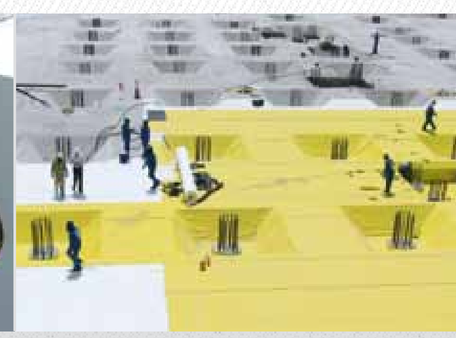
# Annual Report
2010

# Waterproofing.

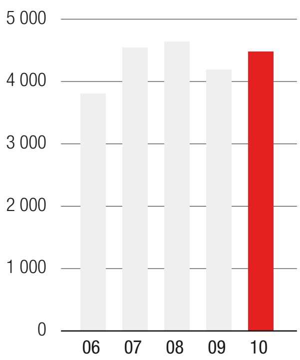
This is a topic which will increasingly occupy the construction world. Sustainability pays off double here: In both ecological and economic terms.



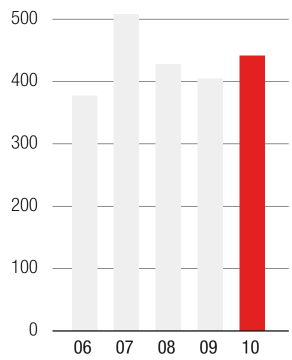
Waterproofing is the foundation of future-proof structures. It protects their substance, prolongs their service life and prevents damage. Waterproofing protects investment and the environment alike, making it a focal topic for our company. Pages 72 to 85 of this Annual Report provide an overview of structural waterproofing as one of our core competencies.

# Brief Overview

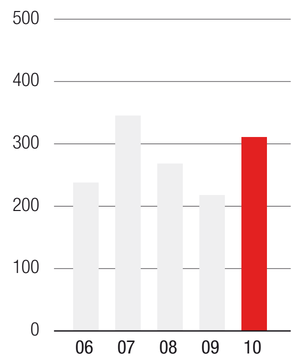
**Net sales (consolidated)**
in CHF mn



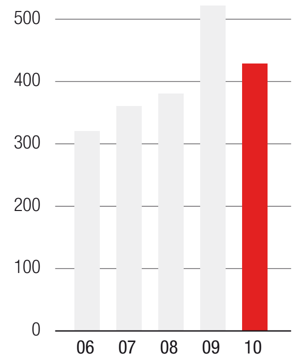

**Operating profit**
in CHF mn




**Consolidated net profit after taxes**
in CHF mn




**Cash flow from operating activities**
in CHF mn




IN LOCAL CURRENCIES, SALES WERE UP 10.2% YEAR ON YEAR, AND NET PROFIT 37.7%.

SIKA AGAIN SUCCEEDED IN GAINING MARKET SHARE IN 2010.

STRONG GROWTH IN ALL MARKETS: LOW SINGLE-DIGIT GROWTH IN THE MATURE MARKETS, DOUBLE-DIGIT GROWTH IN THE EMERGING MARKETS.

GROWTH IN LOCAL CURRENCIES REGION ASIA/PACIFIC: 41.4%.

GROWTH IN LOCAL CURRENCIES REGION LATIN AMERICA: 18.0%.

**Sika Group**

| in CHF mn | 2009 | as % of net sales | 2010 | as % of net sales |
|---|---|---|---|---|
| Net sales | 4 154.9 | | 4 416.0 | |
| Depreciation/amortization/impairment | -139.3 | -3.4 | -137.5 | -3.1 |
| Operating profit before restructuring | 400.6 | 9.6 | 439.5 | 10.0 |
| Net profit after taxes | 225.7 | 5.4 | 310.9 | 7.0 |
| Earnings per share in CHF[1] | 91.03 | | 124.60 | |
| Cash flow from operating activities | 526.3 | 12.7 | 424.8 | 9.6 |
| Free cash flow | 312.5 | 7.5 | 243.9 | 5.5 |
| Operating free cash flow | 368.7 | 8.9 | 332.2 | 7.5 |
| Balance sheet total | 3 629.4 | | 3 931.7 | |
| Shareholders' equity | 1 593.0 | | 1 752.2 | |
| Equity ratio in %[2] | 43.9 | | 44.6 | |
| ROCE in % | 19.3 | | 21.3 | |
| Number of employees | 12 369 | | 13 482 | |
| Net sales per employee in CHF 1 000[3] | 329 | | 342 | |

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

**Net sales by Region (consolidated)**

| | | |
|---|---|---|
| Europe North | CHF | 1 457 mn (33.0%) |
| Europe South | CHF | 874 mn (19.8%) |
| North America | CHF | 633 mn (14.3%) |
| Latin America | CHF | 480 mn (10.9%) |
| IMEA* | CHF | 286 mn (6.5%) |
| Asia/Pacific | CHF | 676 mn (15.3%) |
| Central services | CHF | 10 mn (0.2%) |
| **Total** | **CHF** | **4 416 mn** |

* India, Middle East, Africa

**Net sales by Division (consolidated)**

| | | |
|---|---|---|
| Construction | CHF | 3 551 mn (80.4%) |
| Industry | CHF | 865 mn (19.6%) |

**PORTRAIT AND CORE COMPETENCIES.** Sika AG, located in Baar, Switzerland, is a globally active specialty chemicals company. Sika supplies the building and construction industry as well as manufacturing industries (automotive, bus, truck, rail, alternative energies, building components). Sika is a leader in processing materials used in sealing, bonding, damping, reinforcing and protecting load-bearing structures.

Sika's product lines feature high-quality concrete admixtures, specialty mortars, sealants and adhesives, damping and reinforcing materials, structural strengthening systems, industrial flooring as well as roofing and waterproofing systems. Worldwide local presence in 74 countries and some 13 500 employees link customers directly to Sika and guarantee the success of all partners. Sika generates annual sales of CHF 4.4 billion.

**Sealing.** Sealing minimizes the infiltration of gases and liquids through voids and cavities as well as the transmission, spread or loss of heat. Large expanses of flat roofing, complex tunnel systems, damage-prone water-retaining structures and sophisticated wall-cladding assemblies are durably weatherproofed and made resistant to temperature fluctuations, aging and vibration – thereby enhancing the functionality and comfort of the interior environment.

**Bonding.** Bonding ensures the permanent, elastic and structurally continuous connection of different materials. Innovative processes are used to bond vehicle components, window assemblies or even concrete bridge units weighing several tons. Sika's bonding technology enhances the safety of end products while increasing design freedom. These applications may also be used to optimize manufacturing processes and reduce cycle times.

**Damping.** Damping reduces vibrations of all frequencies in fixed and moving objects, thereby lowering resonance and noise emission in load-bearing structures and cavities. The attenuation of noise, for instance, in vehicle interiors – in cars, on buses or on cruise ships – significantly increases the comfort of drivers and passengers alike.

**Reinforcing.** Reinforcing components are strategically incorporated in structures to improve their resistance to static and dynamic loads. Applications range from lightweight window frames and crash-resistant car bodies to monumental concrete bridges. These solutions can be used to strengthen existing and optimize new-build load-bearing structures.

**Protecting.** Protective elements increase the durability of load-bearing structures and help to preserve the fabric of new and renovated facilities. Sika's solutions guarantee long-term protection for concrete and steelwork assemblies against climatic conditions, chemical action, pollution and fire.

# Table of Contents.

# Letter to Shareholders

SIKA ON TRACK. **Despite mixed market performances, reticence on the part of public sector customers and rising raw material prices, Sika succeeded in lifting sales and net profit and is confident about 2011. The emerging markets in Latin America and Asia offer the greatest potential.**

**UNEVEN MARKET ENVIRONMENT.** The construction sectors of most European countries and North America continued to be impacted by the economic crisis in 2010. Market volumes were for the most part considerably lower than in 2006 and 2007. Our industrial markets staged a somewhat better recovery, but here too volumes fell short of peak levels. Emerging markets in Asia and Latin America turned in extremely dynamic and positive performances. Sika achieved double-digit sales growth in most emerging markets; the only exceptions were the markets in the Arab Emirates, which suffered from the effects of the crisis in Dubai.

Even if numerous businesses and analysts take the view that the economy has essentially picked up, there is not yet much evidence of this in the traditional construction markets at least. The list of countries and public sector customers forced by dire financial circumstances to make huge savings is still long.

Unhindered by this, the economies of a number of countries in Asia and Latin America developed at an impressive pace. China, for instance, lifted gross domestic product by over 10% in 2010. Construction activity has taken on immense proportions, and although the subsidiary in China is now our fourth largest, its market share remains modest and the growth potential is enormous.

In 2011 we again expect to see only hesitant economic growth in the traditional markets and a continuation of the positive economic trends in the emerging markets.

**ENCOURAGING INCREASE IN SALES AND NET PROFIT.** Year-on-year developments in sales and net profit in 2010 were encouraging even if the impact of currency conversions meant that we were unable to match the record levels posted in 2007. Sales increased in local currencies by 10.2%. Sika again succeeded in gaining market share in 2010. Adjusted for the one-off effects of restructuring costs in 2009, EBIT rose by 10.0%. Net profit was up 37.7% compared with the previous year. EBITDA and net profit margins were therefore in the upper range of our medium-term guidance. Thanks to the successful restructuring programs implemented at various locations, we were able to streamline capacity, raise efficiency and maintain or improve results.

Steps taken to align cost structures to local conditions enabled us not only to benefit more than average from the positive market development but also to maintain our margins in the emerging countries at the level of the traditional markets. Acquisitions additionally helped to grow our market share further.

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

2010 witnessed a renewed increase in raw material prices. We were not able to make timely adjustments to customer prices in all our markets, which led to losses in gross profit. Above all in the traditional markets, the fact that production capacity of raw materials suppliers had not yet been realigned caused delivery bottlenecks in a number of specialty products, which contributed to driving prices up.

**IMPROVEMENT IN BALANCE SHEET POSITIONS.** Our efforts to reduce net working capital bore fruit. The ratio of net working capital to sales narrowed from 20% to 18%. The equity ratio increased from 43.9% to 44.6%, and net debt was reduced from CHF 264.8 million to CHF 164.5 million. The strong franc and Sika's good liquidity profile have created scope for further acquisitions. We will continue to evaluate appropriate opportunities very diligently.

**SUSTAINABILITY.** Sika launched various sustainability initiatives in 2010 to mark the company's centennial, including joining the UN Global Compact and the World Business Council for Sustainable Development. We issued a special publication outlining solutions for a sustainable future. The present Annual Report (page 45) and our subsequent Sustainability Report scheduled to appear in 2012 contain a roundup of current activities and achievements in the area of sustainability. We aim not only to satisfy more stringent standards within our own company, but also to offer our customers new, more sustainable solutions. Sika also announced it would be cofunding the establishment of a new institute for sustainable civil engineering at the ETH (Swiss Federal Institute of Technology) in Zurich by financing a new professorship.

**PERSONNEL CHANGES.** As publicized in December 2010, CEO Ernst Bärtschi will be retiring in May 2012, following seven and a half years in his present function. His successor will be selected internally and announced at the given time.

**OUTLOOK FOR 2011.** The outlook today is better than a year ago. Markets are likely to continue presenting a mixed picture in terms of performance. In the face of higher volumes, raw material producers' restricted capacity will result in supply squeezes and price rises which can only be passed on after a certain time lag. The Asian markets will grow even more in significance, as will regional products and solutions. In this connection, China will also become more and more important as a location for research and development as well as in terms of sourcing raw materials and resources. 2011 will be another year in which we seize every available opportunity to gain market share in our target markets and achieve our long-term goal of a 20% market share in all Regions and target markets. Group-wide this corresponds to the medium-term sales target of CHF 8 billion already communicated.

**PROPOSALS OF THE BOARD OF DIRECTORS.** The Board of Directors proposes to the Annual General Meeting payment of an unchanged gross dividend of CHF 45.00 per bearer share and CHF 7.50 per registered share. In addition, we will reduce the nominal value of the bearer shares from CHF 9.00 to CHF 0.60 and that of the registered shares from CHF 1.50 to CHF 0.10. The payout sum amounts to CHF 134.0 million, representing approximately 43% (2009: 50%) of consolidated net profit. The proposal is an expression of the consistency of Sika's dividend payout policy.

Furthermore, the Annual General Meeting is recommended to reelect current Board member Urs F. Burkard and to newly elect Monika Ribar, CEO of Panalpina, to the Board of Directors.

**VOTE OF THANKS.** 2010 was also a year of numerous unique and intense challenges for Sika. We extend our thanks to everyone who helped us successfully meet these challenges: to our customers, suppliers and business partners with their valuable cooperation, to our employees with their steadfast commitment, and in particular to our shareholders with the loyalty they show us.

Sincerely,

Dr. Walter Grüebler
Chairman of the Board

Ernst Bärtschi
Chief Executive Officer

# Stock Price Development

**SIKA SHARE OUTPERFORMS MARKET.** **While the Swiss equity market generally trended sideways in 2010, Sika shares again posted significant gains last year. Sika shares came under selling pressure at the beginning of the year owing to the uncertain economic situation facing key markets. However, by the end of the year the shares rose to over CHF 2100.**

**STOCK MARKET DEVELOPMENTS IN 2010.** Despite uncertainties in Europe and North America, the Sika share put in an encouraging performance in the year under review. From January 4 to December 30, 2010, Sika shares rose by 27.0% from CHF 1 615 to CHF 2 051. Compared to the low seen on February 26 (CHF 1 482), this represents an increase of 38.4%. By contrast, the Swiss Exchange's blue chip SMI index failed to post a year-on-year gain, closing 2010 at just under 6 600 points, virtually matching the 2009 level.

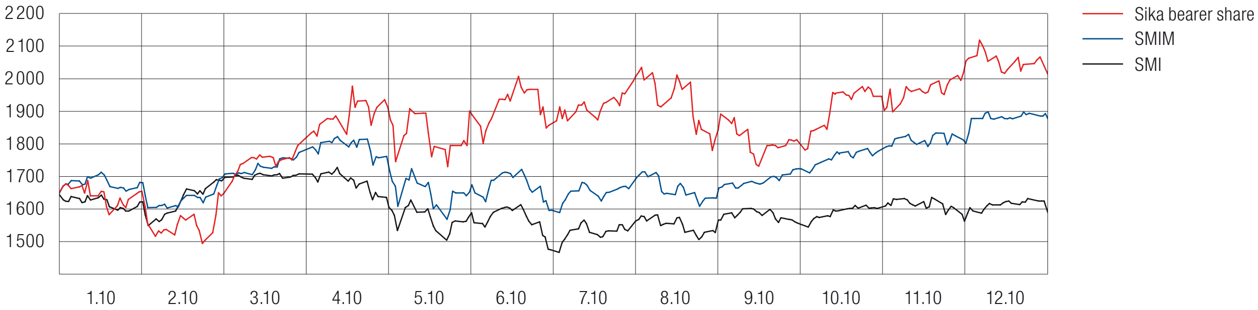
On January 11, 2010, Sika published the sales figures for 2009. In local currencies, consolidated net sales were down 3.9% year on year to CHF 4.2 billion. The earnings figures came out at the beginning of March 2010. In the 2009 business year, net profit fell by 15.6% to CHF 225.7 million, due primarily to extraordinary restructuring costs of CHF 56.6 million. Factoring out restructuring, in absolute terms net profit could be maintained and relative to sales it was lifted from 5.8% to 6.5%. Given the fall-off in market volumes in the construction industry and the automotive suppliers sector, Sika had again won market share in spite of the crisis. The stock market reacted positively to the published figures.

In the following months, the Sika share rose continually in price, while the SMI suffered temporary setbacks in the 2nd quarter as the European debt crisis worsened. Driven by strong growth in the emerging markets and robust acquisition activity, Sika posted a positive half-year result. Sales were up 5.6% compared with the previous year and net profit was increased by 63%.

Sika shares came under selling pressure in the 3rd quarter as a consequence of growing uncertainties in the euro zone. On publication of the nine-month figures, which confirmed the good results presented in the half-year report, the shares embarked on a renewed upward trajectory, which continued until the end of the year. The share reached its high for the year on December 8 at a price of CHF 2 145.

Performance of Sika bearer shares in Swiss francs from January 1, 2010, to December 31, 2010

Share price as of December 31, 2010: CHF 2 051




## Per share data

| | | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| **Bearer shares[1, 2]: Nominal value CHF 9.00** | | | | | | |
| Number of shares as of December 31 | | 2 151 199 | 2 151 199 | 2 151 199 | 2 151 199 | 2 151 199 |
| of which entitled to dividend | | 2 149 205 | 2 117 179 | 2 089 691 | 2 095 572 | 2 115 291 |
| of which entitled to vote | | 2 149 205 | 2 117 179 | 2 089 691 | 2 095 572 | 2 115 291 |
| Gross dividend | CHF | 31.20 | 45.00 | 45.00 | 45.00 | 45.00[3] |
| Repayment of nominal value | CHF | – | – | – | – | 8.40[3] |
| Stock quotations | | | | | | |
| high | CHF | 1 900 | 2 595 | 2 082 | 1 658 | 2 145 |
| low | CHF | 1 108 | 1 850 | 788 | 685 | 1 482 |
| year-end | CHF | 1 890 | 2 136 | 900 | 1 615 | 2 051 |
| Stock price performance | % | 73.4 | 13.0 | -58.0 | 79.4 | 27.0 |
| Average daily trading volume[4] | Shares | 4 757 | 8 870 | 8 871 | 5 746 | 10 735 |
| **Registered shares[5, 6]: Nominal value CHF 1.50** | | | | | | |
| Number of shares as of December 31 | | 2 333 874 | 2 333 874 | 2 333 874 | 2 333 874 | 2 333 874 |
| of which entitled to dividend | | 2 333 874 | 2 333 874 | 2 333 874 | 2 333 874 | 2 333 874 |
| of which entitled to vote | | 2 333 874 | 2 333 874 | 2 333 874 | 2 333 874 | 2 333 874 |
| Gross dividend | CHF | 5.20 | 7.50 | 7.50 | 7.50 | 7.50[3] |
| Repayment of nominal value | CHF | – | – | – | – | 1.40[3] |
| **Key data per bearer share[7]** | | | | | | |
| Consolidated net profit per share (EPS)[8] | | | | | | |
| basic EPS | CHF | 91.4 | 135.4 | 107.00 | 91.03 | 124.60 |
| EPS development | % | 52.0 | 50.0 | -22.0 | -14.9 | 36.9 |
| Equity per share | CHF | 498 | 584 | 587 | 640 | 698 |
| Price-earnings ratio (P/E), year-end | | 20.7 | 15.8 | 8.4 | 17.7 | 16.5 |
| Dividend/repayment of nominal value yield | % | 1.7 | 2.1 | 5.0 | 2.8 | 2.2[3] |
| **Other information** | | | | | | |
| Market capitalization[9] | CHF mn | 4 801 | 5 426 | 2 286 | 4 102 | 5 210 |
| in % of equity | % | 380 | 369 | 156 | 258 | 298 |
| Total dividend/repayment of nom. value | CHF mn | 79.3 | 111.5 | 111.5 | 111.8 | 134.0[3] |
| in % of consolidated net profit (payout ratio)[7] | % | 34 | 33 | 42 | 50 | 43 |

[1] Registration no. 58797/Reuters: SIK.S, Bloomberg: SIK SW
[2] Of which, in 2010, Sika owned 35 908 (55 627) bearer shares not entitled to dividend or voting rights
[3] Pursuant to proposal to Annual General Meeting
[4] Average daily volume traded on SIX Swiss Exchange (Source: SIX Swiss Exchange, Zurich)
[5] The registered shares of Sika AG were delisted from the SIX Swiss Exchange on September 4, 2003
[6] Of which, in 2010, Sika AG owned no (0) registered shares
[7] Excluding minority interests
[8] For EPS calculation, see note 26
[9] The registered shares were delisted from the Swiss stock exchange in 2003. In our calculation these are taken into account with ⅙ of the bearer share price of December 31, 2010

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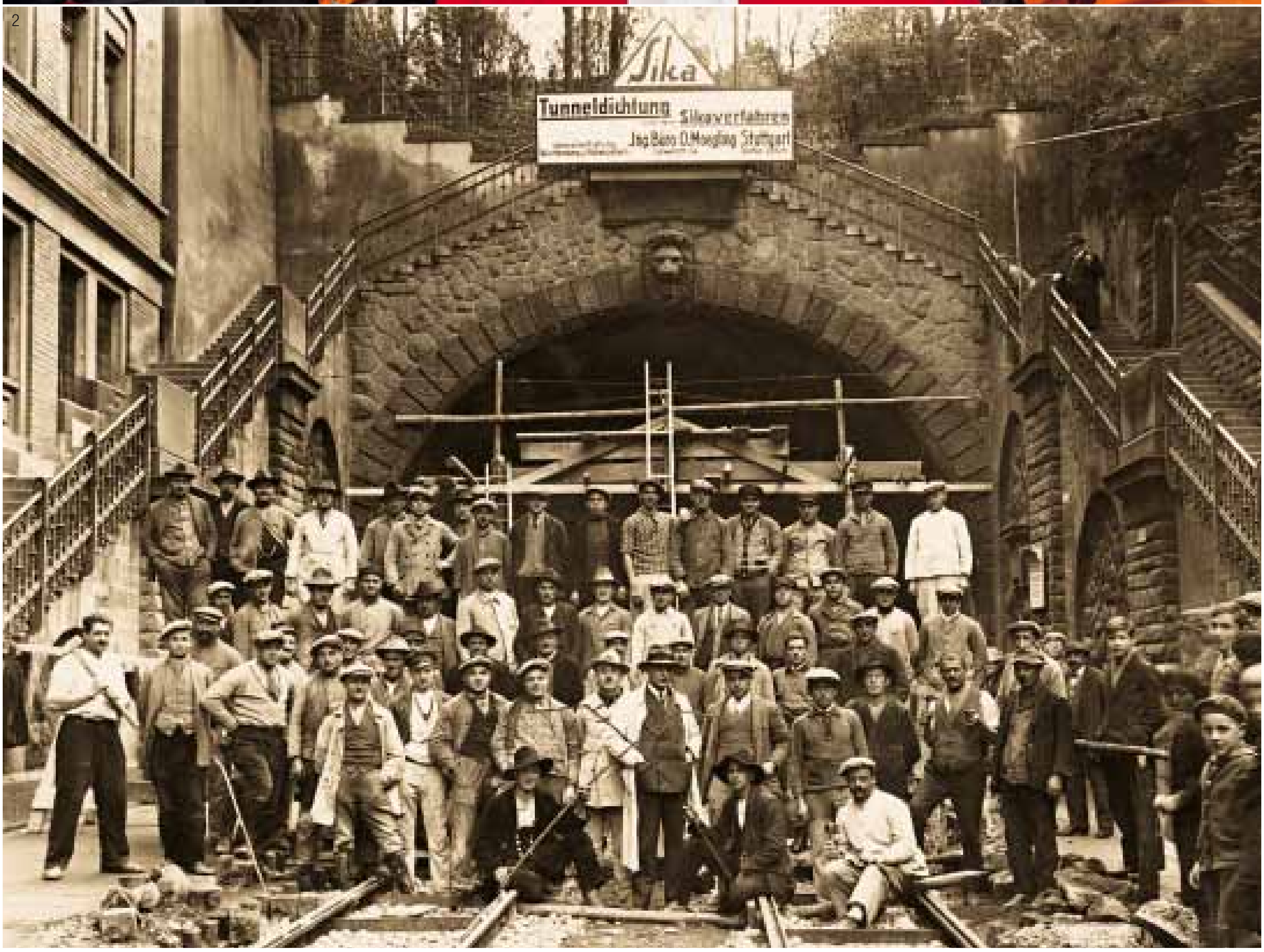


# Centenary Year

**GOTTHARD REVISITED: BACK TO THE ROOTS.** **The breakthrough in the Gotthard, now the world's longest tunnel, also marks a further milestone in Sika's history. The Group is playing a major role in ensuring that the NEAT (New Transalpine Rail Link) base tunnel remains watertight.**

**GOTTHARD AS THE CRADLE OF SUCCESS.** Witnessed live by numerous guests, the final breakthrough in the Gotthard on October 15, 2010, officially made it the world's longest tunnel. The event marked both a milestone in the development of the Swiss and European transport network and a further highlight in Sika's history. While the rail tunnel proper is 57 km long, the overall tunnel system stretches over 135.5 km. Following the scheduled opening of the tunnel in late 2017, trains will run through the new tube at speeds of up to 250 km per hour, thereby cutting the journey time between Zurich and Milan by almost an hour. Sika has been involved in this project since the very start and has been awarded contracts for all five subsections.

It was here at the Gotthard, over 90 years ago, that Sika's success story began. It is all the more fitting, then, that the company – in 2010, its centenary year – should return to its roots to showcase its hard-earned expertise in the core areas of sealing, bonding, damping, reinforcing and protecting. Indeed, with a total value of CHF 200 million, the tunnel lining between Erstfeld and Bodio ranks among Sika's largest single contracts in the last hundred years. It was in 1910 that company founder Kaspar Winkler launched the very first product onto the market: Sika-1, a waterproofing admixture for concrete and mortar. The quantum leap for the inventor and his fledgling company came eight years later with the electrification of the Gotthard tunnel. Kaspar Winkler was contracted to prevent water infiltration into the rail tunnel using his product.

The requirements placed on the new base tunnel project are equally stringent, not only in terms of durable performance, but also regarding the logistics needed for efficient on-site operations. Sika has participated in development work since the very first tests in 1994. In an elaborate prequalification process, engineers investigated various concrete, shotcrete and waterproofing formulations. At the same time, due allowance needed to be made for the high temperatures (up to 45°C) and extreme moisture levels in the tunnel. The challenge consisted in developing a concrete system for a rock overburden of up to 2 000 meters which met both the builder's and applicator's demands. One important requirement was to maintain pumpability of the shotcrete for several hours over long distances. A rapid set was then needed once the concrete was placed.

1 Breakthrough: Construction crews digging the 57 km Gotthard base tunnel (Switzerland) reached the other side on Friday, October 15, 2010 officially making it the world's longest tunnel.

2 Competence in tunneling: Since the beginning of the history of Sika, projects in the realm of tunneling are part of the core business.

Apart from shotcrete equipment, Sika also supplies a range of concrete and shotcrete admixtures to facilitate workability. Examples include the superplasticizer Sika® ViscoCrete®, the accelerator Sigunit® and the stabilizer SikaTard®. These various admixtures ensure that the Gotthard's key material, concrete, attains the specified strength and flexibility. The main requirements are:

- Reliable mechanical properties (compressive strength, elastic modules)
- Controlled shrinkage
- Increased sulfate resistance
- High water impermeability
- High resistance to alkali-aggregate reaction

The waterproofing systems and their on-site application are likewise subject to highly stringent requirements. The membranes must prevent water ingress and simultaneously protect the structure against the aggressive chemical and biological substances present in the ground and groundwater. Here, the adopted waterproofing system, incorporating Sikaplan® polymeric sheet membranes, provides a durable and economical solution. A total of over three million square meters of Sikaplan® membrane have been installed in the Gotthard base tunnel. All tests have shown the solutions specially devised for the tunnel by Sika engineers to have fully satisfied the stiff requirements. Once completed, most likely in 2017, the Gotthard base tunnel will then be fit to fulfill its function of streamlining passenger and freight traffic flows between northern and southern Europe for another hundred years.

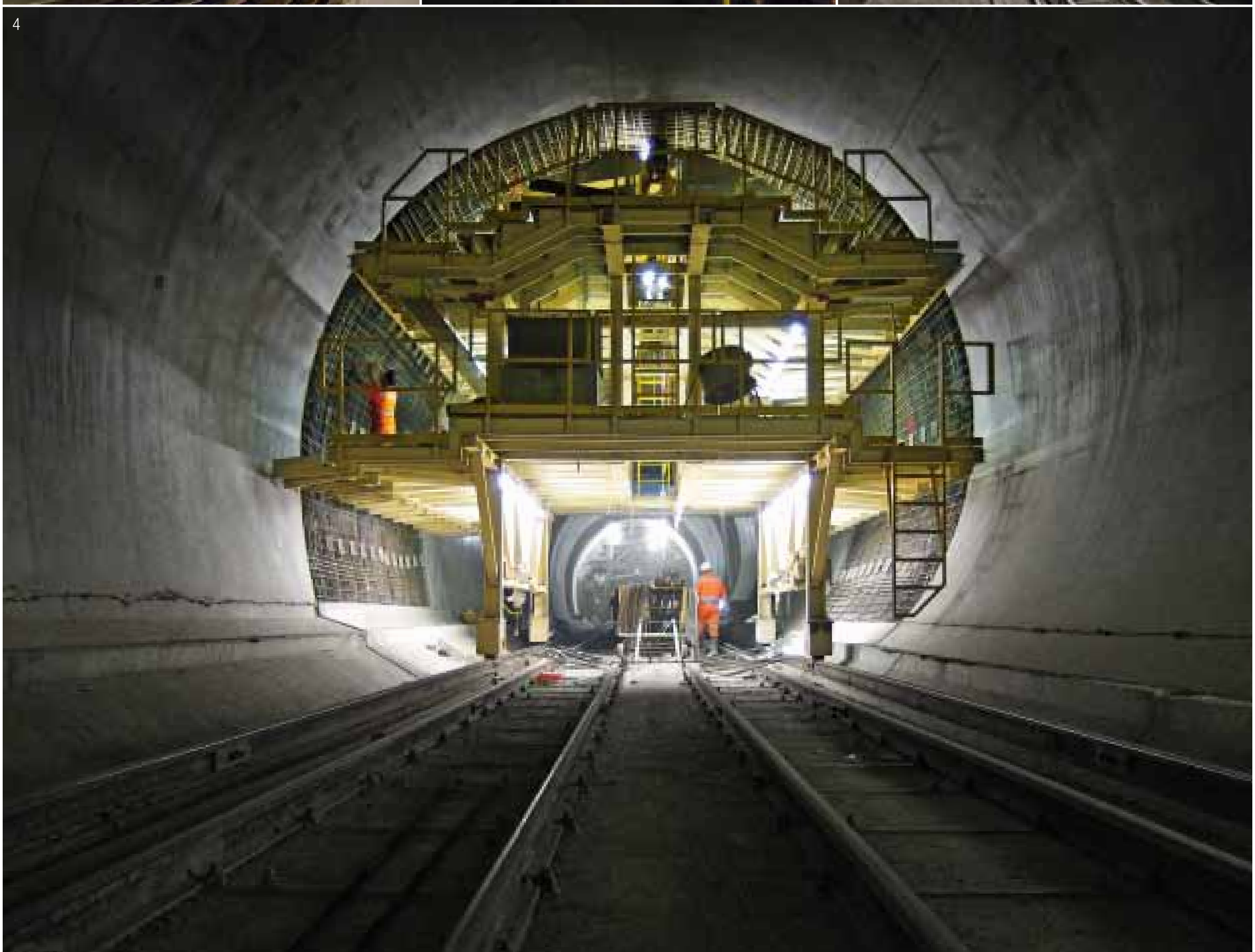
1 Membranes in waterproofing systems impede the penetration of water and protect the structure from chemically and biologically aggressive substances, which exist in groundwater and soil.

2 Sika supplies various concrete and shotcrete admixtures. These additives optimize the workability, the hardening and the strength of the concrete.

3 Sika products applied: The superplasticizer Sika® ViscoCrete®, the accelerator Sigunit®, the stabilizer SikaTard® and shotcrete equipment.

4 The concrete system for the Gotthard base tunnel has to satisfy different standards. By using Sika concrete admixtures the vault concrete could be optimized to ideally suit the needs of this complex construction.



# JUBILEE CELEBRATIONS IN PICTURES.

1 Finland: Over 200 customers took part in the celebration event of Sika Finland. Finish singer Karoliina Kallio entertained the guests with the House Band. Furthermore a donation to the Aalto University School of Science and Technology was made.

2 Brazil: In order to celebrate this special year Sika Brazil made a donation to the Association of Assistance to Disabled Children (AACD/Teleton).

3 Serbia, November 26, 2010: The central celebration party of Sika Serbia took place in the City Parliament of Belgrade.

4 Bulgaria, March 26, 2010: Sika Bulgaria organized a jubilee event with more than 150 guests in Sofia.

5 China, June 2010: A historical photography exhibition shows 100 years history in all major branches throughout China.

6 Indonesia: Employees of PT Sika Indonesia gather for the 100th-year celebration.

7 Switzerland, October 2010: Address of Chairman of the Board, Walter Grüebler, at the evening gala event held at the Culture and Congress Centre Lucerne (Switzerland) with more than five hundred invited guests from around the world included representatives from government and business.

8 Thailand, October 30, 2010: Celebration dinner for customers and other representatives from the industry. Guests were welcomed with a traditional Thai human puppet show.

9 Venezuela: The photo competition, "Sika People," is a proof of the strong identification and of the creativity of Sika employees.

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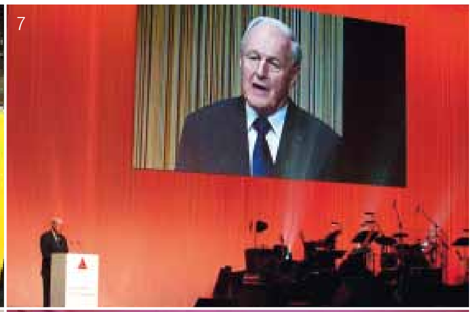

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10 Portugal: Sika spirit also among the youngest guests: Employees and their families toured the Ovar plant and went to a nearby country club to take part in various activities.

11 Austria: Sika Austria celebrated with the descendants of Kaspar Winkler, the founder of Sika, the Board of Directors as well as members of Group Management, and the residents living in his place of birth, in Thüringen.

12 China: More than 300 employees and their families celebrated the 100 years jubilee. Children of employees impressed the guests with charming performances.

13 Portugal: At the Sika open day 150 guests joined the festivities – among them the local community, clients and the media. Their congratulations were recorded on a specially designed billboard.

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# Concrete, Dubai Metro.

## The world's largest driverless metro network: A once-in-a-century project.

The Dubai Metro's first line was inaugurated in 2009. The second line is scheduled to begin operating in 2011. There are 58.7 km of overground track on ramps and bridges, and 12.6 km in tunnels clad with 53 000 prefabricated tubbing elements. In all, over 2 million $m^3$ of high-performance concrete is needed for construction. The design of the concrete mixes is complex. Special mixes are required for exposed concrete, for long transport routes and for working at temperatures above 35 degrees. Sika can use all its know-how and full application expertise, it advises clients and general contractors, instructs applicators on-site and assumes responsibility for quality control. A total of 14 000 tons from the Sika® ViscoCrete® and Sikament® series are being used. Sika has what it takes to build metro lines and gives infrastructures around the world a future.

# Sika. The global brand for quality in construction: Customer focus and region-based structures as growth factors.

Strategy and Focus

# Strategy and Brand

**A TRADEMARK FOR INNOVATION, QUALITY AND SERVICE.** **The Sika brand stands for innovative products, quality and service. Sika constantly seeks to exploit growth potential in all its target markets in order to achieve market leadership or a strong number two position.**

**VISION.** With its range of process materials for sealing, bonding, damping, reinforcing and protecting load-bearing structures, Sika strives for a leadership or strong number two position in clearly defined target markets.

Sika's target markets are:
- Concrete production
- Elastic sealing and bonding
- Waterproofing
- Roofing systems
- Flooring systems
- Refurbishment and strengthening
- Industrial manufacturing (primarily motor vehicle production)

**MARKET POTENTIAL AND STRATEGY.** Sika systematically leverages the growth potential in its target markets. The company draws on its innovative power, for instance, to meet the rising demand for energy-efficient and cost-effective solutions in both the construction and industrial manufacturing sectors. This has led to the development of new roofing systems that vastly improve the energy performance of buildings and state-of-the-art, low-weight, time-saving adhesives for vehicle production – to name just two examples. As globalization proceeds, the ability to deliver comprehensive integral solutions for globally operating key accounts and pivotal large-scale projects is a crucial success factor.

Particularly crucial for Sika are the emerging markets of Latin America, Eastern Europe, the Middle East and parts of Asia. To capitalize on the momentum in these rapidly growing markets, the company relies on cost-effective solutions for early market development. At the same time, investment in the training of both employees and customers paves the way for the introduction of new, more efficient technologies and improves market penetration.

**THE SIKA 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 farsightedness. 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. Nearly as old as the company itself, the combined word/picture trademark has proved a valuable asset throughout the world during the Sika Group's decades-long expansion. Both the word "Sika" and the logo, with its familiar red and yellow hues, are readily accepted across all cultural boundaries.

**WORLDWIDE TRADEMARK PROTECTION.** Given the high awareness of the Sika brand, particularly the graphic trademark, the company attaches high priority to a consistent and standardized use of the logo, and verifies compliance with the associated corporate image guidelines. Customers throughout the world can rest assured that they will receive Sika quality and service wherever they see the Sika logo. The various attempts, in recent years, to copy the logo only serve to underline its enormous intangible value for the company.

The umbrella brand Sika together with some 600 Sika product trademarks, such as Sikaflex®, Sika® ViscoCrete®, SikaBond® or Sarnafil®, 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 15 120 trademark registrations in 160 countries at the end of the period under review. Sika AG continuously monitors its trademarks and takes immediate legal action in cases of infringement.

**MARKETING.** The company catchword "Know-how from Site to Shelf" encapsulates the principles behind Sika's distribution business: Sika exclusively sells high-grade products boasting a track record of top performance on the world's largest job sites and available from builders' merchants' shelves in uniform quality. Customers around the world, both large and small, reap the benefits of superior quality. "From Roof to Floor," another company slogan, this time underscores the wide variety of applications covered by the Sika range. Sika's products and systems deliver prime solutions for every phase of construction.

# Customers and Markets

**INDIVIDUAL SOLUTIONS FOR GLOBAL REQUIREMENTS.** **Sika's growth strategy focuses on four customer groups, whose varying requirements are actively addressed and conscientiously met at global, regional and local level.**

**CUSTOMERS.** Sika's marketing, service and sales operations are geared to four key customer groups, each with its own special demands.

**Concrete producers** ("Concrete") need cost-optimized solutions, purpose designed for the particular cement and application, and subject to individual fine-tuning in ready-mixed and precast concrete plants, or on the job site. As a result, Sika's business success largely hinges on its presence in all relevant local markets. Key account management is, however, also playing an ever more important role due to the increasingly globalized operations of major cement and concrete producers.

