

# NEEDS

Annual Report 2009

# SOLUTIONS

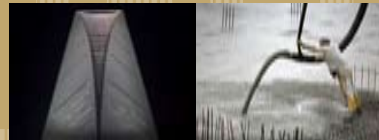


Innovation & since  
Consistency 1910

# NEEDS

**FOUNDATIONS OF SUCCESS.** Needs and solutions form a dynamic correlation. The greater a customer's needs and the higher the requirements in a project, the better the solution must be to fulfill them. A better solution raises the bar still higher: needs rise anew and affect solutions thereby positively. That's the ideal case, and the ideal is our target: qualitatively, technologically, economically and environmentally. We want

# SOLUTIONS



to bond your needs and our solutions successfully. Our illustrated portraits in this Annual Report show you.

Sika AG, located in Baar, Switzerland, is a globally active, specialty chemicals company. Sika supplies the building and construction and manufacturing industries (vehicle, appliance and building component production). Sika is a leader in processing materials used in sealing, bonding, damping, reinforcing and protecting load-bearing structures.

Sika's product range features 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 for buildings. Total solutions from Sika replace older technologies such as bolting, riveting and welding, opening unforeseen innovation possibilities for customers. Our objective is to help customers generate added value and always stay one step ahead of the competition.

Worldwide local presence with subsidiaries in more than 70 countries and approximately 12 000 employees link customers directly to Sika and ensure the success of all our partners. Sika achieves annual sales of CHF 4.2 billion.

## Sika 2009

### SIKA GROUP

in CHF mn	2008	as % of net sales	2009	as % of net sales
Net sales	4 624.5		4 154.9	
Operating profit before depreciation and restructuring	556.1	12.0	539.9	13.0
Depreciation/Amortization/Impairment without restructuring	-134.1	-2.9	-139.3	-3.4
Operating profit before restructuring	422.0	9.1	400.6	9.6
Net profit after taxes	267.4	5.8	225.7	5.4
Earnings per share in CHF <sup>1</sup>	107.00		91.03	
Cash flow from operating activities	376.8	8.1	526.3	12.7
Free cash flow	89.5	1.9	312.5	7.5
Operating free cash flow	165.8	3.6	368.7	8.9
Balance sheet total	3 209.4		3 629.4	
Shareholders' equity	1 464.7		1 593.0	
Equity ratio in % <sup>2</sup>	45.6		43.9	
ROCE before restructuring in %	20.3		19.3	
Number of employees	12 900		12 369	
Net sales per employee in CHF 1 000 <sup>3</sup>	376		329	

<sup>1</sup> Excluding minority interests

<sup>2</sup> Shareholders' equity divided by balance sheet total

<sup>3</sup> Calculated based on the annual average of number of employees

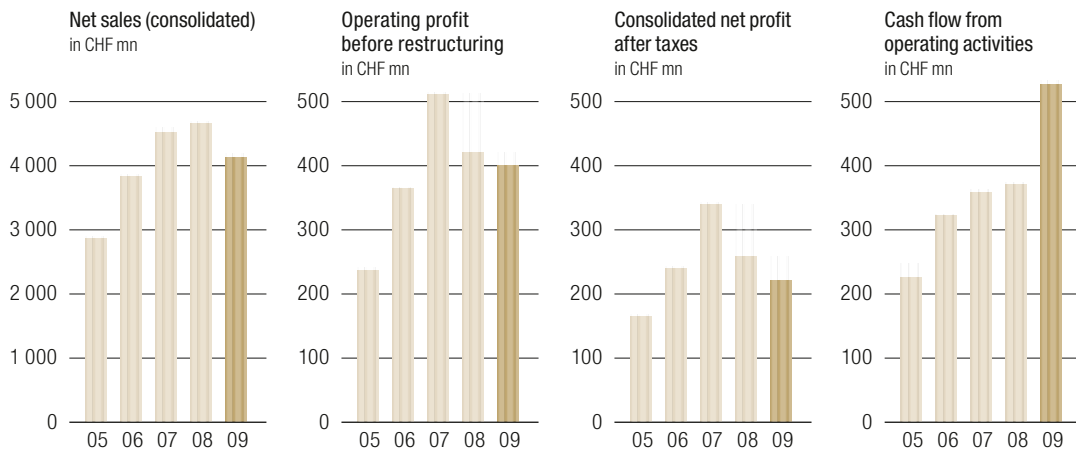
Sika gained market share worldwide.

Operating free cash flow improved from CHF 165.8 million to CHF 368.7 million.

Emerging markets continued on dynamic growth curve. Net sales IMEA (India, Middle East, Africa) +11.2%, Latin America +8.0%.

Success in China: net sales +16.7%.

Innovation and Consistency. Sika celebrates its first 100 years.



Net sales by Region (consolidated)

Europe North	CHF 1 474.8 mn (35.5%)
Europe South	CHF 934.6 mn (22.5%)
North America	CHF 602.3 mn (14.5%)
Latin America	CHF 395.3 mn (9.5%)
IMEA*	CHF 263.6 mn (6.3%)
Asia/Pacific	CHF 472.6 mn (11.4%)
Central services	CHF 11.7 mn (0.3%)
<b>Total</b>	<b>CHF 4 154.9 mn</b>

Net sales by division (consolidated)

Construction	CHF 3 381.7 mn (81.4%)
Industry	CHF 773.2 mn (18.6%)

\* India, Middle East, Africa

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100 years of innovative solutions and reliability  
in our behavior toward customers and society.  
A century of Sika: Innovation and Consistency.



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

## Report of Walter Gruebler and Ernst Baertschi

**DIFFICULT MARKET ENVIRONMENT //** At the start of business year 2009 there was great uncertainty concerning further economic development. A number of markets slid into recession, and it stood entirely open how long the downturn would continue. The skid dragged on to the middle of the year, when it began evening out at a low level. The market volume in the building and construction business lay up to 30% below the level of the previous year, and in motor vehicle construction this deficit amounted to 50%. However, not all markets in all countries followed this pattern. The so-called emerging markets in Latin America, the Middle East and Asia, with which Sika achieves some 30% of sales, showed themselves to be comparatively robust and continued to offer growth opportunities. Also in industrialized nations, select business segments found here and there surprisingly good market opportunities. Positive sales growth was recorded in 23 countries.

Momentum from economic stimulus programs already announced in 2008 were hardly perceivable in the year under review. Solely in China there was acceleration of various infrastructure projects. In the second half-year of 2009 the automotive industry benefited from the programs initiated in a number of countries to promote the purchase of new vehicles with lower fuel consumption.

**MARKET ADAPTATIONS //** Sika needed to adapt itself to the heterogeneous development of markets, and in doing so pursued the target of reducing costs wherever possible without thereby endangering our market position or losing the ability to take part in an upsurge. Accordingly, every national subsidiary developed and implemented its own cost reduction program, adapted to respective market conditions. In addition to this in Europe, we restructured the production of adhesives and sealants as well as that of polymeric membranes. It was not only altered market conditions that made these steps necessary, but above all advances in production technology, in which we invested substantially during the past few years.

The cost reduction measures led over the course of the year to a decline in our number of employees, a first for us in several years. Wherever possible we provided assistance to persons who had to leave Sika for their further occupation.

**STANDING OUR GROUND //** Sika stood its ground in the year under review in the face of generally adverse market conditions. The decline in sales in local currencies amounted to 3.9%. Included in this is an acquisition effect of 2.3%. Without these acquisitions, sales would have fallen by 6.2%. While Sika achieved good rates of growth in double-digit figures in emerging markets, sales in OECD nations sank. Currencies depreciated further against the Swiss franc during the reporting year, which affected sales negatively at 6.3%. The decline in sales in Swiss francs thus amounted to 10.2%. The comparison with alterations in markets shows that in most countries, Sika gained market share.

After raw material costs rose massively in 2008, we benefited in the year under review from falling prices for raw materials, a circumstance which above all in the second half-year directly affected gross profit, causing it to increase by 3.5 percentage points to the end of the year, amounting to 55.2% of net sales. Adjusted for acquisitions we were able to significantly reduce personnel and other operating costs. Operating profit before depreciation and restructuring costs improved by 1.0 percentage point as a proportion of net sales. The operating profit before costs of restructuring improved as a proportion of net sales from 9.1% to 9.6% (CHF 400.6 million). The restructuring measures in Europe burdened the income statement with a one-time charge of CHF 56.6 million, whereby Sika achieved an operating profit of CHF 344.0 million. Consolidated profit before restructuring lay at CHF 269.4 million (6.5% of net sales) both in absolute terms and relative to sales above the previous year result of CHF 267.4 million (5.8% of net sales).

**SOLID FINANCING //** Our balance sheet and our financing remained as before solid during the year under review. Due to the high operating free cash flow of CHF 368.7 million (2008: CHF 165.8 million) as well as the 5-year bond issued in the spring in the amount of CHF 300 million (coupon 3.5%) for long-term financing, cash and cash equivalents as of the end of the year amount to CHF 801.6 million (2008: CHF 318.3 million). As a consequence of this net debt could be reduced by CHF 200 million to CHF 265 million. Even without the syndicated credit line of CHF 450 million that presently is not being drawn upon, we have a very strong liquidity position.

**OUTLOOK //** The development of the current business year still presents itself with uncertainty. Even if some markets are showing tendencies toward recovery, one must still reckon with drops. It must be expected that companies will continue to postpone investments, whereby particularly construction volumes for commercial buildings will decline. Whether this decline can be compensated with projects in the area of infrastructure, will be determined, alongside the general economic development, by how quickly and to what extent economic stimulus programs actually take hold in markets that are relevant for Sika. In motor vehicle construction the positive development in the second half-year of 2009 was decisively influenced by the various incentive and subsidy programs. Therefore, further development can hardly be estimated at the present time.

Independently of the actual market development we will continue to leverage the unchanged and solid growth opportunities that virtually every one of our market areas offers. The demand for cost-efficient methods of construction, energy-efficient buildings and sustainable building materials continues rising. The manufacturing industry is demanding solutions, to effectively lower the weight of vehicles and sustainably reduce the costs of assembly. With our systems we are attuned to this demand, and moreover in a position to repeatedly open up new fields of application. Our factors for success, innovation, increasing market penetration and the delivery of customer-specific solutions, are as valid as ever. We will therefore also hold to our acquisition strategy, oriented on one hand toward purchase of new technologies which strengthen or complement core business, and on the other especially in the emerging markets toward acquiring market share and market access.

**A CENTURY OF SIKA //** This year we are celebrating our centennial, because it was in 1910 that our company founder Kaspar Winkler brought his first product to market: Sika-1. Eight years later he achieved the economic breakthrough as the first railway tunnel through the Gotthard was sealed against the ingress of water with his product to enable its electrification. Today it is the new Gotthard Base Tunnel that is a momentous project for Sika. At 57 km the longest tunnel in the world, it is celebrating its breakthrough in our jubilee year. In our jubilee year we are giving students and young engineers from around the world the opportunity to gain practical experience at major, complex building projects and in industrial research. In focus above all is the development of products and processes in terms of sustainability. On a special website ([www.sika.com/experience](http://www.sika.com/experience)) those interested in participating can apply and gain insight into our company, which has been modern for 100 years.



**PROPOSALS OF THE BOARD OF DIRECTORS //** The Board of Directors proposes to the Annual General Meeting the payment of an unchanged gross dividend of CHF 45.00 (previous year: CHF 45.00) per bearer share, and respectively of CHF 7.50 (previous year: CHF 7.50) per registered share. The payout sum amounts to CHF 111.8 million, representing roughly 50% (previous year: 42%) of consolidated net profit. Sika thereby once again exercises consistency in the payout of dividends.

The Annual General Meeting is requested to reelect the following members of the Board: Dr. Walter Gruebler, Dr. Thomas Bechtler and Christoph Tobler. Urs Rinderknecht has declined to stand for reelection after 12 years as a member of our Board of Directors. We would like to thank him for his valuable commitment. Recommended to the Annual General Meeting is the election of Dr. Willy Leimer, Chairman of Schenker-Winkler Holding.

We extend thanks to all our partners: our customers, who have shown us loyalty or have chosen us as a partner for the first time, our suppliers, on whom we can constantly rely, and in no way least our employees, who courageously mastered a difficult year.

Sincerely,



Dr. Walter Gruebler  
Chairman of the Board



Ernst Baertschi  
Chief Executive Officer

## “Innovation and Consistency”

In 2010 Sika is celebrating its centennial. Since its early days, Sika has seen the Gotthard Tunnel through: Sika-1, the first product invented by company founder Kaspar Winkler, registered Sika's breakthrough in waterproofing the first railway tunnel through the Gotthard Range. Today the new Base Tunnel is again an important project for Sika. At 57 km the longest tunnel in the world, its breakthrough in Sika's jubilee year 2010 will also be cause for merrymaking.

**SIKA FROM YESTERDAY TO TODAY //** Sika is one of the primary suppliers for the Gotthard Base Tunnel. Thanks to 100 years of research and experience, today high-tech admixtures for shotcrete and tailored sealing systems guarantee watertight tunnels with a service life of 100 years, although Sika-1 is still part of the product line. Sika can be proud of its history, characterized by innovative products and construction systems, and consistent behavior toward customers and society.

**The substantial breakthrough 1910–1920 //** 1910 Kaspar Winkler invents the first detergents and protective agents for granite (Purigo, Conservado), as well as a means of making mortar waterproof, Sika-1. In 1911 he has his company, Kaspar Winkler & Co., incorporated and listed in the commercial register. Marketing in the early years is enormously strenuous. Only when the Swiss Federal Railways carry out successful trials to waterproof the tunnel on the Gotthard Line does the breakthrough succeed.

**First steps on foreign shores 1920–1940 //** Despite great potential an expansion to foreign countries proves a difficult undertaking. An initial attempt to sell licenses worldwide fails. A second try succeeds. In 1921 a subsidiary is established in Southern Germany with its own small fabrication. Between 1926 and 1928 additional affiliates are founded in England, Italy and France. Dr. chem. Fritz Schenker, Kaspar Winkler's son-in-law, becomes a member of the executive management in 1928 and single-mindedly pursues worldwide expansion. By the end of the 1930s Sika is present in Europe, North and South America as well as in Asia (Japan).

**From a group of companies to a consolidated corporation 1940–1970 //** Due to the difficult circumstances regarding raw materials during the Second World War the concrete admixture Plastiment was much sought after, since high-quality concrete could thus be produced with less cement. In the boom of the 1950s and 1960s new subsidiaries arise worldwide. The entrance of Romuald Burkard into the company in Switzerland marks a second changing of the guard. Between his start in 1953 and the death of his father-in-law Fritz Schenker in 1971, Burkard gradually assumes the management of the group of companies, which in 1968 takes on a consolidated corporate structure with Sika Finanz AG.

In the overheated economic cycle of the late 1960s, however, Sika slides into a serious crisis: a new factory in Dürdingen has great difficulties in start-up, several building construction companies are not operating at break-even, and guarantee cases are threatening in Germany and Scandinavia. Sika only narrowly escapes a debt overload.

**Growing through the crisis 1970–1980 //** By streamlining management structures and through the consolidation of all companies within Sika Finanz AG it is possible to avoid divestiture of a stake to a large chemical or construction corporation. The Burkard-Schenker family retains a slim majority in the enterprise – to the present day. Operative leadership, however, is transferred to managers outside the family. With tremendous effort Sika subsequently overcomes its homemade problems as well as the drastic recession of 1973 to 1976.

The years of struggle ultimately leave their stamp on the Sika Spirit still cultivated today. This is apparent in employees' attitude of solidarity and optimism toward the company. Amid the crisis Sika personnel in Switzerland even approve a temporary decrease in wages. Though representing a modest proportion of sales, during this period a product that had already been developed in 1968 blossoms into a bestseller: Sikaflex®, the single-component, elastic polyurethane adhesive.

**Beyond the borders of construction chemistry 1980–1990 //** The versatile deployability of Sikaflex® adhesive opens a new business field for Sika in the 1980s: the vehicle-manufacturing industry. Sika thereby breaks its fixation with construction chemistry. This diversification should make the company more resistant to business cycle fluctuations. An expanded global presence serves the same goal. With the takeover of Lechler Chemie in Stuttgart in 1982, Sika increases the size of its personnel from 3 000 to over 4 000 in a single go. It nevertheless requires a few years before the regional company has digested the integration and returned to the path of growth. In the second half of the decade, economies in most industrial nations are flourishing. In 1989, Sika rises above the sales threshold of one billion Swiss francs.

**At home throughout the world 1990–2000 //** Between 1990 and 1995 alone, Sika founds 16 new regional companies, strengthening its presence primarily in Asia, Eastern Europe and Latin America. Despite this growth the 1990s prove no easy decade. Sika struggles with recessionary phases and weaknesses in profitability. As a result, Sika withdraws from less lucrative corollary businesses such as the construction of robots for refurbishment of wastewater pipelines or the manufacturing of products for road construction. The company comes within a hair's breadth of selling its waterproofing membranes business – to Sarna.

**Sika seals, bonds, damps, reinforces and protects 2000–2010 //** In 2005, Sarna becomes part of the Sika Group, which experiences one of the stormiest decades in its history. Sales increase from two to over CHF 4.6 billion, to which the 36 companies acquired between 2000 and 2008 contribute in no small way. The number of employees also rises during this period from 8 000 to 12 000. Since the year 2000 Sika's core competencies are as follows: sealing, bonding, damping, reinforcing and protecting load-bearing structures. The concrete admixture Sika® ViscoCrete®, launched in 2000, develops into a significant sales generator.

Sika booms as well also in other business areas. The enterprise, the holding company of which is named Sika AG since 2002, must make massive investments in production capacity and personnel and restructure the entire management organization anew. In addition, marketing and sales activities are rigorously oriented toward the four most important customer groups. Approaching the end of the decade Sika feels the worldwide recession. Sika succeeds in gaining market share nearly everywhere.

**POTENTIAL FOR THE FUTURE //** Sika's future will be guided by the principles of sustainable development, since these provide an answer to tomorrow's challenges. These challenges will be determined by megatrends such as drinking water conservation, energy efficiency and protection of the climate, which will influence future economic conditions and thus the potential for growth. Entrepreneurial success will be based on intelligent solutions that appropriately address these megatrends. Sika looks with optimism to the future, in which its know-how, services and products are needed more than ever.

## Confidence Returns

Sika can look back on a pleasing year for its shares. Though at the start of the year shares stood under sales pressure resulting from the worldwide finance and economic crisis, a continuous upward trend nevertheless emerged. Markets stabilized, investors regained confidence and purchased low-priced shares.

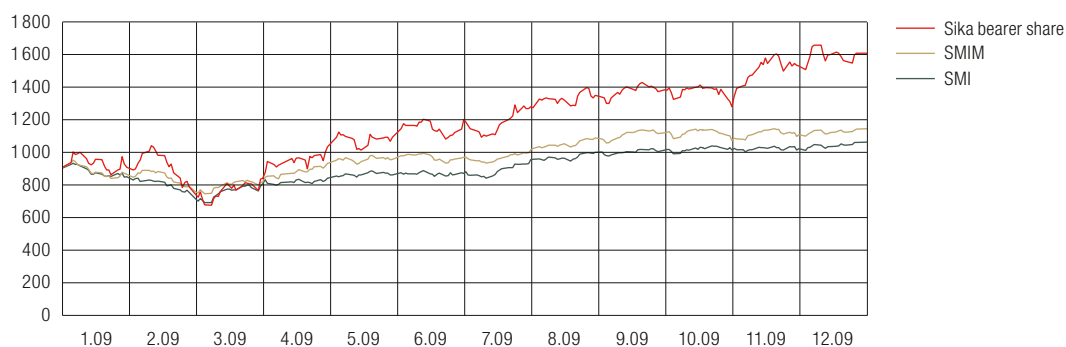
**THE 2009 STOCK MARKET YEAR //** During the course of the year Sika shares rose in price by nearly 80%, from CHF 900 at the end of 2008 to CHF 1 615 on December 31, 2009. From the low for the year of CHF 685 on March 9 the increase amounted to 135%. The shares reached their high for the year at a price of CHF 1 658 on December 12.

The first publication in the year under review relevant for share prices was the communication of sales figures for business year 2008 in January. Sales amounted to CHF 4.6 billion, representing an increase of 1.1% in comparison with the previous year. In February Sika was able to publish the second-best annual result in its history. Due to the decline in sales precipitated in the fourth quarter, however, operating profit fell markedly in comparison with the previous year. The company furthermore declined to offer concrete prognoses regarding sales and profit development on the basis of the widespread uncertainties in the market. Following the announcement of results, share prices dropped intermittently by more than 5%, falling by March 9 to the low for the year of CHF 685.

Thereupon a constant upward trend emerged into the summer months, even though the Group once again met with a decrease in sales in the first quarter which primarily affected products for industrial manufacturing. In the half-year report, however, Sika showed strength in a difficult market environment. While sales did contract, Sika held its ground well against the sector on average.

In September Sika announced the adaptation of production structures for polyurethane adhesives and waterproofing membranes in Europe to encounter decreasing demand. The nine-month result illustrated that the decline in sales had slowed, whereby programs underway in various countries offering incentives for auto buyers had a positive impact. In addition to this Sika gained market share opposite competitors. Operative costs were reduced. Furthermore the company benefited from raw material prices that were lower in comparison with those of the previous year at that juncture. These communications again lent substantial buoyancy to Sika share prices through to the end of the year.

Performance of Sika bearer shares in Swiss francs from January 1, 2009, to December 31, 2009  
Share price as of December 31, 2009: CHF 1 615



## PER SHARE DATA

		2005	2006	2007	2008	2009
<b>Bearer shares<sup>1,2</sup>: Nominal value CHF 9.00</b>						
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		2 149 202	2 149 205	2 117 179	2 089 691	2 095 572
of which entitled to vote		2 149 202	2 149 205	2 117 179	2 089 691	2 095 572
Gross dividend or repayment of nom. value	CHF	19.20	31.20	45.00	45.00	45.00 <sup>3</sup>
<b>Stock quotations</b>						
high	CHF	1 090	1 900	2 595	2 082	1 658
low	CHF	683	1 108	1 850	788	685
year-end	CHF	1 090	1 890	2 136	900	1 615
Stock price performance	%	59.8	73.4	13.0	-58.0	79.4
Average daily trading volume <sup>4</sup>	Shares	5 827	4 757	8 870	8 871	5 746
<b>Registered shares<sup>5,6</sup>: Nominal value CHF 1.50</b>						
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 or repayment of nom. value	CHF	3.20	5.20	7.50	7.50	7.50 <sup>3</sup>
<b>Key data per bearer share<sup>7</sup></b>						
<b>Consolidated net profit per share (EPS)<sup>8</sup></b>						
basic EPS	CHF	60.1	91.4	135.4	107.00	91.03
diluted EPS	CHF	60.1	91.4	135.4	107.00	91.03
EPS development	%	25.8	52.0	50.0	-22.0	-14.9
Cash flow per share	CHF	104.3	152.5	196.7	152.4	164.2
Equity per share	CHF	428	498	584	587	640
Price-earnings ratio (P/E), year-end		18.1	20.7	15.8	8.4	17.7
Dividend/repayment of nominal value yield	%	1.8	1.7	2.1	5.0	2.8 <sup>3</sup>
<b>Other information</b>						
Market capitalization <sup>9</sup>	CHF mn	2 769	4 801	5 426	2 286	4 102
in % of equity	%	255	380	369	156	258
Total dividend/repayment of nom. value <sup>7</sup>	CHF mn	48.8	79.3	111.5	111.5	111.8 <sup>3</sup>
in % of consolidated net profit (payout ratio)	%	32	34	33	42	50

<sup>1</sup> Registration no. 58797/Reuters: SIK.S, Bloomberg: SIK SW

<sup>2</sup> Of which, in 2009, Sika owned 55 627 (61 508) bearer shares not entitled to dividend or voting rights

<sup>3</sup> Pursuant to proposal to Annual General Meeting

<sup>4</sup> Average daily volume traded on SIX Swiss Exchange (Source: SIX Swiss Exchange, Zurich)

<sup>5</sup> The registered shares of Sika AG were delisted from the SIX Swiss Exchange on September 4, 2003

<sup>6</sup> Of which, in 2009, Sika AG owned no (0) registered shares

<sup>7</sup> Excluding minority interests

<sup>8</sup> For EPS calculation, see note 29

<sup>9</sup> The registered shares were delisted from the Swiss stock exchange in 2003. In our calculation these are taken into account with 1/6 of the bearer share price of December 31, 2009

Skyscrapers challenge concrete to the high levels of performance. Conveyed 500 meters to the top – with oomph. Without segregation! Up to four hours for transporting and casting. Maintaining workability! Once in place, comes the hardening part: and quickly please!

