frost & Sullivan 2015 Europe Product Leadership Award. According to Frost & Sullivan, Sika's range of innovative automotive solutions is key to delivering highest efficiency, safety and comfort.

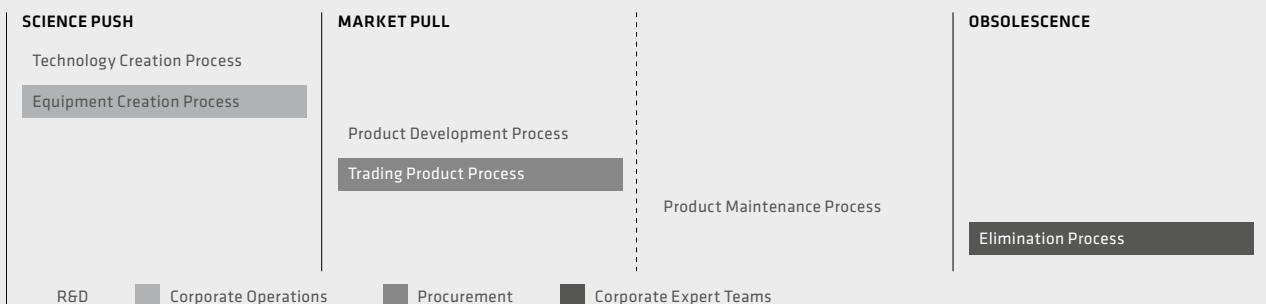
SikaPower® adhesives allow carbon-fiber reinforcing components to be bonded to the steel and aluminum parts of car bodies. The ultraefficient, high-grade bond between the different materials helps to enhance body rigidity while reducing weight, as illustrated for the first time by the new BMW 7 Series.

RESEARCH STRATEGY

Sika's research activities are carried out at its major technology centers worldwide, with Switzerland as a key location. The research program targets the development of proprietary technology that provides key performance benefits and thus allows Sika's product platforms to respond to global trends such as resource-saving building methods, energy-efficient and low-emission construction materials, high-speed manufacturing methods, or lighter and safer vehicles. Key projects focus on high-performance molecules with unique features, smart refining techniques for polymers and surfaces, and tailored laboratory equipment scale-up to full-size production.

Sika complements its internal research efforts by working with major universities and scientific institutes on fundamental technology. One example is the "Mesh Mould" project, in partnership with the Swiss Federal Institute of Technology (ETH) Zurich, for the development of a robotized construction method for building load-bearing concrete elements of any shape without formwork. This project won the Swiss Technology Award in 2016. Sika also participates in international research projects and networks. The "Lorcenis" project, for instance, which runs

PRODUCT CREATION PROCESS



under the HORIZON 2020 program of the European Union, centers on durable reinforced concrete for energy infrastructure.

INVESTMENT

To speed up the rollout of newly developed products, the Product Creation Process (PCP) was revised during the 2015 business year. In 2016 the implementation process continued. After instructing the relevant staff members, the new version was put into place throughout the company. The regional technology support functions are responsible for compliance with the PCP in their area and perform regular PCP audits to review process quality. The audits ensure that employees always have an up-to-date state of knowledge that meets the high standards specified by Sika and that local chemists are familiar with the latest technologies. At the same time, special workshops are held to collect innovative ideas from the regions and leverage these for the Group.

Total expenditures on research and development for the Group in the year under review totaled CHF 161.4 million (previous year: CHF 160.6 million), equivalent to 2.8% of sales (previous year: 2.9%).

INTELLECTUAL PROPERTY

Sika maintains exclusivity over its innovative products through the systematic registration of its intellectual property rights. 84 new inventions were reported in 2016 (previous year: 87) and 72 new patents applications were filed (previous year: 70). By the end of 2016 Sika's patent portfolio included 682 unique patent families with more than 2,600 single national patents.

NEW PRODUCTS IN 2016

Sika launched a number of important new products in 2016, including the following:

CONCRETE

- **SikaControl® AER-200P:** New-generation air-entraining agent with outstanding freeze-thaw resistance and unmatched robustness in critical concrete mixes.
- **Sika® Stabilizer-305 MBF:** Admixture for mine paste fill, major advance in water and cement reduction.
- **Sika® Sigunit® L-5602 AF:** New suspension-type shotcrete accelerator with highest level of performance in early strength development.

MORTARS

- **Sikacrete®-213 CN:** Steel-structure-fireproofing mortar, for application to steel structures exposed to weathering (outside), with highly effective fire protection and good anticorrosion performance.
- **Sika MonoTop®-412 SCM:** Sustainable and economic mortar line, next-generation formulation with sustainable binders for repair mortar to EN standard, mortar of class R4 (according to EN standard) with low cement content, greater durability and improved chloride migration.

THERMOPLASTICS

- **Sikaplan® WP-2101:** High-end tunnel membrane series. Meets superior requirements of key international standards and guidelines.
- **Sikaplan® WP-1181:** Cost-optimized membrane series for tunnel and basement applications. Made of 100% recycled PVC.
- **SikaProof® Tape-150 A:** Tape for inside jointing and detailing of the SikaProof®-A waterproofing system.
- **Sika® Injection-307:** First acrylic-based injection product on the market for inhibiting corrosion in steel-reinforced concrete. Patent-protected technology.

COATINGS

- **Sikalastic®-650:** One-component, solvent-free STP-based liquid-applied membrane for roof waterproofing applications.
- **Sikagard®-405W / Sikagard®-406W:** Ultralow-emission top coats for hygienic wall coating systems, meeting the highest hygiene and aesthetic demands.
- **SikaFill®-300 Thermic:** One-component liquid-applied membrane with enhanced thermic performance. Suitable for a wide range of substrates for roof-coating applications.
- **Sikafloor®-324:** Tough elastic polyurethane floor coating with low moisture sensitivity.

ADHESIVES AND SEALANTS

- **SikaPower®-1200:** Injectable, room-temperature-curing, two-component epoxy adhesive for in-house wind rotor blade repair, offering the same performance as the OEM adhesive.
- **SikaBond® AT-75:** New-generation adhesive for wood floor bonding, meeting highest EHS regulations.
- **Sikaflex®-953 and Sikaflex®-950:** Two-component, STP-based, assembly adhesives with a broad adhesion spectrum to complement the strategic product portfolio of fast-curing adhesives for industrial applications.
- **Sikasil® IG-25 HM plus:** Silicone-based, fast-curing and fast-adhering adhesive for reduction of cycle times at assembly lines.
- **SikaSeal® Universal plus:** For use in Mexico, SikaSello Puertas y Ventanas, and SikaSello Baños y Cocinas in Colombia, water-based, high-elastic sealants with best cost-performance ratio for applications in wet areas and for window installations.
- **Sikaflex®-268:** All-purpose adhesive for bus, truck and rail glazing and jointing applications. The adhesive can be accelerated, if required, using Sikas Booster Technology (out of drums) or with the new Sika PowerCure® system.

AUTOMOTIVE

- **SikaPower®-533 MBX:** Crash-resistant structural adhesive that is particularly suitable for composite automotive design. It allows dissimilar materials, such as aluminum, steel and carbon-fiber-reinforced polymers, to be bonded together while at the same time accommodating the differential thermal expansion of these materials.
- **SikaBaffle®-455:** A new acoustic baffle, which prevents moisture ingress into vehicle body cavities and reduces both noise and weight by means of a unique combination of damping and sealing properties.

SUSTAINABLE DEVELOPMENT

RESPONSIBILITY, TRUST AND OPENNESS

Sika takes the long-term view when it comes to developing the business. The relationship with customers, stakeholders, and employees is shaped by respect and responsibility. Sika operates with a strong focus on safety, quality, sustainability, social involvement, responsible growth, and value creation.

SUSTAINABLE DEVELOPMENT

As a global company, Sika is especially committed to sustainable development. Sika honors its responsibilities by offering sustainable solutions for energy-efficient construction and economical vehicles. It implements numerous measures aimed at boosting the Group's sustainability performance and achieving business, social, and ecological benefits.

MORE VALUE – LESS IMPACT

Through its products, systems, and solutions, Sika seeks to generate benefits for stakeholders that far outweigh the impact of the production and logistics processes and resource consumption. The sustainability strategy developed by Sika in 2013, and further implemented and communicated by 2016, has proved its worth. Group-wide, Sika companies planned and implemented projects in pursuit of the six predefined strategic targets, focusing on economic performance, sustainable solutions, local communities/society, energy, waste/water, and safety.

To this end, each of Sika's subsidiaries has developed a roadmap to define the key aspects of the projects and control their implementation. These projects and the attained targets are documented in the sustainability report. Sika has reported its key sustainability performance results in line with the G4 Guidelines of the Global Reporting Initiative. In 2016, Sika reported in accordance with the new GRI Standards. In dialog with internal and external stakeholders, Sika defined and reviewed the target indicators with the largest potential effect and enshrined these

in its global reporting procedures. These results and findings are presented in the sustainability report (see page 49 ff of the download version of the Annual Report) and in detail on Sika's website at www.sika.com/gri.

STANDARDS AND COMPLIANCE

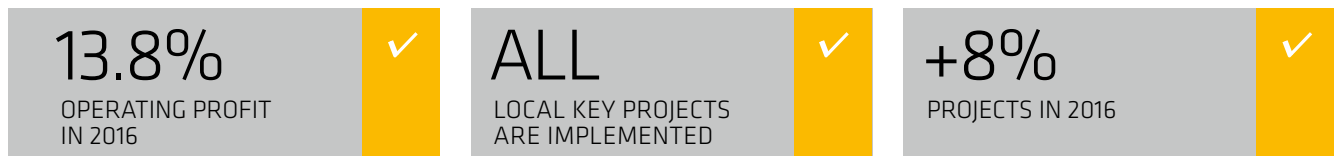
To preserve and steer Sika's strong compliance culture and ensure that the Code of Conduct, the company's values and principles as well as specific functional regulations and guidelines are understood and adhered to by managers and employees, Sika is pursuing a holistic approach to compliance. Sika's compliance system involves the whole organization throughout hierarchies, functions and geographical areas. It aims to foster a culture of trust, support transparency, and enhance a speak-up culture within the Group. The pillars of this system are the Compliance Manager on Group level, four Compliance Managers on regional level and local Compliance ambassadors, e-training programs, classroom workshops and the SikaTrustLine, a web-based reporting platform.

Sika TrustLine is an externally hosted channel where employees can raise legitimate complaints regarding serious misconduct or breaches of Sika's Code of Conduct in a confidential environment if reporting to other more immediate Sika employees, like line management or other specialists, is not feasible or adequate.

Furthermore, Sika's compliance system wants to ensure that governance, risk management and other structures and processes within the Group are not only compliant with regulatory requirements, but also as effective as possible within the organization to mitigate risks and prevent losses. In this way the compliance function contributes to the Group's performance by providing a framework for corporate culture, corporate governance and risk management. The more effective this framework is, the more successful the organization can be.

MAJORITY OF TARGETS ACHIEVED

As part of its “More Value – Less Impact” sustainability strategy, Sika has been measuring six parameters for the last four years. In 2016, the majority of targets were met, with only waste utilization and occupational safety falling short of their goals. Measures have been initiated to bring about an improvement.

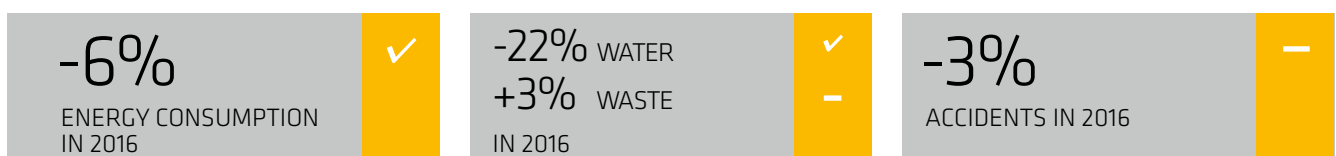


MORE VALUE

<p>ECONOMIC PERFORMANCE</p> <p>Our success directly benefits all stakeholders.</p> <p>TARGET Operating profit (EBIT) 12-14% of net sales.</p>	<p>SUSTAINABLE SOLUTIONS</p> <p>We are leading the industry by pioneering a portfolio of sustainable products, systems, and services.</p> <p>TARGET All new projects are assessed in accordance with Sika's Product Development Process. All local key projects are implemented.</p>	<p>LOCAL COMMUNITIES/SOCIETY</p> <p>We build trust and create value – with customers, communities, and with society.</p> <p>TARGET 5% more projects per year.</p>
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LESS IMPACT

<p>ENERGY</p> <p>We manage resources and costs carefully.</p> <p>TARGET 3% less energy consumption per ton and year.</p>	<p>WATER/WASTE</p> <p>We increase water and material efficiency.</p> <p>TARGET 3% less water consumption and waste per ton and year.</p>	<p>OCCUPATIONAL SAFETY</p> <p>Sika employees leave the workplace healthy.</p> <p>TARGET 5% less accidents per year.</p>
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ACQUISITIONS & INVESTMENTS

SUPPORTING GROWTH IN THE TARGET MARKETS

Acquisitions are an important element of Sika's growth strategy, enabling the company to enhance its core business with related technologies or improve access to certain markets. Through capacity expansion fine tuned to market demands, and investment in plant efficiency, the Group ensures the consolidation of its global growth potential.

ACQUISITION STRATEGY

Organic growth, i.e., growth driven by entrepreneurial endeavor, is at the core of Sika's corporate strategy. This organic growth is enhanced by carefully targeted external growth, which offers a useful way of closing existing gaps in access to target markets and consolidating fragmented markets. Particularly in North America, Asia, and parts of Europe and Latin America, Sika pursues this policy as a means of steadily improving its market position. At the same time, however, the company seeks to strengthen or extend its core business through the selective acquisition of related technologies, which Sika finds mainly in small- and medium-sized enterprises in Europe, the USA, and some Asian countries. The fact that such businesses are usually unable to market their systems worldwide sooner or later proves a barrier to growth, and by acquiring such companies, the Sika Group, as a global player, is able to leverage their full potential.

When evaluating a takeover offer, Sika relies on the expertise and experience it has already gained as well as on clearly defined processes in place across the Group. Since acquired companies are usually fully incorporated in the Group, Sika places great value on a smooth integration process, and therefore pays particular attention to the corporate culture of all takeover candidates prior to any acquisition.

The regions generally assume responsibility for particular acquisition procedures, but the process is supervised and coordinated at Group level.

2016 ACQUISITIONS

In April 2016, Sika acquired L.M. Scofield, a US-based market leader in the production of concrete color additives for ready-mixed concrete, along with decorative products and treatments for concrete refurbishment. The acquisition fits perfectly with Sika's accelerated growth strategy in North America.

In September 2016, Sika acquired FRC Industries, a fiber manufacturer based in Tuscaloosa, Alabama. The company offers a full line of high-quality synthetic polypropylene and steel fibers for concrete. This acquisition will accelerate growth in the USA and further establish Sika as a comprehensive supplier of solutions for the construction industry.

In October 2016, Sika agreed to acquire Ronacrete (Far East) Ltd., one of the leading suppliers of repair mortars, tile adhesives and other mortar products in Hong Kong. The acquisition represents a further step in the expansion of Sika's mortar business. Ronacrete is based in Hong Kong and operates an efficient production facility in the neighboring Guangzhou province.

In December 2016, Sika agreed to acquire Rmax Operating, LLC, a US-based market leader in the production of polyiso insulation products for complete Building Envelope solutions (roofing and wall systems). The acquisition brings technology and know-how that will accelerate Sika's growth and drive innovation in the North American market via the strong synergies between the companies.

2016 INVESTMENTS

Sika's unchanged investment strategy is geared to consolidating the global presence it has built up during the last few years, and unlocking new markets or expanding its activities to this end. To encourage focused growth, selected markets, customers, technologies, and products are prioritized. Sika continues to invest in production and logistics capacities at its sites in order to strengthen local supply chains, and its decentralized market development policy brings the company very close to its customers.

In the year under review, Sika invested CHF 154.9 million (2015: 142.6 million), which is equivalent to 2.7% of net sales. At 54%, the key focus for investment was the expansion of production capacity (2015: 52%). The breakdown of the remaining investments is as follows: 19% (2015: 18%) was used for rationalization, 24% (2015: 28%) was needed to replace existing facilities, and 3% (2015: 2%) was spent on environmental protection, health and safety, and quality control. The share of investment in the emerging markets was 37% (2015: 38%), underscoring Sika's growth strategy.

Sika will continue to invest in those regions where the Group can tap into new markets and generate growth, including North and Latin America, the Middle East, Russia, Eastern Europe, China, Indonesia, Japan, Vietnam, Australia and Africa.

AWARDS

WORLDWIDE RECOGNITION FOR OUR ACHIEVEMENTS

Our employees did a great job in 2016 – their competence and commitment have not only brought us another record result, but also allowed us to achieve many different awards. These awards show third-party recognition for the excellent work of our teams all around the world. This section highlights some of the approximately 50 awards won by Sika this year.



MESH MOULD INNOVATION RECEIVES SWISS TECHNOLOGY AWARD

With Sika as its industrial partner, researchers at ETH Zurich won the “Inventors” category of the Swiss Technology Award 2016 at the Swiss Innovation Forum in Basel. Developed in collaboration with Sika experts, “Mesh Mould” technology makes it possible to produce concrete elements of any shape without using formwork. This heralds the dawn of a digital future in the construction industry.

16 SUPPLIER AWARDS RECEIVED

Good performance is rewarded the world over. With the 16 supplier awards received by Sika organizations in EMEA, North America, Asia/Pacific and Latin America, customers have expressed their satisfaction with Sika as a supplier. International recognition has been given to the product range and innovations, supplier and customer service and training activities.



SIKA WEBSITE LEADS THE WAY IN SWITZERLAND

Following its third place last year, Sika is now front-runner in the 2016–2017 rankings of all websites of listed companies in Switzerland, and was awarded the first prize. Sika has also improved in European terms and now lies in 12th place out of the almost 500 websites that have been analyzed. The Web rankings were compiled for the 20th time by Comprend and Lundquist in Milan, and are seen as a benchmark in digital communication.



FOUR AWARDS FOR SIKA PROJECTS IN THE US

Sika can once again look back on a successful year with four awards from the prestigious International Concrete Repair Institute (ICRI). The ICRI recognizes outstanding concrete refurbishment projects. The renovation of the historic Hibernia Bank building in San Francisco was chosen as project of the year. Earthquake resistance and reinforcing the building structure played a decisive role in the project. Extensive preliminary structural testing and the way in which the historic building’s features were maintained won over the jury. Sika supported the project with its technical expertise and products.



SIKA AWARDED STUTTGART CITY ENVIRONMENTAL PRIZE

With its “Construction of a solar park in Stuttgart” project, Sika Germany won the Stuttgart City Environmental Award in the “Businesses in the industrial, commercial, services and trading sectors.” The solar park on the roofs of the production halls at the Stuttgart plant has been operational since 2008, with over 2,100 m² of solar panels generating a total of 650 MWh. The equipment is used not only as a test bed for in-house assembly systems, but also to supply power for the company’s electric vehicle fleet.



SikaCeram® SETS STANDARDS IN CHINA

Sika has received two awards under “Mortars of China 2016”, organized by the China Building Material Market Association. SikaCeram® was honored as leading brand and SikaCeram® Wide-application – a product available in China – was recognized as one of the most innovative cementitious tile adhesive products. The Chinese tile adhesive market has maintained high double-digit growth rates during recent years, which has helped SikaCeram® to become widely recognized as a progressive tiling system in this region.



SIKA UK WINS AT THE UK ROOFING AWARDS IN THE SINGLE PLY CATEGORY

With truly stunning results, Sika Sarnafil®’s residential Project in London “Ewart Grove” impressed the judges of the prestigious UK Roofing Awards 2016, hosted by the NFRC (National Federation of Roofing Contractors). The project won in the Single Ply category due to its extremely intricate design – including two barrel roofs and a large, unique triangulated tower at the front – which presented a real challenge. Sika took roof installation to new frontiers and pushed the boundaries of what can be achieved with single-ply roofing.



AMATA BEST WASTE MANAGEMENT AWARD FOR SIKA FACTORY IN THAILAND

More value, less impact is a key priority for Sika, and the team in Thailand made a big contribution towards achieving that goal when they won the Amata Best Waste Management Award 2016 for the Sika factory on the Amata Nakorn Industrial Estate. Sika was one of the factories to take home the Gold Award. The award recognizes factories that have the best waste efficiency management, with a main focus on reduce, reuse and recycle. Companies must also meet or exceed Thailand’s waste regulation requirements.



SIKA WINS EUROPEAN AUTOMOTIVE AWARD

Frost & Sullivan recognized Sika with the European BIW Automotive Adhesives Product Leadership Award. OEMs’ use of lightweight materials in the BIW (body in white applications) segment presents growth opportunities for adhesives in vehicle manufacturing. To capture these opportunities, Sika Automotive focuses on innovative adhesives which allow a mix of materials to achieve weight reduction and at the same time an increase of the stiffness of the car bodies. SikaPower® and SikaSeal® are for Frost & Sullivan Research the most efficient BIW adhesives in the market. The award ceremony took place in summer 2016 in London.



Sika Sarnafil® RECOGNIZED FOR ITS TREMENDOUS CONTRIBUTION TO SKILLS TRAINING

Sika Sarnafil® was again recognized as the national training base for high-polymer membranes in the roofing and waterproofing industry in China. The award comes from the China National Vocational Skills Assessment 040 Station and has been received by Sika Sarnafil® for the third consecutive year. This means that the training base is a China National Government accredited vocational skills center for roofing and waterproofing. Training sessions at Sika Sarnafil® focus on both the theory and hands-on applications for high-polymer single-ply membranes and systems. As a technological pioneer and international player in the Chinese market, Sika Sarnafil® is also the first and only international company to receive the title in China.



SIKA GETS THE VOTE FROM BRAZILIAN BUILDING MATERIAL MERCHANTS

In 2016, Sika Brazil won the National Association of Building Material Merchants Anamaco Award for its waterproofing and bitumen membranes. This is a significant prize because it is voted for by the experts selling Sika’s products, namely more than 1,600 construction material dealers in Brazil. When surveyed on the best companies, Brazil’s dealers put Sika on top. The awards ceremony took place in São Paulo and brought together 2,000 people from the industry including distributors, industry entrepreneurs and leading construction authorities.

GROUP REVIEW

GROUP REPORT

RENEWED RECORD RESULT BASED ON CONTINUED GROWTH DYNAMIC

The Sika success story continued in 2016, another record year. In local currencies, sales increased by 5.5% to CHF 5,747.7 million in 2016. Growth momentum coupled with disciplined cost management produced new record figures of CHF 795.3 million (+18.1%) for the operating profit, CHF 566.6 million (+21.8%) for net profit and CHF 586.5 million (+29.9%) for operating free cash flow. 17 key investments made in the period under review will drive future growth further forward.

GROWTH IN ALL REGIONS

Sales in the EMEA region (Europe, Middle East, Africa) rose by 4.6% in local currencies. The core markets Germany, France, Spain and Italy achieved good growth rates. Strong above-average growth was seen in the UK, Russia, Eastern Europe and Africa.

Sales in the North America region rose by 7.8% in local currency. This is due in particular to the accelerated expansion of the supply chain and the investments in the sales force in fast-growing metropolitan areas.

The Latin America region recorded a 5.1% sales increase in local currencies. Mexico, Argentina and Chile all developed strongly. By contrast, the continuing economic crisis in Brazil and a significant fall in the value of some local currencies led to a downturn in business activity in several countries in the region.

Growth in the Asia/Pacific region was reported at 3.6%. The dynamic performance of the markets in Southeast Asia and the Pacific area translated into substantial sales gains. Sika also posted stable second-half growth rates in China, Asia's largest economy.

In the business area "Other segments and activities," Sika clearly outpaced the market with double-digit growth of 10.3% in local currencies. This includes the sales figures for the Automotive segment, whose global operations Sika controls centrally. The increased use of adhesive technologies in modern vehicle construction resulted in a significant rise in the proportion of sales generated by Sika products per new vehicle.

In local currencies, Sika increased sales of special chemical products for the construction industry by 3.1%. Sales of solutions for industrial manufacturing were up 4.7% in local currencies.

NINE NEW FACTORIES, FOUR MORE NATIONAL SUBSIDIARIES, FOUR ACQUISITIONS

Sika's accelerated development of emerging markets continued to generate very good results, with sales rising by 6.7%. As reflected in a 6.0% sales upturn, business activities were also scaled up in the high-margin mortar business – a core component of Sika's growth model. Production capacity was increased, with new factories in all regions. The rapid expansion into high-growth markets continued in 2016 as well, with a total of 17 key investments in nine new factories, four further national subsidiaries and four acquisitions.

In the EMEA region, a new concrete admixture plant was opened in the Ethiopian capital Addis Ababa and a mortar factory came on stream in Kyroni, near Athens. New national subsidiaries were established in Kuwait, Cameroon and Djibouti.

To provide fresh growth stimuli going forward, three acquisitions were made in the North America region: L.M. Scofield, a leading producer of color additives for ready-mix concrete, and FRC Industries, a manufacturer of fibers for concrete, both joined the Group. The Rmax acquisition enables the expansion of the portfolio for building envelope, wall and roofing insulation technologies.

Investments in Latin America included a new plant for mortar products in Guayaquil, Ecuador, an automotive factory for adhesives and acoustic solutions in São Paulo, Brazil, as well as the establishment of a new national subsidiary in Nicaragua in the capital Managua.

In the Asia/Pacific region, leading mortar producer Ronacrete Ltd. in Hong Kong was acquired. New factories were also commissioned in Perth, Australia, in Saraburi, Thailand, in Phnom Penh, Cambodia, and in Yangon, Myanmar.

RECORD PROFIT

The growth momentum produced disproportionately high increases in operating profit and net profit. The 20th consecutive quarter of margin improvement combined with sustained cost management were the key positive drivers. In the 2016 business year, Sika posted record EBIT (CHF 795.3 million, +18.1%) and net profit (CHF 566.6 million, +21.8%). Operating free cash flow also reached a new record high of CHF 586.5 million (+29.9%).

The tax rate decreased slightly to 25.0% (previous year: 25.2%).

FOCUSED INVESTMENTS, IMPROVED KEY BALANCE SHEET FIGURES

To be able to act fast and tap into the business potential offered by high-growth markets, Sika invested in production capacity expansion. At CHF 154.9 million, investments in new factories in the period under review were higher year-on-year (previous year: CHF 142.6 million).

At 18.4%, the ratio of net working capital to net sales was maintained at a low level in 2016 (previous year: 18.6%). The management of inventories and accounts receivable remains a major priority. Year-end cash and cash equivalents amounted to CHF 1,155.0 million (previous year: CHF 1,074.4 million). The net credit balance increased to CHF 415.6 million (previous year: CHF 82.5 million), while gearing improved further to -14.1% (previous year: -3.7%). Return on capital employed (ROCE) came to 28.7% (previous year: 24.3%), also a new record level.

The equity ratio now stands at 57.8% (previous year: 51.8%), attesting to Sika's solid financing.

GROUP REPORT REGIONS

GROWTH IN ALL REGIONS

EMEA

Although 2016 saw Europe confronted with refugee issues, Britain's planned exit from the European Union, and the banking crisis in Italy, the EU economy held firm and continued on its path to recovery. Germany, France, Spain and the UK – the major countries in the economic zone – remained on a growth trajectory.

In the past business year, Sika's sales in the EMEA region (Europe, Middle East, Africa) rose by 4.6% in local currencies. The key markets Germany, France, Spain and Italy achieved good growth rates. Strong above-average growth was reported in the UK, Russia, Eastern Europe and Africa.

In the EMEA region, a new concrete admixture plant was opened in the Ethiopian capital Addis Ababa and a mortar factory came on stream in Kyroni, near Athens. New national subsidiaries were established in Kuwait, Cameroon and Djibouti.

NORTH AMERICA

In the year under review, economic conditions in North America were characterized by a good market environment, but muted growth. Investment behavior in the second half of the year was influenced in particular by the presidential elections. Major commercial projects in the construction sector and infrastructure projects in the public sector were postponed.

Sika lifted sales in the North America region by 7.8% in local currency. This is due in particular to the accelerated expansion of the supply chain and the investments in the sales force in fast-growing metropolitan areas. The mild winter also contributed to a solid performance in the first half of 2016.

To provide fresh growth stimuli going forward, three acquisitions were made in the North America region: L.M. Scofield, a leading producer of color additives for concrete, and FRC Industries, a manufacturer of fibers for concrete, both joined the Group. The Rmax acquisition enables the expansion of the portfolio for building envelope, wall and roofing insulation technologies.

LATIN AMERICA

Numerous Latin American countries came under renewed pressure from falling oil and commodities prices in the past business year. 2016 was a difficult year for the region, with many markets suffering visible declines. Ecuador, Venezuela and Brazil face the additional burden of fundamental structural problems.

The Group recorded a 5.1% sales increase in local currencies in the Latin America region. Mexico, Argentina and Chile all developed strongly. By contrast, the continuing economic crisis in Brazil and a significant fall in the value of some local currencies led to a downturn in business activity in several countries in the region.

Investments in Latin America included a new plant for mortar products in Guayaquil, Ecuador, an automotive factory for adhesives and acoustic solutions in São Paulo, Brazil, as well as the establishment of a new national subsidiary in Nicaragua in the capital Managua.

ASIA/PACIFIC

Thanks to a widescale infrastructure development plan launched by the government, the Chinese economy saw a return to growth in the first half of 2016. The Southeast Asia region enjoyed strong economic momentum with robust growth rates, driven by Malaysia, Vietnam, Indonesia and the Philippines, all of which succeeded in maintaining or increasing growth impetus in 2016. The construction sector is benefiting greatly from urbanization trends, strong population growth and the advances in building standards in the region.

The Group posted a 3.6% increase in sales in the Asia/Pacific region in the past business year. The extremely dynamic performance of the markets in Southeast Asia and the Pacific area translated into substantial sales gains. Contributing factors included the mortar business, the alignment of the sales organization to key project management, and expansion of the concrete admixture business. Stable growth rates were also achieved in China in the second half of 2016. In addition to its specialty construction chemicals business, Sika has also positioned itself as a strong supplier in the world's largest automotive market and is continually growing business with local Chinese auto manufacturers, and international carmakers' joint ventures.

In the Asia/Pacific region, leading mortar producer Ronacrete Ltd. in Hong Kong was acquired. New factories were also opened in Perth, Australia, in Saraburi, Thailand, in Phnom Penh, Cambodia, and in Yangon, Myanmar.

SIKA IN 97 COUNTRIES



THE REGIONS IN BRIEF

	EMEA	North America	Latin America	Asia/Pacific	Other segments and activities
Net sales in CHF mn (previous year)	2,695.3 (2,600.2)	922.6 (839.2)	564.3 (600.2)	1,080.7 (1,017.3)	484.8 (432.3)
Growth in local currencies	4.6%	7.8%	5.1%	3.6%	11.7%
Currency impact	-0.9%	2.1%	-11.1%	2.6%	0.4%
Acquisition effect	1.1%	2.0%	0%	0.5%	0%
Number of employees	9,083	1,818	2,349	4,169	

GROUP REPORT OUTLOOK

CONTINUED GROWTH – INCREASE IN EBIT AND NET PROFIT

By opening nine new factories, establishing four more national subsidiaries and acquiring four companies, Sika laid the foundations for future growth in 2016. These 17 key investments, the well-filled product pipeline and the strong sales organization give the Group reason to look to the future with optimism.