**Specialized applicators** ("Contractors") purchase Sika products, such as Sikaplan® or Sarnafil® polymeric sheet membranes, which they then incorporate as waterproof barriers in roof or basement constructions. They use liquid polymers to install industrial flooring or protective coatings, and apply sealants and adhesives to prevent water infiltration through structural joints or to bond wooden floor finishes. As these works are always part of a larger scheme, Sika offers its support and know-how to owners, architects, engineers and other involved parties at the earliest possible project stage. The professional counseling of all project parties is the key to success. This holistic approach is enshrined in the Sika watchword: "From Roof to Floor."

**Builders' merchants** ("Distribution") play a more or less prominent role in different countries, depending on the traditional organization of the construction sector. In some countries, the smaller tradesmen's businesses obtain materials from building supplies stores, while the larger contractors and specialist applicators purchase their products directly from Sika. In other countries, builders' merchant outlets represent the principal distribution channel for practically all users. In the latter case, merchants also act in an advisory capacity and help tradesmen to tackle the diverse challenges arising on the job site. This function is particularly important for Sika in the emerging markets, e.g. India or Latin America, given that merchants act as disseminators and promote market penetration.

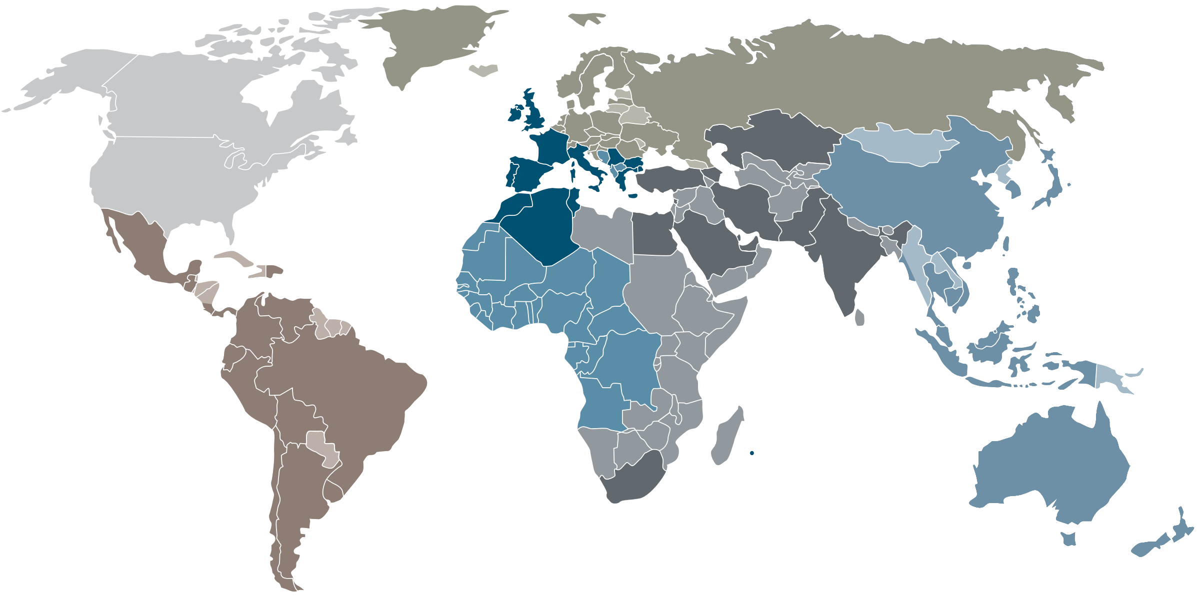
**Industrial customers** ("Industry") require Sika products that are tailored to their particular needs – and these generally in bulk. Here, the focus tends to be on bonding, reinforcing and soundproofing applications. Sika technologies are primarily employed in the manufacture of automobiles, buses, trucks, railway cars and ships. Other sectors offering attractive sales potential include industrial window production, wind turbines and solar power stations.

**REGIONS.** Sika has grown continuously since its foundation in 1910. The first subsidiary outside Europe was established as early as 1932 in Japan. The Group was split into Regions at an early stage so as to allow the national organizations to capitalize on synergies and set up further companies. These Regions, currently six in number and headed by regional managers since 1993, now effectively shape the company's management structure. The regional managers are members of Group Management and assume line responsibility for their Region. The regional management structures encompass sales functions as well as the marketing and development activities geared to the customer groups.

In 2002, following strong growth, the Region Europe was segmented into the Regions Europe North and Europe South. The latest restructuring, in 2006, set out to exploit Sika's full potential in the Middle East, where the company was thought to have underperformed for years. The grouping together of the Middle East with India and South and East Africa led to the creation of the new IMEA (India, Middle East and Africa) Region. The reorganization has paid dividends: Since its formation, the Region IMEA has been one of Sika's growth engines.

**Worldwide Market Presence**

| North America | Latin America | Europe North | Europe South | IMEA | Asia/Pacific |
|---|---|---|---|---|---|
| Sales in CHF mn | Sales in CHF mn | Sales in CHF mn | Sales in CHF mn | Sales in CHF mn | Sales in CHF mn |
| 633 | 480 | 1 457 | 874 | 286 | 676 |



Countries with Sika subsidiary

Countries with sales representative

# Products and Innovation

INVESTMENT IN A SUSTAINABLE FUTURE. **Products that have been on the market for a maximum of five years accounted for 30.3% of Sika sales in 2010. This success largely derives from the company's strategic focus, expert research and development management primarily geared to client projects, efficient development processes and a targeted response to the needs of the customer groups.**

**INNOVATION AND GROWTH.** Innovation is a key driver in the successful implementation of the company's growth strategy. It makes a major contribution to the achievement of an average medium-term organic growth of 8 to 10%. Research and development (R&D) enjoy an accordingly high priority within the company. The R&D strategy adopted by Sika in recent years has yielded a high innovation rate, with numerous patents plus a host of new products. Products that have been on the market for only five years or less accounted for 30.3% of Sika sales in the reporting year.

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

**Sealing.** Sealing minimizes the infiltration of gases and liquids through voids and cavities as well as the transmission, spread or loss of heat. Large expanses of flat roofing, complex tunnel systems, damage-prone water-retaining structures and sophisticated wall-cladding assemblies are durably weatherproofed and made resistant to temperature fluctuations, aging and vibration – thereby enhancing the functionality and comfort of the interior environment.

**Bonding.** Bonding ensures the permanent, elastic and structurally continuous connection of different materials. Innovative processes are used to bond vehicle components, window assemblies or even concrete bridge units weighing several tons. Sika's bonding technology enhances the safety of end products while increasing design freedom. These applications may also be used to optimize manufacturing processes and reduce cycle times.

**Damping.** Damping reduces vibrations of all frequencies in fixed and moving objects, thereby lowering resonance and noise emission in load-bearing structures and cavities. The attenuation of noise, for instance, in vehicle interiors – in cars, on buses or on cruise ships – significantly increases the comfort of drivers and passengers alike.

**Reinforcing.** Reinforcing components are strategically incorporated in structures to improve their resistance to static and dynamic loads. Applications range from lightweight window frames and crash-resistant car bodies to monumental concrete bridges. These solutions can be used to strengthen existing and optimize new-build load-bearing structures.

**Protecting.** Protective elements increase the durability of load-bearing structures and help to preserve the fabric of new and renovated facilities. Sika's solutions guarantee long-term protection for concrete and steelwork assemblies against climatic conditions, chemical action, pollution and fire.

**RESEARCH STRATEGY.** At Sika, research and development are dictated by two main factors. The first of these relates to global trends driven by the principles of sustainable development, such as the demand for resource-saving building methods, energy-efficient construction materials or lightweight vehicles. The second relates to the considerable adaptation of products necessary to meet local needs, which vary according to the particularities of construction industry in different countries – e.g. with regard to raw materials, climate or legal framework. Accordingly, Sika's research strategy has both centralized and decentralized components.

The centralized elements of the research strategy are devolved to the subsidiary Sika Technology AG, which is responsible for long-term research programs, analytical services and research management. The long-term research programs are geared to the technology roadmaps governed by the five megatrends (population growth in the emerging countries, increasing urbanization, greater standardization, mounting shortages of natural resources, and more intensive environmental protection). Here, the identification of new products or alternative raw materials is only one aspect. Equally important is the refinement of existing products or their introduction in new fields of application.

Corporate expert teams play a crucial role in the management of research and development projects. These global teams include representatives from wide-ranging corporate functions, such as purchasing, development, fabrication, marketing and logistics. They ensure that the different perspectives are given due consideration in projects.

The decentralized components of Sika's research strategy are entrusted to the eleven technology centers in America, Europe and Asia. These sites assume specific technology responsibilities and develop new products and applications independently. The technology centers also support the global market launch of their innovations. For this, they liaise closely with regional and local customer-oriented laboratories. This allows the swift adjustment of new products to local requirements, e.g. the fine-tuning of concrete admixtures to climatic conditions or to locally sourced aggregates such as gravel or sand. The Sika technology centers are also responsible for finding local raw materials that allow production costs to be minimized.

**COLLABORATIONS.** In the field of basic research, Sika relies mainly on collaborations with premier universities in Switzerland, the USA, Germany, Spain, France, China, India and other countries. In one initiative, Sika is sponsoring a new professorship for sustainable construction at the ETH (Swiss Federal Institute of Technology) Zurich. The partnership entailed a one-time funding contribution to the ETH Zurich Foundation of CHF 7 million. The combination of shared interests and geographic proximity often spawns prompt, unbureaucratic solutions that bring obvious benefits for the company. At the same time, Sika is at pains to counteract the prevailing shortage of engineers and chemists in certain countries by attracting suitable candidates to the company.

Sika is permanently engaged in a range of international projects such as the NanoCem consortium. This European research network studies nanoscale and microscale phenomena that influence the performance of cementitious materials and the products and structures in which they are used. Sika collaborates with its key suppliers and customers to promote innovation as early as possible in the supply chain and pave the way for the use of tailored intermediate products.

Sika Technology AG participates actively in a range of projects funded by the European Union:
- FUTURA: Integration of multifunctional materials in the automotive industry and introduction of modular and scalable approaches for designing and producing vehicles (www.futura-ip.eu)
- MUST: Development of chromium-free anticorrosion systems for steel and lightweight alloys (www.must-eu.com)
- i-SBB: Safe and intelligent construction methods for high-earthquake-risk areas (conclusion at end of 2010)
- TunConstruct: Research and development for innovative tunneling methods, materials and machines (conclusion at start of 2010; www.tunconstruct.org)

Sika Technology AG participates in the United Nations Sustainable Buildings and Climate Initiative (SBCI; www.unepsbci.org), whose aim is to establish sustainable building practices worldwide. Sika also sponsors the YES (Youth Encounter on Sustainability) program which targets future leaders in the field of sustainability. Moreover, the Group has been a member of the WBCSD (World Business Council for Sustainable Development) since 2010.

**INNOVATION.** Expenditure on research and development in the Group in the year under review totaled CHF 74.4 million (2009: CHF 74.7 million), roughly equivalent to 1.7% of sales (2009: 1.8%). The R&D budget was allocated in accordance with strategic priorities.

The Sika Group's Corporate R&D unit is aligned with the enterprise strategy and focuses on research into technology platforms and implementation procedures for high-priority R&D projects in the development departments. The seven-stage development process for products, the so-called Product Creation Process (PCP), is employed uniformly worldwide to ensure that new and patented products can be brought to market as quickly as possible. Yet, apart from short time to market, Sika also aims for high efficiency and strives to achieve cost leadership for its products in all target markets. In collaboration with Corporate Operations, the R&D unit also works to streamline the comprehensive product range in order to consolidate, simplify and lower the cost of marketing, production and distribution processes.

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 apply an up-to-date state of knowledge so as to meet the high standards specified by Sika and that local chemists are kept abreast of the latest technologies. At the same time, innovative ideas from the Regions are collected and leveraged for the Group.

2010 saw Sika launch a number of new important products onto the market:

- Rollout of first adhesives and sealants employing innovative i-Cure technology
- Introduction of three new adhesives for global automotive manufacturers plus innovative SikaPower® structural adhesives for use in vehicle bodywork construction
- For shotcrete: New Sika® ViscoCrete® superplasticizer along with new accelerators
- Launch of Sika® ViscoFlow® superplasticizer based on new polymer concepts
- Rollout of new two-component polyurethane adhesives for wind turbines

**PATENTS.** In 2010, Sika filed for 60 patents (2009: 63) and made 82 invention disclosures (2009: 81).

# Acquisitions and Investments

**SUSTAINABLE GROWTH IN TARGET MARKETS.** **Sika pursues a policy of acquisition with the aim of complementing its core business areas with related technologies or achieving long-term access to target markets. Through investment in capacity expansion and plant efficiency, fine-tuned to market demands, 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. The additional strategy thus focuses on related technologies that complement or reinforce the core business areas. Sika mainly finds these technologies 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 an insurmountable barrier to growth. By acquiring such companies, Sika, as a global player, is able to leverage their full potential.

For Sika, acquisition of market share is also a useful way of closing strategically important gaps in market access and consolidating fragmented markets. It is particularly in North America and parts of Latin America that the company pursues this policy as a means of steadily improving its market position.

Sika's acquisition strategy typically involves the takeover of small and medium-sized companies. Rather than assessing potential acquisitions on the basis of rigidly defined financial indicators – e.g. the ratio of purchase price to operating profit or sales – Sika is guided by a range of parameters. Given that, in most cases, acquired companies are fully incorporated in the Group, Sika is at pains to ensure that this integration proceeds as smoothly as possible. Sika therefore pays particular attention to questions of corporate culture prior to any takeover.

**2010 ACQUISITIONS.** In early March of the year under review, Sika AG, through its American subsidiary Sika Corporation, took over the auto glass replacement business of ADCO Products, Inc. This company, which operates in North and Latin America, was integrated in the relevant business units of Sika. The takeover was accompanied by a further expansion of the sales team – which, even beforehand, had been the largest in the American auto glass repair market.

Mid-March saw Sika AG acquire the construction sealant business of Henkel Japan Ltd. through its subsidiary Sika (Japan) Ltd. Henkel's key marketing staff and technicians were kept on. The acquisition has enabled Sika to augment the Sikaflex® product range and strengthen its foothold in the Japanese construction sealants market.

Also in March, the Group acquired the Czech Panbex Group through its subsidiary Sika CZ s.r.o. Panbex mainly operates in the cement-based flooring segment. Through this takeover, Sika has significantly bolstered its market position in Central and Eastern Europe and will benefit from the regional logistical synergies afforded by the acquired production facilities in the Czech city of Brno.

As from the end of May, Sika has held a majority stake in the Japanese company Dyflex HD Co., Ltd. On the strength of well-established brands and marketing channels, the company has achieved nationwide market leadership in the structural waterproofing sector. The acquisition has significantly reinforced Sika's position in Japan's construction chemicals market. The products and technologies of Dyflex neatly supplement the Sika range and will, in future, be marketed via the global Group organization. Dyflex's customer portfolio and sales network will unlock considerable potential for the sale of complementary products (cross-selling). The fusion of the product portfolios will allow Sika to offer customers a complete range of waterproofing systems and solutions.

**Investments 2010**

| | |
|---|---|
| Capacity expansion | 59% |
| Replacement | 18% |
| Efficiency measures | 16% |
| Quality/environment | 7% |

Sika took over the North American Greenstreak Group, Inc. in early July. Based in St. Louis, Missouri, the company is North America's market leader in engineered waterproofing, with a product portfolio that ideally complements those of both Dyflex HD Co., Ltd., acquired in May, and of German company Tricosal GmbH & Co. KG, which joined Sika in 2008. Greenstreak employs efficient production facilities in tandem with up-to-the-minute manufacturing processes and offers high engineering and innovation potential. The takeover therefore represents a prime addition to the Sika Corporation's portfolio and resources.

May National Associates, Inc. was acquired by the Sika Corporation in mid-October. May National is a leading producer of silicone and polyurethane products, and supplies construction sector companies, merchants and the manufacturing industry with bonding and sealing materials. This acquisition will enable the Sika Corporation to strength its leadership position in the sealant and adhesive segment and, in particular, to extend its range of silicone sealants for solar and facade systems – two growth markets in North America.

**2010 INVESTMENTS.** Sika's unchanged investment strategy is geared to consolidating its global presence, 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. Given the changed economic climate triggered in many parts of the world by the financial crisis, Sika has reviewed all investment plans and adjusted these to the new conditions. In the reporting period, the volume of investments thus remained below the levels of the previous years.

Three new Sika plants came into operation in 2010: The site near Moscow houses administrative and laboratory buildings, a logistics center and production facilities for concrete admixtures. The new plant on the outskirts of Stockholm, also with an administrative and laboratory building, logistics center and production facilities, manufactures concrete admixtures and accelerators for shotcrete. At Rabigh in Saudi Arabia, Sika has commenced production of mortar products and concrete admixtures.

**INVESTMENT VOLUME.** Investments in the year under review declined from CHF 161 million to CHF 100 million, equivalent to 2.3% of net sales. A key focus of investment was the expansion of production capacity in the emerging markets. The share of investment devoted to capacity expansion ran to 59% (2009: 72%). The breakdown of the remaining investment is as follows: 16% (2009: 9%) was used for rationalization, 18% (2009: 16%) was needed to replace existing facilities, and 7% (2009: 3%) was spent on environmental protection, health and safety as well as quality control.

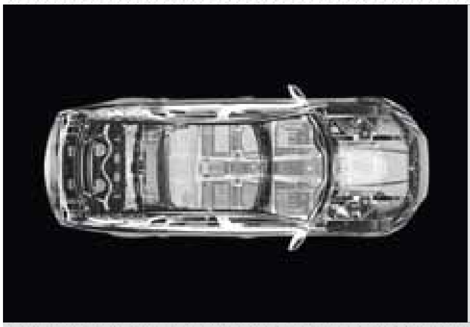
**OUTLOOK FOR 2011.** Sika will continue to invest in those regions where the Group can tap into new markets and generate growth. These include Eastern Europe, China, India and the Middle East.

**Production.** For Corporate Operations, the highlight of the reporting year was the launch of a new adhesive manufacturing process for the automotive segment. On the other hand Sika was affected by rising commodity prices and some raw materials shortages.

2010 saw Sika discontinue the production of sealants and adhesives at the French factory in Gournay. The products will now be manufactured at the German and Swiss plants. The manufacture of two-component adhesive systems was, moreover, relocated from Denmark to Germany.

# Automotive, Jaguar XJ.

## SikaReinforcer® make the flagship of Jaguar lighter, safer and more stable.



With its hybrid construction, the Jaguar XJ embodies state-of-the-art automobile building. For the combination of aluminum and other lightweight construction materials,

Sika Automotive and Jaguar jointly develop innovative technologies. The full range of core Sika competencies comes into play: Sealing, bonding, damping, reinforcing and protecting.

SikaReinforcer® bond and strengthen the vehicle structure and provide enhanced safety with a lower vehicle weight. The result: Sika makes mobility more efficient.

# Global presence and regional management: Customer proximity from management to the job site.

Governing and Executive Bodies, Employees

# Organization and Leadership

**SPEAKING THE CUSTOMER'S LANGUAGE.** **Sika's organizational structure is heavily decentralized, a pivotal role being played by the management teams in the Regions and national subsidiaries. At all management levels, the focus is maintained on the four customer groups – three from the construction industry and one from the industrial manufacturing sector.**

**ORGANIZATIONAL STRUCTURE.** Since its international expansion first began, Sika has organized its global activities by country. The national units were later consolidated into Regions with higher-level management 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.

The Regions, which may cut across continental boundaries, are defined on the basis of particular organizational, commercial and cultural factors. The Region IMEA (India, Middle East, Africa), for example, unites India with the countries of the Middle East due to the strong interdependence of their construction industries. The precise breakdown of the Regions is shown on page 20.

Moreover, Sika's internal organization is geared to four customer groups (see also page 19). While the construction industry accounts for three of these, the fourth brings together customers from the industrial manufacturing sector. The leadership structures within Group Management, in the regional management teams and at the national subsidiaries are aligned to these customer groups. The relevant managers are responsible for the definition and launch of new products, the implementation of demonstrated best practices, and the product-line and pricing policies for Group products, i.e. those offered worldwide rather only within a particular country.

# Organizational Diagram

**CLEARLY DEFINED STRUCTURES.** Stability and continuity are factors of entrepreneurial sustainability. As a company operating in a global arena, Sika places considerable emphasis on strong leadership within transparent structures.

BOARD OF DIRECTORS

CHIEF EXECUTIVE OFFICER
**Ernst Bärtschi,** lic. oec. HSG

CONSTRUCTION
**CONTRACTORS, Alexander Bleibler,** Dipl. Bau-Ing. HTL
**DISTRIBUTION, Christoph Ganz,** lic. oec. HSG
**CONCRETE, Ernesto Schümperli,** Dipl. Bau-Ing. ETH, MBA

INDUSTRY
**Bruno Fritsche,** BBA

RESEARCH AND DEVELOPMENT
**Urs Mäder,** Dr. rer. nat., Dipl. Chem. Ing. HTL

FINANCE
**Ronald Trächsel,** lic. rer. pol.

OPERATIONS
**Peter Krebser,** Dr. sc. techn., Dipl. Chem. Ing. ETH

EUROPE NORTH
**Silvio Ponti,** Dipl. Bau-Ing. ETH, MBA

EUROPE SOUTH
**Hubert Perrin de Brichambaut,** MBA

IMEA
**Iven Chadwick,** MBA

NORTH AMERICA
**Paul Schuler,** MBA

LATIN AMERICA
**José Luis Vázquez,** Dr.-Ing., MBA

ASIA/PACIFIC
**Jan Jenisch,** lic. rer. pol.

**CHANGES IN GROUP MANAGEMENT.** In the year under review there were no changes in Group Management.

# Group Management

**MANAGEMENT BY PERSONALITY.** Sika's Group Management team is made up of personalities with a vast wealth of experience to draw on when serving the needs of their sector, their markets and their regions. Familiarity with both the theory and practice of their subject matter is the cornerstone of their management competence.


1 Ernst Bärtschi, 2 Silvio Ponti, 3 Alexander Bleibler, 4 Iven Chadwick, 5 Bruno Fritsche, 6 Christoph Ganz, 7 Jan Jenisch, 8 Peter Krebser, 9 Urs Mäder, 10 Hubert Perrin de Brichambaut, 11 Paul Schuler, 12 Ernesto Schümperli, 13 Ronald Trächsel, 14 José Luis Vázquez

**Ernst Bärtschi,** lic. oec. HSG,
Chief Executive Officer (CEO)
Nationality: Swiss, Year of birth: 1952, Member since 2002; since 2005: CEO; 2002–2004: CFO, Sika AG, Baar; 1997–2001: CFO, Member of Group Management, Schindler Management AG, Switzerland; 1993–1997: Financial Manager, Managing Director, Schindler Aufzüge AG, Switzerland; 1980–1993: Area Controller, Head of Group Area Controlling, CFO Elevator and Escalator Division, Schindler Management AG, Switzerland; 1976–1980: Internal Audit, Nestlé, Switzerland; Member of the Board and Chairman Audit Committee: Bucher Industries AG, Niederweningen.

**Silvio Ponti,** Dipl. Bau-Ing. ETH, MBA,
Deputy CEO
Nationality: Swiss, Year of birth: 1953, Member since 2002; since 2002: Deputy CEO, Regional Manager Europe North; 1989–2002: Head of Marketing; General Manager Sika Schweiz AG; Area Manager Central Europe; 1989: Member of Executive Management of Sika Schweiz AG and Sika GmbH, Stuttgart, Germany, Sika Schweiz AG, Zurich; 1987–1988: Head of Marketing for the Joint Venture «Hilti-Ciba-Geigy», Hilti AG, Schaan; 1984–1987: General Manager, Sika BV, Maarssen, Netherlands; 1982–1983: Assistant to the Head of Export, Sika Schweiz AG, Zurich; 1978–1980: Project Leader, Ing. Büro Dr. Staudacher & Siegenthaler AG, Bern.

**Alexander Bleibler,** Dipl. Bau-Ing. HTL
Nationality: Swiss, Year of birth: 1953, Member since 1996; since 2007: Head of Corporate Business Unit Contractors; 1996–2006: Head of Division Construction Chemicals, Sika AG, Baar; 1983–1996: Head of Marketing & Technique Export Department; Product Marketing Manager; Head of Marketing Department, Product Marketing Manager Industrial Floorings; Head of Business Unit Marketing & Technique Construction Chemicals; Head of Business Unit Construction Chemicals, Head of Corporate Marketing; 1990: Member of Executive Management of Sika Schweiz AG; 1994: Member of Extended Group Management of Sika AG, Sika Schweiz AG, Zurich; 1980–1983: Sales Engineer, Sika Schweiz AG, Saudi Arabia; 1977–1979: Branch Manager, Chemaco Ltd., Saudi Arabia.

**Iven Chadwick,** MBA
Nationality: British, Year of birth: 1960, Member since 2009; since 2007: Regional Manager IMEA, Sika AG, Baar; 2005–2006: Head of Business Lines Building Systems & Performance Flooring, BASF AG, Zurich; 2002–2005: Head of Business Line Performance Flooring, Degussa AG, Schaffhausen; 1993–2001: General Manager MBT Middle East LLC, UAE and Director of, MBT India (pvt) Ltd., MBT Oman LLC., MBT Egypt S.A.E.; Regional Operations Manager, MBT Middle East LLC, UAE; MBT Group, Germany; 1984–1993: Technical Supervisor; Production Manager; Operations Manager, FEB Ltd., Manchester, UK; 1978–1984: Laboratory Technician, Greater Manchester Council, Manchester, UK.

**Bruno Fritsche,** BBA
Nationality: Swiss, Year of birth: 1952, Member since 2007; since 2007: Head of Corporate Business Unit Industry; since 2004: General Manager Sika Engineering Silicones S.r.l., Milan, Italy; 2001–2006: Head Business Unit Sealing and Bonding Construction; 2001: Member of Extended Group Management of Sika AG, Sika Services AG, Zurich; 1996–2001: General Manager; Area Manager Asia North, Sika Japan Ltd., Tokyo; 1991–1996: Area Manager Pacific, Sika Australia Pty., Sydney; General Manager, Sika New Zealand Ltd., Auckland,

Sika Indonesia P.T., Jakarta; 1988–1991: General Manager, Sika Hong Kong Ltd. and Sika Pacific Ltd., China; 1973–1988: Head Laboratory and Development, Sales and Marketing Manager, Merz + Benteli AG, Niederwangen; 1971–1973: Laboratory Technician, Wander AG, Bern; Member of the Board: Swiss-Asian Chamber of Commerce, Zurich.

**Christoph Ganz,** lic. oec. HSG
Nationality: Swiss, Year of birth: 1969, Member since 2007; since 2007: Head of Corporate Business Unit Distribution; 2009: General Manager Sika France SA, Paris; Area Manager France, North Africa, Mauritius, Sika AG, Baar; 2003–2006: Head of Business Unit Distribution, Sika Services AG, Zurich; 1999–2003: Corporate Market Field Manager Distribution, Sika AG, Baar; 1996–1999: Project Manager Distribution, Sika Schweiz AG, Zurich; Member of the Board: Ganz & Co. AG, St. Gallen; Ganz AG, Schaan, Principality of Liechtenstein; Vice Chairman of the Board: Max Pfister Baubüro AG, St. Gallen.

**Jan Jenisch,** lic. rer. pol.
Nationality: German, Year of birth: 1966, Member since 2004; since 2007: Regional Manager Asia/Pacific; 2004–2006: Head of Industry Division, Sika AG, Baar; 1998–2004: Head Automotive Europe, Sika AG, Baar; General Manager Sika Tivoli GmbH, Hamburg, Germany; Managing Director Sika Automotive Belgium SA; Director Hayashi Sika Automotive Ltd., Japan; 1996–1997: Market Development Manager, Industry Division, Sika AG, Baar.

**Peter Krebser,** Dr. sc. techn., Dipl. Chem. Ing. ETH
Nationality: Swiss, Year of birth: 1951, Member since 2004; since 2004: Head of Operations, Sika AG, Baar; 2002–2004: Global Operations Director, Member of Divisional Executive Management, Vantico AG, Basel; 2000–2002: Associate Partner, CGS-Management AG, Pfäffikon; 1997–1999: Head of worldwide Pharmaceutical Production; Head of worldwide Technical Operations, Member of Executive Management, Novartis Pharma AG, Basel; 1983–1996: Different functions within the Supply Chain Management Department of Novartis; 1982–1983: Head of Process Development Laboratory, Fine Chemicals, Lonza AG, Basel; President: Economic Promotion Basel Area.

**Urs Mäder,** Dr. rer. nat., Dipl. Chem. Ing. HTL
Nationality: Swiss, Year of birth: 1955, Member since 2005; since 2005: Head of Research & Development; 1989–2005: Project Leader Admixture Development, Research and Development; Department Head of Construction Chemicals, Research & Development; Product Technology Director of Construction Chemicals and Mortars, Research & Development, Sika AG, Zurich; 1987–1989: Postdoctorate research, Research School Chemistry, Canberra, Australia; President: European Federation of Concrete Admixture Producers (EFCA).

**Hubert Perrin de Brichambaut,** MBA
Nationality: French, Year of birth: 1957, Member since 2009; since 2009: Regional Manager Europe South; 2005–2008: General Manager, Sika France SA, Paris; 2003–2004: Senior Vice President Operations for Eastern Europe, Africa and Middle East, Suez Environment, France; 2001–2003: Regional Manager Latin America, Sita, France; 1997–2001: President of Rhodia PPMC Europe (Paper & Coatings); President of Rhodia Food, Rhodia, France; 1981–1996: Internal Auditor of the Group; Treasurer of Brazilian subsidiaries; President of Rhône-Poulenc Argentina; Finance Executive Officer of Rhône-Poulenc Chimie; President of TERIS, Rhône-Poulenc Group, France.

**Paul Schuler,** MBA
Nationality: Swiss, Year of birth: 1955, Member since 2007; since 2007: Regional Manager North America; 2003–2006: General Manager Sika Deutschland, Stuttgart, Germany; General Manager Sika Korrosionsschutz, Gelsenkirchen; General Manager Sika Trocal, Troisdorf; General Manager Sika Addiment, Leimen, Sika Holding, Stuttgart; 1988–2002: Product Manager, Head of Sales Industry; Marketing Manager Industry; Business Unit Leader Industry; 1993: Member of Executive Management of Sika Schweiz AG; 1996: Member of Extended Group Management of Sika AG, Sika Schweiz AG, Zurich; 1982–1988: International Key Account; Sales Manager Switzerland, EMS Chemie AG, Domat/Ems; 1980–1982: Project Manager Air Condition Plants, Luwa AG, Hong Kong, China; 1976–1980: Production Manager, Hemair AG, Schindellegi.

**Ernesto Schümperli,** Dipl. Bau-Ing. ETH, MBA
Nationality: Swiss, Year of birth: 1955, Member since 2007; since 2007: Head of Corporate Business Unit Concrete; 1991–2006: General Manager Sika Schweiz AG; Area Manager Central Europe; Head of Sika Tunneling & Mining; Head of Marketing Construction; Market Development Manager Concrete; Head of Sales Switzerland; 1997: Member of Executive Management of Sika Schweiz AG; 2002: Member of Extended Group Management of Sika AG, Sika Schweiz AG, Zurich; 1987–1990: Head of Marketing & Technique; Key Account Manager Latin America; Member of Executive Management, Sika Andina SA, Bogotá, Colombia; 1986–1987: Project Manager Structural Engineering, Ing. Büro Wenaweser & Wolfensberger AG, Zurich; 1976–1985: University and Postgraduate Studies, Research Engineer for structural design and hydraulic structures at ETH, Zurich, and UAS, Basel; 1971–1975: Project Manager Infrastructure, Ing. Büro Frey + Gnehm AG, Olten; President: ivz Industrie-Verband Zurich; Member of the Board: VSH (Versuchs-Stollen Hagerbach AG), Sargans.

**Ronald Trächsel,** lic. rer. pol.
Nationality: Swiss, Year of birth: 1959, Member since 2008; since 2008: CFO, Sika AG, Baar; 1999–2007: CFO, CEO and Head of Group Management; Executive Director, Ormand Holding AG, Vitra Group, Birsfelden; 1992–1999: Head Internal Audit; CFO Ringier Europe, Ringier Group, Zurich; 1987–1992: Internal Audit, Ciba-Geigy Group, Basel; 1982–1987: Accounting and tax counseling for small and medium-sized enterprises, Visura Treuhandgesellschaft, Solothurn.

**José Luis Vázquez,** MBA
Nationality: Spanish, Year of birth: 1947, Member since 2002; since 2009: Regional Manager Latin America; 2002–2008: Regional Manager Europe South, Sika AG, Baar; 1984–2002: Head of Marketing; General Manager; 1999: Area Manager South Europe, Sika SA, Madrid, Spain; 1983–1984: Manager National Sport Insurance Company, Sport Ministry, Cabinet of Ministers, Spain; 1977–1983: Vice President, Oil Business Division, Explosivos Rio Tinto, Madrid, Spain; 1972–1976: Director of numerous global projects in the area of road construction, harbor, factories; Helma (Cadiz), Boskalis (Cadiz), Laing (Valencia/Bilbao), Caminos y Puertos (Barcelona); 1970–1972: Laboratoire Pont and Chaussees, Paris, France; Instituto Eduardo Torroja, Madrid, Spain.

# Board of Directors

**PERSONNEL CHANGES.** There were two personnel changes in the Board of Directors of Sika AG in 2010. Urs B. Rinderknecht no longer stood for reelection. In his place, Dr. Willi K. Leimer, WMPartners Wealth Management Ltd., was newly elected to the Board of Directors.

**Walter Grüebler,** Dr. oec. HSG, Chairman
Nationality: Swiss, Year of birth: 1942, Member 1998–2000, and since: 2004, elected till: 2013; 2000–2004: CEO, Sika AG, Baar; 1990–1999: Member of Group Management, Alusuisse, Zurich; 1974–1990: CEO and Vice Chairman of the Board of Directors, Airex AG, Sins; 1968–1974: Project Leader and Member of Executive Board, Hayek Engineering AG, Zurich; Chairman of the Board: Adval Tech AG, Niederwangen; Member of the Board: Nationale Suisse, Basel; Petroplus Holdings AG, Zug; Member of the Foundation Council: ETH Foundation.

**Thomas W. Bechtler,** Dr. iur., LL. M., Vice Chairman
Nationality: Swiss, Year of birth: 1949, Member since: 1989, elected till: 2013, Committees: Chairman Nomination and Compensation Committee; since 1982: CEO, Hesta AG, Zug; 1977–1982: Divisional Manager, Luwa AG; 1975–1977: Managing Assistant, Luwa AG; Member of the Board: Bucher Industries, Niederweningen; Conzzeta AG, Zurich; Chairman of the Board: Human Rights Watch, Committee Zurich.

**Urs F. Burkard,** Carpenter/Interior Designer
Nationality: Swiss, Year of birth: 1957, Member since: 1990, elected till: 2011, 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.

**Paul Hälg,** Dr. sc. techn., ETH Zurich
Nationality: Swiss, Year of birth: 1954, Member since: 2009, elected till: 2012, Committees: Nomination and Compensation Committee; since 2004: 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; Chairman of the Board: Gurit Holding AG, Wattwil; Member of the Board: Swissmem, trade association of the Swiss Mechanical and Electrical Engineering Industries.

**Willi K. Leimer,** Dr. oec. HSG
Nationality: Austrian, Year of birth: 1958, Member since: 2010, elected till: 2013; since 2002: Partner, WMPartners Wealth Management Ltd., Zurich; 1990–2002: Managing Director, Private Wealth Management, Bank Morgan Stanley AG, Zurich; 1988–1990: Goldman, Sachs & Co., New York and Zurich; Chairman of the Board: ISPartners Investments Solutions AG, Zurich; Schenker-Winkler Holding AG, Baar; Vice Chairman of the Board: WMPartners Wealth Management Ltd., Zurich.

**Daniel J. Sauter,** Financial Expert
Nationality: Swiss, Year of birth: 1957, Member since: 2000, elected till: 2012, Committees: Audit Committee; 1994–2001: CEO and Delegate of Board of Director, 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: Alpine Select AG, Zug; Chairman of the Board: Sulzer AG, Winterthur; Julius Bär Gruppe AG, Zurich; Model Holding AG, Weinfelden.

**Fritz Studer,** Banking Expert
Nationality: Swiss, Year of birth: 1943, Member since: 2006, elected till: 2012, Committees: Chairman Audit Committee; 2004–2006: Chairman of the Board, Sarna Polymer Holding Inc.; 1983–2003: Member of Executive Board, of which nine years as CEO, Luzerner Kantonalbank; Member of the Board, Swiss Bankers Association and Association of Swiss Cantonal Banks; Member of the Board and periodically Chairman or Vice Chairman, Central Mortgage Bond Institution, Swiss Cantonal Banks, AGI Holding AG, Swisscom IT Services AG, Adler & Co. Privatbank AG; 1979–1982: Head of Directorate-General, Schweizerische Volksbank; Chairman of the Board: Luzerner Kantonalbank; Member of the Bank Council: Swiss National Bank; Member of the Board: Lucerne Symphony Orchestra.

**Ulrich W. Suter,** Dr. sc. techn., Professor
Nationality: Swiss, Year of birth: 1944, Member since: 2003, elected till: 2012; 2001–2005: Vice President Research, ETH Zurich; 1988–2008: Professor, ETH Zurich, Department of Material Science; 1982–1989: Professor, MIT, Department of Chemical Engineering, Cambridge, USA; Chairman of the Board: WICOR Holding AG, Rapperswil SG; Member of the Board: Global Surface AG, Nussbaumen TG; President of the Foundation Council: Werner Oechslin Library Foundation; Member of the Board of Trustees: Pension Fund of the Weidmann Group of Companies; Swisscontact.

**Christoph Tobler,** dipl. El. Ing. EPFL
Nationality: Swiss, Year of birth: 1957, Member since: 2005, elected till: 2013, 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; Member of the Directors Committee: Sefar Holding AG, Thal SG; Member of the Board: Schenker-Winkler Holding AG, Baar; AG Cilander, Herisau; Member of Board Committee: economiesuisse, Zurich.

**CHANGES IN THE BOARD OF DIRECTORS.** In the period under review the Annual General Meeting on April 20, 2010, appointed Dr. Willi K. Leimer, Vice Chairman of the Board of WMPartners Wealth Management Ltd, and Chairman of the Board of Schenker-Winkler Holding AG, to the Board of Directors.

Furthermore, the shareholders confirmed the Members of the Board of Directors Dr. Thomas W. Bechtler, Dr. Walter Grüebler and Christoph Tobler for a further period of office of three years. Urs B. Rinderknecht, Member of the Board of Directors since 1998, did not stand for reelection.