# NEEDS



Shanghai World Financial Center, Shanghai, China. Shanghai's new landmark, with a height of 492 meters, is the third-tallest building in the world.





# SOLUTIONS

Precisely targeted workability window, optimal flow characteristics, robust consistency and highest possible strength development, even with fluctuating quality of aggregates. In respect to functionality and guaranteed performance of concrete admixtures, the name Sika® ViscoCrete® is globally the leading brand.

Customer focus and innovative products,  
market orientation and worldwide presence.  
Sika's goal is growth.



## One Brand, One Goal: Profitable Market Leadership

The Sika brand stands for innovative products, quality and service. To achieve its goal of market leadership or a strong number two position in all its target markets, Sika continuously opens up and leverages market potential.

**VISION //** With process materials for sealing, bonding, damping, reinforcing and protecting load-bearing structures, Sika strives for the leadership position or a strong number two in its 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 construction)

**MARKET POTENTIAL AND STRATEGY //** With its strategy, Sika systematically leverages all growth potential inherent in its target markets. So as demand continues rising from the construction industry as well as in industrial manufacturing for energy and cost-efficient solutions, the company can play to its strong capability for innovation. Examples of this are such new roofing systems that deliver clear energy balance improvements for buildings (see also page 62 ff) or modern, weight and time-saving adhesives in motor vehicle manufacturing. Comprehensive total solutions for key customers, active worldwide, and for major key projects are decisive factors for success in light of increasing globalization.

In Latin America, Eastern Europe, parts of Asia and the Middle East, the emerging markets especially important for Sika, market growth may be large although in many cases technologies are employed that do not correspond with the state-of-the-art. To leverage the dynamics of these markets, Sika relies on cost-effective solutions for initial market development, while at the same time preparing these markets for implementation of new and more efficient technologies through investment in education and training of employees and customers, which improves the penetration of the newer technologies.

**THE SIKA BRAND //** Products become distinguishable through branding, and a brand lends a product an associated value perception. Company founder Kaspar Winkler grasped this; he not only invented the Sika name but also created the logo. It does homage to the founder's foresight that the Sika brand has developed to what it is today. The logo has changed only slightly since its creation, thus embodying continuity and solidity, and is recognized the world over as a sign of quality, innovation and service. The word-image brand is nearly as old as the enterprise, having proven itself through the decade-long expansion of the Sika Group throughout the world. In all cultural circles both the word "Sika" and the logo with its characteristic red and yellow are readily applicable.

**WORLDWIDE TRADEMARK PROTECTION //** Since Sika has a high degree of brand awareness particularly as a logo, the company places high value on consistent and standardized use of the logo and reviews compliance with the corresponding design guidelines. Customers throughout the entire world can rely on receiving Sika quality and service wherever the Sika logo appears. Observed attempts to copy the logo in recent years are evidence that Sika possesses considerable intangible value with its logo.

The Sika family brand as well as 575 additional Sika product trademarks such as Sikaflex®, Sika® ViscoCrete®, SikaBond® or Sarnafil® create essential market advantages for the company. Accordingly, trademark protection is an important management responsibility, administered globally at Group level as well as locally at country level. In total Sika held 13 147 trademark registrations in 161 countries at the close of the period under review. Sika monitors its trademarks constantly and immediately initiates pertinent legal measures in cases of infringement.

**MARKETING //** The slogan “Know-how from Site to Shelf” clarifies what Sika stands for in the distribution business: through distributors Sika sells exclusively high-value, quality products that have proven their performance capability on the largest construction sites in the world, and from there find their way directly to the shelf in building supplies stores in convenient packaging. Customers of every magnitude worldwide benefit from this quality advantage. “From Roof to Floor” is another slogan which describes the breadth of the company’s offerings. Within the Sika assortment customers find suitable products and systems for every phase of construction.

## Individual Solutions for Global Needs

At all levels of management, Sika's growth strategy focuses on four customer groups, whose differing requirements are fulfilled actively and precisely – across the world, across Regions and in individual countries.

**CUSTOMERS //** In marketing, service and sales Sika concentrates on four customer groups with widely individual needs.

**Concrete producers** ("Concrete") need cost-optimized solutions adapted to the cement and the application. These solutions must be adjusted individually in ready-mix concrete works, on construction sites or in concrete element precast factories. Business success is thereby essentially based on local presence in all relevant markets. Nevertheless, key account management is playing an ever-larger role, since major cement and concrete producers are increasingly globalizing their business.

**Contractors** ("Contractors") purchase Sika products such as polymeric sealing membranes and process them into an impervious roof or to waterproofing for a basement level. Liquid polymers are processed into industrial flooring or protective coatings, adhesives and sealants into leakproof building joints or bonded wooden floors. These tasks are always part of a consolidated effort, so that Sika confers as early as possible with building owners, architects, engineering firms and other project participants to provide advice and corresponding know-how. The key to success lies in advising all parties professionally. Sika captures this holistic approach in its slogan "From Roof to Floor."

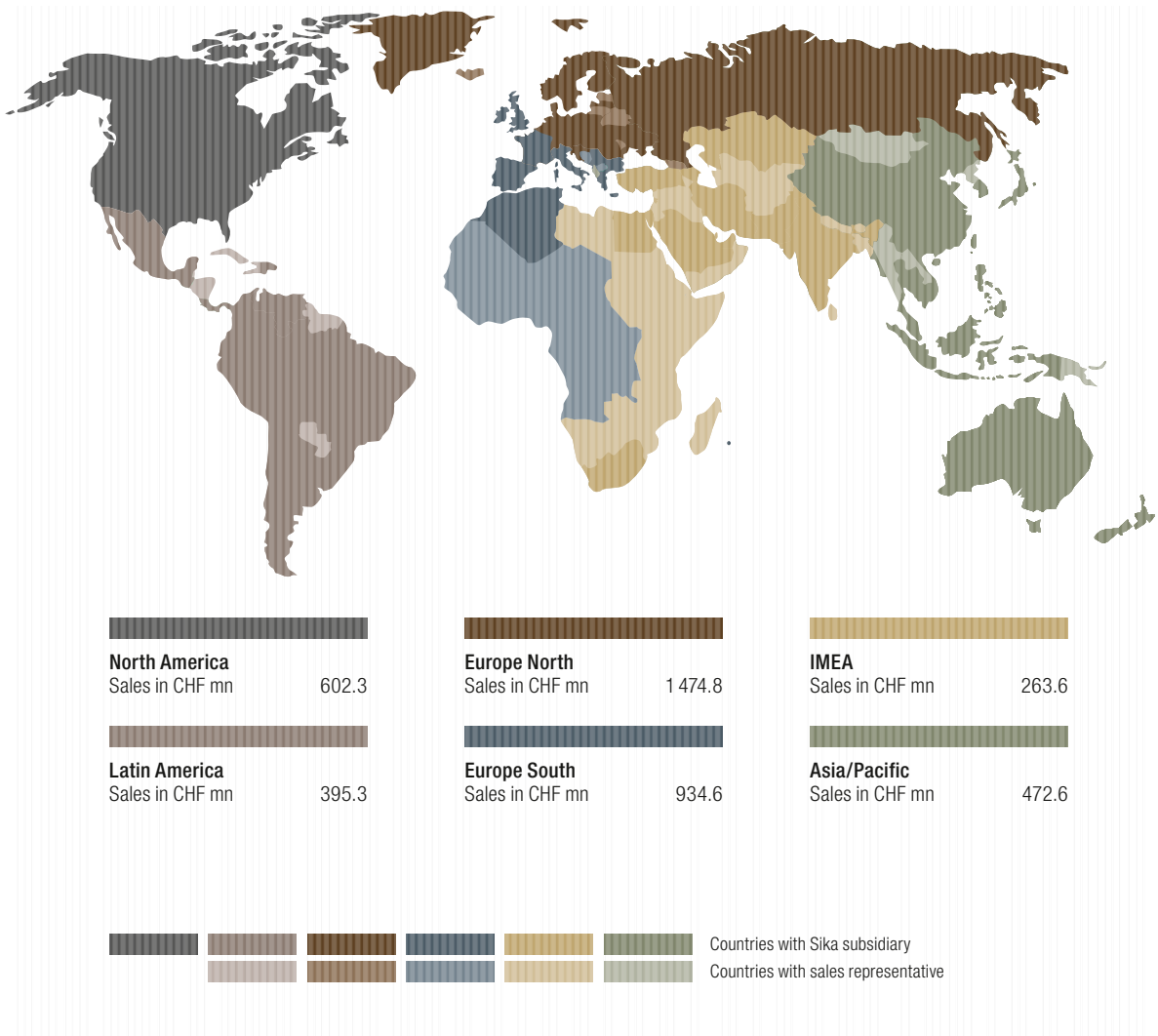
**Distributors** ("Distribution") play a varying role from country to country, depending on building traditions that have grown over time. While in some countries primarily small handicraft businesses fulfill their needs in builder's merchant shops, while building contractors and larger specialty processors purchase products directly from Sika, the distribution channel in other countries is the most important source of supply for nearly all users. Distributors thereby assume the role of advisors for the great many challenges of building. This function of distribution is important for Sika above all in emerging markets such as India or Latin America, since distributors serve as multipliers who aid market penetration through their activity.

**Industrial customers** ("Industry") usually need large quantities of Sika products that are specially adapted to their needs. Applications in the areas of bonding, reinforcing and damping of sound draw frequent focus. Sika technologies find primary employment in the manufacture of motor vehicles such as automobiles, busses and trucks as well as railcars and ships. Industrial production of fenestration, wind turbine and solar power station construction are also attractive sales markets.

**REGIONS //** Since its founding in 1910, Sika has grown continuously. The first subsidiary outside Europe opened its doors in Japan already in 1932. The Group was divided into regions early, so that subsidiaries could exploit synergies and found additional companies. These Regions, of which there are six in all, have been driven since 1993 by regional managers who form the leadership structure. Regional managers are members of Group Management and bear line responsibility for their Region. The regional management structures encompass sales functions as well as the marketing and development activities oriented toward the customer groups.

In 2002 the strongly grown Region Europe was segmented into the Regions Europe North and Europe South. The most recent restructuring came in 2006: Sika's potential in the Middle East had been considered insufficiently tapped for years. Therefore the Middle East was consolidated together with South and East Africa as well as India to a new Region: IMEA. The acronym IMEA stands for India, Middle East and Africa. This segmentation has proven an important step for the growth of the Group. Since its founding, the Region IMEA has been one of Sika's growth engines.

Worldwide Market Presence



## Investments in a Sustainable Future

In 2009 34% of Sika sales derived from products that have been on the market for five years or less. The foundation of this success is supported by strategic focus, a professional R&D management that above all is focused on client projects, efficient development processes and the targeted orientation toward customer group demands.

**INNOVATIONS AND GROWTH** // Innovations are critical drivers in the growth strategy of the company. They contribute essentially to the target of achieving mid-term organic growth of 8 to 10% on annual average. Research and development, R&D, is correspondingly significant within the enterprise. The R&D strategy that Sika has pursued for some years is highly successful, a fact reflected in numerous patents, many new products and a high rate of innovation. In the year under review Sika generated some 34% (2008: 34%) of sales with products that have been on the market five years or less.

**CORE COMPETENCIES** // A primary element of Sika's successful research and development undertaking is the strategic focus on clearly defined core competencies. These are: sealing, bonding, damping, reinforcing and protecting load-bearing structures in construction and in manufacturing industries.

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

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

**Damping** // In fixed and moving objects, damping reduces vibrations of all wavelengths, resulting in fewer reverberations and noise emissions in load-bearing structures and cavities. Noise in vehicle interiors, for example – whether in a car, a bus or a cruise ship – is silenced, and comfort increases significantly.

**Reinforcing** // Reinforcing bolsters the carrying capacity of statically or dynamically stressed load-bearing structures in a targeted manner, from lightweight window frames to crash-resistant automotive bodies to imposing concrete bridges. Solutions for reinforcing fortify existing and optimize new load-bearing structures.

**Protecting** // Protecting extends the durability of load-bearing structures and preserves the substance of new and renovated objects. Sika solutions guarantee sustained protection against climatic conditions, chemical influence, pollution and fire for concrete and steel structures.

**RESEARCH STRATEGY //** Two forces propel research and development at Sika. These are on one hand global trends defined by the principles of sustainable development, such as the demand for building methods that conserve resources, for energy-saving construction materials or lower-weight motor vehicles. On the other hand the diverse specificities of the construction industry from country to country such as differences in raw materials, climate or legal regulations require considerable adaptation of products to meet local needs. In accordance with these circumstances, the company research strategy has both centralized and decentralized components.

Organized centrally in the subsidiary Sika Technology AG are long-term research programs, analytical services and research management. The long-term research programs are aligned with the core competencies of the company. The marked improvement of existing products or opening up of new fields of application for them can thereby stand as much in focus as the search for entirely new products or alternative raw materials.

Corporate Expert Teams play a crucial role in the management of research and development projects. These global teams are composed of representatives of various enterprise functions, from marketing to fabrication or logistics to purchasing, and ensure that the diverse viewpoints are given consideration within the projects.

The eleven technology centers in America, Europe and Asia operate in a decentralized fashion. These have specific technology responsibilities and independently develop new products and applications. In addition, the centers bear responsibility for the worldwide market launch of innovations, which they adapt to the needs of their Region. They hereby work closely with regional, customer-oriented support centers. Having their own laboratories, the support centers can quickly adjust new products to suit local requirements, for example adapting concrete admixtures to climatic conditions or for use of locally obtainable aggregates such as gravel or sand. The search for locally available raw materials also lies within the mandate of the support centers, the purpose being to optimize production costs.

**COOPERATION //** In the area of basic, fundamental research Sika relies primarily on collaboration with first-class universities, including institutions in Switzerland, the USA, in Germany, Spain, France, China and India. Professional and geographic proximity often lead swiftly and unbureaucratically to solutions with advantages for both parties. Furthermore, Sika attempts to mitigate the prevailing shortage of engineers and chemists in some countries through substantial engagement, thus also bringing the company closer to suitable candidates for employment.

Sika is continuously active in various international projects, committed among others to the NanoCem Consortium. This European research network studies phenomena occurring in nano- and microdimensions that can influence the performance of cementitious materials and the products and structures made from them. The company also collaborates with its most important suppliers, in order to provide innovative stimulus as early in the supply chain as possible.

Sika Technology AG participates actively in a range of projects funded by the European Union:

- FUTURA: this project has the objective of establishing multifunctional materials in the automotive industry, and realizing modular, scalable approaches to design and production of vehicles ([www.futura-ip.eu](http://www.futura-ip.eu))
- MUST: project partners are collaborating on chromium-free corrosion protection for steel and light alloys ([www.must-eu.com](http://www.must-eu.com))
- I-SBB: safe and intelligent construction methods for earthquake-endangered areas
- TunConstruct: collaborative European research and development of innovative methods, materials and machines for tunnel construction ([www.tunconstruct.org](http://www.tunconstruct.org))

The United Nations Sustainable Building & Construction Initiative, SBCI, represents another Sika Technology AG engagement. The SBCI targets the establishment of solutions in the construction industry worldwide that are based on sustainable development principles.

**MANAGEMENT** // Expenditures for research and development in the Group in the year under review amounted to CHF 74.7 million (2008: CHF 74.1 million), or roughly 1.8% of sales (2008: 1.6%). The R&D budget was apportioned in accordance with strategic priorities.

The R&D organization of the Sika Group is aligned with enterprise strategy and focuses on research in technology platforms and strategically critical R&D projects. The seven-stage development process for products, the so-called Product Creation Process, PCP, is uniformly organized worldwide, in order that new and patented products can be brought to market as swiftly as possible. Sika strives, however, not only to be speedy, but also especially efficient, therefore likewise pursuing cost leadership for its products in all target markets. In collaboration with Corporate Operations the R&D organization also works to tighten the comprehensive product range, thereby simplifying processes and lowering costs in marketing, production and distribution.

The regional technology support centers are responsible for compliance with the PCP in their Region, and review the quality of processes regularly with the help of PCP audits. These ensure that employees' standard of knowledge is always current and corresponds to the Sika norm, keeping local chemists conversant with the newest technologies. In parallel, innovative ideas from the Regions are gathered and leveraged for the Group.

**PATENTS** // Sika filed for 63 patents in 2009 (2008: 70). The number of invention disclosures amounted to 81 in the year under review (2008: 84).

## Targeting Complements to Core Competence

**Sika pursues acquisitions that complement core business with new technologies or close geographic gaps. Carefully weighed investments in capacity expansion and the efficiency of installations, attuned to market requirements, safeguard Sika's strength and growth worldwide.**

**ACQUISITION STRATEGY //** Organic growth, growth generated by Sika's own strength, forms the center of enterprise strategy. The acquisition strategy derived from this consequently targets above all the purchase of new technologies that strengthen or complement core business. Sika primarily finds such technologies in small enterprises in Europe, the USA and in some Asian countries. These companies are commonly not in a position to market their technologies worldwide, a circumstance which poses a limit to growth in the course of their development. In contrast, Sika as a globally operating enterprise is capable of leveraging the full potential of such technologies through acquisition of the companies that hold them.

If geographic gaps of strategic significance require closure or if fragmented markets require consolidation, then acquisition of market share can also be attractive for Sika. The company seeks continually to better its position through such acquisitions foremost in North America and Asia.

As a rule the volume of investment ranges between CHF 5 million and CHF 50 million per acquisition. Sika has not set strict definitions for financial figures to assess an acquisition offer, for example as a ratio of the purchase price to operating profit or sales. Since acquired companies are generally integrated entirely into Sika, considerable value is placed on an integration process that proceeds as smoothly as possible. Sika therefore devotes particular attention to enterprise culture prior to an acquisition.

**ACQUISITIONS 2009 //** In January of the year under review Sika took over the English Iotech Group Limited, with subsidiaries in Great Britain, the USA and Belgium. Iotech is a specialist in the formulation, production and distribution of polyurethane liquid membranes and their precursor products. Liquid membranes are used worldwide in the market segments roofing systems and waterproofing, employed mainly in refurbishment of small to mid-sized roofs. With this acquisition Sika expanded its technology base and market know-how significantly, and with Iotech's highly recognized research and development organization was able to establish a technology center for liquid membranes.

In September Sika purchased a majority interest in Jiangsu TMS Admixture Co., Ltd. The company is a leading provider of concrete admixtures to the dynamically expanding Eastern Chinese market. The company's most important production factories are located near Nanjing in Jiangsu Province. In Eastern China the company has access to an area-wide distribution network, and the company's products, technologies and employees are well perceived by the market. In Western China Sika purchased a majority stake in a concrete admixture supplier in Sichuan Province already in 2008. These collaborations enable the partner companies to deliver a broad palette of locally produced, first-class products and technologies to the construction industry in these dynamic regions.

**INVESTMENTS 2009 //** In 2009 for the first time in a considerable period Sika no longer felt continuous demand pressure in all countries. The company adapted its investments to the altered market conditions, nevertheless without thereby discontinuing projects that had already begun or stopping investments in growth markets. In the reporting period the volume of investment thus remained below the level of the previous years.



In Antwerp, Belgium, Sika brought a new plant on line for production of the high-performance superplasticizers Sika® ViscoCrete® and SikaPlast®. Construction of this facility was necessary because the demand for Sika® ViscoCrete® had grown by a multiple of what it was upon market launch in 2000. With an annual capacity of 40 000 tons, the new plant is located in an industrial part of the INEOS Group, which operates the facility with Sika's mandate. For Sika this new business model brings various advantages. On one hand, INEOS produces on site a considerable portion of the raw materials necessary for the manufacturing of Sika® ViscoCrete®, so that the realized proximity substantially reduces transport expenditures. On the other hand Sika benefits from better framework conditions in an industrial park – in comparison with a separate location – regarding energy, water, waste disposal and other infrastructure services.

The production process was optimized for the new facility, so that its efficiency in comparison with other manufacturing plants for Sika® ViscoCrete® could be improved further. The nearby harbor facilitates the export of this worldwide used technology in markets that are still in development.

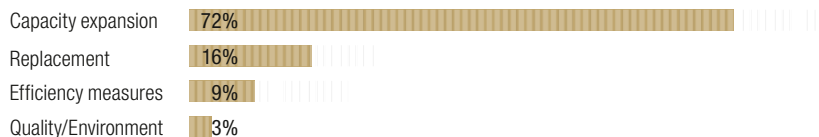
In Tocancipá, an industrial city 50 km north of Bogotá, Colombia, Sika opened a new factory in the year under review. The location encompasses administration and laboratory buildings, a logistics center and production facilities for epoxy resin coatings, acrylic resins and sealants on an area of 64 400 m<sup>2</sup>. Some 200 persons are employed at the Tocancipá location, which replaces Sika's Bogotá facility. Sika has been represented very successfully with its own subsidiary in Colombia since 1951.

During the year under review additional plants were brought on line, among them a facility for the manufacture of high viscosity polyurethane adhesives in Japan.

**INVESTMENT VOLUME //** In the year under review investments declined from CHF 224 million to CHF 161 million, which corresponds to 3.9% of net sales. Focus of investment lay for example in the expansion of production capacity in emerging markets. The proportion of investments for capacity expansion increased from 66% to 72%. Other investments were distributed as follows: 9% (2008: 14%) were employed for efficiency measures, 16% (2008: 18%) were needed for replacement of existing facilities and 3% (2008: 2%) were put to use in the areas of environmental protection, safety and health as well as quality.

**OUTLOOK //** In view of the changed economic conditions in many areas of the world, all investment plans were reviewed and adapted to these new conditions. Sika will continue to invest in the Regions in which new markets are being opened and where growth can be generated. Included among these areas are Eastern Europe, China, India and the Middle East.