The goal for the 2017 business year is to continue the growth strategy by increasing sales by 6-8% to an initial figure of CHF 6 billion, open eight new factories and establish three national subsidiaries. It should be possible to achieve a disproportionately high increase in EBIT and net profit.

SUSTAINABILITY REPORT

ENHANCING CUSTOMER VALUE AND REDUCING ENVIRONMENTAL IMPACTS WHILE ASSUMING SOCIAL RESPONSIBILITY

As a global company, Sika is especially committed to sustainable development. Sika honors its responsibilities by offering sustainable solutions for energy-efficient construction and economical vehicles. It implements numerous projects and measures aimed at boosting the Group's business, social, and ecological sustainability.

SIKA'S SUSTAINABILITY STRATEGY

Sika continued to implement its 2014-2018 sustainability strategy during the year under review. With the avowed aim of "enhancing utility and reducing impacts," the company continued to pursue its six strategic target areas that focus on economic performance, sustainable solutions, local communities/society, energy, waste/water, and safety. A recent survey of interested stakeholders revealed that these points of emphasis are the right ones and that the system of targets will remain correct in the future.

Through its products, systems, and solutions, Sika strives to create long-term benefits and added value for all its stakeholders and to reduce resource consumption and impacts associated with production significantly (see also "Sustainable Development" on page 37 et seq. of the download version of this report).

Among the main instruments again employed to globally implement the sustainability strategy in the year under review were the "More Value - Less Impact" campaign as well as the introduction at a local level of the target and reporting system in line with the Global Reporting Initiative (GRI) standards. A summary of the key results and findings is presented on the following pages. Full details are available on the Internet at www.sika.com/gri.

MANAGEMENT AND ORGANIZATION

Group Management tasked the department Environment, Health, Safety & Sustainability (EHS&S) with implementing the sustainability strategy. It is implemented and anchored locally by the line organization. A particular degree of responsibility lies with the general managers, target market managers, and operations managers, who drive the development and implementation of local action plans.

The existing network of local and regional EHS&S officers supports the local Sika companies in ideation, planning, and implementation of higher-level regional measures. Through the "More

Value - Less Impact" communication campaign, Sika informed all internal stakeholders about the sustainability strategy and included them in planning and implementing respective measures. These activities were extended and intensified in 2016.

Sika has installed a Sika Sustainability Advisory Board (SAB) which has taken up its work in 2016. The SAB has been established to further reduce the company's environmental footprint along the whole supply chain, and to support a business model based on sustainability. An independent expert opinion aims to provide the Sika Management with further impulses with regard to the direction and implementation of Sika's sustainability strategy. The expert panel consists of five independent experts from business, public administration, science, and research. Where necessary, additional external and internal experts are consulted on specific sustainability issues.

STANDARDS AND COMPLIANCE

Sika continued to develop its compliance system in the reporting year. The Compliance Manager on Group level and four Compliance Managers on regional level adopt a holistic approach in planning and implementing the compliance system. In 2013, Sika introduced a strict Code of Conduct under which local line organizations are required to confirm implementation. The senior management teams at the individual subsidiaries are mandated to enforce compliance with the Code of Conduct and with all relevant laws and standards.

If Sika employees have doubts or questions about matters relating to the content of the Sika Code of Conduct and the company values and principles, they are required to contact their line manager, the Group Compliance Manager, Corporate Legal, or Corporate HR. Sika has also set up a central help desk.

Adoption of and compliance with the Code of Conduct by the General Managers and their management teams was reviewed at the end of 2016, and conformity confirmed in a reporting system. The 100% response rate and completeness of the details provided suggest absolute compliance. Moreover, in the year under review, all General Managers signed an extension to a compliance commitment agreement to cover the years 2016 and 2017. They thereby pledged to honor and actively support Sika's management culture, which demands integrity in respect of all work processes. A compliance checklist drawn up in this connection by Sika sets out all requirements pursuant to the Sika compliance system, and presents best-practice examples. In line with Sika's holistic approach to compliance, this checklist is relevant to the operations of all functional units in the Sika companies.

Sika's Code of Conduct states, among other things, that Sika under no circumstances tolerates any form of corruption or human rights infringements. Absolutely no leeway is allowed in

respect of any breaches of these values. Integrity, ethical, and principled conduct, and adherence to the law are the foundation on which Sika's impeccable reputation is built. This is what customers and all other stakeholders – most notably, the Sika staff and shareholders – have rightly come to expect. During 2016, progress was made with the implementation of a localized Gift & Entertainment Policy in all Sika's companies. This policy, which integrates and reinforces the principles of the Code of Conduct, provides employees with a clear and detailed framework on how to deal with gifts and entertainment in their daily business and defines – for each company/country – different levels of authority depending on the gift value.

Forming the core of Sika's corporate culture, these values and principles relate to the following aspects: "Customer First," "Courage for Innovation," "Sustainability & Integrity," "Empowerment & Respect," and "Manage for Results."

These internal standards summarize the key principles of the Sika management style, which is based on mutual trust, personal responsibility, and full transparency at all levels. To preserve Sika's strong compliance culture and ensure that the Code of Conduct's principles are understood and adhered to by all employees, Sika has developed an animated e-learning program on the Code of Conduct that is used in addition to regular class-training events. This training program and a new Web-based reporting platform, the Sika TrustLine, will be available in more than 20 languages throughout the organization as part of an awareness-raising campaign on Compliance. The Sika TrustLine is an externally hosted reporting channel where Sika's employees may raise legitimate complaints regarding serious misconduct and/or breaches of Sika's Code of Conduct in a safe and confidential environment if reporting to other more immediate existing resources, like line management or other superiors, is not feasible or adequate. As part of the rollout of the Sika TrustLine, an ad hoc policy ("Sika Trust Policy") will be made available to Sika's employees to provide clear rules and appropriate training on rights and obligations with regard to internal misconduct reporting. A defined reporting procedure and an effective organization-wide communication campaign on the use of the Sika TrustLine will help to preserve and foster Sika's strong culture of trust, integrity, and transparency. In the year under review, the SikaTrustLine rollout and e-learning program started and was implemented in the UK, South Africa, Singapore and New Zealand, with training provided for 1,100 employees. No incidences of misconduct were reported via the Sika TrustLine in 2016.

A new, company-wide intranet, launched in the year under review, includes designated content areas for informing all employees about the Sika compliance system, while at the same time giving impetus to an enduring feedback culture. It also provides a framework for the systematic presentation of all corporate policies and manuals, which are now readily accessible by the entire workforce.

Sika also assumes responsibility for the supply chain. Since 2015, the Supplier Code of Conduct, introduced in 2013, is binding for all new suppliers and is being gradually extended to existing suppliers. The agreement was endorsed by a total of 3,390 suppliers. Sika thereby ensures that suppliers are informed of Sika's

ethical, environmental, and social expectations and guidelines and that they carry out their processes in compliance with the Sika sustainability criteria.

Sika introduced a new Group-wide process that maps out the main sustainability principles (economic, social, and ecological) for supplier qualification and evaluation. The multistage supplier evaluation process has three central elements: It starts with the commitment to comply with the Supplier Code of Conduct and the completion of a self-report questionnaire. In unclear cases, the Purchasing department will follow up with sustainability audits before concluding a supply contract. Sika continued to implement this new process globally in 2016 with a special attention to new suppliers in high-risk geographic regions and industries.

Documentation generated during supplier qualification is transparently recorded and stored on a dedicated platform. The system enables buyers to inspect suppliers' qualifications and improve them in their countries as necessary.

INSPECTIONS AND AUDITS

Inspections and audits are core elements of Sika's comprehensive management system. They provide management at Group, regional, and local company level with a regular, independent assessment as to whether all activities comply with official requirements as well as with Sika's own internal guidelines, principles, and risk management specifications. The inspections and audits thereby ensure the effectiveness of the relevant processes and controls at Sika. The process for internal audits is centrally organized and is overseen by the Audit Committee of the Board of Directors. All audits are approved by Group Management and the results presented at the Audit Committee. In all, Sika conducted 138 audits of corporate functions in the reporting year and implemented associated improvements wherever necessary. The audits covered all aspects of Sika's global business activities: quality, environment, safety, health, risk, technology, compliance, IT security, suppliers, and products.

To ensure that suppliers also meet the official requirements and labor standards, Sika calls on them to perform self-assessments and conducts supplier audits itself. In the year under review, all new suppliers were assessed according to the new vendor evaluation process.

To improve supplier qualification, Sika trains sales teams in planning and performing supplier audits themselves. Most of these inspections are overseen by safety, quality, or technology experts. This makes it possible to work on improvements together with the suppliers, including improvements in sustainability.

As a supplier to major customers – particularly from the automotive and industrial sectors – Sika is itself often subject to external audits. These audits are designed to ensure compliance with international labor standards and prescribed quality, environment, safety, and health criteria.

INVOLVEMENT OF ALL STAKEHOLDERS

The goal of sustainable development requires the involvement of every participant along the entire value chain and the identification of shared topic areas of significance to all those involved. A new relevance (materiality) analysis covering the most important internal and external stakeholder groups was performed in 2015. The survey endorsed the strategies adopted under the “More Value – Less Impact” banner. This, in turn, prompted Sika to intensify its existing ties and partnerships with important stakeholders – including customers, suppliers, associations and sponsorship partners/communities – by engaging in numerous projects and collaborations at various levels in the year under review. The focus was on key issues, such as occupational health and safety, customer health and safety, sustainable solutions, and energy/water/waste.

SUSTAINABILITY: TARGETS AND IMPLEMENTATION

MORE VALUE OR ENHANCING UTILITY

Sika takes a long-term perspective on the development of its business, and acts with respect and responsibility toward all internal and external stakeholders. Sika maintains a strong focus on safety, quality, environment, fair treatment, social involvement, responsible growth, and value creation during all business activities.

Sustainability has always been part of Sika’s identity. The company aims to continually measure and improve sustainable value creation and communicate activities and progress. “More Value – Less Impact” refers to Sika’s obligation to maximize the value of its solutions and contributions for all stakeholder groups, while simultaneously minimizing the risks and resource consumption associated with value generation.

One key activity in the year under review was the development and launch of the Sustainability Academy program within the framework of the Sika Business School. This program sets out to train employees from national subsidiaries as sustainability experts to enable them to press ahead with implementing the “More Value – Less Impact” strategy at a local level. The first course was attended by employees from various business segments from 15 countries in the EMEA, North America, Latin America and Asia/Pacific regions. The interaction between trainer, experts and participants as well as the discussion of key elements of Sika’s strategy, best-practice examples, group work, presentations, and sharing of project and technical experience were viewed as positive by all involved. The Sustainability Academy will be repeated in 2017 and is set to become an integral part of the Sika Business School’s training program. The aim is to initiate even more activities in the sustainability focus areas and achieve further progress.

SUSTAINABLE SOLUTIONS

Sika is the industry leader with a portfolio of sustainable products, systems, and services. They make an essential contribution to customers in the construction and other industries to meet their sustainability targets, e.g., energy-efficient vehicles and buildings. Sustainability is a key component of the compa-

ny’s capacity for innovation and an important driver of product development. Sika strives to extend the service life of buildings and industrial applications, to reduce maintenance effort, to improve energy and material efficiency, and to further enhance user-friendliness. One of the company’s main objectives is to reduce resource consumption, energy consumption, and the associated CO₂ emissions along the value chain – both internally and for partners and customers who place their trust in Sika products and solutions. The Group goals are:

TARGET: All new product developments are reviewed against sustainability criteria using a standardized methodology, including a documented relevance audit and an appropriate improvement plan where necessary. In 2016, this target has been achieved.

IMPLEMENTATION: In 2015, Sika introduced a uniform sustainability appraisal process (including guidelines and work aids) throughout the company that addresses the relevant sustainability indicators and forms part of the official Sika product development process. The objective of the sustainability appraisal process is to assess all relevant sustainability aspects of a new development over its entire life cycle, compared with the company’s own or competitors’ solutions. Economic, environmental and social aspects are assessed and serve as the basis for deciding what measures are needed to improve the sustainability profile of a development. If a new solution fails to provide an improvement over the existing product, it may not be worthwhile to further pursue a particular development. On the other hand, if a significant improvement over the existing product is achieved, the relevant projects must be prioritized for special attention.

During the year, Sika largely completed the global rollout of the new product development process in all companies. One key task was to provide the individuals responsible for the local rollout in the various business lines, regions, and technology centers with training in the sustainability appraisal process and associated methods and tools. In the year under review, the sustainability appraisal process was used to assess 122 new local and global product developments. Of these, 16% underwent or are undergoing closer scrutiny as they offer a significant improvement over the existing product and are therefore of particular importance for the company’s sustainability.

The major Sika national subsidiaries prepare a sustainability action plan and implement all key projects planned in this context. The plan is aligned with local trends and with market requirements and encompasses the key projects and topics that are geared to the global initiative.

All of the larger countries in the key regions North America, Southern Europe, Northern Europe, Eastern Europe, UK, Germany, and Turkey further developed product sustainability roadmaps in the year under review in conjunction with the Corporate EHS&S team. A further priority in 2016 was to extend the scope of the roadmap activities into the Latin America region. With the technical support of the Corporate EHS&S team, action plans were locally developed for Mexico, Colombia, and Peru. The plans are exchanged and managed, activities and progress

discussed, and the details of successful projects and local action shared at periodic presentations involving the local, regional, and global functions.

Other key countries in the Latin America region and the first countries in the Asia/Pacific region will join in 2017. In this regard, the newly created Sustainability Academy program will play an important role in involving further national subsidiaries and increasing the number of projects. Local sustainability experts will be nominated, trained, and empowered to independently draw up and implement local market-oriented roadmaps in the countries.

The implementation of the “More Value – Less Impact” campaign calls for sound data and knowledge about the effects of product manufacturing and the added value of finished products in their application and use phase. In the year under review, as in years before, Sika added to the life-cycle data for its products, technologies, and applications in accordance with the international life-cycle assessment (LCA) standard ISO 14040, and expanded the existing reference database. The information enabled Sika to develop a series of new work aids and successfully introduce them in an initial group of national subsidiaries.

Examples include the preparation of the first environmental product declarations (EPDs) for polyurethane liquid membranes for roof waterproofing solutions under the UK BRE standard, and green guide ratings for the sustainability performance of polyurethane floor solutions for office, school, and health care facilities under the UK BREEAM standard for sustainable buildings. The reporting year also saw the development of the first “sustainability packages” in the form of toolboxes for the various target markets. These feature a variety of tools with which the sustainability added value of Sika solutions and their contribution to sustainable construction can be explained and illustrated in an easy-to-understand way.

These packages, together with the tools for roof and floor systems introduced in the previous year, offer added value for customers at two levels: first, they tangibly demonstrate the sustainability added value of Sika solutions. Second, they allow a quantitative, product- and project-specific assessment of the sustainability performance of Sika solutions in a clearly communicated, standardized form that addresses customers’ needs. Implementing the acquired expertise in the market, a number of national subsidiaries in Northern and Southern Europe have successfully launched and tested new services to quantify the sustainability performance of Sika solutions. Further projects have thus been successfully acquired in countries such as Spain, Italy, and the UK using the locally introduced sustainability arguments. In other countries too, e.g. the Czech Republic and Austria, first projects have been secured with the sustainability tools.

The focus here is on the further rollout and local introduction of the sustainability sales tools in the roofing and flooring segments in additional target countries, e.g., in the wake of the roadmap activities. Priority will be given to services related to sustainable construction, e.g., LEED and BREEAM, to the contribution of roof systems, to the energy efficiency of buildings,

to the local adaption of the newly developed target market sustainability packages, and to the better integration of sustainability with the local companies’ business priorities.

This underscores Sika’s aim to move further in the direction of a solution supplier, providing customers with innovative solutions to decisively enhance the efficiency, durability, and aesthetic appeal of buildings, infrastructure facilities, and installations. The integrated concepts and solutions address the entire life cycle of a built structure, from initial construction and maintenance through refurbishment or expansion to demolition.

Brochures, product and project case studies, and videos from a range of target markets containing detailed information can be found at www.sika.com/sustainability. They show how Sika solutions support sustainable construction and help to save energy, raw materials, and water, and reduce CO₂ emissions while meeting sustainable building standards.

SOCIAL RESPONSIBILITY

Social, economic, and environmental issues are closely intertwined. Social responsibility is a necessary component of success. Mindful of its obligations, Sika actively engages in sustainable and humanitarian development projects, either as a member of international organizations or directly on the spot. Sika’s social involvement also embraces the sponsorship of organizations and initiatives in the fields of science, culture, and sport.

Sika aims to build trust and create value – with customers, local communities, and society as a whole. The Group goal is:

TARGET: 5% MORE SOCIAL PROJECTS PER YEAR. Social projects benefit all noncommercial stakeholder groups of local companies and their neighborhoods. They encompass monetary benefits or material donations, local projects and community engagement programs, dialog with stakeholder groups, communal consultation procedures, social activities and programs, training, environmental projects, or recovery programs. In 2016, this target has been achieved.

IMPLEMENTATION: Sika sponsored 90 projects during the year under review (previous year: 83 projects). This equates to a year-on-year increase of roughly 8%.

Total expenditure for project sponsorship and donations ran to 0.8% of net profit. The projects can be classed under the headings “social” (including donations), “ecological,” “scientific,” and “sports and cultural.”

SOCIAL SPONSORSHIP AND DONATIONS

Main goals, among others, are to support communities in infrastructure development for social projects, to promote training in construction professions and trades, and to provide emergency aid to disaster-stricken regions. Sika seeks to promote on-the-ground self-help. The local Sika companies thus put forward specific aid applications and, working with local partners, supervise the projects on site up to completion. Sika endeavors to

provide intelligent support for projects through the application of company-specific expertise, through voluntary work by its employees, and through long-term collaboration with partners. Here are some examples of the projects sponsored by Sika in the year under review:

JUAN PABLO MAGNO CHILDREN'S HOME, PERU: Sika supported the Juan Pablo Magno children's home in Lurín, Peru, in the reporting year. Working with Sika employees, the children and adolescents built a garden with hydroponic plants. Further hydroponic gardens were set up at the Sika site in Lurín and in the municipality of Lurín itself. The harvested food was distributed to people in need. At the same time, Sika gave young people from the home the opportunity to gain their first work experience at the Sika Lurín site.

COMMUNITY CENTER YOUTH CAN, USA: In the reporting year, Sika and its partner institution Rebuilding Together Metro Chicago provided assistance for the non-profit organization YOUth CAN, USA. This organization supports self-help schemes aimed at improving the lives of socially disadvantaged young people and providing impulses for a better future. 50 volunteers from Sika helped to renovate a community center in Chicago. In the last 24 years, Rebuilding Together Metro Chicago has rehabilitated over 1,500 residential buildings and 200 non-profit institutions.
www.youthcan.net

SAMRAKSHANA ORPHANAGE, INDIA: Sika supports the Samrakshana orphanage and home for the handicapped, India. The Samrakshana charitable institution was founded in 2013 to assist people in need, such as street children, people with disabilities, orphans, illiterate people, poor families, single parents, the aged, and the sick. In the year under review, Sika cofinanced a new school building for 200 children in the state of Telangana.

CHARITABLE ORGANIZATION ASSOCIAZIONE CATERINA ONLUS, ITALY: In 2015, Sika began sponsoring Associazione Caterina Onlus, Italy, a charitable organization that has been aiding the poorest and weakest members of society in southern Naples since 2006. Sika's support consists of three pillars: financial support, provision of Sika products and expertise, and volunteer work. June 2016 saw the official inauguration of the medical center with outpatient clinics sponsored by Sika. This center and its volunteer doctors are providing permanent medical services for families in the region.
www.caterinaonlus.it

NON-PROFIT ORGANIZATION OPERATION SMILE, VIETNAM, THAILAND, SOUTH AFRICA: Sika has supported the activities of the non-profit organization Operation Smile in Vietnam since 2010, in Thailand since 2014, and in South Africa since 2016. Thanks to the assistance of committed volunteers, the organization has, since 1989, arranged operations for some 220,000 children and youths with cleft lips and palates or similar facial disfigurements. In 2016, as in previous years, in addition to the financial support provided by Sika, Sika employees did volunteer work, 336 hours in Thailand, over 420 hours in Vietnam, with the aim of providing organizational support for the hospital work.
www.operationsmile.org

UPSV ORPHANAGE, ROMANIA: Sika supported the UPSV orphanage in Brasov, Romania, in the reporting year. The institution not only offers a home for children and adolescents, but has also helped over 200 young people to find work and establish a foothold in society. In addition to giving financial support, Sika also helped to renovate one of the buildings.
www.upsv.org

LIBRARY PROJECT, CHINA: In China, Sika supports the Library Project, a nationwide initiative to sponsor libraries in public schools. In the year under review, Sika donated 19,000 books to establish libraries at 20 schools. Overall, Sika has set up 41 school libraries since 2015, benefiting some 6,500 children. Sika was also involved in work to renovate several schools in mountainous regions of the Chongqing and Sichuan provinces in the south of the country.
www.library-project.org

SCHOOL FOR GIRLS, MADAGASCAR: In the year under review, Sika supported the construction of a new school for girls and young women in Madagascar. The school prepares the young women for a job in education. Sika specialists contributed their expertise to the construction work, and Sika is also providing financial support for the building project. The school is located in Tulear, a city of 150,000 inhabitants, over 900 kilometers southwest of Antananarivo.

SUSTAINABILITY LAB, IRAN: In its first partnership with the Amirkabir University of Technology, Iran, the non-profit organization myclimate held an interdisciplinary YES (Youth Encounter on Sustainability) lab in Iran between December 4 and 17, 2016. Apart from sponsoring the seminar attended by 30 young researchers, Sika actively participated in the program, which focused on challenges such as changes in the energy system, urban and rural infrastructure, and resource consumption.
www.myclimate.org

ECOLOGICAL SPONSORSHIP

The focus of Sika's ecological sponsorship is on water, building, infrastructure, and renewable energy projects. The main sponsorship partner in this field is the Global Nature Fund (GNF). Sika has supported the GNF and its international Living Lakes environmental program since 2004. Comprising over 100 partner organizations from various lake regions across the globe, the Living Lakes network sets out to promote sustainable development and the protection of drinking water, lakes, and wetlands. The initiative uses concrete projects to demonstrate how, with the involvement of the local population, positive social and economic developments can be achieved in different regions and societies without any threat to nature and the environment. In the reporting year, Sika sponsored drinking water and environmental projects in Ivory Coast and South Africa. New drinking water projects were also launched at Lake Tanganyika in Burundi and Tanzania. Sika supported the construction of green filters (plant-based water treatment facilities) in Colombia, Mexico, Nicaragua, Paraguay, South Africa, and the Philippines with the aim of improving local sanitary and hygiene conditions. This also significantly improved the living conditions of impoverished groups in rural areas.
www.globalnature.org

SCIENTIFIC SPONSORSHIP

As project sponsor, Sika engages in a lively dialog with ETH Zurich (Swiss Federal Institute of Technology in Zurich), the University of Fribourg, EPFL (Swiss Federal Institute of Technology in Lausanne), the ESPCI ParisTech (School of Industrial Physics and Chemistry of the City of Paris), the University of Burgundy, Princeton University, the Beijing University of Chemical Technology, the University of Tokyo, and many similar institutions across the globe. Sika's local subsidiaries cooperate with research institutes and provide mutual support.

ETH ZURICH, SWITZERLAND: Sika continued to support the chair in Soft Materials at the ETH Zurich in the year under review. Research interests focus on soft materials – i.e., materials that are thermally deformable at room temperature – such as gels, molten polymers, and rubber and their boundary surfaces. Research into composites made of soft materials as well as colloid systems and bacteria are further main aspects. Furthermore, at the Swiss Innovation Forum in Basel, the “Mesh Mould” building technology won the Swiss Technology Award 2016 in the category “Inventors.” Developed by researchers at ETH Zurich in collaboration with Sika experts, this technology allows the production of concrete elements in any shape without formwork. 2016 was the seventh year in which the Sika Master Award was presented to the author of an outstanding master's thesis in the field of applied chemistry, based on the recommendation of ETH's Department of Chemistry and Applied Biosciences. Sika also participates in ETH Zurich's Partnership Council Sustainable Construction. This interdisciplinary forum promotes dialog on current research topics, supports resources and knowledge transfer, and encourages the launch of joint research projects in the field of sustainable construction.
www.softmat.mat.ethz.ch

UNIVERSITY OF FRIBOURG, SWITZERLAND: A research group on management in emerging markets was established at the Faculty of Economics and Social Sciences in 2014. Since then, the University of Fribourg and Sika have carried out work to address the growing significance of emerging markets for the strategies of western companies. In the year under review, Professor Dirk Morschett became an active member of Sika AG's newly formed Sustainability Advisory Board.
www.unifr.ch/ses/ses2015/index.php

UNIVERSITY OF ST. GALLEN (HSG), SWITZERLAND: In the reporting year, Sika sponsored the 8th International HSG Alumni Conference in Davos, Switzerland, on the subject of “Bridging Cultures.” Speakers from business, education, research and design approached this theme from a wide variety of perspectives. HSG Alumni is an organization for former students of the University of St. Gallen. It takes the form of an independent, non-profit association and has a membership of around 24,000.
www.hsgalumni.ch/en/home

ST. GALLEN SYMPOSIUM, SWITZERLAND: The St. Gallen Symposium is a conference held each year in early May to encourage dialog between representatives of business, the government and society. In the year under review, Sika sponsored the work of the International Students' Committee (ISC), which involves dialog between 600 leaders and 200 dedicated young entrepre-

neurs and students selected to participate on the basis of their entries in the St.Gallen Wings of Excellence Award competition.
www.symposium.org

SPORTS AND CULTURAL SPONSORSHIP

Sika supports sports and cultural projects throughout the world. The focus of sponsorship in Switzerland is on the Lucerne Symphony Orchestra, the EV Zug ice hockey club, the Oberwil Rebels, and the Swiss Sliding sports association. Sika France sponsors the French national handball team, who won the world championship 2017.

LUCERNE SYMPHONY ORCHESTRA (LSO), SWITZERLAND: Sika has been a partner of the Foundation for the Lucerne Symphony Orchestra for several years now. The associated sponsorship agreement was renewed in the reporting year. The foundation sets out to promote the artistic reputation of the LSO at regional, national, and international level. It supports outstanding creative projects undertaken by the LSO and fosters the innovative development of the orchestra. As Switzerland's oldest symphony orchestra, the LSO enjoys international acclaim.
www.sinfonieorchester.ch

EV ZUG ICE HOCKEY CLUB, SWITZERLAND: Featuring on the club kit, stadium banners, and even the ice rink, the Sika logo is now a part of EV Zug's public identity. EV Zug and Sika – a strong partnership.
www.evz.ch

OBERWIL REBELLS, SWITZERLAND: Following the success of the 2015 Street Hockey World Championship, Sika intends to continue its support for innovative sports by sponsoring the Oberwil Rebels, a club that competes in the Swiss street hockey championship every year. In the reporting year, Sika signed a general sponsorship agreement with the team, which is based in the Swiss Canton of Zug.
www.rebells.ch

SWISS SLIDING, SWITZERLAND: Sika is a sponsor of Swiss Sliding, the association for the Winter Olympic disciplines of bobsleigh, luge, and skeleton. Swiss Sliding is committed to both top-level competitive and grass-roots sport, with the development of young talent as a key priority. As Jürg Möckli, Swiss Sliding CEO, points out: “Apart from the financial support, Swiss Sliding also benefits from Sika's know-how and products.”
www.swiss-sliding.ch

LESS IMPACT: REDUCING THE NEGATIVE FOOTPRINT

The following details relate to all business operations of the Sika Group, including the activities of the newly acquired companies, and focus on the core themes of energy, water/waste, occupational safety, and CO₂ emissions at the more than 190 Sika production sites.

Sika is continually improving its environmental protection and safety performance through its routine investment planning and maintenance activities. During the year under review, Sika spent CHF 6.1 million on technical equipment to prevent accidents and illness. This corresponds to roughly 4% of total investments of CHF 155.1 million. Sika also implemented numerous further health, safety, environment, and sustainability measures during the year under review. Expenditures in these areas came to CHF 24 million (previous year: CHF 22 million). The total worldwide headcount in this field runs to over 100. Sika employs environment, safety, and sustainability specialists at all its major sites.

ENERGY

Global megatrends, such as energy and raw materials shortages, urbanization, and population growth are confronting companies and communities with major economic, social, and ecological challenges. Availability and efficient use of energy and resources are crucial to sustainable development and poverty reduction. Sika sees it as its responsibility to minimize the impact on climate change by reducing energy consumption from nonrenewable sources with the positive effect of lowering costs and increasing competitiveness. The Group goal is:

TARGET: 3% LESS ENERGY CONSUMPTION PER TON AND YEAR. This includes the total energy produced and consumed by all Sika operating companies and units, both industrial and nonindustrial sites. In 2016, this target has been achieved.

IMPLEMENTATION: Sika consumed 1,779 terajoules in 2016 (previous year: 1,833 terajoules) of energy. Approximately 56% of Sika's energy requirements were met by electrical power from the local grid. The remaining demand was mainly covered by natural gas and liquid fuels.

Energy consumption per ton sold came to 428 megajoules (previous year: 455 megajoules). Apart from energy-efficiency projects, this significant drop of 5.9% is primarily due to the change in product mix and strong growth in less energy-intensive product technologies.

To maintain the positive trend, the following energy projects have been initiated:

At several Sika production sites (e.g., Zurich, Cerano), the company has improved the adhesive production process. Better energy consumption, time efficiency, and output have been achieved for the drying of fillers. Optimizations based on knowledge of filler characteristics yielded energy savings of around 35%, equivalent to an annual total of 828 gigajoules.

Significant energy savings were also achieved in mortar production at the Guangzhou factory in China by replacing wet-washed sand with dry sand. This substitution will allow 84,000 liters of diesel to be saved each year.

CO₂ EMISSIONS

CO₂ is a consequence of fossil energy consumption, and can only be limited within Sika by increasing energy efficiency. This is why Sika controls its CO₂ emissions via its energy target and has not set a specific reduction target at Group level.

CO₂ EMISSIONS (DIRECT): CO₂ emissions from energy consumed directly by all Sika operating companies and units, both industrial and nonindustrial sites, and by its own vehicles are calculated based on the reported fuel quantities. In 2016, CO₂ emissions from the use of primary energy sources ran to around 45,000 tons (previous year: 53,000 tons). Two factories in China still rely on locally sourced coal as a fuel. Overall, however, coal consumption was cut by approximately 50%. Coal has a low gross calorific value and entails higher CO₂ emissions than natural gas. Emissions were reduced at two plants by adjusting the product mix, partially replacing a coal-intensive process with a coal-free process.

CO₂ EMISSIONS (INDIRECT): CO₂ emissions from indirect energy consumption, i.e., emissions not due to Sika's own primary energy usage, including leased vehicles and business travel, are derived from the reported energy quantities. CO₂ emissions caused by purchased electricity are calculated using current emission factors from the Greenhouse Gas protocol (GHG), applying average values for electric power production in each particular country. In 2016, CO₂ emissions caused by electricity consumption were calculated at 109,000 tons (previous year: 107,000 tons), i.e., more than twice as high as direct CO₂ emissions. Leased vehicles and business travel caused additional CO₂ emissions of 20,000 and 13,800 tons, respectively (previous year: 21,000 and 13,800 tons). Sika's total CO₂ emissions run to around 187,000 tons.

Project case studies from around the globe detailing how Sika was able to reduce water consumption, save energy, and thereby reduce CO₂ emissions at its plants can be found at www.sika.com/sustainability.