**Secretary of the Board of Directors.** Stefan Mösli, Attorney at Law, M.C.L.

**Internal Audit.** Robert Fürböck, Dr. iur.

**Auditors.** Ernst & Young AG, Zug

# Employees

**WORKFORCE WITH EXPERTISE AND COMMITMENT.** **With a cooperative management style, as well as targeted development and continued education programs tailored to individual capabilities, Sika promotes skills and initiative, and encourages the entrepreneurial engagement of employees, while at the same time accommodating the company's dynamic development.**

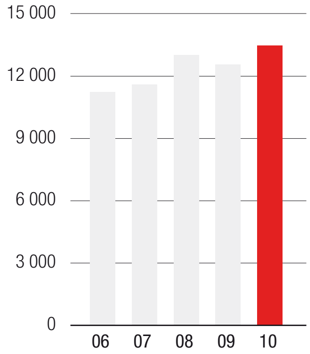
**MANAGEMENT PRINCIPLES.** Sika nurtures continuity and upholds ethical values. It attaches absolute priority to mutual respect as well as trust in management and colleagues. Sika's dynamic development makes the integration of widely differing individuals and the global exchange of knowledge and experience absolutely essential. Discrimination is not tolerated in any form.

The activities of all employees are fully oriented towards strategic, operative and company policy targets. Chains of command are clearly ordered, and the principle of maximum delegation of responsibility prevails. Employees are led by means of target agreements (MbO: Management by Objectives). This management style ensures that employees participate in processes and decision making. Managers are expected to set an example for their employees, and advance their initiative and creativity. Information flows through all hierarchical levels are kept as systematic, up-to-date and transparent as possible. Employees are supported and suitable provision made for continuing professional development.

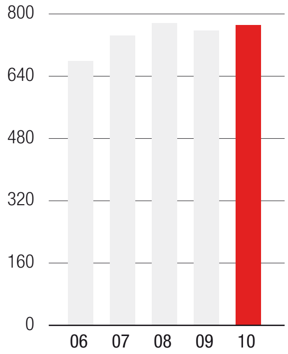
**DEVELOPMENT OF MANAGERS.** To be as attractive an employer as possible, Sika relies on global human resources management. A pivotal role in identifying and developing skills and performance is played by the forward-looking Performance and Talent Management system. This facilitates systematic employee succession planning while promoting company growth by pinpointing new talent and providing targeted support. Various talent pools for different management functions have been created in this way.

The Global Talent Management process involves the systematic, worldwide application of uniform talent assessment principles. This ensures a standardized definition of talent and the proper coordination of development measures. In promoting talent, Sika relies not only on regular development courses, but also on practical project work. This allows employees to demonstrate their skills and potential through the performance of concrete tasks. The results of these projects are often utilized in the company's routine business operations. 2010 saw an extension of these talent-fostering courses and workshops from the global top-talent level to the Regions, the aim being to provide earlier support than to date for employees with management potential.

Employment development




Salary expenses
in CHF mn




Alongside basic and advanced training, experience in supervising the widest possible range of functions and of working in other countries – especially in other cultures – is key to the systematic development of management potential. Group-internal guidelines create security and transparency for employees who leave their home country to work for Sika, and ensure fair contracts tailored to the specific circumstances of the host country. Sika also grants such employees so-called “home harbor rights”, which guarantee them a job when they return to their home country.

To complement the existing management development programs, Sika in 2010 introduced a number of special initiatives to promote technically gifted employees. As a first step, a pilot Development Center was set up in Switzerland to provide junior Sika employees with special career development counseling, through self- and external analyses, at an early stage in their professional lives. The scheme is supported by a mentoring program.

**SIKA BUSINESS SCHOOL.** Changes in organization and working processes necessitate steady, systematic information flows and continuous knowledge transfer in the areas of management and talent development, and sales and technical training. Sika Business School was instituted to realize the idea of a learning organization and is to be systematically developed.

After fine-tuning in 2009, Sika’s “Train the Trainer” concept has proved its worth and will now be implemented worldwide. This program allows the expertise present within the Group to be made available to those employees who are in regular contact with customers. The training sessions focus on breaking down complex information into hands-on know-how and skills that participants can later communicate to customers. This makes “Train the Trainer” immediately relevant to business success since the proper application of many company products depends upon users having the necessary knowledge.

Supported by the Sika Business School, the business units have launched targeted training and development programs for technical and application-related knowledge transfer.

In the reporting year, Sika spent a total of around CHF 7.7 million (2009: CHF 6.6 million) on employee development. This figure includes special, decentralized courses in the Regions and countries together with global management development and sales training programs.

Numbers of employees by Region

| | |
|---|---|
| Europe North | 4 455 (33.0%) |
| Europe South | 2 103 (15.6%) |
| North America | 1 360 (10.1%) |
| Latin America | 1 703 (12.6%) |
| IMEA | 1 082 (8.0%) |
| Asia/Pacific | 2 779 (20.6%) |
| **Total** | **13 482** |

**COMPENSATION POLICY.** In the year under review, Sika completed the implementation of a globally uniform compensation policy based on comprehensive functional evaluations and compensation analyses. This compensation policy ensures the external marketability of the company while establishing, internally, as equitable a salary structure as possible. The concept for worldwide protection of employees against the risks of accident and illness was further refined in 2010 through provision for the full integration of location-specific factors.

Sika maintains a variable compensation model for members of Sika Senior Management. The variable portion of compensation is geared to relative parameters, e.g. comparison of the relevant rates with those of competitors, as well as to liquidity-related parameters such as cash flow or net working capital. This system thereby upholds the corporate strategy, even in crisis-stricken years. For the members of Group Management the same variable compensation model applies as for members of Sika Senior Management. The variable salary portion is paid out either 20% or 40% in Sika shares; members of Group Management can choose this percentage freely. In addition to this there is a long-term variable salary component based on a target to be met within a period of three years. This portion is paid out entirely in Sika shares. In both cases, these shares, allocated at fair market value, are excluded from trading for a period of four years.

**PERSONNEL DEVELOPMENT.** 2010 saw the completion of restructuring measures, particularly in Europe. In response to the high growth rates in the emerging countries, the workforce there was expanded. Moreover, a further 1 113 employees joined the company due to the six acquisitions. Worldwide, the Group employed 13 482 persons (2009: 12 369) at the end of 2010. Employees were distributed among the Regions as follows: Europe North 4 455 (2009: 4 417), Europe South 2 103 (2009: 2 108), North America 1 360 (2009: 1 163), Latin America 1 703 (2009: 1 561), IMEA 1 082 (2009: 892), Asia/Pacific 2 779 (2009: 2 228).

Together, all Sika employees in 2010 generated a net added value of CHF 1 393 million (2009: CHF 1 298 million) added value per employee improved from CHF 103 000 to CHF 108 000. For further information, please refer to page 142 ff.


对沪宁高速铁路建设运

# Roofing, Hongqiao Airport, Shanghai. 109 000 m² of highly complex roofing. Varied in its shape, size and material, uniform in its long-lasting waterproofing performance.



The challenge was as immense as the facility: 109 000 m² roofing, split into dozens of variously shaped and sized areas, in concrete or steel. The task was made all the more daunting by the countless rooftop structures, ribs, edges, supports and penetrations. Using Sika Sarnafil® systems and application techniques, Sika succeeded in meeting the wide-ranging requirements specified for watertightness, durability and visual appeal. Whichever way you look at it, the new airport is an impressive sight.

# Innovation is the greatest driver of sustainability. Sika sees the future as an opportunity.

Sustainability and Responsibility

# Sustainable Development

**RESPONSIBILITY FOR THE FUTURE.** **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. At the same time, these developments act as powerful drivers for the technologies and solutions of tomorrow. As a technology-based company and market leader in its target markets, Sika regards this as an opportunity.**

**VISION.** Sika's vision centers on the provision to customers of innovative solutions that boost the efficiency, durability and aesthetic appeal of buildings, infrastructure constructions, installations and vehicles, throughout production and use, and thereby make a substantial contribution to sustainable development. Sika views this as a corporate obligation to be shouldered by every single member of staff.

**COMMITMENT.** With a history spanning over 100 years, Sika is all the more committed to sustainable development as a guiding principle. To underscore this commitment, the company has for many years participated in the chemical industry's Responsible Care® sustainability program and, in 2009, also signed up to the UN Global Compact corporate responsibility initiative. While these activities are focused on corporate operations, on the company's products and services, they also address its social context. Due consideration is therefore given to the economic, social and environmental implications of business activities.

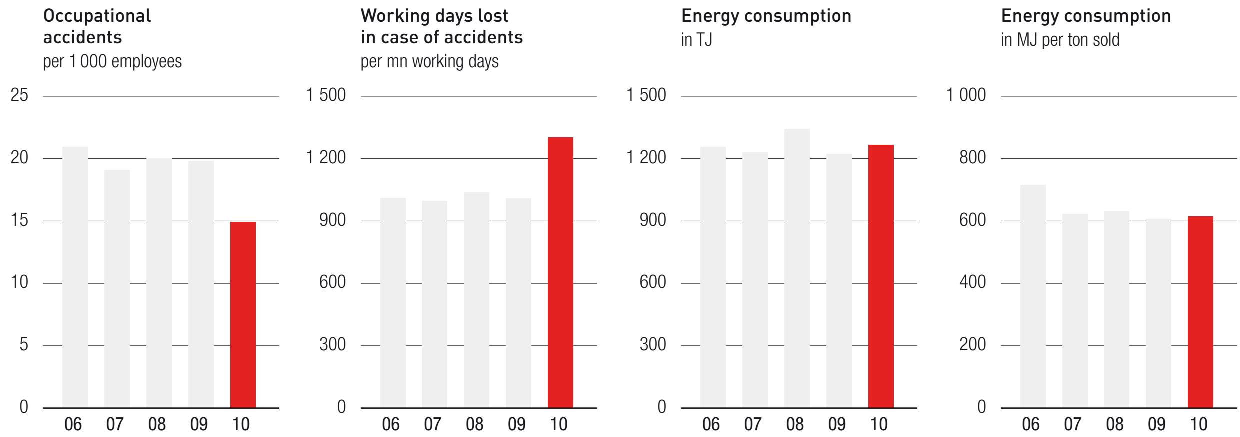
For Sika, sustainability is not a goal that can be achieved immediately but a continuous process of optimization, adaptation to customer needs and innovation. This presupposes an understanding of the impact of the relevant products and activities. That is why Sika is constantly on the search for possible refinements, for ways of furthering the good of the company, its customers, the environment and humankind. For Sika, responsibility to shareholders, market players and the general public is fundamental to its mission. It acts in accordance with common values that lay the foundation for the company's sustainable development.

**MEGATRENDS.** The issue of sustainable development is closely allied to the global trends that will generally shape our future. These megatrends will also play a pivotal role in the future of the economy. In its risk management and strategic decision-making, Sika, for example, pays particular attention to the following issues:

- Scarcity of energy and raw materials
- Climate change and regulation of the carbon economy
- Water shortages and inadequate water quality
- Infrastructural changes due to population growth and urbanization

The above trends will influence the way in which buildings, infrastructure constructions, installations and vehicles are constructed and used in future. This will, in turn, have implications for Sika's target markets and geographical focus. Sika is determined to help shape these change processes through innovation. Top priority will be given here to sustainably developed and manufactured products that enhance durability and promote the efficient use of energy, water and materials.

**STRATEGY.** Sika pursues a double-pronged sustainability strategy. On one hand, the company seeks to design products and services that meet the demand for efficient, sustainable solutions in the target markets. On the other hand, Sika is committed to the continuous refinement of its own operations in line with sustainable practice, backed up by suitable investment in sustainability on the basis of business management principles.




**TRANSPARENCY.** Sika AG reports clearly and openly on its efforts in the field of sustainability. Reporting transparency was further increased in 2010:

- Sika consolidated its activities in the areas of environment, health, safety and sustainability in a like-named unit that reports to the Corporate Operations Group Management member. Tasks relating to the sustainability of products and the value chain, product safety, REACH (registration, evaluation, authorization and restriction of chemical substances), transport safety and risk management are handled centrally by the unit.
- The facts and figures presented in this report relate to the company's global business operations in 2010, excluding those sites acquired during the last three years. Most new acquisitions initially undergo a program to boost their sustainability performance. As Sika intends, over the next few years, to continue its growth strategy by buying into local markets, the associated activities will, unless otherwise stated, be integrated after a three-year period, as to date. The extent of operations covered by the report will be posted as a percentage of total sales. For the year under review some 98 percent are covered.
- The sustainability indicators used by Sika have now been adapted to the widely used GRI (Global Reporting Initiative) system so as to allow comparisons within the indicator framework. Due to this changeover, not all indicators can be presented in a historic time series.
- Sika's reporting on primary (Scope 1) and secondary (Scope 2) energy use now dates back several years. Sika intends to use these data in the coming years to determine its overall $CO_2$ footprint.
- To maintain a clear picture at all times, Sika has adapted the internal compilation of sustainability indicators to the in-house financial reporting procedures and principles.

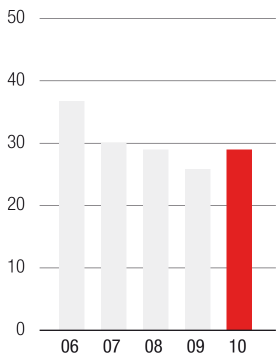
**SUSTAINABILITY IN THE VALUE CHAIN.** Sika's mission statement specifies the following requirement: "Our aim is to address environmental and safety concerns throughout the value chain." To increase the sustainability and efficiency of its own activities, Sika will this year introduce a special sustainability performance target system and action program. This will mainly focus on work accidents, energy and water use, and waste reduction. Local initiatives may also be implemented to address further issues beyond these core concerns. Sika targets a continued reduction in the number of accidents over the next three years together with further cuts in energy use, water consumption or waste production, as appropriate for the particular site.

**ENVIRONMENTAL, SAFETY AND RISK MANAGEMENT.** Manufacturing subsidiaries in some 40 countries have participated in the chemical industry's Responsible Care® program since 1992. In all, some 84 companies boast certified environmental management systems, while 24 sites have achieved OHSAS:18001 (occupational health and safety) certification.

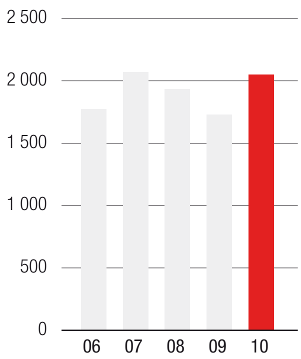
Sika AG routinely checks its production facilities for risks to staff and local residents, monitors damage and stoppages, and implements measures to improve safety. Internal Audits and controls ensure compliance with the specified rules and procedures.

One cornerstone of sustainable corporate management is the provision of basic and advanced training for employees. The wide-ranging courses deal with raw materials handling, occupational safety, statutory regulations as well as product packaging, labeling and transport.

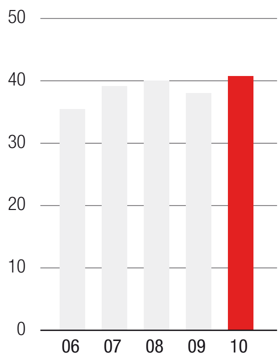
**$CO_2$-emissions**
in 1 000 tons




**Water consumption**
in 1 000 cubic meters




**Waste disposal and reuse**
in 1 000 tons




**Investment in safety and environmental protection.** In the reporting year, Sika invested some CHF 6.5 million in technical equipment for environmental protection, bringing about particular improvements in energy production and risk prevention. Stepped-up efforts over the past few years, above all the increased use of state-of-the-art equipment, are bearing fruit, enabling Sika to reduce replacement investments. Current expenditure was at CHF 24 million. Through the acquisition of new companies in Asia and northern Europe, the number of full-time employees in the field of environment, health, safety and sustainability rose to around 100.

**Health and safety.** At 14.9 per 1 000 employees, the number of occupational accidents with over one day's lost working time was significantly down year on year. Due to longer absences after accidents, however, the number of days lost per million workdays rose to 1 296.

**Energy use.** Energy consumption in the reporting period totaled 1 259 TJ and was thus, like production volumes, on a par with the previous year. Over half of Sika's energy requirement (roughly 60%) was met by electrical power. A further quarter of demand was covered by natural gas, the rest by heating oil and, to a small extent, by district heating. The energy requirement per ton of product remained static at 616 MJ.

**Atmospheric emissions.** In the reporting year, $CO_2$ emissions resulting from the use of primary energy sources ran to 29 000 tons. Primary energy consumption is heavily dependent on the product mix demanded by the market and produced by Sika, and varies accordingly.

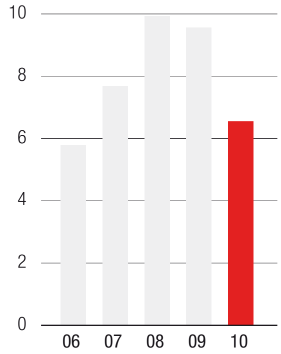
**Water use.** Due to the shifts in the company's product mix and, above all, the increased cooling water requirement, water consumption rose to around 2.0 million cubic meters. Cooling water is mainly obtained from the company's own authority-approved wells and returned, unpolluted, to the water cycle. Cooling water accounts for roughly three-quarters of the company's total water demand. The used water quantity ran to around 0.9 cubic meters per ton of product sold.

**Materials use.** Waste quantities in the year under review were slightly up year on year at around 41 000 tons. The proportion of hazardous waste from production was more or less in line with the previous year. Around one-third of waste, particularly that from polymer and mortar production, is reclaimed and recycled. Waste from the manufacture of polymer membranes, for example, is granulated and reintroduced into production.

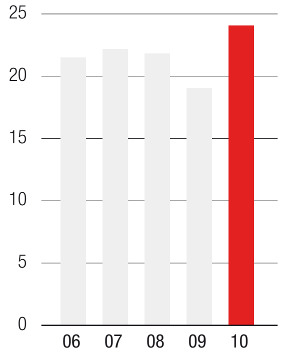
**PRODUCT SUSTAINABILITY.** Sika sets out to undertake objective, transparent, comparative assessments of the sustainability of its products – not only in manufacture, but also and above all in service. These analyses may pinpoint necessary improvements for existing products. They may also deliver important insights into raw materials, production processes or application efficiency and thereby promote innovation.

Under the banner "Innovating Performance and Sustainability," Sika seeks to enhance the outstanding and widely appreciated utility of its products by optimizing their sustainability profile, and so create added value for its customers. The following Sika solutions combine first-class technical performance with high sustainability standards.

Investments in environment and safety
in CHF mn




Expenditures for environment and safety
in CHF mn




**Energy and raw materials.** Worldwide demand for resources such as crude oil, coal, natural gas, water, iron ore and copper is constantly rising, driven by population growth and greater purchasing power. These resources are, however, limited or their extraction is becoming increasingly expensive. The efficient and purposeful use of these resources is one of the key preconditions for future growth.

Sika solutions:
– Concrete admixtures for high-grade concrete incorporating recycled aggregates
– Concrete admixtures for recycling of excavated material directly on site
– Grinding aids for energy-efficient cement production
– Special seals for argon-filled insulating glass units
– New jointing techniques for lighter, better-insulated windows

**Climate change.** The earth's climate is changing. The consequences are manifold and affect all humankind. This makes climate protection, in particular the continuous reduction of greenhouse emissions, a crucial task for the future.

Sika solutions:
– Structural adhesives to reduce the weight of motor vehicles
– Polymer-based reinforcing components for lighter automobiles
– Adhesives for the solar industry
– Solar roofs
– Highly reflective roof membranes to boost the efficiency of solar installations
– Adhesives for the development of more durable wind turbines
– Protection of wind turbines against adverse weather conditions
– Concrete admixtures for safe foundations

**Water.** The processes of global population growth, urbanization and climate change are making clean water an increasingly scarce commodity. The careful management of water consumption, purification and storage as well as wastewater treatment is essential. Already today, a billion people suffer from inadequate access to drinking water.

Sika solutions:
– Concrete admixtures and mortar for waterproof concrete
– Joint sealing systems for watertight structures
– Interior coatings for drinking water reservoirs
– Membrane systems for flexible waterproofing
– Special concrete repair mortars
– Surface protection coatings
– Special crack-sealing resins
– Concrete admixtures to reduce water requirement for concrete production

**Infrastructure.** Few projects command bigger budgets than those for infrastructure provision and maintenance. The rapid economic ascent of the developing nations necessitates enormous investments in energy, transportation, water and health care. The existing infrastructure in developed countries also requires modernization.

Sika solutions:
– Construction chemicals, shotcreting machines and waterproof membranes for tunneling
– Composite materials for durable infrastructure facilities
– Roof membranes for green roofs and an improved urban climate
– Reflective roof membranes reduce unwanted heat gain

Further details of all the aforementioned Sika solutions are presented in the “Solutions for a Sustainable Future” brochure, which can be ordered on the Internet (www.sika.com) or by mail (please address to Sika AG, “Sustainable Future”, P.O. Box, Zugerstrasse 50, CH-6341 Baar).

**SOCIAL RESPONSIBILITY.** The fair treatment of all stakeholders is a guiding principle for the Sika workforce. Management and employees at Sika AG have actively participated in the UN Global Compact corporate responsibility initiative since 2009. They have committed themselves to implementing the Global Compact principles in the company’s strategic planning, culture and day-to-day business, and to engaging in joint projects in support of the UN’s development objectives, specifically its Millennium Development Goals. The Global Compact principles enshrine a series of universally accepted values in the areas of human rights, labor standards, environmental protection and anticorruption policy. For further information, please visit the website at www.unglobalcompact.org.

Since 2010, Sika has also been a member of the World Business Council for Sustainable Development, a CEO-led association dealing exclusively with the issues of business and sustainable development. The WBCSD seeks to boost ecological efficiency, promote associated innovation and foster an awareness of social responsibility within companies. It takes its cue from the results of the Rio Conference and the Agenda 21, and sets out to promote collaboration between business, governments and non-governmental organizations.

**RESPONSIBLE CARE®.** Sika honors the rules of the Responsible Care® program, a global voluntary initiative of the chemical industry. Through their national associations, companies work together to continuously improve their health, safety and environmental performance and communicate with stakeholders about their products and processes.

The Responsible Care® ethic helps industry to operate safely, profitably and with due consideration to future generations. At the World Summit on Sustainable Development in 2002, it was recommended by the United Nations Environment Program (UNEP) as a fitting contribution to more sustainable development.

**ROMUALD BURKARD FOUNDATION.** The Sika Board of Directors established the Romuald Burkard Foundation in 2005 in memory of Dr. Romuald Burkard, the third-generation representative of the Winkler family, which founded Sika. It provides financial support to social and ecological projects in emerging markets in which Sika maintains subsidiaries. The projects focus on the following areas:
- Buildings and infrastructure that serve a social or ecological purpose, such as water reservoirs or sewage treatment facilities
- Technical training in construction professions and trades
- Water projects with ecological and social objectives

Sika seeks to promote on-the-ground self-help. The local Sika companies are thus required to put forward specific aid applications and, working with local partners, supervise the projects on site up to completion.

Via the Romuald Burkard Foundation, Sika supported the following projects in the year under review:

**Chile.** The “Juan XXIII” children’s home, destroyed in the violent earthquake in February 2010, was successfully reconstructed. The Sika-sponsored project allowed some 50 children to reoccupy their rooms in Buin, near Santiago, at the start of 2011. Repair work was carried out to the classrooms and living spaces in the mentally handicapped children’s home, run by the nonprofit organization “Coanil”. Sika employees volunteered to help with the clearance and renovation works. The children were also given new satchels, books and school materials. Total aid provided: CHF 215 000. (www.coanil.cl)
**Haiti.** In the wake of the devastating earthquake, Sika supplied emergency aid in the form of a mobile production plant for concrete admixtures. The facility, installed at a site in the Dominican Republic, helped to speed up the reconstruction of destroyed buildings. To facilitate on-site operations, silos were also erected for raw materials and finished products. Total aid provided: CHF 200 000.

**Switzerland-Latin America.** 2010 also saw Sika continue its sponsorship of YES (Youth Encounter on Sustainability) courses in Switzerland and Latin America. The courses, developed by Actis GmbH, a spin-off from the ETH (Swiss Federal Institute of Technology) Zurich, address various aspects of sustainable development and are primarily geared to young trainees. Total aid provided: CHF 200 000. (www.actis-education.ch)

**ETH ZURICH FOUNDATION.** Sika solutions help to cut $CO_2$ emissions in the construction sector and reduce water consumption for concrete production. As part of its centenary celebrations, Sika opted to underscore its commitment in this field by sponsoring a new professorship and, with it, the foundation of a new institute for sustainable civil engineering at the ETH (Swiss Federal Institute of Technology) Zurich. This partnership will provide the ETH Zurich Foundation with additional funding to the tune of CHF 7 million. The ETH Zurich Foundation’s mission is to promote strategic research and teaching projects at the ETH. Through its support for the new professorship, Sika is continuing its successful and wide-ranging partnership with the ETH in the fields of chemistry, construction and building materials.

**GLOBAL NATURE FUND.** Sika supports the international Living Lakes environmental program of the Global Nature Fund (GNF). Comprising 70 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 models to demonstrate how, with the involvement of the local population, positive social and economic developments can be achieved in different climatic zones and societies without any threat to nature and the environment. (www.globalnature.org)

In the year under review, Sika supported two particular GNF projects:

**Laguna de Fúquene, Colombia.** Sika's long-term commitment has enabled the Fundación Humedales, its Colombian Living Lakes partner, to implement numerous conservation schemes centered on the species-rich Laguna de Fúquene. In the reporting year, the collaboration focused on three areas:

- Better marketing of organic fertilizer: Measures were taken, as part of a sustainability project, to improve the marketing of organic fertilizer from aquatic plants. The fertilizer is produced by the fishermen's and craftsmen's organization at Laguna de Fúquene (Los Fundadores).
- Improved income situation for handicraft workers: The Fundación Humedales organized a workshop for handicraft workers in order to demonstrate new braiding techniques for producing eco-friendly goods. A brand strategy was also developed for these new products.
- Marketing of indigenous trees: To increase the proportion of indigenous trees in new plantations, a demonstration tree nursery featuring 12 different indigenous species was set up. (www.fundacionhumedales.org)

**Lake Atitlán, Guatemala.** Lake Atitlán in the western part of the Guatemalan Highlands provides a living for the residents of numerous villages in the region. In 2009, water pollution from agriculture and households led to large-scale algae growth that covered up to 75% of the lake's surface. The Sika-sponsored project involved the development and implementation of key measures to renaturalize Lake Atitlán and improve its water quality. One example was the installation of a scientific laboratory to monitor and analyze water quality. In May 2010, however, the project suffered a bitter setback when the region was visited by heavy storms that wrecked large parts of villages around the lake, tore away bridges and routes, and almost completely destroyed the plant-based wastewater treatment system. Local Living Lakes partner organization, Vivamos Mejor, is currently in the process of reconstructing the facility. (www.vivamosmejor.org.gt)

**SIKA EXPERIENCE.** To mark its centenary, Sika launched the "Sika Experience" program, which is directed at young people, students and career starters. The special program website attracted applications from over 1500 candidates in 191 countries to participate in one of six projects on the following topics: "Raw Materials," "Mobility," "Wind," "Climate," "Water" and "Solar Energy." Participants were able to post an account of their experiences and newly acquired knowledge on the Sika Experience Blog 2010. The website, which provides information and hosts forums on the company's history and sustainability issues, has been viewed by some 80 000 visitors. The lively interest in the program and the search for sustainable solutions in construction and industry prompted Sika to make a further donation of around CHF 80 000 for social and ecological construction projects.

# Risk Management

**SEIZING OPPORTUNITIES AND CUTTING RISKS.** **As a global player, Sika is exposed to a variety of risks. The permanent protection of the Group's reputation and safeguarding of its freedom of action necessitate a timely analysis of potential risks and their integration into strategic decision-making processes. Diligent risk management may also unlock new opportunities.**

**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 for the Group and all its subsidiaries. Dangers 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. The risk management process comprises four steps: Risk identification, risk assessment, risk monitoring and risk controlling.

**GROUP MANAGEMENT AND BOARD OF DIRECTORS.** While Sika's Group Management regularly reviews the processes underlying risk management, the Board of Directors bears ultimate responsibility for risk assessment. Its duties include annual reassessment of the risk situation at Group level. Here, the focus is on those strategic and operative risks that are capable of seriously endangering the Group as a whole. All risks are assessed in terms of a few basic questions:
- Is the risk global or regional in scope?
- How significant is the risk for the Group?
- How high is the probability of losses occurring?
- What measures need to be implemented to prevent or mitigate the risk?

Suitable measures are then taken to counteract any risks that are rated critical in the overall assessment.

**SUPPLIERS AND RAW MATERIALS.** Materials, as Sika's biggest cost factor, are high on the risk assessment agenda. Almost 70% of the materials used by Sika in production – e.g. polyurethanes, epoxy resins or polyvinyl chloride – are based on crude oil or crude oil derivatives. Purchase prices consequently vary in line with the wide fluctuations in the cost of crude oil.

Sika purchases its base chemicals from the best-quality and most reliable suppliers. Wherever possible, Sika obtains those materials required for special solutions from at least two providers. Raw materials needed for one-of-a-kind technologies are manufactured in-house.

**PRODUCTION AND LOGISTICS.** Risk management in the areas of production and logistics entails the annual systematic analysis of possible operational risks that may lead to downtime or other disruption along with the specification of suitable preventive measures. Sika is also insured against production losses. The practical and organizational procedures for handling operational and all other risks are laid down in Sika's Risk Management Policy. This policy is based on the mandatory standards governing environmental protection, health and safety. Risk analyses performed by external specialists, frequently in close collaboration with the relevant property insurance companies, complement the in-house assessments.

On average, external checks are carried out at Sika's major factories every three years. Accompanied by the local safety officers and their teams, independent specialists conduct on-site inspections to identify and record those risks that may result in production downtimes, property damage or liability claims. The probability and implications of the associated risk events are subsequently assessed and measures taken to minimize the risk potential as far as possible. Adopting the same procedure, each company conducts an annual in-house risk analysis on its production and logistics operations.

The risks potentially posed by products are minimized through the implementation of binding procedures governing product development and refinement – the so-called Product Creation Process and Product Maintenance Process. Both processes are subject to highly stringent controls. The issues addressed relate, on one hand, to ecology and safety in development, production and product handling, and, on the other, to market opportunities and intellectual property protection. These processes are complemented by a global program, in place since 1999, which aims to minimize the risks resulting from counseling and sales activities. A host of additional measures, including the regular and systematic training of employees, clearly formulated standards, detailed causal analyses and stricter controls, help to bring about a steady reduction in expenditure for product-related claims.

**CUSTOMERS AND MARKETS.** Sika adopts 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 the 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 cyclically dependent renovation and maintenance market.

**FINANCIAL RISKS.** The purpose of financial risk management is to optimize funding and achieve a liquidity position geared to payment obligations. Liquidity is ensured by means of four long-term bonds, two to the value of CHF 250 million maturing in 2013 and 2016, one for CHF 275 million maturing in 2011 and another for CHF 300 million maturing in 2014.

Liquidity is optimized by means of a cash pooling arrangement. For selected activities in the treasury area, Sika relies on additional third-party services. Sika also manages its net working capital with the utmost care and, through a cost structure dovetailed to the prevailing market conditions, ensures adequate cash generation at all times. Sika attaches high priority to open and cost-efficient access to capital markets. Of significance here is the Standard & Poor's rating A-/stable (long-term).

Financial risk management is described in detail on page 123 ff of this Report.

# 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, canton Zug, 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 7 of this Report. In the year under review the Sika Group encompassed unlisted subsidiaries in 74 countries. 120 companies are included in the scope of consolidation. Companies of which Sika holds less than 50% of shareholder votes are not consolidated. These are namely Sika Gulf B.S.C., Bahrain, Sika Saudi Arabia LLC, the part GmbH joint venture in Germany as well as Addiment Italia S.r.l. Detailed information on Group companies can be found on page 133 ff.

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 four customer groups from the construction industry or from industrial manufacturing. These four customer groups are represented in Group Management as well as in the regional management teams and those of the individual countries. The relevant managers are responsible for the definition and launch of new products, the implementation of demonstrated best practices, and the product-line and pricing policies for Group products, i.e. those offered worldwide rather only within a particular country.

The heads of the central services finance, production and logistics as well as research and development are likewise members of Group Management, which consists of 14 members. All Group business is consolidated in Sika AG, the holding company, itself in turn under the supervision of the Board of Directors. The organization structures are presented on pages 31 to 38 of this Report.

In accordance with Art. 663c of the Swiss Code of Obligations, major shareholders hold a share of voting rights of over 3%. As of the balance sheet date of December 31, 2010, Sika had two significant shareholders. These are the Burkard-Schenker family, which according to information provided by the family as at December 31, 2010, holds 53.2% of all share votes, in part through the Schenker-Winkler Holding AG, Baar, and Ameriprise Financial Inc., Minneapolis, Minnesota, USA, which held 3.03% of all share votes 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 http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

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

**CAPITAL STRUCTURE.** As at December 31, 2010, capital stock totaled CHF 22 861 602.00. This was divided into 2 151 199 bearer shares, each with a nominal value of CHF 9.00, and 2 333 874 registered shares, each having a nominal value of CHF 1.50. All shares earn the same dividend, with payout adjusted according to nominal value. One share represents one vote. In addition, there is CHF 2 333 398.00 in contingent capital, unrestricted in time, comprising 259 822 bearer shares with a per-share nominal value of CHF 9.00.

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 as well as retained earnings during the last five years are posted on pages 138 ff 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 purchase of registered shares if the purchaser's registered share holdings exceed 5% of the total number of registered shares entered in the commercial register. In the year under review no new shareholder exceeded this 5% threshold. Nominees, i.e. shareholders who acquire shares in their own name but on the account of third parties, are registered as shareholders without voting rights.

**BOARD OF DIRECTORS.** The Board of Directors is Sika's highest 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 the three-year plan as well as the annual and investment budgets

The members of the Board of Directors are elected by the Annual General Meeting for a term of office of three years. Members' tenures are staggered. They can be reelected at any time. Upon reaching the age of seventy, directors resign their mandate. Detailed information on individual members of the Board of Directors is listed on pages 37 and 38 of this Report. No directorships are maintained with other listed companies on a reciprocal basis. The Board of Directors constitutes itself, electing the Chairman and Vice Chairman from its ranks.

Presently the Board of Directors of Sika AG 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 business year 2010 the Board met six 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 or the Audit Committee, insofar as such events relate to the latter's area of responsibility. The Internal Audit staff report to the Chairman 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 pages 37 and 38 of this Report.

- The Audit Committee mainly reviews the results of internal and external audits as well as risk management. The committee assembles on request of its chairperson as required. Customarily the Chairman of the Board and the CFO, as well as the CEO if necessary, take part in these meetings in an advisory capacity. In the year under review the Audit Committee met four times.
- The Nomination and Compensation Committee prepares personnel planning at Board and Group Management level and handles matters relating to their 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. 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 members of Group Management and their functions are listed on page 32 of this Report. Detailed information on their backgrounds and activities can be found on pages 34 to 36 of this Report. Sika had no management contracts with third parties in the year under review.

**SHAREHOLDER PARTICIPATION RIGHTS.** Sika upholds restrictions to voting rights neither on the basis of by-laws nor by other means, and thus also no rules for granting exceptions. Accordingly no exceptions were made in the year under review with respect to voting rights restrictions. Every shareholder can exercise share votes through representation by another shareholder with voting rights, a registered representative of securities accounts or an independent proxy. Information on what constitutes a quorum under the by-laws can be found in Art. 704 of the Swiss Code of Obligations (OR), as well as § 15 paragraph 3 of Sika's articles of association. 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/corporategovernance/articlesofassociation.html. The invitation modalities and deadlines for the Annual General Meeting are conforming with legal requirements.

In addition, shareholders representing a nominal share value of CHF 150 000 can request in writing to have an item placed on the agenda during a 14-day period approximately two and a half months prior to the Annual General Meeting. New registered shares will not be registered by the company in the 2 working days prior to the Annual General Meeting. Therefore 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 regulations of Sika AG and Sika Group.

**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 respective 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 the Swiss Code of Obligations, 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 2010.

The auditor participates regularly in the meetings of the Audit Committee, providing oral and written report of 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 2010 the present auditor took part in two meetings of the Audit Committee.

Ernst & Young AG billed CHF 3.9 million for its services during the year under review. This figure includes the audits of individual closings within Sika AG, practically all subsidiaries and the review of the consolidated financial statements.

Ernst & Young AG received additional fees totaling CHF 1.1 million for tax consultancy and CHF 0.4 million for audit-related consulting services.

**COMMUNICATIONS.** Sika informs extensively 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 press releases regarding important developments are also integral components in communications. 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 release of news which may affect its stock price. In addition, Sika maintains dialogue with investors and the media through special events and road shows. Information on important dates in 2011 can be found in this Report on page 158.

**COMPENSATION REPORT.** The compensation of members of the Board of Directors and of Group Management is presented in detail from page 153 onwards in Notes 25 to 26 in the Notes to the Financial Statements of Sika AG and is therefore not repeated here.

**Nomination and Compensation Committee.** The Nomination and Compensation Committee comprises directors Thomas W. Bechtler (Chairman), Urs F. Burkard and Paul Hälg.

The Nomination and Compensation Committee draws up principles for the compensation of members of the Board of Directors and Group Management and submits them to the Board of Directors for approval. Furthermore, it approves employment contracts with the CEO and members of Group Management. All appointments and dismissals which fall within the province of the Board of Directors are to be presented beforehand to the Nomination and Compensation Committee, which will submit a recommendation to the Board of Directors. In urgent cases, the Nomination and Compensation Committee may reach a decision jointly with the Chairman's Office.

Following a defined method of operation, the Nomination and Compensation Committee also reviews the plans for the variable portions of compensation and submits its recommendations to the Board of Directors.

In the year under review the Nomination and Compensation Committee met six times.

**Compensation of the Board members.** The compensation of the members of the Board of Directors consists of a fixed base remuneration and meeting fees for membership in various committees. Meeting fees are paid in March for the preceding year.

Compensation for the Chairman of the Board of Directors comprises a fixed base remuneration and a variable portion equal to the short-term bonus component received by members of Group Management that is based on the financial result.

The compensation of members of the Board of Directors is subject to Swiss taxation and social security laws. Sika pays the respective employer contributions. The members of the Board of Directors receive no additional reimbursements of business entertainment expenses beyond actual expenditures for business travel.

The members of the Board do not participate in Sika's employee benefit plans.

The details on compensation of members of the Board of Directors are shown in Note 25 in the Notes to the Financial Statements of Sika AG on page 153 of this Report.