#### Investments 2009



Concrete, mortar and adhesives for the arch itself or for pillars and pavement, under pressure or tension, highly flowable or quickly hardening, extremely strong in heat, cold or severely windy conditions. Bridge construction demands formulas and procedures exactly adapted to the application and conditions.

# NEEDS



Hoover Dam Bypass Bridge, Nevada, USA. The new bridge eliminates the bottleneck above the world-famous Hoover Dam.



# SOLUTIONS

High-performance adhesives, mortar and admixtures to produce concrete with every required property: the solution is called “Total Sika Package.” Therein Sika bundles its core competencies, coordinates customer contact and aligns all products and processes.

Structures aligned with markets,  
responsibility and competence at every position –  
Sika is totally attuned to its customers.

## Speaking the Customer's Language

Sika's organizational structure is strongly decentralized, relying on the management teams in the Regions and in the regional companies. At every level of management the company focuses on four customer groups, either from the construction industry or the area of industrial manufacturing.

**ORGANIZATIONAL STRUCTURE** // Since the start of its international expansion, Sika carries out its worldwide activities in countries which were subsequently consolidated to Regions having higher management functions. The heads of the Regions are members of Group Management. The regional management and the management within the countries bear full profit and loss responsibility, and proceeding from Group strategy determine the country-specific growth and sustainability targets as well as the allocation of resources.

The composition of the Regions does not follow the generally observed geographic allocation of countries to continents, but is rather a reflection of diverse organizational, commercial and cultural conditions. So for example the Region IMEA (India, Middle East, Africa) conjoins among others the countries of the Middle East and India, since these countries are strongly interdependent in their building and construction industries. The exact composition of the Regions is shown on page 16.

Sika has oriented its internal organization furthermore toward four customer groups (see also page 15) which stem 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 individual countries. The corresponding managers are responsible for the definition and introduction of new products, for the implementation of best demonstrated practices, as well as for assortment and pricing policy of group products, those that are offered on a worldwide basis rather than in a country-specific manner.



# Group Management



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1 **ERNST BÄRTSCHI**

LIC. OEC. HSG, 1952, SWISS, CEO

2 **SILVIO PONTI**

DIPL. BAU-ING. ETH, MBA, 1953, SWISS, DEPUTY CEO, EUROPE NORTH

3 **ALEXANDER BLEIBLER**

DIPL. BAU-ING. HTL, 1953, SWISS, CONSTRUCTION, CONTRACTORS

4 **IVEN CHADWICK**

MBA, 1960, BRITISH, IMEA

5 **BRUNO FRITSCHÉ**

BBA, 1952, SWISS, INDUSTRY

6 **CHRISTOPH GANZ**

LIC. OEC. HSG, 1969, SWISS, CONSTRUCTION, DISTRIBUTION

7 **JAN JENISCH**

LIC. RER. POL., 1966, GERMAN, ASIA/PACIFIC



8

9

10

11

12

13

14

8 **PETER KREBSER**

DR. SC. TECHN., DIPL. CHEM. ING. ETH, 1951, SWISS, OPERATIONS

9 **URS MÄDER**

DR. RER. NAT., DIPL. CHEM. ING. HTL, 1955, SWISS, RESEARCH AND DEVELOPMENT

10 **HUBERT PERRIN DE BRICHAMBAUT**

MBA, 1957, FRENCH, EUROPE SOUTH

11 **PAUL SCHULER**

MBA, 1955, SWISS, NORTH AMERICA

12 **ERNESTO SCHÜMPERLI**

DIPL. BAU-ING. ETH, MBA, 1955, SWISS, CONSTRUCTION, CONCRETE

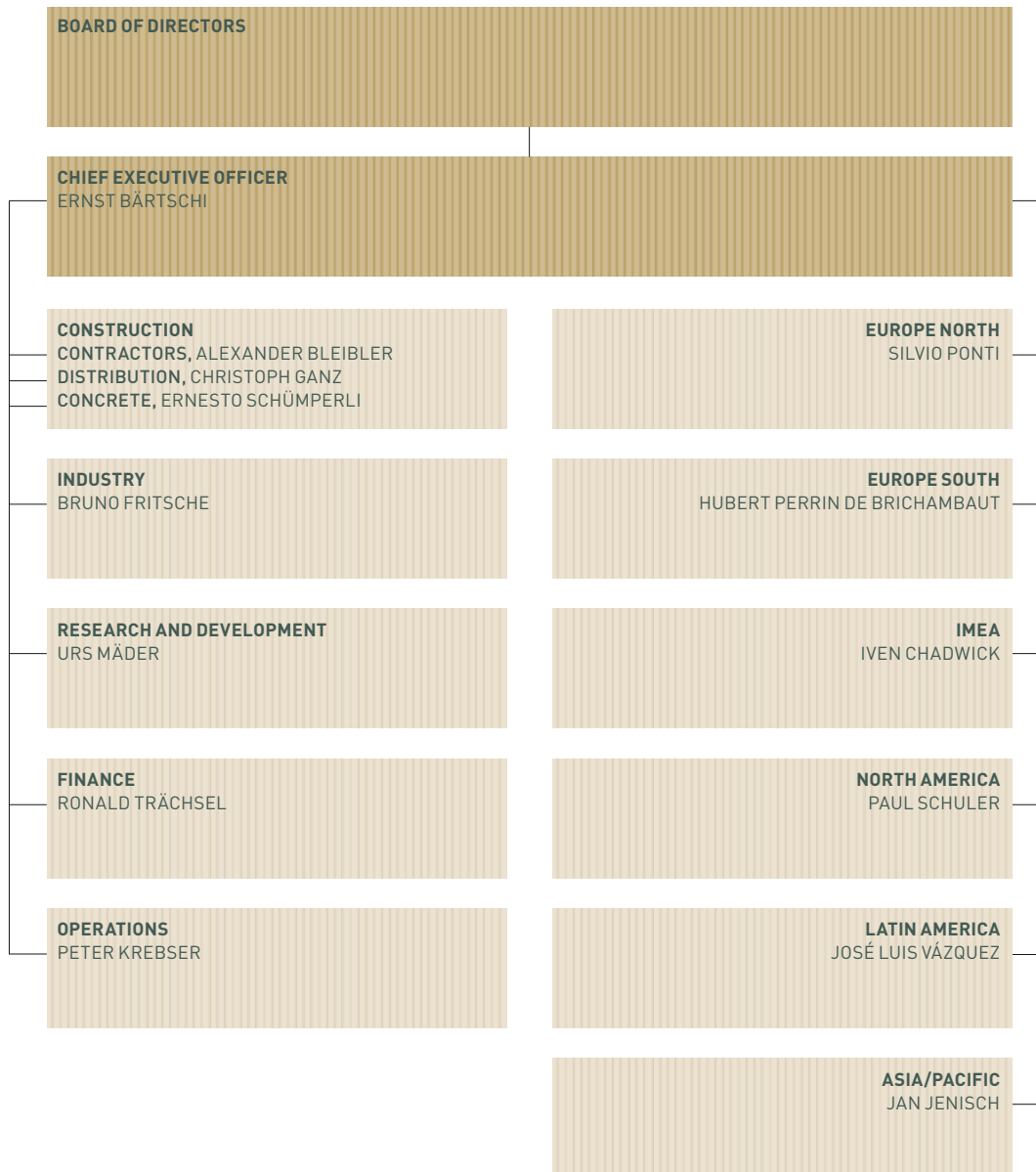
13 **RONALD TRÄCHSEL**

LIC. RER. POL., 1959, SWISS, FINANCE

14 **JOSÉ LUIS VÁZQUEZ**

DR.-ING., MBA, 1947, SPANISH, LATIN AMERICA

**ORGANIZATIONAL DIAGRAM**



**CHANGES IN GROUP MANAGEMENT** // In the year under review there were no changes in Group Management. Sika's Group Management remains at 14 members.



## BOARD OF DIRECTORS

**Walter Gruebler, Dr. oec. HSG, Chairman** // Nationality: Swiss. Year of birth: 1942. Member 1998–2000 and since: 2004. Elected till: 2010. **1968–1974** // Project Leader and Member of Executive Board, Hayek Engineering AG, Zurich, **1974–1990** // CEO and Vice Chairman of the Board of Directors, Airex AG, Sins, **1990–1999** // Member of Group Management, Alusuisse, Zurich, **2000–2004** // CEO, Sika AG, Baar, **Chairman, Board of Directors** // Adval Tech AG, Niederwangen, **Member, Board of Directors** // Nationale Suisse, Basel; Petroplus Holdings AG, Zug, **Member, Foundation Council** // ETH Foundation

**Thomas W. Bechtler, Dr. iur., L.L. M., Vice Chairman** // Nationality: Swiss. Year of birth: 1949. Member since: 1989. Elected till: 2010. Committees: Chairman Nomination and Compensation Committee. **1975–1977** // Managing Assistant, Luwa AG, **1977–1982** // Divisional Manager, Luwa AG, **Since 1982** // CEO, Hesta AG, Zug, **Member, Board of Directors** // Bucher Industries, Niederweningen; Conzeta 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. **1987–1989** // Head of planning, Denz Office Furniture, Zurich, **Since 1989** // Principal, Burkard Office Design GmbH, Rotkreuz, **Chairman, Board of Directors** // Unitrend Burkard AG, Rotkreuz, **Vice Chairman, Board of Directors** // Schenker-Winkler Holding AG, Baar

**Paul Hälg, Dr. sc. techn., ETH Zurich** // Nationality: Swiss. Year of birth: 1954. Member since: 2009. Elected till: 2012. **1981–1986** // Project and Group Leader Schweizerische Aluminium AG (Alusuisse), Zurich, **1987–2001** // Product Manager, Commercial Director, CEO, Gurit Essex AG, Freienbach, **2001–2004** // Executive Vice President Forbo International SA, Eglisau, **Since 2004** // CEO Dätwyler Group, Altdorf, **Chairman, Board of Directors** // Gurit Holding AG, Wattwil, **Member of Board** // Swissmem, trade association of the Swiss Mechanical and Electrical Engineering Industries

**Urs B. Rinderknecht, lic. iur** // Nationality: Swiss. Year of birth: 1946. Member since: 1998. Elected till: 2010. Committees: Nomination and Compensation Committee. **Until mid-2008** // General Manager UBS AG, **Chairman, Board of Directors** // Scintilla AG, Solothurn; sia Abrasives AG, Frauenfeld, **Vice Chairman, Board of Directors** // Widder Hotel AG, Zurich; Robert Bosch Int. Beteiligungen AG, Zurich, **Member of the Supervisory Council** // Robert Bosch GmbH, Stuttgart, **Member, Foundation Council** // UBS Cultural Foundation, Zurich

**Daniel J. Sauter, Financial Expert** // Nationality: Swiss. Year of birth: 1957. Member since: 2000. Elected till: 2012. Committees: Audit Committee. **1976–1983** // Several banks, incl. Bank Leu, Zurich, **1983–1998** // Senior partner and CFO, Glencore International AG, Baar, **1994–2001** // CEO and Delegate of Board of Directors, Xstrata AG, Zug, **Chairman, Board of Directors** // Alpine Select AG, Zug, **Member, Board of Directors** // Sulzer AG, Winterthur; 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. **1965–1978** // National/International Loan Specialist incl. Export Financing, Schweizerische Volksbank, **1979–1982** // Head of Directorate-General, Schweizerische Volksbank, **1983–1993** // Member of Executive Board, Luzerner Kantonalbank, **1994–2003** // CEO, Luzerner Kantonalbank; Member of the Board of Directors, Swiss Bankers Association and Association of Swiss Cantonal Banks; Member of the Board of Directors and periodically President or Vice President, Mortgage bond clearing house of the Swiss Cantonal Banks, AGI Holding AG, Swisscom IT Services AG, Adler & Co. Privatbank AG, **2004–2006** // Chairman of the Board of Directors, Sarna Polymer Holding Inc., **Chairman, Board of Directors** // Luzerner Kantonalbank, **Member** // Bank Council Swiss National Bank, **Member of Board** // Lucerne Symphony Orchestra

**Ulrich W. Suter, Dr. sc. techn., Professor** // Nationality: Swiss. Year of birth: 1944. Member since: 2003. Elected till: 2012. **1982–1989** // Professor, MIT, Department of Chemical Engineering, Cambridge, USA, **1988–2008** // Professor, ETH Zurich, Department of Material Science, **2001–2005** // Vice President for Research, ETH Zurich, **Member, Board of Directors** // WICOR Holding AG, Rapperswil SG; Global Surface AG, Nussbaumen TG; Quadrant AG, Lenzburg, **Member, Foundation Council** // Academia Engelberg; Werner Oechslin Library Foundation; Foundation Entwicklungsfonds Seltene Metalle ESM; Stiftung zur Förderung der Denkmalpflege

**Christoph Tobler, dipl. El. Ing. EPFL** // Nationality: Swiss. Year of birth: 1957. Member since: 2005. Elected till: 2010. **1988–1994** // McKinsey & Company, Zurich, **1994–1998** // Adtranz Schweiz, **1998–2004** // Sika AG, Head of Industry Division and Member of Group Management, **Since 2004** // CEO, Sefar Holding AG, Thal SG, **Member, Board of Directors Committee** // Sefar Holding AG, Thal SG, **Member, Board of Directors** // Schenker-Winkler Holding AG, Baar; AG Cilander, Herisau, **Member of Board Committee** // economiesuisse, Zurich

**CHANGES IN THE BOARD OF DIRECTORS** // In the period under review the Annual General Meeting on April 21, 2009, appointed Dr. Paul Hälgi, President of Group Management, Dätwyler Holding AG, to the Board of Directors.

Furthermore the shareholders confirmed the members of the Board of Directors Daniel J. Sauter, Fritz Studer and Ulrich W. Suter for a further period of office of three years. Dr. Tony Rusch, member of the Board of Directors since 2000, did not stand for reelection.

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

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

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

## Sika's Success Has Many Names

**With a cooperative management style, as well as targeted development and continued education programs that correspond to individual capabilities, Sika advances competence and individual scope of action, promoting genuine engagement of employees, while at the same time accommodating the company's dynamic development.**

**MANAGEMENT PRINCIPLES //** Sika nurtures continuity and the preservation of ethical values, whereby mutual respect as well as trust in management and colleagues are of central significance. Sika's dynamic development requires the integration of widely differing people and the global exchange of knowledge and experience. Discrimination is not tolerated in any form.

The activities of all employees are clearly oriented towards strategic, operative and company policy targets. Chains of command are transparently ordered, and the principle of farthest possible 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 should provide examples for their employees, and should advance their initiative and creativity. The flow of information through all hierarchical levels is as systematic, current and easily surveyable as possible. Gifted employees should be promoted and continuous education must be assured.

**DEVELOPMENT OF MANAGERS //** To be as attractive an employer as possible, Sika relies on global human resources management. At the core lies the so-called Performance and Talent Management, a modern system for identification and further development of performance and capabilities. This supports systematic employee succession planning and assists the company moreover in identifying additional talented individuals for further growth and fostering them intentionally. Various talent pools for different management functions have been created in this way.

In the year under review Talent Management has again been expanded and now also encompasses the various levels of management in the Regions. Within the scope of its search for talent, Sika not only counts on regularly scheduled development courses, but also on practical project work. In the way that they handle concrete tasks, employees can thereby demonstrate what they have in them. The project results thus often gain entry into the company's standard business operations.

Alongside training, further education and supervision of the widest possible range of functions, experience in other countries and above all in other cultures are important elements in the systematic, advanced development of potential managers. Group-internal guidelines create security and transparency for employees who leave their home country on behalf of Sika, as well as a fair contract adapted to the specific circumstances of the host country. At the same time Sika grants all delegates so-called "home harbor rights," guaranteeing employment upon return to their home base country.

**SIKA BUSINESS SCHOOL //** Changes in the organization and in working processes require a continuous and systematic flow of information and knowledge transfer. Sika Business School was instituted to realize the idea of a learning organization, and will be developed further on a systematic basis.

In 2009 Sika proceeded advancing its "Train the Trainer" concept. Thereby the expertise present within the Group is made available to employees who are in regular contact with customers. Standing at the center of training sessions is the transformation of complex content into practically applicable know-how that can subsequently be transferred to customers. "Train the Trainer" is thus immediately relevant for business success, since many of the company's products can only be employed successfully if users have adequate command of the necessary know-how.

Collaboration with the Institute for Management Development, IMD, in Lausanne, Switzerland, continued throughout the year under review. The objective of this cooperation, which was initiated in 2007, lies in the development and expansion of so-called Executive Management Training for upper-level managers. Previously developed training units have met with high acceptance and have been judged by all participants to be extraordinarily valuable.

In the reporting year Sika spent overall some CHF 6.6 million (2008: CHF 9.6 million) for employee development. Included therein are specific training sessions organized on a decentralized basis in the Regions and countries as well as worldwide sales training.

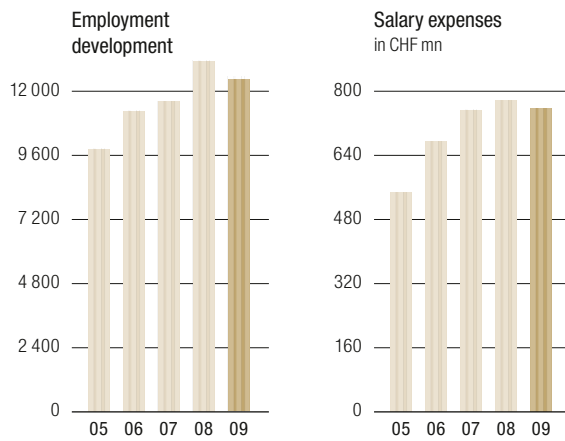
**COMPENSATION POLICY //** Sika began in the year under review with the implementation of a worldwide, uniform compensation policy based on comprehensive functional evaluations and compensation analyses. This initiative ensures both the external marketability of the company as well as establishing internally as equitable a salary structure as possible. The analysis of ancillary benefits such as insurance protection and retirement provisions conducted in the previous year in various countries was concluded. The information gained was incorporated into an initial concept for worldwide protection of employees against the risks of accident and illness. The concept will be developed further in order to adequately accommodate location-specific circumstances.

Sika maintains a variable compensation model for members of Sika Senior Management. The variable portion of compensation is oriented toward relative parameters, for example in comparison of key figures with competitors, as well as parameters affecting liquidity such as cash flow or net working capital. This system thereby reflects the strategy of the company also in years that are affected by crisis. The variable portion is paid out in Sika shares as a percentage of compensation freely chosen to be as high as 40%. These shares, allocated at fair market value, are precluded from trading for a period of four years.

**PERSONNEL DEVELOPMENT //** 2009 was marked by the economic crisis. In many countries local Sika companies had to adapt their costs to market conditions that in some cases altered drastically. Often this could not be done without personnel reductions. Sika thereby extended supportive offerings to the affected employees wherever possible, such as occupational reorientation and in cases of particular hardship.

Worldwide the Group employed 12 369 persons (2008: 12 900) at the close of the year under review. Employees are distributed among the Regions as follows: Europe North 4 417 (2008: 4 741), Europe South 2 108 (2008: 1994), North America 1 163 (2008: 1 358), Latin America 1 561 (2008: 1 729), IMEA 892 (2008: 873), Asia/Pacific 2 228 (2008: 2 205).

Together all Sika employees generated in 2009 a net added value of CHF 1 298 million (2008: CHF 1 380 million). Relative to personnel expenses they produced a percentage net added value of 136% (2008: 144%). The achieved net added value per employee declined by some 8.0% from CHF 112 000 to CHF 103 000. Please see also page 134 of this Report for more information.



#### Number of employees by Region

Europe North	4 417 (35.7%)
Europe South	2 108 (17.0%)
North America	1 163 (9.4%)
Latin America	1 561 (12.6%)
IMEA	892 (7.2%)
Asia/Pacific	2 228 (18.1%)
<b>Total</b>	<b>12 369</b>

China is taking the train. The new high-speed network will be the largest, fastest and technologically most advanced in the world. Light and safe vehicles are much in demand. Railway car builders therefore rely on sandwich panels.

# NEEDS



CRH3 – China Railway High Speed Serial 3, 300 km/h. China is investing USD 300 billion in the expansion of its high-speed railway network to the year 2020.





# SOLUTIONS

Sandwich panels are bonded. High-performance adhesives from Sika such as those in the CRH3 achieve handling strength within minutes. Their fire-resistant capabilities will help to reduce the spread of combustion. The adhesives are produced locally and can be delivered to the customer just in time.

**Developing business sustainably, acting transparently, avoiding risks and seizing chances. Sika takes responsibility – at every step.**



## Perspectives for the Future

Global megatrends not only confront companies with enormous challenges that include economic, social and ecological aspects, but simultaneously act as drivers for future growth. Sika has perceived this chance, committing itself to genuine, sustainable addition of value.

**COMMITMENT** // Sika is committed to the guiding idea of sustainable development. Our sustainability initiatives target the internal organization as well as the external environment. They orient themselves according to a number of worldwide megatrends, encompassing economic, social and ecological aspects.

For Sika, sustainability is not merely a target, but rather a process which encompasses the whole enterprise. So Sika monitors its activities and behavior continuously regarding observance of obligations, searching constantly for ways to justly serve the welfare of the company, protect the environment and better the situation of people in general in order that its responsibility toward shareholders, competitors, suppliers and society as a whole is rightly fulfilled.

**MEGATRENDS** // Sustainable development is closely linked with trends which will shape our future. These so-called megatrends are also the decisive drivers for future economic growth.

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

Sika solutions:

- concrete admixtures for high-quality concrete incorporating recycled aggregates
- concrete admixtures for recycling of excavated material onsite
- grinding aids for energy-efficient cement production
- special sealing for argon-filled insulating glass
- new joining technologies for lighter, energy-saving windows

**Climate change** // Earth's climate is changing more quickly than ever. The consequences are manifold and affect all mankind. Protection of the climate is therefore one of the most critical tasks for the future. By 2050 the world must reduce the emission of green house gases by 80%. Acting decisively now is crucial, since the complete conversion of our fossil fuel-based energy system must be financed and realized within less than two generations.

Sika solutions:

- structural adhesives for motor vehicle manufacturing that save weight
- polymeric reinforcing elements for lighter automobiles
- adhesives for the solar energy industry
- solar roofs
- highly reflective roofing membranes for increased efficiency of solar energy installations
- adhesives for the development of more durable wind turbines
- protection of wind turbines against elemental adversities
- concrete admixtures for secure foundations

**Water** // Fresh water is the oil of the 21st century. With an increasing global population, urbanization and climate change, water is becoming a limited commodity. Careful handling regarding consumption, purification, storage and wastewater treatment is critical. Already today one billion human beings do not have enough drinking water available to them.