WATER

Sika aims to boost the sustainability performance of its production sites by reducing water consumption and treating water locally. The company implements measures to reduce consumption or to use lower-grade water qualities, especially in geographic regions where water is scarce. Efficient production means closed loop cooling and switching from public to surface and ground water, reducing the amount of drinking water used in production. By reusing wastewater, Sika aims to reduce its water consumption on a larger scale. The Group goal is:

TARGET: 3% LESS WATER CONSUMPTION PER TON AND YEAR. This includes water consumed by all Sika operating companies and units, both industrial and nonindustrial sites, whether from public utilities or from ground or surface water sources. In 2016, this target has been achieved.

IMPLEMENTATION: In 2016, Sika used approximately 1.3 million cubic meters of water (previous year: 1.7 million cubic meters). With water consumption per ton sold down by around 22% to 0.32 cubic meters (previous year: 0.41 cubic meters), Sika significantly exceeded its target. Sika invested in various water efficiency projects at its plants worldwide during the year under review.

To reduce wastewater discharge at the Alcobendas plant in Spain, the existing wastewater treatment facility was upgraded with ceramic ultra- and nanofiltration membranes. This reduced tap water consumption by 200 m³ per month (-25%) and achieved savings of EUR 6,000 per year. The quality of the treated water allows its reuse for cleaning the loading bulk station and in the water treatment plant.

Sika Colombia's large plant at Tocancipá implemented a completely closed water circulation that ranges from rainwater harvesting for production to the reuse of wastewater as sanitary water or, after cleaning, for crop irrigation. In addition, all organic materials are composted and used to fertilize the garden crops.

WASTE

Efficient use of input materials is extremely important to all Sika companies, as production processes are material-intensive and use high volumes of nonrenewable resources. Efficient production in this context means reducing and reusing production scrap, reducing and reusing packaging materials, and improving packaging design, leading to higher productivity and lower material use. The Group goal is:

TARGET: 3% LESS WASTE PER TON AND YEAR. This includes all waste material sent to external contractors for disposal – except for materials returned to suppliers – and covers all Sika operating companies and units, including industrial and nonindustrial sites. In 2016, this target has not been achieved.

IMPLEMENTATION: With an increased production volume, the company generated some 74,000 tons of waste (previous year: 70,000 tons). This corresponds to 17.8 kilograms of waste per ton sold (previous year: 17.3 kilograms per ton sold) or an increase of 2.9%. Various factories producing concrete additives had to dispose of the rinsing water as waste due to a change in

the local sewage treatment plants acceptance conditions. Rinsing water, which contains even the smallest amounts of concrete additives, was thus recently declared as waste. Nevertheless, the total waste volume has decreased by -1.2% since 2013.

However, since 2013 the amount of waste has been reduced overall by -1.1%.

Material efficiency will continue to be a priority in 2017. A large part of the waste – particularly from polymer and adhesive production – is recycled by external companies. Extensive measures such as the efficient and economical use of raw materials, process optimizations, improved waste sorting, and the recycling of packaging materials have contributed to global waste efficiency. These measures and the reduction of waste in mortar production through recycling are set to further boost efficiency.

Reducing and reusing adhesive waste is one of the keys to efficient production. A mobile recycling machine was developed by Sika at the Düringen plant in Switzerland for recycling adhesive residues from Unipacks and cartridges. The reduction in the manual workload and annual adhesive waste savings of 27 tons are likely to translate into savings of around CHF 90,000 per year.

Sika Thailand had already won a Silver Award in 2014 for its continuous improvements in waste management. In 2016, further refinements to its waste-handling system earned Sika Thailand a Gold Level Award.

Project case studies from around the globe detailing how Sika managed to reduce waste at its plants can be found at www.sika.com/sustainability.

OCCUPATIONAL SAFETY

The health, safety, and well-being of all Sika employees are essential to the success of the company's business and are core concerns throughout the organization. This requires focus and a systematic approach: occupational standards, management commitment, employee involvement, work site and risk analysis, hazard recognition and resolution, training and education are key components of Sika's health and safety framework. A culture of safety and a healthy work environment are at the center of everything the company does.

Sika has the ambitious goal of every employee leaving the workplace healthy. The Group goal is:

TARGET: 5% FEWER ACCIDENTS PER YEAR. This refers to the number of work-related accidents leading to injuries, covering all Sika employees, including temporary and subcontracted staff, at the company's operating companies and units, both industrial and nonindustrial sites. Construction projects are not factored in. In 2016, this target has not been achieved.

IMPLEMENTATION: The number of occupational accidents leading to lost work time of more than one day showed a year-on-year decrease of 2.7%. In the year under review, 9.5 occupational accidents per 1,000 employees were recorded (previous year: 9.7). In 2016, injuries again caused absences of an average of

around 22 days (previous year: 22). This figure was strongly influenced by longer absences due to injuries to the locomotor system caused by accidents while walking. Sika will continue to make constant improvements to safety in 2017, placing greater emphasis on employee participation.

In the United States, a comprehensive safety concept launched under the name "Sika Safe" led to a significant reduction in accident numbers in 2016.

At many Sika facilities, mixing operations are carried out in vessels on mezzanine levels. Solid or liquid materials have to be loaded onto the platform which means that mezzanine rails have to be opened. Sika subsidiaries like Sika Hong Kong, Sika Indonesia and Sika Austria increased safety by installing different types of safety gates in their production facilities. This solution eliminates a major hazard on platforms: falling from heights.

Sika Everbuild, United Kingdom, implemented a tank farm improvement project to reduce the risk of cross-contamination and uncontrolled reactions on delivery. This program includes the labeling of tanks, the fitting of locked caps, a new static discharge system with alarm, new dust control equipment, a new drain protection system when offloading, and the treatment and painting of silos to reduce corrosion.

Project case studies from around the globe detailing how Sika was able to reduce occupational accidents and days lost at the plants can be found at www.sika.com/sustainability.

EMPLOYEES

COMPETENCE AND COMMITMENT

Sika's success is based on the expertise and entrepreneurial spirit of its employees. Decisions and responsibilities are delegated to the appropriate level of competence. Employee training and development is given a high priority. Sika aims to provide training for all employees, to develop tomorrow's leaders, and to focus on promoting internal candidates. However, training courses are not the only means of developing and disseminating know-how. The most important way of learning is through everyday practice, where team results are key to the success of the company as a whole.

MANAGEMENT DEVELOPMENT

Sika gives preference to internal candidates for specialist and management appointments. In the last four years, for example, Sika's senior management roles have almost all been filled internally. The long-term nature of our employees' career prospects is one reason why the voluntary labor turnover rate is just 6.2% (2015: 6.6%). At middle-management level too, the company attaches great importance to the professional development of its employees. Global and regional staff development programs not only convey know-how and skills, but also motivate employees by inspiring a strong sense of identity, which essentially reflects Sika's corporate values and principles. In the year under review, over 180 employees attended courses held as part of the regional leadership development program. 2016 also saw the nomination of some 40 staff members for the global leadership program, which extends over a period of 18 months.

TRAINING & DEVELOPMENT

Sika is proud to have a large number of long-serving employees. It sets great store by employees who stay with the company and share their know-how and experience for as long as possible. Sika regards internal and external training courses as key development tools for its more than 17,000 employees. The company also encourages more extensive training programs. Through its partnerships with distinguished universities, Sika is able to ensure that the training it provides incorporates the latest industry trends and technological developments. In the year under review, Sika spent approximately CHF 9.9 million (previous year: CHF 11.1 million) on staff development. The aim is to provide at least 10 hours training per year for each employee. In 2016, this figure stood at 12.4 hours (2015: 11.9 hours).

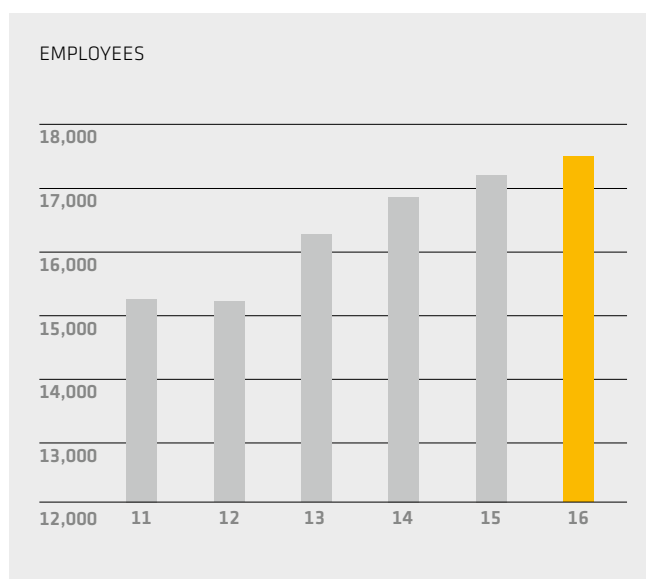
SIKA BUSINESS SCHOOL

The Sika Business School offers programs in the areas of management development and talent development. In the year under review, the school ran 12 courses for junior managers. Sika continued its partnership with the International Institute for Management Development (IMD) in Lausanne, Switzerland. Among other things, over 100 managers took part in a training course on leadership and strategy.

The Sika Business School also places particular emphasis on the area of sales and marketing, offering numerous courses to develop the sales force. Furthermore, many training courses on Sika products and their applications take place at local and regional level. The company's expertise in advising customers is thus fostered worldwide. In the reporting year, various online and offline offerings plus a new, purpose-designed e-learning software application were launched as part of the overarching SikaLearn concept. One key goal during implementation was to integrate the SikaLearn concept in the new (SikaWorld) intranet, also introduced in 2016.

NUMBER OF EMPLOYEES

The number of employees rose by 0.8% during the year under review to 17,419 (previous year: 17,281). The regional distribution of Sika employees is as follows: EMEA: 9,083 (previous year: 9,079), North America: 1,818 (previous year: 1,653), Latin America: 2,349 (previous year: 2,437), Asia/Pacific: 4,169 (previous year: 4,112).



The age structure at Sika is broadly balanced: 15% of employees are under 30 years of age and 23% over 50. Sika wants to offer its staff long-term prospects with the company. Over 95% of employees have permanent employment contracts.

Together, all Sika employees generated a net added value of CHF 1,935 million in 2016 (previous year: CHF 1,755 million). This corresponds to a net added value per employee of CHF 112,000 (previous year: CHF 103,000).

DIVERSITY

Sika's global presence and associated proximity to customers make it extremely important to integrate different cultures and share experience and know-how across national boundaries. The company firmly believes that the diversity experienced by employees on a daily basis is one of the factors in its success, especially at senior management level. At courses and seminars, Sika managers are encouraged to give high priority to diversity in team and project planning. Sika counts more than 49 nationalities among its senior managers.

Location of Sika Senior Managers	Nationalities	Regional split %
EMEA	28	40
Asia/Pacific	16	17
Latin America	12	10
North America	7	10
Corporate Organization	10	23

Women account for 22.7% of the total headcount (previous year: 22.3%) and 17.4% of managers (previous year: 16.6%). Sika is constantly working to increase these figures.

LABOR AND SOCIAL STANDARDS

Sika companies and their employees comply with global and local labor and social standards. Furthermore, all employees are bound by the Sika Code of Conduct, regardless of where they work and in which function. The Sika Code of Conduct is binding even in cases where local laws are less stringent. In addition, as a signatory of the UN Global Compact, Sika prepares its reporting in accordance with the GRI standards. To ensure that the interests of all stakeholders are represented and to reaffirm our commitment, Sika is also a member of the World Council for Sustainable Development.

The Sika Code of Conduct protects and ensures compliance with human rights. The company respects the right to freedom of association. However, it must be noted that Sika also operates in countries where the right to freedom of assembly and collective bargaining are restricted by national legislation.

Sika tolerates neither child labor nor any type of slavery and observes all laws and guidelines in respect of discrimination in any form. Sika actively promotes a recruitment policy aimed at achieving a diversified workforce. Chapter 9 of Sika's Code of Conduct establishes a zero tolerance approach to harassment and discrimination in the workplace. In the reporting year, the compliance system was again strengthened in order to further promote the Sika Group's culture of trust, transparency and openness.

Every year around 20 internal audits and 10 external audits are conducted, corresponding to some 20% of all Sika national subsidiaries. Among other things, these audits ensure compliance with the applicable labor and social standards.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

COMMITMENT TO OPENNESS AND TRANSPARENCY

Creating transparency is the highest objective of good corporate governance. This provides information on structures and processes, areas of responsibility and decision procedures, as well as rights and obligations of various stakeholders. Reporting at Sika follows the SIX Swiss Exchange guidelines.

GROUP STRUCTURE AND SHAREHOLDERS

Sika AG, headquartered in Baar, is the only listed Sika company. The Sika AG bearer shares are listed on SIX Swiss Exchange under Swiss security no. 58797. Information on Sika AG's stock market capitalization can be found on page 9 of the download version of this report. In the year under review, the Sika Group encompassed unlisted subsidiaries in 97 countries. 150 companies are included in the scope of consolidation. Companies of which Sika holds 50% or less of shareholder votes are not consolidated. These are namely Condensil SARL, France; Part GmbH in Germany; Sarna Granol AG, Switzerland, as well as Hayashi-Sika Automotive Ltd., Chemical Sangyo Ltd., and Seven Tech Co. Ltd. in Japan. Detailed information on the Group companies can be found on page 130 et seq. of the download version of this report.

Sika conducts its worldwide activities according to countries that have been classed into regions with area-wide managerial functions. The heads of the regions are members of Group Management. The regional and national management teams bear full profit and loss responsibility, and – based on the Group strategy – set country-specific growth and sustainability targets, and allocate resources.

Furthermore, Sika has geared its internal organization toward seven target markets from the construction industry or from industrial manufacturing. These target markets are represented by two members of Group Management as well as in the regional management teams and the national subsidiaries. The relevant managers are responsible for the definition and launch of new products, the implementation of best-demonstrated practices, and the product-line policies for Group products, i.e., those offered worldwide rather than only in one particular country.

The heads of the central Finance and Research and Development are likewise members of Group Management, which consists of nine members. All Group business is consolidated in Sika AG, the holding company, itself in turn under the supervision of the Board of Directors. The organizational structures are presented on pages 13 to 20 of the download version of this report.

As of the balance sheet date of December 31, 2016, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting shares via Schenker-Winkler Holding AG as of December 31, 2016. On December 8, 2014, the Burkard-Schenker family announced the sale of their Sika participation to the Compagnie de Saint-Gobain ("Saint-Gobain"), and, on December 11, 2014, the Burkard-Schenker family and Saint-Gobain announced the formation of a group. On April 7, 2015, the Burkard-Schenker family and Saint-Gobain announced the dissolution of their group. Saint-Gobain itself announced on April 7, 2015, that it held 52.92% of all voting rights via Schenker-Winkler Holding AG. Legal proceedings are underway in connection with the planned transaction, which, as far as the company is aware, has not yet been concluded. (2) BlackRock, Inc., which owned 4.93% of all voting shares on the balance sheet date. (3) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III, Melinda French Gates and Bill & Melinda Gates Foundation Trust, which owned 5.00% of all voting shares on the balance sheet date. A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange Ltd during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

There are no crossover holdings exceeding 3%, either in terms of capital or votes.

CAPITAL STRUCTURE

As of December 31, 2016, capital stock totaled CHF 1,524,106.80. This was divided into 2,151,199 bearer shares, each with a nominal value of CHF 0.60, and 2,333,874 registered shares, each having a nominal value of CHF 0.10. All shares earn the same dividend, with payout adjusted according to nominal value. One share represents one vote. In addition, there is CHF 155,893.20 in contingent capital, unrestricted in time, comprising 259,822 bearer shares with a per-share nominal value of CHF 0.60. These shares are reserved 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 certificates, dividend right 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, and retained earnings during the last five years are posted on page 137 et seq. of the download version of this report.

The purchase of Sika bearer and registered shares is open to all legal persons and individuals. The Board of Directors can deny the purchase of registered shares if the purchaser's registered shareholdings exceed 5% of the total number of registered shares entered in the commercial register. 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 governing body and is mainly responsible for the:

- Definition of the corporate mission statement and corporate policies
- Decisions on corporate strategy and organizational structure
- Appointment and dismissal of members of Group Management
- Structuring of finances and accounting
- Establishment of medium-term planning as well as the annual and investment budgets.

The members of the Board of Directors are elected by the Annual General Meeting for a term of office of one year. They can be reelected at any time. Upon reaching the age of 70, directors resign their mandate. The Board may decide on exemptions. Detailed information on individual members of the Board of Directors is listed on page 19 of the download version of this report. No directorships are maintained with other listed companies on a reciprocal basis.

The Board of Directors of Sika AG currently consists of nine members. None of the members of the Board of Directors was a member of Group Management or the executive management of a Group company during the three preceding business years. The Board convenes at the Chairman's request as business demands. In the 2016 business year, the Board met nine times. The Chief Executive Officer (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 in an advisory capacity. 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 of the Board or the Audit Committee, insofar as such events relate to the latter's area of responsibility. The Internal Audit staff report to the Chairman of the Board as well as the Audit Committee within the scope of the review schedule.

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. Otherwise, the committees organize themselves. Information on the members of the committees can be found on page 19 of the download version of this report.

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

The Nomination and Compensation Committee prepares personnel planning at Board and Group Management level and handles matters relating to compensation. One of the central tasks of the Nomination and Compensation Committee is succession planning for the Board of Directors and Group Management. The committee convenes at the request of its chairperson as required. Usually the Chairman of the Board and the CEO participate in these meetings in an advisory capacity, insofar as they are not themselves affected by the items on the agenda. In the year under review, the Nomination and Compensation Committee met six times.

GROUP MANAGEMENT

Within the framework of Board resolutions, Sika's operative leadership is incumbent on Group Management. The structure of the Group Management is outlined in the beginning of the Corporate Governance section, on page 61 of the download version of this report. The members of Group Management and their functions are listed on pages 15 to 18 of the download version of this report. Detailed information on their backgrounds and activities can be found on pages 16 to 17 of the download version of this report. Sika had no management contracts with third parties in the year under review.

SHAREHOLDER PARTICIPATION RIGHTS

Every shareholder can exercise share votes through representation by another shareholder with voting rights or an independent proxy.

Information on what constitutes a statutory quorum can be found in Article 704 of the Swiss Code of Obligations (CO); information on what constitutes a quorum under Sika's Articles of Association can be found in § 15 paragraph 3 of the latter document. The orders of business for which a majority is required are defined therein. Sika's Articles of Association can be found at <http://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html>. The invitation modalities and deadlines for the Annual General Meeting comply with legal requirements. In addition, during a period published by the company, shareholders representing a nominal share value of

CHF 10,000 can request in writing to have an item placed on the agenda, indicating the proposals to be put forward.

Notice is published in the Swiss Official Gazette of Commerce. New registered shares will not be registered by the company in the two working days prior to the Annual General Meeting. Therefore, holders of registered shares sold between the deadline and the Annual General Meeting are not entitled to vote.

DELINEATION OF POWERS OF AUTHORIZATION

The powers of authorization, duties, and responsibilities of the Board of Directors and Group Management are laid down in the organizational rules of Sika AG and the Sika Group (<http://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html>).

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 Exchanges and Securities Trading. There are no clauses governing changes in corporate control.

AUDITOR

The auditor of Sika AG is elected by the Annual General Meeting for a term of one year. In the year under review, Ernst & Young AG, listed as an auditor in the commercial register since February 7, 1995, served in this capacity. In accordance with legal requirements, the auditor in charge is replaced after a maximum period of seven years. The auditor in charge has been responsible for the audit mandate since 2015.

The auditor participates regularly in the meetings of the Audit Committee, providing oral and written reports on the results of its reviews. The Audit Committee checks and evaluates the auditor and makes recommendations to the Board of Directors. The evaluation of performance and the negotiation of fees are conducted according to internally specified criteria.

In 2016, the present auditor took part in three meetings of the Audit Committee.

Ernst & Young AG billed CHF 3.7 million for its services during the year under review. This figure included the audits of individual closings within Sika AG as well as of practically all subsidiaries and the review of the consolidated financial statements. Ernst & Young AG received additional fees totaling CHF 0.7 million for tax consultancy and CHF 0.3 million for audit-related consulting services.

INFORMATION POLICY

Sika provides extensive information on 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 at www.sika.com as well as media releases regarding important developments are also integral components in Sika's communication activities. As a company listed on SIX Swiss Exchange, Sika is also obligated to comply in particular with requirements of ad hoc disclosure, i.e., the publication of news which may affect its stock price. In addition, Sika maintains dialog with investors and the media through special events and road shows. Information on important dates in 2017 can be found on page 154 of the download version of this report.

COMPENSATION REPORT

COMPENSATION REPORT

The Compensation Report describes the compensation principles and programs as well as the governance framework related to the compensation of the Board of Directors and the members of Group Management of Sika. The report also provides details around the compensation programs and the payments made to members of the Board of Directors and of Group Management in the 2016 business year.

The Compensation Report is written in accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations, the standard relating to information on Corporate Governance of the SIX Swiss Exchange and the principles of the Swiss Code of Best Practice for Corporate Governance of economiesuisse. It has the following structure:

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INTRODUCTION BY THE CHAIRMAN OF THE NOMINATION AND COMPENSATION COMMITTEE

DEAR SHAREHOLDERS,

In the name of the Board of Directors and the Nomination and Compensation Committee, I am pleased to introduce the 2016 Compensation Report.


2016 has been a very strong year for Sika, with a 4.7% revenue growth in Swiss francs (5.5% in local currencies) and 21.8% profitability increase. All regions posted very good results, and the company continued its accelerated development in the emerging markets with the opening of nine new factories and four national subsidiaries, as well as with the market launches of new products. In terms of relative performance, Sika outperformed its peers both in terms of sales growth and profitability improvement. The compensation report explains how these results impacted the variable incentive payments made to the members of Group Management under the different compensation plans.

In the reporting year, the Nomination and Compensation Committee reviewed the compensation programs and decided to implement a few changes related to the share-based compensation of Group Management, such as the introduction of a shareholding ownership guideline and the removal of the restriction period on the vested shares under the long-term incentive plan. Those changes are described more in detail in this report. Furthermore, the Committee performed its regular activities throughout the year such as the succession planning for the positions on the Board of Directors and Group Management, the performance goal setting at the beginning of the year and the performance assessment at year end, the determination of the compensation of the members of Group Management, the preparation of the compensation report and of the say-on-pay vote at the Annual General Meeting.

At the 2016 Annual General Meeting, a binding vote on the aggregate maximum compensation amounts for the Board of Directors and for the Group Management was conducted, as well as a consultative vote on the Compensation Report, so that shareholders could express their opinion on our compensation policies and principles. The shareholders approved the compensation amount for the Group Management with a result of 99.05%, however the compensation amount for the Board of Directors (binding vote) and the compensation report (consultative vote) were rejected mainly because of the majority voting rights of the main shareholder. However, considering the special circumstances of the intended sale of the company to Saint-Gobain by the main shareholder, we do not interpret the negative votes as a generic disagreement of our shareholders with our compensation system and/or compensation amounts.

Looking ahead, we will continue to assess and review our compensation programs to ensure that they are still fulfilling their purpose in the evolving context in which the company operates and are aligned to the interests of our shareholders. We will also continue to maintain an open dialog with our shareholders and their representatives. We would like to thank you here for sharing your perspectives on executive compensation with us and trust that you will find this report informative.

Sincerely,



FRITS VAN DIJK
Chairman of the Nomination and Compensation Committee

COMPENSATION GOVERNANCE

NOMINATION AND COMPENSATION COMMITTEE

In accordance with the Articles of Associations and the organizational regulations of Sika AG, the Nomination and Compensation Committee is composed of three members of the Board of Directors that are elected individually by the Annual General Meeting for a period of one year. Since the Annual General Meeting of 2016, Mr. Frits van Dijk (Chairman), Mr. Urs Burkard and Mr. Daniel Sauter are members of the Nomination and Compensation Committee.

It is the responsibility of the Nomination and Compensation Committee to:

- review and determine the compensation policy, including the principles for the variable compensation and shareholding programs according to the provisions specified in the Articles of Association;
- propose to the Board of Directors the maximum aggregate amounts of compensation of the Board of Directors and of Group Management to be submitted to the shareholders vote at the Annual General Meeting;
- propose to the Board of Directors the compensation level for the members of the Board of Directors, the CEO and the other members of the Group Management, within the maximum aggregate compensation amounts approved by the Annual General Meeting;
- provide the Board of Directors with a performance assessment of the CEO and of the other members of Group Management, together with a recommendation for the short-term and long-term incentives to be awarded to them based on their individual performance and the performance of the company;
- propose to the Board of Directors the Compensation Report;
- prepare the succession planning of the CEO and other members of Group Management, and propose to the Board of Directors the appointment of new members of Group Management.

LEVELS OF AUTHORITY

	CEO	BoD Chairman	NCC	BoD	AGM
Compensation policy and principles			Proposes	Approves	
Maximum aggregate compensation amounts of BoD and GM			Proposes	Reviews	Approves (binding votes)
Compensation of BoD Chairman			Decides	Is informed	
Individual compensation of BoD members			Proposes	Approves	
Compensation of CEO		Proposes	Reviews	Approves	
Individual compensation of members of GM	Proposes		Reviews	Approves	
Compensation report			Proposes	Approves	Consultative vote

CEO = Chief Executive Officer, BoD = Board of Directors, NCC = Nomination and Compensation Committee, AGM = Annual General Meeting, GM = Group Management

In 2016, the Nomination and Compensation Committee held five meetings according to the following predetermined annual agenda and took one decision by circular:

	Feb	Apr	Mai	Oct	Dec
Review of overall compensation policy					
Review of committee duties, accountabilities, and responsibilities	■				
Preparation and approval of Compensation Report	■				■
Preparation of say-on-pay vote for next Annual General Meeting	■				
Review of external stakeholder feedback on compensation disclosure			■		
Compensation of Board of Directors					
Determination of compensation for following compensation period		■			
Compensation of Group Management					
Preliminary performance evaluation (previous year)	■				
Final performance evaluation (previous year)		■			
Determination of short-term incentive payout for previous year		■			
Determination of long-term incentive vesting (previous performance period)		■			
Preliminary compensation review for following year				■	
Determination of compensation (at target) for following year					■
Determination of performance objectives for following year					■
Nomination items					
Review of Board constitution			■		
Succession planning for Group Management positions	■			■	

In 2016, two committee members attended all meetings and one member attended four meetings and apologized for one meeting, which corresponds to an attendance rate of 93%.

The Chairman of the Nomination and Compensation Committee reports to the Board of Directors after each meeting on the activities of the Committee. The minutes of the Committee meetings are available to the members of the Board of Directors. As a general rule, the Chairman of the Board of Directors and the CEO attend the meetings in an advisory capacity. They do not attend the meeting when their own compensation and/or performance are being discussed.

The Nomination and Compensation Committee may decide to consult an external advisor from time to time for specific compensation matters. In 2016, Agnès Blust Consulting continued to provide services related to executive compensation matters. This company does not have other mandates with Sika. In addition, support and expertise are provided by internal compensation experts such as the Head of Human Resources and the Head of Compensation & Benefits.

SHAREHOLDER INVOLVEMENT

The roles of the shareholders on compensation matters has gained in importance in recent years. First of all, shareholders annually approve the maximum aggregate compensation amounts of the Board of Directors and Group Management. In addition, the principles of compensation are governed by the Articles of Association, which are also approved by the shareholders. The provisions of the Articles of Associations on compensation are summarized below (please refer to <http://www.sika.com/de/group/investors/corporate-governance/articles-of-association.html> for the full version of the Articles of Association):

- PRINCIPLES OF COMPENSATION APPLICABLE TO THE BOARD OF DIRECTORS (Articles 11.1, 11.3, and 11.8): The Board of Directors receives fixed compensation in cash and/or in shares;
- PRINCIPLES OF COMPENSATION APPLICABLE TO GROUP MANAGEMENT (Articles 11.1, 11.4 to 11.6, and 11.8): Group Management receives fixed and variable compensation. The variable compensation consists of a performance bonus paid in cash and in shares (share purchase plan) and of a long-term incentive in form of equity compensation. For the CEO, the variable compensation (value of paid-out performance bonus and grant value of the long-term incentive) does not exceed 300% of the fixed compensation. For the other members of Group Management in total, the variable compensation does not exceed 200% of the fixed compensation;

- BINDING VOTE BY THE ANNUAL GENERAL MEETING (Article 11.2): The Annual General Meeting annually approves the total fixed compensation amount for the Board of Directors for the period until the next ordinary Annual General Meeting and the maximum total fixed and variable compensation amount for Group Management for the next fiscal year;
- ADDITIONAL AMOUNT FOR NEW MEMBERS OF GROUP MANAGEMENT (Article 11.7): The total additional compensation for each new member of Group Management may not exceed the average total compensation of Group Management in the previous fiscal year by more than 200%, or 400% for a new CEO. Proven disadvantages from a change of position may be compensated within this additional amount;
- CREDIT FACILITIES, LOANS, AND POST-EMPLOYMENT BENEFITS (Article 12): The company does not offer any loans, credit facilities, guarantees, or other securities to members of the Board of Directors and Group Management. Pension benefits are offered only in accordance with the occupational pension plans, which are specified in the respective regulations.

In addition, the Compensation Report is submitted to a consultative shareholders' vote, so that shareholders can express their opinion on the compensation policy and programs.

METHOD FOR DETERMINING COMPENSATION

PERIODIC BENCHMARKING

The compensation of the Board of Directors is regularly reviewed against prevalent market practice of other multinational industrial companies. In 2012, a thorough review had been conducted in order to determine the competitiveness of the Board compensation in terms of structure and overall level. For this purpose, a peer group of Swiss multinational companies of the industry sector listed on the Swiss Stock Exchange (SIX) had been selected for the benchmarking analysis. The peer group consists of Clariant, Geberit, Georg Fischer, LafargeHolcim, Lonza, Schindler, Sonova and Sulzer and is well-balanced in terms of market capitalization, revenue size and headcount. The compensation model of the Board of Directors has not changed since 2012, consequently, no further analysis was made since then.

Regarding the compensation of the Group Management, a benchmarking analysis is conducted every two years with the support of an independent consultant, Willis Towers Watson. The same peer group of companies has been chosen as for the review of compensation of the Board of Directors. Willis Towers Watson gathers the relevant benchmarking data through a so-called club survey and summarizes them in a report that serves as basis for the Nomination and Compensation Committee to analyze the compensation of the CEO and the Group Management and to set their target compensation levels. In 2016, such compensation benchmarking analysis was undertaken again. The policy of Sika is to target market median compensation for solid performance and to provide for compensation above median in case of strong performance.

PEER GROUP FOR BENCHMARKING PURPOSES

In CHF thousands	Market capitalization (12/31/2016)	Revenue (last reported annual figure)	Headcount (last reported figure)
Sika	12,425	5,748	17,419
1st quartile	5,147	2,931	11,769
Median	8,615	3,886	14,339
3rd quartile	16,055	6,703	27,100

PERFORMANCE MANAGEMENT

The actual compensation paid to the individual members of Group Management in a given year depends on the company and on the individual performance. Individual performance is assessed through the annual Performance Management process, which aims to align individual and collective objectives, to stretch performance and to support personal development. The objectives for the CEO and members of Group Management are approved by the Nomination and Compensation Committee at the beginning of the financial year and achievement against those objectives is assessed at year-end. The performance assessment of the members of Group Management is conducted by the CEO, while that of the CEO is conducted by the Chairman of the Board of Directors. The Nomination and Compensation Committee reviews the performance assessment of the CEO and the other members of Group Management before submitting them to the Board of Directors for approval. In discussing performance, the Nomination and Compensation Committee deliberates on the achievement of the individual objectives of each member of Group Management. The Committee also considers the extent to which individuals have carried out their duties in line with company values and expected leadership behavior. The individual performance assessments, together with the company's performance, form the basis for the determination of incentive payout levels.