**Compensation of members of Group Management.** Sika's compensation policy for members of management is based on the following principles:
– The amount of compensation must be competitive and in line with the market
– Overall compensation must be structured in such a way that it is significantly based on performance and results
– The components of remuneration must be fair, transparent and target oriented

In order to set compensation in line with the market, the Nomination and Compensation Committee confers with a renowned company which regularly prepares statistics on overall compensation paid to group management members and high-ranking managers in the industrial and construction chemical sectors. Based on these external and also internal benchmarks, the Nomination and Compensation Committee establishes a frame of reference for the overall compensation of members of the Board of Directors and of Group Management. The actual amount of compensation of the individual members of Group Management and of Senior Management is dependent on performance in a given business year.

The overall compensation for members of Group Management consists of a fixed salary as well as a short- and a long-term variable portion of compensation. The short-term variable salary portion of compensation is dependent upon the degree to which targets set have been reached and is determined as follows:

Financial targets (70%)
– EBIT Earings Before Interest and Taxes
– ROCE Return On Capital Employed
– NWC Net Working Capital

Individual targets (30%)
– Quantitative and/or qualitative targets

The weighting of the individual financial targets depends on the area of responsibility (Region or Customer Group).

Group EBIT is kept separate from budgeting and indexed. Indexing produces an objective, beyond-budgeting EBIT target measurement which is both sustainable and fair since this method compares current company performance relative to peer companies. Peer companies are industrial firms with a comparable global structure and exposed to similar market cycles. Indexing is performed by a certified independent external consultant.

The individual targets may include qualitative targets along with quantitative targets.

The composition and weighting of targets is determined by the Nomination and Compensation Committee.

The short-term variable compensation portion amounts to a maximum of 50% of the so-called total target cash (fixed salary plus short-term variable compensation) and may reach between 0% and a maximum of 150% of the agreed short-term portion. This variable portion is paid out either 20% or 40% in Sika shares; members of Group Management can choose this percentage freely. These shares, allocated at fair market value, are excluded from trading for a period of four years.

The long-term variable salary component is based on a target definition of strategically crucial key figures in the respective market environment over a period of three years. Such a target is determined each year by the Nomination and Compensation Committee. This long-term variable component corresponds to a maximum of 50% of the short-term variable component and is paid out entirely in shares having a vesting period of four years. The long-term variable salary component is also limited to between 0% and a maximum of 150%. At the beginning of the year the Nomination and Compensation Committee evaluates the target achievement and the allocation of funds for the previous business year for subsequent approval of the Board of Directors.

The details on compensation of members of Group Management are shown in Note 26 in the Notes to the Financial Statements of Sika AG on page 154 of this Report.

The members of Group Management with a Swiss employment contract participate in Sika's pension plans. These consist of the pension fund of Sika Schweiz AG, in which base salaries up to an amount of CHF 129 960 per annum are insured, as well as a supplementary plan in which base salaries that exceed this limit are insured. Sika's pension funds exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG). For members of Group Management as well as for all other employees, insured income is regarded as being the fixed portion of compensation.

Members of Group Management under foreign employment contracts are insured commensurately with market conditions and with their position; pension plan solutions are, in minimum, in accordance with the legal requirements of the respective country. Moreover, a plan is in place under which Group Management members may opt for early retirement.

In the year under review, no payments were made from pension plans to members of Group Management.

The members of Group Management are employed under employment contracts of unlimited duration and are all subject to a period of notice of one year. Members of Group Management are not contractually entitled to termination payments.

**Compensation of the CEO.** All the rules mentioned regarding the compensation of members of Group Management hold for the CEO as well. The details of compensation paid to the CEO are shown in Note 26 in the Notes to the Financial Statements of Sika AG on page 154 of this Report.

# Concrete, Atlântico Sul Shipyard, Brazil.

Technological world class: 1.6 million m², 360 000 m³ of concrete, 400 m long dry dock.

Atlântico Sul Shipyard, constructed between August 2007 and December 2009, is located 60 km south of Recife, ideally positioned for global shipping routes. The facility is one of the most modern in the world. The yard builds vessels of up to 500 000 deadweight tons, manufactures offshore drilling platforms and offers a range of comprehensive maintenance and repair services. Construction work proved demanding owing to the scale of the project and the number of concrete grades each with different strength and flow properties. Using Sikament®, Sika® ViscoCrete® and SikaPump® the optimum mixes were developed. The result: A model project for a new economic power and an impressive testimony to Sika's performance.

2010: Higher sales and sharply increasing profit. Strong growth in the emerging markets.

# Clear goals and good prospects for the future.

Group Report

# Targets

**SIKA STANDS BY MEDIUM-TERM TARGETS.** **Sika has defined medium-term financial targets that are tailored to the Group's strategy of growth. These targets relate to sales, profit, cash flow and return on capital employed (ROCE).**

**FINANCIAL TARGETS.** Sika's financial targets are derived from the company's growth strategy and factor in development costs in the emerging countries. To be able to finance growth requires a sound operating cash flow to sales ratio. Growth is expected to produce a higher operating profit in absolute figures. The medium-term financial targets (excluding restructuring costs) are:

| | Targets | | | | | Results |
|---|---|---|---|---|---|---|
| | | 2006 | 2007 | 2008 | 2009 | 2010 |
| Growth in local currencies in % | **8–10** | 16.9 | 13.3 | 5.9 | -6.2 | 6.1 |
| Operating profit before depreciation as % of net sales | **12–14** | 13.2 | 13.9 | 12.0 | 13.0 | 13.1 |
| Profit as % of net sales | **>6** | 6.0 | 7.5 | 5.8 | 6.5 | 7.0 |
| Operating free cash flow as % of net sales | **4–6** | 4.9 | 4.2 | 3.6 | 8.9 | 7.5 |
| ROCE* in % | **20–25** | 20.2 | 26.0 | 20.3 | 19.3 | 21.3 |

* Return On Capital Employed, see also page 139

The Board of Directors regularly reviews the Group's strategy and targets, and adjusts these as appropriate. Sika is targeting an increase in sales of 8 to 10% annually. The sales target also includes smaller acquisitions in the future. Sika seeks to win market share in its key sales markets and, in the longer term, achieve a 20% share in all regions and target markets. This would effectively translate into an annual turnover of around CHF 8 billion.

**OPERATIVE PERFORMANCE FIGURES.** While Sika's national companies conduct daily assessments of key performance figures, the Group works with monthly appraisals based on operating profit per Region. Modern price tools facilitate the evaluation of cost and price trends as well as measures at product and customer level. Moreover, customer relationship management (CRM) systems allow the definition of customer-specific targets and success evaluations, together with debtor analyses and the appraisal of globally operating customers. The worldwide introduction of a uniform ERP system will pave the way for a further optimization of performance fundamentals.

# Group

**ENCOURAGING INCREASE IN SALES AND NET PROFIT.** **Sika posted a 6.3% increase in sales in the 2010 business year, achieving net sales of CHF 4.416 billion. In local currencies, Sika lifted sales by 10.2%. Consolidated net profit amounted to CHF 310.9 million, 37.7% above the previous year's level of CHF 225.7 million.**

**SALES.** The 6.3% increase in annual net sales to CHF 4.416 billion comprises organic growth (6.1%), growth through acquisitions (4.1%) and a negative currency effect (-3.9%).

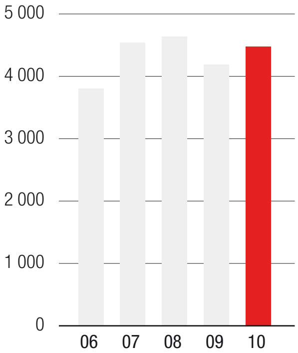
Sika's performance in the year under review varied considerably from Region to Region. While the high turnover Regions Europe and North America achieved only a very hesitant recovery, Sika posted substantial gains in the emerging markets throughout the entire year. Growth rates in the individual Regions in local currencies: Europe North 4.5%, Europe South 1.7%, North America 8.5%, Latin America 18.0%, IMEA (India, Middle East, Africa) 9.5%, Asia/Pacific 41.4%. Particularly developments in North America and Asia/Pacific were additionally influenced by acquisitions.

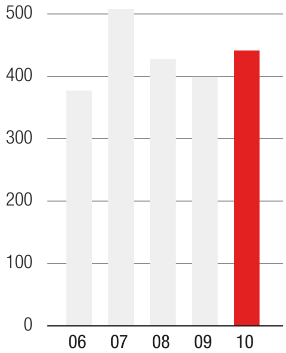
Owing to the significant increase in sales achieved in emerging markets, the proportion of Sika Group sales generated by these countries rose to 36%.

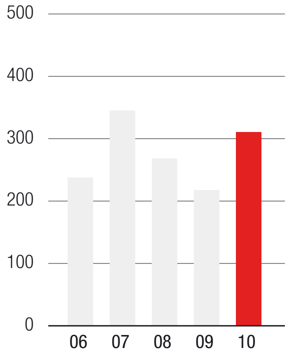
In local currencies, Group sales of products for the building and construction industry were up by 8.7% in the 2010 business year; of this figure, 4.9% were attributable to acquisitions. Sales of products for industrial manufacturing increased 16.7% in local currencies, including an acquisition effect of 0.6%.

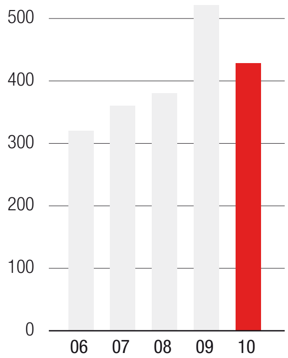
The strong franc was not without influence on the sales figures. The overall currency effect of -3.9% almost exclusively corresponds to a translation effect. The currency effect was particularly substantial in the final quarter of 2010. The Group's decentralized regional structuring and the largely local-based generation of value added at Sika's 120-plus locations in 74 countries provides a good natural hedge against exchange rate movements.

During the reporting period Sika acquired six companies (see also pages 26 and 27): The auto glass replacement business of ADCO Products, Inc., USA, the construction sealants operations of Henkel Japan Ltd., Czech-based flooring manufacturer Panbex Group, structural waterproofing manufacturers Dyflex HD Co. Ltd., Japan, Greenstreak Group, Inc., North America, and US-based silicone and polyurethane products manufacturer May National Associates, Inc.




**PROFIT.** Raw material prices witnessed increases in 2010, owing primarily to low supplier capacity at the beginning of the year coinciding with increased demand. The fact that higher raw material prices could only be passed on to sales prices after a certain time lag squeezed the gross margin. Overall, Sika increased its gross profit to CHF 2.385 billion (2009: 2.295 billion), corresponding to a gross margin of 54.0%.

Sika improved operating profit before restructuring by 9.7% to CHF 439.5 million (2009: CHF 400.6 million; 2009 operating profit after restructuring: 344.0 million), resulting in an operating profit margin of 10.0%. At CHF 310.9 million (2009: CHF 225.7 million), consolidated net profit was up 37.7% year on year. One-off tax effects also had a positive impact on consolidated net profit.

**INVESTMENTS.** Sika's unchanged investment strategy is geared to consolidating its global presence, built up during the last few years, and unlocking new markets or expanding its existing activities. To encourage focused growth, selected markets, customers, technologies and products are prioritized. Given the changed economic climate triggered in many parts of the world by the financial crisis, Sika has reviewed all investment plans and adjusted these to the new conditions. The volume of investment during the period under review therefore remained below the level of the previous years at CHF 100 million (see page 27).

**LIQUIDITY AND BALANCE SHEET.** Operating free cash flow reached CHF 332.2 million (2009: CHF 368.7 million) in the year under review. Cash and cash equivalents increased from CHF 801.6 million to CHF 938.4 million as of the end of the year. Net debt could be pared from CHF 264.8 million to CHF 164.5 million, reducing the ratio of net debt to shareholders' equity (gearing) from 16.6% to 9.4%. The syndicated credit limit of CHF 450 million was not drawn on in 2010. It expired on November 15, 2010. Given the company's high level of cash holdings, Sika opted not to have the limit extended.

# Regions

## BOOMING MARKETS IN REGIONS ASIA/PACIFIC AND LATIN AMERICA.

**The individual Regions experienced widely divergent trends in the year under review. While the Region Asia/Pacific witnessed a veritable boom and the company's sales also surged in Latin America, the aftershocks of the financial crisis rumbled on in several European markets and elsewhere.**

**EUROPE NORTH.** Sika recorded net sales of CHF 1 457.1 million (-1.2%) in the Region Europe North. Measured in local currencies, this is equivalent to a 4.5% rise (currency effect: -5.7%).

Even within the Region Europe North, Sika had to contend with widely divergent market trends. The extremely harsh and unusually long winter prompted severe project delays and negatively impacted all segments.

Throughout the reporting year, the countries of Central and Eastern Europe – except for Russia, which benefited from higher oil and gas prices – continued to suffer from the aftermath of the 2009 crisis. For example, construction volumes in Croatia fell by 25%, in Romania by a full 35%. Many Central and Eastern European customers were hit by liquidity problems, with worsening customer payment behavior as the outcome.

The German economy performed far better than expected, particularly in the transportation sector. Germany's construction industry benefited from an earlier scheme to subsidize energy efficiency. On the other hand, the volume of new-build projects, particularly in the commercial and industrial sectors, was down on the previous year. Overall market growth in the German construction industry is put at 1.6% for 2010, with stagnation predicted for 2011. The markets in Switzerland, Poland, Sweden and Finland emerged from the crisis largely unscathed.

In the Region Europe North, Sika recorded its best sales figures in the renovation sector. Thanks to its strong market penetration and favorable project trends, the company achieved a 5% rise in turnover from concrete admixtures in Switzerland, Germany, Poland and Russia, despite a total 18% slump in the market.

The downtrend in the roof systems sector, which had suffered the largest drop in sales in 2009, was halted. Here, the results were on a par with those of the previous year.

Sika's business with industrial customers expanded significantly, particularly in the transportation, applications and components segments. Overall, however, 2010 sales still fell short of the record value achieved in 2007. The wind turbine sector generated less business than expected after a number of major customers in this field relocated production facilities to the booming markets in Asia and the Americas, and bought Sika products directly in these Regions.

The restructuring programs concluded in 2009 positively impacted the cost situation in 2010.

The reporting year also saw full integration in the local Sika organization of the Czech Panbex Group, whose main business area is cement-based flooring. The relocation of polyurethane production from Fredensborg in Denmark to Bad Urach in Germany was also brought to a successful conclusion. In Lobnya, a suburb of Moscow, Sika brought into operation a new concrete admixtures factory plus warehouse and offices in October 2010.

**EUROPE SOUTH.** Sika recorded net sales of CHF 874.1 million (-6.5%) in the Region Europe South. Measured in local currencies, this is equivalent to a 1.7% rise (currency effect: -8.2%).

2010 saw construction volumes continue to tumble in the Region Europe South. Hardest hit by the downturn were Spain, Greece and Ireland. The considerable economic uncertainty and increasing tax burden in these countries combined to dampen private investment and consumption. This was compounded by fears that the impending budgetary cuts would directly squeeze public-sector investment. Further negative factors included the end of the stimulus package for car buyers and of investment programs in renewable energy. In Spain and Ireland, the construction industry completely collapsed and no recovery is yet in sight. In Greece, the austerity program and strict debt management regime severely limit the funds available to the government and banks.

The gentle rise in Sika's sales, in terms of local currencies, in the Region Europe South in the reporting year is mainly due to the results in France, Great Britain and Italy. Despite the difficult economic backdrop, slight increases were also observed in Portugal and Ireland, and the Maghreb countries saw growth as well.

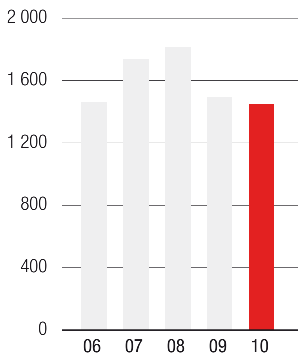
Overall, thanks to its high-quality technical services, strong brand positioning and comprehensive product portfolio geared to wide-ranging client needs, Sika was able to win market share in the Region Europe South. Indeed, the customer base in the Distribution group (builders' merchants) grew in almost every country of the Region and particularly in Spain, France and Great Britain. Despite the subdued market environment, Sika significantly expanded its business with concrete producers in Great Britain. Thanks to its new products, Sika also attracted fresh customers in the Contractors group (specialized applicators). The sharpest upturn, however, was recorded in the first half of 2010 in the Industry customer group. Sales in this sector were buoyed up by the automotive stimulus programs, whose impact was particularly noticeable in Italy, France and Great Britain.

2010 saw Sika Portugal open a branch in Angola, while operations were also stepped up in new Eastern European markets, such as Kosovo, Montenegro and Albania.

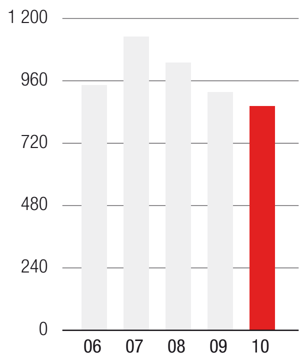
**NORTH AMERICA.** Sika recorded net sales of CHF 632.8 million (5.1%) in the Region North America. Measured in local currencies, this is equivalent to a 8.5% rise (currency effect: -3.4%); the acquisition effect stood at 4.5%.

The North American economy grew by 2–3% in the year under review. Loans again became somewhat easier to obtain while economic stimulus funds were made available for infrastructure projects, such as bridges and tunnels – the emphasis, however, being on maintenance rather than new-build. The wide acceptance now enjoyed by the sustainability principle among large sections of the population cleared the way for innovation and new initiatives in the field of wind power, solar energy and electric cars. Growth in domestic demand – as one of the key economic drivers – nonetheless remained sluggish due to the USA's still high unemployment rate of around 10% and pending debt repayments.

**Net sales Europe North**
in CHF mn




**Net sales Europe South**
in CHF mn




Despite severe price pressure, Sika North America managed to push up sales and gain further market share in the year under review. And this in the teeth of a further 12–15% slide in the US and Canadian construction industry. Sika North America was able to more than offset this decline through new projects and products for specialist contractors in the roof and floor systems segment.

Sika North America also landed a number of lucrative contracts from concrete producers. Sika was, for instance, contracted to supply all concrete admixtures for the construction of four new nuclear power stations. The company is also involved in several major bridge and road-building schemes along with various projects in the waste disposal and wastewater sectors.

By acquiring the distinguished Greenstreak Group, Sika has further bolstered its market leadership in North America in the field of engineered waterproofing. Two high-profile projects in this area, the reconstruction of the world-famous Lincoln Memorial Fountain in Washington and the New York subway project, served to underline Sika's credentials in this field. Sika North America also managed to win market share among the builders' merchants customer group during the reporting year.

Various product innovations launched by Sika in the year under review were well received by the resurgent automotive industry. Sika also expanded its business in the truck and special vehicles segment. Other notable successes notched up by Sika in the industry market in the reporting year came in the field of windshield bonding and wind/solar energy.

Sika North America successfully introduced the new ERP system in January 2010.

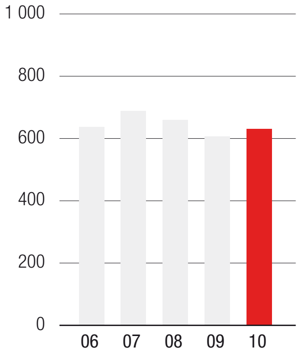
Alongside the Greenstreak Group, Sika's new acquisitions in the Region North America in the reporting year included the auto glass replace business of ADCO Products and May National Associates, a manufacturer of silicone and polyurethane adhesives.

**LATIN AMERICA.** Sika recorded net sales of CHF 479.8 million (21.4%) in the Region Latin America. Measured in local currencies, this is equivalent to a 18.0% rise (currency effect: 3.4%).

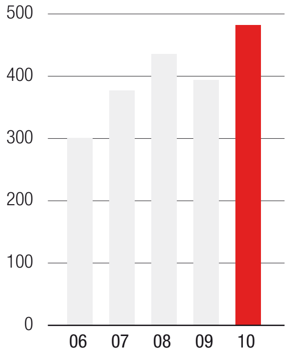
After a troubled 2009, the economic situation in Latin America generally improved in 2010, with gross domestic product in most countries on an upward trajectory. Benefiting from a large domestic market, stable financial system and coherent economic policies, Brazil – as Latin America's foremost business nation – proceeded to break all records. Frail or negative growth was limited to the economies of Venezuela and Ecuador. While high inflation prevails in many Latin American countries, notably Argentina and Venezuela, the large raw materials exporters, such as Venezuela, Mexico, Brazil, Chile and Peru, are largely profiting from the rising commodity prices.

Sales were good in the construction sector, with developments in the infrastructure market attracting particular attention. 2010 also witnessed favorable developments in the Distribution segment, which plays a crucial role in Sika's Latin American operations. Sika's three largest companies in Latin America, Brazil, Mexico and Colombia, grew strongly in 2010. Having been hit by the downturn in the mining industry in 2009, Sika Peru

Net sales North America
in CHF mn




Net sales Latin America
in CHF mn




bounced back convincingly in 2010. Following the devastating earthquake in February 2010, Sika Chile recorded a high demand for repair products. 2010 also saw Sika achieve considerable growth in the Industry segment, where the Brazilian and Mexican national subsidiaries play the leading role. Performance was particularly good in the automotive and transportation sectors.

To capitalize on the burgeoning market potential in Latin America, Sika intensified its sales efforts with an expanded team. Sika Latin America also stepped up its investment in the logistics chain and new technologies. In particular, Sika upgraded its logistics operations at the São Paulo factory and the decentralized concrete admixtures factories in Chile, Panama, Brazil and the Dominican Republic.

A few of Latin American countries are showing signs of political instability. Sika is closely monitoring the situation here and, wherever possible, minimizing risks and dependencies.

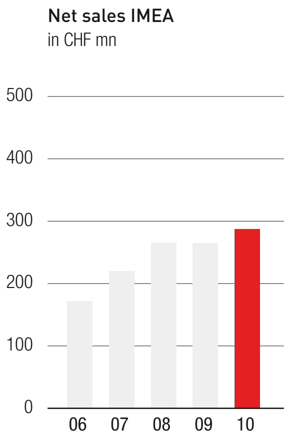
**IMEA.** Sika recorded net sales of CHF 285.8 million (8.4%) in the Region India, Middle East, Africa (IMEA). Measured in local currencies, this is equivalent to a 9.5% rise (currency effect: -1.1%).

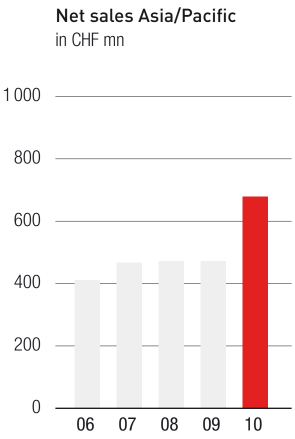
The fallout from the economic crisis shook Dubai and spread throughout the United Arab Emirates in the reporting year. Sika's market volume fell short of the previous year's level by up to 15%. South Africa's construction industry shrank by some 40% in the post-World-Cup period, while the Egyptian market also declined in the reporting year. Most areas of the Indian economy, on the other hand, continued to grow and the country is increasingly assimilating modern-day construction and industry practices. Sika was also presented with good market opportunities in Turkey, whose economy likewise surged in 2010.

Although growth slowed in some national markets, Sika still managed to gain market share and expand its business in the Region IMEA by nearly 10%. Turkey's construction sector fared better than expected and Sika was able to extend its leadership in the concrete market. Growth in India was fueled by a string of major infrastructure projects, including, for instance, several nuclear power stations.

The reporting year saw Sika continue its expansion of production in Saudi Arabia, which had begun in 2009. The strong growth in this part of the Region IMEA to some extent compensated for the frailty of the United Arab Emirates market.

Sika IMEA's sales in the Industry segment increased sharply year on year. With India's industrialization and the modernization of production methods proceeding apace, the company witnessed a rise in turnover from many large Indian customers in the vehicles market (buses, trucks, railways). Sika's industry operations also flourished in South Africa thanks to rising contract volumes from its main customers in the automotive and vehicles sector.




**ASIA/PACIFIC.** Sika recorded net sales of CHF 676.4 million (43.1%) in the Region Asia/Pacific. Measured in local currencies, this is equivalent to a 41.4% rise (currency effect: 1.7%). New acquisitions accounted for a large part of this growth (28.7%).

Chinese markets were in top gear during 2010. The government pressed ahead with numerous large-scale infrastructure projects, from the rail network expansion to its power station program. Following the upswing in the second half of 2009, the Southeast Asian market – Vietnam and Indonesia in particular – continued to witness encouraging trends in 2010. In Thailand, by contrast, the existing political situation slowed down recovery in the construction sector. In the OECD countries, the economic downturn bottomed out in the first half-year, with initial signs of a rebound already emerging in the second half-year. Australia, in particular, seems to be recovering quickly from the crisis while, in Japan too, cement demand has been heading back up since May.

In most countries of the Region Asia/Pacific, Sika experienced significant organic growth and won market share. At the same time, the previously acquired Chinese companies and newly purchased companies in Japan were successfully integrated in the Group and have already made a vigorous contribution to growth in the Region.

Sika's business in China grew by 41% in the reporting year, over 30% of which is attributable to organic growth. Key reasons for this include the substantially broader range of locally manufactured products and the continuing geographical expansion. The reporting year saw Sika successfully extend its leading position as concrete industry supplier.

In Southeast Asia, Sika recorded overall growth of 15% in 2010, with Vietnam and Indonesia contributing the lion's share. The acquisition of Dyflex in Japan, with its established brands and distribution channels, marked a milestone in Sika's global strategy in the waterproofing market. The Dyflex products and technologies ideally complement Sika's existing range, and the fusion of product portfolios now make Sika a single-source provider for waterproofing systems and solutions in Japan and throughout the Region Asia/Pacific. The acquisition met with a favorable response from Sika customers, as witnessed by the appreciable rise in Dyflex product sales in 2010.

The Kunming plant, which started production in the reporting year, was the eleventh factory opened by Sika Asia/Pacific in China. The new facility will enable Sika to capitalize on growth in China's western provinces. Various Chinese factories were also upgraded to meet state-of-the-art standards in the reporting year.

# Outlook

**RECOVERY CONTINUES.** **The economic outlook is better than a year ago. While moderate growth is forecast for Europe, the outlook for the emerging markets is still very good – above all for China. Against this backdrop, Sika is reiterating its medium-term goals.**

**STRUCTURAL GROWTH.** The markets are likely to present a similarly mixed picture in terms of performance in 2011 as they did in 2010. Economists are predicting modest growth for Europe. Much hinges on how the real economy is impacted by the high sovereign debt levels in various European countries, austerity programs and the euro crisis. The trend toward a moderate recovery should continue in North America. There is a backlog of demand from the infrastructure sector in particular. Unlike Europe and North America the emerging markets continue to witness strong growth. The Asian markets will gain further in significance; the potential for structural growth has not been exhausted by a long way yet.

Renovation work will become an increasingly important factor in the construction sector – in particular in the roofing and waterproofing sectors. Investments in commercial buildings will probably persist at a low level, whereas investments in infrastructure are more likely to increase.

The market recovered surprisingly fast in the industrial sector in 2010 – especially in the motor vehicle segment. Further growth is expected for 2011 as well, albeit at a lower level owing to the higher baseline for comparison. The order books are full, and Sika has won market share with new products.

**TARGETS CONFIRMED.** Sika will continue to consistently pursue its acquisition strategy in 2011, focusing on expanding market access and buying new technologies which fit in well with the existing portfolio and can be globally marketed via Sika's network.

Sika's medium-term growth targets envision an 8 to 10% increase in sales per year, with an EBITDA margin in the order of 12 to 14%. Sika seeks to win further market share in its key sales markets, to attain a 20% share in all Regions and target markets in the longer term and to achieve an annual turnover totaling CHF 8 billion in the medium term.

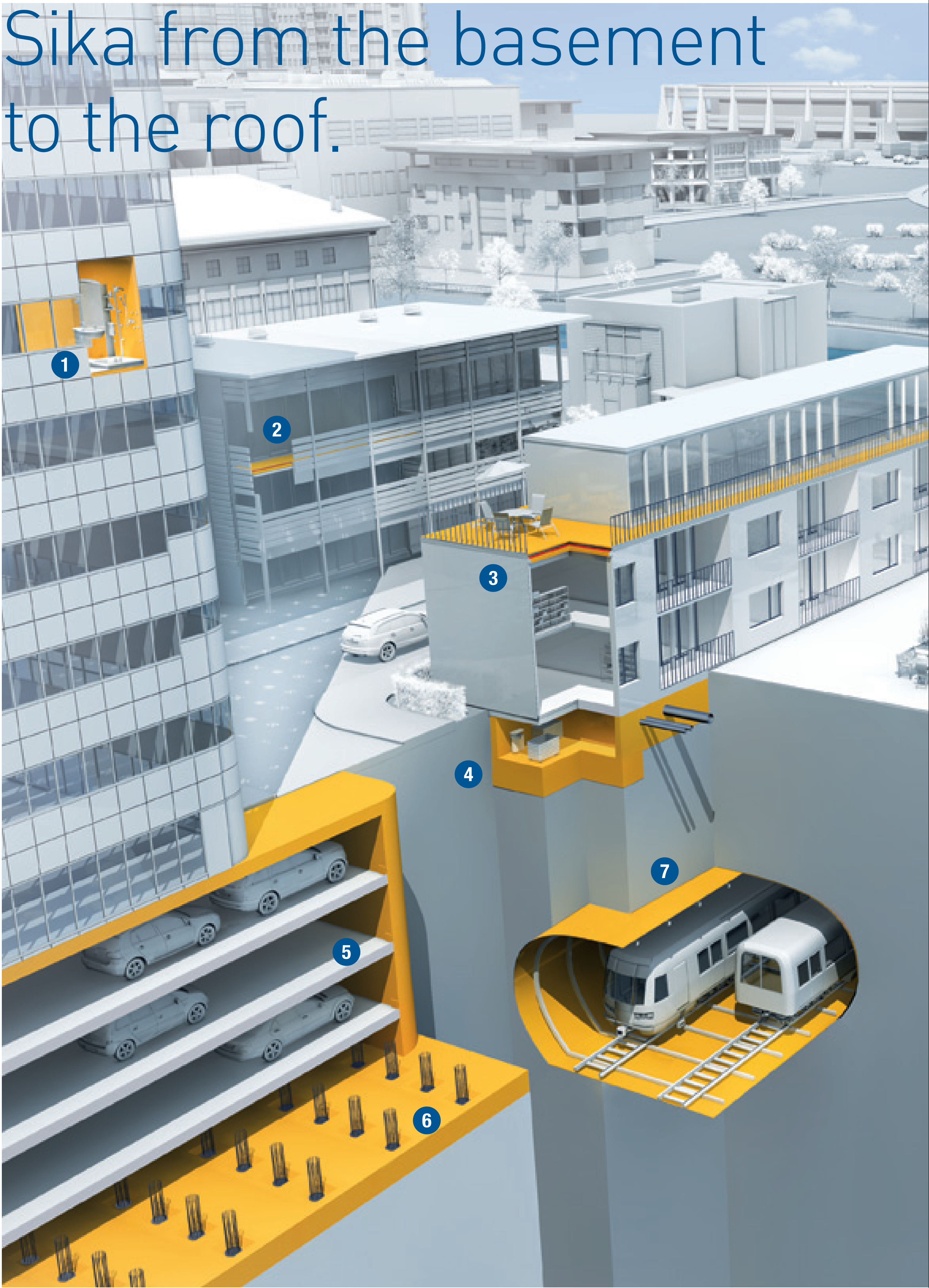
## Waterproofing

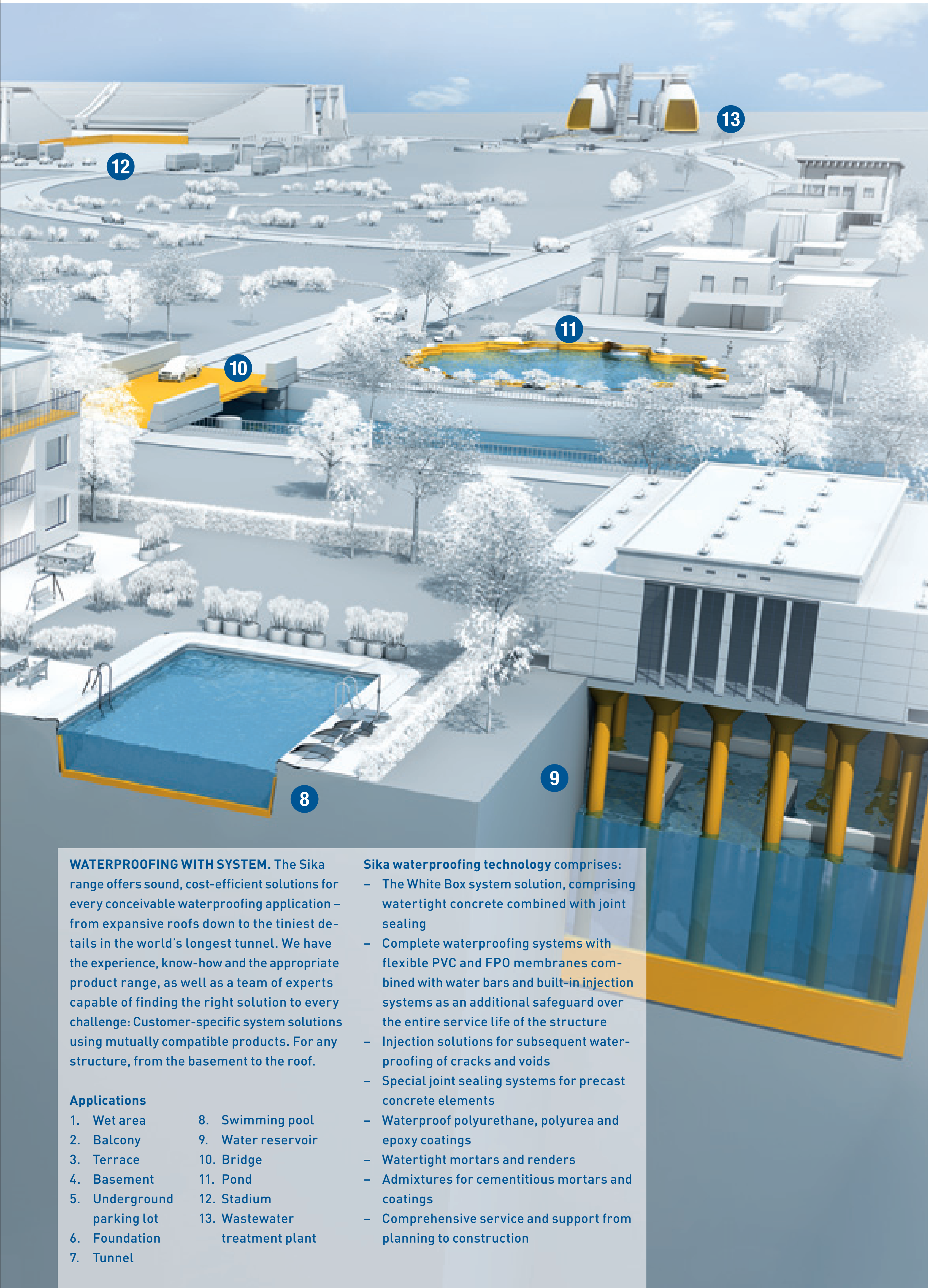
# Waterproofing.

## Keystone of sustainable construction and core competence of Sika.

Innovation has been Sika's driving force ever since the company's foundation. What began a century ago with waterproof mortar and expanded through countless new products and applications has culminated in a technology fit for the twenty-first century. Waterproofing serves a dual function: It prevents either the escape or the infiltration of water, i.e. keeps water in or out of structures. While the theory is simple, its practical application is complex and demanding. The elaborate system solutions employed today are necessitated by compelling economic and ecological arguments: Waterproofing preserves the structural fabric and prolongs the service life of facilities. It prevents damage and cuts maintenance costs. It protects investment. Yet, its impact is far more profound. Much state-of-the-art infrastructure would be unthinkable without reliable waterproofing systems. On tunnel, bridge, high-rise and multi-story parking projects, in industrial and plant engineering, systematic structural waterproofing is fundamental to sustainable construction.

# Sika from the basement to the roof.






**WATERPROOFING WITH SYSTEM.** The Sika range offers sound, cost-efficient solutions for every conceivable waterproofing application – from expansive roofs down to the tiniest details in the world's longest tunnel. We have the experience, know-how and the appropriate product range, as well as a team of experts capable of finding the right solution to every challenge: Customer-specific system solutions using mutually compatible products. For any structure, from the basement to the roof.

**Applications**

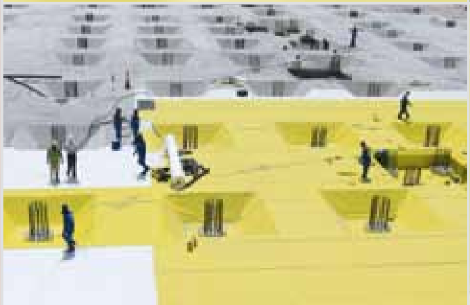
1. Wet area
2. Balcony
3. Terrace
4. Basement
5. Underground parking lot
6. Foundation
7. Tunnel
8. Swimming pool
9. Water reservoir
10. Bridge
11. Pond
12. Stadium
13. Wastewater treatment plant

**Sika waterproofing technology** comprises:

- The White Box system solution, comprising watertight concrete combined with joint sealing
- Complete waterproofing systems with flexible PVC and FPO membranes combined with water bars and built-in injection systems as an additional safeguard over the entire service life of the structure
- Injection solutions for subsequent waterproofing of cracks and voids
- Special joint sealing systems for precast concrete elements
- Waterproof polyurethane, polyurea and epoxy coatings
- Watertight mortars and renders
- Admixtures for cementitious mortars and coatings
- Comprehensive service and support from planning to construction

# Doha Convention Center, Qatar. Waterproofing as fundamental factor in green building.




"We opted for Sika, following meticulous assessment, because we were convinced by the technical and commercial benefits of its system approach and because it employs some of the most proficient, experienced and forward-looking waterproofing engineers in the world. Our trust has been fully borne out by the results."

Mohammed Al Buainain, PMP, SCPM,
Projects Senior Manager, Qatar Local Projects

Doha Convention Center is with its enormous dimensions of 600 × 180 meters one of the first facilities of its type to be comprehensively designed and constructed in line with the LEED* eco-efficiency criteria. It has also marked a milestone in waterproofing engineering. The solutions used to protect the foundation from groundwater and seawater drew on the full panoply of Sika membrane systems down to the last detail. Sika's expert counseling, product quality and direct collaboration with client, engineer and general contractor proved to be key success factors that were every bit as important as the constant on-site supervision provided by the company's technicians.