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
- specialized mortar for concrete refurbishment
- coatings for protection of surfaces
- specialized resins for sealing of cracks
- concrete admixtures for reduced water consumption in production of concrete

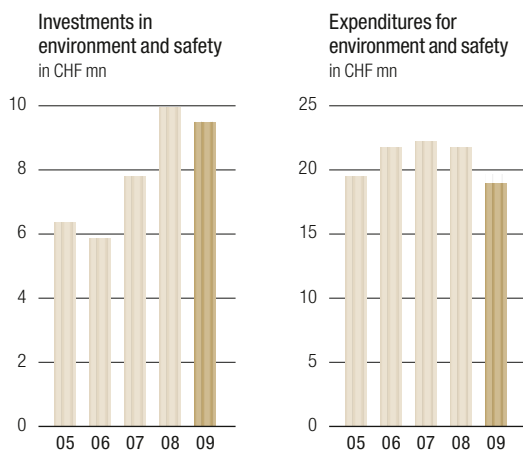
**Infrastructure** // Across the world there are few projects for which more money is spent than for the construction and maintenance of infrastructure. The rapid economic climb of developing nations demands enormous investments in energy, transportation, water and health care. At the same time, existing infrastructure in developed countries must also be modernized.

Sika solutions:

- construction chemicals, shotcrete machines and waterproofing membranes for tunneling
- composite materials for durable infrastructure
- roofing membranes for green roofs and better city climates
- reflective roofing membranes for cool roofs

Details regarding all the Sika solutions can be obtained in the brochure "Solutions for a sustainable future", available on the internet ([www.sika.com](http://www.sika.com)) or through postal delivery order (request to Sika AG, keyword "sustainable future", P.O. Box, Zugerstrasse 50, 6431 Baar).

**ENVIRONMENT AND SAFETY** // Sika's mission statement describes how the company handles its products: "Our aim is to address environmental and safety concerns throughout the whole value chain." As a consequence of this, the optimization of resource consumption and the safety of products are permanent processes and a part of sustainable development.



On the other hand, customer needs are also increasingly affected by the idea of sustainable development. So the circle closes, and the guiding idea of sustainability becomes a core challenge in the development of economically successful products.

**Environmental and safety management** // Manufacturing subsidiaries in some 40 countries have participated in the chemical industry's Responsible Care program since 1992. Environmental management systems in accordance with ISO 14001 have been implemented in virtually all Sika companies, and increase the effectiveness of the factories and subsidiaries in precautionary environmental protection. A number of production facilities received approval in 2009 including the factories and organizations in Turkey, Bahrain, Spain, and in Troisdorf and Leimen in Germany. Twenty-one companies successfully achieved recertification.

Numerous locations were certified according to OHSAS: 18001 (Safety and Health) in the year under review. Sika companies in Switzerland, Denmark, Belgium, Great Britain, New Zealand, Bahrain, Brazil and Romania achieved positive test results during the reporting year.

Sika monitors its production facilities on a routine basis regarding risks for employees as well as for neighboring persons or organizations and improves safety continuously. An additional important basis for environmentally conscious business management is the internal and external training and continuing education of employees. The palette of topics is comprehensive: raw material handling, occupational safety, legal regulations as well as packaging, labeling and transport of products. Frequent internal audits and controls ensure that rules and procedures are observed.

**Investments in safety and environmental protection** // In the year under review Sika invested similarly to the previous year some CHF 10 million in safety and environmental protection. Further improvements were thereby made particularly in water consumption, preventative fire protection and in reduction of waste. The number of full-time employees in the area of environment, safety, health and sustainability rose with the acquisition of new businesses in Asia and Northern Europe from 77 to 93.

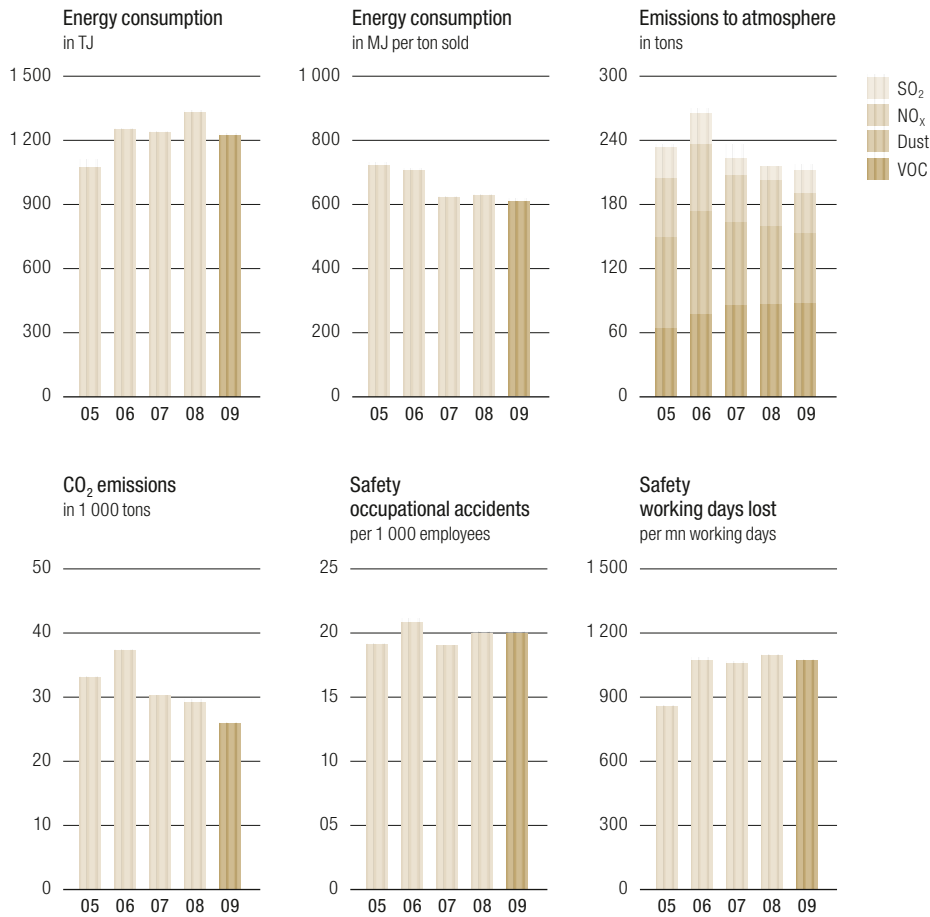
**Energy consumption** // In the period under review energy consumption fell from 1 333 TJ to 1 222 TJ. Sika drew more than half of required energy in the form of electrical power. The proportion of natural gas accounted for around a fourth. The rest was covered by heating oil and to a small extent by district heating. The amount of energy consumed per ton of product sold fell from 627 MJ/t to 606 MJ/t.

**Emissions to the atmosphere** // The discharge of CO<sub>2</sub> resulting from use of primary energy carriers in the reporting year amounted to 26 000 tons, corresponding to a reduction of 2 800 tons. The emission of SO<sub>2</sub> rose from 13 to 21 tons. The NO<sub>x</sub> discharge fell by 5 tons to 38 tons. Emission of dust fell by 7 tons to 65 tons. The quantity of VOC emissions stayed unchanged at 88 tons.

**Water consumption** // Due to further investments in reduction of the quantity of cooling water, water consumption dropped despite similar production quantities by an additional 10% from 1.94 million cubic meters to 1.74 million cubic meters. Approximately one quarter of water consumption is as a component in liquid products.

**Waste** // The quantity of waste could be reduced by 5% during the year under review. The proportion of hazardous waste from production thereby rose slightly.

**Safety and health** // The number of occupational accidents with a workday loss of greater than one day stayed unchanged and amounted to 20 accidents per 1 000 employees as in the preceding year. The number of workdays lost per million workdays decreased slightly from 1 093 to 1 067 days.



**Abbreviations**

- CO<sub>2</sub> carbon dioxide
- NO<sub>x</sub> nitrogen oxides
- SO<sub>2</sub> sulfur dioxide
- MJ/TJ megajoule/terajoule
- VOC volatile organic compounds

The acquisitions of 2009 are not included in this presentation. During the integration phase various adaptations are made in the acquired facilities and subsequently the operations are included in the reporting process. Hence the presentation shows the development of the emission values of the existing facilities.

**SOCIAL RESPONSIBILITY** // Employees at Sika cultivate fair treatment of and interaction with all stakeholders. In 2009 Sika AG was registered in the directory of partners in the UN Global Compact and now participates actively in the worldwide Corporate Responsibility Initiative. Managers and employees are committed to the Global Compact, implementing its principles in the strategy, culture and daily business of the company, taking part in joint projects which promote the major development goals of the United Nations, especially the Millennium Development Goals.

Sika acknowledges, implements and supports a catalog of fundamental values in the areas of human rights, labor codes, in environmental protection and in battling corruption. The ten principles of the UN Global Compact can be found on the website <http://www.unglobalcompact.org>.

**RESPONSIBLE CARE**® // Sika follows the rules of the Responsible Care® program, a voluntary initiative of the worldwide active chemical industry. Through its national associations, companies work together with the objective of continuously improving performance in the areas of safety, health and environmental protection, cultivating dialog with stakeholders regarding products and processes.

The Responsible Care® ethic aids the industry in working safely, profitably and with due consideration of future generations, and was recommended at the World Summit on Sustainable Development in 2002 by the United Nations Environment Program, UNEP, as a fitting contribution to sustainable development.

**ROMUALD BURKARD FOUNDATION** // In remembrance of Dr. Romuald Burkard, who represented the third generation of the founding family Winkler, the Sika Board of Directors established the Romuald Burkard Foundation in 2005. The Foundation provides financial support to social and ecological projects in emerging markets in which Sika maintains subsidiaries. Projects must have their focus in:

- Buildings and infrastructural installations that serve a social or ecological purpose such as water reservoirs, wastewater treatment facilities, etc.,
- technical education in building professions,
- water projects with ecological and social objectives.

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

Sika supported the following projects in the year under review:

**Indonesia** // Support of the WatSan Program in the slums of Jakarta. Conducted by the Yayasan Tirta Lestari Foundation, the program comprises various educational and development programs to improve the water supply in the densely populated slums. The program thus deals with the proper handling of water as well as with its treatment and purification. Overall support contribution: CHF 165 000. ([www.watsanaction.org](http://www.watsanaction.org))

**Vietnam** // Support of the project Operation Smile Vietnam. The project helps children who are born with facial birth defects. Operation Smile arranges for urgently needed surgery which promptly and consequently changes children's lives. Overall support contribution: CHF 100 000. ([www.operationssmile.org.vn](http://www.operationssmile.org.vn))

**Switzerland – Latin America //** Realization of YES courses in Switzerland and in Latin America. YES stands for Youth Encounter on Sustainability. The courses deal with various aspects of sustainable development and are oriented primarily toward young people in secondary or vocational education. The courses are developed by Actis GmbH, a spin-off from the ETH Zurich (Swiss Federal Institute of Technology). Overall support contribution: CHF 200 000. ([www.actis-education.ch](http://www.actis-education.ch))

**China //** Reconstruction of the school Du Jiangyan School of No. 10 Bureau, destroyed in the earthquake in Sichuan Province, was completed in the year under review. At the time of the devastating earthquake on May 12, 2008, the school provided instruction to 3 000 pupils from the first to the ninth grade. The reconstruction of the school went on until mid-2009. Overall support contribution: CHF 300 000.

**Mexico //** Expansion of the infrastructure of the orphanage Pan de Vida, where abused or abandoned children live and learn in a safe environment, was completed during the year under review. The project comprised various measures: expansion of the school, refurbishment of the gymnasium roof, improvement of the water supply and renovation of the playground and the access road. Overall support contribution: CHF 245 000. ([www.pandevida.org](http://www.pandevida.org))

**GLOBAL NATURE FUND //** Sika supports the Global Nature Fund, GNF, within the scope of the international lake network Living Lakes. This global network with 70 partner organizations from lake regions around the globe is committed to sustainable development and protection of potable water, lakes and wetlands. Concrete models of successful projects demonstrate how economic and social developments in different climatic zones and societies are practiced while simultaneously protecting nature and the environment. Local populations are thereby always expressly involved. ([www.globalnature.org](http://www.globalnature.org))

Sika supported three GNF projects in the year under review.

**Laguna Fúquene, Colombia //** The activities of the Fundación Humedales in Colombia as a focus country have been promoted by Sika from the very start. The construction of an information center and the expansion of the environmental education program were only possible to this extent due the continuous support of Sika and the GNF. ([www.fundacionhumedales.org](http://www.fundacionhumedales.org))

**Maduganga and Madampeganga, Sri Lanka //** The objective of this new project is to reduce the environmental impact of kerosene lamps while at the same time improving the living conditions and the income of fishermen. Inland fishermen in Sri Lanka burn more than 30 million liters of kerosene per year as a source of lighting. The GNF and its partners want to equip the fishermen with solar-powered lamps. The project is being implemented on the lakes of Bolgoda, Madampe, Maduganga, Maella, Malal and Lungamwehera. It consists of training units and the installation of 5 charging stations along the lakes. 500 fishermen will receive a solar-powered lamp in the initial phase. Planned is the extension of the project to additional regions. ([www.nagenahiru.org](http://www.nagenahiru.org))

**Baikal Conference 2009, Russia //** The goal of this project was to carry out a conference, Living Lakes – 10 Years of Partnership at Lake Baikal: Chances and Challenges for a Secured Future, for Man and the Lake, as well as the initiation of model projects at Lake Baikal. The primary goal of the conference was the evaluation of past experiences of collaboration in environmental protection and the concrete planning of future such projects in the Baikal region. ([www.firnclub.ru](http://www.firnclub.ru))

## Seeing Opportunities in Risks

**As a globally operating enterprise, Sika is confronted with various risks. To safeguard the Group's capacity to act at all times and to permanently protect our reputation, risks are analyzed early and integrated into strategic decision processes. New chances can emerge as a result.**

**RISKS AND CHANCES //** Falsely assessed risks can have substantial consequences for the reputation of companies and their capacity to act, leading in the worst case to insolvency. Sika is well aware of this, introducing a comprehensive risk management for the Group as well as for all subsidiaries already years ago. Dangers should be recognized early and integrated into strategic decision processes. New chances can thereby emerge, so that risk management can ultimately 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 Group Management regularly reviews the processes that form the basis of risk management, the Board of Directors remains the highest authority for risk assessment. Among its responsibilities is the annual assessment of risks at Group level. Standing thereby in the forefront are those strategic and operative risks that could lead to a material endangerment of the Group. All risks are assessed by means of fundamental questions:

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

If the overall assessment of a risk is critical, adequate measures are implemented.

**SUPPLIERS AND RAW MATERIALS //** Raw material costs are Sika's largest cost factor. They therefore receive particular attention in risk assessment. Nearly 70% of the materials Sika deploys in production such as polyurethanes, epoxy resins or polyvinyl chloride are ultimately based on crude oil or base material derived from it, the substantial price fluctuations of which bear certain influence on purchase prices. Many of the company's products have an energy-saving effect in customer projects. They improve, for example, insulation or lower energy consumption in fabrication processes (see also entries in this Report on pages 62 ff). With an increase in raw material prices Sika assumes that the energy-saving effects of its own products make them worthwhile investments for customers, which benefits the company's newest technologies.

Sika purchases base chemicals (commodities) from the qualitatively best and most cost-effective suppliers. For raw materials requiring specialist solutions, Sika sources from at least two providers. Raw materials for unique or proprietary technologies are manufactured by the company itself.



**PRODUCTION AND LOGISTICS //** Risk management in the areas of production and logistics includes the systematic annual analysis of possible operational risks that could lead to breaks in production or other operational disturbances, and the corresponding preventive measures. Sika is moreover insured against loss of production. The practical and organizational handling of operational or any other risks is laid down in the Sika Risk Management Policy. This policy is based on compulsory standards in the area of environment, health and safety. The risk analyses of external specialists, in many cases in close collaboration with insurance companies, complement internal examinations.

At major factories external inspections take place on average every three years. Together with local safety officers and their teams, independent specialists thereby record the dangers that could lead to interruptions in production or to property or liability damage. The probability and impact of these occurrences are subsequently assessed and measures are established to reduce this risk potential as far as possible. Every organization conducts an annual, routine and internal risk analysis in the areas of production and logistics with the same methodology.

Binding procedures for product development and advancement, the so-called Product Creation Process and the Product Maintenance Process reduce any risks that can derive from products. Both processes are subjected to highly stringent controls. They encompass on one hand ecological and technical safety aspects in development, production and in product handling. On the other hand, focus falls on market opportunities as well as the protection of intellectual property. Since 1999 there exists in addition a worldwide program with the objective of minimizing the risks in the consulting and sales business. A multitude of measures, including among others the consistent and regular training of employees, clear standards, comprehensive analysis of causes and improved controls continually reduce expenditures for product damage claims.

**CUSTOMERS AND MARKETS //** Sika limits the risks proceeding from markets and customers through targeted diversification. On one hand geographic diversification in the building and construction industry is of great significance, since construction business tends to be locally oriented, and construction markets in distant global regions demonstrate contrary development to some degree. On the other hand diversification among customers – no customer yields more than 1.5% of Sika sales – has a similarly stabilizing effect on business. In order to cushion economic fluctuations as far as possible, Sika is active in addition to new construction business also in the largely cycle-independent repair and maintenance business.

**FINANCIAL RISKS //** The objective of financial risk management is optimal capital procurement as well as a liquidity position oriented towards payment obligations. Liquidity assurance is provided through four long-term bonds, two in the amount of CHF 250 million with maturities in 2013 and 2016, one for CHF 275 million with maturity in 2011 and another for CHF 300 million with maturity in 2014. In addition, an ongoing credit facility of CHF 450 million exists through 2010, made available through a bank syndicate.

An optimal liquidity position results from cash pooling. For selected activities in the treasury area Sika relies on additional third-party services. Furthermore, the company manages its net working capital most prudently, ensuring sufficient cash generation at all times through a cost structure adapted to the respective market conditions. Sika places great value on open and cost-efficient access to capital markets. In this context the Standard & Poors rating A-/stable (long-term) is significant.

Financial risk management is described in detail on page 114 ff et seq. of this Report.

## 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, control mechanisms and defense measures 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 Sika company listed on a stock exchange. The Sika AG bearer shares are listed on the SIX Swiss Exchange under Registration No. 58797. Information on Sika AG's stock market capitalization is found on page 9 of this Report. In the year under review the Sika Group encompassed unlisted subsidiaries in 73 countries. All 113 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 the scope of consolidation is found on page 125 ff et seq.

Sika conducts its worldwide activities according to countries that have been classed into Regions with area-wide managerial functions. Regional heads are members of Group Management. The regional management and the management within the countries bear full profit and loss responsibility, and proceeding from Group strategy determine the country-specific growth and sustainability targets as well as the allocation of resources.

Sika has oriented its internal organization furthermore toward four customer groups which stem 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 individual countries. The corresponding managers are responsible for the definition and introduction of new products, for the implementation of best-demonstrated practices, as well as for assortment and pricing policy of group products, those that are offered on a worldwide basis rather than in a country-specific manner.

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 25–30 of this Report.

According to Art. 663c of the Swiss Code of Obligations (OR), major shareholders hold a proportion of voting rights of over 3.0%. As of the balance sheet record date of December 31, 2009, Sika had two major shareholders. These are the Burkhard-Schenker family, which according to information provided by the family on December 31, 2009, holds 54.1% of all share votes, in part through the Schenker-Winkler Holding AG, Baar, and Lone Pine Capital LLC, headquartered in Greenwich, Connecticut, which held 5.0% of all share votes on the balance sheet record date. Up until the editorial deadline of this Annual Report there were no noteworthy changes in the distribution of ownership.

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

**CAPITAL STRUCTURE** // As of December 31, 2009, 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 rate of 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, temporarily unrestricted, comprising 259 822 bearer shares with a per share nominal value of CHF 9.00.

These shares are foreseen for the exercise of option or conversion rights. Shareholders are excluded from subscription rights. There are currently no conversion or option rights outstanding. Sika granted no participation, profit-sharing certificates or stock options. Option plans do not exist for members of the Board of Directors, Group Management or employees. Changes in capital stock, reserves as well as retained earnings during the last five years are posted on pages 130 ff et. seq. of this Report.

The purchase of Sika bearer and registered shares stands 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 listed in the commercial register. In the year under review no new shareholder exceeded this 5% threshold. Nominees, i.e. shareholders who acquire shares in their own name but on the account of third parties, are registered as shareholders without voting rights.

**BOARD OF DIRECTORS //** The Board of Directors is Sika's highest level of management and is mainly responsible for the:

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

The members of the Board of Directors are elected by the Annual General Meeting for a 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 commission. Detailed information on individual members of the Board of Directors is listed on pages 29 and 30 of this Report. No directorships are maintained with other listed companies on a reciprocating basis. The Board of Directors constitutes itself, electing the Chairman and Vice Chairman from its ranks.

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 behest as business demands. In business year 2009 the Board met six times. The President of Group Management, the CEO, participates in the Board meetings in an advisory capacity. The other members of Group Management take part as necessary, but at least three times per year, also as advisors.

Company officers report regularly and comprehensively to the Chairman concerning implementation of Board decisions. The CEO as well as the CFO report to the Board in writing on the development of business at least once per month. Extraordinary occurrences are reported immediately to the Chairman or the Audit Committee, insofar as such events relate to the latter's area of responsibility. The auditing staff report to the Chairman as well as the Audit Committee 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. The Committees otherwise organize themselves. Information on the members of the Committees can be found on pages 29 and 30 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 plans at Board and Group Management level and handles issues of their compensation. The committee meets on request of the chairperson as business demands. Usually the Chairman of the Board and the CEO participate in these meetings in an advisory capacity. In the year under review the Nomination and Compensation Committee met four times.

**GROUP MANAGEMENT //** Within the framework of Board resolutions, Sika operative leadership is incumbent on Group Management. The members of Group Management and their functions are listed on pages 26 and 27 of this Report. Detailed information on their backgrounds, as well as on interests and activities, can be found on our website under [www.sika.com/en/group/aboutus/management.html](http://www.sika.com/en/group/aboutus/management.html). 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 reviewed under [www.sika.com/en/group/investors/corporategovernance/articlesofassociation.html](http://www.sika.com/en/group/investors/corporategovernance/articlesofassociation.html).

The invitation modalities and deadlines for the Annual General Meeting are conformant with legal requirements. In addition, shareholders representing a nominal share value of CHF 150 000 can request in writing to have an item placed on the agenda during a 14-day period approximately two and a half months prior to the Annual General Meeting. New registered shares will not be registered by the company in the 20 days prior to the Annual General Meeting. Therefore registered shares sold between the deadline and the Annual General Meeting are not entitled to vote.

**CHANGE IN CORPORATE CONTROL AND DEFENSE MEASURES //** In accordance with § 6 of the Sika articles of association, purchasers of shares are not obligated to make a public offering as generally prescribed by articles 32 and 52 of the Swiss Federal Act on Stock Exchange and Securities Trading. There are no clauses governing changes in corporate control.

**AUDITOR //** 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. The current audit team leader has been active on behalf of Sika since 2003, and will be replaced due to rotation regulations as of 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 2009 the 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. Thereby included were 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 0.9 million for tax consultancy and CHF 0.8 million for audit-related consulting services.

**COMMUNICATIONS** // Sika informs extensively concerning the development of business in annual and quarterly reports, at the annual media and financial analyst conference as well as at the Annual General Meeting. The continually updated website – [www.sika.com](http://www.sika.com) – as well as press releases regarding important developments are also integral components in communications. As a company listed on the 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 2010 is found in this Report on page 150.