COMPENSATION PRINCIPLES

COMPENSATION OF THE BOARD OF DIRECTORS

In order to guarantee the independence of the members of the Board of Directors in exercising their supervisory duties, their compensation consists of a fixed remuneration only. The compensation is delivered partially in cash and partially in restricted shares, in order to strengthen the alignment to shareholders' interests.

COMPENSATION OF GROUP MANAGEMENT

Sika's compensation programs reflect a commitment to attract, develop and retain qualified, talented and engaged executives. They are designed to motivate executives to achieve the overall business objectives and to create sustainable shareholder value. The compensation programs are based on the following principles:

Pay for performance and sustainable success

The compensation of Group Management is linked to Sika's performance and to individual performance. Through a well-balanced combination of incentive programs, both the annual performance and long-term success are rewarded.

Alignment with shareholder interests

A significant portion of compensation is delivered in the form of shares to align the interests of executives with those of the shareholders.

Market competitiveness

Compensation is regularly benchmarked and is in line with competitive market practice.

Transparency

Compensation programs are straightforward and transparent.

The compensation programs include key features that align the interests of executives with those of shareholders and are in line with good practice in corporate governance.

WHAT WE DO

- ⊕ Conduct an annual review of the compensation policy and programs
- ⊕ Maintain compensation plans with a strong link between pay and performance
- ⊕ Conduct a rigorous performance management process
- ⊕ Maintain compensation plans designed to align executive compensation with long-term shareholder interest
- ⊕ Offer employment contracts with a notice period of a maximum of twelve months

WHAT WE DON'T DO

- ⊗ Provide discretionary compensation payments
- ⊗ Reward inappropriate or excessive risk taking or short-term profit maximization at the expense of the long-term health of the company
- ⊗ Pay dividend equivalents on performance-contingent deferred units that have not been earned yet based on the company's performance
- ⊗ Guarantee future base salary increases, nonperformance-based incentive payments, or unrestricted equity compensation
- ⊗ Have prearranged individual severance agreements or special change-in-control compensation agreements

ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

In order to ensure their independence in their supervisory duties, the members of the Board of Directors receive a fixed compensation only, consisting of a retainer for services to the Board and an additional fee for assignments to committees of the Board. The retainer is paid partially in cash and partially in restricted shares, while the committee fees are paid in cash. The restricted shares are blocked from trading for a period of four years. The restriction on the shares may lapse in case of change of control or liquidation. The shares remain blocked in all other instances.

The cash payment and the shares are transferred shortly after the Annual Shareholders Meeting for the previous year of office, being defined as the period between Annual General Meetings. The members of the Board of Directors receive no additional reimbursements of business expenses beyond actual expenditures for business travel. The members of the Board do not participate in Sika's employee benefit plans.

STRUCTURE OF BOARD COMPENSATION

in CHF	in cash	in shares
Retainer (gross p.a.)		
Chairman of the Board of Directors	individually determined	individually determined
Members of the Board of Directors	150,000	50,000*
Committee fees (gross p.a.)		
Committee Chairman	50,000	
Committee members	30,000	

* Converted into shares on the basis of the average closing share price in the five first trading days of April before the beginning of the year of office. Shares are allocated to the members of the Board of Directors shortly after the end of the year of office.

The compensation of the Chairman of the Board of Directors is defined individually, based on the person's skills and experience, and includes the following components: an annual retainer, paid partially in cash (monthly) and partially in shares (after the Annual General Meeting for the previous year of office), and a representation allowance paid in cash (monthly). The Chairman of the Board of Directors is not eligible for committee fees.

ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF GROUP MANAGEMENT

COMPENSATION MODEL AND COMPENSATION ELEMENTS

The compensation for members of Group Management includes the following elements:

- Fixed base salary
- Variable compensation: short-term and long-term incentives
- Benefits and perquisites

STRUCTURE OF COMPENSATION OF GROUP MANAGEMENT

	Vehicle	Purpose	Drivers	Performance measures
Annual base salary	Monthly cash salary	Attract and retain	Position, market practice, skills, and experience	
Performance bonus (STI)	Annual bonus in cash and restricted shares	Pay for performance	Annual performance	Group EBIT Group net sales Individual goals
Long-term incentive (LTI)	PSU with a 3-year performance vesting	Reward long-term performance Align to shareholders	Business performance over 3 years	Return on capital employed
Benefits	Pension and insurances Perquisites	Protect against risks Attract and retain	Market practice and position	

FIXED ANNUAL BASE SALARY

Annual base salaries are established on the basis of the following factors:

- Scope, size, and responsibilities of the role, skills required to perform the role;
- External market value of the role;
- Skills, experience, and performance of the individual in the role.

To ensure market competitiveness, base salaries of the members of Group Management are reviewed every year taking into consideration company's affordability, benchmark information, market movement, economic environment and individual performance.

PERFORMANCE BONUS (SHORT-TERM INCENTIVE)

The performance bonus is a short-term variable incentive designed to reward the collective performance of the company ("Group performance") and the individual performance ("Individual performance") of the incumbent, over a time horizon of one year. This variable compensation allows employees to participate in the company's success while being rewarded for their individual performance.

The performance bonus target is expressed as percentage of base salary and amounts to 100% for the CEO and ranges from 53% to 86% for the other members of Group Management. Group performance accounts for 60% of the total bonus, while the achievement of individual objectives accounts for 40%.

GROUP PERFORMANCE

The performance measures for the Group performance are proposed by the Nomination and Compensation Committee and approved by the Board of Directors. For 2016, they were the same as in the previous years:

- EBIT (earnings before interest and tax) improvement during the year, relative to a peer group of companies;
- Net sales growth during the year relative to the same peer group.

EBIT improvement is weighted twice as much as net sales growth.

EBIT and net sales performance are measured based on an evaluation provided by an independent consulting firm, Obermatt. This benchmark compares and ranks Sika amongst the performance of a selected peer group of 24 companies, all industrial firms which were chosen because they have a comparable base of products, technology, customers, suppliers or investors and are thus exposed to similar market cycles.

PEER GROUP (OBERMATT BENCHMARK)

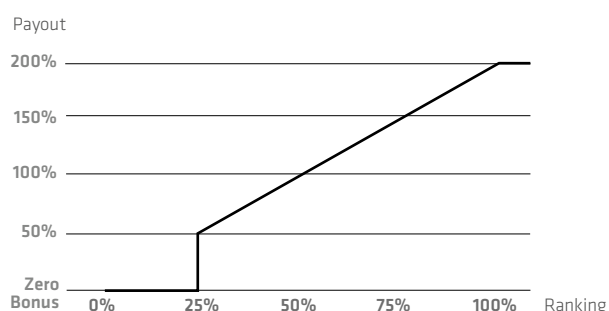
3M – Industrial & Transportations	Dow – Coating & Infrastructure	Huntsman – Performance Products
Armstrong World Industries Inc.	EMS Chemie Holding AG	Owens Corning
Ashland – Performance Materials	Forbo – Flooring Systems	Pidilite Industries Limited
BASF – Functional Solutions	Fuller HB Company	RPM
Beacon Roofing Supply, Inc.	Geberit	Saint-Gobain – Construction Products
Beiersdorf – Tesa	Grace – Construction	SK Kaken Co., Ltd.
Carlisle – Construction Materials	Henkel – Adhesive Technologies	Sto AG
Cemedine Co., Ltd.	Hilti Corporation	Uzin Utz AG

There was no change to the peer group in 2016.

The intention is to reward the relative performance of the company rather than its absolute performance because absolute performance may be strongly impacted by market factors that are outside the control of senior management.

For both EBIT and net sales, the objective is to reach at least the median performance of the peer group, which corresponds to a 100% payout factor. There is no payout for any performance below the lower quartile of the peer group. Performance at the lower quartile of the peer group corresponds to a payout factor of 50%. Performance at the upper quartile leads to a 150% payout factor and being the best in the peer group leads to a 200% payout factor. Any payout factor between those levels is interpolated linearly.

PAYOUT CURVE FOR THE OBERMATT BENCHMARK



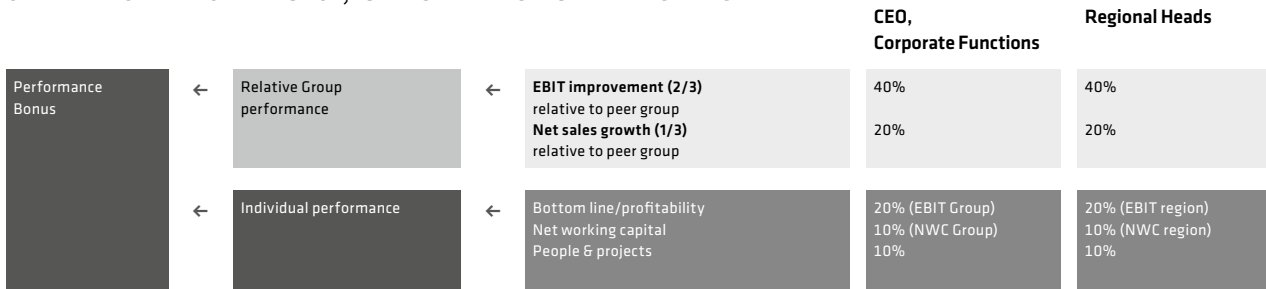
INDIVIDUAL PERFORMANCE

The individual performance includes personal objectives that are set as part of the annual performance management process. For the CEO and for the other members of Group Management, they are reviewed and approved by the Nomination and Compensation Committee. The personal objectives are mainly of financial nature, are clearly measurable and are set in three different categories:

- Bottom line contribution: profitability of the business under responsibility (EBIT target expressed as an improvement versus previous year);
- Return on invested capital: net working capital of the business under responsibility (NWC target expressed as an improvement versus previous year);
- People and projects management: includes strategic objectives, such as for example entry into new markets, introduction of new products, improvement of processes and operational efficiency, and leadership objectives.

At the end of the financial year, the actual achievement is compared with the targets that were set at the beginning of the year. The level of achievement for each objective corresponds to a payout percentage for that target, which is always between 0% and 200%. The overall bonus payout under the short-term incentive is capped and cannot exceed 150% of the bonus target. The bonus is paid out in April of the following year.

OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING



SIKA SHARE PURCHASE PLAN

Under the Sika Share Purchase Plan (SSPP), the members of Group Management may convert part of the performance bonus into Sika shares that are subject to a blocking period of four years. The objective of this program is to encourage members of Group Management to directly participate in the long-term success of the company and to strengthen the link between their compensation and the company performance, as the portion of the bonus invested into shares is exposed to the change in share value during the four-year blocking period. In return, Sika provides one matching share for every five shares purchased under the SSPP. The SSPP allows participants to defer either 0%, 20% or 40% of the bonus into shares, therefore maximum 40% in total. The shares are allocated at their fair market value, shortly after the Annual General Meeting in the month of April of the following year. Fair market value is defined as the average closing share price during the five first trading days of the month of April of the payout year. The calculation of the share grant is made as follows:

CALCULATION OF THE NUMBER OF SHARES GRANTED

$$\left(\begin{array}{c} \text{Deferred percentage} \\ \text{of bonus} \\ \text{(0\%, 20\% or 40\%)} \end{array} \right) \times \left(\begin{array}{c} \text{Bonus amount} \end{array} \right) \times \left(\begin{array}{c} 1.2 \text{ (matching share one} \\ \text{for five)} \end{array} \right) : \left(\begin{array}{c} \text{Average closing share} \\ \text{price of five first trading} \\ \text{days in April} \end{array} \right) = \left(\begin{array}{c} \text{Number of shares} \\ \text{purchased} \end{array} \right)$$

In case of change of control or liquidation or of termination of employment due to retirement, death or disability, the blocking period of the shares is accelerated. The shares remain blocked in all other instances.

LONG-TERM INCENTIVE

Sika's compensation policy is to also align a significant portion of compensation of Group Management to the long-term company's performance and to strengthen the alignment to shareholders' interests. Members of Group Management are eligible for a long-term equity incentive. The long-term incentive target amounts to 111% of annual base salary for the CEO and ranges from 40% to 86% for the other members of Group Management.

The Long-Term Incentive plan is a performance share unit plan. At the beginning of the vesting period, a number of Performance Share Units (PSU) are granted to each member of Group Management. The PSU vest after a period of three years, conditionally upon fulfilling a performance condition, the return on capital employed (ROCE). The ROCE target is determined at the beginning of the vesting period by the Board of Directors and is measured at the end of the vesting period as the average ROCE of the first year, the second year and the third year of the vesting period. Acquisitions are excluded of the ROCE calculation in the year of acquisition and for two additional calendar years.

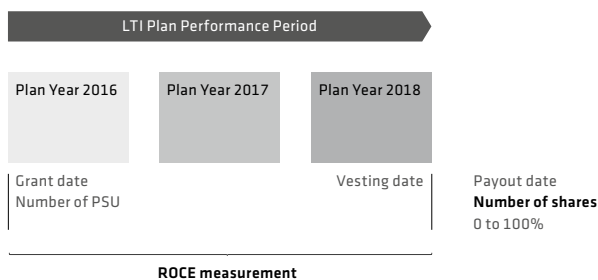
The final share allocation is determined after the three-year performance period, based on the following vesting rules:

- ROCE at or above target: 100% of the PSU vest into shares
- ROCE at threshold level: 50% of the PSU vest into shares and 50% of the PSU forfeit
- ROCE between threshold and target levels: linear interpolation
- ROCE below the threshold level: 0% of PSU vest into shares (100% forfeiture).

There is no overachievement in the long-term incentive, meaning the maximum payout is 100%.

For the grant made in 2016 (performance period 2016–2018), the ROCE target was set at 28%, excluding acquisitions, and the threshold was set at 23%. The shares are allocated at their market value (closing price at grant date on the SIX Swiss Exchange), shortly after the annual shareholder meeting in the month of April following the three-year vesting period. In some countries where the allocation of shares may be illegal or impractical, the award may be settled in cash after the performance period.

LONG-TERM INCENTIVE PLAN PERIOD



In case of termination of employment due to retirement, death, disability, or in case of liquidation or change of control, the unvested PSU are subject to an early vesting, pro-rated for the number of months that have expired from the grant date until the termination date and based on an achievement payout of 75%. In case of termination for any other cause, such as resignation or involuntary termination, the unvested PSU forfeit.

Starting with the LTI plan that vests on 31 December 2016 (LTI 2014–2016) and will be paid out in April 2017, the shares transferred to the participants after vesting will be free of any restriction. The decision was made to introduce a shareholding ownership guideline and consequently to abolish the four-year blocking period on shares transferred after the three-year vesting period in order to align the overall plan structure with prevalent market practice in Switzerland. The shareholding ownership guideline will be introduced as of business year 2017 as described below.

SHAREHOLDING OWNERSHIP GUIDELINE (AS OF BUSINESS YEAR 2017)

The members of Group Management will be required to own at least a minimum multiple of their annual base salary in Sika shares within four years of their appointment to Group Management, as set out in the table below.

CEO	300% of annual base salary
Members of Group Management	200% of annual base salary

In the event of a substantial rise or drop in the share price, the Board of Directors may, at its discretion, amend that time period accordingly.

To calculate whether the minimum holding requirement is met, all vested shares are considered regardless of whether they are restricted or not. However, unvested PSU are excluded. The Compensation Committee reviews compliance with the share ownership guideline on an annual basis.

BENEFITS: PENSIONS

As the Group Management is international in its nature, the members participate in the benefits plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to the risk of retirement, disability, death and health. The members of Group Management with a Swiss employment contract participate in Sika's pension plans offered to all employees in Switzerland. These consist of the pension fund of Sika Schweiz AG, in which base salaries up to an amount of CHF 133,950 per annum are insured, as well as a supplementary plan in which base salaries in excess of this limit are insured up to the maximum amount permitted by law. Sika's pension funds exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG). Members of Group Management under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and is, as a minimum, in accordance with the legal requirements of the respective country. Moreover, an early retirement plan is in place for members of the top management of Sika. The plan, entirely financed by the employer, is administered by a Swiss foundation. Beneficiaries may opt for early retirement from the age of 60, provided that they have been in a top management position for at least five years. Benefits under the plan are twofold:

- Fixed pension payment until the age of legal retirement. The amount of pension depends on the last fixed salary and the actual age at early retirement.
- Partial financing of the reduction in the regular pension due to early retirement. The amount which may be received as life-long pension payment or as a capital contribution depends on the actual age at early retirement and benefits already accrued in existing pension plans. This portion of the plan is only applicable to beneficiaries insured under a Swiss pension plan.

BENEFITS: PERQUISITES

Members of Group Management are also provided with certain executive perquisites such as a company car allowance and other benefits in kind, according to competitive market practice in their country of contract. The monetary value of these other elements of compensation is evaluated at fair value and is disclosed in the compensation tables.

EMPLOYMENT CONTRACTS

The members of Group Management are employed under employment contracts of unlimited duration and are all subject to a notice period of one year. Members of Group Management are not contractually entitled to termination payments or any change-in-control provisions other than the early vesting and early unblocking of share awards mentioned above. Their contract may foresee non-competition provisions that are limited in time to maximum two years and which allow compensation up to maximum six months.

COMPENSATION AWARDED TO THE BOARD OF DIRECTORS IN 2016

This section is audited according to Article 17 of the Ordinance against Excessive Compensation in Listed Stock Corporations.

In 2016, the members of the Board of Directors received no compensation because the compensation of the Board of Directors for the period from the 2016 Annual General Meeting to the 2017 Annual General Meeting has not been approved by the shareholders and therefore could not be paid out. The compensation of the Board of Directors for the period from the 2015 Annual General Meeting to the 2016 Annual General Meeting had not been approved by the shareholders either and therefore could not be paid out. The compensation paid out in the year 2015 relates to the months of January to April 2015 (previous compensation period) and had been approved by the shareholders in a binding vote at the Annual General Meeting in 2014.

COMPENSATION EFFECTIVELY PAID¹

in CHF	Retainer (cash)	Commit- tee Fees (cash) ²	Value of Shares ³	Social security	Total 2016	Retainer (cash)	Commit- tee Fees (cash) ²	Value of Shares ³	Social security	Total 2015
Paul Hälgi, Chairman	0	0	0	0	0	160,000	10,000	100,166	42,843	313,009
Jürgen Tinggren	0	0	0	0	0	50,000	0	17,270	5,161	72,431
Urs F. Burkard, NCC Member	0	0	0	0	0	50,000	10,000	17,270	5,888	83,158
Willi K. Leimer, AC Member	0	0	0	0	0	50,000	10,000	17,270	5,888	83,158
Monika Ribar, AC Chairwoman	0	0	0	0	0	50,000	16,667	17,270	6,373	90,309
Christoph Tobler, AC Member	0	0	0	0	0	50,000	10,000	17,270	5,888	83,158
Daniel J. Sauter, NCC Member	0	0	0	0	0	50,000	10,000	17,270	5,888	83,158
Ulrich W. Suter	0	0	0	0	0	50,000	0	17,270	4,164	71,434
Frits van Dijk NCC Chairman	0	0	0	0	0	50,000	16,667	17,270	5,298	89,235
TOTAL	0	0	0	0	0	560,000	83,333	238,326	87,391	969,050

1) For 2015, includes the compensation effectively paid for the period January to April 2015.

2) Committee fees include the representation allowance for the Chairman of the Board of Directors, who is not eligible for committee fees.

3) Fair market value is defined as the average closing price of the first five trading days in April before the beginning of the year of office.

The table below discloses the remuneration that will be paid out to the Board of Directors for the year 2016 under the assumption of a positive shareholders' vote on compensation.

The amounts for the retainer in cash, the committee fees and the allocation of restricted shares have remained unchanged since 2012.

TOTAL COMPENSATION (PROPOSED)¹⁾

in CHF	Retainer (cash)	Commit- tee Fees (cash) ²⁾	Value of Shares ³⁾	Social security	Total 2016	Retainer (cash)	Commit- tee Fees (cash) ²⁾	Value of Shares ³⁾	Social security	Total 2015
Paul Hälgi, Chairman	480,000	30,000	302,017	59,964	871,980	480,000	30,000	300,562	57,641	868,203
Jürgen Tinggren	150,000	0	50,893	15,414	216,306	150,000	0	52,634	15,547	218,181
Urs F. Burkard, NCC Member	150,000	30,000	50,893	17,594	248,487	150,000	30,000	52,634	17,727	250,361
Willi K. Leimer, AC Member	150,000	30,000	50,893	17,594	248,487	150,000	30,000	52,634	17,727	250,361
Monika Ribar, AC Chairwoman	150,000	50,000	50,893	19,048	269,941	150,000	50,000	52,634	19,180	271,814
Christoph Tobler, AC Member	150,000	30,000	50,893	17,594	248,487	150,000	30,000	52,634	17,727	250,361
Daniel J. Sauter, NCC Member	150,000	30,000	50,893	17,594	248,487	150,000	30,000	52,634	17,727	250,361
Ulrich W. Suter	150,000	0	50,893	12,436	213,329	150,000	0	52,634	12,544	215,178
Frits van Dijk NCC Chairman	150,000	50,000	50,893	15,837	266,729	150,000	50,000	52,634	15,946	268,580
TOTAL	1,680,000	250,000	709,158	193,074	2,832,232	1,680,000	250,000	721,634	191,765	2,843,399

1) For 2015, includes the compensation effectively paid for the period January to April 2015 and the compensation proposed for the period May to December 2015 that is still to be paid out upon AGM approval.

For 2016, includes the compensation proposed for the calendar year that is still to be paid out upon AGM approval.

2) Committee fees include the representation allowance for the Chairman of the Board of Directors, who is not eligible for committee fees.

3) Fair market value is defined as the average closing price of the first five trading days in April before the beginning of the year of office.

In the year under review, no compensation was paid to former members of the Board of Directors. No compensation was paid to parties closely related to members of the Board of Directors.

In accordance to the Articles of Association, no member of the Board of Directors was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

COMPENSATION AWARDED TO THE CEO AND TO GROUP MANAGEMENT IN 2016

This section is audited according to article 17 of the Ordinance against Excessive Remuneration in Stock Listed Corporations.

In 2016, the members of the Group Management received a total compensation of CHF 16.7 million (2015: CHF 16.2 million). This amount comprises fixed salaries of CHF 4.8 million (2015: CHF 4.8 million), short-term bonus of CHF 5.0 million (2015: CHF 4.6 million), long-term incentives of CHF 3.5 million (2015: CHF 3.7 million), other expenses of CHF 1.3 million (2015: 1.0 million) and contributions to social security and post-employment benefits of CHF 2.1 million (2015: CHF 2.1 million).

The total amount of compensation of CHF 16.7 million awarded to Group Management in 2016 is within the maximum aggregate amount of compensation of CHF 18 million approved by the shareholders at the 2015 Annual General Meeting for financial year 2016.

In CHF thousands	CEO 2016	CEO 2015	Total 2016	Total 2015
Fixed base salary ¹	908	908	4,774	4,771
Performance bonus (STI) cash ²	1,322	877	4,539	3,438
Performance bonus (STI) shares ²	0	263	469	1,143
Long-term incentive ³	1,003	1,001	3,489	3,666
Other payments ⁴	46	46	1,286	1,026
Social security and pension contributions ⁵	503	414	2,131	2,109
TOTAL	3,782	3,510	16,688	16,153

1) Includes annual base salary and children/family allowances. All compensation amounts are gross payments.

2) Estimated performance bonus (STI) for the reporting year that will be paid in April of the following year, split between immediate cash and deferred shares (including matching shares).

3) Grant value of the grant in the reporting year.

4) Includes other benefits in kind and perquisites at fair value such as anniversary payments and cost allowances (tax equalization, housing, schooling, home leave) for the international assignees.

5) Includes social security contributions as well as contributions to company provided pension plans, including the service cost to the pre-retirement plan.

Explanatory comments to the compensation table:

- From 2015 to 2016, the target compensation (fixed base salary, target bonus and grant value of long-term incentive) of the CEO and other members of Group Management has not been changed, with the exception of two members whose compensation level was still substantially below market benchmark.
- The fixed compensation remained constant.
- The increase in the "other" payments is due to the fact that a new member of Group Management has relocated to Switzerland and received benefits usually provided to internationally mobile employees, such as relocation support, housing allowance and tax advice.
- The increase in pension contributions for the CEO is due to the fact that the contribution rates are age-related and that the CEO moved in a different age-bracket in 2016. The contribution rates in the pension plan have not changed since several years.
- The performance achievement under the performance bonus was higher in 2016 than in 2015. Further details are provided below.
- The grant value of the long-term incentive remained unchanged compared to previous year. The decrease in the grant value compared to previous years is due to the fact that the 2015 figures included the grant that was made to the new CFO including the pro rata participation in the unvested plans (LTI 2013-2015 and LTI 2014-2016). The new member joining the KL in 2016 did not receive any LTI grant in 2016 and will start to participate, including pro rata participation in the unvested plans, as of year 2017.

PERFORMANCE IN 2016 (NOT AUDITED)

The financial year 2016 has been a strong year for Sika, with an 4.7% revenue growth (in local currencies 5.5%) and 18.1% profitability increase (earnings before interest and tax). In the performance bonus, Sika has outperformed the peer companies both in terms of net sales growth (ranked 13th, payout of 101%) and in terms of EBIT improvement year on year (ranked 8th, payout of 139%). The group performance achievement is estimated at 127% (best-estimate at time of publication) and will be calculated by Obermatt based on the annual report publications of the peer companies before the payout date in April 2017. This compares to a strong year 2015, where Sika outperformed its peers (12nd rank on net sales growth and 10th rank on EBIT improvement), with a payout of 119%.

Individual performance, which is mainly measured by EBIT and net working capital improvement versus previous year, at Group and regional level, ranges from 115% to 190% for members of Group Management and amounts to 178% for the CEO. Consequently, the overall bonus payout percentage ranges from 122% to 150% (cap) for Group Management and amounts to 147% for the CEO. This compares to a payout range of 101% to 149% for Group Management and to a payout of 122% for the CEO in 2015.

In the Long-Term Incentive that has been granted on 1 January 2016 (LTI 2016-2018), 288 performance share units have been granted

to the CEO and 714 to the other members of Group Management. Those PSU had an overall grant value of CHF 3.5 million and will vest on December 31, 2018 based on the average ROCE performance during 2016–2018 and upon the continuous employment of the participant.

In the long-term incentive that vested in 2016 (LTI 2014–2016), the performance condition of 20% average ROCE over the vesting period has been overachieved: the average three-year ROCE, excluding acquisitions, amounts to 28.2%, leading to a payout of 100% (cap). Therefore, the 953 units granted on 1 January 2014 to the current members of Group Management have vested with a vesting value of CHF 4.7 million. For the CEO, the 329 PSU granted on 1 January 2014 vested with a value of CHF 1.6 million. The value at vesting is higher than the value at grant due to the positive development in the share price during the vesting period (2014–2016).

OVERVIEW OF THE UNVESTED PSU GRANTS (INCLUDES MEMBERS OF GROUP MANAGEMENT AS OF DECEMBER 31, 2016)

Plan		Grant date (PSU)*	Performance Period	Vesting date (PSU)	Unblocking date of shares	Number of PSU granted	Total value at grant (CHF)	Vesting level in % of grant	Number of shares (vesting)	Total value at vesting (CHF)
LTI 2014	Group Mgt. (incl. CEO)	01/01/2014	2014–2016	12/31/2016	April 2021	953	2,807,556	100%	953	4,662,076
	CEO	01/01/2014	2014–2016	12/31/2016	April 2021	329	962,137	100%	329	1,609,468
LTI 2015	Group Mgt. (incl. CEO)	01/01/2015	2015–2017	12/31/2017	April 2022	877	3,027,294	To be determined	To be determined	To be determined
	CEO	01/01/2015	2015–2017	12/31/2017	April 2022	290	1,001,044			
LTI 2016	Group Mgt. (incl. CEO)	01/01/2016	2016–2018	12/31/2018	April 2023	877	3,053,714	To be determined	To be determined	To be determined
	CEO	01/01/2016	2016–2018	12/31/2018	April 2023	288	1,002,816			

* For new members of Group Management, grant date may be different (January 1 of the year following their nomination, pro rata participation in the grants that are still in the vesting period).

In the year under review, no compensation was paid to former members of Group Management. No compensation was paid to parties closely related to members of Group Management.

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

SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT IN 2016

At the end of 2016, members of the Board of Directors held a total of 3,292 bearer shares of Sika AG (2015: 3,392). At the end of 2016, members of the Group Management held a total of 5,795 bearer shares of Sika AG (2015: 6,205). This figure includes both privately acquired shares and those allocated under the Group's compensation schemes. Because of the new composition of Group Management, the figures cannot be compared on an exact basis.

At the end of 2016, members of the Board of Directors and of Group Management do not hold any options.

Information regarding participations of the Board of Directors and Group Management in Sika AG can be found in the Sika AG Financial Statements (on page 149 of the download version of this report).

EQUITY OVERHANG AND DILUTION AS OF DECEMBER 31, 2016

In total as of December 31, 2016, the equity overhang, defined as the total number of share units and restricted shares outstanding divided by the total number of outstanding shares (2,151,199 bearer shares and 2,333,874 registered shares) amounts to 12,993 units, representing 0.29%.

The company's "burn rate," defined as the number of equities (restricted share and share units) granted in 2016 (3,722 units) divided by the total number of common shares outstanding is 0.08%.

REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF SIKA AG, BAAR

REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT

We have audited pages 77 to 79 of the compensation report of Sika AG for the year ended December 31, 2016.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14-16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14-16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the compensation report for the year ended December 31, 2016, of Sika AG complies with Swiss law and articles 14-16 of the Ordinance.