* Leadership in Energy and Environmental Design (LEED), certified by U.S. Green Building Council

# City-Tunnel, Leipzig.

## Waterproofing as the foundation for infrastructure.





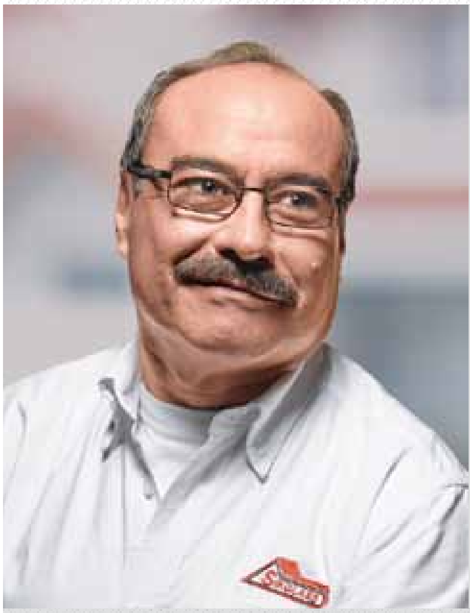
Leipzig's City-Tunnel ranks among Germany's foremost infrastructure projects. It is designed to ease traffic problems, shorten travel times and relieve congestion in the city by approximately 43 million car kilometers per year. Sika's mandate includes lead consultancy for the waterproofing systems and materials specification plus on-site quality control. The tunnel incorporates Sika's integral White Box system, combining watertight concrete and joint waterproofing. The 40 cm thick lining of the pressurized tunnel comprises 1 640 tubbing rings, each weighing 47 tons. The segments are precast using Sika® ViscoCrete®. In the stations and ramps the joints are sealed with Tricosal® water bars and injection grouts. Builders and engineers can thus enjoy the certainty of absolutely reliable performance, both today and in future.

"The four-year design phase and four years on site were mastered by outstanding cooperation between all partners: The Leipzig City-Tunnel project was exciting and demanding in equal measure. Particularly challenging was the joint sealing at the junctions between tunnels and stations, which had to withstand 1.7 bar hydrostatic pressure. But that's what the Sika team is there for!"

Matthias Lange, Head of Structural Waterproofing, Chemnitz branch, Sika Deutschland GmbH

# Montearroyo Residential Complex, Colombia.

## Waterproofing as boost to distribution business.



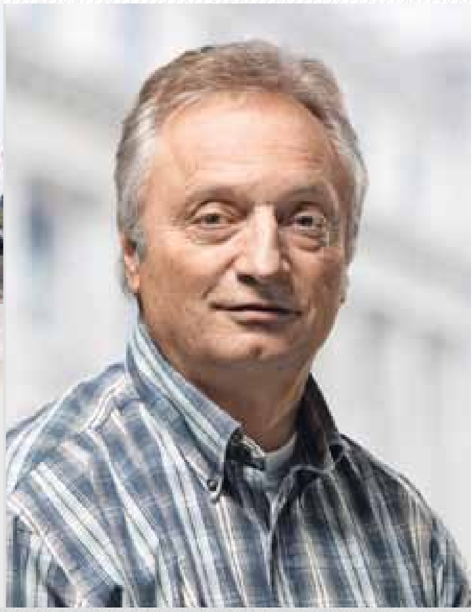
"Sika's image, marketing support and comprehensive product range have enabled my company to grow considerably. For merchants like us, the training and technical assistance provided by Sika staff make all the difference: With Sika, we're always on a winner!"

William Hernandez, Owner and General Manager, SIKGLASS LTDA.

In Colombia, a large proportion of Sika's products are marketed through authorized builders' merchants. A key partner in this market is SIKGLASS LTDA., which has collaborated with Sika for 12 years in supplying and supervising local contractors and tradesmen. It is hardly surprising, then, that the Montearroyo housing development, with 118 villas and two large apartment blocks, incorporates Sika systems across the board, from the basement to the roof. For everything from waterproof concrete for foundations and pools to UV-resistant coatings and tile adhesives, Sika's technicians and distributors collaborate closely with project engineers and contractors to develop the optimum solutions and oversee their implementation on site. The satisfaction of contractors and residents alike is a testament to our success.

# Glina wastewater treatment plant, Bucharest.

## Waterproofing as integral environmental protection.



Wastewater treatment plants are exposed to a diversity of structural, dynamic, mechanical and chemical loads. Extra-high-performance waterproofing systems are thus required for both new-build and renovation projects. Bucharest's wastewater treatment facility, the largest in Central Europe, purifies the sewage produced by the city's two million inhabitants and helps to improve the quality of river water in the region. The project included new-build and repairs to clarifiers and aeration tanks. The size, unconventional shape and poor condition of the digestors placed particularly high demands on the rehabilitation work. Yet, the finished plant speaks for itself: Highly efficient and absolutely watertight – which is hardly surprising given the presence of Sika products in practically every building of the facility.

"The general contractor singled out Sika for two reasons: First, the high quality of its technical counseling and, second, the smooth collaboration with Sika on previous projects in Greece. Then, as now, Sika's technicians carried out all their duties promptly and professionally."

Alexandru Mateevici, Site Manager,
Holding Aktor-Athena JV

# Subway, New York.

## Waterproofing as safeguard for metropolitan investment.

"As a businessman, I need to work with partners I can rely on. New York is an inherently challenging location, especially for major projects. We opted for Sika because it offers the ideal combination of technology, design expertise, cost-effectiveness, logistics and counseling. The company also enjoys the full confidence of the New York Metropolitan Transportation Authority (MTA), as client."

Peter Strasser, Founder, President & CEO,
Wisko America Inc.

In the years ahead, New York City is set to invest over 30 billion dollars on developing the subway system. This is needed to accommodate increasing passenger numbers and prepare the city for the future. The most notable improvements will be achieved by the projects involving the extension and upgrading of the Manhattan East Side Access, Line 7 and Second-Avenue Subway. With installation technology and expertise, Wisko was awarded the tunnel and subway station waterproofing contracts for all 3 important projects – and selected Sika as its partner for each. In North America, Sika has emerged as the only company able to act as sole-source supplier for the full range of waterproofing solutions – from concrete and shotcrete admixtures, to waterstops, to membrane systems and injection technology – needed on such a large and complex scheme. On the strength of its size, know-how and experience, Sika is the partner of choice for clients and general contractors on city tunnel projects.

# Financial Report

# Table of Contents.

# Consolidated Financial Statements

## Consolidated Balance Sheet as of December 31

| in CHF mn | Notes | 2009 | 2010 |
|---|---|---|---|
| | | | |
| Cash and cash equivalents | 1 | 801.6 | 938.4 |
| Accounts receivable | 2 | 739.4 | 780.6 |
| Inventories | 3 | 451.4 | 499.7 |
| Prepaid expenses and accrued income | | 60.9 | 82.6 |
| Other current assets | 4 | 39.8 | 49.7 |
| **Total current assets** | | **2 093.1** | **2 351.0** |
| Property, plant and equipment | 5 | 861.7 | 816.5 |
| Intangible assets | 6 | 562.0 | 630.9 |
| Investments in associated companies | 7 | 24.0 | 23.4 |
| Deferred tax assets | 8 | 69.2 | 88.0 |
| Other non-current assets | 4 | 19.4 | 21.9 |
| **Total non-current assets** | | **1 536.3** | **1 580.7** |
| | | | |
| **Total assets** | | **3 629.4** | **3 931.7** |
| | | | |
| Accounts payable | 9 | 355.2 | 478.2 |
| Accrued expenses and deferred income | 10 | 211.8 | 192.3 |
| Bond | 12 | 0.0 | 274.6 |
| Income tax liabilities | | 38.2 | 57.2 |
| Current provisions | 13 | 43.5 | 16.8 |
| Other current liabilities | 11 | 17.6 | 37.6 |
| **Total current liabilities** | | **666.3** | **1 056.7** |
| Bonds | 12 | 1 066.9 | 794.4 |
| Non-current provisions | 13 | 103.1 | 92.0 |
| Deferred tax liabilities | 8 | 62.6 | 79.2 |
| Employee benefit obligation | 14 | 130.3 | 131.7 |
| Other non-current liabilities | 11 | 7.2 | 25.5 |
| **Total non-current liabilities** | | **1 370.1** | **1 122.8** |
| | | | |
| **Total liabilities** | | **2 036.4** | **2 179.5** |
| | | | |
| Share capital | | 22.9 | 22.9 |
| Treasury shares | | -106.3 | -69.9 |
| Reserves | | 1 671.7 | 1 795.5 |
| **Equity attributable to Sika shareholders** | | **1 588.3** | **1 748.5** |
| Non-controlling interests | | 4.7 | 3.7 |
| **Total shareholders' equity** | 15 | **1 593.0** | **1 752.2** |
| | | | |
| **Total liabilities and shareholders' equity** | | **3 629.4** | **3 931.7** |

# Consolidated Financial Statements

## Consolidated Income Statement from January 1 to December 31

| in CHF mn | Notes | % | 2009 | % | 2010 | Change in % |
|---|---|---|---|---|---|---|
| **Net sales** | 16 | **100.0** | **4 154.9** | **100.0** | **4 416.0** | **6.3** |
| Other operating income | | 0.2 | 7.4 | 0.1 | 5.8 | |
| Changes in inventory | | -0.4 | -16.2 | 0.3 | 11.7 | |
| **Operating revenue** | 17 | **99.8** | **4 146.1** | **100.4** | **4 433.5** | **6.9** |
| Material expenses | 18 | -44.5 | -1 850.8 | -46.4 | -2 048.6 | |
| **Gross result** | | **55.2** | **2 295.3** | **54.0** | **2 384.9** | **3.9** |
| Personnel expenses | 19 | -23.0 | -954.3 | -21.6 | -953.4 | |
| Other operating expenses | 19 | -19.3 | -801.1 | -19.3 | -854.5 | |
| **Operating profit before depreciation and restructuring** | 19 | **13.0** | **539.9** | **13.1** | **577.0** | **6.9** |
| Depreciation | 20 | -2.5 | -104.5 | -2.3 | -102.7 | |
| Amortization | 20 | -0.8 | -32.0 | -0.8 | -33.0 | |
| Impairment | 20 | -0.1 | -2.8 | 0.0 | -1.8 | |
| **Operating profit before restructuring** | | **9.6** | **400.6** | **10.0** | **439.5** | **9.7** |
| Restructuring | 21 | -1.4 | -56.6 | 0.0 | 0.0 | |
| **Operating profit** | | **8.3** | **344.0** | **10.0** | **439.5** | **27.8** |
| Interest income | 23 | 0.1 | 3.1 | 0.1 | 4.0 | |
| Interest expenses | 22 | -0.7 | -27.4 | -0.9 | -34.0 | |
| Other financial income | 23 | 0.0 | 0.9 | 0.1 | 5.4 | |
| Other financial expenses | 22 | -0.2 | -10.3 | -0.3 | -14.2 | |
| Income from associated companies | 23 | 0.1 | 5.3 | 0.1 | 3.0 | |
| **Profit before taxes** | | **7.6** | **315.6** | **9.1** | **403.7** | **27.9** |
| Income taxes | 24 | -2.2 | -89.9 | -2.1 | -92.8 | |
| **Net profit** | | **5.4** | **225.7** | **7.0** | **310.9** | **37.7** |
| Profit attributable to Sika shareholders | | 5.4 | 225.9 | 7.0 | 310.8 | |
| Profit attributable to non-controlling interests | 25 | 0.0 | -0.2 | 0.0 | 0.1 | |
| **Undiluted earnings per bearer share (in CHF)** | 26 | | **91.03** | | **124.60** | **33.6** |

## Statement of comprehensive income

| in CHF mn | % | 2009 | % | 2010 | Change in % |
|---|---|---|---|---|---|
| **Net profit** | **5.4** | **225.7** | **7.0** | **310.9** | **37.7** |
| **Currency translation differences** | | | | | |
| Exchange differences taken to equity | 0.0 | 1.8 | -2.0 | -86.7 | |
| Accumulated differences transferred to income statement on dissolution of a Group company | 0.0 | -1.4 | 0.0 | 0.0 | |
| **Available-for-sale financial assets**[1] | | | | | |
| Valuation gains (+) / losses (-) taken to equity | 0.1 | 2.4 | 0.0 | 0.6 | |
| Transferred to income statement on sale or impairment | 0.1 | 2.4 | 0.0 | -0.3 | |
| **Other comprehensive income** | **0.1** | **5.2** | **-2.0** | **-86.4** | |
| **Comprehensive income** | **5.6** | **230.9** | **5.1** | **224.5** | **-2.8** |
| Attributable to Sika shareholders | 5.6 | 231.1 | 5.1 | 224.4 | |
| Attributable to non-controlling interests | 0.0 | -0.2 | 0.0 | 0.1 | |

[1] Net of tax

## Statement of Changes in Equity

| in CHF mn | Capital stock | Capital surplus | Treasury shares[1] | Currency translation differ-ences | Fluctua-tions in value of financial instru-ments | Retained earnings | Total Sika share-holders' | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **January 1, 2009** | **22.9** | **256.0** | **-117.6** | **-224.6** | **-4.9** | **1 530.3** | **1 462.1** | **2.6** | **1 464.7** |
| Profit of the year | | | | | | 225.9 | 225.9 | -0.2 | 225.7 |
| Other comprehensive income | – | – | – | 0.4 | 4.8 | | 5.2 | | 5.2 |
| **Comprehensive income** | **–** | **–** | **–** | **0.4** | **4.8** | **225.9** | **231.1** | **-0.2** | **230.9** |
| Sale / purchase of treasury shares | | | 11.3 | | | | 11.3 | | 11.3 |
| Gains / losses on treasury shares | | | | | | -4.5 | -4.5 | | -4.5 |
| Dividends[2] | | | | | | -111.7 | -111.7 | -0.6 | -112.3 |
| Change in scope of consolidation | | | | | | – | – | 2.9 | 2.9 |
| **January 1, 2010** | **22.9** | **256.0** | **-106.3** | **-224.2** | **-0.1** | **1 640.0** | **1 588.3** | **4.7** | **1 593.0** |
| Profit of the year | | | | | | 310.8 | 310.8 | 0.1 | 310.9 |
| Other comprehensive income | – | – | – | -86.7 | 0.3 | | -86.4 | | -86.4 |
| **Comprehensive income** | **–** | **–** | **–** | **-86.7** | **0.3** | **310.8** | **224.4** | **0.1** | **224.5** |
| Transactions with treasury shares[3] | | | 36.4 | | | 0.6 | 37.0 | | 37.0 |
| Share based payments | | | | | | 6.3 | 6.3 | | 6.3 |
| Dividends[2] | | | | | | -112.0 | -112.0 | -1.0 | -113.0 |
| Change in scope of consolidation | | | | | | -0.1 | -0.1 | -0.1 | -0.2 |
| Inflation adjustment[4] | | | | | | 4.6 | 4.6 | | 4.6 |
| **December 31, 2010** | **22.9** | **256.0** | **-69.9** | **-310.9** | **0.2** | **1 850.2** | **1 748.5** | **3.7** | **1 752.2** |

[1] At cost
[2] Dividend per bearer share: CHF 45.00, dividend per registered share: CHF 7.50
[3] Including income tax of CHF 1.8 mn in retained earnings
[4] Hyperinflation accounting has been applied since January 1, 2010 and concerns the subsidiary in Venezuela

# Consolidated Financial Statements
## Consolidated Cash Flow Statement

| in CHF mn | Notes | 2009 | 2010 |
|---|---|---|---|
| | | | |
| **Operating activities** | | | |
| Profit before taxes | | 315.6 | 403.7 |
| Depreciation / amortization / impairment | | 159.4 | 137.5 |
| Increase (+) / decrease (-) in provisions / employee benefit plans | | 42.4 | -22.7 |
| Increase (-) / decrease (+) in net working capital | | 100.7 | 14.8 |
| Other adjustments | 29 | 10.5 | -2.8 |
| Income taxes paid | | -102.3 | -105.7 |
| **Cash flow from operating activities** | | **526.3** | **424.8** |
| | | | |
| **Investing activities** | | | |
| Property, plant and equipment: capital expenditures | | -134.7 | -91.3 |
| Property, plant and equipment: disposals | | 3.6 | 6.7 |
| Intangible assets: capital expenditures | | -26.5 | -8.6 |
| Intangible assets: disposals | | 0.0 | 0.6 |
| Acquisitions less cash and cash equivalents | | -45.9 | -90.6 |
| Acquisitions (-) / disposals (+) of financial assets | | -8.3 | 2.3 |
| Capital increase at associated companies | | -2.0 | 0.0 |
| **Cash flow from investing activities** | | **-213.8** | **-180.9** |
| | | | |
| **Financing activities** | | | |
| Increase in financial liabilities | | 1.1 | 7.0 |
| Repayment of financial liabilities | | -20.1 | -29.5 |
| Bond issue | | 297.2 | 0.0 |
| Acquisitions (-) / disposals (+) in treasury shares | | 6.1 | 38.8 |
| Dividend payment to shareholders of Sika AG | | -111.7 | -112.0 |
| Dividends related to minorities | | -0.6 | -1.0 |
| **Cash flow from financing activities** | | **172.0** | **-96.7** |
| | | | |
| **Exchange differences on cash and cash equivalents** | | **-1.2** | **-10.4** |
| **Net change in cash and cash equivalents** | | **483.3** | **136.8** |
| Cash and cash equivalents at the beginning of the year | | 318.3 | 801.6 |
| Cash and cash equivalents at the end of the year | | 801.6 | 938.4 |
| | | | |
| **Cash flow from operating activities contains:** | | | |
| Dividends from associated companies | | 2.9 | 3.8 |
| Interest received | | 2.7 | 4.3 |
| Interest paid | | -19.8 | -35.4 |

# Appendix to the Consolidated Financial Statements
## Principles of Consolidation and Valuation

### PRINCIPLES OF CONSOLIDATION.

**General principles.** The financial statements of the Sika Group are prepared in conformity with the provisions of the International Accounting Standards Board (IASB). All standards (IAS/IFRS) and interpretations (IFRIC/SIC) applicable as of December 31, 2010, were taken into account. The financial statements are prepared according to the going-concern principle.

**Changes in the accounting standards.** The accounting standards applied conform to those standards that were valid in the previous year. Exceptions are the following revised and new standards, which Sika has applied since January 1, 2010:
- IFRS 2 – Share-based Payment (revised)
- IFRS 3 – Business Combinations (revised) and IAS 27 – Consolidated and Separate Financial Statements (revised), including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 – Financial Instrument (revised): Recognition and Measurement
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- Improvements to IFRS 2009

The following effects result from the application of these revised standards and interpretations:
- IFRS 3 – Business Combinations (revised) and IAS 27 – Consolidated and Separate Financial Statements (revised). IFRS 3 (revised) contains a further development of the acquisition method for business combinations. Essential changes deal with the valuation of non-controlling interests, the recognition of acquisitions in stages and the treatment of contingent considerations as well as acquisition related costs. IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. As opposed to prior periods where acquisition related costs were capitalized, these costs are now recognized in the periods expenses.

As of 2011 and later Sika will adopt the following new and revised standards:
- IFRS 9 – “Financial Instruments (applicable as of January 1, 2013): Classification and Measurement” and “Financial assets” were published in 2009. This standard will significantly change the classification, measurement and reporting of financial instruments and hedging relationships. Sika is currently investigating the repercussions that this standard will have on the consolidated financial statements.

New standards, amendments and interpretations not yet effective and not yet adopted, without practical relevance to the Group:
- IAS 24 – Related Party Disclosures (changes applicable as of January 1, 2011)
- IAS 32 – Financial Instruments: Presentation (changes applicable as of February 1, 2010), Classification of Rights Issues
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (changes applicable as of January 1, 2011)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (applicable as of July 1, 2010)
- IFRS 7 – Financial Instruments: Disclosures on Transfers of Financial Assets (applicable as of July 1, 2011)
- IAS 12 – Income Taxes: Deferred Taxes – Recovery of the Carrying Amount of an Asset (applicable as of January 1, 2012)
- Improvements to IFRS 2010

**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, 2010, 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 minority 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" in terms of the Group's percentage share in net assets; in the income statement the Group's share in the net income for the year is reflected in "Income from associated companies."

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

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

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

| Country | Currency | | 2009 Balance sheet[1] CHF | 2009 Income statement[2] CHF | 2010 Balance sheet[1] CHF | 2010 Income statement[2] CHF |
|---|---|---|---|---|---|---|
| Egypt | EGP | 100 | 18.79 | 19.60 | 16.11 | 18.50 |
| Australia | AUD | 1 | 0.93 | 0.86 | 0.95 | 0.96 |
| Brazil | BRL | 100 | 59.22 | 55.01 | 56.38 | 59.32 |
| China | CNY | 100 | 15.10 | 15.92 | 14.17 | 15.36 |
| Denmark | DKK | 100 | 19.96 | 20.29 | 16.78 | 18.57 |
| Euro zone | EUR | 1 | 1.49 | 1.51 | 1.25 | 1.38 |
| Great Britain | GBP | 1 | 1.66 | 1.70 | 1.45 | 1.61 |
| India | INR | 100 | 2.21 | 2.25 | 2.09 | 2.28 |
| Japan | JPY | 100 | 1.12 | 1.17 | 1.15 | 1.18 |
| Canada | CAD | 1 | 0.98 | 0.95 | 0.94 | 1.02 |
| Colombia | COP | 10 000 | 5.05 | 5.10 | 4.87 | 5.51 |
| Mexico | MXN | 100 | 7.89 | 8.06 | 7.56 | 8.27 |
| Poland | PLZ | 100 | 36.15 | 35.19 | 31.46 | 34.81 |
| Sweden | SEK | 100 | 14.45 | 14.21 | 13.95 | 14.48 |
| Turkey | TRY | 100 | 69.03 | 70.12 | 60.42 | 69.29 |
| USA | USD | 1 | 1.03 | 1.09 | 0.94 | 1.04 |

[1] Year-end rates
[2] Annual average rates

**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 incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at 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 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

If the cost of an acquisition exceeds the fair value of the acquired identifiable assets including goodwill, liabilities, contingent liabilities and non-controlling interests, the balance is reported as goodwill. Every negative balance is directly recognized in the income statement.

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

When subsidiaries are sold, the difference between the selling price and the net assets 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.

**Significant accounting estimates.**
**Estimation uncertainty.** 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 risk of requiring a material adjustment to reported amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Goodwill.
The Group determines at least once annually or upon corresponding indication whether an impairment of goodwill has occurred. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The book value of goodwill as of December 31, 2010, was CHF 310.6 mn (previous year CHF 279.3 mn). Further details are presented in Note 6.

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

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

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

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

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

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

## VALUATION PRINCIPLES.

**Conversion of foreign currencies.** The financial statements of subsidiaries outside Switzerland are converted into Swiss francs as follows:
– Balance sheet at year-end rates
– Income statements at annual average rates
– Cash flow at annual average rates

Resulting translation differences are recorded separately in the statement of comprehensive income.

Foreign currency transactions are first translated into the functional 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. All exchange rate differences are recorded in the income statement. The rates listed on page 93 were applied for translation of local currencies to Swiss francs.

**Segment reporting.** Sika carries out its worldwide activities according to Regions, to which a certain number of countries belong. Region heads are members of Group Management. Group Management is the highest operative executive body measuring the profit and loss of segments and allocating resources. The composition of the Regions does not follow the generally observed geographic grouping of countries to continents, manifesting rather diverse organizational, commercial and cultural circumstances. So for example in Region IMEA (India, Middle East, Africa) among others the countries of the Middle East and India are grouped together, since these countries are strongly interwoven regarding their building and construction industry. The precise composition of the Regions is shown on page 21.

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. Central Services comprise the expenditures for Group Headquarters and its revenues from services and delivery of goods to Group companies. In addition Central Services includes also expenditures and revenues that are not assigned to any Region. Such expenditures mainly relate to research and development.

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

– Financial assets and financial liabilities for trading purposes as well as derivatives, “at fair value through profit and loss”: these are primarily obtained for the purpose of profiting from price fluctuations. They are set in the balance sheet at fair value and adjusted to its development. All fluctuations in value are represented in the financial result.
– “Held-to-maturity investments”: these include fixed-term investments that the Group is willing and able to hold until maturity. They are measured at amortized cost using the effective interest method. At present Sika does not hold assets in this category.
– “Loans and receivables” granted by the company: this category includes loans granted and credit balances. The valuation occurs at nominal value insofar as repayment within one year is foreseen. Otherwise they are classified as assets held to maturity.
– All other financial assets are classified as available-for-sale. The valuation occurs at fair value, with fluctuations in value recorded in comprehensive income. Upon sale, permanent depreciation in value or other divestiture, the cumulative profits or losses recorded in shareholders’ equity are shown in the financial result of the current period.
– Non-current financial liabilities are valued at amortized cost. Once they have been settled, financial liabilities are derecognized.

All purchases and sales of financial assets and liabilities are recorded on the settlement date. Financial assets are derecognized when Sika loses the right in which the financial asset value consists. 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 valued at their original cost.

On each balance sheet date the Group determines 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 impairment results from the difference between the book value of the asset and the present value of anticipated future cash flows. If in the case of accounts receivable there is objective evidence that not all due amounts will be rendered according to originally agreed invoicing conditions (as for example in high probability of insolvency or significant financial difficulties of a debtor), then an impairment is carried out through use of a value adjustment account. Derecognition of receivables occurs when they are assessed as uncollectible. If an available-for-sale asset is impaired in its value, an amount equal to the difference between its purchase cost and current fair value is transferred from shareholders’ equity to the income statement.

**Balance sheet.**
**Cash and cash equivalents.** The position includes cash and cash equivalents.

**Securities.** Carried in this category are marketable securities. Sika has classified all securities and fixed deposits as available-for-sale as they are not held to realize profits from short-term price fluctuations.

**Receivables.** Accounts receivable are recorded following deduction of an allowance for doubtful debts necessary for management reason. A specific value adjustment is carried out on accounts receivable for which payment is considered at risk.

**Inventories.** Raw materials and merchandise are carried at acquisition cost (weighted average); finished and semi-finished products are carried at manufacturing cost, however at the highest at their realizable sales value. Non-marketable inventories are fully adjusted.

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

**Depreciation in value of non-current assets (impairment).** The impairment of property, plant and equipment as well as intangible assets is reviewed if events or changed circumstances indicate that an over-valuation of book values appears possible. If the book value exceeds the recoverable value, 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.

**Property, plant and equipment.** Property, plant and equipment are carried at acquisition cost, less accumulated depreciation required for business purposes. The capitalization is made based on components. Leased property, plant and equipment are capitalized if qualified as finance lease. Value-enhancing expenses are capitalized and depreciated over their useful life. Repair, maintenance and replacement costs are charged directly to the income statement. Depreciation under the straight-line method is based on the anticipated useful life of the asset, including its operational usefulness and age-related technical viability. Impairments are recorded when the book value no longer appears recoverable. Property, plant and equipment are grouped into cash-generating units for impairment-testing purposes. 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 | 4 years |

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

**Deferred taxes (assets / liabilities).** Deferred taxes are considered under 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 non-current liabilities or respectively as non-current assets. The actual or anticipated tax rates are decisive. Changes in deferred taxes are reflected in the tax income expense. Accrued taxes including those that can be applied to tax loss carryforwards are considered to the extent that their realization is probable. Deferred taxes are recognized for all taxable temporary differences insofar as the accounting regulations foresee no exceptions.

**Intangible assets.** In-house developed patents, trademarks and other rights are not capitalized. Research and development expenditures for new products are included in the income statement, since these do not fulfill the criteria of capitalization. Acquired intangible assets are as a rule 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 estimated. 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 a new SAP platform with standard processes that an initial 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 and amortized over five years as of this date. Allocation is based on the companies' share in consolidated net sales.

### Amortization schedule

| | |
|---|---|
| Software | 2–10 years[1] |
| Patents | 5 years |
| Customer relations | 2–20 years |

[1] With the exception of the SAP platform, which has a useful life of 10 years, software is usually written off over 2–5 years.

Acquired trademarks are amortized insofar as a useful life can be determined. Otherwise trademarks are not amortized but undergo an annual impairment test.

**Assets held for sale.** This item consists of long-term assets designated to be disposed of through sale or other means. Long-term assets held for sale are shown at book value or at market value less disposal costs if lower. Book value is not derived from continued use, but rather from a sales transaction with high probability. Assets held for sale are shown on the balance sheet separately. In the year under review there were no such assets at hand.

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

**Employee benefit plans.** The Group maintains 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 or recorded in the balance sheet. The amount of the liabilities resulting from defined benefit is regularly determined by independent experts under application of the projected-unit-credit method. Actuarial gains and losses are recorded in the income statement when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation or of the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans. 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 entry consists of the value of paid-in capital in excess of par value (less transaction costs).

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

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

**Hyperinflation.** In countries experiencing hyperinflation, prior to conversion into the reporting 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 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.

### 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, the proceeds can be determined reliably and payment is assumed likely. Sales represent the invoiced sales and service transactions with customers, at sales prices less discounts granted.

**Personnel expenses.** Personnel expenses include all payments to persons standing in an employment relationship with Sika. This item also encompasses such expenditures as pension fund contributions, variable salary components, termination pay, health insurance contributions as well as taxes and levies directly associated with personnel compensation.

**Employee participation plan – share based payments.** The Group has various share based employee participation plans. The fair value of the services rendered for the shares allocated is charged to personnel expenses. In order to calculate the total amount to be booked, the fair value of the granted equity instrument at the time of granting is taken. The costs of these remuneration systems are recognized in the income statement during the period in which the employees' services are rendered.

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

**Construction contracts.** Sales and costs from construction contracts are recorded in accordance with progress of construction. An expected loss is recorded immediately.

**Depreciation.** Property, plant and equipment are depreciated using the straight-line method based on the expected useful life of the asset.

**Interest expense / other financial expenses.** In general, all interest and other expenses paid for the procurement of loans are charged to the income statement. Any interest accruing 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 recorded and timely apportioned using the effective interest method. Dividend income is recorded at the time at which the right of receipt occurs.

**Income taxes.** The reported 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 and associated companies (see list on page 133 ff.). In the year under review the scope of consolidation was expanded to include the following companies:
- Dyflex HD Co. Ltd., Japan, incl. several subsidiaries
- Greenstreak Group Inc., St. Louis / MO, USA
- Sika Pakistan Ltd., Lahore, Pakistan
- May National Assoc. Inc., Lakewood / NJ, USA

The scope of consolidation was reduced to exclude the following companies:
- Sarna Kunststoff Beteiligungs GmbH, Stuttgart, Germany, and Sika Holding GmbH, Stuttgart, were merged
- Proxan Dichtstoffe GmbH, Greiz-Dölau, Germany, was integrated into Sika Deutschland GmbH, Stuttgart, Germany
- Liquid Plastics Inc., Middletown / CT, USA, was integrated into Sika Corporation, Lyndhurst, USA
- Suzhou Sika Technology Co. Ltd., China, was liquidated

**Acquisitions 2009.** In 2009 Sika acquired the Iotech Group Ltd., Great Britain. The acquisition was concluded on January 26, 2009. In addition Sika purchased a majority stake in Jiangsu TMS Admixture Co. Ltd., China. The acquisition was concluded on October 1, 2009.

### Acquired net assets

| in CHF mn | | Iotech | | Jiangsu TMS |
|---|---|---|---|---|
| | Previous book value | Fair value | Previous book value | Fair value |
| Cash and cash equivalents | 2.5 | 2.5 | 1.4 | 1.4 |
| Accounts receivable | 11.7 | 11.5 | 6.5 | 5.9 |
| Inventories | 6.4 | 7.7 | 2.2 | 2.3 |
| Property, plant and equipment | 10.3 | 15.6 | 5.1 | 6.6 |
| Intangible assets | 0.5 | 15.3 | 1.1 | 5.0 |
| Other non-current assets | 0.9 | 0.9 | 0.1 | 0.2 |
| **Total assets** | **32.3** | **53.5** | **16.4** | **21.4** |
| Accounts payable | 12.5 | 13.1 | 5.5 | 5.8 |
| Provisions | 0.8 | 7.1 | 0.0 | 0.0 |
| Deferred tax liabilities | 0.5 | 4.3 | 0.0 | 1.3 |
| Other liabilities | 0.0 | 0.0 | 5.3 | 5.3 |
| **Total liabilities** | **13.8** | **24.5** | **10.8** | **12.4** |
| **Net assets** | **18.5** | **29.0** | **5.6** | **9.0** |
| Non-controlling interests | | 0.0 | | -2.9 |
| **Acquired net assets** | | **29.0** | | **6.1** |
| Goodwill | | 20.6 | | 5.9 |
| **Total purchase consideration** | | **49.6** | | **12.0** |
| Cash in acquired assets (per 12/31/2009) | | -2.5 | | -1.4 |
| Payments still due (per 12/31/2009) | | -1.8 | | -10.0 |
| **Net cash outflow** | | **45.3** | | **0.6** |

Directly attributable costs of CHF 1.9 million were capitalized.

If the acquisition of Iotech had occurred on the first day of the business year, consolidated net sales would have been CHF 4.1 million higher and consolidated net profit attributable to shareholders would have remained roughly the same. Since the acquisition, the acquired business contributed sales of CHF 68.7 million in 2009. There was no contribution to consolidated net profit in 2009. Goodwill is justified by expected synergies.

If the acquisition of Jiangsu TMS had occurred on the first day of the business year, consolidated net sales would have been CHF 13.4 million and consolidated net profit attributable to shareholders CHF 0.8 million higher. Since the acquisition, the acquired business contributed sales and net profit in 2009 of CHF 6.5 million and CHF 0.3 million, respectively. Goodwill is justified by expected synergies.

**Acquisitions 2010.** In 2010 Sika acquired various companies or parts of companies, including Dyflex and Greenstreak. The purchase prices and their allocation (PPA) are not yet final.

| Company | Type of transaction | Stake in % | Closing date |
|---|---|---|---|
| Automotive glass replacement business of ADCO Products, Inc., USA | Asset deal | 100.0 | 03/09/2010 |
| Construction sealant business of Henkel Japan Ltd. | Asset deal | 100.0 | 03/12/2010 |
| Panbex Group, Czech Republic | Asset deal | 100.0 | 04/01/2010 |
| Dyflex HD Co., Ltd., Japan | Share deal | 75.5 | 05/31/2010 |
| Greenstreak Group Inc., USA | Share deal | 100.0 | 07/01/2010 |
| May National Associates Inc., USA | Share deal | 100.0 | 10/13/2010 |

With the purchase of the automotive glass replacement business of ADCO, Sika acquired the rights to the Titan® trademark, which stands for auto replacement glass adhesives in the USA and further improves Sika's market position.

Along with the construction sealants business of Henkel Japan Ltd., Sika acquired the rights to the Bellace® and Duribbon® trademarks, which are well established in the Japanese construction industry, thereby complementing the Sikaflex® product range and strengthening the market position among construction sealants in Japan.

Czech Panbex mainly operates in the cement-based flooring segment. This acquisition enables Sika to significantly strengthen its market position in Central and Eastern Europe as well as gain a production facility in Brno in the Czech Republic.

As a leading producer of silicone and polyurethane products, May National supplies US construction companies, builders' merchants and the manufacturing industry with bonding and sealing materials. This acquisition will enable Sika USA to strengthen its leadership position in the sealant and adhesive segment and, in particular, to extend its range of silicone sealants for solar and facade systems – two North American growth markets.

Dyflex HD Co. Ltd. has well established brands and distribution channels, and is market leader in Japan for structural waterproofing. Sika is substantially fortifying its market position in the Japanese market for building and construction chemicals with this acquisition. Dyflex's customer portfolio and sales network will unlock considerable potential for the sale of complementary products. The purchase price of the shareholding acquired amounted to CHF 45.8 million. Regarding the outstanding 24.5% interest in the company, a put and call agreement has been arranged with the seller (at a fixed price at equivalent terms for buyer and seller). The owners of the non-controlling interests can exercise their sales option at any time. Sika can exercise its purchase option as of the end of 2013. The company therefore considers the outstanding company interests of 24.5%, for which a discounted purchase price of CHF 9.9 million has already been established, as practically acquired and consolidates the shareholding at 100%. In addition, a purchase price contingent on the course of business has been agreed upon, for which a market value of CHF 2.5 million has been estimated.

Based in St. Louis, Missouri, Greenstreak is North America's market leader in engineered waterproofing, with a product portfolio that ideally complements those of both Dyflex HD Co. Ltd, acquired in May, and of German company Tricosal GmbH & Co. KG, which joined Sika in 2008. Greenstreak runs efficient production facilities in tandem with up-to-the-minute manufacturing processes and offers high engineering and innovation potential, representing a prime addition to Sika's portfolio and resources in the USA.

**Acquired net assets at fair value**

| in CHF mn | Other acquisitions[1] | Dyflex | Greenstreak |
|---|---|---|---|
| Cash and cash equivalents | 0.0 | 6.2 | 0.0 |
| Accounts receivable and other receivables | 2.3 | 65.1 | 3.1 |
| Inventories | 2.9 | 7.9 | 2.9 |
| Property, plant and equipment | 11.7 | 13.8 | 6.0 |
| Intangible assets | 10.0 | 50.0 | 15.6 |
| Other assets | 0.0 | 4.1 | 0.1 |
| **Total assets** | **26.9** | **147.1** | **27.7** |
| Short-term loans and bank overdrafts | 0.0 | 32.0 | 0.0 |
| Accounts payable | 5.2 | 53.6 | 2.0 |
| Other current liabilities | 0.0 | 6.6 | 0.0 |
| Long-term loans and financial liabilities | 0.0 | 25.6 | 0.9 |
| Provisions | 0.0 | 6.4 | 0.0 |
| Employee benefit liabilities | 0.7 | 11.3 | 1.4 |
| Deferred tax liabilities | 1.1 | 3.8 | 0.0 |
| **Total liabilities** | **7.0** | **139.3** | **4.3** |
| **Acquired net assets** | **19.9** | **7.8** | **23.4** |
| Goodwill | 5.8 | 38.0 | 15.1 |
| **Total purchase consideration** | **25.7** | **45.8** | **38.5** |
| Cash in acquired assets | 0.0 | -6.2 | 0.0 |
| Payments still due | -0.8 | -12.4 | 0.0 |
| **Net cash outflow** | **24.9** | **27.2** | **38.5** |

[1] May National, Panbex, construction sealant business of Henkel Japan, automotive glass replacement business of ADCO

Since the purchase price allocations for all acquisitions still entail some uncertainty, all positions with the exception of cash and cash equivalents are provisional. Production synergies and combined distribution channels and product portfolios justify the goodwill posted. Of the goodwill reported, the amount of CHF 17.2 million is tax deductible. Accounts receivable have a gross value of CHF 72.8 million and were adjusted since CHF 2.3 million was classified as non-recoverable. The directly attributable costs of all acquisitions amounted to CHF 2.4 million and were charged to other operating expenses.