**COMPENSATION REPORT** // The compensation of members of the Board of Directors and of Group Management is presented in detail from page 145 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 evaluates the individual performance of the members of Group Management for the attention of the Board of Directors. The committee proposes the fixed and variable portions of compensation, the latter based upon a specified scheme. The Nomination and Compensation Committee determines the compensation of the Chairman and proposes the compensation of the other members of the Board. The Nomination and Compensation Committee convened four times during the year under review.

**Compensation of the Board members** // The compensation of the members of the Board of Directors consists of a net base remuneration and fees for their work in committees.

The members of the Board of Directors receive a net base remuneration between CHF 120 000 and CHF 150 000 per business year. Remuneration for the Chairman of the Board has been set at CHF 1.0 million (details are shown in Note 25, page 145). For their work in committees the members receive net fees totaling CHF 12 000 to CHF 20 000 per year. Compensation is paid out annually in March for the respective past business year.

The compensation of members of the Board of Directors is subject to Swiss taxation and social security laws, whereby 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 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 145 of this Report.

**Compensation of members of Group Management** // The Nomination and Compensation Committee regularly reviews the amount and composition of the compensation of members of Group Management.

In order to set compensation in line with the market, the Nomination and Compensation Committee confers with a consulting firm which provides advice to numerous companies in the industrial and chemical sectors with regard to overall compensation; the consultant conducts an annual study of total compensation of members of group management and high-ranking managers. From the statistical aggregation of all participating companies the consultant prepares market snapshots at regular intervals of various components of remuneration, on the basis of which Sika can compare its remuneration structure with that of participating companies in the market at large.

Proceeding from these analyses the Nomination and Compensation Committee establishes a frame of reference for the total compensation of members of the Board of Directors and of Group Management as well as upper-level managers, which is then employed for setting individual target amounts of their total compensation. The actual amount of compensation of the individual members of Group Management and of upper management is dependent on performance in a given business year.

The total compensation of members of Group Management consists of a fixed salary as well as short- and long-term variable portions of compensation.

The short-term variable portion of compensation is dependent upon the degree to which targets set for that reporting year have been reached. Targets are defined for various key figures, for example operating profit, return on capital employed or for net working capital. These key figures receive a varied weighting depending upon one's function in Group Management. Moreover, individual targets are also agreed with members of Group Management. The short-term variable portion of compensation is paid out to 20% or 40% in Sika shares; members of Group Management can choose this percentage freely. These shares, allocated at fair market value, are precluded from sale for a vesting period of four years.

The long-term variable salary component is based on a target definition of a strategically crucial key figure in the respective market environment over a period of three years. The long-term variable salary component is paid out entirely in shares having a vesting period of four years.

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 the members of Group Management are shown in Note 26 of the statements of accounts of Sika AG on page 146.

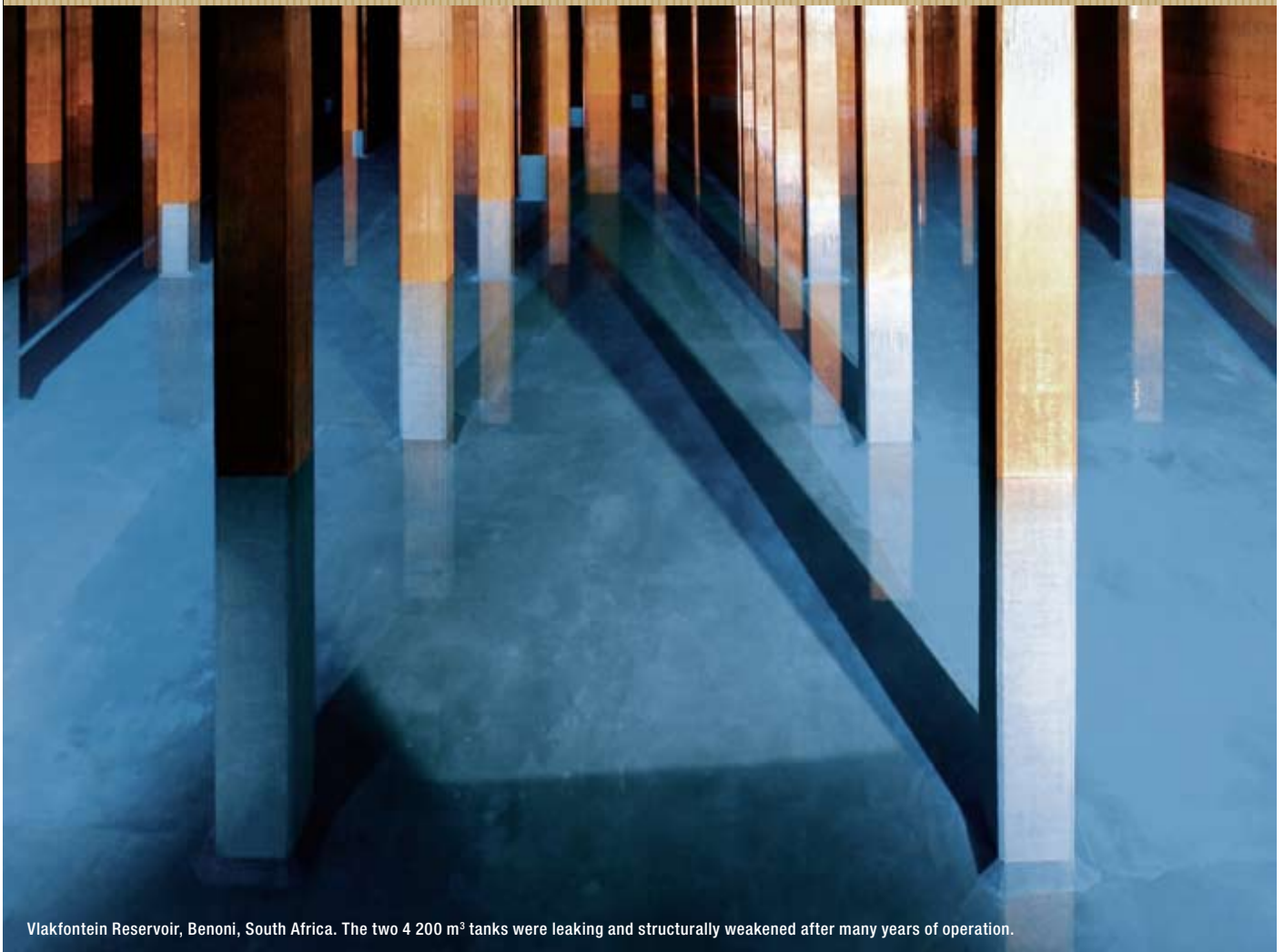
The members of Group Management with a Swiss employment contract participate in Sika's pension plans. These consist of the Group pension fund, in which base salaries up to an amount of CHF 129 960 per annum are insured, as well as a supplementary plan in which base salaries that exceed this limit are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

Members of Group Management having an employment contract from a foreign country are insured in accordance with the legal requirements of the respective country.

**Compensation of the CEO** // All the rules mentioned regarding the compensation of members of Group Management hold for the CEO as well. The details on compensation of the CEO are shown in Note 26 in the Notes to the Financial Statements of Sika AG on page 146 of this Report.

The fight against loss of water or the contamination of reserves is a challenge for reservoir operators. Especially in Benoni, since drinking water is a precious commodity in South Africa.

# NEEDS



Vlakfontein Reservoir, Benoni, South Africa. The two 4 200 m<sup>3</sup> tanks were leaking and structurally weakened after many years of operation.





# SOLUTIONS

From SikaWrap® for structural reinforcement to Sikadur® Combiflex® for secure joint sealing to SikaTop® Seal surface protection, the Sika solution is robust, low-maintenance, and ensures loss-free water retention for many years to come.

Market share gained, growth in significant markets and liquidity guaranteed.  
Sika shows strength in times of crisis.

## TARGETS

# Sika Adheres to Its Targets

Sika has defined binding, medium-term financial target figures that are aligned with enterprise growth strategy. Sales, profit, cash flow and Return on Capital Employed (ROCE) are thereby held in focus.

**FINANCIAL TARGETS //** Sika's financial targets were derived from the clearly defined strategy of growth, and reflect the development costs in the emerging markets. On one hand growth must be financed; this influences the relation between sales and operating cash flow. On the other hand Sika expects this growth to lead to a higher absolute operating profit. The medium-term financial targets (excluding costs for restructuring) are:

	Targets	Results				
		2005	2006	2007	2008	2009
Growth in local currencies excl. acquisitions in %	8–10	11.8	15.1	13.0	5.9	-6.2
Operating profit before depreciation and restructuring as % of net sales	12–14	12.1	13.2	13.9	12.0	13.0
Profit before restructuring as % of net sales	>6	5.3	6.0	7.5	5.8	6.5
Operating free cash flow as % of net sales	4–6	4.4	4.9	4.2	3.6	8.9
ROCE* before restructuring in %	20–25	16.8	20.2	26.0	20.3	19.3

\* Return on Capital Employed, see also page 131

The Board of Directors regularly reviews Group strategy and targets, adjusting them as appropriate. Despite the recession by which many countries were affected in 2009, Sika adheres for the time being to its established financial targets.

**OPERATIVE PERFORMANCE FIGURES //** While most Sika country organizations evaluate performance figures on a daily basis, the Group operates with monthly evaluations based on operating profit per Region. Up-to-date pricing instruments enable the evaluation of cost and price developments as well as measures at the product and customer level. In addition, Customer Relation Management (CRM) makes possible the definition of customer-specific targets and success evaluations, as well as debtor analysis and the assessment of globally active customers.

## Market Share Gained, Costs Reduced

**Sika Group sales declined in 2009 by 3.9%, including currency adjustments. This amounted to a 10.2% drop in sales in Swiss francs; the net sales achieved by the Group totaled CHF 4.155 billion. Consolidated net profit before costs of restructuring lay at CHF 269.4 million above the level of the previous year, CHF 267.4 million.**

**SALES //** The Sika Group achieved net sales in 2009 of CHF 4.155 billion. The difference to the previous year comprises a sales decline in local currencies of 3.9%, which itself includes an acquisition effect of 2.3%, and a currency effect of -6.3%. Net sales in Swiss francs thus lay 10.2% below the level of the previous year.

Although during the year under review market volumes in the building and construction industry lagged behind the level of the previous year by as much as 30%, Sika sales with products for this industry declined by only 2.0% in local currencies. Comparison shows that the company gained market share. Business with products for industrial manufacturing benefited in the second half-year of 2009 from programs initiated in various countries to promote the purchase of new vehicles with low fuel consumption. Thereby the decline in sales in local currencies, which amounted to 20.1% after six months, could be mitigated over the entire year to 11.3%.

The Regions developed diversely. In local currencies Sika grew in the Region IMEA (India, Middle East, Africa) by 11.2%, and in the Region Latin America by 8.0%. In the Asia/Pacific Region sales were nearly unchanged overall, though development from country to country varied. While in emerging markets such as China or Indonesia Sika achieved double-digit growth rates, sales dropped in OECD nations (Japan, Australia, New Zealand). Sales declined in the remaining Regions: Europe North -8.8%, Europe South -4.0%, North America -7.7%. Due to the increase in sales that Sika achieved in emerging markets, their overall proportion of Group sales rose from 32% in 2008 to 34% presently.

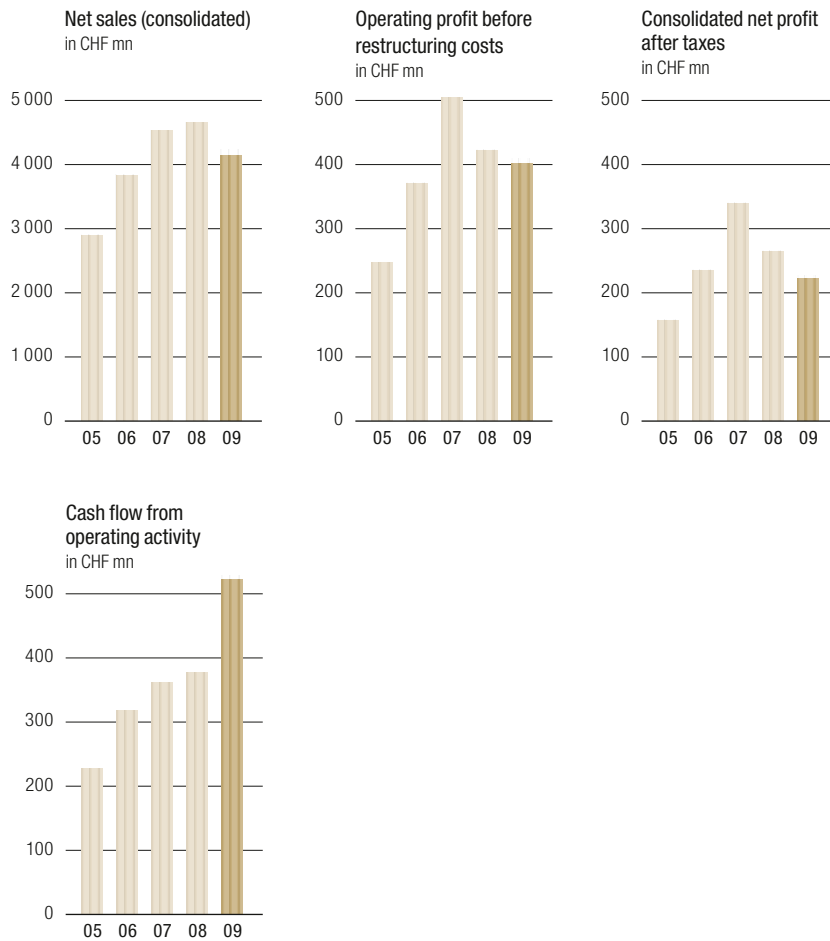
During the reporting period Sika acquired two companies (see also page 20). These include on one hand the group companies of Iotech of Great Britain, and on the other a majority participation taken in Jiangsu TMS Admixture Co., Ltd, in the Chinese Province of Jiangsu.

**PROFIT //** Following the substantial rise in raw material costs in 2008, Sika benefited in the year under review as prices for raw materials fell. Gross profit therefore rose to the end of the year by 3.5 percentage points, amounting to 55.2% of net sales. Adjusted for acquisitions the company was able to significantly reduce personnel and other operating costs. Operating profit before depreciation and restructuring costs improved by 1.0 percentage point as a proportion of net sales. Operating profit before costs of restructuring improved in proportion to net sales from 9.1% to 9.6% (CHF 400.6 million). Restructuring measures in Europe impacted the income statement with a one-time charge of CHF 56.6 million, whereby Sika achieved an operating profit of CHF 344.0 million. Consolidated net profit before restructuring at CHF 269.4 million (6.5% of net sales) lay both in absolute terms and relative to sales above the result of the previous year of CHF 267.4 million (5.8% of net sales).

**INVESTMENTS //** In 2009 Sika no longer stood under continuous pressure of demand in all countries, as had been the case for some time. The company adapted its investments according to market conditions, nevertheless without interrupting projects that had already been initiated. The volume of investment during the period under review therefore remained below the level of the previous years (see also page 21).

**LIQUIDITY AND BALANCE SHEET //** Due to the high operating free cash flow of CHF 368.7 million (2008: CHF 165.8 million) as well as the 5-year bond issued in the spring in the amount of CHF 300 million (coupon 3.5%) for long-term financing, cash and cash equivalents rose as of the end of the year from CHF 318.3 million to CHF 801.6 million. As a consequence of this net debt could be reduced by CHF 200 million to CHF 265 million, whereby the proportion of net debt to shareholders' equity, the so-called gearing, dropped from 31.8% to 16.6%. A syndicated credit line of CHF 450 million has not been drawn upon as of the end of the year under review.

The balance sheet total rose during the reporting year by CHF 420 million, due primarily to the newly issued bond. The equity ratio, or shareholders' equity as a proportion of the balance sheet total, declined as a result from 45.6% to 43.9%. Non-current assets rose due to acquisitions. In contrast to this stand reduced accounts receivable and diminished inventories. The Return on Capital Employed, ROCE, the yield based on operating profit, declined in the year under review from 20.3% to 19.3%.



## Emerging Markets Keep up the Pace of Growth

Development in Sika's individual market regions proceeded with extreme variation. While Europe, North America, Japan, Australia and New Zealand were still feeling the effects of the worldwide financial and economic crisis, Latin America, parts of Asia and IMEA were already registering sizeable rates of growth.

**EUROPE NORTH //** In the Region Europe North Sika achieved net sales of CHF 1 474.8 million. In local currencies sales declined by 8.8%, while the currency effect amounted to -6.2%.

In the reporting period under review the development in most of the relevant markets for Sika in Europe North was strongly negative. Above all in Russia and in the Ukraine the economic cycle was clearly regressive and the currencies of both countries also depreciated measurably. Germany recorded the strongest reduction in private investment in more than 50 years. The economic stimulus programs of the various countries did not yet show any effect in the construction industry.

Poland presents an exception. Here major road construction and bridge-building projects provided for comparatively good sales development. In Finland Sika was able to expand sales with concrete admixtures due to intensive market development. Positive development also occurred in Sweden.

In Europe North the proportion of sales to industrial customers is highest in comparison with the other Regions, for which reason the serious crisis in motor vehicle construction has had an especially strong effect here. Particularly in the second half of the year, state subsidies for new vehicle purchases provided welcome impetus for compact and subcompact automobile sales. These sales, however, could not compensate those lost in other segments. The area of alternative energies showed continued positive development, in which, for example, sales to wind turbine manufacturers increased significantly.

Due to advances in production technology and to continually changing market conditions, Sika began adapting production structures for adhesives, sealants and polymeric membranes in the year under review. The new organization should sustainably ensure the Sika Group's competitiveness. The measures concern various production sites in Europe North. The production of PVC membranes will be bundled in Düringen (CH) and Troisdorf (D). The existing manufacturing line for polyvinylchloride (PVC) membranes in Sarnen (CH) will be decommissioned during the course of 2010. In a countermove Sika will consolidate the production of membranes based on thermoplastic polyolefins (TPO) in Sarnen. Similarly in 2010 the production of polyurethane (PU) adhesives will be transferred from Fredensborg (DK) to Bad Urach (D).

**EUROPE SOUTH //** In the Region Europe South Sika achieved net sales of CHF 934.6 million. Sales dropped by 4.0% in local currencies, with a currency effect of -7.0%.

Also in Region Europe South the economy developed in a clearly negative fashion in most countries during the period under review. Beginning in summer, consumer confidence slowly returned, partially triggered by state measures such as premiums for automobile purchase or a reduction in value-added tax.

In the residential construction segment the weakness in demand in Spain, Great Britain and Ireland spread to most of the other countries. Volumes thereby lay on average 20% lower than those of the previous year. Reservation toward personal as well as public investments also exercised pressure on commercial construction and infrastructure building in the Region. In motor vehicle manufacturing and shipbuilding, significant industries in Spain and Italy, companies throttled their production drastically in the period under review.

In the coming months positive momentum is anticipated in infrastructure building, since various economic stimulus programs are expected to show initial effects. In Great Britain the first renovation projects in schools have been financed with public funds, which have primarily benefited business in roofing systems.

Despite unfavorable conditions overall, Sika was able to gain market share in Europe South. The market penetration has been expanded above all for concrete admixtures, and as a consequence the sales assortment in total has been extended. Infrastructure projects, for example an expressway in Algeria, a hydropower station in Bulgaria or a bridge project in Serbia, have generated substantial growth in sales in these countries.

In the distribution business, Sika increased its market share in France, Spain, Greece and Italy, benefiting from the withdrawal of a competitor in Great Britain. Business with industrial clients suffered due to very low volumes in motor vehicle manufacturing, especially in Italy, during the first half of the year under review. The second half-year brought a slight recovery.

During the reporting period the sites in the Region Europe South belonging to Iotech Group Limited, acquired in January, underwent integration. Synergies in product portfolio and in market penetration open up widespread market opportunities, especially in the refurbishment of flat roofs.

Structural adaptations for production of adhesives had an effect also in Europe South. The production of polyurethane (PU) adhesives will consequently be transferred during 2010 from Gournay (F)\* to Düringen (CH) and Bad Urach (D).

**NORTH AMERICA //** In the Region North America Sika achieved net sales of CHF 602.3 million. In local currencies sales decreased by 7.7%. The currency effect amounted to -0.6%.

North America's economic performance diminished further during the period under review, though not as strongly as initially feared at the start of the year. Production of cement fell by 21%, and construction work overall by 26%. Motor vehicle production sank by 32% in the reporting period. Two major automotive manufacturers entered bankruptcy proceedings (Chapter 11), from which they emerged newly structured and with a considerably reduced range of models. As was the case in Europe, programs offering premiums for automobile purchases in the USA stimulated positively.

Sika succeeded in this difficult market environment in gaining market share, thus strengthening its position. In certain fields in the market Sika eluded the general downward trend. In this way roofing system sales could be maintained on the same level as the previous year, although the market overall during this reporting period contracted by roughly 30%. Major projects in the USA and Canada contributed largely to this success. Furthermore, so-called green roofs continue gaining ground. These systems enable the cultivation of flat roofs, thereby measurably reducing buildings' energy demand.

In the USA, for example, Sika secured an order for the Target Center in Minneapolis. With orders for concrete admixtures as well as for waterproofing membranes in the construction of the Dulles Airport Metro Tunnel in Washington D.C., Sika solidly established itself in the area of tunnel construction. In a major project with a European automotive manufacturer at a site in the USA, Sika's bid won out for the installation of heavy-duty industrial flooring.

\* Subject to outstanding agreements with local employee representatives.



In the area of industrial manufacturing, Sika was able to compensate shrinking sales to domestic motor vehicle producers through sales to Japanese manufacturers operating in the Region. In certain market segments sales reached the levels of the previous year, for example in applications for solar panels, windshield repair and busses for public transportation. Production of such busses increased during the period under review by as much as 25%, as many cities in the USA expand their fleets to accommodate the grown demand for public transport. At the close of the reporting period Sika succeeded in securing an exclusive supply contract for adhesives with a leading manufacturer of wind turbines.

The Iotech Group Limited locations in the USA that were acquired in January in the Region North America were integrated in the period under review.

**LATIN AMERICA //** In the Region Latin America Sika achieved net sales of CHF 395.3 million. Sales growth in local currencies amounted to 8.0% and the currency effect to -16.7%.

The economic crisis also reached a number of countries in Latin America, with some delay. Mexico was affected most strongly, as that country is dependent in the greatest degree on exports to the USA. Various countries had to cope with declines in prices for crude oil or mining products during the first half-year. Prices did rise again in the second half of the year. The devaluation of most national currencies opposite the EUR, USD and CHF burdened the economy in the first quarter of the reporting year. From April forward, however, the currencies gained strength again, reflecting the confidence of international investors in this Region. The economic stimulus programs announced by some countries have yet to induce an upturn in the market, although initial signals became apparent in the fourth quarter.