Zurich, February 22, 2017

ERNST & YOUNG LTD



CHRISTOPH MICHEL
Licensed audit expert
(Auditor in charge)



MARC RÜEGSEGGER
Licensed audit expert

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

in CHF mn	Notes	12/31/2015	12/31/2016
Cash and cash equivalents	1	1,074.4	1,155.0
Accounts receivable	2	1,014.5	1,043.1
Inventories	3	584.9	600.8
Prepaid expenses and accrued income		87.0	89.0
Other current assets	4	17.3	9.1
Current assets		2,778.1	2,897.0
Property, plant, and equipment	5	924.3	959.2
Intangible assets	6	1,037.9	1,021.2
Investments in associated companies	7	6.4	6.3
Deferred tax assets	8	126.1	159.7
Other non-current assets	4	51.0	55.8
Non-current assets		2,145.7	2,202.2
ASSETS		4,923.8	5,099.2
Accounts payable	9	581.1	587.0
Accrued expenses and deferred income	10	217.3	223.9
Bond	12	249.9	0.0
Income tax liabilities		67.7	92.0
Current provisions	13	18.8	20.8
Other current liabilities	11	28.3	44.3
Current liabilities		1,163.1	968.0
Bonds	12	698.4	698.7
Non-current provisions	13	61.9	57.5
Deferred tax liabilities	8	109.8	110.2
Employee benefit obligation	14	298.9	274.6
Other non-current liabilities	11	39.6	42.5
Non-current liabilities		1,208.6	1,183.5
LIABILITIES		2,371.7	2,151.5
Capital stock		1.5	1.5
Treasury shares		-0.9	-11.0
Reserves		2,530.2	2,933.8
Equity attributable to Sika shareholders		2,530.8	2,924.3
Non-controlling interests		21.3	23.4
SHAREHOLDERS' EQUITY	15	2,552.1	2,947.7
LIABILITIES AND SHAREHOLDERS' EQUITY		4,923.8	5,099.2

CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	Notes	%	2015	%	2016	Change in %
Net sales	16	100.0	5,489.2	100.0	5,747.7	4.7
Material expenses	17	-45.9	-2,518.4	-44.7	-2,566.6	
Gross result		54.1	2,970.8	55.3	3,181.1	7.1
Personnel expenses	18	-20.1	-1,106.5	-20.1	-1,159.1	
Other operating expenses	19	-18.7	-1,027.0	-18.4	-1,056.3	
Operating profit before depreciation		15.3	837.3	16.8	965.7	15.3
Depreciation and amortization expenses	20	-3.0	-164.0	-3.0	-170.4	
Operating profit		12.3	673.3	13.8	795.3	18.1
Interest income	22	0.1	3.5	0.0	2.6	
Interest expenses	21	-0.5	-25.5	-0.3	-20.4	
Other financial income	22	0.1	8.5	0.1	5.2	
Other financial expenses	21	-0.8	-41.3	-0.5	-27.4	
Income from associated companies	22	0.1	3.4	0.0	0.5	
Profit before taxes		11.3	621.9	13.1	755.8	21.5
Income taxes	8	-2.8	-156.8	-3.2	-189.2	
Net profit		8.5	465.1	9.9	566.6	21.8
Profit attributable to Sika shareholders		8.4	460.3	9.8	563.1	
Profit attributable to non-controlling interests	23	0.1	4.8	0.1	3.5	
Undiluted/diluted earnings per bearer share (in CHF)	24		181.37		221.81	22.3
Undiluted/diluted earnings per registered share (in CHF)	24		30.23		36.97	22.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF mn	Notes	%	2015	%	2016	Change in %
Net profit		8.5	465.1	9.9	566.6	21.8
Actuarial gains/(losses) on employee benefit obligation	14	0.0	3.0	0.7	44.4	
Income tax effect	8	0.0	-0.3	-0.1	-6.4	
Items that will not be reclassified to profit or loss		0.0	2.7	0.6	38.0	
Exchange differences taken to equity		-2.3	-127.8	0.0	0.1	
Items that may be reclassified subsequently to profit or loss		-2.3	-127.8	0.0	0.1	
Other comprehensive income		-2.3	-125.1	0.6	38.1	
Comprehensive income		6.2	340.0	10.5	604.7	77.9
Attributable to Sika shareholders		6.1	335.1	10.4	600.7	
Attributable to non-controlling interests		0.1	4.9	0.1	4.0	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock	Capital surplus	Treasury shares	Currency trans- lation differ- ences	Retained earnings	Equity attributable to Sika share- holders	Non-con- trolling interests	Total equity
in CHF mn								
January 1, 2015	1.5	203.1	-10.8	-415.4	2,588.7	2,367.1	16.2	2,383.3
Profit for the year					460.3	460.3	4.8	465.1
Other comprehensive income				-127.9	2.7	-125.2	0.1	-125.1
Comprehensive income	0.0	0.0	0.0	-127.9	463.0	335.1	4.9	340.0
Transactions with treasury shares ¹			9.9		-9.9	0.0		0.0
Share-based payments					9.0	9.0		9.0
Dividends ²					-182.8	-182.8		-182.8
Revaluation ⁵					1.5	1.5	0.2	1.7
Inflation adjustment ⁴					0.9	0.9		0.9
December 31, 2015	1.5	203.1	-0.9	-543.3	2,870.4	2,530.8	21.3	2,552.1
January 1, 2016	1.5	203.1	-0.9	-543.3	2,870.4	2,530.8	21.3	2,552.1
Profit for the year					563.1	563.1	3.5	566.6
Other comprehensive income				-0.4	38.0	37.6	0.5	38.1
Comprehensive income	0.0	0.0	0.0	-0.4	601.1	600.7	4.0	604.7
Transactions with treasury shares ¹			-10.1		-8.6	-18.7		-18.7
Share-based payments					7.7	7.7		7.7
Dividends ³					-198.0	-198.0	-1.9	-199.9
Inflation adjustment ⁴					1.8	1.8		1.8
December 31, 2016	1.5	203.1	-11.0	-543.7	3,274.4	2,924.3	23.4	2,947.7

1 Including income tax of CHF 0.1 million (CHF 0.3 million) in retained earnings.

2 Dividend per bearer share: CHF 72.00, dividend per registered share: CHF 12.00.

3 Dividend per bearer share: CHF 78.00, dividend per registered share: CHF 13.00.

4 Hyperinflation accounting has been applied since January 1, 2010, and concerns the subsidiary in Venezuela.

5 Revaluation call-/put-option Hebei Jiuqiang.

CONSOLIDATED STATEMENT OF CASH FLOWS

in CHF mn	Notes	2015	2016
Operating activities			
Profit before taxes		621.9	755.8
Depreciation/amortization	20	164.0	170.4
Increase (+)/decrease (-) in provisions/ employee benefit obligation and assets		-1.7	12.3
Increase (-)/decrease (+) in net working capital		-28.4	-2.8
Other adjustments	27	2.6	0.4
Income taxes paid		-172.6	-200.4
Cash flow from operating activities		585.8	735.7
Investing activities			
Property, plant, and equipment: capital expenditures	5	-135.6	-149.5
Property, plant, and equipment: disposals		8.2	5.5
Intangible assets: capital expenditures	6	-7.0	-5.4
Intangible assets: disposals		0.1	0.2
Acquisitions less cash and cash equivalents		-69.5	-23.6
Acquisitions (-)/disposals (+) of financial assets		-2.5	0.1
Cash flow from investing activities		-206.3	-172.7
Financing activities			
Increase in financial liabilities		5.7	13.0
Repayment of financial liabilities		-12.6	-3.8
Repayment of a bond	12	0.0	-250.0
Purchase of treasury shares		-19.0	-56.7
Sale of treasury shares		21.9	24.1
Dividend payment to shareholders of Sika AG		-182.8	-198.0
Dividends related to non-controlling interests		0.0	-1.9
Cash flow from financing activities		-186.8	-473.3
Exchange differences on cash and cash equivalents		-17.1	-9.1
Net change in cash and cash equivalents		175.6	80.6
Cash and cash equivalents at the beginning of the year	1	898.8	1,074.4
Cash and cash equivalents at the end of the year	1	1,074.4	1,155.0
Cash flow from operating activities contains:			
Dividends from associated companies		1.6	0.6
Interest received		3.5	2.6
Interest paid		-19.2	-20.4

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES OF CONSOLIDATION AND VALUATION

CORPORATE INFORMATION

Sika is a specialty chemicals company active in the development and production of systems and products for bonding, sealing, damping, reinforcing, and protecting in the building sector and the motor vehicle industry.

ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of the Sika Group have been prepared in conformity with the provisions of the International Accounting Standards Board (IASB). All standards (IAS/IFRS) and interpretations (IFRIC/SIC) applicable as of December 31, 2016, were taken into account. The financial statements have been prepared according to the going-concern principle. The Consolidated Financial Statements have been prepared under the historical cost principle with the exception of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed on page 93 of the download version of this report.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting standards applied conform to those standards that were valid in the prior year. Exceptions are the following revised and new standards, which Sika applies since January 1, 2016. The application of these standards does not have any material impact on the Consolidated Financial Statements of the Group.

- Amendments to IAS 1 – Disclosure initiative
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization
- Amendments to IFRS 11 – Accounting for acquisitions of interests in joint operations
- Annual improvements (2012–2014 Cycle) – Collective standard with amendments to various IFRS standards with the primary goal of eliminating inconsistencies and clarifying terminology

A number of new standards and amendments to standards and interpretations are effective for the financial year 2017 and later, and have not been applied in preparing these Consolidated Financial Statements. If they had been applied in 2016 they would have had no significant effect on the Consolidated Financial Statements of the Group, except for IFRS 16:

- Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses (applicable as of January 1, 2017)
- Amendments to IAS 7 – Disclosure initiative (applicable as of January 1, 2017)
- Amendments to IFRS 2 – Classification and measurement of share-based payment transactions (effective as of January 1, 2018)
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Hedge accounting (applicable as of January 1, 2018)
- IFRS 9 – Financial instruments (applicable as of January 1, 2018)
- IFRS 15 – Revenue from contracts with customers (applicable as of January 1, 2018):

Entities need to apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Based on an initial analysis no material effect on the Consolidated Financial Statements of the Group is expected. Sika's customer contracts primarily include the delivery of goods with no separate performance obligations.

- IFRS 16 – Leases (applicable as of January 1, 2019):

IFRS 16 – Leases will substantially change the financial statements. The differentiation between finance and operating lease arrangements which was required until now under IAS 17 is dropped in future for the lessee. The standard provides a single lessee accounting model, requiring lessees to recognize liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. In addition, a right to use the underlying asset needs to be recognized. The current operating lease commitments (see note 5) provide an indication of the impact of the implementation of IFRS 16 on the Group's consolidated balance sheet. In the income statement a shift from other operating expenses towards depreciation expenses will be caused. The leasing and rent payments will be replaced by the depreciation expenses of the recognized underlying assets. Operating profit will be released from the interest rate component on the leasing liability and charged to interest expenses. However, a reliable estimate of the impact of applying IFRS 16 can only be made once a detailed analysis is completed.

New standards and interpretations are usually applied on the applicable date. However, the options for early adoption are considered individually by Sika.

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, 2016, prepared in accordance with uniform standards.

SUBSIDIARIES

Companies which are controlled by Sika are fully consolidated. The consolidation includes 100% of their assets and liabilities as well as expenses and income; non-controlling interests in shareholders' equity and net income for the year are excluded and shown separately as part of non-controlling interests.

ASSOCIATED COMPANIES

The equity method is applied to account for investments ranging from 20% to 50%, provided that Sika exercises significant influence. The investments are included in the balance sheet under "Investments in associated companies" based on the Group's percentage share in net assets including goodwill; in the income statement the Group's share in the net income for the year is disclosed in "Income from associated companies".

OTHER NON-CONTROLLING INTERESTS

Other non-controlling interests are carried at fair value.

INTRA-GROUP TRANSACTIONS

Transactions within the Group are eliminated as follows:

- Intra-Group receivables and liabilities are eliminated in full.
- Intra-Group income and expenses and the unrealized profit margin from intragroup transactions are eliminated in full.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquired company. For each business combination, the acquirer measures the non-controlling interests in the acquired company either at fair value or at the proportionate share of the acquired company's identifiable net assets. Acquisition related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value on the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in the income statement. A contingent consideration that is classified as equity is not revalued, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit and loss.

Goodwill is subject to an annual impairment test. Impairments are recognized in the income statement. The impairment is not reversed at a later date.

When subsidiaries are sold, the difference between the selling price and the net assets including goodwill plus cumulative translation differences is recognized in the Consolidated Financial Statements as an operating result. The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition of control or up to the effective date of loss of control.

SEGMENT REPORTING

Sika carries out its worldwide activities according to regions. Heads of regions are members of Group Management. Group Management is the highest operating executive body measuring the profit and loss of segments and allocating resources.

SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future, as well as details of other key sources of estimation uncertainty on the balance sheet date, that entail a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

IMPAIRMENT OF GOODWILL

The Group tests for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units or groups of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates such as expected future cash flows and discount rates. The carrying value of goodwill as of December 31, 2016, was CHF 678.7 million (CHF 661.7 million). Further details are presented in note 6.

FAIR VALUE OF ACQUISITION

In connection with acquisitions, all assets, liabilities, and contingent liabilities are valued at fair value. Newly identified assets and liabilities are also recognized 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.

TRADEMARKS

Trademarks with indefinite useful lives are tested annually for impairment through calculation of the discounted future relief from royalties and comparison with the book value. Future cash inflows must be estimated. Actual cash inflows can deviate significantly from estimations. Additionally, discounting is based on assumptions and estimations concerning business-specific capital costs, which are themselves dependent on country risks, credit risks, and additional risks resulting from the volatility of the respective business.

CUSTOMER RELATIONS

Customer relations are amortized 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 significant assumptions, particularly in respect of future sales. Additionally, discounting is also based on assumptions and estimations concerning business-specific capital costs, which are themselves dependent on country risks, credit risks, and additional risks resulting from the volatility of the respective business.

DEFERRED TAX ASSETS

Deferred tax assets resulting from the carry forward of unrealized tax losses or timing differences are recognized 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 target figures for the future.

EMPLOYEE BENEFIT OBLIGATIONS

The Group maintains various employee benefit plans. Several statistical analysis and other variables are used in the calculation of expenses and liabilities to estimate future developments. These variables include estimations and assumptions concerning the discount rate established by management within certain guidelines. In addition, actuaries employ statistical information for the actuarial calculation of benefit liabilities 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 life expectancy of benefit plan participants.

PROVISIONS

The calculation of provisions requires assumptions regarding the probability, size, occurrence and timing of a cash outflow. As long as an outflow of resources is probable and a reliable estimation is possible, a provision is recognized.

VALUATION PRINCIPLES

CONVERSION OF FOREIGN CURRENCIES

Foreign currency transactions are translated into the functional (local) currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency on every balance sheet date by applying exchange rates valid on the balance sheet date. The resulting exchange rate differences are recognized in the income statement.

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

The effects from the translation of the functional currency into Swiss francs are recognized in other comprehensive income.

The rates listed below were applied:

Country	Currency	Quantity	2015 Balance sheet ¹ CHF	2015 Income statement ² CHF	2016 Balance sheet ¹ CHF	2016 Income statement ² CHF
Egypt	EGP	100	12.72	12.47	5.59	10.05
Australia	AUD	1	0.73	0.72	0.74	0.73
Brazil	BRL	100	25.13	29.01	31.30	28.19
Chile	CLP	10,000	14.02	14.72	15.23	14.55
China	CNY	100	15.35	15.30	14.67	14.83
Euro zone	EUR	1	1.08	1.07	1.07	1.09
Great Britain	GBP	1	1.48	1.47	1.24	1.33
India	INR	100	1.50	1.50	1.50	1.47
Japan	JPY	100	0.83	0.79	0.87	0.91
Canada	CAD	1	0.72	0.75	0.76	0.74
Colombia	COP	10,000	3.14	3.52	3.39	3.23
Mexico	MXN	100	5.73	6.07	4.93	5.28
Poland	PLN	100	25.41	25.50	24.35	25.00
Russia	RUB	1,000	13.40	15.80	16.70	14.66
Sweden	SEK	100	11.79	11.40	11.24	11.52
Turkey	TRY	100	34.11	35.33	28.97	32.70
USA	USD	1	1.00	0.96	1.02	0.98

1 Year-end rates.

2 Annual average rates.

CONSOLIDATED BALANCE SHEET

CASH AND CASH EQUIVALENTS

This position includes cash and cash equivalents.

RECEIVABLES

Accounts receivable are recorded following the deduction of an allowance for doubtful debts necessary for business purposes. A specific provision for impairment is carried out on accounts receivable balances for which payment is considered at risk.

INVENTORIES

Raw materials and merchandise are stated at historical cost and finished and semi-finished products are stated at production cost, however not exceeding net realizable sales value. The production costs comprise all directly attributable material and manufacturing costs as well as and other costs incurred in bringing the inventories to their present location and condition. Acquisition or production costs are determined using a standard cost approach, or alternatively using the weighted average cost method. Net realizable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the selling costs. Allowances are made for obsolete and slow-moving inventories.

PREPAID EXPENSES AND ACCRUED INCOME

This item includes accrued income unrelated to accounts receivable.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are carried at historical cost, less accumulated depreciation required for business purposes. The capitalization is made based on components. Value-enhancing expenses are capitalized and depreciated over their useful lives. Repair, maintenance, and replacement costs are charged directly to the income statement. Depreciation is calculated using the straight-line method and is based on the anticipated useful life of the asset, including its operational usefulness and age-related technical viability. The acquisition costs include borrowing costs for long-term construction projects if the recognition criteria are met.

DEPRECIATION SCHEDULE

Buildings	25 years
Infrastructure	15 years
Plants and machinery	5 - 15 years
Furnishings	6 years
Vehicles	4 years
Laboratory equipment and tools	4 years
IT hardware	3 - 4 years

INTANGIBLE ASSETS

Internally generated patents, trademarks, and other rights are not capitalized. Research and development expenditures for new products are recognized in the income statement, since these do not fulfill the recognition criteria. Acquired intangible assets are usually capitalized and amortized using the straight-line method.

Development costs for software are capitalized as intangible assets, provided that the software will generate a future economic benefit through sale or through use within the Group and that its cost can be reliably measured. Conditions for capitalization are the technical feasibility of the asset and the intention and ability to complete its development, as well as the availability of adequate resources. Sika has created an SAP platform with standard processes that a number of companies have been using since 2010. The rollout will take several years. The capitalized costs are transferred to the companies in the year of first use.

AMORTIZATION SCHEDULE

Software	3 – 5 years ¹
Patents	5 – 10 years
Customer relations	1 – 20 years
Trademarks	3 – 10 years

¹ Software is usually written off over three years with the exception of the SAP platform. For details see note 6.

Acquired trademarks are amortized insofar as a useful life can be determined. Otherwise trademarks are not amortized but are tested for impairment annually.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The recoverability of property, plant, and equipment as well as intangible assets is reviewed if events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. If the carrying amount exceeds the recoverable amount, a special depreciation allowance is recorded on the higher of fair value less cost to sell and the value in use of an asset which corresponds to the discounted, anticipated future cash flows. For the purpose of impairment tests, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

LEASING

Fixed assets acquired under finance leasing contracts and therefore owned by the Group in respect to risks and rewards of ownership, are classified as finance leases. Such assets are carried at the fair value of the lease property or, if lower, present value of the minimum lease payments and are reported as non-current assets and financial liabilities. Assets classified as finance leasing are depreciated over their estimated useful life or depreciated 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 are realized over the lease term. Payments for operating leases are recorded as operating expenses and are charged accordingly to the income statement.

DEFERRED TAXES (ASSETS/LIABILITIES)

Deferred taxes are calculated using the liability method. According to this method the effects on income taxes resulting from temporary differences between Group-internal and taxable balance sheet values are recorded as deferred tax assets or deferred tax liabilities, respectively. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recognized or the liability is settled based on the rates (and tax laws) that have been substantively enacted. Changes in deferred taxes are reflected in the income tax expense, the statement of comprehensive income, or directly in equity. Deferred income tax liabilities are provided for taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets including those that can be applied to carried forward tax losses are recognized to the extent that their realization is probable. Deferred tax liabilities are recognized for all taxable temporary differences insofar as the accounting regulations foresee no exception.

LIABILITIES

Current liabilities consist of liabilities with maturities of less than twelve months. 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 arising from guarantees, warranties, and environmental risks as well as restructuring costs are recognized as liabilities. Provisions are only recognized if Sika has a third-party liability that is based on a past event and can be reliably measured. Potential losses due to future incidents are not recognized in the balance sheet.

EMPLOYEE BENEFIT OBLIGATION

The Group maintains various employee benefit plans that differ in accordance with local practices. Group contributions to defined contribution plans are recognized in the income statement. Defined benefit plans are administered either through self-governed pension funds (funded) or recognized directly in the balance sheet (unfunded). The amount of the liabilities resulting from defined benefit plans is regularly determined by independent experts under application of the projected unit credit method. Actuarial gains and losses are recognized directly in the statement of other comprehensive income and are not reclassified subsequently to profit and loss. Asset surpluses of employee pension funds are considered under application of IFRIC 14 only to the extent of possible future reimbursement or reduction of contributions.

CAPITAL STOCK

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

CAPITAL SURPLUS

This item 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 and deducted from shareholders' equity. Differences between the purchase price and sales proceeds of treasury shares are shown as a change in retained earnings.

CURRENCY TRANSLATION DIFFERENCES

This item consists of the differential amount that arises from the translation into Swiss francs of assets, liabilities, income, and expenses of Group companies that do not use Swiss francs as their functional currency.

HYPERINFLATION

In countries experiencing hyperinflation, prior to conversion into the presentation currency the annual financial statements are adjusted for local inflation in order to eliminate changes in purchasing power. Adjustment for inflation is based on the relevant price indices at the end of the period under review.

RETAINED EARNINGS

Retained earnings mainly 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 local legal restrictions.

FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are classified into the following categories:

- Financial assets and financial liabilities held for trading as well as designated by the Group and derivatives, "at fair value through profit and loss": these are initially recognized at fair value. Gains and losses arising from changes in the fair value are presented in the financial result. The designation as at fair value through profit and loss is consistent with the entity's risk management and investment strategy.
- 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 carried at amortized cost using the effective interest method.
- All other financial assets are classified as available-for-sale. The assets are carried at fair value and gains and losses arising from changes in the fair value are presented in other comprehensive income. Upon sale, permanent depreciation in value or other divestiture, the cumulative gains and losses that had been recognized in other comprehensive income are reclassified from equity to the income statement.
- Non-current financial liabilities are carried at amortized cost. Once they have been settled, financial liabilities are derecognized.

All purchases and sales of financial assets and liabilities are recognized on the settlement date. Financial assets are derecognized when Sika loses the rights to receive cash flows from the investment. Normally this occurs through the sale of assets or the repayment of granted loans or accounts receivable. The financial liabilities include financing debts that are carried at amortized cost using the effective interest method.

On each balance sheet date the Group assesses whether a financial asset is impaired. If objective evidence exists that an impairment of financial assets carried at amortized cost has occurred, then 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 discounted at the financial asset's original effective interest rate. If in the case of accounts receivable there is objective evidence that not all amounts due will be rendered according to the originally agreed invoicing conditions (for example when there is a high probability of insolvency or significant financial difficulties at a debtor), an impairment is recognized through use of an allowance account. The derecognition of receivables occurs when they are assessed as uncollectible. If an available-for-sale asset is impaired in its value, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is removed from equity and recognized in the income statement.

INCOME STATEMENT

NET SALES

Proceeds from the sale of goods and services are only reported in the income statement if risks and rewards of ownership have been substantially transferred to the purchaser, revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Net sales include all revenues from the sale of goods and services less discounts granted.

CONSTRUCTION CONTRACTS

Contract revenue and contract costs are recognized in accordance with the stage of completion. An expected loss is recognized as an expense immediately.

PERSONNEL EXPENSES

Personnel expenses include all payments to persons operating in an employment relationship with Sika. This item also encompasses such expenditures as pension fund contributions, health insurance contributions, and taxes and levies directly associated with personnel compensation.

EMPLOYEE PARTICIPATION PLAN – SHARE-BASED PAYMENTS

The Group operates a number of share-based compensation plans. The total amount to be recognized in profit and loss is determined by reference to the fair value at grant date of the equity instrument. The expenses are recognized in personnel expenses over the vesting period.

RESEARCH AND DEVELOPMENT

Research expenses are recognized in the income statement. Development expenses are not capitalized if the recognition criteria have not been met.

DEPRECIATION AND AMORTIZATION EXPENSES

Property, plant, and equipment are depreciated using the straight-line method based on the expected useful life of the asset. Intangible assets are usually amortized using the straight-line method based on the expected useful life of the asset.

INTEREST EXPENSE/OTHER FINANCIAL EXPENSES

In general, all interests and other expenses paid for the procurement of loans are recognized in the income statement. Any borrowing costs accrued in the course of development projects, e. g. the construction of new production facilities or software development, are capitalized together with the assets created.

INTEREST INCOME/OTHER FINANCIAL INCOME

Interest income is recognized pro rata temporis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

INCOME TAXES

Income tax expenses include income taxes based on current taxable income and deferred taxes.

SCOPE OF CONSOLIDATION AND ACQUISITIONS

The Consolidated Financial Statements of the Sika Group encompass the financial statements of Sika AG, Zugerstrasse 50, 6340 Baar, Switzerland, as well as its subsidiaries (see list starting on page 130 et seq. of the download version of this report) and associated companies (see note 7). In the year under review the scope of consolidation was expanded to include the newly acquired companies (see the next pages) and the following companies:

- Sika Cameroon SARL, Duala, Cameroon
- Sika Djibouti FZE, Djibouti City, Djibouti
- Sika Nicaragua S. A., Managua, Nicaragua

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

- Addiment Italia S.r.l., Peschiera Borromeo, Italy, was merged with Sika Italia S.p.A., Peschiera Borromeo, Italy.
- Axson Middle East FZE, Dubai, UAE, was liquidated.
- Sika FZCO, Dubai, UAE, was liquidated.
- Axson Services GmbH, Basel, Switzerland, was merged with Sika Technology AG, Baar, Switzerland.
- Axson GmbH, Ditzgenbach, Germany, was merged with Sika Deutschland GmbH, Stuttgart, Germany.
- Construction Technologies Australia Pty. Ltd. (CTA), Seven Hills, Australia, was merged with Sika Australia Pty. Ltd., Wetherill Park, Australia.
- AKIS Ireland Ltd., Dublin, Ireland, was liquidated.
- BMI Products of Northern California Inc., Milpitas, USA, was merged with Sika Corporation, Lyndhurst, USA.

ACQUISITIONS 2015

In 2015, Sika acquired various companies or parts of companies. The purchase prices and their allocation (PPA) did not change and are now final.

ACQUIRED NET ASSETS AT FAIR VALUE

in CHF mn	Axson Technologies	Other acquisitions ¹
Cash and cash equivalents	9.9	6.2
Accounts receivable	17.4	9.3
Inventories	13.2	3.5
Other current assets	4.4	0.2
Property, plant, and equipment	10.1	6.5
Intangible assets	17.3	6.2
Deferred tax asset	0.0	0.1
Other non-current assets	0.7	0.0
Total assets	73.0	32.0
Short-term loans and bank overdrafts	2.0	0.8
Accounts payable	10.2	9.1
Other current liabilities	7.8	1.7
Long-term loans and financial liabilities	0.0	0.5
Provisions	2.4	0.4
Employee benefit liabilities	1.9	0.5
Deferred tax liabilities	4.2	1.1
Total liabilities	28.5	14.1
Acquired net assets	44.5	17.9
Goodwill	19.6	20.6
Fair value of initial investment	0.0	-8.6
Total purchase consideration	64.1	29.9
Cash in acquired assets	-9.9	-6.2
Payments still due (per December 31, 2015)	0.0	-8.4
Net cash outflow	54.2	15.3

1 Duro-Moza, BMI, CTA and Addiment Italia, individually not material.

Since the purchase, Axson Technologies has contributed sales of CHF 73.9 million and net profit of CHF 0.8 million. If the acquisition had taken place on the first day of the accounting period, its additional contribution to consolidated net sales would have been CHF 21.9 million. Consolidated net profit would have been CHF 0.1 million lower.

Since purchase, the other acquisitions have contributed sales of CHF 30.0 million and net losses of CHF 1.4 million. If the acquisitions had taken place on the first day of the accounting period, their additional contribution to consolidated net sales would have been CHF 13.4 million. Consolidated net profit would have been CHF 0.4 million higher.

The directly attributable transaction costs of all acquisitions amounted to CHF 2.8 million and were charged to other operating expenses.

ACQUISITIONS 2016

In 2016, Sika acquired various companies.

Company	Type of transaction	Stake in %	Closing date
L.M. Scofield, USA	Share deal	100.0	3/31/2016
FRC Industries, USA	Share deal	100.0	8/31/2016
Ronacrete (Far East) Ltd., Hong Kong	Share deal	100.0	12/23/2016

In April 2016 Sika acquired L.M. Scofield, an US-based market leader in the production of concrete color additives for ready-mixed concrete, along with decorative products and treatments for concrete refurbishment. With two strategic production locations in Los Angeles, California, and Atlanta, Georgia, Scofield produces a complete range of color solution products to serve customers in the fast-growing decorative concrete market of North America. The products are highly regarded and widely specified, even beyond the North American continent.

The purchase consideration was paid using Sika bearer shares. The fair value of the transferred shares amounted to CHF 14.0 million based on the published share price on April 1, 2016. A contingent consideration payable in Sika bearer shares with a value of CHF 1.3 million at acquisition date is included in the total purchase consideration.

In September Sika agreed to acquire FRC Industries. FRC Industries offers a full line of high quality synthetic polypropylene and steel fibers for concrete. This acquisition will accelerate growth in the USA and further establish Sika as a comprehensive supplier of solutions for the construction industry.

Sika has further agreed to acquire Ronacrete (Far East) Ltd., a leading supplier of repair mortars, tile adhesives and other mortar products in Hong Kong. Ronacrete has built up a strong specification business over the last few decades and has established itself as a preferred partner for key developers in Hong Kong. Additionally it operates an efficient production facility in the neighbouring Guangzhou province.

These acquisitions have contributed sales of CHF 15.9 million and net profit of CHF 0.5 million. If the acquisitions had taken place on the first day of the accounting period, their additional contribution to consolidated net sales would have been CHF 21.1 million. Consolidated net profit would have been CHF 1.3 million higher. Accounts receivable have a gross value of CHF 4.5 million and were adjusted since CHF 0.2 million were classified as non-recoverable.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn

Acquisitions 2016¹

Cash and cash equivalents	3.6
Accounts receivable	4.3
Inventories	3.3
Other current assets	0.5
Property, plant, and equipment	4.7
Intangible assets	12.0
Total assets	28.4
Current bank loans	0.2
Accounts payable	2.0
Other current liabilities	2.0
Provisions	0.2
Deferred tax liabilities	2.2
Other non-current liabilities	0.4
Total liabilities	7.0
Acquired net assets	21.4
Goodwill	23.7
Total purchase price	45.1
Cash in acquired assets	-3.6
Use of Sika bearer shares	-14.0
Payments still due (per December 31, 2016)	-3.9
Net cash outflow	23.6

1 L.M. Scofield, FRC Industries, Ronacrete (Far East) Ltd.; individually not material.

Since the purchase prices and the purchase price allocations for all acquisitions still entail some uncertainty, all positions with the exception of "Cash and cash equivalents" are provisional. Product synergies and combined distribution channels and product portfolios justify the goodwill recognized. Goodwill is not tax deductible.

The directly attributable transaction costs of all acquisitions amounted to CHF 0.5 million and were charged to other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND CASH EQUIVALENTS CHF 1,155.0 MN (CHF 1,074.4 MN)

The cash management of the Group includes cash pooling, in which cash and cash equivalents available within the Group are pooled. The item "Cash and cash equivalents" includes cash and cash equivalents with a maturity of less than three months, bearing interest at a respectively valid rate.

2. ACCOUNTS RECEIVABLE CHF 1,043.1 MN (CHF 1,014.5 MN)

The following tables show accounts receivable, the development of the allowance for doubtful debts as well as the portion of not overdue and overdue receivables including their age structure. Accounts receivable are non-interest-bearing and are generally due within 30 to 90 days.

MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS

in CHF mn	2015	2016
January 1	74.3	65.4
Additions to or increase in allowances	19.9	17.1
Reversal or utilization of allowances	-22.7	-15.0
Exchange differences	-6.1	-1.6
December 31	65.4	65.9

AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE

in CHF mn	2015	2016
Net accounts receivable	1,014.5	1,043.1
Of which		
Not overdue	755.2	793.7
Past due < 31 days	168.5	158.1
Past due 31 - 60 days	42.4	46.0
Past due 61 - 180 days	48.4	45.0
Past due > 181 days	65.4	66.2
Allowance for doubtful accounts	-65.4	-65.9

The increase and decrease of allowances for doubtful debts are recognized in other operating expenses. Amounts entered as allowances are usually derecognized when payment is no longer expected.