Had the acquisition of Dyflex taken place on the first day of the business year, its contribution to consolidated net sales would have been CHF 69.0 million. Reported consolidated net profit would have been CHF 1.2 million higher.

Had the acquisition of Greenstreak taken place on the first day of the business year, its contribution to consolidated net sales would have been CHF 15.2 million. Reported consolidated net profit would have been CHF 0.2 million higher.

Had the acquisition of May National taken place on the first day of the business year, its contribution to consolidated net sales would have been CHF 15.4 million. Reported consolidated net profit would have been CHF 2.3 million lower.

For the three asset deals presented there is no information available regarding sales and profit which accured during the current reporting year before the respective dates on which the transactions were closed.

Since the purchase, the six acquired business contributed in total sales and consolidated net profit of CHF 138.6 million and CHF -0.8 million respectively.

# Appendix to the Consolidated Financial Statements
## Notes to the Consolidated Financial Statements

1 **CASH AND CASH EQUIVALENTS.** CHF 938.4 mn (CHF 801.6 mn)
The cash management of the Group includes cash pooling, in which cash and cash equivalents available within the Group are concentrated. The item "cash and cash equivalents" includes cash and equivalents with a maturity of less than three months, bearing interest at a respectively valid rate. Cash and cash equivalents rose due to high operating free cash flow.

2 **ACCOUNTS RECEIVABLE.** CHF 780.6 mn (CHF 739.4 mn)
The following table shows accounts receivable, the development of the allowance for doubtful accounts as well as the portion of not overdue and overdue receivables including their age distribution. Accounts receivable are non-interest-bearing and are generally due within 30–90 days.

Accounts receivable

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Receivables | 811.5 | 838.6 |
| Allowance for doubtful accounts | -72.1 | -58.0 |
| **Net accounts receivable** | **739.4** | **780.6** |

Movements on the allowance for doubtful accounts

| in CHF mn | 2009 | 2010 |
|---|---|---|
| January 1 | 62.1 | 72.1 |
| Allowance for acquired businesses | 0.3 | 2.3 |
| Income statement related allowances | 50.7 | 41.6 |
| Reversal or utilization of allowances | -40.3 | -50.2 |
| Exchange differences | -0.7 | -7.8 |
| December 31 | 72.1 | 58.0 |

Age distribution of accounts receivable

| in CHF mn | 2009 | 2010 |
|---|---|---|
| **Net accounts receivable** | **739.4** | **780.6** |
| Of which | | |
| Not overdue | 560.8 | 608.6 |
| Past due < 31 days | 118.4 | 117.3 |
| Past due 31–60 days | 40.0 | 38.3 |
| Past due 61–180 days | 35.9 | 28.9 |
| Past due > 181 days | 56.4 | 45.5 |
| Allowance for doubtful accounts | -72.1 | -58.0 |

The allowance for doubtful accounts is the difference between the nominal value of receivables and the estimated realizable amount.

The building up and reversal of allowances for doubtful accounts are recorded in other operating expenses. Amounts entered as allowances are usually deleted when payment is no longer expected.

**3 INVENTORIES.** CHF 499.7 mn (CHF 451.4 mn)
Inventory write-offs amount to CHF 23.5 mn (CHF 43.7 mn) and are charged to material expenses.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Raw materials and supplies | 128.2 | 143.0 |
| Semi-finished goods | 39.7 | 42.8 |
| Finished goods | 231.0 | 263.1 |
| Merchandise | 52.5 | 50.8 |
| **Total** | **451.4** | **499.7** |

**4 OTHER ASSETS.** CHF 71.6 mn (CHF 59.2 mn)
The assets contained under this item and any changes in them can be seen in the following table.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Derivates (at fair value through P&L) | 1.5 | 24.3 |
| Loan to an associated company (loans and reveivables) | 8.1 | 11.3 |
| Securities (available-for-sale) | 18.9 | 14.1 |
| **Other financial assets** | **28.5** | **49.7** |
| Employee benefit assets | 8.8 | 7.9 |
| Other | 21.9 | 14.0 |
| **Other non-financial assets** | **30.7** | **21.9** |
| **Other assets** | **59.2** | **71.6** |
| current | 39.8 | 49.7 |
| non-current | 19.4 | 21.9 |

## 5 PROPERTY, PLANT AND EQUIPMENT. CHF 816.5 mn (CHF 861.7 mn)

| in CHF mn | Property | Plant | Plants under construction | Equipment | Total |
|---|---|---|---|---|---|
| **As of January 1, 2009** | | | | | |
| Acquisition cost | 105.2 | 544.1 | 122.9 | 1 120.2 | 1 892.4 |
| Cumulative depreciation and impairment | -0.6 | -308.5 | -0.6 | -749.8 | -1 059.5 |
| **Net values as of January 1, 2009** | **104.6** | **235.6** | **122.3** | **370.4** | **832.9** |
| Additions | 0.0 | 14.0 | 53.8 | 66.9 | 134.7 |
| Acquired on acquisition[1] | 1.4 | 7.9 | 0.8 | 12.1 | 22.2 |
| Exchange differences | 0.1 | 0.8 | 0.3 | -0.5 | 0.7 |
| Disposals | -0.1 | -0.1 | 0.0 | -3.4 | -3.6 |
| Reclassifications[3] | 0.0 | 35.1 | -115.2 | 79.6 | -0.5 |
| Depreciation charge for the year | 0.0 | -20.9 | 0.0 | -83.6 | -104.5 |
| Impairments | 0.0 | -1.7 | -1.8 | -16.7 | -20.2 |
| **As of December 31, 2009** | **106.0** | **270.7** | **60.2** | **424.8** | **861.7** |
| Acquisition cost | 106.7 | 602.5 | 61.5 | 1 238.1 | 2 008.8 |
| Cumulative depreciation and impairment | -0.7 | -331.8 | -1.3 | -813.3 | -1 147.1 |
| **Net values as of December 31, 2009** | **106.0** | **270.7** | **60.2** | **424.8** | **861.7** |
| **As of January 1, 2010** | | | | | |
| Acquisition cost | 106.7 | 602.5 | 61.5 | 1 238.1 | 2 008.8 |
| Cumulative depreciation and impairment | -0.7 | -331.8 | -1.3 | -813.3 | -1 147.1 |
| **Net values as of January 1, 2010** | **106.0** | **270.7** | **60.2** | **424.8** | **861.7** |
| Additions | 0.0 | 5.0 | 47.3 | 39.0 | 91.3 |
| Acquired on acquisition[2] | 5.1 | 11.1 | 0.0 | 15.3 | 31.5 |
| Exchange differences | -5.7 | -18.5 | -4.2 | -31.3 | -59.7 |
| Disposals | -0.1 | -0.3 | 0.0 | -2.6 | -3.0 |
| Reclassifications[3] | 0.1 | 0.9 | -40.1 | 38.3 | -0.8 |
| Depreciation charge for the year | 0.0 | -20.9 | 0.0 | -81.8 | -102.7 |
| Impairment | 0.0 | -1.5 | -0.3 | 0.0 | -1.8 |
| **As of December 31, 2010** | **105.4** | **246.5** | **62.9** | **401.7** | **816.5** |
| Acquisition cost | 106.1 | 576.9 | 63.4 | 1 197.2 | 1 943.6 |
| Cumulative depreciation and impairment | -0.7 | -330.4 | -0.5 | -795.5 | -1 127.1 |
| **Net values as of December 31, 2010** | **105.4** | **246.5** | **62.9** | **401.7** | **816.5** |

[1] Iotech Group, Jiangsu TMS Admixture Co. Ltd.
[2] Dyflex, Greenstreak, May National, Panbex, sealants operation of Henkel Japan, ADCO automotive glass replacement business
[3] Plants and buildings under construction are reclassified after completion

Impairments in 2010 relate mainly to a property in Switzerland which had to be adjusted to the market value.

The impairments presented for 2009 correspond to the full impairment necessary in 2009. In the income statement the corresponding values are divided between the line entries for Impairments (CHF 0.1 mn) and Restructuring costs (CHF 20.1 mn).

Sika applies the cost model for all property, plant and equipment listed in this table. Included in the items “Property” and “Plant” are investment properties with a book value of CHF 0.8 mn (CHF 0.8 mn).

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

| in CHF mn | Operating leases | | Finance leases | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2009 | | | 2010 | | |
| | Minimum payments | Minimum payments | Minimum payments | Interest | Present value of payments | Minimum payments | Interest | Present value of payments |
| Within 1 year | 43.0 | 42.0 | 1.0 | 0.4 | 0.6 | 0.2 | 0.1 | 0.1 |
| 2–5 years | 93.2 | 93.8 | 3.4 | 1.1 | 2.3 | 4.3 | 0.6 | 3.7 |
| Over 5 years | 99.3 | 85.5 | 1.5 | 0.3 | 1.2 | 0.6 | 0.1 | 0.5 |
| **Total** | **235.5** | **221.3** | **5.9** | **1.8** | **4.1** | **5.1** | **0.8** | **4.3** |

Insurance values

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Buildings | 957 | 1 005 |
| Equipment | 1 452 | 1 463 |

## 6 INTANGIBLE ASSETS. CHF 630.9 mn (CHF 562.0 mn)

| in CHF mn | Goodwill | Software | Trademarks | Customer relations | Other intangible assets | Total |
|---|---|---|---|---|---|---|
| **As of January 1, 2009** | | | | | | |
| Acquisition costs | 266.2 | 112.1 | 78.5 | 139.2 | 71.1 | 667.1 |
| Cumulative amortization and impairment | -12.4 | -67.4 | -2.9 | -20.5 | -39.0 | -142.2 |
| **Net values as of January 1, 2009** | **253.8** | **44.7** | **75.6** | **118.7** | **32.1** | **524.9** |
| Additions | 0.0 | 26.1 | 0.0 | 0.0 | 0.4 | 26.5 |
| Acquired on acquisition[1] | 26.5 | 0.2 | 2.1 | 9.9 | 8.1 | 46.8 |
| Exchange differences | -1.0 | -0.4 | 0.1 | -0.6 | -0.1 | -2.0 |
| Reclassifications (net) | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 |
| Amortization for the year | 0.0 | -9.5 | -1.1 | -10.5 | -10.9 | -32.0 |
| Impairment | 0.0 | -0.6 | 0.0 | -2.1 | 0.0 | -2.7 |
| **As of January 1, 2010** | | | | | | |
| Acquisition costs | 291.7 | 138.0 | 80.6 | 148.1 | 79.3 | 737.7 |
| Cumulative amortization and impairment | -12.4 | -77.0 | -3.9 | -32.7 | -49.7 | -175.7 |
| **Net values as of January 1, 2010** | **279.3** | **61.0** | **76.7** | **115.4** | **29.6** | **562.0** |
| Additions | 0.0 | 7.7 | 0.0 | 0.0 | 0.9 | 8.6 |
| Acquired on acquisition[2] | 58.9 | 2.1 | 8.4 | 52.7 | 12.5 | 134.6 |
| Exchange differences | -27.5 | -1.9 | -1.1 | -8.4 | -2.6 | -41.5 |
| Disposals | -0.1 | 0.0 | 0.0 | 0.0 | -0.5 | -0.6 |
| Reclassifications (net) | 0.0 | 0.7 | 0.0 | 0.0 | 0.1 | 0.8 |
| Amortization for the year | 0.0 | -9.1 | -1.4 | -12.4 | -10.1 | -33.0 |
| Impairment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **As of December 31, 2010** | **310.6** | **60.5** | **82.6** | **147.3** | **29.9** | **630.9** |
| Acquisition costs | 321.3 | 137.8 | 87.8 | 190.0 | 86.6 | 823.5 |
| Cumulative amortization and impairment | -10.7 | -77.3 | -5.2 | -42.7 | -56.7 | -192.6 |
| **Net values as of December 31, 2010** | **310.6** | **60.5** | **82.6** | **147.3** | **29.9** | **630.9** |

[1] Iotech Group, Jiangsu TMS Concrete Admixture Co., Ltd.
[2] Dyflex, Greenstreak, May National, Panbex, sealants operation of Henkel Japan, ADCO automotive glass replacement business

The intangible assets (except goodwill and trademarks) have a finite useful life over which the assets are amortized. The newly developed SAP platform used as of 2010 will be amortized according to its effective use within the Group. Amortization charges will increase over the next few years as SAP is introduced at the individual subsidiaries. The book value was CHF 49.3 as of December 31, 2010. Intangible assets in the amount of CHF 49.1 million were held as at January 1, 2010. In the operating year, costs of CHF 2.3 million were capitalized.

Trademarks usually 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 altered market requirements. The carrying value of trademarks with an indefinite useful life amounts to CHF 72.4 million. The impairment test is based on estimated sales attributable to the trademark. Assumed thereby is a growth rate of 2.4% for the planning period. Afterwards a growth rate of 2.1% is assumed. The discount rate amounts to 12.3%. 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 amount falling below the book 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 basis for the calculation of the value in use is constituted by the planning figures approved by the Board of Directors and cash flow forecasts. The horizon of forecast encompasses five years. The rates of sales growth upon which the forecast is set correspond to the market expectations of the cash-generating units and range between 3.1 and 16.8% per year. The sensitivity analysis carried out shows that a realistic change in the key assumptions (10% of the EBIT margin) would not result in the realizable amount falling below the book value. The cash flow forecast outside of the planning period is extrapolated with a growth rate of 2.0 to 3.0%, which in no case exceeds the long-term average growth rate in the corresponding market in which the cash-generating unit operates.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 | Discount rates | 2009 | 2010 |
|---|---|---|---|---|
| Construction business Europe North | 2.0% | 10.6% | 83.4 | 81.1 |
| Automotive Europe North | 2.0% | 11.1% | 52.6 | 44.2 |
| Construction business Europe South | 2.0% | 11.1% | 63.2 | 60.6 |
| Construction business North America | 2.0% | 13.0% | 55.5 | 67.1 |
| Construction business Asia/Pacific | 3.0% | 11.7% | 19.0 | 52.7 |
| Various | 3.0% | 16.9% | 5.6 | 4.9 |
| **Total** | | | **279.3** | **310.6** |

**7 INVESTMENTS IN ASSOCIATED COMPANIES.** CHF 23.4 mn (CHF 24.0 mn)
For associated companies Sika applies the equity method. The investments are included in the balance sheet under "Investments in associated companies" in terms of the Group's percentage share in net assets.

**Associated companies (Participations between 20% and 50%)**

| | 2009 | 2010 |
|---|---|---|
| **Sika Gulf B.S.C., Bahrain**[1] | | |
| Capital stock in CHF mn | 2.8 | 2.5 |
| Held by Sika AG, Baar, 45% | 1.3 | 1.1 |
| Sales | 32.1 | 28.7 |
| Profit | 3.8 | 2.3 |
| Assets | 23.3 | 21.7 |
| Liabilities | 17.7 | 18.2 |
| **Addiment Italia S.r.l.**[2] | | |
| Capital stock in thousand EUR | 10.0 | 10.0 |
| Held by Sika AG, Baar, 50% | 5.0 | 5.0 |
| Sales in CHF mn | 30.3 | 31.8 |
| Profit | 3.7 | 3.0 |
| Assets | 32.2 | 28.1 |
| Liabilities | 7.9 | 8.3 |
| **All others**[3] | | |
| Capital stock in CHF mn | 5.3 | 5.3 |
| Held by Sika AG, Baar | 2.4 | 2.5 |
| Sales | 63.0 | 64.6 |
| Profit | 2.7 | 3.2 |
| Assets | 45.5 | 43.3 |
| Liabilities | 18.4 | 20.7 |

[1] Sika Gulf B.S.C., Bahrain, manufactures concrete admixtures and ready-to-use mortar for the supply of countries in Middle East
[2] Addiment Italia S.r.l. manufactures concrete admixtures
[3] part GmbH, Germany; Condensil SARL, France; Hayashi-Sika, Japan; Chemical Sangyo, Japan: Seven Tech., Japan; Sarna Granol AG, Switzerland; Copsa, Spain, Sika Saudi Arabia Co. Ltd., Saudi Arabia

## 8 DEFERRED TAXES.

### Unused losses brought forward, for which no deferred tax claim has been recognized in the balance sheet

| in CHF mn | 2009 | 2010 |
|---|---|---|
| 1 year or less | – | 4.3 |
| 2–5 years | 11.2 | 10.7 |
| Over 5 years | 26.0 | 19.5 |
| **Total** | **37.2** | **34.5** |

### Deferred tax

| in CHF mn | | | 2009 | | | 2010 |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| January 1 | 62.6 | -65.8 | -3.2 | 69.2 | -62.6 | 6.6 |
| Credited (+) / debited (-) to income statement | 3.7 | 10.3 | 14.0 | 9.8 | 0.6 | 10.4 |
| Exchange differences | 0.0 | 1.6 | 1.4 | -8.1 | 4.8 | -3.3 |
| Acquisitions | 2.9 | -8.7 | -5.6 | 17.1 | -22.0 | -4.9 |
| **December 31** | **69.2** | **-62.6** | **6.6** | **88.0** | **-79.2** | **8.8** |

### Allocation of assets and liabilities

| in CHF mn | | | 2009 | | | 2010 |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Category | | | | | | |
| Tax losses brought forward | 7.9 | – | 7.9 | 22.6 | – | 22.6 |
| Current assets | 17.6 | -6.3 | 11.3 | 18.2 | -6.9 | 11.3 |
| Property, plant and equipment | 6.6 | -23.6 | -17.0 | 8.0 | -27.3 | -19.3 |
| Other non-current assets | 1.4 | -29.2 | -27.8 | 1.2 | -42.0 | -40.8 |
| Liabilities | 35.7 | -3.5 | 32.2 | 38.0 | -3.0 | 35.0 |
| **Total** | **69.2** | **-62.6** | **6.6** | **88.0** | **-79.2** | **8.8** |

Tax loss carryforwards are only considered to the extent that realization of the associated tax credit is probable.

In the year under review deferred tax assets from tax loss carryforwards of CHF 12.9 mn (CHF 1.0 mn) were offset and deferred tax loss carryforwards of CHF 26.8 mn (CHF 4.7 mn) were generated, which was largely made possible by a change in tax legislation in Germany. The impact of this change amounted to CHF 23.1 million.

9 **ACCOUNTS PAYABLE.** CHF 478.2 mn (CHF 355.2 mn)
Accounts payable do not bear interest and will usually become due within 30 to 60 days.

10 **ACCRUED EXPENSES.** CHF 192.3 mn (CHF 211.8 mn)
Deferred income and accrued expenses relate to outstanding invoices and liabilities of the current year, including performance-based compensation payable to employees in the following year and social security expenses.

11 **OTHER LIABILITIES.** CHF 63.1 mn (CHF 24.8 mn)

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Derivatives (at fair value through P&L) | 0.1 | 14.1 |
| Bank loans | 2.3 | 20.9 |
| Other | 4.7 | 15.4 |
| **Other financial liabilities** | **7.1** | **50.4** |
| **Other non-financial liabilities** | **17.7** | **12.7** |
| **Other liabilities** | **24.8** | **63.1** |
| current | 17.6 | 37.6 |
| non-current | 7.2 | 25.5 |

To secure liquidity, a syndicated credit line of CHF 450 mn (CHF 450 mn) was available to Sika AG until November 15, 2010, which was not drawn on throughout the entire year and was not extended. A number of Group companies have their own credit lines, which overall are insignificant in scale.

12 **BONDS.** CHF 274.6 mn short-term / CHF 794.4 mn long-term (CHF 0.0 mn / 1 066.9 mn)
Sika AG has the following bonds outstanding:

| in CHF mn | Amortized costs | Nominal |
|---|---|---|
| 2.750% 2006–2011 | 274.6 | 275.0 |
| 2.375% 2006–2013 | 248.6 | 250.0 |
| 3.500% 2009–2014 | 298.0 | 300.0 |
| 2.875% 2006–2016 | 247.8 | 250.0 |
| **Total** | **1 069.0** | **1 075.0** |

The bond with a nominal value of CHF 275 million maturing on October 26, 2011 is classified as short-term (amortized costs of CHF 274.6 million). The remaining bonds are classified as non-current liabilities.

## 13 PROVISIONS. CHF 108.8 mn (CHF 146.6 mn)

Provisions for guarantees reflect all known claims anticipated in the near future. The provision amounts are determined on the basis of experience and are therefore subject to a degree of uncertainty. The outflow of funds depends on the timing of the filing and conclusion of warranty claims. Provisions for sundry risks include loan guarantees as well as open and anticipated legal cases with a probability of above 50%.

From the sum of provisions, CHF 92.0 mn (CHF 103.1 mn) are shown under non-current liabilities, since an outflow of funds is not expected within the next twelve months.

For provisions of CHF 16.8 mn (CHF 43.5 mn), an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

| | Current provisions | Non-current provisions | | | |
|---|---|---|---|---|---|
| in CHF mn | | Warranties | Restruc-turings | Sundry risks | Total |
| **As of January 1, 2009** | **14.0** | **62.2** | **1.2** | **29.7** | **93.1** |
| Exchange differences | -0.1 | -1.1 | 0.2 | 0.6 | -0.3 |
| Assumed on acquisition | 0.0 | 6.7 | 0.0 | 0.4 | 7.1 |
| Additions | 43.8 | 17.7 | 1.9 | 10.3 | 29.9 |
| Utilization | -9.9 | -5.9 | -1.2 | -7.1 | -14.2 |
| Reversal | -4.3 | -7.7 | 0.0 | -4.8 | -12.5 |
| **As of December 31, 2009** | **43.5** | **71.9** | **2.1** | **29.1** | **103.1** |
| Exchange differences | -2.8 | -6.1 | -0.2 | -1.2 | -7.5 |
| Assumed on acquisition | 0.1 | 3.3 | 0.0 | 3.1 | 6.4 |
| Additions | 9.1 | 18.6 | 0.0 | 6.6 | 25.2 |
| Utilization | -32.4 | -12.3 | -0.2 | -3.6 | -16.1 |
| Reversal | -8.6 | -6.5 | -1.2 | -3.5 | -11.2 |
| Transfers | 7.9 | -0.1 | -0.1 | -7.7 | -7.9 |
| **As of December 31, 2010** | **16.8** | **68.8** | **0.4** | **22.8** | **92.0** |

The current provisions as of December 31, 2010, encompass CHF 6.1 mn (CHF 11.7 mn) for warranties, CHF 7.7 mn (CHF 28.2 mn) for restructuring and CHF 3.0 mn (CHF 3.6 mn) for sundry risks.

The substantial decrease in current provisions is due in particular to the restructuring measures agreed and initiated in 2009.

## 14 EMPLOYEE BENEFIT PLANS.

Complementary to the benefits of state-regulated retirement schemes, Sika maintains additional employee pension plans for a number of subsidiaries. These can be differentiated as follows:

**Defined contribution pension funds.** The majority of Sika subsidiaries operate defined contribution pension funds. Employees and employers thereby regularly contribute to funds administered by a third party. The consolidated balance sheet contains neither assets nor liabilities related to these funds.

**Defined benefit pension funds.** 31 Group companies maintain defined benefit employee pension funds. Included are the German pension plans, that include their pension in the companies' balance sheet. The Sika companies in Switzerland have legally independent foundations for this purpose, thereby segregating their pension obligation liabilities. In accordance with local legal regulations Sika bears no obligations toward these pension funds beyond the regulated contribution payments. According to IAS 19 the Swiss pension funds qualify as defined-benefit funds, therefore the actuarially calculated underfunding is recorded in the consolidated balance sheet.

For defined benefit plans the present value of ensured retirement provisions (Defined Benefit Obligation, DBO) is calculated periodically by independent actuaries applying the "projected-unit credit method" based on years of service, anticipated salary and pension development and the anticipated return on investment of assets. Actuarial gains and losses resulting from alterations in actuarial assumptions are recognized as income or expense over the expected average remaining working lives of the employees participating in the plans, to the extent that these cumulative, unrealized gains and losses exceed 10% of the higher of the defined benefit obligations or of the fair value of plan assets.

| in CHF mn | | | 2009 | | | 2010 |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Employee benefit plans with defined benefits | 8.8 | 101.2 | 92.4 | 7.9 | 99.8 | 91.9 |
| Other employee commitments | 0.0 | 29.1 | 29.1 | 0.0 | 31.9 | 31.9 |
| **Total** | **8.8** | **130.3** | **121.5** | **7.9** | **131.7** | **123.8** |

Sika companies in Switzerland also maintain a plan that allows for early retirement. In the year under review 28 employees took advantage of this possibility. Pension liabilities and terminal payments are determined based on actuarial appraisals.

Other employee commitments derive from service jubilee premiums and similar benefits that Sika grants to its employees.

### Actuarial present value of defined benefit obligation (DBO)

| in CHF mn | 2009 | 2010 |
|---|---|---|
| **Opening balance** | **567.9** | **586.1** |
| Current service cost | 23.9 | 24.4 |
| Interest cost | 20.9 | 21.0 |
| Contributions by plan participants | 8.4 | 8.4 |
| Actuarial gains (-)/losses (+) | 1.3 | 32.0 |
| Exchange differences | -0.4 | -17.7 |
| Benefits paid | -34.3 | -29.9 |
| Past service costs | 1.0 | 0.5 |
| Business combinations and others | 0.0 | 13.0 |
| Curtailments | -0.3 | -0.1 |
| Settlements | -2.3 | -0.6 |
| **Closing balance** | **586.1** | **637.1** |

### Fair value of plan assets

| in CHF mn | 2009 | 2010 |
|---|---|---|
| **Opening balance** | **413.3** | **465.6** |
| Expected return on plan assets | 18.5 | 21.0 |
| Actuarial gains (+)/losses (-) | 35.7 | -3.9 |
| Exchange differences | 0.0 | -1.9 |
| Contributions by employer | 17.4 | 17.7 |
| Contributions by plan participants | 8.4 | 8.4 |
| Benefits paid | -27.7 | -23.1 |
| Business combinations and others | 0.0 | 1.9 |
| **Closing balance** | **465.6** | **485.7** |

### Status

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Actuarial present value of defined benefit obligations (DBO) | 586.1 | 637.1 |
| Fair value of plan assets | 465.6 | 485.7 |
| **Deficit (+)/surplus (-)** | **120.5** | **151.4** |
| Unrecognized actuarial loss (-)/gain (+) | -45.0 | -74.7 |
| Unrecognized past service costs | -1.2 | -1.0 |
| Unrecognized assets | 18.1 | 16.2 |
| **Net liability recognized in balance sheet** | **92.4** | **91.9** |

### Income statement

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Current service costs | 23.9 | 24.4 |
| Interest cost | 20.9 | 21.0 |
| Expected return on plan assets | -18.5 | -21.0 |
| Actuarial gains (-)/losses (+) | 3.1 | 5.7 |
| Past service costs | 0.3 | 0.6 |
| The effect of any curtailments and settlements | -2.4 | -0.7 |
| The effect of the limit in Par. 58b | 5.8 | -1.9 |
| **Net periodic benefit costs** | **33.1** | **28.1** |
| Actual gain(+)/loss(-) on plan assets | 54.2 | 17.1 |

Expected contributions to defined-benefit plans for 2011 amount to CHF 17.0 million.

The Group's entire pension expenses are recorded in the consolidated income statement under "Personnel expenses". A charge CHF 1.8 million was taken for pension contributions for Group Management.

### Major categories of total plan assets

| in % of market value | 2009 | 2010 |
|---|---|---|
| | | |
| Shares | 29.5 | 31.5 |
| Bonds | 35.4 | 37.8 |
| Real estate | 17.2 | 16.2 |
| Other assets | 17.9 | 14.5 |
| **Total** | **100.0** | **100.0** |

### Amounts included in plan assets

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Shares | 8.3 | 10.5 |
| Bonds | 0.0 | 0.0 |
| Property occupied by Sika | 14.5 | 14.5 |
| **Total** | **22.8** | **25.0** |

### Annual comparison in absolute terms

| in CHF mn | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Actuarial present value of defined benefit obligations (DBO) | 515.8 | 536.3 | 567.9 | 586.1 | 637.1 |
| Fair value of plan assets | 456.3 | 462.3 | 413.3 | 465.6 | 485.7 |
| **Deficit (+) / surplus (-)** | **59.5** | **74.0** | **154.6** | **120.5** | **151.4** |
| Experience adjustments on plan liabilities | 7.8 | 16.5 | -11.7 | -3.9 | -2.2 |
| Experience adjustments on plan assets | 21.8 | 2.5 | -100.1 | 35.7 | -3.9 |

The stated deficit results in large part from the DBO of the unfunded benefit plans of CHF 86.2 mn (CHF 79.9 mn). Primarily plans in Germany do not have segregated assets.

### Analysis of the defined benefit obligation from funded and unfunded plans

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Funded plans | 506.2 | 550.9 |
| Unfunded plans | 79.9 | 86.2 |
| **Total** | **586.1** | **637.1** |

### Actuarial assumptions

| | 2009 | 2010 |
|---|---|---|
| Discount rate in the year under review (%) | 3.6 | 3.2 |
| Expected return[1] on plan assets in the year under review (%) | 4.5 | 4.5 |
| Pension trend (%) | 0.6 | 0.6 |
| Salary trend (%) | 2.1 | 2.0 |
| Number of insured employees | 4 705 | 5 012 |
| Number of insured retired persons | 1 375 | 1 449 |
| Total number of defined benefit plans | 28 | 32 |
| thereof number of defined benefit plans funded | 10 | 11 |
| thereof number of defined benefit plans unfunded | 18 | 21 |

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

Health care cost increases do not have an influence on future service cost nor the present value of defined benefit obligations.

**15 SHAREHOLDERS' EQUITY.** CHF 1 752.2 mn (CHF 1 593.0 mn)
The equity share in total assets amounts to 44.6% (43.9%).

**Capital stock**

| in CHF mn | Number | 2009 | 2010 |
|---|---|---|---|
| Registered shares, nominal value CHF 1.50 | 2 333 874 | 3.5 | 3.5 |
| Bearer shares, nominal value CHF 9.00 | 2 151 199 | 19.4 | 19.4 |
| **Capital stock** | | **22.9** | **22.9** |

The Board of Directors proposes to the Annual General Meeting payment of a dividend of CHF 7.50 per registered share and of CHF 45.00 per bearer share, in the total amount of CHF 112.70 million, to the shareholders of Sika AG. In addition, it is proposed that the nominal value of the bearer shares be reduced from CHF 9.00 to CHF 0.60 and that of the registered shares from CHF 1.50 to CHF 0.10.

The capital stock breaks down as follows:

| | Bearer shares[1] nominal value CHF 9.00 | Registered shares nominal value CHF 1.50 | Total |
|---|---|---|---|
| 12/31/2009 (units) | 2 151 199 | 2 333 874 | 4 485 073 |
| Nominal value (CHF) | 19 360 791 | 3 500 811 | 22 861 602 |
| 12/31/2010 (units) | 2 151 199 | 2 333 874 | 4 485 073 |
| Nominal value (CHF) | 19 360 791 | 3 500 811 | 22 861 602 |

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

**16 NET SALES.** CHF 4 416.0 mn (CHF 4 154.9 mn)
Sales of goods account for practically all net sales. In comparison with the previous year, net sales denominated in CHF increased by 6.3%. Taking currency effects amounting to -3.9% into consideration, sales increased in local currencies by 10.2%. Growth through acquisitions of 4.1% is included.

Sales from construction contracts in the year under review amounted to CHF 22.4 mn (CHF 14.9 mn). On the date of the balance sheet accrued construction costs and recognized profit (less recognized losses) were CHF 85.4 mn (CHF 65.3 mn), which amount was invoiced in full, and in the meantime largely settled. On the date of the balance sheet there were insignificant receivables and no liabilities from construction contracts. Order sales and order costs are recorded on the balance sheet date as income and expenses in accordance with progress of construction.

**17 OPERATING REVENUE.** CHF 4 433.5 mn (CHF 4 146.1 mn)
In contrast to net sales, operating revenue includes other operating income and changes in inventory.

**18 MATERIAL EXPENSES.** CHF 2 048.6 mn (CHF 1 850.8 mn)
Material expenses rose as a percentage of net sales by 1.9 percentage points, resulting in particular from the sharp increase in raw material prices during the second half of the year under review.

**19 OPERATING PROFIT BEFORE DEPRECIATION AND RESTRUCTURING.** CHF 577.0 mn (CHF 539.9 mn)
In the year under review Sika benefited from volume growth, which had a positive impact on gross profit. Price increases could partly only be passed on with a certain time lag. A above all in the second half of the year under review, substantial increases in raw material costs reduced gross profit from 55.2% to 54.0% of net sales.

As a result of the restructuring measures carried out, personnel costs, adjusted for acquisitions, decreased further. Other operating expenses developed in line with sales growth.

Research and development expenses are included in other operating costs. Sika invested CHF 74.4 mn (CHF 74.7 mn) in the year under review, or 1.7 % (1.8%) of net sales in research and development. Included therein are all operating expenditures of Sika Technology AG as well as of the technology centers in various countries. Expenditures of the local factory laboratories of subsidiaries are not included.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Gross result | 2 295.3 | 2 384.9 |
| Personnel expenses | -954.3 | -953.4 |
| Other operating expenses | -801.1 | -854.5 |
| **Operating profit before depreciation and restructuring expenses** | **539.9** | **577.0** |

**Personnel expenses**

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Wages and salaries | 769.1 | 774.7 |
| Social charges | 185.2 | 178.7 |
| **Total personnel expenses** | **954.3** | **953.4** |

**Employee benefit costs**

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Employee benefit plans with defined benefits[1] | 33.1 | 28.1 |
| Other employee benefit plans | 29.5 | 26.6 |
| **Total** | **62.6** | **54.7** |

[1] Details to be found in Note 14

**Share based payments.** Senior managers and Group Management receive shares of Sika AG as a component of their salary. The shares are granted at market prices in the first two months of the subsequent business year. The allocated shares are subject to a blocking period of four years. The following three different share plans are in place.

Senior managers may draw 20% of the performance-based short-term variable remunerations in the form of shares of Sika AG. As remuneration for the services rendered by them in 2009 they drew 622 shares at a fair value of CHF 1.0 mn (CHF 1 564 per share).

The performance-based portion of the short-term variable remunerations for Group Management is paid out 20% in the form of shares of Sika AG. Moreover, members of Group Management have an option to draw a further 20% of the variable remunerations in the form of shares of Sika AG. As compensation for the services rendered by them in 2009 they drew 1080 shares at a fair value of CHF 1.7 mn (CHF 1 564 per share).

The performance-based portion of the long-term variable remuneration for Group Management is paid out in full in shares of Sika AG. Under the long-term compensation plan members of Group Management will receive shares for the first time in 2011.

Share-based remunerations are made by means of the transfer of treasury shares of Sika AG. The personnel expenses recorded for services received in the 2010 business year totaled CHF 21.9 mn of which the amount of CHF 6.3 mn was taken to equity and the amount of CHF 15.6 mn was recorded under liabilities. Provided employees are entitled to the option of drawing shares of Sika AG, this portion will be recorded under liabilities as at the balance sheet date, and in the event that shares are drawn, this portion will be taken to equity in the subsequent year.

No dilution effect results because all shares for these plans are bought on the market according to requirements.

20 **DEPRECIATION / AMORTIZATION / IMPAIRMENT.** CHF 137.5 mn (CHF 139.3 mn)
In the period under review impairments in the amount of CHF 1.8 mn (CHF 2.8 mn) were made, mainly on a property in Switzerland which had to be adjusted to market value.

The remaining amount includes the regular depreciations and amortizations of the year under review.

21 **RESTRUCTURING.** CHF 0.0 mn (CHF 56.6 mn)
In 2009 Sika decided to restructure the production of adhesives and sealants as well as polymeric membranes to bring it into line with advances in production technology and continually changing market conditions and so secure the company’s competitiveness over the long term. Restructuring expenses amounted to CHF 56.6 mn. (Impairments on PPE amounted to CHF 20.1 mn, personnel expenses CHF 31.8 mn, other operating expenses CHF 4.7 mn.)

22 **INTEREST EXPENSES / OTHER FINANCIAL EXPENSES.** CHF 48.2 mn (CHF 37.7 mn)
Above all owing to the bond issued in mid 2009, interest expenses increased to CHF 34.0 mn (CHF 27.4 mn). The effective interest on bonds amounts to CHF 33.3 mn (CHF 28.5 mn). Interest in an amount of CHF 0.5 mn (CHF 3.7 mn) was capitalized during the year under review at a rate of 4.5%.

23 **INTEREST INCOME / OTHER FINANCIAL INCOME / INCOME FROM ASSOCIATED COMPANIES.** CHF 12.4 mn (CHF 9.3 mn)
Short-term surpluses in liquidity in various countries led to interest income of CHF 4.0 mn (CHF 3.1 mn). Income from associated companies decreased to CHF 3.0 mn (CHF 5.3 mn). Other financial expenses rose from CHF 0.9 mn to CHF 5.4 mn.

## 24 **INCOME TAXES.** CHF 92.8 mn (CHF 89.9 mn)

The income tax rate was lower at 23.0% (28.5%). This is due in the main to a one-off effect on a tax loss carryforward. Income taxes of CHF 92.8 mn consist of:

### Income taxes

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Income tax during the year under review | 98.3 | 104.5 |
| Deferred income tax | -14.0 | -10.4 |
| Income tax from prior years | 5.6 | -1.3 |
| **Total** | **89.9** | **92.8** |

### Reconciliation between anticipated and effective tax expense

| | % | 2009 | % | 2010 |
|---|---|---|---|---|
| Profit before taxes | – | 315.6 | | 403.7 |
| Anticipated tax expense | 24.5 | 77.3 | 27.4 | 110.4 |
| Non-tax-deductible expense | 0.9 | 2.7 | 1.1 | 4.6 |
| Effect of non-recognition of tax losses | 1.3 | 4.0 | 0.5 | 1.8 |
| Change in anticipated tax rate | -0.3 | -1.0 | 0.1 | 0.4 |
| Adjusted tax expense from earlier periods | 1.4 | 4.3 | -0.3 | -1.3 |
| Valuation adjustment on deferred tax assets[1] | 0.9 | 2.7 | -4.0 | -16.2 |
| Utilization of previously unrecognized tax losses[1] | 0.0 | 0.0 | -2.2 | -8.8 |
| Other | -0.0 | -0.1 | 0.4 | 1.9 |
| **Tax expense as per consolidated income statement** | **28.5** | **89.9** | **23.0** | **92.8** |

[1] As a result of a change in tax legislation in Germany, tax losses brought forward in the amount of CHF 23.1 mn could be recognized for the first time. Of this amount CHF 7.9 mn were already utilized and for CHF 15.2 mn deferred tax assets were recognized.