Overall Sika achieved satisfactory results in the construction industry. Sales of concrete admixtures for infrastructure projects and turnover in the distribution business could thereby be increased during the reporting period. Nevertheless, in Mexico a decline in sales had to be accepted due to the contracted export business of domestic industry. The business with clients in the mining industry was also regressive, because mines either reduced their production capacities or in some cases shuttered production altogether. In the fourth quarter in this area, however, an upturn could be registered. In Brazil Sika participated in various major power plant, bridge and harbor construction projects such as in the shipyard Atlantico Sul, the largest shipyard in the southern hemisphere. The expansion of the Panama Canal is another such major project to which Sika is contributing.

The Latin American motor vehicle industry, concentrated in Brazil and Mexico, drove forward during the second half-year, from which Sika also benefited.

During the period under review Sika Colombia started up a new factory in Tocancipá, an industrial city located 50 km north of Bogotá. The site, with an area of some 65 000 m<sup>2</sup>, encompasses administration and laboratory buildings, a logistics center as well as production facilities. It replaces the Sika location in Bogotá. Some 200 persons work at the Tocancipá site. Product lines manufactured there include epoxy resin coatings, waterproofing products, acrylic resins and sealants.

**IMEA //** In the Region India, Middle East, Africa Sika achieved net sales of CHF 263.6 million. While sales growth in local currencies amounted to 11.2%, and currency effect was -8.9%.

The economic situation in the Region's countries during the period under review was quite heterogeneous. While, for example, construction activity in Dubai declined sharply and in the meantime many residential and commercial buildings stand vacant, Abu Dhabi in contrast developed very positively. In India, the still positive economic growth weakened somewhat, but in the construction industry the trend toward increased use of modern construction methods continued. In Turkey the downturn proceeded, with corresponding effects for the construction industry. Currencies were comparatively stable during the reporting year. The economic stimulus programs that had been announced have not yet shown any material effect, though it is generally anticipated that already by the start of 2010 in India and Saudi Arabia the first infrastructural measures will revive the market.

All Sika companies in the Region IMEA developed better than their respective markets, gaining market share as a result. Even in Turkey, where the building market collapsed, Sika held its own with a sales decline of some 5%. In many other countries, Sika's growth rates in local currencies remained in double digits, for example in India or in the nations of the Gulf Cooperation Council. The Industry business suffered the regressive unit numbers in bus, truck and shipbuilding, but sales in windshield repair and in the market field Appliances and Components provided compensation, so that sales overall could continue growing.

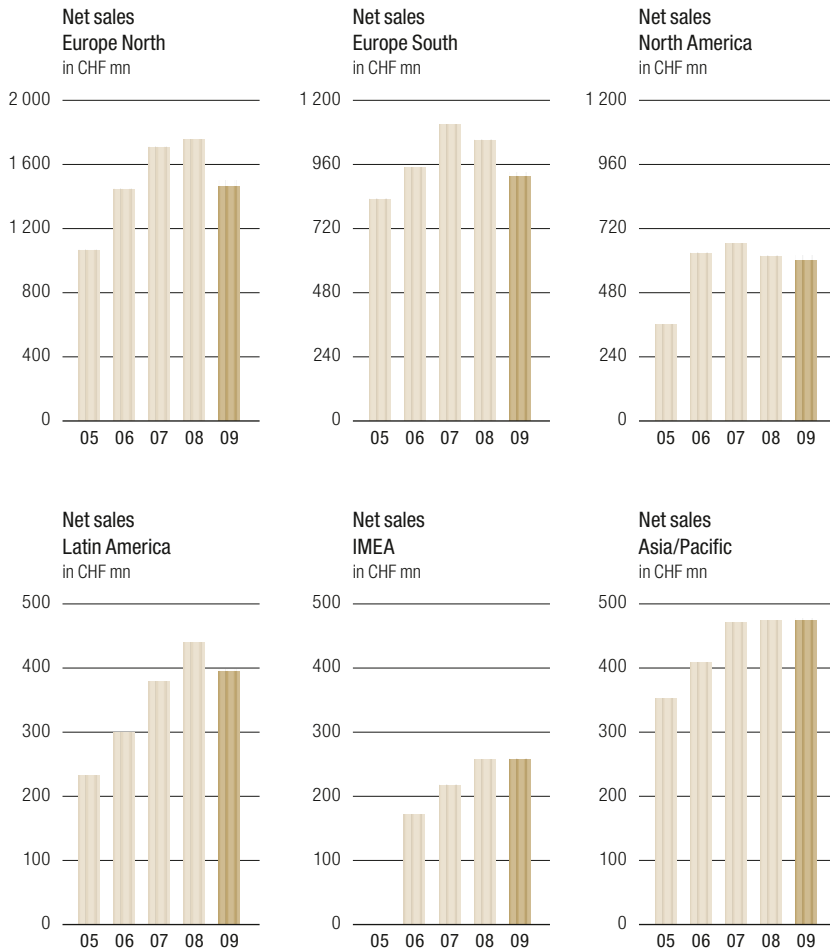
In the United Arab Emirates Sika brought its first production plant for concrete admixtures on line in the first half-year 2009. In addition, Regional management functions were consolidated in Dubai and strengthened in order to make the entire know-how of the company available within the Region.

**ASIA/PACIFIC //** In the Region Asia/Pacific Sika achieved net sales of CHF 472.6 million. Sales in local currencies declined by 0.1%, and the currency effect amounted to -2.0%.

The market situation in the countries during the reporting period was split. In emerging countries such as China, Vietnam or Indonesia, the economy continued growing and infrastructure projects carried on at full strength. Industrial production also moved forward disproportionally in motor vehicle construction. Industrialized nations such as Japan, Korea and Australia, by contract, were strongly gripped by the recession. Currency depreciations in Korea, Australia and New Zealand tailed off considerably during the course of the period under review, but nevertheless markets collapsed by 10–20%. Due to the great number of uncertainties during the year many construction projects were delayed or stopped. 2010, however, is anticipated to bring positive impetus from newly started infrastructure projects.

In the emerging countries Sika expanded its market position farther and achieved double-digit rates of growth. Major infrastructure projects and increasing market share in industrial manufacturing were the basis for this success. In the industrial nations Sika raised customer penetration through new technologies, mitigating negative developments. So for example in Japan, the company invested in a production line for SikaBaffle® and SikaDamp® in order to enable delivery to Japanese automotive manufacturers. The distribution business showed positive development, since new products were launched.

The businesses acquired in China in the past year, Sichuan Keshuai Additive Co. Ltd. and Jiansu TMS Admixture Co., Ltd., developed successfully. Both companies are providers of concrete admixtures for the dynamically expanding markets in Eastern and Western China. The sales networks of both companies could be used to advantage for the distribution of various Sika Products.



## OUTLOOK

# Leveraging Market Opportunities also in Difficult Times

Sika uses market chances in a targeted manner, and so also in economically difficult periods consistently pursues a successfully blazed trail. Although short-term prognoses are extremely difficult in the present environment, Sika upholds its medium-term growth targets.

**TRENDING TOWARD RECOVERY //** The development of the economy remains under the influence of considerable uncertainties. Though some markets are showing tendencies toward recovery, one must still reckon with possible drops. Prognoses for the current business year are therefore extremely difficult.

For the building and construction business Sika anticipates that companies will continue to postpone investments and that market volume, particularly for commercial buildings, will decline. To what extent this decline can be compensated by strengthened investment in infrastructure projects is also dependent, alongside the general economic development, on how quickly and strongly economic stimulus programs demonstrate effect in markets that are relevant for Sika.

In motor vehicle construction the positive development in the second half-year of 2009 was decisively influenced by incentive and subsidy programs in various countries. Further development can hardly be estimated at the present time.

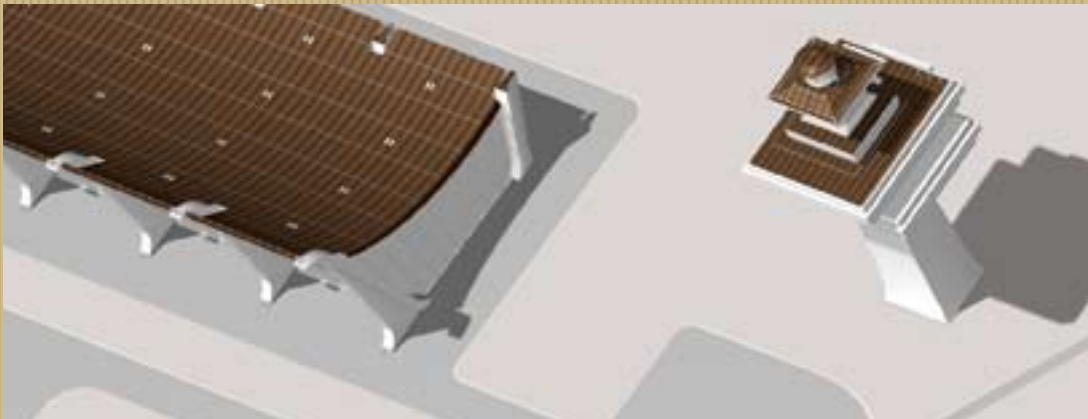
**LEVERAGING GROWTH OPPORTUNITIES //** Sika focuses on rigorously utilizing market opportunities. These present themselves in every area of the market. The demand for cost-efficient methods of construction, energy-efficient buildings and sustainable building materials continues rising. The manufacturing industry is also demanding solutions, to effectively lower the weight of vehicles and sustainably reduce the costs of assembly. With our operative, economical systems we are attuned to this demand, and, moreover, in a position to repeatedly open up new fields of application.

Sika's factors for success, innovation, increasing market penetration and the delivery of customer-specific solutions, are as valid as ever, especially in economically difficult times. We will therefore also hold to our acquisition strategy, oriented on one hand toward purchase of new technologies which strengthen or complement core business, and on the other especially in the emerging markets toward acquiring market share and market access.

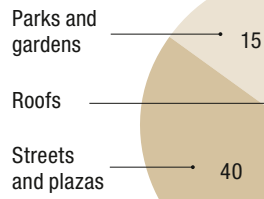
A roof does so much more than just cover your head.  
Aspects of Sika Roofing solutions.

Modern roofs represent so much more than structural completion. Architecturally and functionally they are vital parts of buildings. Roofs are complex systems in which our core competencies are brought to bear in exemplary fashion: sealing, bonding, damping, reinforcing and protecting. The more consistently and rigorously they are implemented, the greater the quality of life and work in the buildings, the better the energy efficiency and sustainability. The accompanying infographic illustrates exciting facts about the topic of roofing, and five Sika projects show how structures can be topped off.





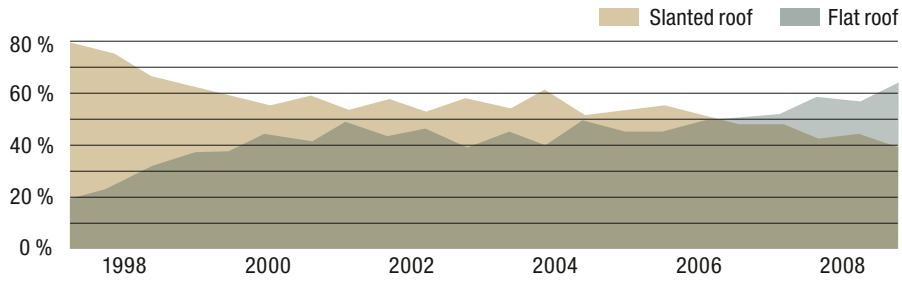
### Surface distribution in city in %



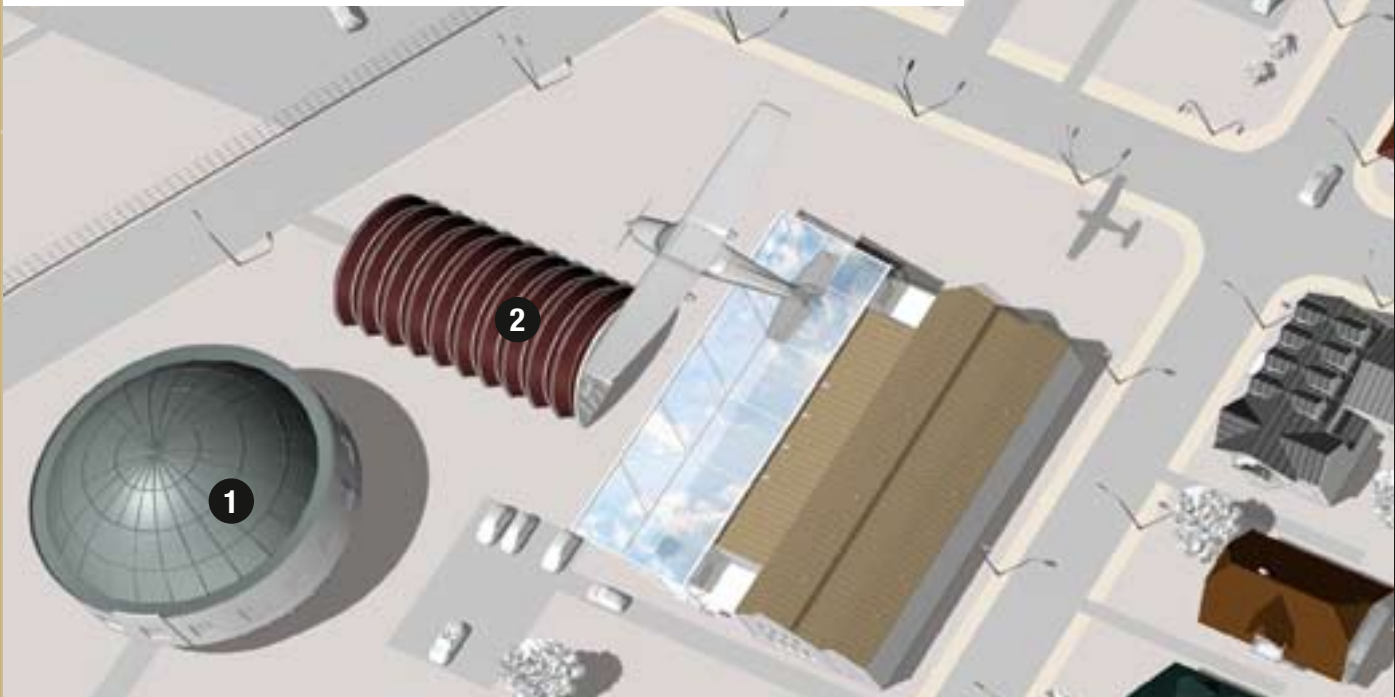
Roofs account for nearly half the center of major cities.

### Development flat roof/slanted roof

Market share in Switzerland

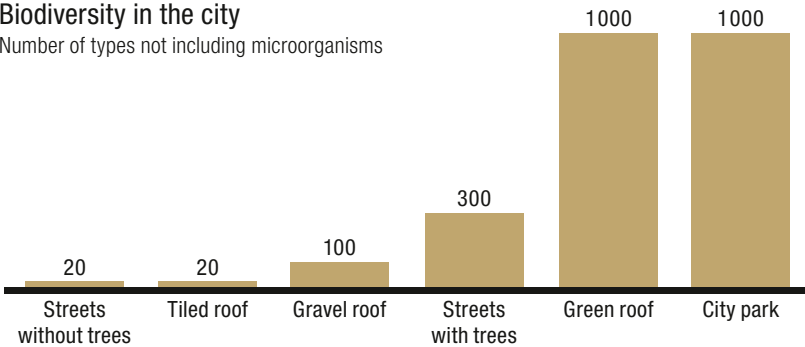


The flat roof is on the advance, as particularly in urban environments with limited space the possibilities for use of a flat roof are manifold: sport and recreation, energy generation and water storage, technical installations, etc.



### Biodiversity in the city

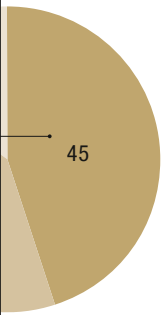
Number of types not including microorganisms



While street areas and tiled roofs basically represent dead zones, green roofs enrich biological diversity, achieving values comparable to city parks.



y centers



surface area in the

### Typology of roof forms see infographic

- ❶ Cupola roof or dome
- ❷ Arched roof
- ❸ Pavilion roof
- ❹ Gabled roof
- ❺ Hipped curb roof
- ❻ Pitched roof
- ❼ Hipped roof
- ❽ Flat roof
- ❾ Monopitch roof
- ❿ Sawtooth roof

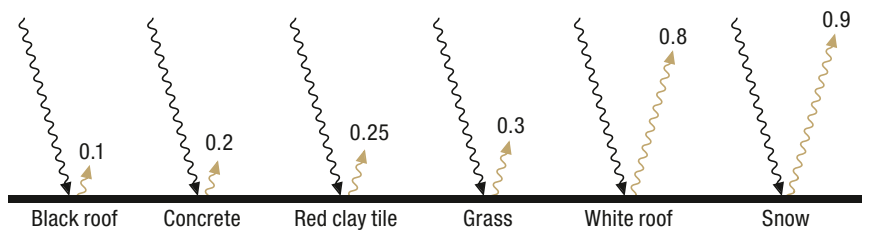






### Reflective capacity

in % (1 = 100%)

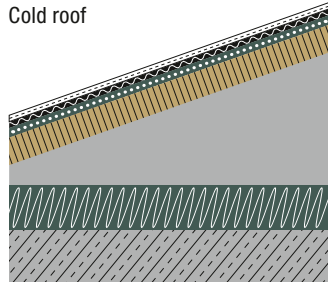


Urban heat islands are a typical phenomenon in city climates. Especially in summer months and periods of good weather, incident solar radiation thereby leads to heating up of building structures. Strongly reflective surfaces reduce this effect, resulting in significant reduction of required cooling energy. Savings potential in the USA alone is estimated at more than USD 2 trillion.

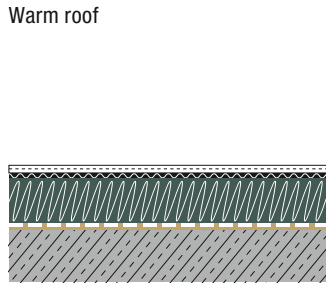


## Construction typology

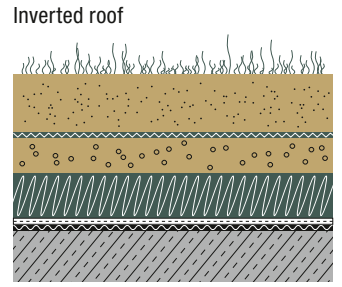
Cold roof






Warm roof



Inverted roof



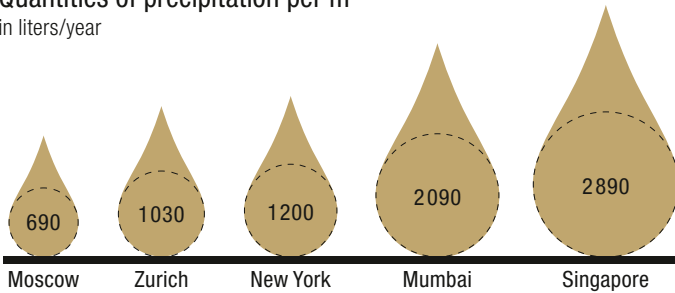
 Membrane  
 Dividing layer  
 Roof sheathing

 Joists  
 Ventilated attic  
 Insulation

 Vapor barrier  
 Substratum  
 Filtering layer

 Drainage  
 Concrete ceiling

## Quantities of precipitation per m<sup>2</sup> in liters/year



Green roofs can store a major portion of rainfall. On the roofs of Manhattan alone some 42 billion liters of water can be collected and returned to the atmosphere. This means 42 billion liters less for the wastewater treatment plant and 42 billion liters more for the urban microclimate.

**JEFF HAYES**, Engineer at the University of Iowa, Iowa City, IA, USA. As project manager, Jeff Hayes underwrote and carried responsibility for the renovation of Carver-Hawkeye Arena.

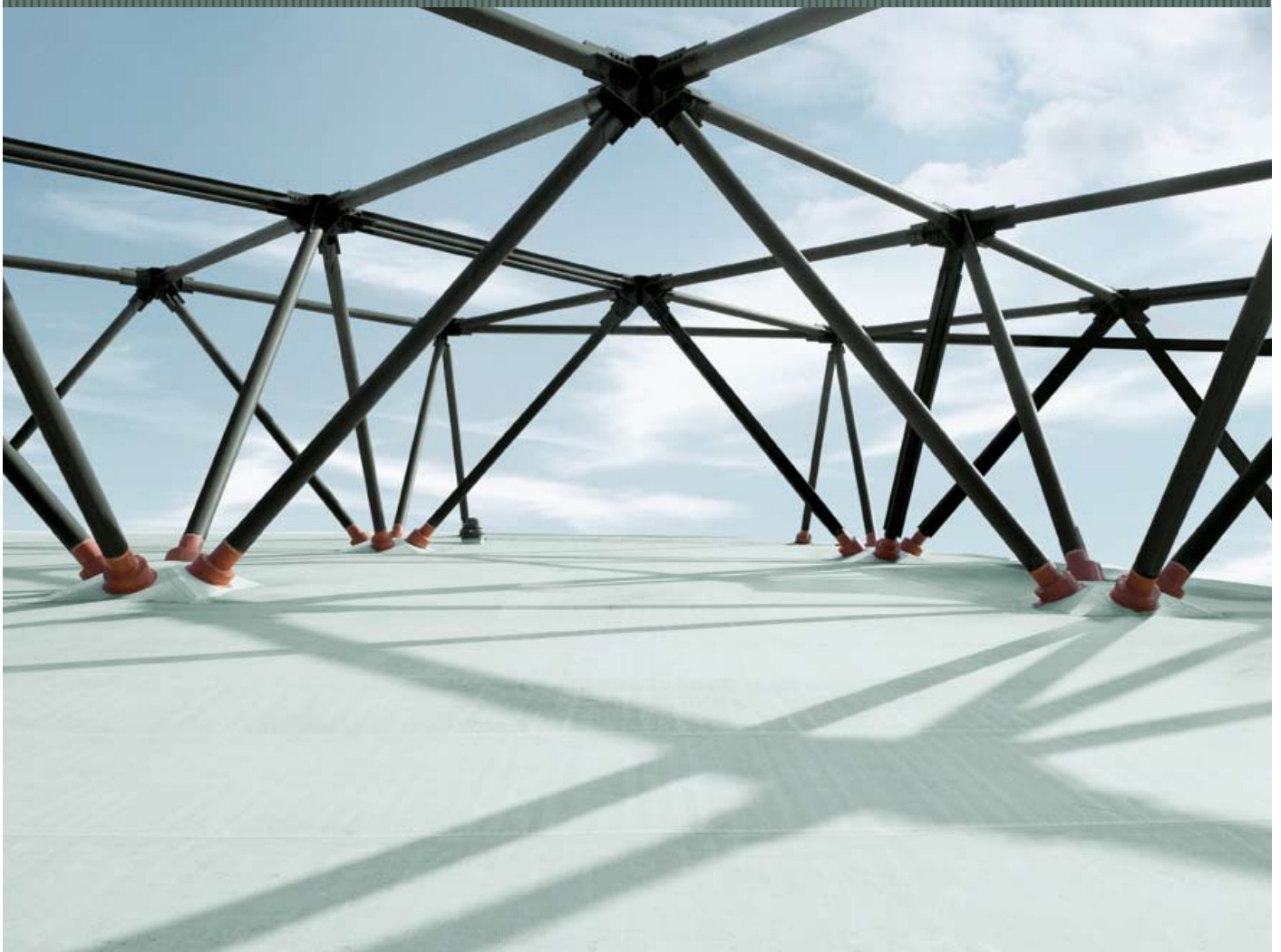
A tornado destroyed our roof. Just before the start of the basketball season. Time and money were limited. Nonetheless, as a public institution we had to honor our responsibility and also do right by the environment.