3. INVENTORIES CHF 600.8 MN (CHF 584.9 MN)

in CHF mn	2015	2016
Raw materials and supplies	180.0	182.4
Semi-finished goods	47.1	44.4
Finished goods	299.3	311.3
Merchandise	58.5	62.7
Total	584.9	600.8

4. OTHER ASSETS CHF 64.9 MN (CHF 68.3 MN)

The assets contained in this category and any changes in them can be seen in the following table.

OTHER CURRENT ASSETS

in CHF mn	2015	2016
Derivatives (at fair value through profit and loss)	12.1	4.3
Loans (loans and receivables)	3.4	3.0
Securities (at fair value through profit and loss)	1.8	1.8
Other financial assets	17.3	9.1
Other current assets	17.3	9.1

OTHER NON-CURRENT ASSETS

in CHF mn	2015	2016
Securities (at fair value through profit and loss)	34.0	38.3
Loans (loans and receivables)	1.5	1.7
Other financial assets	35.5	40.0
Employee benefit assets ¹	15.5	15.8
Other non-current assets	51.0	55.8

¹ Includes the excess of assets for employee benefit plans with defined benefits, see note 14.

5. PROPERTY, PLANT, AND EQUIPMENT CHF 959.2 MN (CHF 924.3 MN)

	Property	Plant	Equipment	Plants and buildings under construction	Total
in CHF mn					
At January 1, 2015					
Acquisition cost	117.1	658.8	1,497.4	64.5	2,337.8
Cumulative depreciation and impairment	-1.3	-384.2	-993.1	-0.9	-1,379.5
Net values at January 1, 2015	115.8	274.6	504.3	63.6	958.3
Additions	0.6	4.8	45.8	84.4	135.6
Acquired on acquisition	2.9	6.0	7.7	0.0	16.6
Exchange differences	-8.2	-18.9	-33.7	-5.7	-66.5
Disposals	-0.8	-1.8	-2.6	0.0	-5.2
Reclassifications ¹	2.0	10.1	47.5	-59.8	-0.2
Depreciation charge for the year	-0.2	-22.5	-91.6	0.0	-114.3
At December 31, 2015	112.1	252.3	477.4	82.5	924.3
As January 1, 2016					
Acquisition cost	113.5	641.0	1,489.6	83.1	2,327.2
Cumulative depreciation and impairment	-1.4	-388.7	-1,012.2	-0.6	-1,402.9
Net values at January 1, 2016	112.1	252.3	477.4	82.5	924.3
Additions	2.9	10.5	59.7	76.4	149.5
Acquired on acquisition	1.7	1.1	1.8	0.1	4.7
Exchange differences	0.3	0.0	1.7	1.4	3.4
Disposals	-0.7	-1.2	-1.9	0.0	-3.8
Reclassifications ¹	7.5	41.4	57.5	-107.0	-0.6
Depreciation charge for the year	0.0	-20.9	-97.4	0.0	-118.3
At December 31, 2016	123.8	283.2	498.8	53.4	959.2
Acquisition cost	125.3	692.5	1,582.6	53.4	2,453.8
Cumulative depreciation and impairment	-1.5	-409.3	-1,083.8	0.0	-1,494.6
Net values at December 31, 2016	123.8	283.2	498.8	53.4	959.2

1 Plants and buildings under construction are reclassified after completion within property, plant, and equipment as well as intangible assets.

In principle all plants are owned by subsidiaries. Some smaller plants as well as the adhesive plant, the R&D center and the logistics center of Sika Schweiz AG are financed by operating leases. Operating leases also relate to data processing equipment and copiers as well as vehicles used by the sales force. Leasehold contracts are insignificant. Plant and equipment includes machinery, vehicles, equipment, furnishings, and hardware.

in CHF mn	Operating leases		2015			Finance leases		
	2015 Minimum payments	2016 Minimum payments	Minimum payments	Interest	Present value of payments	Minimum payments	Interest	Present value of payments
Within 1 year	84.3	88.9	0.2	0.0	0.2	0.1	0.0	0.1
1 - 5 years	176.7	170.7	0.6	0.1	0.5	0.3	0.0	0.3
Over 5 years	58.5	57.6	0.0	0.0	0.0	0.0	0.0	0.0
Total	319.5	317.2	0.8	0.1	0.7	0.4	0.0	0.4

6. INTANGIBLE ASSETS CHF 1,021.2 MN (CHF 1,037.9 MN)

in CHF mn	Goodwill	Software	Trademarks	Customer relations	Other intangibles	Total
At January 1, 2015						
Acquisition costs	672.6	152.5	116.9	326.6	98.1	1,366.7
Cumulative amortization and impairment	-8.8	-102.8	-16.3	-114.6	-49.6	-292.1
Net values at January 1, 2015	663.8	49.7	100.6	212.0	48.5	1,074.6
Additions	0.0	6.4	0.5	0.0	0.1	7.0
Acquired on acquisition	40.2	0.1	8.5	8.4	6.5	63.7
Exchange differences	-42.3	-1.6	-0.8	-11.8	-1.1	-57.6
Disposals	0.0	-0.2	0.0	0.1	-0.2	-0.3
Reclassifications (net)	0.0	0.2	0.0	0.0	0.0	0.2
Amortization for the year	0.0	-12.7	-6.4	-22.5	-8.1	-49.7
At December 31, 2015	661.7	41.9	102.4	186.2	45.7	1,037.9
At January 1, 2016						
Acquisition costs	669.2	147.9	124.8	319.9	102.0	1,363.8
Cumulative amortization and impairment	-7.5	-106.0	-22.4	-133.7	-56.3	-325.9
Net values at January 1, 2016	661.7	41.9	102.4	186.2	45.7	1,037.9
Additions	0.0	5.2	0.0	0.0	0.2	5.4
Acquired on acquisition	23.7	0.0	3.7	6.7	1.6	35.7
Exchange differences	-6.7	0.1	0.5	0.0	-0.1	-6.2
Disposals	0.0	-0.1	0.0	0.0	0.0	-0.1
Reclassifications (net)	0.0	0.8	0.0	0.0	-0.2	0.6
Amortization for the year	0.0	-13.8	-7.1	-22.8	-8.4	-52.1
At December 31, 2016	678.7	34.1	99.5	170.1	38.8	1,021.2
Acquisition costs	685.7	148.4	108.5	310.4	103.2	1,356.2
Cumulative amortization and impairment	-7.0	-114.3	-9.0	-140.3	-64.4	-335.0
Net values at December 31, 2016	678.7	34.1	99.5	170.1	38.8	1,021.2

The intangible assets (except for goodwill and trademarks) each have finite useful lives over which the assets are amortized. The internally developed SAP platform used since 2010 will be amortized on the basis of its effective use within the Group. The carrying value was CHF 23.3 million (CHF 29.3 million) as of December 31, 2016. The remaining useful life is estimated to be between 5 and 8 years.

Trademarks may have an indefinite useful life because they are influenced by internal and external factors such as strategic decisions, competitive and customer behavior, technical development, and changing market requirements. The carrying value of trademarks with an indefinite useful life amounts to CHF 72.4 million (CHF 72.4 million). The impairment test is based on estimated sales attributable to the trademark. The calculation of the value in use is based on the target figures and cash flow forecasts. The forecasting horizon is three years as approved by the Board of Directors. Assumed therein is a growth rate of 2.0% (1.9%) for the planning period. Afterwards a growth rate of 2.0% (2.0%) is assumed. The pre-tax discount rate amounts to 11.9% (11.5%). The sensitivity analysis carried out shows that a realistic change in the key assumptions (5% of the royalty rate) would not result in the realizable value falling below the carrying value.

GOODWILL ITEMS TESTED FOR IMPAIRMENT. For all goodwill items an impairment test was carried out on the basis of the discounted cash flow method. The calculation of the value in use is based on the target figures and cash flow forecasts. The forecasting horizon is three years as approved by the Board of Directors. The growth rates upon which the forecast is set correspond to the market expectations of the cash-generating units and range between 4.3% and 10.0% (2.6% and 7.8%) per year. The sensitivity analysis carried out shows that a realistic change in the key assumptions (-1% in growth rates or +0.5% of the discount rate) would not result in the realizable value falling below the book value. The cash flow forecast beyond the planning period is extrapolated using a growth rate of 2.5% to 4.5% (1.3% to 5.7%). The discount rates are determined on the basis of the weighted average cost of capital of the Group, with country- and currency-specific risks within the context of cash flows taken into consideration. The business segments within the regions constitute the cash-generating units.

GOODWILL ASSIGNED TO CASH-GENERATING UNITS

in CHF mn	Growth rates (%) ¹	Discount rates (%) ²	Goodwill
December 31, 2015			
Construction business EMEA	1.3	8.5	415.7
Construction business North America	2.0	10.6	92.0
Construction business Latin America	4.9	18.4	9.9
Construction business Asia/Pacific	3.1	10.4	77.2
Automotive	2.0	10.6	46.8
Not yet allocated ³			20.1
Total			661.7
December 31, 2016			
Construction business EMEA	2.5	8.3	403.0
Industrial manufacturing EMEA	2.6	8.3	19.6
Construction business North America	2.8	10.6	107.4
Construction business Latin America	4.5	18.4	11.0
Construction business Asia/Pacific	3.5	10.7	89.2
Automotive	3.2	9.6	48.5
Total			678.7

1 Growth rate beyond the planning period.

2 Pre-tax discount rates (%).

3 The initial allocation for goodwill from the Axson acquisition was not yet completed. Therefore, and as there was no triggering event for an impairment test, goodwill was not tested for impairment in 2015.

7. INVESTMENTS IN ASSOCIATED COMPANIES CHF 6.3 MN (CHF 6.4 MN)

The following associated companies are included in the Consolidated Financial Statements as of December 31, 2016: Condensil SARL, France (Sika stake 40%), Part GmbH, Germany (50%), Sarna Granol AG, Switzerland (50%), Hayashi-Sika Automotive Ltd., Japan (50%), Chemical Sangyo Ltd., Japan (50%), and Seven Tech Co. Ltd., Japan (50%). The stakes are unchanged compared to the prior year.

The following amounts represent the Group's stake in net sales, and net income of associates.

ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%)

in CHF mn	2015	2016
Sales	22.1	20.2
Profit	0.6	0.4

8. INCOME TAXES

CARRY FORWARD OF TAX LOSSES, FOR WHICH NO DEFERRED TAX ASSETS HAVE BEEN RECOGNIZED

in CHF mn	2015	2016
1 year or less	0.0	0.0
1 - 5 years	13.4	5.6
Over 5 years or non-expiring	27.5	2.6
Total	40.9	8.2

The underlying average tax rate is 24.8% (30.7%).

RECONCILIATION OF NET DEFERRED TAX ASSETS

in CHF mn	2015	2016
January 1	12.1	16.3
Credited (+)/debited (-) to income statement	13.9	40.0
Credited (+)/debited (-) to other comprehensive income	-0.3	-6.4
Exchange differences	-4.2	1.8
Acquisitions/divestments	-5.2	-2.2
December 31	16.3	49.5

ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF mn	2015			2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax losses brought forward	8.4		8.4	20.1		20.1
Current assets	21.8	-9.1	12.7	22.5	-10.1	12.4
Property, plant, and equipment	8.3	-33.6	-25.3	7.9	-31.7	-23.8
Other non-current assets	4.3	-58.4	-54.1	29.3	-56.4	-27.1
Liabilities	83.3	-5.3	78.0	79.9	-6.0	73.9
Withholding taxes on dividends	-	-3.4	-3.4	-	-6.0	-6.0
Total	126.1	-109.8	16.3	159.7	-110.2	49.5

In the year under review deferred tax assets from carried forward tax losses of CHF 4.0 million (CHF 0.9 million) were offset and deferred carried forward tax losses of CHF 0.6 million (CHF 3.0 million) were generated. They have reduced by CHF 12.9 million due to valuation adjustments (increase of CHF 3.4 million).

The tax rate decreased to 25.0% (25.2%). Income taxes of CHF 189.2 million (CHF 156.8 million) consist of:

INCOME TAXES

in CHF mn	2015	2016
Income tax during the year under review	173.9	227.9
Deferred income tax	-13.9	-40.0
Income tax from prior years	-3.2	1.3
Total	156.8	189.2

RECONCILIATION BETWEEN ANTICIPATED AND EFFECTIVE TAX EXPENSE

in CHF mn	%	2015	%	2016
Profit before taxes		621.9		755.8
Anticipated tax expense	24.4	151.5	24.0	181.4
Non-taxable income/non-tax-deductible expenses	-1.2	-7.4	0.4	3.5
Change in anticipated tax rate	0.1	0.7	0.0	0.1
Adjusted tax expense from earlier periods	-0.5	-3.2	0.2	1.3
Valuation adjustment on deferred tax assets	1.2	7.4	-1.4	-10.8
Withholding tax on dividends, licenses, and interests	1.4	9.0	2.2	16.9
Other	-0.2	-1.2	-0.4	-3.2
Tax expense as per consolidated income statement	25.2	156.8	25.0	189.2

The anticipated average Group income tax rate of 24.0% (24.4%) corresponds with the average tax on profits of the individual Group companies in their respective fiscal jurisdictions. The change in the anticipated tax rate is attributable to changing profits of the Group companies in their respective fiscal jurisdictions and to changes in their tax rates in some cases.

9. ACCOUNTS PAYABLE CHF 587.0 MN (CHF 581.1 MN)

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

10. ACCRUED EXPENSES AND DEFERRED INCOME CHF 223.9 MN (CHF 217.3 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, social security expenses and deferred revenue in the amount of CHF 4.1 million (CHF 3.8 million).

11. OTHER LIABILITIES CHF 86.8 MN (CHF 67.9 MN)

OTHER CURRENT LIABILITIES

in CHF mn	2015	2016
Derivatives (at fair value through profit and loss)	4.8	10.5
Bank loans	9.3	19.8
Other financial liabilities	14.2	14.0
Other current liabilities	28.3	44.3

A number of Group companies have their own credit lines. The total amount is insignificant in scale. The credit lines are used in individual cases when intra-Group financing is not permitted or there are benefits from local financing.

OTHER NON-CURRENT LIABILITIES

in CHF mn	2015	2016
Other financial liabilities	10.4	8.7
Other non-financial liabilities ¹	29.2	33.8
Other non-current liabilities	39.6	42.5

1 Includes deferred revenue in the amount of CHF 33.8 million (CHF 29.2 million). For details see note 16.

12. BONDS CHF 0.0 MN SHORT-TERM/CHF 698.7 MN LONG-TERM (CHF 249.9 MN/CHF 698.4 MN)

Sika AG has the following bonds outstanding:

in CHF mn	2015		2016	
	Book value	Nominal	Book value	Nominal
2.875% 2006 - 2016	249.9	250.0	0.0	0.0
1.000% 2012 - 2018	149.8	150.0	149.9	150.0
1.125% 2013 - 2019	199.6	200.0	199.7	200.0
1.750% 2012 - 2022	149.9	150.0	149.9	150.0
1.875% 2013 - 2023	199.1	200.0	199.2	200.0
Total	948.3	950.0	698.7	700.0

13. PROVISIONS CHF 78.3 MN (CHF 80.7 MN)

Provisions for guarantees reflect all known claims anticipated in the near future. The amounts of the provision 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 and tax cases with a probability of occurrence above 50%.

From the sum of provisions, CHF 57.5 million (CHF 61.9 million) are shown as non-current liabilities, since an outflow of funds is not expected within the next twelve months.

For provisions of CHF 20.8 million (CHF 18.8 million), an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

in CHF mn	Provisions		
	Warranties	Sundry risks	Total
Current provisions	15.5	5.3	20.8
Non-current provisions	30.3	27.2	57.5
Provisions	45.8	32.5	78.3
Reconciliation			
At January 1, 2016	52.4	28.3	80.7
Additions	23.6	10.8	34.4
Assumed on acquisition	0.1	0.1	0.2
Exchange differences	-0.1	0.3	0.2
Utilization	-25.0	-3.8	-28.8
Reversal	-5.2	-3.2	-8.4
At December 31, 2016	45.8	32.5	78.3

14. EMPLOYEE BENEFIT OBLIGATION

To complement the benefits provided by state-regulated pension schemes, Sika maintains additional employee pension plans for a number of subsidiaries. In principle these fall into the following categories:

DEFINED CONTRIBUTION PENSION FUNDS. The majority of Sika subsidiaries operate defined contribution pension plans. In these, employees and employer regularly contribute to funds administered by third parties. This does not give rise to any assets or liabilities in the consolidated balance sheet.

DEFINED BENEFIT PENSION FUNDS. Defined benefit pension plans for staff exist at 41 Group companies. The biggest plans are in Switzerland, accounting for 79.5% (81.5%) of Sika's entire defined benefit pension obligations and 96.2% (96.2%) of plan assets.

SWISS PENSION PLANS. Sika companies in Switzerland have legally independent foundations for this purpose, thereby segregating their pension obligation liabilities. In accordance with local statutory requirements, Sika has no obligations to these pension plans beyond the regulatory contributions and any recapitalization contributions that may become necessary. According to IAS 19, the Swiss pension plans qualify as defined benefit plans, so the actuarially calculated surplus or deficit is recognized in the consolidated balance sheet.

The supreme governing body of the pension fund is composed of equal numbers of employee and employer representatives. There is also a management pension scheme and a welfare foundation, which provide statutory benefits, and a scheme that enables employees to take early retirement.

Both the Sika pension fund and the welfare foundation bear the investment risks and the age risk themselves. As the supreme governing body of the pension fund, the Board of Trustees is responsible for investment. The investment strategy is defined so as to ensure that the benefits can be provided when they become due. The pension fund has concluded a contract for matching reinsurance for the risks of death and invalidity. The insurance-related and investment risks of the management pension scheme are fully reinsured. The retirement pension is calculated using the retirement assets available at the time of retirement multiplied by the conversion rates specified in the regulations. The employee has the opportunity to withdraw pension benefits in the form of a lump sum.

The Federal Law on Occupational Retirement, Survivors', and Disability Pensions (BVG) governs the way in which employees and employer must jointly participate in any restructuring measures in the event of a significant deficit, such as by making additional contributions. In the current year, as in the prior year, the Swiss pension plans are showing a surplus under BVG and it is not expected that additional contributions will be necessary for the next year.

in CHF mn	2015			2016		
	Assets ¹	Liabilities	Net	Assets ¹	Liabilities	Net
Employee benefit plans with defined benefits	15.5	242.6	227.1	15.8	210.0	194.2
Other employee commitments	23.6	56.3	32.7	29.2	64.6	35.4
Total	39.1	298.9	259.8	45.0	274.6	229.6

1 Includes employee benefit assets recognized in balance sheet for employee benefit plans with defined benefits (see note 4) as well as financial assets for non-qualifying pension plans recognized in other non-current financial assets (securities).

Other long-term liabilities arise from long-service bonuses and similar benefits that Sika grants to its employees.

MOVEMENT IN THE NET DEFINED BENEFIT OBLIGATION

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
At January 1, 2015	-875.3	644.6	-2.3	-233.0
Current service cost	-30.8			-30.8
Interest expense/interest income	-13.9	9.4		-4.5
Past service cost and gains and losses on settlements and curtailments	3.1			3.1
Total expense recognized in income statement	-41.6	9.4		-32.2
thereof Switzerland	-31.9	8.7		-23.2
thereof others	-9.7	0.7		-9.0
Return on plan assets, excluding amounts included in interest income		3.0		3.0
Losses from change in financial assumptions	-28.9			-28.9
Gains from change in demographic assumptions	28.3			28.3
Experience losses	-0.8			-0.8
Change in asset ceiling			1.4	1.4
Total remeasurement recognized in other comprehensive income	-1.4	3.0	1.4	3.0
thereof Switzerland	1.5	3.0	1.4	5.9
thereof others	-2.9	-	-	-2.9
Exchange differences	15.5	-2.3		13.2
Contributions by employers	-	19.8		19.8
Contributions by plan participants	-11.7	11.7		-
Benefits paid	34.1	-28.5		5.6
Settlements paid	0.1	-		0.1
Acquired in a business combination and others	-3.6	-		-3.6
At December 31, 2015	-883.9	657.7	-0.9	-227.1
thereof Switzerland	-720.2	632.5	-0.9	-88.6
thereof others	-163.7	25.2	-	-138.5

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
At January 1, 2016	-883.9	657.7	-0.9	-227.1
Current service cost	-31.4			-31.4
Interest expense/interest income	-10.6	6.5		-4.1
Total expense recognized in income statement	-42.0	6.5		-35.5
thereof Switzerland	-31.7	5.7		-26.0
thereof others	-10.3	0.8		-9.5
Return on plan assets, excluding amounts included in interest income		24.3		24.3
Gains from changes in financial assumptions	4.3			4.3
Gains from changes in demographic assumptions	10.3			10.3
Experience gain	4.6			4.6
Change in asset ceiling			0.9	0.9
Total remeasurement recognized in other comprehensive income	19.2	24.3	0.9	44.4
thereof Switzerland	35.8	22.3	0.9	59.0
thereof others	-16.6	2.0	-	-14.6
Exchange differences	1.1	-0.3		0.8
Contributions by employers	-	18.4		18.4
Contributions by plan participants	-12.1	12.1		-
Benefits paid	28.9	-22.8		6.1
Settlements paid	1.5	-1.5		-
Acquired in a business combination and others	-1.3	-		-1.3
At December 31, 2016	-888.6	694.4	-	-194.2
thereof Switzerland	-706.7	667.7	-	-39.0
thereof others	-181.9	26.7	-	-155.2

The contributions that are expected to be paid into the defined benefit pension plans for 2017 amount to CHF 18.0 million.

The Group's total expenses for employee benefits are included in the Consolidated Financial Statements under "Personnel expenses".

The stated deficit results partly from the defined benefit obligation of the unfunded benefit plans of CHF 128.2 million (CHF 124.8 million). The schemes in Germany, in particular, do not have segregated assets.

MAJOR CATEGORIES OF TOTAL PLAN ASSETS

in CHF mn	2015			2016		
	Switzerland	Others	Total	Switzerland	Others	Total
Cash and cash equivalents	28.6	13.5	42.1	25.0	14.2	39.2
Equity instruments	238.2	2.0	240.2	269.7	2.6	272.3
Debt instruments	237.7	2.8	240.5	235.8	1.8	237.6
Real estate investments	107.7	0.7	108.4	114.2	0.0	114.2
Other assets	20.3	6.2	26.5	23.0	8.1	31.1
Total	632.5	25.2	657.7	667.7	26.7	694.4

Most of the plan assets of the pension schemes are invested in assets with quoted market prices. In the year under review, 12.7% (13.4%) of the investments in real estate and 6.1% (6.8%) of the other assets did not have a quoted market price.

AMOUNTS INCLUDED IN PLAN ASSETS

in CHF mn	2015	2016
Shares Sika AG	19.3	23.9
Own property occupied by Sika	9.3	9.4
Total	28.6	33.3

ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

	2015		2016	
	Switzerland	Others	Switzerland	Others
Discount rate in the year under review (%)	0.9	2.4	0.7	1.9

THE SENSITIVITY OF THE DEFINED BENEFIT OBLIGATION TO CHANGES IN THE PRINCIPAL ASSUMPTIONS

in CHF mn	Change in assumption	Impact on defined benefit obligation	
		Switzerland	Others
Discount rate	+0.25%	-27.5	-7.1
Discount rate	-0.25%	29.5	7.6

NUMBER OF PLANS AND INSURED PERSONS

	2015		2016	
	Switzerland	Others	Switzerland	Others
Number of insured employees	1,958	4,291	1,914	4,296
Number of insured retired persons	469	1,200	484	1,242
Total number of defined benefit plans	5	39	5	37
thereof number of defined benefit plans funded	4	12	4	10
thereof number of defined benefit plans unfunded	1	27	1	27
Average weighted duration in years	17.2	16.4	16.2	16.8

15. SHAREHOLDERS' EQUITY CHF 2,947.7 MN (CHF 2,552.1 MN)
Equity accounts for 57.8% (51.8%) of the balance sheet total.

CAPITAL STOCK

in CHF mn	Number	2015	2016
Registered shares, nominal value CHF 0.10	2,333,874	0.2	0.2
Bearer shares, nominal value CHF 0.60	2,151,199	1.3	1.3
Capital stock		1.5	1.5

The Board of Directors proposes to the Annual General Meeting payment of a dividend of CHF 17.00 per registered share and of CHF 102.00 per bearer share, in the total amount of CHF 258.8 million, to the shareholders of Sika AG.

The capital stock is divided into the following categories:

	Bearer shares ¹ nominal value CHF 0.60	Registered shares nominal value CHF 0.10	Total ¹
12/31/2015 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107
12/31/2016 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107

¹ Includes treasury shares 2,666 units (343 units) which do not carry voting and dividend rights.

16. NET SALES CHF 5,747.7 MN (CHF 5,489.2 MN)

Sales of goods account for practically all net sales. In comparison with the prior year, net sales denominated in Swiss francs increased by 4.7%. Taking currency effects amounting to -0.8% into consideration, sales increased in local currencies by 5.5%, including a growth from acquisitions of 0.9%.

Extended warranty contracts are sold for certain products on installed roofing systems. Revenue for separately priced extended warranties is deferred and recognized on a straight-line basis over the extended warranty period. In 2016, revenues of CHF 4.2 million (CHF 4.1 million) were recognized. The contract balances are included in accrued expenses and deferred income (see note 10) as well as in other non-current non-financial financial liabilities (see note 11).

17. MATERIAL EXPENSES CHF 2,566.6 MN (CHF 2,518.4 MN)

Material expenses decreased as a percentage of net sales by 1.2 percentage points. In the year under review a favorable material price development together with good price and product management led to an improvement in gross result from 54.1% to 55.3%. Material expenses include inventory write-offs in the amount of CHF 24.0 million (CHF 23.1 million).

18. PERSONNEL EXPENSES CHF 1,159.1 MN (CHF 1,106.5 MN)

Personnel expenses increased proportionately with net sales mainly due to the desired expansion in growth markets.

in CHF mn	2015	2016
Wages and salaries	899.7	941.0
Social charges	206.8	218.1
Personnel expenses	1,106.5	1,159.1

EMPLOYEE BENEFIT COSTS

in CHF mn	2015	2016
Employee benefit plans with defined benefits ¹	27.7	31.4
Other employee benefit plans	35.1	38.5
Employee benefit costs	62.8	69.9

¹ Includes pension expense recognized in income statement (see note 14) without interest income/interest expenses.

EMPLOYEE PARTICIPATION PLAN - SHARE-BASED PAYMENTS

Sika operates the following share-based compensation plans:

PERFORMANCE BONUS (SHORT-TERM INCENTIVE). Sika Senior Management (by definition, Sika Senior Management includes the management level reporting into Group Management, 164 participants) and Group Management receive shares of Sika AG as a component of their variable compensation. The shares are granted at the average market price of the first five trading days in April of the subsequent business year. The allocated shares are subject to a blocking period of four years. The following different share plans are in place:

Sika Senior Managers may draw optionally 0%, 20% or 40% of the performance bonus in the form of shares of Sika AG. As remuneration for the services rendered by them in 2015, they drew 824 shares at a fair value of CHF 3.2 million in 2016 (CHF 3,870 per share). In 2015, the fair value of the compensation for 2014 amounted to CHF 3.4 million (960 shares at CHF 3,536).

For 2016, the performance bonus for members of the Group Management will be paid out 20% in the form of shares of Sika AG. Moreover, members of the Group Management have an option to draw a further 20% of the performance bonus in the form of shares of Sika AG. As compensation for the services rendered by them in 2015, in 2016 they drew 303 shares at a fair value of CHF 1.2 million (CHF 3,870 per share). In 2015, the fair value of the compensation for 2014 amounted to CHF 1.3 million (358 shares at CHF 3,536).

LONG-TERM INCENTIVE (LTI-PLAN). The long-term incentive for members of the top management (extended Group Management) is granted in performance share units (PSU) that will be paid out in shares of Sika AG after a three-year vesting period. The shares are subject to an additional four-year blocking period. In 2016, 1,477 shares at a fair value of CHF 5.7 million (CHF 3,870 per share) were allocated to the members of the top management as part of the LTI. In 2015, the fair value of the compensation for 2014 amounted to CHF 5.5 million (1,533 shares at CHF 3,618).

The long-term variable remuneration for Sika Senior Managers is granted in performance share units (PSU). The PSUs are paid out in cash after a three-year vesting period. For senior managers who are transferred to another country during the vesting period, a pro-rata pay-out is made immediately in form of shares for the time of the vesting period that has elapsed until the transfer. The shares are granted at the fair value of the grant date and are blocked until the end of the vesting period. In 2016, 40 shares at a fair value of CHF 168 thousands were allocated. In 2015, the fair value of the compensation for 2014 amounted to CHF 40 thousands (12 shares).

SHARES FOR BOARD OF DIRECTORS. Until 2014, the members of the Board of Directors received shares in Sika AG as a component of their compensation. In the prior-year period the compensation amounted to CHF 0.7 million (207 shares at CHF 3,618).

Share-based remunerations are made by means of the transfer of treasury shares of Sika AG. The personnel expenses recognized for services received in the 2016 business year totaled CHF 26.7 million (CHF 25.0 million) of which the amount of CHF 7.7 million (CHF 9.0 million) was taken to equity and the amount of CHF 19.0 million (CHF 16.0 million) was recognized under liabilities.

No dilution effect has resulted because no additional shares have been issued.

19. OTHER OPERATING EXPENSES CHF 1,056.3 MN (CHF 1,027.0 MN)

Other operating expenses developed largely in line with volume, while the expense ratio improved slightly from 18.7% to 18.4%. Cost savings were realized mainly by reducing the costs of services and consulting.

in CHF mn	2015	2016
Production and operation ¹	352.1	373.0
Logistics and distribution	252.5	264.6
Sales, marketing, and travel costs	204.4	206.2
Administration and other costs ²	218.0	212.5
Total	1,027.0	1,056.3

1 This position includes primarily rental and lease expenses as well as costs for maintenance, repairs, and energy.

2 This position includes costs of services and consulting in the fields of law, tax, and information technology. Furthermore it covers training costs and government fees as well as costs for warranty settlements and legal claims.

Expenditures on research and development in the Group during the year under review totaled CHF 161.4 million (CHF 160.6 million), roughly equivalent to 2.8% (2.9%) of sales. Research and development expenses are included in personnel expenses, other operating expenses, as well as in depreciation and amortization expenses.

20. DEPRECIATION AND AMORTIZATION EXPENSES CHF 170.4 MN (CHF 164.0 MN)

The amount includes the regular depreciation and amortization expenses of tangible and intangible assets.

21. INTEREST EXPENSES/OTHER FINANCIAL EXPENSES CHF 47.8 MN (CHF 66.8 MN)

Interest expenses consist mainly of interest expenses for bond issues outstanding in the amount of CHF 12.2 million (CHF 18.0 million). Other financial expenses include gains and losses from foreign currency transactions and the hedging of loans. Other financial expenses decreased to CHF 27.4 million (CHF 41.3 million). A net loss of CHF 13.4 million (net gain of CHF 21.1 million) on financial assets and liabilities held at fair value through profit or loss was recognized in the income statement under other financial expenses.

22. INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES CHF 8.3 MN (CHF 15.4 MN)

Short-term surpluses in liquidity in various countries led to interest income of CHF 2.6 million (CHF 3.5 million). Income from associated companies is CHF 0.5 million (CHF 3.4 million). Other financial income decreased to CHF 5.2 million (CHF 8.5 million), as in the prior year a liability was reduced by CHF 2.1 million. The liability resulted from an acquisition in 2011 which included a contingent consideration.