The anticipated average Group income tax rate of 27.4% (24.5%) 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 changed profits of the Group companies in the respective fiscal jurisdictions and to changes in their tax rates in some cases.

**25 NON-CONTROLLING INTERESTS.** CHF 0.1 mn (CHF -0.2 mn)
Most important companies with non-controlling interests:
- Consorzio IGS, Switzerland (35%)
- Sika UAE LLC, Dubai (34%)
- Sichuan Keshuai Additive Co. Ltd., China (20%)
- Jiangsu TMS Admixture Co. Ltd., China (30%)

**26 EARNINGS PER SHARE.** CHF 124.60 (CHF 91.03)

| | 2009 | 2010 |
|---|---|---|
| | | |
| **Undiluted ("basic EpS")** | | |
| Net profit / CHF mn | 225.9 | 310.8 |
| **Weighted average number of shares**[1] | | |
| Bearer shares[2] / units | 2 092 632 | 2 105 432 |
| Registered shares[3] / units | 2 333 874 | 2 333 874 |
| **Earnings per share** | | |
| Bearer shares[2] / CHF | 91.03 | 124.60 |
| Registered shares[3] / CHF | 15.17 | 20.77 |

[1] Excluding bearer treasury shares held in the Group at a nominal value of CHF 9.00 (CHF 9.00)
[2] Nominal value: CHF 9.00 (CHF 9.00)
[3] Nominal value: CHF 1.50 (CHF 1.50)

Consolidated earnings per share (EPS) amount to CHF 124.60 (CHF 91.03). The EPS is calculated on the basis of consolidated net profit after non-controlling interests and the number of shares entitled to dividend, weighted over the course of the year. No dilution effect results because no options or convertible bonds are outstanding. For the business year 2009 dividend amounted to CHF 45.00 per bearer share and to CHF 7.50 per registered share.

## 27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT.

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

### Market value of financial assets and financial liabilities

| in CHF mn | | | 2009 | | 2010 |
|---|---|---|---|---|---|
| | Level | Book value | Fair value | Book value | Fair value |
| **Financial assets** | | | | | |
| Cash and cash equivalents | | 801.6 | 801.6 | 938.4 | 938.4 |
| Available-for-sale financial assets | 1 | 18.9 | 18.9 | 14.1 | 14.1 |
| Loans and receivables | | 747.5 | 747.5 | 791.9 | 791.9 |
| Financial assets at fair value through profit and loss | 2 | 1.5 | 1.5 | 24.3 | 24.3 |
| **Total** | | **1 569.5** | **1 569.5** | **1 768.7** | **1 768.7** |
| **Financial liabilities** | | | | | |
| Bank overdrafts | | 2.3 | 2.3 | 20.9 | 20.9 |
| Bonds | | 1 066.9 | 1 107.9 | 1 069.0 | 1 114.1 |
| Accounts payable | | 355.2 | 355.2 | 478.2 | 478.2 |
| Other financial liabilities | | 4.7 | 4.7 | 15.4 | 15.4 |
| **Financial liabilities measured at amortized cost** | | **1 429.1** | **1 470.1** | **1 583.5** | **1 628.6** |
| Financial liabilities at fair value through profit and loss | 2 | 0.1 | 0.1 | 14.1 | 14.1 |
| **Total** | | **1 429.2** | **1 470.2** | **1 597.6** | **1 642.7** |

The Group employs the following hierarchy in determining the evaluation procedure of financial instruments:

– Level 1: quoted (unadjusted) prices 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 employing input parameters having an essential effect on the registered market value but are not based on observable market data.

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

A gain of CHF 0.6 mn (profit CHF 2.4 mn) on available-for-sale financial assets was recognized in comprehensive income. Through sale or a depreciation in value a loss of CHF 0.3 mn (loss CHF 2.4 mn) was transferred from shareholders' equity to the income statement.

A net loss of CHF 36.9 mn (net loss CHF 20.1 mn) was incurred on income statement related financial assets and liabilities held at fair market value; this is included in other financial expenses.

### Management of financial risks.

**Basic principles.** The Group's activities expose it to a variety of financial risks: market risks (primarily foreign exchange risks, interest rate risks and price 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.

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

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Receivables | 1.9 | 2.0 |
| Property, plant and equipment | 1.4 | 0.8 |
| **Total book value of encumbered assets** | **3.3** | **2.8** |

### Open derivatives

| | | | | Contractual value upon maturity | |
|---|---|---|---|---|---|
| in CHF mn | Replacement value (+) | Replacement value (-) | Contract value | Up to 3 months | 3 to 12 months |
| **Open derivatives 2009** | | | | | |
| Forward contracts (foreign exchange) | – | -0.1 | 13.4 | 3.1 | 10.3 |
| Swaps (foreign exchange) | 1.5 | – | 619.0 | 395.5 | 223.5 |
| **Total derivatives** | **1.5** | **-0.1** | **632.4** | **398.6** | **233.8** |
| **Open derivatives 2010** | | | | | |
| Forward contracts (foreign exchange) | 0.1 | -0.1 | 3.1 | -0.9 | 4.0 |
| Swaps (foreign exchange) | 24.2 | -14.0 | 656.2 | 488.4 | 167.8 |
| **Total derivatives** | **24.3** | **-14.1** | **659.3** | **487.5** | **171.8** |

Foreign exchange risks. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro and the US dollar. Foreign exchange risk arises when commercial transactions, 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 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.

### Currency and assumed rate of change against CHF

| | Effect on profit before tax in CHF mn | |
|---|---|---|
| | 2009 | 2010 |
| EUR: +10% (+5%) | -0.5 | -1.8 |
| EUR: -10% (-5%) | 0.5 | 1.8 |
| USD: +10% (+8%) | -6.5 | -6.3 |
| USD: -10% (-8%) | 6.5 | 6.3 |

**Price risks.** The Group is exposed to purchasing price risks because cost of materials represents one of the Group's largest cost factors. Purchasing prices are influenced far more by the interplay between supply and demand, the general economic environment and intermittent disruptions of processing and logistics chains, ranging from crude oil to purchased merchandise, than by crude oil prices themselves. Short-term crude oil price increases only have 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 emission of fixed interest long-term bonds (nominal CHF 1 075 mn). A change in the rate of interest would therefore alter neither annual financial expenses nor shareholders' equity materially. Local bank loans and mortgages are insignificant. Interest rate development is closely monitored by management.

**Credit risk.** Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge 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 customer represents more than 1.5% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2009 nor at year-end 2010. The largest possible risk represented by these items are the book value of the accounts 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 up at short notice. Management monitors the Group's liquidity reserve on the basis of expected cash flow.

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, 2009** | | | | |
| Bank loans | 1.7 | 0.6 | 0.0 | 2.3 |
| Bonds | 31.2 | 921.1 | 264.4 | 1 216.7 |
| Accounts payable | 355.2 | 0.0 | 0.0 | 355.2 |
| Other financial liabilities | 0.5 | 2.8 | 1.4 | 4.7 |
| **Financial liabilities measured at amortized cost** | **388.6** | **924.5** | **265.8** | **1 578.9** |
| Financial liabilities at fair value through profit and loss | 0.1 | 0.0 | 0.0 | 0.1 |
| **Total** | **388.7** | **924.5** | **265.8** | **1 579.0** |
| **December 31, 2010** | | | | |
| Bank loans | 10.1 | 10.8 | 0.0 | 20.9 |
| Bonds | 306.2 | 622.1 | 257.2 | 1 185.5 |
| Accounts payable | 478.2 | 0.0 | 0.0 | 478.2 |
| Other financial liabilities | 1.0 | 6.2 | 8.2 | 15.4 |
| **Financial liabilities measured at amortized cost** | **795.5** | **639.1** | **265.4** | **1 700.0** |
| Financial liabilities at fair value through profit and loss | 14.1 | 0.0 | 0.0 | 14.1 |
| **Total** | **809.6** | **639.1** | **265.4** | **1 714.1** |

**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, 2010, and December 31, 2009. The Group monitors the equity ratio, which is shareholders' equity divided by total capital.

## 28 FUTURE OBLIGATIONS.

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

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

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Raw material supply contracts[1] | 159 | 152 |
| Delivery contracts for finished goods[1] | 370 | 363 |

[1] Contract runs until 2018, maximum

**Contingent liabilities.** Given the Group's international operations, there are inherent tax risks (e.g. owing to transfer prices) 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, on the Group's financial position or income. The Group is active in countries in which political, economic, social and legal developments could impair business activity. The effect of such risks as can occur in the course of normal business operations is unforeseeable. In addition, their probability of occurrence lies below 50%.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| Guarantees and letters of comfort | 28 | 27 |

The largest individual position in an amount of CHF 6.9 mn (CHF 6.9 mn) relates to an associated company.

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

## 29 CASH FLOW ANALYSIS.

**Details to the cash flow analysis.** Compared to the prior year the cash flow in the year under review was characterized by:

- a higher consolidated net profit (CHF 88.1 mn)
- changes in net working capital (CHF -85.9 mn)
- changes in provisions (CHF -65.1 mn)
- prior year bond issue (CHF -297.2 mn)

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Inflow (+)/outflow (-) from | | |
| Operating activities | 526.3 | 424.8 |
| Investment activities | -213.8 | -180.9 |
| Financing activities | 172.0 | -96.7 |
| Exchange differences | -1.2 | -10.4 |
| **Net change in cash and cash equivalents** | **483.3** | **136.8** |

### Free cash flow and operating free cash flow.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Cash flow from operating activities | 526.3 | 424.8 |
| Net investment in | | |
| Property, plant and equipment | -131.1 | -84.6 |
| Intangible assets | -26.5 | -8.0 |
| Acquisitions less cash and cash equivalents | -45.9 | -90.6 |
| Capital increase at associated companies | -2.0 | 0.0 |
| Acquisitions (-)/disposals (+) of financial assets | -8.3 | 2.3 |
| **Free cash flow** | **312.5** | **243.9** |
| Acquisitions/disposals less cash and cash equivalents[1] | 47.9 | 90.6 |
| Acquisitions (+)/disposals (-) of financial assets | 8.3 | -2.3 |
| **Operating free cash flow** | **368.7** | **332.2** |

[1] incl. purchase of non-controlling interests and share capital increases in associated companies

**Other adjustments.** Included in other adjustments are:

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Non-liquidity-related interest expenses/income | 7.1 | -1.1 |
| Non-liquidity-related financial expenses/income | 5.0 | 2.6 |
| Profit/loss from disposals of PPE | 0.0 | -4.3 |
| Others | -1.6 | 0.0 |
| **Total** | **10.5** | **-2.8** |

## 33 SEGMENT REPORTING.

Sika conducts its worldwide activities according to Regions, to which a certain number of countries belong. Region heads 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 Statement. The financing (including financial expenditures and revenues) as well as income taxes are managed uniformly across the Group and not assigned to the individual segments. The composition of the Regions does not follow the generally observed geographic grouping of countries to continents, manifesting rather diverse organizational, commercial and cultural circumstances. So for example in Region IMEA (India, Middle East, Africa) among others the countries of the Middle East and India are grouped together, since these countries are strongly interwoven regarding their building and construction industry. The precise composition of the Regions is shown on page 21.

The acquired Dyflex HD Co. Ltd. with subsidiaries and the acquired sealants operations of Henkel Japan Ltd. come under the Region Asia / Pacific. The acquired Greenstreak Group Inc., May National Associates Inc. and the automotive glass replacement business of ADCO Products Inc. are part of the Region North America. The Panbex Group was assigned to the Region Europe North.

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 Central Services. Transfer prices between segments are calculated according to generally recognized principles.

Central Services comprise the expenditures for Group Headquarters and its revenues from services and delivery of goods to Group companies. In addition, this includes also expenditures and revenues that are not assigned to any Region. Mainly these amount to expenditures for research and development.

**Net sales**

| in CHF mn | | | 2009 | | | 2010 |
|---|---|---|---|---|---|---|
| | With third parties | With other segments | Total | With third parties | With other segments | Total |
| Europe North | 1 474.8 | 86.5 | 1 561.3 | 1 457.1 | 98.2 | 1 555.3 |
| Europe South | 934.6 | 35.7 | 970.3 | 874.1 | 29.1 | 903.2 |
| North America | 602.3 | 17.1 | 619.4 | 632.8 | 28.0 | 660.8 |
| Latin America | 395.3 | 0.1 | 395.4 | 479.8 | 0.1 | 479.9 |
| IMEA | 263.6 | 1.0 | 264.6 | 285.8 | 0.5 | 286.3 |
| Asia / Pacific | 472.6 | 4.0 | 476.6 | 676.4 | 8.4 | 684.8 |
| Central Services | 11.7 | – | 11.7 | 10.0 | – | 10.0 |
| Eliminations | – | -144.4 | -144.4 | – | -164.3 | -164.3 |
| **Consolidated net sales** | **4 154.9** | **–** | **4 154.9** | **4 416.0** | **–** | **4 416.0** |
| Products for construction industry | | | 3 381.7 | | | 3 551.3 |
| Products for industrial manufacturing | | | 773.2 | | | 864.7 |

### Changes in net sales

| in CHF mn | 2009 | 2010 | Change compared to prior year (+/- in %) | | |
|---|---|---|---|---|---|
| | | | In Swiss francs | In local currencies | Currency impact |
| **By Region** | | | | | |
| Europe North | 1 474.8 | 1 457.1 | -1.2 | 4.5 | -5.7 |
| Europe South | 934.6 | 874.1 | -6.5 | 1.7 | -8.2 |
| North America | 602.3 | 632.8 | 5.1 | 8.5 | -3.4 |
| Latin America | 395.3 | 479.8 | 21.4 | 18.0 | 3.4 |
| IMEA | 263.6 | 285.8 | 8.4 | 9.5 | -1.1 |
| Asia/Pacific | 472.6 | 676.4 | 43.1 | 41.4 | 1.7 |
| Central Services | 11.7 | 10.0 | -14.5 | -14.5 | – |
| **Consolidated net sales** | **4 154.9** | **4 416.0** | **6.3** | **10.2** | **-3.9** |
| Products for construction industry | 3 381.7 | 3 551.3 | 5.0 | 8.7 | -3.7 |
| Products for industrial manufacturing | 773.2 | 864.7 | 11.8 | 16.7 | -4.9 |

### Operating profit before restructuring

| in CHF mn | 2009 | 2010 | Change compared to prior year | |
|---|---|---|---|---|
| | | | (+/-) | (+/- in %) |
| **By Region** | | | | |
| Europe North | 159.0 | 155.6 | -3.4 | -2.1 |
| Europe South | 136.4 | 126.8 | -9.6 | -7.0 |
| North America | 63.6 | 62.5 | -1.1 | -1.7 |
| Latin America | 56.7 | 87.6 | 30.9 | 54.5 |
| IMEA | 42.5 | 45.5 | 3.0 | 7.1 |
| Asia/Pacific | 54.3 | 91.8 | 37.5 | 69.1 |
| **Operating profit before restructuring** | **512.5** | **569.8** | **57.3** | **11.2** |
| Central Services | -111.9 | -130.3 | -18.4 | na |
| **Operating profit of the Group before restructuring** | **400.6** | **439.5** | **38.9** | **9.7** |

Reconciliation of segment result to consolidated profit before taxes

| in CHF mn | | | | 2009 | | | 2010 |
|---|---|---|---|---|---|---|---|
| | Operating profit before restructuring | Restructuring | Financial result | Profit before taxes | Operating profit | Financial result | Profit before taxes |
| Europe North | 159.0 | -14.5 | | | 155.6 | | |
| Europe South | 136.4 | -8.6 | | | 126.8 | | |
| North America | 63.6 | 0.0 | | | 62.5 | | |
| Latin America | 56.7 | 0.0 | | | 87.6 | | |
| IMEA | 42.5 | 0.0 | | | 45.5 | | |
| Asia / Pacific | 54.3 | 0.0 | | | 91.8 | | |
| **Segment results** | **512.5** | **-23.1** | **0.0** | **489.4** | **569.8** | **0.0** | **569.8** |
| Central Services | -111.9 | -33.5 | -28.4 | -173.8 | -130.3 | -35.8 | -166.1 |
| **Total** | **400.6** | **-56.6** | **-28.4** | **315.6** | **439.5** | **-35.8** | **403.7** |

| in CHF mn | | | 2009 | | | 2010 |
|---|---|---|---|---|---|---|
| | Depreciation / amortization | Impairment excluding restructuring | Capital expenditures | Depreciation / amortization | Impairment | Capital expenditures |
| Europe North | 28.5 | 2.0 | 45.3 | 26.4 | 0.0 | 30.2 |
| Europe South | 19.2 | 0.2 | 16.8 | 15.9 | 0.0 | 12.3 |
| North America | 25.3 | 0.0 | 23.6 | 25.1 | 0.0 | 8.5 |
| Latin America | 6.2 | 0.0 | 7.7 | 6.3 | 0.0 | 10.9 |
| IMEA | 3.2 | 0.0 | 10.7 | 3.4 | 0.3 | 4.2 |
| Asia / Pacific | 12.6 | 0.6 | 10.8 | 17.4 | 0.0 | 11.4 |
| Central Services | 41.5 | 0.0 | 46.3 | 41.2 | 1.5 | 22.4 |
| **Total** | **136.5** | **2.8** | **161.2** | **135.7** | **1.8** | **99.9** |

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

| in CHF mn | | | | Net sales | | | | Non-current assets[1] |
|---|---|---|---|---|---|---|---|---|
| | 2009 | % | 2010 | % | 2009 | % | 2010 | % |
| Switzerland | 298.1 | 7.2 | 314.3 | 7.1 | 524.0 | 36.2 | 501.6 | 34.1 |
| USA | 529.2 | 12.7 | 555.8 | 12.6 | 213.2 | 14.7 | 226.0 | 15.4 |
| Germany | 549.0 | 13.2 | 543.1 | 12.3 | 152.7 | 10.5 | 130.1 | 8.8 |
| All other | 2 778.6 | 66.9 | 3 002.8 | 68.0 | 558.9 | 38.6 | 614.3 | 41.7 |
| **Total** | **4 154.9** | **100.0** | **4 416.0** | **100.0** | **1 448.8** | **100.0** | **1 472.0** | **100.0** |

[1] Non-current assets without financial instruments, deferred tax assets and post-employement benefit assets

## 31 RELATED PARTIES.

Sika had two major shareholders with a proportion of voting rights of over 3.0% at the end of the reporting year. The Burkard-Schenker family, according to information furnished by the family as of December 31, 2010, owned 53.2% of all voting shares, in part through the Schenker-Winkler Holding AG, Baar. Ameriprise Financial Inc., Minneapolis, Minnesota, USA, held 3.03% of all voting shares on the balance sheet date.

**Associated companies.** In the year under review goods totaling CHF 8.2 mn (CHF 10.5 mn) were sold by the Sika Group to Sika Gulf B.S.C. Goods totaling CHF 11.2 mn (CHF 10.1 mn) were sold to Addiment Italia S.r.l. In addition deliveries were made and services rendered by the Sika Group to other associated companies with a sum value of CHF 13.2 mn (CHF 12.3 mn).

**Employee benefit plans.** In Switzerland, employee benefit plans are handled through legally independent foundations, to which a total of CHF 18.5 mn (CHF 18.9 mn) was paid in the year under review. As of the balance sheet date no material receivables or payables were due from these foundations. Sika offices are located in a building leased from the pension fund foundation. Rent for 2010 amounted to CHF 0.5 mn (CHF 0.5 mn). No further major transactions were conducted with related parties.

**Members of the Board of Directors.** In the year under review CHF 0.8 mn (CHF 0.3 mn) was spent on property, plant and equipment, and CHF 0.7 mn (CHF 0.6 mn) on services from companies of two directors. These transactions were conducted at market conditions.

## 32 REMUNERATION OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT.

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

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Current benefits[1] | 14.6 | 17.9 |
| Pension fund contribution | 1.6 | 1.9 |
| **Total** | **16.2** | **19.8** |

[1] Members of Group Management draw either 20% or 40% of the short-term variable salary entitlement in the form of treasury shares. In addition to this there is a long-term variable salary portion based on a target to be met within a period of three years. This portion is paid out entirely in Sika shares. These shares are allocated at the average price prevailing in February of the subsequent year.

Detailed information regarding remuneration of the Board of Directors and Group Management as well as participations in Sika AG can be found in Notes 25 to 27 of the Sika AG Financial Statements (as of page 153).

## 33 RELEASE OF FINANCIAL STATEMENTS FOR PUBLICATION.

The Board of Directors of Sika AG approved the Consolidated Financial Statements for publication on February 25, 2011. The financial statements will be submitted for approval to the Annual General Meeting on April 12, 2011.

## 34 EVENTS AFTER THE BALANCE SHEET DATE.

Between December 31, 2010, and the approval of the presented Consolidated Financial Statements there were no major business-relevant occurrences.

## 35 INFORMATION ON EXECUTION OF RISK ASSESSMENT.

Risk management is carried out by the Board of Directors of Sika AG and by Group Management. The Board of Directors is the highest authority for risk assessment. The Board assesses risks annually at the level of the Group and Sika AG. Group Management regularly reviews the processes which form the basis for risk management. The risk management process comprises four steps: risk identification, risk assessment, risk monitoring and risk controlling.

Details regarding the assessment of risk management can be found in Note 27 to the Consolidated Financial Statements.

# Appendix to the Consolidated Financial Statements
## List of Group Companies

| Country | | Company | | Capital stock in thousands | % holding | ISO 9001 | ISO 14001 |
|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | |
| Austria | ❍ | Sika Österreich GmbH, Bludenz-Bings | EUR | 2 500 | 100 | * | * |
| Azerbaijan | ❍ | Sika Limited Liability Comp., Baku | CHF | 250 | 100 | | |
| Belgium | ✜ | Sika SA, Brussels | EUR | 2 500 | 100 | * | * |
| | ❍ | Sika Automotive Belgium SA, Saintes | EUR | 1 649 | 100 | * | * |
| | ❍ | Sika Viscocrete Belgium NV, Brussels | EUR | 7 000 | 100 | | |
| Bulgaria | ✜ | Sika Bulgaria EOOD, Sofia | BGL | 340 | 100 | * | * |
| Croatia | ✜ | Sika Croatia d.o.o., Zagreb | HRK | 4 000 | 100 | * | * |
| Czech Republic | ✜ | Sika CZ, s.r.o., Brno | CZK | 30 983 | 100 | * | * |
| Denmark | ❍ | Sika Danmark A/S, Fredensborg | DKK | 72 000 | 100 | * | * |
| Finland | ❍ | Oy Sika Finland Ab, Espoo | EUR | 850 | 100 | * | * |
| France | ❍ | Sika France SA, Paris | EUR | 14 794 | 100 | * | * |
| Germany | ▲ | Sika Holding GmbH, Stuttgart | EUR | 26 | 100 | | |
| | ❍ | Sika Deutschland GmbH, Stuttgart | EUR | 75 | 100 | * | * |
| | ❍ | Sika Automotive GmbH, Hamburg | EUR | 5 300 | 100 | * | * |
| | ❍ | Sika Trocal GmbH, Troisdorf | EUR | 3 835 | 100 | * | * |
| | ▮ | Tricosal Bauabdichtungs GmbH, Illertissen | EUR | 50 | 100 | | |
| | ✜ | part GmbH, Bad Urach | EUR | 25 | 50 | * | * |
| Great Britain | ❍ | Sika Ltd., Welwyn Garden City | GBP | 10 000 | 100 | * | * |
| | ✜ | Sarnafil Ltd., Bowthrope | GBP | 200 | 100 | | |
| | ▲ | Iotech Limited, Lancashire | GBP | 1 | 100 | | |
| | ❍ | Liquid Plastics Limited, Lancashire | GBP | 1 | 100 | * | * |
| | ❍ | Incorez Ltd., Lancashire | GBP | 1 | 100 | * | * |
| Greece | ❍ | Sika Hellas ABEE, Athens | EUR | 3 000 | 100 | * | * |
| Hungary | ✜ | Sika Huangária Kft., Budapest | HUF | 483 000 | 100 | * | * |
| Ireland | ✜ | Sika Ireland Ltd., Ballymun, Dublin | EUR | 635 | 100 | * | |
| Italy | ❍ | Sika Italia S.p.A., Milan | EUR | 5 000 | 100 | * | * |
| | ❍ | Sika Engineering Silicones S.r.l., Milan | EUR | 1 600 | 100 | * | |
| | ❍ | Sika Polyurethane Manufacturing S.r.l., Cerano | EUR | 1 600 | 100 | * | * |
| | ✧ ❍ | Addiment Italia S.r.l., Casale Monferrato | EUR | 10 000 | 50 | | * |
| Kazakhstan | ❍ | Sika Kazakhstan LLP, Almaty | KZT | 22 834 | 100 | | |
| Latvia | ✜ | Sika Baltic SIA, Riga | LVL | 870 | 100 | | |
| Netherlands | ✜ | Sika Nederland BV, Utrecht | EUR | 1 589 | 100 | * | |
| | ❍ | BV Descol Kunststoff Chemie, Deventer | EUR | 1 588 | 100 | * | * |
| | ▮ | BV DIAC, Deventer | EUR | 681 | 100 | * | * |
| Norway | ❍ | Sika Norge A/S, Skytta | NOK | 42 900 | 100 | * | * |
| Poland | ❍ | Sika Poland Sp.z.o.o., Warsaw | PLZ | 12 188 | 100 | * | * |

❏ Production, sales, construction contracting
❍ Production and sales
✜ Sales
▲ Real estate and service companies
▮ Construction contracting
✧ Associated companies (see Note 7) are recorded in the balance sheet using the equity method

| Country | | Company | | Capital stock in thousands | % holding | ISO 9001 | ISO 14001 |
|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | |
| Portugal | ❍ | Sika Portugal – Productos Construção e Indústria SA, Vila de Gaia | EUR | 1 500 | 100 | * | * |
| Romania | ✜ | Sika Romania S.R.L., Brasov | RON | 1 285 | 100 | * | * |
| Russia | ❍ | o.o.o. Sika Russia, Moscow | RUB | 285 394 | 100 | | |
| Serbia | ✜ | Sika d.o.o. Beograd, Beograd-Batajnica | EUR | 373 | 100 | | |
| Slovakia | ✜ | Sika Slovensko spol. s.r.o., Bratislava | EUR | 1 131 | 100 | * | * |
| Slovenia | ✜ | Sika Slovenija d.o.o., Trzin | EUR | 1 029 | 100 | * | * |
| Spain | ❍ | Sika SA, Alcobendas | EUR | 19 867 | 100 | * | * |
| Sweden | ❍ | Sika Sverige AB, Spånga | SEK | 10 000 | 100 | * | * |
| Switzerland | ❍ | Sika Schweiz AG, Zurich | CHF | 52 000 | 100 | * | * |
| | ▮ | Consorzio IGS, Zurich | CHF | 0 | 65 | | |
| | ▲ | Sika Services AG, Zurich | CHF | 300 | 100 | * | * |
| | ▲ | Sika Technology AG, Baar | CHF | 300 | 100 | * | * |
| | ▲ | Sika Informationssysteme AG, Widen | CHF | 400 | 100 | | |
| | ▮ | SikaBau AG, Zurich | CHF | 5 300 | 100 | * | |
| | ▲ | Sarna Kunststoff Holding AG, Sarnen | CHF | 2 400 | 100 | | |
| | ❍ | Sika Sarnafil Manufacturing AG, Sarnen | CHF | 14 000 | 100 | * | * |
| | ▲ | Sika Supply Center AG, Sarnen | CHF | 1 000 | 100 | * | * |
| | ❍ | Sucoflex AG, Pfäffikon | CHF | 1 000 | 100 | * | * |
| | ✜ | Sika Sarnafil AG, Sarnen | CHF | 1 650 | 100 | | |
| Turkey | ❍ | Sika Yapi Kimyasallari A.S., Istanbul | TRY | 6 700 | 100 | * | * |
| Ukraine | ✜ | LLC "Sika Ukraina", Kiev | UAH | 2 933 | 100 | | |

❑ Production, sales, construction contracting
❍ Production and sales
✜ Sales
▲ Real estate and service companies
▮ Construction contracting
✧ Associated companies (see Note 7) are recorded in the balance sheet using the equity method

| Country | | Company | | Capital stock in thousands | % holding | ISO 9001 | ISO 14001 |
|---|---|---|---|---|---|---|---|
| **Africa, Near and Middle East** | | | | | | | |
| Algeria | ❑ | Sika El Djazaïr, Eucalyptus Alger | DZD | 313 400 | 100 | | |
| Bahrain | ✧ ❍ | Sika Gulf B.S.C., Adliya | BHD | 1 000 | 45 | * | |
| Egypt | ❍ | Sika Egypt for Construction Chemicals S.A.E., Cairo | EGP | 10 000 | 100 | | |
| | ❍ | Sika Manufacturing for Construction Products, S.A.E., Cairo | EGP | 2 000 | 100 | * | * |
| Iran | ✤ | Sika Parsian P.J.S. Co., Tehran | IRR mn | 3 000 | 100 | | |
| Lebanon | ❍ | Sika Near East SAL, Beirut | LBP | 400 | 100 | | |
| Mauritius | ❍ | Sika Mauritius Ltd., Plaine Lauzun | MUR | 2 600 | 100 | | |
| Morocco | ❍ | Sika Maroc SA, Casablanca | MAD | 5 000 | 100 | * | * |
| Saudi Arabia | ✧ ✤ | Sika Saudi Arabia LLC, Jeddah | SAR | 15 000 | 45 | * | |
| South Africa | ❍ | Sika South Africa (Pty) Ltd., Pinetown | ZAR | 25 000 | 100 | * | * |
| Tunesia | ❑ | Sika Tunisienne Sàrl, Douar Hicher | TND | 150 | 86 | * | * |
| UAE | ✤ | Sika UAE LLC, Dubai | AED | 300 | 66 | * | * |
| | ✤ | Sika FZCO, Dubai | AED | 500 | 100 | | |
| **North America** | | | | | | | |
| Canada | ❍ | Sika Canada Inc., Pointe Claire / QC | CAD | 5 600 | 100 | * | * |
| USA | ❍ | Sika Corporation, Lyndhurst / NJ | USD | 72 710 | 100 | * | * |
| | ❍ | Greenstreak Group Inc., St. Louis / MO | USD | 0 | 100 | | |
| | ❍ | May National Associates Inc., Lakewood / NJ | USD | 0 | 100 | | |
| | ❍ | Incorez Corporation, Middletown / CT | USD | 0 | 100 | * | * |
| | ▲ | Iotech Properties Inc., Middletown / CT | USD | 0 | 100 | | |
| **Latin America** | | | | | | | |
| Argentina | ❍ | Sika Argentina SAIC, Buenos Aires | ARS | 7 600 | 100 | * | * |
| Bolivia | ✤ | Sika Bolivia SA, La Paz | BOB | 1 800 | 100 | * | |
| Brazil | ❍ | Sika SA, São Paulo | BRL | 10 000 | 100 | * | * |
| Chile | ❍ | Sika SA Chile, Santiago | CLP mn | 4 430 | 100 | * | * |
| Colombia | ❍ | Sika Colombia SA, Tocancipá | COP mn | 14 500 | 100 | * | * |
| Costa Rica | ✤ | Sika productos para la construcción SA, Heredia | CRC | 153 245 | 100 | | |
| Dominican Republic | ✤ | Sika Dominicana SA, Santo Domingo D.N. | DOP | 12 150 | 100 | | |
| Ecuador | ❍ | Sika Ecuatoriana SA, Guayaquil | USD | 1 982 | 100 | * | * |
| Guatemala | ✤ | Sika Guatemala SA, Ciudad de Guatemala | GTQ | 2 440 | 100 | | |
| Mexico | ❍ | Sika Mexicana SA de CV, Querétaro | MXN | 40 035 | 100 | * | * |
| Panama | ✤ | Sika Panamá SA, Ciudad de Panamá | USD | 200 | 100 | | |
| Peru | ❍ | Sika Perú SA, Lima | PEN | 3 500 | 100 | * | * |
| Uruguay | ❍ | Sika Uruguay SA, Montevideo | UYP | 22 800 | 100 | * | * |
| Venezuela | ❍ | Sika Venezuela SA, Valencia | VEF | 3 398 | 100 | | |

| Country | | Company | | Capital stock in thousands | % holding | ISO 9001 | ISO 14001 |
|---|---|---|---|---|---|---|---|
| **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 Guangzhou Ltd., Guangzhou | CNY | 80 730 | 100 | * | * |
| | ❍ | Sika Ltd., Dalian | CNY | 45 317 | 100 | * | |
| | ❍ | Sika (China) Ltd., Suzhou | USD | 35 000 | 100 | * | * |
| | ✜ | Sika (Guangzhou) Trading Company Ltd., Guangzhou | CNY | 3 723 | 100 | | |
| | ❍ | Sika Sarnafil Waterproofing Systems, (Shanghai) Ltd., Shanghai | USD | 22 800 | 100 | * | * |
| | ❍ | Jiangsu TMS Concrete Admixture Co. Ltd., Zhengjiang | CNY | 24 500 | 70 | * | * |
| | ✜ ▮ | Jinan Sika Engineering Co. Ltd., Jinan | CHF | 5 380 | 100 | * | |
| | ❍ | Sichuan Keshuai Admixture Co. Ltd., Chengdu | CNY | 10 000 | 80 | * | |
| | ✜ | Dyflex Constuction Material Trading (Shanghai) Co. Ltd., Shanghai | USD | 1 100 | 100 | | |
| Hong Kong | ❍ | Sika Hong Kong Ltd., Shatin | HKD | 30 000 | 100 | | |
| India | ❍ | Sika India Private Ltd., Mumbai | INR | 45 000 | 100 | * | |
| Indonesia | ❍ | P.T. Sika Indonesia, Bogor | IDR mn | 3 282 | 100 | * | * |
| Japan | ❍ | Sika Ltd., Hiratsuka-Shi, Kanagawa | JPY | 490 000 | 100 | * | * |
| | ▲ | Dyflex HD Co. Ltd., Tokyo | JPY | 10 000 | 76 | | |
| | ✜ | Dick Proofing Co. Ltd., Tokyo | JPY | 90 000 | 100 | | |
| | ❍ | Dyflex, Tokyo | JPY | 315 175 | 100 | * | * |
| | ▲ | DCT Co. Ltd., Tokyo | JPY | 10 000 | 100 | | |
| | ▮ | Kyoshin Kenko Co. Ltd., Fukuoka | JPY | 10 000 | 100 | | |
| | ❍ | Kowa Chemical Industries Co. Ltd., Tokyo | JPY | 85 000 | 100 | | |
| | ▮ | DCS Kyoshin Co. Ltd., Tokyo | JPY | 30 000 | 100 | | |
| | ✜ | U-Plex Co. Ltd., Tokyo | JPY | 100 000 | 100 | | |
| Korea | ❍ | Sika Korea Ltd., Ansong-city Kyunggi-Do | KRW mn. | 5 596 | 100 | * | * |
| Malaysia | ❍ | Sika Kimia Sdn. Bhd., Nilai | MYR | 5 000 | 100 | * | * |
| | ▲ | Sika Harta Sdn. Bhd., Nilai | MYR | 10 000 | 100 | | |
| New Zealand | ❍ | Sika (NZ) Ltd., Auckland | NZD | 1 100 | 100 | * | * |
| Pakistan | ✜ | Sika Pakistan Ltd., Lahore | PKR | 17563 | 100 | | |
| Philippines | ❍ | Sika Philippines Inc., Manila | PHP | 56 000 | 100 | * | * |
| Singapore | ✜ | Sika Singapore Pte. Ltd., Singapore | SGD | 400 | 100 | | |
| | ▲ | Sika Asia Pacific Mgt. Pte. Ltd., Singapore | SGD | 100 | 100 | | |
| Taiwan | ❍ | Sika Taiwan Ltd., Taoyuan County | TWD | 40 000 | 100 | * | * |
| Thailand | ❍ | Sika (Thailand) Ltd., Cholburi | THB | 200 000 | 100 | * | * |
| Vietnam | ❍ | Sika Limited (Vietnam), Dong Nai Province | VND mn | 44 190 | 100 | * | * |

❑ Production, sales, construction contracting
❍ Production and sales
✜ Sales
▲ Real estate and service companies
▮ Construction contracting
✧ Associated companies (see Note 7) are recorded in the balance sheet using the equity method

# Appendix to the Consolidated Financial Statements
## Report of the Statutory Auditors to the Annual General Meeting of Sika AG, Baar

**REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS.** As statutory auditor, we have audited the consolidated financial statements of Sika AG, which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes (pages 88 to 136) for the year ended on December 31, 2010.

**Board of Directors' responsibility.** The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements for the year ended December 31, 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

**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 paragraph 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 consolidated financial statements according to the instructions of the Board of Directors.