**SIKA ROOF RECYCLING PROGRAM.** Carver-Hawkeye Arena opened the season with a new roof: on time and within budget. The old roofing membranes were entirely reintroduced into the production process. Sika's roof recycling program in the USA has given new life to more than 10 million kilograms of production waste and some 100 000 m<sup>2</sup> of worn-out roofing membranes since its introduction. So Sika shows its pioneer spirit also on the topic of sustainability, for which we have received an award in the USA.

Sika recycles worn-out roofing membranes and processes them into new ones. Without loss of time or additional costs.



**TOD FRITTS**, Senior Project Manager, DRI Commercial, Irvine, CA, USA.  
DRI Commercial oversaw the project and installed the roofing system at St. John's Regional Medical Center in Oxnard, CA.

The hospital management expected the new roof to help reduce energy costs. For us, efficient processes and thereby competitiveness stood in the forefront.

The hospital selected light-reflective membranes, while the firm DRI Commercial chose adaptable materials and flexible systems. The supplier was the same: Sika.

**LIGHT-REFLECTIVE MEMBRANES.** California is America's sun-drenched patio. Light-reflective membranes, such as the EnergySmart® membranes from Sika Sarnafil used at St. John's Regional Medical Center, reflect more than 80% of sunlight. This effectively prevents the heating-up of the building and lowers the costs for cooling. In addition the membrane system is exceptionally flexible, individually adaptable and thus economical in application. This, particularly for renovations, is a significant competitive advantage.





**CÉDRIC LUCE**, Project Manager Losinger AG, General Contractor. In the construction of the Rolex Learning Center in Lausanne, Cédric Luce was responsible for the correct and timely handling of all work in the roofing area.

Curvatures and indentations, countersunk downspouts and lightning conductors applied directly to the roofing membranes. It was clear to me from the very start that in order to do justice to the architect's aesthetic will we would need an experienced partner.





With commitment and competence, continuous consultation and technical support, Sika accompanies its customers from the concept to the target, the perfect symbiosis of form and function.

**FROM CONCEPT TO TARGET.** From the start of planning, Sika Sarnafil provided assistance, continually promoting the best solution. Sika examined all alternatives with upstream tests and intensive variation studies, and found the ideal solution in terms of aesthetics, technology and costs. Beyond this, with solution-oriented service personnel and realization checks on site, Sika thereby guaranteed an optimal quality of execution and a maximum service life for the roof.



Dome roofs mark the lasting impression of Abu Dhabi Airport. External sealing, heat-sensitive insulation and difficult working conditions were a challenge, and the airport's color concept needed to be preserved.

**JOSEPH GEDEON**, Managing Director Pro-Tect Middle East W.L.L.  
Pro-Tect Middle East W.L.L. bore responsibility for carrying out roofing refurbishment operations at Abu Dhabi International Airport.



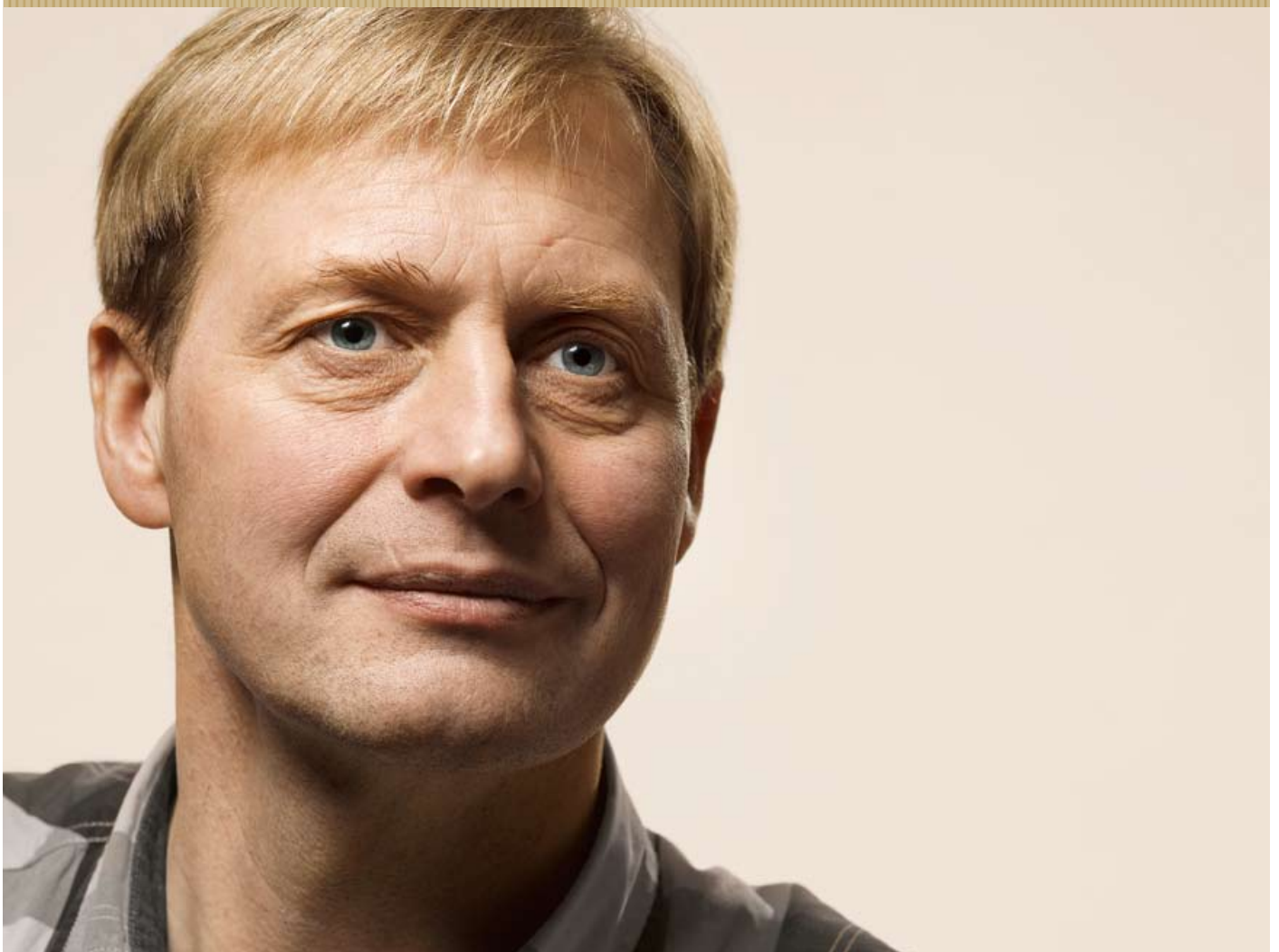
Liquid membranes from Sika adapt to every form and every sub-surface, are applied seamlessly in a cold state and are available in virtually any color. The result: efficient, secure and practically indiscernible.

**LIQUID MEMBRANES.** Liquid membranes such as Sikalastic® 601 BC and 621 TC, employed at Abu Dhabi International Airport, function without complicated installation or finishing and without any open flame. Sika's Sikalastic® Coldstik revolutionary cold-bonding technology makes this possible. It simplifies and accelerates the working process, simultaneously maximizing operational safety. The project ran successfully, was completed earlier than planned, and the new roofs – with a surface area totaling 15 300 m<sup>2</sup> – are a perfect color match to those of existing buildings.



**SJÚRDUR HOLM**, Owner Búsetur spf., Tórshavn, Faroe Islands, Denmark. Búsetur oversaw the roofing work on the Kollefjord Svømmehall.

It had to be a green roof, because these have a long tradition on the Faroe Islands. But it had to conform to current guidelines and regulations, as well as fulfilling claims for modern quality and comfort.





The new green roof of the Kollefjord Svømmehall links traditional building design with the most modern materials and technologies. It absorbs sound and insulates outstandingly, defying the weather and maximizing the functional life of the roof.

**GREEN ROOF.** Whether a cold, warm or inverted roof: all types of construction are appropriate for erection of green roofs. The moist layer of earth has a warming effect in the winter and a cooling one in summer, damping sound at all times of year. It simultaneously protects the roofing membranes against strong winds and intensive solar radiation, maximizing the expected service life of the roof. Sika green roofs can be realized at an incline of up to 45°, and are undemanding in their maintenance requirements. At Kollefjord Svømmehall they mow the roof once per year.

## Financial Report 2009

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**CONSOLIDATED FINANCIAL STATEMENTS**  
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31**

**ASSETS**

in CHF mn	Notes	2008	2009
<b>Current assets</b>			
Cash and cash equivalents	1	318.3	801.6
Securities	2	3.1	9.4
Accounts receivable	3	778.7	739.4
Inventories	4	512.7	451.4
Accrued income	5	74.5	60.9
Other current assets	5	56.5	30.4
<b>Total current assets</b>		<b>1 743.8</b>	<b>2 093.1</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	832.9	861.7
Property		104.6	106.0
Plant		235.6	270.7
Plants under construction		122.3	60.2
Equipment		370.4	424.8
Financial assets		27.2	33.5
Investments in associated companies	7	19.6	24.0
Other financial assets	8	7.6	9.5
Intangible assets	9	524.9	562.0
Goodwill		253.8	279.3
Software		44.7	61.0
Trademarks		75.6	76.7
Customer relations		118.7	115.4
Other intangible assets		32.1	29.6
Deferred tax assets	10	62.6	69.2
Employee benefit assets	11	15.7	8.8
Other non-current assets		2.3	1.1
<b>Total non-current assets</b>		<b>1 465.6</b>	<b>1 536.3</b>
<b>Total assets</b>		<b>3 209.4</b>	<b>3 629.4</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

in CHF mn	Notes	2008	2009
<b>Liabilities</b>			
Current liabilities			
Bank loans	12	13.3	1.6
Non-current liabilities due in the next 12 months	13	0.1	0.3
Accounts payable	14	398.1	355.2
Taxes payable		40.1	38.2
Accrued expenses	15	197.4	211.8
Provisions	18	14.0	43.5
Other current liabilities	16	22.0	15.7
<b>Total current liabilities</b>		<b>685.0</b>	<b>666.3</b>
Non-current liabilities			
Bank loans and mortgages	12	0.2	0.6
Bonds	17	767.9	1 066.9
Other non-current liabilities		5.0	6.6
Provisions	18	93.1	103.1
Deferred tax liabilities	10	65.8	62.6
Employee benefit obligation	11	127.7	130.3
<b>Total non-current liabilities</b>		<b>1 059.7</b>	<b>1 370.1</b>
<b>Total liabilities</b>		<b>1 744.7</b>	<b>2 036.4</b>
<b>Shareholders' equity</b>			
Capital stock		22.9	22.9
Capital surplus		256.0	256.0
Treasury shares		-117.6	-106.3
Currency translation differences		-224.6	-224.2
Fluctuations in value of financial instruments		-4.9	-0.1
Retained earnings		1 530.3	1 640.0
<b>Equity attributable to Sika shareholders</b>		<b>1 462.1</b>	<b>1 588.3</b>
Minority interests		2.6	4.7
<b>Total shareholders' equity</b>	19	<b>1 464.7</b>	<b>1 593.0</b>
<b>Total liabilities and shareholders' equity</b>		<b>3 209.4</b>	<b>3 629.4</b>

**CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31**

in CHF mn	Notes	%	2008	%	2009	Change in %
<b>Net sales</b>	20	100.0	4 624.5	100.0	4 154.9	-10.2
Other operating income		0.2	7.9	0.2	7.4	
Changes in inventory		0.2	9.4	-0.4	-16.2	
<b>Operating revenue</b>	21	100.4	4 641.8	99.8	4 146.1	-10.7
Material expenses	22	-48.7	-2 251.0	-44.5	-1 850.8	
<b>Gross result</b>		51.7	2 390.8	55.2	2 295.3	-4.0
Personnel expenses	23	-20.7	-957.8	-23.0	-954.3	
Other operating expenses	23	-19.0	-876.9	-19.3	-801.1	
<b>Operating profit before depreciation and restructuring</b>	23	12.0	556.1	13.0	539.9	-2.9
Depreciation	24	-2.2	-101.0	-2.5	-104.5	
Amortization	24	-0.6	-27.1	-0.8	-32.0	
Impairment	24	-0.1	-6.0	-0.1	-2.8	
<b>Operating profit before restructuring</b>		9.1	422.0	9.6	400.6	-5.1
Restructuring	25	0.0	0.0	-1.4	-56.6	
<b>Operating profit</b>		9.1	422.0	8.3	344.0	-18.5
Interest income	27	0.1	5.1	0.1	3.1	
Interest expenses	26	-0.6	-25.8	-0.7	-27.4	
Other financial income	27	0.1	3.2	0.0	0.9	
Other financial expenses	26	-0.8	-37.4	-0.2	-10.3	
Income from associated companies	27	0.1	6.2	0.1	5.3	
<b>Profit before taxes</b>		8.1	373.3	7.6	315.6	-15.5
Income taxes	28	-2.3	-105.9	-2.2	-89.9	
<b>Net profit</b>		5.8	267.4	5.4	225.7	-15.6
Profit attributable to Sika shareholders		5.8	266.7	5.4	225.9	
Profit attributable to minority interests	29	0.0	0.7	-0.0	-0.2	
<b>Earnings per bearer share (in CHF)</b>	30		107.00		91.03	-15.0

in CHF mn	Notes	%	2008	%	2009	Change in %
<b>Pro forma results before restructuring costs</b>						
Operating profit		9.1	422.0	9.6	400.6	-5.1
Profit before taxes		8.1	373.3	9.0	372.2	-0.3
Net profit		5.8	267.4	6.5	269.4	0.7

## STATEMENT OF COMPREHENSIVE INCOME

in CHF mn	%	2008	%	2009	Change in %
<b>Net profit</b>	<b>5.8</b>	<b>267.4</b>	<b>5.4</b>	<b>225.7</b>	<b>-15.6</b>
<b>Currency translation differences</b>					
Exchange differences taken to equity	-2.4	-108.8	0.0	1.8	
Accumulated differences transferred to income statement on dissolution of a Group company	0.0	0.0	-0.0	-1.4	
<b>Available-for-sale financial assets</b>					
Valuation gains (+)/losses (-) taken to equity	0.0	-3.8	0.1	2.4	
Transferred to income statement on sale or impairment	-0.1	0.2	0.1	2.4	
<b>Other comprehensive income</b>	<b>-2.4</b>	<b>-112.4</b>	<b>0.1</b>	<b>5.2</b>	
<b>Comprehensive income</b>	<b>3.4</b>	<b>155.0</b>	<b>5.6</b>	<b>230.9</b>	<b>49.0</b>
Attributable to Sika shareholders	3.3	154.0	5.6	231.1	
Attributable to minority interests	0.0	1.0	-0.0	-0.2	

## STATEMENT OF CHANGES IN EQUITY

in CHF mn	Capital stock	Capital surplus	Treasury shares <sup>1</sup>	Currency translation differences	Fluctuations in value of financial instruments	Retained earnings	Total Sika shareholders'	Minority interests	Total equity <sup>1</sup>
<b>January 1, 2008</b>	<b>22.9</b>	<b>256.0</b>	<b>-65.1</b>	<b>-115.5</b>	<b>-1.3</b>	<b>1 375.4</b>	<b>1 472.4</b>	<b>2.5</b>	<b>1 474.9</b>
Profit of the year						266.7	266.7	0.7	267.4
Other comprehensive income	-	-	-	-109.1	-3.6		-112.7	0.3	-112.4
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-109.1</b>	<b>-3.6</b>	<b>266.7</b>	<b>154.0</b>	<b>1.0</b>	<b>155.0</b>
Sale/purchase of treasury shares			-52.5				-52.5		-52.5
Gains/losses on treasury shares						-0.3	-0.3		-0.3
Dividends						-111.5	-111.5	-0.2	-111.7
Change in scope of consolidation							-	2.0	2.0
Buyout of minority interests								-2.7	-2.7
<b>January 1, 2009</b>	<b>22.9</b>	<b>256.0</b>	<b>-117.6</b>	<b>-224.6</b>	<b>-4.9</b>	<b>1 530.3</b>	<b>1 462.1</b>	<b>2.6</b>	<b>1 464.7</b>
Profit of the year						225.9	225.9	-0.2	225.7
Other comprehensive income	-	-	-	0.4	4.8		5.2		5.2
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.4</b>	<b>4.8</b>	<b>225.9</b>	<b>231.1</b>	<b>-0.2</b>	<b>230.9</b>
Sale/purchase of treasury shares			11.3				11.3		11.3
Gains/losses on treasury shares						-4.5	-4.5		-4.5
Dividends						-111.7	-111.7	-0.6	-112.3
Change in scope of consolidation							-	2.9	2.9
<b>December 31, 2009</b>	<b>22.9</b>	<b>256.0</b>	<b>-106.3</b>	<b>-224.2</b>	<b>-0.1</b>	<b>1 640.0</b>	<b>1 588.3</b>	<b>4.7</b>	<b>1 593.0</b>

<sup>1</sup> At cost

## CONSOLIDATED CASH FLOW STATEMENT

in CHF mn	Notes	2008	2009
<b>Operating activities</b>			
Profit before taxes		373.3	315.6
Depreciation / amortization / impairment		134.1	159.4
Increase (+) / decrease (-) in provisions		-20.9	42.4
Increase (-) / decrease (+) in net working capital		37.5	100.7
Other adjustments	33	-5.0	10.5
<b>Cash flow from operations</b>		<b>519.0</b>	<b>628.6</b>
Income taxes paid		-142.2	-102.3
<b>Cash flow from operating activities</b>		<b>376.8</b>	<b>526.3</b>
<b>Investing activities</b>			
Property, plant and equipment: capital expenditures		-191.9	-134.7
Property, plant and equipment: disposals		19.1	3.6
Intangible assets: capital expenditures		-38.4	-26.5
Intangible assets: disposals		0.2	0.0
Acquisitions less cash and cash equivalents	9	-74.6	-45.9
Acquisition of minority interests		-5.0	0.0
Acquisitions (-) / Disposals (+) of financial assets		3.3	-8.3
Capital increase at associated companies		0.0	-2.0
<b>Cash flow from investing activities</b>		<b>-287.3</b>	<b>-213.8</b>
<b>Financing activities</b>			
Increase in short-term loans		7.1	0.6
Repayment of short-term loans		-18.3	-17.1
Increase in long-term loans		0.0	0.5
Repayment of long-term loans		-10.6	-3.0
Bond issue		0.0	297.2
Acquisitions (-) / disposals (+) in treasury shares		-53.9	6.1
Dividend payment to shareholders of Sika AG		-111.5	-111.7
Capital transactions / dividends related to minorities		-0.2	-0.6
<b>Cash flow from financing activities</b>		<b>-187.4</b>	<b>172.0</b>
<b>Exchange differences on cash and cash equivalents</b>		<b>-21.9</b>	<b>-1.2</b>

<b>Net change in cash and cash equivalents</b>	<b>33</b>	<b>-119.8</b>	<b>483.3</b>
Cash and cash equivalents at the beginning of the year		438.1	318.3
Cash and cash equivalents at the end of the year		318.3	801.6
<b>Free cash flow<sup>1</sup></b>	<b>33</b>	<b>89.5</b>	<b>312.5</b>
Acquisitions less cash and cash equivalents <sup>2</sup>		79.6	47.9
Acquisition (+)/Disposal (-) of financial assets		-3.3	8.3
<b>Operating free cash flow</b>	<b>33</b>	<b>165.8</b>	<b>368.7</b>

**Cash flow from operating activities contains:**

Dividends from associated companies		2.7	2.9
Interest received		5.2	2.7
Interest paid		-25.8	-19.8

<sup>1</sup> Cash flow from operating activities + cash flow from investing activities.

<sup>2</sup> incl. purchase of minority interests and share capital increases in associated companies.

**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, 2009, were taken into account. In the event of a changed presentation comparative data from the consolidated financial statements of the prior year was, if necessary, reclassified or supplemented. The financial statements are prepared according to the going-concern principle.

**Changes in the accounting standards.** The accounting standards applied conform to those standards that were valid in the previous year. Exceptions are the following revised and new standards, which Sika applies since January 1, 2009:

- IFRS 2 – Share-based Payment: Vesting Conditions and Cancellations
- IFRS 7 – Financial Instruments: Disclosures
- IFRS 8 – Operating Segments
- IAS 1 – Presentation of Financial Statements
- IAS 23 – Borrowing Costs
- IAS 32 – Financial Instruments: Presentation and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation
- IFRIC 9 – Remeasurement of Embedded Derivatives and IAS 39 – Financial Instruments: Recognition and Measurement
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 18 – Transfer of Assets from Customers
- Improvements to IFRSs (2008)

The following effects result from the application of these revised standards and interpretations:

- **IFRS 8 – Operating Segments.** The new standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of Sika. Sika determined that the operating segments were the same as the geographical segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown on page 121 et seq., including revised comparative information.
- **IAS 1 revised – Presentation of Financial Statements.** The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense.
- **IAS 23– Borrowing Costs.** The standard has been revised to require capitalization of borrowing costs on qualifying assets and Sika has amended its accounting policy accordingly. These costs have been expensed according to previous accounting rules. No changes have been made for borrowing costs incurred prior to this date that have been expensed. In the reporting period interest in the amount of CHF 3.7 million was capitalized at a rate of 4.6%.

As of 2010 and later Sika will adopt the following new and revised standards:

- **IFRS 3 – Business Combinations** (changes applicable as of July 1, 2009), contains a further development of the acquisition method for business combinations. Essential changes deal with the valuation of minority interests, the recognition of acquisitions in stages and the treatment of contingent considerations as well as additional cost of the purchase.
- **IFRS 9 – Financial Instruments** (applicable as of January 1, 2013), enhances the ability of investors and other users of financial information to understand the accounting of financial assets and reduces complexity.
- **IAS 27 – Consolidated and Separate Financial Statements** (changes applicable as of July 1, 2009), contains changed regulations on the purchase or respectively the sale of minority interests without loss of control as well as derecognition in case of loss of control over a subsidiary.