23. NON-CONTROLLING INTERESTS CHF 3.5 MN (CHF 4.8 MN)

Most important companies with non-controlling interests:

- Sika Arabia Holding Co. WLL, Bahrain (49%)
- Sika UAE LLC, UAE (49%)
- Sika Saudi Arabia Co. Ltd., Saudi Arabia (49%)
- Sika International Chemicals LLC Abu Dhabi, UAE (49%)
- Sika Gulf B.S.C., Bahrain (49%)
- Hebei Jiuqiang Construction Material Co. Ltd., China (15%)

24. EARNINGS PER SHARE CHF 221.81 (CHF 181.37)

	2015	2016
Undiluted ("basic EPS")		
Net profit (in CHF mn)	460.3	563.1
Weighted average number of shares¹		
Bearer shares ² /units	2,148,897	2,149,695
Registered shares ³ /units	2,333,874	2,333,874
Earnings per share		
Bearer share ² /CHF	181.37	221.81
Registered share ³ /CHF	30.23	36.97

1 Excluding treasury shares held in the Group.

2 Nominal value: CHF 0.60.

3 Nominal value: CHF 0.10.

Earnings per share (EPS) amount to CHF 221.81 (CHF 181.37). The EPS have been calculated on the basis of net profit after non-controlling interests and the number of shares entitled to dividend, weighted over the course of the year. No dilution effect resulted because no options or convertible bonds are outstanding. For the business year 2015 the dividend amounted to CHF 78.00 per bearer share and to CHF 13.00 per registered share.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial instruments and the related risk management of the Sika Group are presented in this note.

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

in CHF mn	Level	2015		2016	
		Book value	Fair value	Book value	Fair value
Financial assets					
Cash and cash equivalents		1,074.4		1,155.0	
Loans and receivables		1,019.4		1,047.8	
Financial assets at fair value through profit and loss	1	35.8	35.8	40.1	40.1
Financial assets at fair value through profit and loss (derivatives)	2	12.1	12.1	4.3	4.3
Total		2,141.7		2,247.2	
Financial liabilities					
Bank overdrafts		9.3		19.8	
Bonds	2	948.3	994.0	698.7	738.0
Accounts payable		581.1		587.0	
Other financial liabilities		24.6		22.7	
Financial liabilities measured at amortized cost		1,563.3		1,328.2	
Financial liabilities at fair value through profit and loss (derivatives)	2	4.8	4.8	10.5	10.5
Total		1,568.1		1,338.7	

The book value of cash and cash equivalents, loans and receivables, bank overdrafts, accounts payable, and other financial liabilities almost equals the fair value.

The hierarchy below classifies financial instruments, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: procedures in which all input parameters having an essential effect on the registered market value are either directly or indirectly observable.
- Level 3: procedures applying to input parameters that have an essential effect on the registered market value but are not based on observable market data.

An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis.

Sika does not own any financial instruments requiring evaluation according to level 3 procedures.

MANAGEMENT OF FINANCIAL RISKS

BASIC PRINCIPLES. The Group's activities expose it to a variety of financial risks: market risks (primarily foreign exchange risks, price risks, and interest rate risks), credit risks, and liquidity risks. The Group's financial risk management program focuses on hedging volatility risks.

The Corporate Finance Department identifies, evaluates, and hedges financial risks in close cooperation with the Group's operating units.

PLEGDED OR CEDED ASSETS (ENCUMBERED ASSETS), TO SECURE OWN OBLIGATIONS

in CHF mn	2015	2016
Receivables	1.7	1.7
Property, plant, and equipment	0.6	0.6
Total book value of encumbered assets	2.3	2.3

OPEN DERIVATIVES

in CHF mn	Contractual value upon maturity				
	Replacement value (+)	(-)	Contract value	Up to 3 months	3 to 12 months
Open derivatives 2015					
Forward contracts (foreign exchange)	2.5	-0.8	134.9	72.9	62.0
Swaps (foreign exchange)	9.6	-4.0	1,110.9	366.8	744.1
Total derivatives	12.1	-4.8	1,245.8	439.7	806.1
Open derivatives 2016					
Forward contracts (foreign exchange)	2.4	-2.1	183.9	50.6	133.3
Swaps (foreign exchange)	1.9	-8.4	965.6	328.0	637.6
Total derivatives	4.3	-10.5	1,149.5	378.6	770.9

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 risks arise when commercial transactions as well as recognized assets or liabilities 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 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 assumption is that the Euro and US dollar respectively change against all other currencies by +/- 10%. The other currencies remain constant. The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments, Group-internal financing, 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 related to financial instruments held in the balance sheet. All other variables are held constant. The impact on shareholders' equity is insignificant.

SENSITIVITY ANALYSIS ON EXCHANGE RATES

Impact on profit before tax in CHF mn	2015	2016
EUR: +10%	-0.2	-6.3
EUR: -10%	0.2	6.3
USD: +10%	-3.5	-5.8
USD: -10%	3.5	5.8

PRICE RISKS. The Group is exposed to purchasing price risks because the 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. Short-term crude oil price increases have only limited impact on raw material prices. Sika limits market price risks for important products by means of maintaining corresponding inventories and Group contracts (lead buying). The 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 the issue of fixed-interest long-term bonds (nominal CHF 700 million). 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 developments are 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 its obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and banks. 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 individual customer represents more than 2.0% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2015 nor at year-end 2016. The largest possible risk represented by these items is the carrying amount of the accounts receivable and any warranties granted.

LIQUIDITY RISK. Liquidity risk refers to the risk of Sika no longer being able to meet its financial obligations in full. Prudent liquidity management includes maintaining sufficient cash and cash equivalents and securing the availability of liquidity reserves which can be called upon at short notice. Group Management monitors the Group's liquidity reserve on the basis of expected cash flows.

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

MATURITY PROFILE OF FINANCIAL LIABILITIES

in CHF mn	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
December 31, 2015				
Bank loans	9.3	0.0	0.0	9.3
Bonds	267.3	385.3	366.5	1,019.1
Accounts payable	581.1	0.0	0.0	581.1
Other financial liabilities	14.2	8.8	1.6	24.6
Financial liabilities measured at amortized cost	871.9	394.1	368.1	1,634.1
Financial liabilities at fair value through profit and loss	4.8	0.0	0.0	4.8
Total	876.7	394.1	368.1	1,638.9
December 31, 2016				
Bank loans	19.8	0.0	0.0	19.8
Bonds	10.1	381.5	360.1	751.7
Accounts payable	587.0	0.0	0.0	587.0
Other financial liabilities	14.0	7.8	0.9	22.7
Financial liabilities measured at amortized cost	630.9	389.3	361.0	1,381.2
Financial liabilities at fair value through profit and loss	10.5	0.0	0.0	10.5
Total	641.4	389.3	361.0	1,391.7

CAPITAL MANAGEMENT. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity 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, 2016, and December 31, 2015. The Group monitors its equity using the equity ratio, which is shareholders' equity divided by total capital.

26. CONTINGENT LIABILITIES

Given the Group's international operations, there are inherent tax risks which cannot be conclusively estimated. In ongoing business activity the Group may be 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, or 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 effects of such risks which can occur in the normal course of business is unforeseeable. In addition, their probability of occurrence lies below 50%.

in CHF mn	2015	2016
Guarantees and letters of comfort	16	17

If guarantees were claimed at the earliest possible date, then all would fall due within one year.

27. CASH FLOW STATEMENT

DETAILS TO THE CASH FLOW STATEMENT. Compared with the prior year, cash flow was influenced by:

- a higher net profit before taxes (CHF 133.9 million)
- a lower increase in net working capital (CHF 25.6 million)
- higher tax payments (CHF 27.8 million)
- lower acquisition activity (CHF 45.9 million)
- a net outflow from bonds (CHF -250.0 million)

in CHF mn	2015	2016
Operating activities	585.8	735.7
Investment activities	-206.3	-172.7
Financing activities	-186.8	-473.3
Exchange differences	-17.1	-9.1
Net change in cash and cash equivalents	175.6	80.6

FREE CASH FLOW AND OPERATING FREE CASH FLOW

in CHF mn	2015	2016
Cash flow from operating activities	585.8	735.7
Net investment in		
Property, plant, and equipment	-127.4	-144.0
Intangible assets	-6.9	-5.2
Acquisitions less cash and cash equivalents	-69.5	-23.6
Acquisitions (-)/disposals (+) of financial assets	-2.5	0.1
Free cash flow	379.5	563.0
Acquisitions/disposals less cash and cash equivalents	69.5	23.6
Acquisitions (+)/disposals (-) of financial assets	2.5	-0.1
Operating free cash flow	451.5	586.5

OTHER ADJUSTMENTS. Included in "Other adjustments" are:

in CHF mn	2015	2016
Non-liquidity-related interest expenses (-)/income (+)	-1.2	-6.7
Non-liquidity-related financial expenses (-)/income (+)	-2.7	1.2
Profit (-)/loss (+) from disposals of non-financial assets	-2.8	-1.8
Personnel expenses settled through treasury shares	9.0	7.7
Others	0.3	0.0
Total	2.6	0.4

28. SEGMENT REPORTING

Sika conducts its worldwide activities according to regions. Heads of regions are members of Group Management. Group Management is the highest operative executive body measuring the profit and loss of segments and allocating resources. The key figure of profit by which the segments are directed is that of operating profit, which stands in correlation with the Consolidated Financial Statements. The financing (including financial expenditures and revenues) as well as income taxes are managed uniformly across the Group and are not assigned to the individual segments. The composition of the regions is shown on page 47 of the download version of this report.

Products and services from all product groups are sold in all regions. Customers derive from the building and construction industry or from the area of industrial manufacturing. Sales are assigned according to company locations. Taxes and any effects of financing are allocated to other segments and activities. Transfer prices between segments are calculated according to generally accepted principles.

“Other segments and activities” include the automotive segment, expenditures for Group headquarters, and the proceeds from services. In addition they contain expenses and income that cannot be allocated to an individual region.

The acquired companies L.M. Scofield, USA, and FRC Industries, USA, were assigned to region North America. Ronacrete (Far East) Ltd., Hong Kong, was assigned to region Asia/Pacific.

NET SALES

in CHF mn	2015			2016		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	2,600.2	102.3	2,702.5	2,695.3	111.5	2,806.8
North America	839.2	22.7	861.9	922.6	22.1	944.7
Latin America	600.2	0.1	600.3	564.3	0.3	564.6
Asia/Pacific	1,017.3	5.7	1,023.0	1,080.7	12.8	1,093.5
Other segments and activities	432.3	-	432.3	484.8	-	484.8
Eliminations		-130.8	-130.8		-146.7	-146.7
Net sales	5,489.2	-	5,489.2	5,747.7	-	5,747.7
Products for construction industry			4,358.9			4,518.9
Products for industrial manufacturing			1,130.3			1,228.8

CHANGES IN NET SALES/CURRENCY IMPACT

in CHF mn	2015	2016	Change compared to prior year (+/- in %)		
			In Swiss francs	In local currencies	Currency impact
By region					
EMEA	2,600.2	2,695.3	3.7	4.6	-0.9
North America	839.2	922.6	9.9	7.8	2.1
Latin America	600.2	564.3	-6.0	5.1	-11.1
Asia/Pacific	1,017.3	1,080.7	6.2	3.6	2.6
Other segments and activities	432.3	484.8	12.1	11.7	0.4
Net sales	5,489.2	5,747.7	4.7	5.5	-0.8
Products for construction industry	4,358.9	4,518.9	3.7	4.7	-1.0
Products for industrial manufacturing	1,130.3	1,228.8	8.7	8.9	-0.2

OPERATING PROFIT

	2015	2016	Change compared to prior year	
in CHF mn			(+/-)	(+/- in %)
By region				
EMEA	368.2	395.6	27.4	7.4
North America	134.0	166.0	32.0	23.9
Latin America	110.4	109.2	-1.2	-1.1
Asia/Pacific	177.2	205.7	28.5	16.1
Other segments and activities	-116.5	-81.2	35.3	n.a.
Operating profit	673.3	795.3	122.0	18.1

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	2015	2016
Operating profit	673.3	795.3
Interest income	3.5	2.6
Interest expenses	-25.5	-20.4
Other financial income	8.5	5.2
Other financial expenses	-41.3	-27.4
Income from associated companies	3.4	0.5
Profit before taxes	621.9	755.8
Income taxes	-156.8	-189.2
Net profit	465.1	566.6

in CHF mn	2015		2016	
	Depreciation/ Amortization	Capital expenditures	Depreciation/ Amortization	Capital expenditures
EMEA	81.0	66.7	84.6	75.2
North America	19.9	16.0	21.4	20.6
Latin America	11.4	16.1	11.2	18.6
Asia/Pacific	23.7	24.9	25.4	23.4
Other segments and activities	28.0	18.9	27.8	17.1
Total	164.0	142.6	170.4	154.9

The following countries had a share of greater than 10% of at least one of the Group's key figures:

in CHF mn	Net sales				Non-current assets ¹			
	2015	%	2016	%	2015	%	2016	%
Switzerland	299.1	5.5	316.5	5.5	502.1	25.5	474.2	23.9
USA	863.9	15.7	955.3	16.6	227.3	11.5	254.6	12.8
Germany	649.2	11.8	663.7	11.6	243.6	12.4	239.0	12.0
All other	3,677.0	67.0	3,812.2	66.3	995.6	50.6	1,018.9	51.3
Total	5,489.2	100.0	5,747.7	100.0	1,968.6	100.0	1,986.7	100.0

1 Non-current assets less financial assets, deferred tax assets and employee benefit assets.

29. RELATED PARTIES

As of the balance sheet date of December 31, 2016, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting shares via Schenker-Winkler Holding AG as at December 31, 2016. On December 8, 2014, the Burkard-Schenker family announced the sale of their Sika participation to the Compagnie de Saint-Gobain ("Saint-Gobain"), and, on December 11, 2014, the Burkard-Schenker family and Saint-Gobain announced the formation of a group. On April 7, 2015, the Burkard-Schenker family and Saint-Gobain announced the dissolution of their group. Saint-Gobain itself announced on April 7, 2015, that it held 52.92% of all voting rights via Schenker-Winkler Holding AG. Legal proceedings are underway in connection with the planned transaction, which, as far as the company is aware, has not yet been concluded. (2) BlackRock, Inc., which owned 4.93% of all voting shares on the balance sheet date. (3) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III, Melinda French Gates and Bill & Melinda Gates Foundation Trust, which owned 5.00% of all voting shares on the balance sheet date. A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange Ltd during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

As of the balance sheet date of December 31, 2015, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting shares via Schenker-Winkler Holding AG as at December 31, 2015. (2) BlackRock, Inc., which owned 3.02% of all voting shares on the balance sheet date. (3) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III, Melinda French Gates and Bill & Melinda Gates Foundation Trust, which owned 5.23% of all voting shares on the balance sheet date.

ASSOCIATED COMPANIES. In the year under review goods and services totaling CHF 10.6 million (CHF 13.5 million) were delivered to associated companies. These transactions occurred on the usual conditions between wholesale partners.

EMPLOYEE BENEFIT PLANS. In Switzerland, employee benefit plans are handled through independent foundations, to which a total of CHF 23.5 million (CHF 22.5 million) 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 2016 amounted to CHF 0.6 million (CHF 0.6 million).

All transactions were conducted at market conditions.

30. REMUNERATION OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

The Board of Directors and Group Management are entitled to the following remuneration:

in CHF mn	2015	2016
Current benefits	7.4	7.0
Share-based payments ¹	8.7	9.5
Pension benefits	1.2	1.2
Total	17.3	17.7

1 Refer to note 18, employee participation plan – share-based payments.

Detailed information regarding remuneration of the Board of Directors and Group Management are included in the compensation report (as of page 64 of the download version of this report). Information regarding participations of the Board of Directors and Group Management of Sika AG can be found in the Sika AG's Financial Statements (on page 149 of the download version of this report).

31. RELEASE OF FINANCIAL STATEMENTS FOR PUBLICATION

The Board of Directors of Sika AG approved the Consolidated Financial Statements for publication on February 22, 2017. The financial statements will be submitted for approval to the Annual General Meeting on April 11, 2017.

32. EVENTS AFTER THE BALANCE SHEET DATE

The following events occurred between December 31, 2016, and the release of these Consolidated Financial Statements:

ACQUISITIONS. On January 31, 2017, Sika acquired Rmax Operating, LLC, an US-based market leader in the production of polyiso insulation products for complete Building Envelope solutions (roofing and wall systems). The acquisition brings technology and know-how that will accelerate Sika's growth and drive innovation in the North American market. Rmax recorded sales of CHF 75.0 million in 2016. The purchase price amounts to CHF 112.1 million comprising of approximately CHF 8.8 million net current assets, CHF 5.4 million property, plant, and equipment as well as CHF 97.9 million intangible assets (including goodwill). A detailed purchase price allocation could not be compiled yet as the purchase price is still provisional and the market values of the assets still include uncertainties.

PLANNED ACQUISITIONS. In January 2017, Sika has further agreed to acquire Bitbau Dörr GmbH, a leading waterproofing system manufacturer, headquartered in Innsbruck, Austria. The acquisition of Bitbau Dörr GmbH will enable Sika to expand its product portfolio. The product portfolio includes complete waterproofing systems for roofs, buildings and civil engineering applications. The transaction is subject to certain contractual conditions. The Austrian competition authority has approved the transaction shortly before the approval of the Consolidated Financial Statements. The precise details of the size and the breakdown of assets are still not known. Therefore, Sika has decided against a provisional purchase price allocation. Bitbau Dörr recorded sales of CHF 50 million in 2016.

LIST OF GROUP COMPANIES

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
EMEA (Europe, Middle East, Africa)					
Albania	❖ Sika Albania SHPK, Tirana	ALL	40,471	100	
Algeria	☐ Sika El Djazair SpA, Les Eucalyptus	DZD	313,400	100	◆
Austria	○ Sika Österreich GmbH, Bludenz	EUR	2,500	100	◆★
Azerbaijan	○ Sika Limited Liability Comp., Baku	AZN	4,269	100	◆
Bahrain	○ Sika Gulf B.S.C., Adliya	BHD	1,000	51*	◆★★
	▲ Sika Arabia Holding Company WLL, Manama	BHD	6,000	51	
Belarus	○ S I K A Bel LLC, Minsk	USD	300	100	
Belgium	○ Sika Belgium NV, Nazareth	EUR	10,264	100	◆★
	❖ Sika Automotive Belgium SA, Saintes	EUR	1,649	100	◆★★
Bosnia- Herzegovina	❖ Sika BH d.o.o. Sarajevo	BAM	795	100	
Bulgaria	❖ Sika Bulgaria EOOD, Sofia	BGN	340	100	◆★
Cameroon	❖ Sika Cameroon SARL, Douala	XAF	655,000	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, Farum	DKK	6,000	100	◆★
Djibouti	❖ Sika Djibouti FZE, Djibouti City	USD	200	100	
Egypt	○ Sika Egypt for Construction Chemicals S.A.E., Cairo	EGP	10,000	100	◆★★
	○ Sika Manufacturing for Construction, S.A.E., Cairo	EGP	2,000	100	◆★★
Estonia	❖ Sika Estonia Oü, Tallinn	EUR	3	100	
Ethiopia	○ Sika Abyssinia Chemicals Manufacturing PLC., Addis Abeba	ETB	25,200	100	
Finland	○ Oy Sika Finland Ab, Espoo	EUR	850	100	◆★
France	○ Sika France SAS, Paris	EUR	18,018	100	◆★★
	○ Axson France SAS, Saint-Ouen-l'Aumône	EUR	1,343	100*	◆★★
Germany	▲ Sika Holding GmbH, Stuttgart	EUR	26,000	100*	◆★
	○ Sika Deutschland GmbH, Stuttgart	EUR	75	100*	◆★
	○ Sika Automotive GmbH, Hamburg	EUR	5,300	100*	◆★
	○ Sika Trocal GmbH, Troisdorf	EUR	4,000	100*	◆★
	○ Schönox GmbH, Rosendahl	EUR	21,158	100*	◆★
	■ Sika Bauabdichtungs GmbH, Stuttgart	EUR	50	100*	
Greece	○ Sika Hellas ABEE, Kryoneri	EUR	9,000	100	◆★★
Hungary	❖ Sika Hungária Kft., Budapest	HUF	483,000	100	◆★
Iran	❖ Sika Parsian P.J.S. Co., Tehran	IRR mn	3,000	100	
Iraq	○ Sika for General Trading LLC, Erbil	IQD	1,000	100	
Ireland	❖ Sika Ireland Ltd., Ballymun, Dublin	EUR	1,270	100	◆
Italy	○ Sika Italia S.p.A., Peschiera Borromeo	EUR	5,000	100	◆★★
	○ Sika Engineering Silicones S.r.l., Peschiera Borromeo	EUR	1,600	100*	◆★
	○ Sika Polyurethane Manufacturing S.r.l., Cerano	EUR	1,600	100	◆★★
	❖ Axson Italia S.r.l., Saronno	EUR	50	100*	
Ivory Coast	○ Sika Côte d'Ivoire SARL, Abidjan	XOF	262,380	100	
Jordan	❖ The Swiss Construction Chemicals Co. Ltd., Aqaba	JOD	50	100	

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Kazakhstan	○ Sika Kazakhstan LLP, Almaty	KZT	690,394	100	◆★
Kenya	○ Sika Kenya Ltd., Nairobi	KES	50,000	100	
Kuwait	❖ Sika Kuwait for Construction Materials & Paints Co WLL, Kuwait City	KWD	55	51*	
Latvia	○ Sika Baltic SIA, Riga	EUR	1,237	100	
Lebanon	○ Sika Near East SAL, Beirut	LBP	400	100	
Mauritius	○ Sika (Mauritius) Ltd., Plaine Lauzun	MUR	2,600	100*	◆
Morocco	○ Sika Maroc, Casablanca	MAD	55,000	100	◆★★
Mozambique	○ Sika Moçambique Limitada, Maputo Cidade	MZN	55,591	100	
Netherlands	○ Sika Nederland B.V., Utrecht	EUR	1,589	100	◆★★
Nigeria	○ Sika Manufacturing Nigeria Limited, Lagos	NGN	510,350	100	
Norway	○ Sika Norge AS, Skjetten	NOK	42,900	100	◆★
Oman	❖ Sika LLC, Muscat	OMR	150	51	
Pakistan	○ Sika Pakistan (Pvt.) Ltd., Lahore	PKR	499,969	100	
Poland	○ Sika Poland Sp.z.o.o., Warsaw	PLZ	12,188	100	◆★★
Portugal	○ Sika Portugal – Produtos Construção Indústria SA, Vila Nova de Gaia	EUR	1,500	100	◆★
Qatar	❖ Sika Qatar LLC, Doha	QAR	200	51*	◆
Romania	○ Sika Romania s.r.l., Brasov	RON	1,285	100	◆★★
Russia	○ Sika LLC, Lobnya	RUB	535,340	100	◆★
Saudi Arabia	○ Sika Saudi Arabia Co Ltd., Riyadh	SAR	41,750	51	◆★
Serbia	○ Sika Srbija d.o.o. Simanovci	EUR	373	100	
Slovakia	❖ Sika Slovensko spol. s.r.o., Bratislava	EUR	1,131	100	◆★
	○ Axson Central Europe s.r.o, Zlaté Moravce	EUR	7	100	◆★
Slovenia	❖ Sika Slovenija d.o.o., Trzin	EUR	1,029	100	◆★
South Africa	○ Sika South Africa (Pty) Ltd., Pinetown	ZAR	25,000	100	◆★★
Spain	○ Sika S.A.U., Alcobendas	EUR	19,867	100	◆★★
	❖ Axson Technologies Spain S.L., Barcelona	EUR	80	100*	
Sweden	○ Sika Sverige AB, Spånga	SEK	10,000	100	◆★
Switzerland	○ Sika Schweiz AG, Zurich	CHF	1,000	100	◆★★
	▲ Sika Services AG, Zurich	CHF	300	100	◆★★
	▲ Sika Technology AG, Baar	CHF	300	100	◆★
	▲ Sika Informationssysteme AG, Zurich	CHF	400	100	
	■ SikaBau AG, Schlieren	CHF	5,300	100	◆
	▲ Sika Finanz AG, Baar	CHF	2,400	100	
	○ Sika Manufacturing AG, Sarnen	CHF	14,000	100	◆★★
	▲ Sika Supply Center AG, Sarnen	CHF	1,000	100	◆★
	○ Sika Automotive AG, Romanshorn	CHF	3,000	100	◆★★
	▲ Sika Europe Management AG, Zurich	CHF	100	100	
	○ Klebag AG, Ennetbürgen	CHF	100	100*	
Tanzania	○ Sika Tanzania Construction Chemicals Limited, Dar es Salaam	TZS mn	2,838	100	
Tunisia	□ Sika Tunisienne Sàrl, Douar Hicher	TND	150	100*	◆★
Turkey	○ Sika Yapi Kimyasallari A.S., Istanbul	TRY	6,700	100	◆★★

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
UAE	○ Sika UAE LLC, Dubai	AED	1,000	51*	◆★★
	❖ Sika International Chemicals LLC, Abu Dhabi	AED	300	51*	
Ukraine	○ LLC "Sika Ukraina", Kiev	UAH	2,933	100	◆
United Kingdom	○ Sika Ltd., Welwyn Garden City	GBP	10,000	100	◆★★
	○ Everbuild Building Products Ltd., Leeds	GBP	21	100*	◆★
	○ Incorez Ltd., Preston	GBP	1	100	◆★★
	❖ Axson UK Ltd., Suffolk	GBP	1	100*	
North America					
Canada	○ Sika Canada Inc., Pointe Claire/QC	CAD	5,600	100	◆★
USA	○ Sika Corporation, Lyndhurst/NJ	USD	72,710	100	◆★
	▲ Sarnafil Services Inc., Canton/MA	USD	1	100*	★
	○ Axson Tech US Inc., Madison Heights/MI	USD	4,602	100*	◆★
	○ L.M. Scofield Company, Commerce/CA	USD	32	100*	
	○ FRC Fiber, Limited Company, Tuscaloosa/AL	USD	0	100*	
Latin America					
Argentina	○ Sika Argentina SAIC, Caseros	ARS	7,600	100	◆★★
Bolivia	○ Sika Bolivia SA, Santa Cruz de la Sierra	BOB	1,800	100	◆
Brazil	○ Sika SA, Osasco	BRL	280,981	100	◆★★
	○ Sika Automotive Ltda., São Paulo	BRL	19,223	100*	◆★
Chile	○ Sika SA Chile, Santiago	CLP mn	4,430	100	◆★
Colombia	○ Sika Colombia SA, Tocancipá	COP mn	14,500	100	◆★
Costa Rica	○ Sika productos para la construcción SA, Heredia	CRC	825,005	100	
Dom. Republic	○ Sika Dominicana SRL, Santo Domingo D.N.	DOP	12,150	100	
Ecuador	○ Sika Ecuatoriana SA, Guayaquil	USD	1,982	100	◆★
Guatemala	○ Sika Guatemala SA, Ciudad de Guatemala	GTQ	2,440	100	
Mexico	○ Sika Mexicana SA de CV, Corregidora	MXN	40,053	100	◆★
	○ Axson Mexico S.A. de CV, Mexico City	MXN	700	100*	◆
Nicaragua	❖ Sika Nicaragua S.A. Managua	NIO	20,000	100	
Panama	○ Sika Panamá SA, Ciudad de Panamá	USD	200	100	
	▲ Sika Latin America Mgt. Inc, Ciudad de Panamá	USD	10	100	
Paraguay	○ Sika Paraguay S. A., Asunción	PYG mn	40	100	
Peru	○ Sika Perú SAC, Lima	PEN	3,500	100	◆★
Uruguay	○ Sika Uruguay SA, Montevideo	UYP	22,800	100	◆★
Venezuela	○ Sika Venezuela SA, Valencia	VEF	29,441	100	

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Asia/Pacific					
Australia	○ Sika Australia Pty. Ltd., Wetherill Park	AUD	4,000	100	◆★★
Cambodia	○ Sika (Cambodia) Ltd., Phnom Penh	KHR	422,000	100	
China	○ Sika (China) Ltd., Suzhou	USD	35,000	100	◆★★
	○ Sika Sarnafil Waterproofing Systems (Shanghai) Ltd., Shanghai	USD	22,800	100	◆★★
	○ Sika Guangzhou Ltd., Guangzhou	CNY	80,731	100	◆★
	○ Sika Ltd., Dalian	CNY	45,317	100	◆
	❖ Sika (Guangzhou) Trading Company Ltd., Guangzhou	CNY	3,723	100*	
	○ Sika (Sichuan) Building Material Ltd., Chengdu	CNY	30,010	100*	◆
	○ Sika (Jiangsu) Building Material Ltd., Zhengjiang	CNY	31,000	100*	◆★★
	○ Sika (Hebei) Building Material Ltd., Zhengding County	CNY	30,000	85*	◆★★
	○ Axson Technologies Shanghai Co. Ltd., Shanghai	CNY	2,666	100*	◆
		Ronacrete (Guangzhou) Construction Products Limited, ○ Guangzhou	CNY	16,924	100*
Hong Kong	○ Sika Hong Kong Ltd., Shatin	HKD	30,000	100	◆★
	❖ Ronacrete (Far East) Ltd., Hong Kong	HKD	450	100*	
India	○ Sika India Private Ltd., Mumbai	INR	45,000	100	◆★
	❖ Axson India Private Limited, Pune	INR	3,000	100*	
Indonesia	○ Sika Indonesia P.T., Bogor	IDR mn	3,282	100	◆★
Japan	○ Sika Ltd., Shinagawa	JPY	490,000	100	◆★
	❖ Dic Proofing Co. Ltd., Tokyo	JPY	90,000	100*	
	○ Dyflex Co. Ltd., Tokyo	JPY	315,175	100	◆★
	■ DCS Co. Ltd., Toda-shi	JPY	30,000	100*	
	○ Axson Japan K.K., Okazaki-shi	JPY	10,000	100*	
Korea	○ Sika Korea Ltd., Seoul	KRW mn	5,596	100	◆★
Malaysia	○ Sika Kimia Sdn. Bhd., Nilai	MYR	5,000	100	◆★
	▲ Sika Harta Sdn. Bhd., Nilai	MYR	10,000	100	
	○ LCS Optiroc Sdn Bhd, Johor Bahru	MYR	100	100	
Mongolia	○ Sika Mongolia LLC, Ulaanbaatar	MNT mn	7,091	100	
Myanmar	○ Sika Myanmar Limited, East Dagon Township	MMK	541,363	100	
New Zealand	○ Sika (NZ) Ltd., Auckland	NZD	1,100	100	◆★
Philippines	○ Sika Philippines Inc., Las Pinas City	PHP	56,000	100	◆★
Singapore	○ Sika Singapore Pte. Ltd., Singapore	SGD	400	100	◆
	▲ Sika Asia Pacific Mgt. Pte. Ltd., Singapore	SGD	100	100	
	○ LCS Optiroc Pte Ltd, Singapore	SGD	1,000	100	◆★★
Sri Lanka	○ Sika Lanka (Private) Limited, Ekala	LKR	129,100	100	
Taiwan	○ Sika Taiwan Ltd., Taoyuan County	TWD	40,000	100	◆★
Thailand	○ Sika (Thailand) Ltd., Chonburi	THB	200,000	100	◆★★
Vietnam	○ Sika Limited (Vietnam), Dong Nai Province	VND mn	44,190	100	◆★

□ Production, sales, construction contracting

○ Production and sales

❖ Sales

▲ Real estate and service companies

■ Construction contracting

◆ ISO 9001 (Quality Management)

★ ISO 14001 (Environmental Management)

* OHSAS 18001 (Occupational Health and Safety)

¹ For associated companies see note 7.