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

Zug, February 25, 2011

Ernst & Young Ltd

| | |
|---|---|
| Bernadette Koch<br>Licensed audit expert<br>(Auditor in charge) | Pascal Kocher<br>Licensed audit expert |

# Five-Year Reviews

## Consolidated Balance Sheet as of December 31

| in CHF mn | | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| | | | | | | |
| Cash and cash equivalents | | 428 | 439 | 318 | 802 | 938 |
| Accounts receivable | c | 790 | 861 | 779 | 739 | 781 |
| Inventories | d | 413 | 500 | 513 | 451 | 500 |
| Other current assets | | 112 | 116 | 134 | 101 | 132 |
| **Total current assets** | b | **1 743** | **1 916** | **1 744** | **2 093** | **2 351** |
| Property, plant and equipment | | 764 | 831 | 832 | 862 | 817 |
| Intangible assets | | 486 | 463 | 525 | 562 | 631 |
| Other non-current assets | | 67 | 108 | 108 | 112 | 133 |
| **Total non-current assets** | e | **1 317** | **1 402** | **1 465** | **1 536** | **1 581** |
| **Assets held for sale** | | **4** | **0** | **0** | **0** | **0** |
| **Total assets** | | **3 064** | **3 318** | **3 209** | **3 629** | **3 932** |
| | | | | | | |
| Accounts payable | g | 387 | 439 | 398 | 355 | 478 |
| Bonds (short term) | | | | | | 275 |
| Other current liabilities | | 326 | 303 | 287 | 311 | 304 |
| **Current liabilities** | f | **713** | **742** | **685** | **666** | **1 057** |
| Bonds | | 765 | 767 | 768 | 1 067 | 794 |
| Non-current provisions, employee benefit liabilities | | 237 | 266 | 221 | 233 | 224 |
| Other non-current liabilities | | 74 | 68 | 71 | 70 | 105 |
| **Total non-current liabilities** | | **1 076** | **1 101** | **1 060** | **1 370** | **1 123** |
| **Total liabilities** | | **1 789** | **1 843** | **1 745** | **2 036** | **2 180** |
| Capital stock | | 23 | 23 | 23 | 23 | 23 |
| Treasury shares | | -2 | -65 | -118 | -106 | -70 |
| Reserves | | 1 242 | 1 514 | 1 556 | 1 672 | 1 795 |
| **Equity attributable to Sika shareholders** | | **1 263** | **1 472** | **1 461** | **1 589** | **1 748** |
| Non-controlling interests | | 11 | 3 | 3 | 5 | 4 |
| **Total shareholders' equity** | h | **1 274** | **1 475** | **1 464** | **1 593** | **1 752** |
| **Total liabilities and shareholders' equity** | a | **3 063** | **3 318** | **3 209** | **3 629** | **3 932** |

# Five-Year Reviews

## Consolidated Income Statement from January 1 to December 31

| in CHF mn | | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| **Net sales** | | **3 896** | **4 573** | **4 625** | **4 155** | **4 416** |
| **Operating revenue** | | **3 910** | **4 573** | **4 642** | **4 146** | **4 434** |
| Material expenses | | 1 809 | 2 137 | 2 251 | 1 851 | 2 049 |
| **Gross result** | | **2 101** | **2 436** | **2 391** | **2 295** | **2 385** |
| Personnel expenses | | 845 | 926 | 958 | 954 | 953 |
| Other operating expenses | | 741 | 872 | 877 | 801 | 855 |
| **Operating profit before depreciation and restructuring** | | **515** | **638** | **556** | **540** | **577** |
| Depreciation / amortization / impairment | | 143 | 127 | 134 | 139 | 138 |
| **Operating profit before restructuring** | i | **371** | **511** | **422** | **401** | **440** |
| Restructuring | | 0 | 0 | 0 | 57 | 0 |
| **Operating profit** | | **371** | **511** | **422** | **344** | **440** |
| Interest income / expense | | 18 | 22 | 21 | 24 | 30 |
| Financial income / expense | | 19 | 9 | 28 | 4 | 6 |
| **Profit before taxes** | | **334** | **480** | **373** | **316** | **404** |
| Income taxes | | 99 | 138 | 106 | 90 | 93 |
| **Net profit** | | **235** | **342** | **267** | **226** | **311** |
| Free cash flow | | 146 | 183 | 90 | 313 | 244 |
| Gross result as % of net sales | | 53.9 | 53.3 | 51.7 | 55.2 | 54.0 |
| Operating profit (EBIT) as % of net sales | | 9.5 | 11.2 | 9.1 | 9.6 | 10.0 |
| Consolidated net profit as % of net sales (ROS) | | 6.0 | 7.5 | 5.8 | 5.4 | 7.0 |
| Consolidated net profit as % of shareholders' equity (ROE) | | 18.4 | 23.2 | 18.3 | 14.2 | 17.8 |

### Key balance sheet data

| in CHF mn | Calculation | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Net working capital | (c+d-g) | 816 | 922 | 893 | 835 | 802 |
| Net working capital as % of net sales | | 21 | 20 | 19 | 20 | 18 |
| Non-current assets as % of balance sheet total | (e : a) | 43 | 42 | 46 | 42 | 40 |
| Shareholders' equity as % of non-current assets | (h : e) | 97 | 105 | 100 | 104 | 111 |
| Net debt[1] | j | 389 | 352 | 465 | 265 | 165 |
| Gearing in % | (j : h) | 31 | 24 | 32 | 17 | 9 |
| Equity ratio in % | (h : a) | 42 | 44 | 46 | 44 | 45 |

[1] Net debt: Interest-bearing indebtedness (short and long-term bank debt + bonds) ./. interest-bearing current assets (cash, cash equivalents and securities)

### Value-based key data

| in CHF mn | Calculation[1] | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Capital employed[1] | | 1 884 | 2 041 | 2 109 | 2 041 | 2 086 |
| Annual average of capital employed | k | 1 838 | 1 963 | 2 075 | 2 075 | 2 064 |
| Operating profit before restructuring | i | 371 | 511 | 422 | 401 | 440 |
| Return on capital employed (ROCE) in % | (i :k) | 20 | 26 | 20 | 19 | 21 |

[1] Capital employed = Operating assets./.cash./.non-interest-bearing current liabilities

# Five-Year Reviews
## Segment Information

| in CHF mn | Europe North | | | | | Europe South | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Net sales | 1 439 | 1 713 | 1 736 | 1 475 | 1 457 | 947 | 1 101 | 1 050 | 935 | 874 |
| Operating profit before restructuring | 155 | 228 | 191 | 159 | 156 | 127 | 168 | 145 | 136 | 127 |
| in % of net sales | 10.8 | 13.3 | 11.0 | 10.8 | 10.7 | 13.4 | 15.3 | 13.8 | 14.6 | 14.5 |
| Depreciation / amortization | 49 | 50 | 28 | 29 | 26 | 21 | 21 | 15 | 19 | 16 |
| Impairment | 6 | -1 | 6 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital expenditures | 39 | 78 | 67 | 45 | 30 | 17 | 27 | 21 | 17 | 12 |

| in CHF mn | IMEA | | | | | Asia / Pacific | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Net sales | 164 | 223 | 258 | 264 | 286 | 407 | 478 | 483 | 473 | 676 |
| Operating profit before restructuring | 20 | 29 | 32 | 43 | 45 | 36 | 43 | 32 | 54 | 92 |
| in % of net sales | 12.2 | 13.0 | 12.4 | 16.1 | 15.7 | 8.8 | 9.0 | 6.5 | 11.4 | 13.6 |
| Depreciation / amortization | 2 | 2 | 3 | 3 | 4 | 10 | 13 | 12 | 13 | 18 |
| Impairment | 1 | -1 | 0 | 0 | 0 | 3 | 1 | 0 | 1 | 0 |
| Capital expenditures | 7 | 12 | 7 | 11 | 4 | 23 | 21 | 20 | 11 | 11 |

The Region IMEA encompasses India, the Middle East and the eastern countries of Africa (see also the world map on page 21). Separate reporting for this Region was introduced as of January 1, 2007. Data for 2006 were adjusted accordingly.

Due to the first application of IFRS 8, data for 2008 were adjusted. No adjustments were made for prior years.

| | North America | | | | | Latin America | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | | | | | | | | | | |
| | 637 | 681 | 657 | 602 | 633 | 302 | 377 | 433 | 395 | 480 |
| | 45 | 64 | 47 | 64 | 62 | 35 | 50 | 59 | 57 | 88 |
| | 7.1 | 9.4 | 7.1 | 10.6 | 9.8 | 11.6 | 13.3 | 13.6 | 14.3 | 18.3 |
| | 30 | 26 | 25 | 25 | 25 | 6 | 6 | 6 | 6 | 6 |
| | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 36 | 28 | 26 | 24 | 9 | 9 | 12 | 26 | 8 | 11 |

| | Central Services | | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2006 | 2007 | 2008 | 2009 | 2010 |
| | | | | | | | | | | |
| | | | 8 | 12 | 10 | 3 896 | 4 573 | 4 625 | 4 156 | 4 416 |
| | -48 | -71 | -83 | -112 | -130 | 371 | 511 | 422 | 401 | 440 |
| | | | | | | 9.5 | 11.2 | 9.1 | 9.6 | 10.0 |
| | 10 | 10 | 40 | 42 | 41 | 128 | 128 | 128 | 137 | 136 |
| | 0 | 0 | 0 | 0 | 2 | 11 | -1 | 6 | 3 | 2 |
| | 8 | 8 | 64 | 46 | 23 | 139 | 186 | 230 | 161 | 100 |

# Five-Year Reviews
## Employees

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Employees by Region (as of December 31)** | | | | | |
| **Europe North** | **4 151** | **4 248** | **4 741** | **4 417** | **4 455** |
| Switzerland | 1 773 | 1 792 | 2 036 | 1 900 | 1 912 |
| Germany | 1 375 | 1 302 | 1 422 | 1 336 | 1 321 |
| **Europe South** | **1 869** | **1 922** | **1 994** | **2 108** | **2 103** |
| France | 651 | 664 | 685 | 617 | 603 |
| **North America** | **1 330** | **1 319** | **1 358** | **1 163** | **1 360** |
| USA | 1 192 | 1 155 | 1 180 | 991 | 1 189 |
| **Latin America** | **1 365** | **1 539** | **1 729** | **1 561** | **1 703** |
| Brazil | 169 | 188 | 209 | 220 | 244 |
| **IMEA** | **496** | **789** | **873** | **892** | **1 082** |
| **Asia / Pacific** | **2 098** | **1 906** | **2 205** | **2 228** | **2 779** |
| Japan | 210 | 211 | 212 | 197 | 614 |
| **Total** | **11 309** | **11 723** | **12 900** | **12 369** | **13 482** |
| | | | | | |
| **Personnel expenses (in CHF mn)** | | | | | |
| Wages and salaries | 678 | 746 | 780 | 769 | 775 |
| Social charges, other | 167 | 180 | 178 | 185 | 178 |
| **Total personnel expenses** | **845** | **926** | **958** | **954** | **953** |
| Personnel expenses as % of net sales | 22 | 20 | 21 | 23 | 22 |
| **Key data per employee (in CHF 1000)** | | | | | |
| Net sales | 352 | 397 | 376 | 329 | 342 |
| Net value-added[1] | 110 | 125 | 112 | 103 | 108 |

[1] See next page, Five-year reviews: Value-Added Statement

# Five-Year Reviews
## Value-Added Statement

| in CHF mn | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Source of value-added** | | | | | |
| Corporate performance (net sales) | 3 896 | 4 573 | 4 625 | 4 155 | 4 416 |
| Intermediate inputs | -2 524 | -2 982 | -3 132 | -2 676 | -2 908 |
| **Gross value-added** | **1 372** | **1 591** | **1 493** | **1 479** | **1 508** |
| Expenses not affecting liquidity | | | | | |
| Depreciation and amortization | -143 | -127 | -134 | -139 | -138 |
| Change in provisions | -12 | -27 | 21 | -42 | 23 |
| **Net value-added** | **1 217** | **1 437** | **1 380** | **1 298** | **1 393** |
| **Distribution of value-added** | | | | | |
| To employees | | | | | |
| Wages and salaries | 678 | 746 | 780 | 769 | 775 |
| Social charges | 167 | 180 | 178 | 185 | 179 |
| To governments (capital and income taxes) | 99 | 138 | 106 | 90 | 93 |
| To lenders (financial expenses) | 38 | 31 | 49 | 28 | 35 |
| To shareholders (dividend payout, incl. non-controlling interests) | 49 | 79 | 112 | 112 | 112 |
| To the company | | | | | |
| Net profit for the year | 235 | 342 | 267 | 226 | 311 |
| Less dividend payout | -49 | -79 | -112 | -112 | -112 |
| **Net value-added** | **1 217** | **1 437** | **1 380** | **1 298** | **1 393** |
| **Number of employees** | | | | | |
| End of year | 11 309 | 11 723 | 12 900 | 12 369 | 13 482 |
| Annual average | 11 080 | 11 516 | 12 312 | 12 635 | 12 926 |
| **Net value-added per employee (in CHF 1 000)** | **110** | **125** | **112** | **103** | **108** |

### Net value-added 2010

| | |
|---|---|
| Intermediate inputs | 65.9% (64.4%) |
| Non-liquidity-related expenses | 2.6% (4.4%) |
| **Net value-added** | **31.5% (31.2%)** |

Distribution of value-added = 100%

| | |
|---|---|
| Employees | 68.5% (73.4%) |
| Company | 14.2% (8.9%) |
| Government | 6.7% (6.9%) |
| Shareholders | 8.0% (8.6%) |
| Lenders | 2.6% (2.2%) |

# Sika AG Financial Statements

## Sika AG Balance Sheet as of December 31

### Assets

| in CHF mn | Notes | 2009 | 2010 |
|---|---|---|---|
| | | | |
| **Current assets** | | | |
| Cash in bank | 1 | 674.8 | 810.2 |
| Securities | 2 | 7.3 | 0.1 |
| Accounts receivable from subsidiaries | 3 | 765.5 | 798.2 |
| Accounts receivable from third parties | 3 | 10.1 | 14.5 |
| Treasury shares | 4 | 50.1 | 33.7 |
| Accrued income | | 0.5 | 0.1 |
| **Total current assets** | | **1 508.3** | **1 656.8** |
| **Non-current assets** | | | |
| Furnishings | 5 | 0.0 | 0.0 |
| Trademark licenses | 6 | 1.3 | 1.7 |
| Investments | 7 | 1 031.4 | 1 093.0 |
| Long-term loans and other non-current assets | 8 | 10.1 | 7.8 |
| **Total non-current assets** | | **1 042.8** | **1 102.5** |
| | | | |
| **Total assets** | | **2 551.1** | **2 759.3** |

### Liabilities and shareholders' equity

| in CHF mn | Notes | 2009 | 2010 |
|---|---|---|---|
| | | | |
| **Liabilities** | | | |
| Accounts payable to subsidiaries | 9 | 35.8 | 92.1 |
| Accounts payable to third parties | 9 | 4.5 | 18.6 |
| Bond repayable October 2011 | 11 | 0.0 | 275.0 |
| Deferred income | 10 | 38.4 | 20.5 |
| **Total current liabilities** | | **78.7** | **406.2** |
| Bonds | 11 | 1 075.0 | 800.0 |
| Provisions for risks related to investments | 12 | 70.1 | 82.1 |
| **Total non-current liabilities** | | **1 145.1** | **882.1** |
| **Total liabilities** | | **1 223.8** | **1 288.3** |
| **Shareholders' equity** | | | |
| Capital stock | 13 | 22.9 | 22.9 |
| Legal reserve | | 113.4 | 113.4 |
| Reserve for treasury shares | | 106.3 | 69.9 |
| Free reserves | | 15.3 | 51.7 |
| Total reserves | 14 | 235.0 | 235.0 |
| Profit brought forward | | 857.2 | 957.5 |
| Net profit for the year | | 212.2 | 255.6 |
| **Retained earnings** | 15 | **1 069.4** | **1 213.1** |
| **Total shareholders' equity** | 16 | **1 327.3** | **1 471.0** |
| | | | |
| **Total liabilities and shareholders' equity** | | **2 551.1** | **2 759.3** |

# Sika AG Financial Statements
## Sika AG Income Statement from January 1 to December 31

| in CHF mn | Notes | 2009 | 2010 |
|---|---|---|---|
| | | | |
| **Income** | | | |
| Income from subsidiaries | 17 | 203.4 | 226.4 |
| Financial income | 18 | 52.0 | 104.0 |
| Trademark licenses | 19 | 31.6 | 32.2 |
| Other income | | 1.3 | 0.3 |
| **Total income** | | **288.3** | **362.9** |
| **Expenses** | | | |
| Administrative expenses | 20 | 13.7 | 20.9 |
| Financial expenses | 21 | 37.4 | 62.9 |
| Taxes | 22 | 1.3 | 4.0 |
| Depreciation / change in provisions | 23 | 20.5 | 12.4 |
| Other expenses | 24 | 3.2 | 7.1 |
| **Total expenses** | | **76.1** | **107.3** |
| | | | |
| **Net profit for the year** | | **212.2** | **255.6** |

# Sika AG Financial Statements
## Notes to the Sika AG Financial Statements (in accordance with Article 663b, Swiss Code of Obligations)

**GENERAL EXPLANATIONS.** With the establishment of Sika Services AG and Sika Technology AG in 2002, responsibilities, and therefore profits and expenditures, were reallocated. Sika AG is no longer responsible for operating costs; they are charged to Sika Services AG in full and, in turn, to subsidiaries. So-called “stewardship costs” (administrative costs of Sika AG) are fully borne by Sika AG. Research expense and licensing income accrue to Sika Technology AG; however, its proceeds from trademark licenses are transferred to Sika AG.

Subsidiaries with excess liquidity use dividends and capital decreases to transfer liquid funds to Sika AG. Loan agreements were concluded between Sika AG and its subsidiaries to cover financial requirements. Under these agreements, flexible loans are issued at market conditions and generally in local currencies. The loans are secured centrally by Sika AG.

Liquid assets at hand within the Group are centralized at Sika AG. Sika AG places these assets at the disposal of subsidiaries in need of funds.

To secure liquidity, in 2006 Sika AG extended the five-year syndicated credit line established February 20, 2003, to November 15, 2010, increasing it from CHF 350 million to CHF 450 million. The line expired on November 15, 2010 and was not extended.

To finance the acquisition of Sarna Polymer Holding Inc. as well as other investments three separate bonds were issued totaling CHF 775 million in 2006. In 2009 Sika AG issued another five-year bond on the Swiss capital market amounting to CHF 300 million with a coupon of 3.5% per annum for long-term, general financing of the company. The CHF 275 million bond will mature on October 26, 2011.

1 **CASH IN BANK.** CHF 810.2 mn (CHF 674.8 mn)
All bank deposits are held in interest-bearing accounts.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Swiss francs (CHF) | 674.7 | 794.7 |
| Foreign currencies | 0.1 | 15.5 |
| **Total cash in banks** | **674.8** | **810.2** |

2 **SECURITIES.** CHF 0.1 mn (CHF 7.3 mn)
The share portfolio was largely sold.

3 **ACCOUNTS RECEIVABLE FROM SUBSIDIARIES AND THIRD PARTIES.**
Total of accounts receivable amounts to CHF 812.7 mn (CHF 775.6 mn). Receivables consist mainly of CHF 781.2 mn (CHF 750.9 mn) in loans to subsidiaries. These loans constitute part of the Group-wide cash management concept.

Sika AG has additional receivables of CHF 17.0 mn (CHF 14.6 mn) due from Sika subsidiaries on open accounts.

Receivables from third parties of CHF 14.5 mn (CHF 10.1 mn) include CHF 1.5 mn (CHF 0.3 mn) in credits from the Swiss tax authorities, CHF 1.7 mn (CHF 1.7 mn) from an insurance company and CHF 11.3 mn (CHF 8.1 mn) due from associated companies.

4 **TREASURY SHARES.** CHF 33.7 mn (CHF 50.1 mn)
Treasury shares are appropriated for Group-wide share based payment plans and used to invest liquidity.

| in CHF mn | Bearer shares nominal value CHF 9.00 | | Registered shares nominal value CHF 1.50 | | Total |
|---|---|---|---|---|---|
| | Units | | Units | | |
| | | | | | |
| **As of December 31, 2008** | **61 508** | **55.4** | **0** | **0.0** | **55.4** |
| Reductions | -5 881 | -5.3 | 0 | 0.0 | -5.3 |
| Additions | 0 | 0.0 | 0 | 0.0 | 0.0 |
| Valuation adjustment | – | 0.0 | – | 0.0 | 0.0 |
| **As of December 31, 2009** | **55 627** | **50.1** | **0** | **0.0** | **50.1** |
| Reductions | -21 939 | -20.2 | 0 | 0.0 | -20.2 |
| Additions | 2 220 | 3.8 | 0 | 0.0 | 3.8 |
| Valuation adjustment | – | 0.0 | – | 0.0 | 0.0 |
| **As of December 31, 2010** | **35 908** | **33.7** | **0** | **0.0** | **33.7** |

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

6 **TRADEMARK LICENSES.** CHF 1.7 mn (CHF 1.3 mn)
Capitalized trademark licenses are amortized over their useful life.

7 **INVESTMENTS.** CHF 1 093.0 mn (CHF 1 031.4 mn)
In the Region Asia/Pacific Sika acquired Dyflex HD Co. Ltd., Japan, at a value of CHF 45.8 million. Further capital transactions amounting to CHF 15.8 million were undertaken. Major participations are indicated in the List of Group Companies beginning on page 133.

8 **LOANS AND OTHER NON-CURRENT ASSETS.** CHF 7.8 mn (CHF 10.1 mn)
The long-term loan of CHF 2.1 million consists of a shareholders' loan to Sika Argentina SAIC, Argentina. Other non-current assets contain capitalized bond issuance costs as well as premiums for issued bonds. The issuance costs as well as the premiums are written down over the respective term of the bond.

9 **ACCOUNTS PAYABLE TO SUBSIDIARIES AND THIRD PARTIES.** CHF 110.7 mn (CHF 40.3 mn)
The total includes CHF 92.1 mn (CHF 35.8 mn) in liabilities to Sika subsidiaries, resulting from the worldwide cash management concept. The increase is due to the introduction of zero-balanced cash pooling at the Swiss subsidiaries. The remaining liabilities of CHF 18.6 mn (CHF 4.5 mn) consist of accounts payable to third parties.

10 **DEFERRED INCOME.** CHF 20.5 mn (CHF 38.4 mn)
Deferred income includes pro-rata interest of CHF 18.1 mn (CHF 18.1 mn) as well as other accrued expenses of CHF 2.4 mn (CHF 2.2 mn).

11 **BONDS.** CHF 275.0 mn / CHF 800.0 mn (CHF 0.0 mn / CHF 1 075.0 mn)
Four bonds were issued to finance the acquisition of Sarna Polymer Holding Inc. as well as Group growth. The CHF 275 million bond will be repaid on October 26, 2011.

| | |
|---|---|
| 2.750% fixed-interest bond 2006–10/26/2011 | CHF 275.0 mn |
| 2.375% fixed-interest bond 2006–2/15/2013 | CHF 250.0 mn |
| 3.500% fixed-interest bond 2009–6/4/2014 | CHF 300.0 mn |
| 2.875% fixed-interest bond 2006–3/23/2016 | CHF 250.0 mn |

12 **PROVISIONS FOR RISKS RELATED TO INVESTMENTS.** CHF 82.1 mn (CHF 70.1 mn)
Provisions for risks related to investments were increased by CHF 10.0 million to CHF 50.0 million. They relate to the economical, financial and political risks of a globally operating company. Provisions to cover credit risks of Group loans were increased by CHF 2.0 million to CHF 30.1 million. Other provisions were left unchanged at CHF 2.0 million.

**13 CAPITAL STOCK.** CHF 22.9 mn (CHF 22.9 mn)

On December 31, 2010, the company had 52 (56) registered shareholders. Information regarding major shareholders can be found on page 155.

At the Annual General Meeting on May 27, 1998, 260 000 bearer shares, valued nominally at CHF 60.00, i. e. CHF 15.6 million, were issued as contingent capital stock. These shares are allocated for the exercise of option or conversion rights. In 2004 178 new bearer shares were created out of the contingent capital. The contingent capital was adjusted according to the reduction in nominal value.

The capital stock consists of:

| | Bearer shares[1] nominal value CHF 9.00 | Registered shares nominal value CHF 1.50 | Total |
|---|---|---|---|
| 12/31/2009 (units) | 2 151 199 | 2 333 874 | 4 485 073 |
| Nominal value (CHF) | 19 360 791 | 3 500 811 | 22 861 602 |
| 12/31/2010 (units) | 2 151 199 | 2 333 874 | 4 485 073 |
| Nominal value (CHF) | 19 360 791 | 3 500 811 | 22 861 602 |

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

**14 RESERVES.** CHF 235.0 mn (CHF 235.0 mn)

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

| in CHF mn | 2009 | 2010 |
|---|---|---|
| General statutory reserve | 113.4 | 113.4 |
| Reserve for treasury shares | 106.3 | 69.9 |
| Free reserve | 15.3 | 51.7 |
| **Total** | **235.0** | **235.0** |

15 **RETAINED EARNINGS.** CHF 1 213.1 mn (CHF 1 069.4 mn)
Net profit for the year reflects the regular business activities. The increase is largely due to higher financial income. A dividend of CHF 112.0 million for the business year 2009 was distributed to shareholders in April 2010.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Profit brought forward | 857.2 | 957.5 |
| Net profit for the year | 212.2 | 255.6 |
| **Retained earnings** | **1 069.4** | **1 213.1** |

16 **SHAREHOLDERS' EQUITY.** CHF 1 471.0 mn (CHF 1 327.3 mn)
Shareholders' equity lies above the level of the prior year. The ratio of shareholders' equity to balance sheet total increased from 52.0% to 53.3%.

**Contingent liabilities.** Letters of guarantee and letters of comfort are issued to finance business transactions. A subordinated claim declaration of EUR 2.0 million has been issued for Sarna Kunststoffbeteiligungs GmbH, Stuttgart, Germany. Additional guarantees were issued for the new zero-balancing cash pooling introduced at the Swiss subsidiaries. Sika AG is part of the Sika Schweiz AG value-added tax group and is jointly and severally liable to the tax authorities for the value-added tax obligations of the tax group. The increase in the letters of guarantee relates to the zero-balancing cash pooling.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| **Letters of guarantee** | | |
| Issued | 152.6 | 171.8 |
| Used | 9.1 | 8.8 |
| **Letters of comfort** | | |
| Issued | 8.0 | 2.7 |
| Used | 0.1 | 0.1 |
| **Credit lines to subsidiaries** | | |
| Issued | 4.9 | 4.1 |
| Used | 0.8 | 0.7 |

17 **INCOME FROM ASSOCIATED COMPANIES.** CHF 226.4 mn (CHF 203.4 mn)
Income from subsidiaries includes dividend distributions.

18 **FINANCIAL INCOME.** CHF 104.0 mn (CHF 52.0 mn)
Financial income includes interest income and gains from foreign exchange transactions. The increase is largely due to gains on treasury shares and also gains from foreign exchange.

Financial income consists of:

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Interest income from | | |
| Subsidiaries | 45.6 | 40.9 |
| Banks | 0.8 | 1.6 |
| Gains from securities and foreign exchange | 4.9 | 57.9 |
| Valuation adjustments to securities | 0.6 | 0.0 |
| Other income | 0.1 | 3.6 |
| **Total** | **52.0** | **104.0** |

19 **TRADEMARK LICENSES.** CHF 32.2 mn (CHF 31.6 mn)
Income from trademark licenses reflects business development in 2010.

20 **ADMINISTRATIVE EXPENSES.** CHF 20.9 mn (CHF 13.7 mn)
Administrative expenses include expenses for the holding company and allocated Group management costs.

21 **FINANCIAL EXPENSES.** CHF 62.9 mn (CHF 37.4 mn)
Financial expenses mainly include the cost of interest on loans as well as foreign currency losses from foreign exchange transactions and loans. Losses from foreign exchange transactions arise from hedging transactions to secure loans granted to local companies.

Financial expenses consist of:

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Loan and bank interest | 28.6 | 33.6 |
| Interest payed to local companies | 0.9 | 0.7 |
| Coupon redemption expenses | 0.2 | 0.2 |
| Bank fees | 0.4 | 0.5 |
| Fees for syndicated credit line | 0.3 | 0.3 |
| Losses from foreign exchange, securities, hedges | 7.0 | 27.6 |
| **Total** | **37.4** | **62.9** |

**22 TAXES.** CHF 4.0 mn (CHF 1.3 mn)
Tax expenses, which were higher owing to the gains on treasury shares, include the required tax provisions for the year under review.

**23 DEPRECIATION / CHANGE IN PROVISIONS.** CHF 12.4 mn (CHF 20.5 mn)
The change in provision for participations and Group loans amounted to CHF 12.0 mn (CHF 10.0 mn). Trademark licenses were depreciated as is customary.

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| Current provisions | 0.3 | 0.0 |
| Depreciation / provisions of investments | 19.7 | 12.0 |
| Trademark licenses | 0.5 | 0.4 |
| **Total** | **20.5** | **12.4** |

**24 OTHER EXPENSES.** CHF 7.1 mn (CHF 3.2 mn)
This item consists of:
- Non-recoverable withholding taxes: CHF 6.4 mn
- Expenses for trademark licenses: CHF 0.7 mn

## 25 REMUNERATION OF THE BOARD OF DIRECTORS.

Compensation paid to members of the Board of Directors in 2010 (2009):

| | Walter Grüebler Chairman | | Thomas W. Bechtler[2] Vice Chairman | | Urs F. Burkard[3] | | Paul Hälg | | Urs B. Rinderknecht | | Toni Rusch | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **in CHF 1000** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** |
| **Cash** | | | | | | | | | | | | |
| Fix fees | 516.0 | 517.3 | 149.1 | 148.9 | 118.9 | 118.9 | 0.0 | 79.6 | 119.8 | 118.9 | 128.7 | 37.4 |
| Remuneration[1] | 339.9 | 358.9 | | | | | | | | | | |
| Other expenses | 41.4 | 41.4 | 22.5 | 25.0 | 20.0 | 20.0 | 0.0 | 6.0 | 16.0 | 20.0 | 24.0 | 6.5 |
| **Payments in kind** | | | | | **5.8** | **0.6** | | | | | | |
| **Benefit obligations** | | | | | | | | | | | | |
| Social security contributions | 56.5 | 58.5 | 10.5 | 10.6 | 8.7 | 8.7 | 0.0 | 5.5 | 2.2 | 8.7 | 9.4 | 2.3 |
| Management insurance | 55.3 | 56.0 | | | | | | | | | | |
| Benefit plan | | | | | | | | | | | | |
| **Total** | **1 009.1** | **1 032.1** | **182.1** | **184.5** | **153.4** | **148.3** | **0.0** | **91.2** | **138.0** | **147.6** | **162.1** | **46.2** |

| | Daniel J. Sauter | | Fritz Studer | | Ulrich W. Suter | | Christoph Tobler | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **in 1000 CHF** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** | **2009** | **2010** |
| **Cash** | | | | | | | | | | |
| Fix fees | 118.8 | 118.8 | 117.4 | 108.9 | 119.0 | 102.4 | 119.2 | 118.9 | 1 506.9 | 1 470.0 |
| Remuneration[1] | | | | | | | | | 339.9 | 358.9 |
| Other expenses | 20.0 | 20.0 | 20.0 | 19.5 | 19.0 | 17.0 | 14.0 | 18.0 | 196.9 | 193.4 |
| **Payments in kind** | | | | | | | | | **5.8** | **0.6** |
| **Benefit obligations** | | | | | | | | | | |
| Social security contributions | 8.7 | 8.7 | 7.3 | 6.8 | 8.7 | 6.3 | 8.4 | 8.6 | 120.4 | 124.9 |
| Management insurance | | | | | | | | | 55.3 | 56.0 |
| Benefit plan | | | | | | | | | 0.0 | 0.0 |
| **Total** | **147.5** | **147.5** | **144.7** | **135.2** | **146.7** | **125.7** | **141.6** | **145.5** | **2 225.1** | **2 203.9** |

[1] 20% or 40% has to be drawn in the form of own shares. The allocation occurs at market values. These shares are allocated at the average price prevailing in February of the subsequent year.
[2] In the reporting year 2010 CHF 0.7 mn (CHF 0.6 mn) was paid for services to a company associated with T. Bechtler.
[3] In the reporting year 2010 CHF 0.8 mn (CHF 0.3 mn) was paid for equipment to a company owned by U. Burkard.

For practical reasons disclosure is on a cash basis.

No member of the Board of Directors was granted a loan during the business year. No loans were outstanding at the end of the year under review. No compensation was paid in 2010 to Willi K. Leimer, a member of the Board of Directors since April 2010.

## 26 REMUNERATION OF GROUP MANAGEMENT.

For the business year 2010 Group Management is entitled to the following remuneration:

| | Ernst Bärtschi CEO | | Total | |
|---|---|---|---|---|
| **in CHF 1000** | **2009** | **2010** | **2009** | **2010** |
| | | | | |
| **Cash** | | | | |
| Fix salary | 805 | 900 | 6 222 | 6 479 |
| Variable salary portion[1] | 821 | 1 324 | 4 626 | 7 187 |
| Social insurance | 103 | 191 | 814 | 1 287 |
| Other expenses | 46 | 46 | 408 | 408 |
| **Payments in kind** | **0** | **0** | **494** | **462** |
| **Benefit obligations** | | | | |
| Management insurance | 227 | 256 | 1 295 | 1 680 |
| Benefit plan | 13 | 13 | 121 | 150 |
| **Total** | **2 014** | **2 729** | **13 980** | **17 654** |

[1] Members of Group Management draw either 20% or 40% of the short-term variable salary entitlement in the form of treasury shares. In addition to this there is a long-term variable salary portion based on a target to be met within a period of three years. This portion is paid out entirely in Sika shares. These shares are allocated at the average price prevailing in February of the subsequent year.

All bonuses shown are accrued and pertain to entitlements acquired in 2010 that will be paid out in 2011. This includes a long-term incentive entitlement in the amount of CHF 2.9 million for reaching a long-term goal.

**Payments to former executives and directors.** In the year under review compensation in the amount of CHF 0.3 mn (CHF 0.7 mn) was paid to former members of Group Management. This included CHF 0.1 mn (CHF 0.5 mn) fixed salary, variable salary portions in the amount of CHF 0.2 mn (CHF 0.2 mn).

## 27 PARTICIPATIONS IN SIKA AG.

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

| | Number of shares | | Number of warrants (potential voting rights) | |
|---|---|---|---|---|
| | 2009 | 2010 | 2009 | 2010 |
| **Board of Directors** | | | | |
| Walter Grüebler, Chairman | 2 046 | 2 170 | 0 | 0 |
| Thomas W. Bechtler, Vice Chairman | 238 | 426 | 0 | 0 |
| Urs F. Burkard[1] | 1 050 | 113 | 0 | 0 |
| Paul Hälg | 0 | 40 | 0 | 0 |
| Willi K. Leimer | 0 | 0 | 0 | 0 |
| Urs B. Rinderknecht | 1 000 | 0 | 0 | 0 |
| Daniel J. Sauter | 1 487 | 1 487 | 0 | 0 |
| Fritz Studer | 20 | 20 | 0 | 0 |
| Ulrich W. Suter | 0 | 0 | 0 | 0 |
| Christoph Tobler | 260 | 210 | 0 | 0 |
| **Group Management** | | | | |
| Ernst Bärtschi, CEO | 1 019 | 507 | 0 | 0 |
| Silvio Ponti, deputy CEO | 425 | 466 | 0 | 0 |
| Alexander Bleibler | 584 | 332 | 0 | 0 |
| Iven Chadwick | 54 | 92 | 0 | 0 |
| Bruno Fritsche | 63 | 111 | 0 | 0 |
| Christoph Ganz | 58 | 92 | 0 | 0 |
| Jan Jenisch | 263 | 362 | 0 | 0 |
| Peter Krebser | 133 | 160 | 0 | 0 |
| Urs Mäder | 168 | 201 | 0 | 0 |
| Hubert Perrin de Brichambaut | 0 | 25 | | |
| Ernesto Schümperli | 108 | 190 | 0 | 0 |
| Paul Schuler | 197 | 250 | 0 | 0 |
| Ronald Trächsel | 241 | 390 | 0 | 0 |
| José Luis Vásquez | 411 | 366 | 0 | 0 |
| **Total** | **9 825** | **8 010** | **0** | **0** |

[1] Urs. F. Burkard also has an interest in the Schenker Winkler Holding, which holds 2 367 320 Sika AG shares.

## 28 INFORMATION ON EXECUTION OF RISK ASSESSMENT.

Risk management is carried out by the Board of Directors of Sika AG and by Group Management. The Board of Directors is the highest authority for risk assessment. The Board assesses risks annually at the level of the Group and Sika AG. Group Management regularly reviews the processes which form the basis for risk management. The risk management process comprises four steps: risk identification, risk assessment, risk monitoring and risk controlling.

Information on the Group-wide risk assessment processes can be found in Note 27 to the Consolidated Financial Statements.

# Sika AG Financial Statements
## Proposal by the Board of Directors

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

| in CHF mn | 2009 | 2010 |
|---|---|---|
| | | |
| **Composition of retained earnings** | | |
| Net profit for the year | 212.2 | 255.6 |
| Profit brought forward | 857.2 | 957.5 |
| **Retained earnings** | **1 069.4** | **1 213.1** |
| Allocation to general statutory reserve[1] | 0.0 | 0.0 |
| Allocation to free reserve | 0.0 | 0.0 |
| **Dividend payment** | | |
| Dividend payment[2] | 112.0 | 112.7 |
| Balance to be carried forward[3] | 957.5 | 1 100.4 |
| **Reduction in nominal value** | | |
| Reduction in nominal value[4]: CHF 8.40 per bearer share and CHF 1.40 per registered share | | 21.3 |
| **Total** | **1 069.4** | **1 213.1** |

[1] As the general statutory reserve currently exceeds 20% of capital stock, this allocation was waived.
[2] Dividend payment for shares entitled to dividends (without treasury shares as per December 31, 2010).
[3] Rounding difference CHF 0.1 mn
[4] The reduction in nominal value represents a capital decrease and therefore has no impact on retained earnings.

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

| in CHF | 2009 | 2010 |
|---|---|---|
| | | |
| **Bearer share[1] nominal value CHF 9.00** | | |
| Gross dividend | 45.00 | 45.00 |
| 35% withholding tax on gross dividend | -15.75 | -15.75 |
| **Net dividend** | **29.25** | **29.25** |
| **Registered share[1] nominal value CHF 1.50** | | |
| Gross dividend | 7.50 | 7.50 |
| 35% withholding tax on gross dividend | -2.63 | -2.63 |
| **Net dividend** | **4.87** | **4.87** |
| **Bearer share[1] nominal value CHF 9.00** | | |
| Repayment of nominal value | – | 8.40 |
| 35% withholding tax | – | – |
| Repayment of nominal value | – | 8.40 |
| **Registered share[1] nominal value CHF 1.50** | | |
| Repayment of nominal value | – | 1.40 |
| 35% withholding tax | – | – |
| Repayment of nominal value | – | 1.40 |

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

Payment is tentatively scheduled for Tuesday, April 19, 2011, upon presentation of coupon No. 19 for bearer shares.

Repayment of the nominal value is tentatively scheduled for Wednesday, July 13, 2011, upon presentation of coupon No. 20.

Registered shareholders will receive payment of the dividend and repayment of the nominal value at the address provided to the company for purposes of dividend distribution.

The Annual General Meeting of Sika AG will be held on Tuesday, April 12, 2011, 3 p.m. in the Lorzensaal in Cham, Switzerland.

Baar, February 25, 2011

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

# Sika AG Financial Statements
## 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 144 to 157) for the year ended December 31, 2010.

**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, 2010 comply with Swiss law and the company's articles of incorporation.

**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 Code of Obligations, CO, and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zug, February 25, 2011

Ernst & Young Ltd

| | |
|---|---|
| Bernadette Koch | Pascal Kocher |
| Licensed audit expert | Licensed audit expert |
| (Auditor in charge) | |

# Financial Calendar 2011

**TUESDAY, APRIL 12**
Letter to shareholders (first-quarter report)
43th Annual General Meeting
Lorzensaal, Cham, 3pm

**TUESDAY, APRIL 19**
Dividend payment

**TUESDAY, JULY 26**
Letter to shareholders (half-year report)

**WEDNESDAY, NOVEMBER 2**
Letter to shareholders (third-quarter report)

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

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

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

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