* Company indirectly held by Sika AG.

REPORT OF THE STATUTORY AUDITORS TO THE ANNUAL GENERAL MEETING OF SIKA AG, BAAR

OPINION

We have audited the consolidated financial statements of Sika AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 85 to 133 of the download version of this report) give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

BASIS FOR OPINION

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE - VALUATION

AREA OF FOCUS. Goodwill and intangible assets with indefinite useful life represent 13% of the Group's total assets and 26% of the Group's total shareholders' equity as at 31 December 2016. Intangible assets with indefinite useful life consist of brands. Goodwill recorded by the Group represents the purchase price in excess of the fair value of net assets of businesses acquired. As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying amounts of goodwill and intangible assets with indefinite useful life is tested annually or more frequently if impairment indicators are present. The Group performed its annual impairment tests of goodwill and intangible assets with indefinite useful life in the third quarter of 2016 and determined that there was no impairment. Key assumptions as well as the results of the impairment tests are disclosed in note 6 of the consolidated financial statements. In determining the recoverable amount of cash-generating units ("CGU"), management must apply judgment when using assumptions in respect of future market and economic conditions such as the economic growth and expected inflation rates. Due to the significance of the carrying values of goodwill and intangible assets with indefinite useful life and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

OUR AUDIT RESPONSE. We assessed the Group's internal control over its annual impairment test and key assumptions applied as well as the proper authorization and approval. Further, we assessed whether the CGU structure is aligned with the organizational structure. We included in our team a valuation expert to assist us with our assessment of the WACC, expected inflation rates and the model used. We assessed sensitivities in the available headroom of CGUs and whether a reasonably possible change in assumptions such as forecasted EBITDAs, growth rate in the first year, long term growth rate and WACC could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of the Group's estimates and long-term business plans. Finally, we assessed the adequacy of the Group's disclosures included in the consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

POST-EMPLOYMENT BENEFITS

AREA OF FOCUS. Sika Group operates separate pension plans for 41 subsidiaries. The Swiss pension plans account for 80% of the defined benefit obligation and 96% of plan assets of pension plans. The Swiss pension plans cover old-age, death and disability risks. Sika Group discloses information about the pension plans in note 14 of the consolidated financial statements. The Swiss pension plans hold own plan assets. The process used by the Group to determine the post-employment benefit liability is complex and involves judgment. In addition, changes to the post-employment benefit liability may be accounted through the profit or loss statement or through other comprehensive income which adds to the complexity. Therefore, this matter was considered significant to our audit.

OUR AUDIT RESPONSE. Our audit work for post-employment benefits included census data testing to validate that all employees as well as retirees are included in the calculation. We assessed the Group's internal control over its pension accounting and key assumptions applied. We further assessed the assumptions used for the actuarial calculation and compared those with external data available. We also audited underlying salaries and pension savings on a sample basis and we assessed whether plan assets have been valued at fair value. Finally, we evaluated the disclosures made in the consolidated financial statements.

OTHER INFORMATION IN THE ANNUAL REPORT

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report, and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTSuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

Zurich, February 22, 2017

ERNST & YOUNG LTD



CHRISTOPH MICHEL
Licensed audit expert
(Auditor in charge)



MARC RÜEGSEGGER
Licensed audit expert

FIVE-YEAR REVIEWS

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31

in CHF mn		2012	2013	2014	2015	2016
Cash and cash equivalents		994.2	1,028.3	898.8	1,074.4	1,155.0
Accounts receivable	a	871.5	912.7	1,006.0	1,014.5	1,043.1
Inventories	b	521.6	539.0	591.3	584.9	600.8
Other current assets ¹		110.4	110.9	100.0	104.3	98.1
Current assets		2,497.7	2,590.9	2,596.1	2,778.1	2,897.0
Property, plant, and equipment		873.3	920.2	958.3	924.3	959.2
Intangible assets		742.3	1,066.9	1,074.6	1,037.9	1,021.2
Other non-current assets ²		166.9	157.9	188.9	183.5	221.8
Non-current assets		1,782.5	2,145.0	2,221.8	2,145.7	2,202.2
ASSETS		4,280.2	4,735.9	4,817.9	4,923.8	5,099.2
Accounts payable	c	492.1	557.9	605.4	581.1	587.0
Bond		249.9	299.7	0.0	249.9	0.0
Other current liabilities ³		301.5	334.6	345.7	332.1	381.0
Current liabilities		1,043.5	1,192.2	951.1	1,163.1	968.0
Bonds		847.1	946.9	947.6	698.4	698.7
Non-current provisions, employee benefit obligation		329.2	282.6	373.3	360.8	332.1
Other non-current liabilities ⁴		150.6	178.0	162.6	149.4	152.7
Non-current liabilities		1,326.9	1,407.5	1,483.5	1,208.6	1,183.5
LIABILITIES		2,370.4	2,599.7	2,434.6	2,371.7	2,151.5
Capital stock		1.5	1.5	1.5	1.5	1.5
Treasury shares		-27.6	-13.7	-10.8	-0.9	-11.0
Reserves		1,921.0	2,132.3	2,376.4	2,530.2	2,933.8
Equity attributable to Sika shareholders		1,894.9	2,120.1	2,367.1	2,530.8	2,924.3
Non-controlling interests		14.9	16.1	16.2	21.3	23.4
SHAREHOLDERS' EQUITY	d	1,909.8	2,136.2	2,383.3	2,552.1	2,947.7
LIABILITIES AND SHAREHOLDERS' EQUITY	e	4,280.2	4,735.9	4,817.9	4,923.8	5,099.2

1 Prepaid expenses and accrued income, other current assets.

2 Investments in associated companies, deferred tax assets, and other non-current assets.

3 Accrued expenses and deferred income, income tax liabilities, current provisions, and other current liabilities.

4 Deferred tax liabilities and other non-current liabilities.

CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	2012	2013	2014	2015	2016
Net sales	4,828.9	5,142.2	5,571.3	5,489.2	5,747.7
Material expenses	-2,309.6	-2,446.6	-2,620.0	-2,518.4	-2,566.6
Gross result	2,519.3	2,695.6	2,951.3	2,970.8	3,181.1
Personnel expenses	-1,037.2	-1,031.1	-1,093.7	-1,106.5	-1,159.1
Other operating expenses	-909.0	-988.6	-1,059.3	-1,027.0	-1,056.3
Operating profit before depreciation	573.1	675.9	798.3	837.3	965.7
Depreciation/amortization/impairment	-140.1	-152.4	-165.1	-164.0	-170.4
Operating profit	433.0	523.5	633.2	673.3	795.3
Interest income/interest expense	-31.1	-30.9	-27.8	-22.0	-17.8
Financial income/financial expense/income from associated companies	-12.1	-15.9	-14.8	-29.4	-21.7
Profit before taxes	389.8	476.7	590.6	621.9	755.8
Income taxes	-111.3	-132.0	-149.4	-156.8	-189.2
Net profit	278.5	344.7	441.2	465.1	566.6
Free cash flow	288.3	19.0	349.8	379.5	563.0
Gross result as % of net sales	52.2	52.4	53.0	54.1	55.3
Operating profit as % of net sales	9.0	10.2	11.4	12.3	13.8
Net profit as % of net sales (ROS)	5.8	6.7	7.9	8.5	9.9
Net profit as % of shareholders' equity (ROE)	14.6	16.1	18.5	18.2	19.2

KEY BALANCE SHEET DATA

in CHF mn	Calculation	2012	2013	2014	2015	2016
Net working capital	(a+b-c)	901.0	893.8	991.9	1,018.3	1,056.9
Net working capital as % of net sales		18.7	17.4	17.8	18.6	18.4
Net debt ¹	f	155.5	271.4	82.5	-94.0	-415.6
Gearing in %	(f : d)	8.1	12.7	3.5	-3.7	-14.1
Equity ratio in %	(d : e)	44.6	45.1	49.5	51.8	57.8

1 Net debt: interest-bearing indebtedness (short and long-term bank debt, bonds and other current and non-current liabilities "other") less interest-bearing current assets (cash and cash equivalents and securities).

VALUE-BASED KEY DATA

in CHF mn	Calculation	2012	2013	2014	2015	2016
Capital employed ¹		2,334.2	2,662.6	2,782.0	2,760.2	2,772.4
Annual average of capital employed	g	2,342.9	2,498.4	2,722.3	2,771.1	2,766.3
Operating profit	h	433.0	523.5	633.2	673.3	795.3
Return on capital employed (ROCE) in %	(h : g)	18.5	21.0	23.3	24.3	28.7

1 Capital employed: current assets, PPE, intangible assets less cash and cash equivalents, current securities, current liabilities (excluding bank loans and bond).

SEGMENT INFORMATION

in CHF mn						North America				
	2012	2013 ¹	2014	2015	EMEA 2016	2012	2013 ¹	2014	2015	2016
Net sales	2,275	2,470	2,734	2,600	2,695	706	711	746	839	923
Operating profit	223	281	369	368	396	69	89	103	134	166
in % of net sales	9.8	11.4	13.5	14.2	14.7	9.8	12.5	13.8	16.0	18.0
Depreciation/amortization	70	79	85	81	85	24	23	21	20	21
Capital expenditures	58	75	71	67	75	14	11	12	16	21

in CHF mn						Asia/Pacific				
	2012	2013 ¹	2014	2015	Latin America 2016	2012	2013 ¹	2014	2015	2016
Net sales	586	623	638	600	564	932	974	1,040	1,017	1,081
Operating profit	107	116	114	110	109	116	138	153	177	206
in % of net sales	18.3	18.6	17.9	18.3	19.3	12.3	14.2	14.7	17.4	19.1
Depreciation/amortization	6	9	11	11	11	20	21	23	24	25
Capital expenditures	24	27	25	16	19	24	25	24	25	23

in CHF mn						Total				
	2012	2013 ¹	2014	2015	Other segments and activities 2016	2012	2013 ¹	2014	2015	2016
Net sales	330	364	413	433	485	4,829	5,142	5,571	5,489	5,748
Operating profit	-82	-101	-106	-116	-81	433	523	633	673	795
in % of net sales						9.0	10.2	11.4	12.3	13.8
Depreciation/amortization	20	20	25	28	28	140	152	165	164	170
Capital expenditures	11	16	21	19	17	131	154	153	143	155

1 Restated.

A change in internal reporting practice was implemented effective January 1, 2014. Certain internal allocations were no longer charged to the segment results. Essentially, these internal allocations are understood to be the charges for central marketing as well as production support. In keeping with internal reporting practice, the segment reporting presented here has been adjusted accordingly. The prior-year figures have been restated to allow like-for-like comparison. Figures for 2012 have not been adjusted.

EMPLOYEES

	2012	2013	2014	2015	2016
Employees by region (at December 31)					
EMEA	7,956	8,658	8,708	9,079	9,083
Switzerland	2,164	2,012	2,029	2,022	2,001
Germany	1,440	1,784	1,777	1,832	1,778
United Kingdom	450	712	728	772	817
France	582	643	637	754	727
North America	1,437	1,438	1,488	1,653	1,818
USA	1,218	1,216	1,275	1,432	1,580
Latin America	2,170	2,329	2,609	2,437	2,349
Brazil	508	504	755	617	577
Asia/Pacific	3,670	3,868	4,090	4,112	4,169
China	1,286	1,287	1,220	1,083	1,099
Japan	615	614	629	670	673
Total	15,233	16,293	16,895	17,281	17,419
Personnel expenses (in CHF mn)					
Wages and salaries	837	849	894	900	941
Social charges, other	200	182	200	207	218
Personnel expenses	1,037	1,031	1,094	1,107	1,159
Personnel expenses as % of net sales	21	20	20	20	20
Key data per employee (in CHF 1,000)					
Net sales	317	326	336	321	331
Net value-added ¹	96	98	103	103	112

¹ See next page, five-year reviews, value-added statement.

VALUE-ADDED STATEMENT

in CHF mn	2012	2013	2014	2015	2016
Source of value-added					
Corporate performance (net sales)	4,829	5,142	5,571	5,489	5,748
Intermediate inputs	-3,212	-3,440	-3,691	-3,572	-3,631
Gross value-added	1,617	1,702	1,880	1,917	2,117
Non-liquidity related expenses					
Depreciation and amortization	-140	-152	-165	-164	-170
Change in provisions	-12	-8	0	2	-12
Net value-added	1,465	1,542	1,715	1,755	1,935
Distribution of value-added					
To employees					
Wages and salaries	837	849	894	900	941
Social charges	207	188	205	212	222
To governments (income taxes)	111	132	149	157	189
To lenders (interest expenses)	31	28	26	22	16
To shareholders (dividend pay-out, incl. non-controlling interests)	114	130	146	183	200
To the company					
Net profit for the year	279	345	441	465	567
Less dividend pay-out	-114	-130	-146	-183	-200
Net value-added	1,465	1,542	1,715	1,755	1,935
Number of employees					
End of year	15,233	16,293	16,895	17,281	17,419
Annual average	15,244	15,763	16,594	17,088	17,350
Net value-added per employee (in CHF 1,000)	96	98	103	103	112

SIKA AG, BAAR

FINANCIAL STATEMENTS

SIKA AG BALANCE SHEET AS OF DECEMBER 31

in CHF mn	Notes	2015	2016
Cash and cash equivalents	1	563.8	448.6
Securities		0.1	0.1
Other current receivables from subsidiaries	2	1,258.3	1,508.5
Other current receivables from third parties	2	2.9	2.3
Prepaid expenses and accrued income		0.4	2.4
Current assets		1,825.5	1,961.9
Investments	3	1,285.6	1,364.7
Property, plant, and equipment		0.4	0.3
Intangible assets	4	14.5	-
Other non-current assets	5	8.8	20.7
Non-current assets		1,309.3	1,385.7
ASSETS		3,134.8	3,347.6
Accounts payable to subsidiaries	6	10.4	7.9
Accounts payable to third parties	6	2.6	1.0
Current interest-bearing liabilities to subsidiaries	7	151.0	181.7
Current interest-bearing liabilities to third parties	7	250.0	-
Accrued expenses and deferred income	8	19.8	40.4
Current provisions	10	0.3	1.9
Current liabilities		434.1	232.9
Non-current interest-bearing liabilities	7	700.0	700.0
Other non-current liabilities	9	3.1	2.5
Non-current provisions	10	2.3	2.6
Non-current liabilities		705.4	705.1
LIABILITIES		1,139.5	938.0
Share capital		1.5	1.5
Legal capital reserves		56.5	56.5
Legal retained earnings		4.0	4.0
Voluntary retained earnings		121.7	121.7
Profit brought forward		1,812.5	2,236.9
Treasury shares	11	-0.9	-11.0
Shareholders' equity	12	1,995.3	2,409.6
LIABILITIES AND SHAREHOLDERS' EQUITY		3,134.8	3,347.6

SIKA AG INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	Notes	2015	2016
Dividend income	13	314.1	337.4
Financial income	14	32.3	20.3
Trademark licenses income	15	64.2	71.8
Other income	16	35.4	19.3
Income		446.0	448.8
Financial expenses	17	-48.4	-23.4
Personnel expenses		-14.6	-16.2
Other operating expenses	18	-39.8	-35.6
Operating result before depreciation		343.2	373.6
Impairment losses on investments		0.0	-2.8
Depreciation and amortization expenses	19	-6.4	-8.0
Extraordinary, non-recurring or prior-period income	20	2.2	289.0
Extraordinary, non-recurring or prior-period expenses	21	0.0	-1.0
Net profit before taxes		339.0	650.8
Direct taxes	22	-7.2	-28.4
Net profit for the year		331.8	622.4

NOTES TO THE SIKA AG FINANCIAL STATEMENT

PRINCIPLES

GENERAL

The 2016 financial statements were prepared according to the new Swiss Law on Accounting and Financial Reporting. The significant accounting and valuation principles applied are as described below.

SECURITIES

Securities are valued at historical costs.

RECEIVABLES

The receivables are recorded at nominal value. If necessary an allowance for doubtful debts is made on receivables from third parties, whereas for receivables from subsidiaries no allowance for doubtful debts is considered.

INVESTMENTS

Investments are initially recognized at cost. On an annual basis the investments are assessed individually and adjusted to their recoverable amount if required.

PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

Property, plant and equipment, and intangible assets are valued at acquisition cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method based on the useful life of the asset.

CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds are recognized as other non-current assets and amortized on a straight-line basis over the bond's maturity period. Premiums (less issue costs) are recognized in the other non-current liabilities and amortized on a straight-line basis over the bond's maturity period.

PROVISIONS

Provisions are recognized to cover general business risks based on the most probable cash outflow, considering the principle of prudence.

TREASURY SHARES

Treasury shares are recognized at acquisition cost and disclosed as a negative position within shareholders' equity. In case of a resale, the gain or loss is recognized through the income statement as financial income or financial expenses.

SHARE-BASED PAYMENTS

For treasury shares used for share-based payment programs, the difference between the acquisition cost and the value at vesting date is recognized as personnel expenses.

INFORMATION ON BALANCE SHEET AND INCOME STATEMENT ITEMS

1. CASH AND CASH EQUIVALENTS CHF 448.6 MN (CHF 563.8 MN)

All bank deposits are held in interest-bearing accounts, whereof CHF 406.7 million (CHF 512.8 million) are invested in Swiss francs and CHF 41.9 million (CHF 51.0 million) in foreign currencies.

2. OTHER CURRENT RECEIVABLES FROM SUBSIDIARIES AND THIRD PARTIES CHF 1,510.8 MN (CHF 1,261.2 MN)

Receivables consist of short-term loans to subsidiaries in the amount of CHF 1,497.0 million (CHF 1,233.8 million).

In addition Sika AG has receivables of CHF 11.5 million (CHF 24.5 million) from Sika subsidiaries and receivables from third parties in the amount of CHF 2.3 million (CHF 2.9 million).

3. INVESTMENTS CHF 1,364.7 MN (CHF 1,285.6 MN)

The change in shareholdings is essentially attributable to the acquisition of new subsidiaries, foundation of subsidiaries and capital increases.

Major participations are indicated on the list of Group companies beginning on page 130 of the download version of this report.

4. INTANGIBLE ASSETS CHF 0.0 MN (CHF 14.5 MN)

At year end, all product trademarks were sold at fair value to Sika Technology AG. In the prior year, this position included trademarks exclusively.

5. OTHER NON-CURRENT ASSETS CHF 20.7 MN (CHF 8.8 MN)

The other non-current assets contain the discounts and issue costs for bonds as well as non-current receivables from subsidiaries.

6. ACCOUNTS PAYABLE TO SUBSIDIARIES AND THIRD PARTIES CHF 8.9 MN (CHF 13.0 MN)

The total includes liabilities to subsidiaries in the amount of CHF 7.9 million (CHF 10.4 million) and liabilities to third parties in the amount of CHF 1.0 million (CHF 2.6 million).

7. INTEREST-BEARING LIABILITIES CHF 181.7 MN CURRENT/CHF 700.0 MN NON-CURRENT (CHF 401.0 MN/CHF 700.0 MN)

The current interest-bearing liabilities consist solely of loans to subsidiaries. In the prior year, these liabilities amounted to CHF 151.0 million, resulting from the worldwide cash management concept.

In March 2016, a bond in the amount of CHF 250.0 million was repaid.

The following bonds are disclosed in the non-current interest-bearing liabilities:

1.000%	fixed-interest bond	2012 to 7/12/2018	CHF 150.0 MN
1.125%	fixed-interest bond	2013 to 11/14/2019	CHF 200.0 MN
1.750%	fixed-interest bond	2012 to 7/12/2022	CHF 150.0 MN
1.875%	fixed-interest bond	2013 to 11/14/2023	CHF 200.0 MN

8. ACCRUED EXPENSES AND DEFERRED INCOME CHF 40.4 MN (CHF 19.8 MN)

Accrued expenses and deferred income include pro rata interest, employee-related accruals as well as other accrued expenses. Furthermore, accrued taxes in the amount of CHF 23.6 million are included in 2016, resulting from the sale of the product trademarks to Sika Technology AG.

9. OTHER NON-CURRENT LIABILITIES CHF 2.5 MN (CHF 3.1 MN)

The other non-current liabilities contain the premium, less issue costs of the bonds in the amount of CHF 2.0 million (CHF 2.7 million).

10. PROVISIONS CHF 1.9 MN CURRENT/CHF 2.6 MN NON-CURRENT (CHF 0.3 MN/CHF 2.3 MN)

The current provisions contain liabilities concerning forward contracts and conditional purchase price obligations.

The non-current provisions contain accruals for long-term employee retention and bonus programs as well as jubilee payments.

11. TREASURY SHARES CHF -11.0 MN (CHF -0.9 MN)

Treasury shares are appropriated for Group-wide share-based payment plans and used to invest liquid assets. The shares are traded at market price; in 2016 the average trading price was CHF 4,119 (CHF 3,235).

in CHF mn	Units	Bearer shares nominal value CHF 0.60
At January 1, 2015	4,261	10.5
Reductions	-9,837	-28.9
Additions	5,919	19.0
Valuation adjustment		0.3
At December 31, 2015	343	0.9
At January 1, 2016	343	0.9
Reductions	-8,349	-33.0
Additions	14,358	56.8
Acquisition Scofield	-3,686	-13.7
At December 31, 2016	2,666	11.0

12. SHAREHOLDERS' EQUITY CHF 2,409.6 MN (CHF 1,995.3 MN)

The shareholders' equity exceeds the prior year's level. The ratio of shareholders' equity to balance sheet total increased from 63.6% to 72.0%.

in CHF mn	Capital stock	Legal capital reserves ¹	Retained earnings ²	Treasury shares	Share- holders' equity
January 1, 2015	1.5	56.5	1,789.2	-10.5	1,836.7
Dividend payment			-182.8		-182.8
Transactions with treasury shares				9.6	9.6
Net profit for the year			331.8		331.8
December 31, 2015	1.5	56.5	1,938.2	-0.9	1,995.3
January 1, 2016	1.5	56.5	1,938.2	-0.9	1,995.3
Dividend payment			-198.0		-198.0
Transactions with treasury shares				-10.1	-10.1
Net profit for the year			622.4		622.4
December 31, 2016	1.5	56.5	2,362.6	-11.0	2,409.6

1 Thereof CHF 0.3 million capital contribution reserves.

2 Retained earnings: legal retained earnings, voluntary retained earnings and profit brought forward.

The capital stock remains unchanged. Net profit for the year reflects the regular business activities. The increase is mainly due to the sale of the product trademarks to Sika Technology AG. A dividend of CHF 198.0 million was distributed to shareholders in April 2016.

There is CHF 155,893.20 in contingent capital, unrestricted in time, comprising 259,822 bearer shares with a per-share nominal value of CHF 0.60. These shares are reserved for the exercise of option or conversion rights.

The capital stock consists of:

	Bearer shares ¹ nominal value CHF 0.60	Registered shares nominal value CHF 0.10	Total ¹
12/31/2015 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107
12/31/2016 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107

¹ Includes treasury shares which do not carry voting and dividend rights.

13. DIVIDEND INCOME CHF 337.4 MN (CHF 314.1 MN)

Dividends from subsidiaries are recognized in this position.

14. FINANCIAL INCOME CHF 20.3 MN (CHF 32.3 MN)

Financial income includes interest income and gains from foreign exchange transactions.

15. TRADEMARK LICENSES INCOME CHF 71.8 MN (CHF 64.2 MN)

Sika AG receives license fees for the use of trademarks from subsidiaries.

16. OTHER INCOME CHF 19.3 MN (CHF 35.4 MN)

Other income includes valuation adjustments and income from the allocation of cost to subsidiaries. In the prior year, a compensation from Sika Finanz AG of CHF 12.4 million was received for the OECD transfer pricing risks which are covered by Sika AG.

17. FINANCIAL EXPENSES CHF 23.4 MN (CHF 48.4 MN)

Financial expenses include the interest costs on bonds as well as foreign currency losses on loans to subsidiaries.

18. OTHER OPERATING EXPENSES CHF 35.6 MN (CHF 39.8 MN)

This position includes the holding company's general expenses. Other operating expenses mainly include legal- and consulting fees, costs related to management training as well as marketing expenses.

19. DEPRECIATION AND AMORTIZATION CHF 8.0 MN (CHF 6.4 MN)

The increase in depreciation and amortization is based on trademarks bought from acquired companies.

20. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD INCOME CHF 289.0 MN (CHF 2.2 MN)

Extraordinary income includes the profit from the sale of product trademarks to Sika Technology AG, a 100%-subsidiary of Sika AG, in the amount of CHF 289.0 million. In the prior year, the income mainly derived from the reversal of the general provision for risks related to participations less the impairment on investments.

21. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD EXPENSES CHF 1.0 MN (CHF 0.0 MN)

Extraordinary expenses include a cost allocation from a subsidiary.

22. DIRECT TAXES CHF 28.4 MN (CHF 7.2 MN)

In the reporting period the increase in direct taxes is based on the non-recurring profit made from the sale of product trademarks to Sika Technology AG.

OTHER INFORMATION

FULL-TIME EQUIVALENTS

The number of full-time equivalents for the reporting year remains unchanged at 41 employees.

CONTINGENT LIABILITIES

Letters of guarantee and letters of comfort are issued to finance business transactions. No guarantees are required for the established zero-balance cash pooling. Sika AG is part of Sika Schweiz AG's value-added tax group and is jointly liable to the tax authorities for the value-added tax obligations of the tax group.

in CHF mn	2015	2016
Letters of guarantee		
Issued	102.5	92.2
Used	0.0	0.0
Letters of comfort		
Issued	4.7	5.0
Used	0.3	0.3
Credit lines to subsidiaries		
Issued	3.6	0.0
Used	0.0	0.0

NET RELEASE OF HIDDEN RESERVES

There is no net release of hidden reserves (CHF 101.5 million). The significant release in the prior year was due to the first adaption of the new Law on Accounting and Financial Reporting. Investments were impaired and the existing general provision (hidden reserves) was utilized.

MAJOR SHAREHOLDERS

On December 31, 2016, the company had 50 (50) registered shareholders. Information regarding major shareholders can be found on page 128 of the download version of this report.

PARTICIPATIONS IN SIKA AG

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

	Number of shares	
	2015	2016
Board of Directors		
Paul Hälg, Chairman	577	577
Urs F. Burkard ¹	67	67
Frits van Dijk	92	92
Willi K. Leimer	67	67
Monika Ribar	89	89
Daniel J. Sauter	2,067	2,067
Ulrich W. Suter	67	67
Jürgen Tinggren	99	99
Christoph Tobler	267	167
Group Management		
Jan Jenisch, CEO	1,350	1,650
Christoph Ganz	404	431
Heinz Gisel	357	504
Thomas Hasler	197	265
Yumi Kan	n.a.	86
Silvio Ponti	1,237	n.a.
Ernesto Schümperli	860	913
Paul Schuler	621	828
José Luis Vásquez	1,006	877
Adrian Widmer	173	241
Total	9,597	9,087

1 Urs F. Burkard also has an interest in Schenker-Winkler Holding, which holds 2,330,853 registered shares and according to information provided by the Burkard-Schenker family 42,634 bearer shares in Sika AG.

In connection with share-based compensation plans the following number of shares were allocated. The shares are granted at the average market price of the first five trading days of April of the subsequent business year. In the year under review the average market price was CHF 3,870 (CHF 3,603).

in CHF thousands	2015		2016	
	Units	Nominal	Units	Nominal
Board of Directors	207	748.9	0	0.0
Group Management	451	1,621.0	599	2,315.7
Employees	289	1,041.7	213	823.5
Total	947	3,411.6	812	3,139.2

PROPOSED APPROPRIATION OF PROFIT BROUGHT FORWARD

THE BOARD OF DIRECTORS PROPOSES TO THE ANNUAL GENERAL MEETING THE FOLLOWING APPROPRIATION OF PROFIT BROUGHT FORWARD:

in CHF mn	2015	2016
Composition of the profit brought forward		
Net profit for the year	331.8	622.4
Results carried forward from prior year	1,480.7	1,614.5
Profit brought forward	1,812.5	2,236.9
Dividend payment		
Dividend payment out of the profit brought forward ¹	198.0	258.8
Results carried forward	1,614.5	1,978.1

1 Dividend payment for shares entitled to dividends (without treasury shares as per December 31, 2016).

As the general statutory reserve currently exceeds 20% of shareholders' equity, a further allocation to the reserve was waived.

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

in CHF	2015	2016
Bearer share¹ nominal value CHF 0.60		
Gross dividend	78.00	102.00
35% withholding tax on gross dividend	27.30	35.70
Net dividend	50.70	66.30
Registered share nominal value CHF 0.10		
Gross dividend	13.00	17.00
35% withholding tax on gross dividend	4.55	5.95
Net dividend	8.45	11.05

1 Bearer shares held by Sika AG are non-voting shares and do not qualify for a dividend.

Payment of the dividend is tentatively scheduled for Wednesday, April 19, 2017.

After the General Meeting on April 12, 2017, the shareholders, who hold their bearer shares at home or in a bank deposit, are requested to exchange their old share certificates. On presentation of the old share certificates at the shareholders' bank, new share certificates with coupons no. 1 et seq. will be issued or upon request of the shareholder, deposited in a securities deposit at the shareholders' bank. The dividend is paid upon presentation of coupon no. 1.

Registered shareholders will receive payment of the dividend at the address provided to the company for the purposes of dividend distribution.

The Annual General Meeting of Sika AG will be held on Tuesday, April 11, 2017.

Baar, February 22, 2017

For the Board of Directors
The Chairman:
DR PAUL HÄLG

REPORT OF THE STATUTORY AUDITORS TO THE ANNUAL GENERAL MEETING OF SIKA AG, BAAR

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Sika AG, which comprise the balance sheet, income statement, and notes (pages 142 to 151 of the download version of this report), for the year ended December 31, 2016.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing, and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements for the year ended December 31, 2016, comply with Swiss law and the company's articles of incorporation.

REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

INVESTMENTS IN SUBSIDIARIES

AREA OF FOCUS. Sika AG holds investments in subsidiaries that represent 41% of the total assets on standalone level. The various investments are disclosed in note "list of Group companies" of the consolidated financial statements of Sika AG. Total investments are material to the entity and may be subject to changes in value. Accordingly, management performs regular impairment considerations and calculations to determine the value of each single investment. The investments in subsidiaries were considered significant to our audit as the amounts concerned are material and the assessments involve judgment in preparing the underlying for the valuation.

OUR AUDIT RESPONSE. Our audit work for the valuation of the investments consisted of auditing management's valuation assessment and the underlying key assumptions. We also assessed the historical accuracy of the Company's estimates and long-term business plans. We performed our own calculations to assess the valuation of each investment.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of profit brought forward complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, February 22, 2017

ERNST & YOUNG LTD



CHRISTOPH MICHEL
Licensed audit expert
(Auditor in charge)



MARC RÜEGSEGGER
Licensed audit expert

FINANCIAL CALENDAR

SALES FIRST QUARTER 2017	Tuesday, April 11, 2017
49TH ANNUAL GENERAL MEETING	Tuesday, April 11, 2017
DIVIDEND PAYMENT	Wednesday, April 19, 2017
HALF-YEAR REPORT 2017	Thursday, July 27, 2017
RESULT FIRST NINE MONTHS 2017	Thursday, October 26, 2017
NET SALES 2017	Tuesday, January 9, 2018
MEDIA CONFERENCE / ANALYST PRESENTATION FULL-YEAR RESULT 2017	Friday, February 23, 2018

IMPRINT

PUBLISHED BY

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Kalt Medien AG, Zug

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