New standards, amendments and interpretations not yet effective and not yet adopted, without practical relevance to the Group:

- IFRS 2 – Share-based Payment: Group Cash-settled Share-based Payment Transactions (applicable as of January 1, 2010)
- 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.
- IAS 39 – Financial Instruments: Recognition and Measurement, Eligible Hedged Items (applicable as of July 1, 2009)
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (changes applicable as of January 1, 2011)
- IFRIC 17 – Distributions of Non-cash Assets to Owners (applicable as of July 1, 2009)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (applicable as of July 1, 2010)
- Improvements to IFRSs (2009)

**Scope of consolidation.** 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 125 et seq.). In the year under review the scope of consolidation was expanded to include the following companies:

- Sika Polyurethane Manufacturing S.r.l., Cerano, Italy
- Iotech Limited, Lancashire, Great Britain
- Liquid Plastics Limited, Lancashire, Great Britain
- Incorez Ltd., Lancashire, Great Britain
- Sika Saudi Arabia, LLC, Jeddah, Saudi Arabia
- Sika FZCO, Dubai
- Liquid Plastics Inc., Middletown / CT, USA
- Incorez Corporation, Middletown / CT, USA
- Iotech Properties Inc., Middletown / CT, USA
- Jiangsu TMS Concrete Admixture Co., Ltd., Zhengjiang City, China

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

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

- Sarnafil Lager- und Dienstleistungs GmbH, Germany, integrated into Sika Holding GmbH
- Pelplast Utvecklings AB, Sweden, integrated into Sika Sverige AB
- Sarna Immobilien AG, Switzerland, integrated into Sika Sarnafil Manufacturing AG
- Sarna Michigan Inc., USA, was dissolved

#### **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, 2009, 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; minority interests in shareholders' equity and net income for the year are excluded and shown separately as part of minority interests.

**Associated companies.** The equity method is applied to account for investments ranging from 20% to 50%, provided that Sika exercises significant influence but cannot exercise full control. 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 on inventories from intragroup sales are eliminated in full

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

Country	Currency		2008	2008	2009	2009
			Balance sheet <sup>1</sup>	Income statement <sup>2</sup>	Balance sheet <sup>1</sup>	Income statement <sup>2</sup>
			CHF	CHF	CHF	CHF
Egypt	EGP	100	19.24	19.97	18.79	19.60
Australia	AUD	1	0.73	0.92	0.93	0.86
Brazil	BRL	100	45.49	60.05	59.22	55.01
China	CNY	100	15.54	15.62	15.10	15.92
Denmark	DKK	100	20.01	21.34	19.96	20.29
Euro zone	EUR	1	1.49	1.59	1.49	1.51
Great Britain	GBP	1	1.54	2.00	1.66	1.70
India	INR	100	2.18	2.50	2.21	2.25
Japan	JPY	100	1.18	1.05	1.12	1.17
Canada	CAD	1	0.87	1.02	0.98	0.95
Colombia	COP	10 000	4.72	5.57	5.05	5.10
Mexico	MXN	100	7.66	9.78	7.89	8.06
Poland	PLZ	100	35.79	45.61	36.15	35.19
Sweden	SEK	100	13.66	16.61	14.45	14.21
Turkey	TRY	100	69.46	83.90	69.03	70.12
USA	USD	1	1.06	1.09	1.03	1.09

<sup>1</sup> Year-end rates

<sup>2</sup> Annual average rates

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

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

### **Significant accounting estimates.**

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

#### Impairment of Goodwill.

The Group determines at least once annually or upon corresponding indication whether an impairment of goodwill has occurred. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The book value of goodwill as of December 31, 2009, was CHF 279.3 mn (previous year CHF 253.8 mn). Further details are presented in Note 9.

#### Fair value of acquisitions.

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

#### Trademarks. (book value: CHF 76.7 mn)

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 widely from estimations. Discounting is in addition based on assumptions and estimations concerning business-specific capital costs, which are themselves dependent on national risks, credit risks, and additional risks resulting from the volatility of the respective business.

#### Customer relations. (book value: CHF 115.4 mn)

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

#### Deferred tax assets. (book value: CHF 69.2 mn)

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

#### Employee benefits obligations. (net liability: CHF 92.4 mn)

The Group maintains various employee benefit plans. Diverse statistical and other variables are used in the calculation of expenses and liabilities to estimate future developments. These variables include estimations and assumptions concerning the discounting interest rate, expected income from plan assets as well as 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. (book value: CHF 146.6 mn)

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 to 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 84 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 16.

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.

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. Long-term debts are valued at amortized cost (see Note 31). Financial liabilities are derecognized when repaid.

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. In addition a general value adjustment is calculated that is dependent on the length of delay.

**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. Nonmarketable 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 to reduce the book value to the estimated recoverable level on the basis of discounted, anticipated future cash flows. Details on impairment of goodwill are found under "intangible assets" in Note 9.

**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.

**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 losses brought forward 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 are included in the income statement, since these do not fulfill the criteria of capitalization. Acquired intangible assets are as a rule capitalized and written off using the straight-line method. Regular write-offs of intangible assets are recorded under "Amortizations" in the income statement.

#### AMORTIZATION SCHEDULE

Software	2–5 years
Patents	5 years
Customer relations	2–20 years

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

**Assets held for sale.** This item consists of long-term assets designated to be disposed of through sale or other means. Long-term assets held for sale are shown at book value or at market value less disposal costs if lower. Book value is not derived from continued use, but rather from a sales transaction with high probability. Assets held for sale are shown on the balance sheet separately. 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 and accrued expenses. 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 in the consolidated balance sheet and as a negative entry in shareholders' equity. Differences between purchase price and sales proceeds of treasury shares are shown as a change in retained earnings.

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

**Fluctuations in value of financial instruments.** Fluctuations in value of financial instruments are recorded in comprehensive income and transferred to the income statement in case of a sustained depreciation or disposal.

**Retained earnings.** Retained earnings comprise accumulated retained earnings of the Group companies that are not distributed to shareholders as well as profit/loss of treasury shares. Profit distribution is subject to local legal restrictions.

### **Income statement.**

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

**Personnel expenses.** Personnel expenses include all payments to 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.

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

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

**Interest expense/other financial expenses.** All interest and other expenses paid for the procurement of loans are charged to the income statement.

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

**Income taxes.** The reported income tax expenses include income taxes based on current taxable income, and deferred taxes.

**1 CASH AND CASH EQUIVALENTS.** CHF 801.6 mn (CHF 318.3 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 substantially on one hand due to high operating free cash flow and on the other due to the five-year bond for over CHF 300 million issued in the spring for long-term financing.

**2 SECURITIES.** CHF 9.4 mn (CHF 3.1 mn)

This item contains marketable securities categorized as available-for-sale.

**3 ACCOUNTS RECEIVABLE.** CHF 739.4 mn (CHF 778.7 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	2008	2009
Receivables	840.8	811.5
Allowance for doubtful accounts	-62.1	-72.1
<b>Net accounts receivable</b>	<b>778.7</b>	<b>739.4</b>

**MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL ACCOUNTS**

in CHF mn	2008	2009
January 1	61.0	62.1
Allowance for acquired / sold businesses	0.7	0.3
Income statement related allowances	47.3	50.7
Reversal or utilization of allowances	-39.7	-40.3
Exchange differences	-7.2	-0.7
December 31	62.1	72.1

**AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE**

in CHF mn	2008	2009
<b>Net accounts receivable</b>	<b>778.7</b>	<b>739.4</b>
Of which		
Not overdue	586.1	560.8
Past due < 31 days	119.9	118.4
Past due 31–60 days	45.7	40.0
Past due 61–180 days	40.8	35.9
Past due > 181 days	48.3	56.4
Allowance for doubtful accounts	-62.1	-72.1



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

#### **4 INVENTORIES.** CHF 451.4 mn (CHF 512.7 mn)

Inventory write-offs amount to CHF 43.7 mn (CHF 21.3 mn) and are charged to material expenses.

in CHF mn	2008	2009
Raw materials and supplies	150.4	128.2
Semi-finished goods	39.6	39.7
Finished goods	263.4	231.0
Merchandise	59.3	52.5
<b>Total</b>	<b>512.7</b>	<b>451.4</b>

#### **5 ACCRUED INCOME AND OTHER CURRENT ASSETS.** CHF 91.3 mn (CHF 131.0 mn)

This item includes derivatives of CHF 1.5 mn (CHF 19.9 mn), accrued income and prepayments of CHF 60.9 mn (CHF 74.5 mn) as well as a loan to an associated company of CHF 8.1 mn (CHF 8.3 mn).

**6 PROPERTY, PLANT AND EQUIPMENT.** CHF 861.7 mn (CHF 832.9 mn)

in CHF mn	Property	Plant	Plants under construction	Equipment	Total
<b>As of January 1, 2008</b>					
Acquisition cost	121.3	581.9	79.0	1 142.7	1 924.9
Cumulative depreciation and impairment	-0.8	-312.8	-1.5	-778.4	-1 093.5
<b>Net values as of January 1, 2008</b>	<b>120.5</b>	<b>269.1</b>	<b>77.5</b>	<b>364.3</b>	<b>831.4</b>
Additions	5.2	8.5	107.7	70.5	191.9
Acquired on acquisition <sup>1</sup>	0.7	7.2	0.0	3.4	11.3
Exchange differences	-12.9	-24.6	-5.7	-31.0	-74.2
Disposals	-8.9	-8.7	-1.2	-5.1	-23.9
Reclassifications <sup>3</sup>	0.0	4.3	-56.0	49.1	-2.6
Depreciation charge for the year	0.0	-20.2	0.0	-80.8	-101.0
<b>As of December 31, 2008</b>	<b>104.6</b>	<b>235.6</b>	<b>122.3</b>	<b>370.4</b>	<b>832.9</b>
<b>As of January 1, 2009</b>					
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
<b>Net values as of January 1, 2009</b>	<b>104.6</b>	<b>235.6</b>	<b>122.3</b>	<b>370.4</b>	<b>832.9</b>
Additions	0.0	14.0	53.8	66.9	134.7
Acquired on acquisition <sup>2</sup>	1.5	8.1	0.8	12.3	22.7
Exchange differences	0.0	0.6	0.3	-0.7	0.2
Disposals	-0.1	-0.1	0.0	-3.4	-3.6
Reclassifications <sup>3</sup>	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
<b>As of December 31, 2009</b>	<b>106.0</b>	<b>270.7</b>	<b>60.2</b>	<b>424.8</b>	<b>861.7</b>
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
<b>Net values as of December 31, 2009</b>	<b>106.0</b>	<b>270.7</b>	<b>60.2</b>	<b>424.8</b>	<b>861.7</b>

<sup>1</sup> Valspar, Tricosal, Tricosal BBZ, Garland, Keshuai, Cappar, Pelplast

<sup>2</sup> Iotech Group, Jiangsu TMS Admixture Co., Ltd. currency translation effect included

<sup>3</sup> Plants and buildings under construction are reclassified after completion

The impairments presented here 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). See also Note 25.

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 0.9 mn).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. Book values of the mortgaged properties are insignificant.

in CHF mn	Operating leases			Finance leases					
	2008	2009		2008			2009		
	Minimum payments	Minimum payments	Minimum payments	Interest	Present value of payments	Minimum payments	Interest	Present value of payments	
Within 1 year	41.0	43.0	0.2	0.1	0.1	1.0	0.4	0.6	
2–5 years	93.6	93.2	1.3	0.4	0.9	3.4	1.1	2.3	
Over 5 years	109.4	99.3	4.2	1.2	3.0	1.5	0.3	1.2	
<b>Total</b>	<b>244.0</b>	<b>235.5</b>	<b>5.7</b>	<b>1.7</b>	<b>4.0</b>	<b>5.9</b>	<b>1.8</b>	<b>4.1</b>	

### INSURANCE VALUES

in CHF mn	2008	2009
Buildings	994	957
Equipment	1 310	1 452

**7 ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%).** CHF 24.0 mn (CHF 19.6 mn)

	2008	2009
<b>Sika Gulf B.S.C., Bahrain<sup>1</sup></b>		
Capital stock in CHF mn	2.8	2.8
Held by Sika AG, Baar, 45%	1.3	1.3
Sales	47.7	32.1
Profit	7.6	3.8
Assets	28.5	23.3
Liabilities	19.9	17.7
<b>Addiment Italia S.r.l.</b>		
Capital stock in thousand EUR	10.0	10.0
Held by Sika AG, Baar, 50%	5.0	5.0
Sales in CHF mn	34.8	30.3
Profit	3.7	3.7
Assets	31.8	32.2
Liabilities	10.3	7.9
<b>All others<sup>2</sup></b>		
Capital stock in CHF mn	0.8	0.7
Held by Sika AG, Baar	0.5	0.3
Sales	66.1	63.0
Profit	3.4	2.7
Assets	36.5	41.1
Liabilities	19.8	18.4

<sup>1</sup> Sika Gulf B.S.C., Bahrain, manufactures concrete admixtures and ready-to-use mortar for the supply of countries in the Middle East

<sup>2</sup> part GmbH, Germany; Condensil SARL, France; Hayashi-Sika, Japan; Chemical Sangyo, Japan; Sarna Granol AG, Switzerland; Copsa, Spain; Sika Saudi Arabia LLC, Jeddah

**8 OTHER FINANCIAL ASSETS.** CHF 9.5 mn (CHF 7.6 mn)

Other financial assets consist of available-for-sale financial assets of CHF 9.5 mn (CHF 7.6 mn).

**9 INTANGIBLE ASSETS.** CHF 562.0 mn (CHF 524.9 mn)

in CHF mn	Goodwill	Software	Trademarks	Customer relations	Other intangible assets	Total
<b>As of January 1, 2008</b>						
Acquisition costs	254.0	81.4	75.2	114.6	60.5	585.7
Cumulative amortization and impairment	-9.0	-67.9	-2.0	-13.1	-31.1	-123.1
<b>Net values as of January 1, 2008</b>	<b>245.0</b>	<b>13.5</b>	<b>73.2</b>	<b>101.5</b>	<b>29.4</b>	<b>462.6</b>
Additions	2.4	37.9	0.2	0.0	0.3	40.8
Acquired on acquisition <sup>1</sup>	27.7	0.0	3.1	27.6	13.9	72.3
Exchange differences	-15.3	-0.8	0.0	-2.8	-1.2	-20.1
Disposals	0.0	-0.1	0.0	0.0	-0.1	-0.2
Reclassifications (net)	0.0	2.6	0.0	0.0	0.0	2.6
Amortization for the year	0.0	-8.4	-0.9	-7.6	-10.2	-27.1
Impairment	-6.0	0.0	0.0	0.0	0.0	-6.0
<b>As of January 1, 2009</b>						
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
<b>Net values as of January 1, 2009</b>	<b>253.8</b>	<b>44.7</b>	<b>75.6</b>	<b>118.7</b>	<b>32.1</b>	<b>524.9</b>
Additions	0.0	26.1	0.0	0.0	0.4	26.5
Acquired on acquisition <sup>2</sup>	27.1	0.2	2.2	10.3	8.5	48.3
Exchange differences	-1.6	-0.4	0.0	-1.0	-0.5	-3.5
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
<b>As of December 31, 2009</b>	<b>279.3</b>	<b>61.0</b>	<b>76.7</b>	<b>115.4</b>	<b>29.6</b>	<b>562.0</b>
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
<b>Net values as of December 31, 2009</b>	<b>279.3</b>	<b>61.0</b>	<b>76.7</b>	<b>115.4</b>	<b>29.6</b>	<b>562.0</b>

<sup>1</sup> Valspar, Tricosal, Tricosal BBZ, Garland, Keshuai, Cappar, Pelplast

<sup>2</sup> Iotech Group, Jiangsu TMS Admixture Co., Ltd., currency translation effect included

The intangible assets (except goodwill and trademarks) are amortized over a finite useful life. Acquired trademarks are amortized insofar as a useful life can be determined. In other cases trademarks are not amortized but undergo an annual impairment test. Trademarks usually have an indefinite useful life because they are influenced by internal and external factors such as strategic decisions, competitive and customer behaviour, technical development and altered market requirements. The carrying value of trademarks with an indefinite useful life amounts to CHF 72.4 mn. The impairment test is based on estimated sales attributable to the trademark. Assumed thereby is a growth rate of -2.6% for the planning period. Afterwards a growth rate of 2.1% is assumed. The discount rate amounts to 13.5%.

**Goodwill items tested for impairment.** With the exception of the newest of the 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 Group Management 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 0.2% to 11.0% per year. The goodwill positions are also recoverable at lower rates of growth and possible alterations of other evaluation parameters. The cash flow forecast outside of the planning period are extrapolated with a growth rate of 2–3%. 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	2008	2009
Construction business Europe North	2.0%	12.2%	83.5	83.4
Automotive Europe North	2.0%	12.7%	52.8	52.6
Construction business Europe South	2.0%	12.8%	42.5	63.2
Construction business North America	2.0%	13.9%	56.9	55.5
Various	3.0%	13.4–19.4%	18.1	24.6
<b>Total</b>			<b>253.8</b>	<b>279.3</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Acquisitions 2008.** In 2008 Sika acquired assets and liabilities of Tricosal GmbH & Co. KG, Germany. The takeover was concluded on June 26, 2008.

### ACQUIRED NET ASSETS

in CHF mn	Book value	Market value adjustments	Market value
Cash and cash equivalents	0.1	0.0	0.1
Accounts receivable and other receivables	4.2	0.0	4.2
Inventories	5.7	0.3	6.0
Property, plant and equipment	3.9	3.1	7.0
Intangible assets	10.1	-1.7	8.4
Deferred tax assets	0.0	1.0	1.0
<b>Total assets</b>	<b>24.0</b>	<b>2.7</b>	<b>26.7</b>
Accounts payable and other liabilities	5.5	0.0	5.5
Leasing liabilities	2.8	0.0	2.8
Provisions	0.8	0.0	0.8
Employee benefit obligation	1.8	0.1	1.9
<b>Total liabilities</b>	<b>10.9</b>	<b>0.1</b>	<b>11.0</b>
<b>Acquired net assets</b>	<b>13.1</b>	<b>2.6</b>	<b>15.7</b>
Goodwill from acquisition			3.5
<b>Total purchase consideration</b>			<b>19.2</b>
Cash and cash equivalents (per 12/31/2008)			-0.1
Payments still due (per 12/31/2008)			-2.4
<b>Net cash outflow</b>			<b>16.7</b>

If the company had been acquired on the first day of the business year, Sika would have posted additionally CHF 15.2 mn in consolidated net sales and unchanged consolidated net profit attributable to shareholders. Since the acquisition, Tricosal contributed in the previous year sales and earnings of CHF 16.3 mn and CHF -0.3 mn, respectively.

**Acquisitions 2008.** In 2008 Sika acquired various businesses or parts of businesses.

**ACQUIRED NET ASSETS**

in CHF mn	Book value	Market value adjustments	Market value
Cash and cash equivalents	1.4	0.0	1.4
Accounts receivable and other receivables	10.5	0.0	10.5
Inventories	7.1	0.4	7.5
Property, plant and equipment	2.5	1.9	4.4
Intangible assets	1.0	34.5	35.5
Deferred tax assets	0.0	0.6	0.6
<b>Total assets</b>	<b>22.5</b>	<b>37.4</b>	<b>59.9</b>
Accounts payable and other liabilities	4.9	0.0	4.9
Bank loans	2.5	0.0	2.5
Provisions	1.1	2.3	3.4
Employee benefit obligation	0.2	0.0	0.2
Taxes payable	0.0	3.2	3.2
<b>Total liabilities</b>	<b>8.7</b>	<b>5.5</b>	<b>14.2</b>
<b>Net assets</b>	<b>13.8</b>	<b>31.9</b>	<b>45.7</b>
Minority interest			-2.0
<b>Acquired net assets</b>			<b>43.7</b>
Goodwill from acquisitions			24.2
<b>Total purchase consideration</b>			<b>67.9</b>
Cash and cash equivalents (per 12/31/2008)			-1.4
Payments still due (per 12/31/2008)			-8.7
<b>Net cash outflow</b>			<b>57.8</b>

Overall the following acquisitions were recorded:

- Industrial flooring business of The Valspar Corporation, USA (1/9/2008)
- Industrial flooring business of ICS Garland, Inc., USA (5/1/2008)
- Majority stake (80%) of Sichuan Keshuai Additive Co.Ltd., China (6/1/2008)
- Cappar Ltd., Canada (9/4/2008)
- Pelplast Utvecklings AB, Sweden (10/13/2008)
- Tricosal BBZ AG, Switzerland (10/31/2008)

Had all acquisitions occurred on the first day of the business year, consolidated net sales would have been CHF 23.5 mn higher and consolidated net profit attributable to shareholders CHF 1.3 mn lower. Since the acquisitions, the acquired businesses contributed sales and earnings in the previous year of CHF 47.7 mn and CHF -0.5 mn, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Acquisitions 2009.** In 2009 Sika acquired the Iotech Group Ltd., Great Britain. The takeover was concluded on January 26, 2009.

### ACQUIRED NET ASSETS

in CHF mn	Book value	Market value adjustments	Market value
Cash and cash equivalents	2.5	0.0	2.5
Accounts receivable	11.7	-0.2	11.5
Inventories	6.4	1.3	7.7
Property, plant and equipment	10.3	5.3	15.6
Intangible assets	0.5	14.8	15.3
Other non-current assets	0.9	0.0	0.9
<b>Total assets</b>	<b>32.3</b>	<b>21.2</b>	<b>53.5</b>
Accounts payable and other liabilities	12.5	0.6	13.1
Provisions	0.8	6.3	7.1
Deferred tax liabilities	0.5	3.8	4.3
<b>Total liabilities</b>	<b>13.8</b>	<b>10.7</b>	<b>24.5</b>
<b>Acquired net assets</b>	<b>18.5</b>	<b>10.5</b>	<b>29.0</b>
Goodwill from acquisition			20.6
<b>Total purchase price</b>			<b>49.6</b>
Cash and cash equivalents			-2.5
Payments still due			-1.8
<b>Net cash outflow</b>			<b>45.3</b>

Directly attributable costs of CHF 1.7 mn were capitalized.

If the acquisition had occurred on the first day of the business year, consolidated net sales would have been CHF 4.1 mn 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 mn. Consolidated net profit remained unchanged. Goodwill is justified by expected synergies.

**Acquisitions 2009.** In addition Sika purchased a majority stake in Jiangsu TMS Admixture Co., Ltd., China. The takeover was concluded on October 1, 2009. The purchase price and its allocation (PPA) are not yet definitive.

**ACQUIRED NET ASSETS**

in CHF mn	Book value	Market value adjustments	Market value
Cash and cash equivalents	1.4	0.0	1.4
Accounts receivable and other receivables	6.5	-0.6	5.9
Inventories	2.2	0.1	2.3
Property, plant and equipment	5.1	1.5	6.6
Intangible assets	1.1	3.9	5.0
Other non-current assets	0.1	0.1	0.2
<b>Total assets</b>	<b>16.4</b>	<b>5.0</b>	<b>21.4</b>
Accounts payable	5.5	0.3	5.8
Other liabilities	5.3	0.0	5.3
Deferred tax liabilities	0.0	1.3	1.3
<b>Total liabilities</b>	<b>10.8</b>	<b>1.6</b>	<b>12.4</b>
<b>Net assets</b>	<b>5.6</b>	<b>3.4</b>	<b>9.0</b>
Minority interest			-2.9
<b>Acquired net assets</b>			<b>6.1</b>
Goodwill from acquisitions			5.9
<b>Total purchase consideration</b>			<b>12.0</b>
Cash and cash equivalents			-1.4
Payments still due			-10.0
<b>Net cash outflow</b>			<b>0.6</b>

Directly attributable costs of CHF 0.2 mn were capitalized.

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

**10 DEFERRED TAXES.**

**UNUSED LOSSES BROUGHT FORWARD**

in CHF mn	2008	2009
1 year or less	–	–
2–5 years	6.5	11.2
over 5 years	15.4	26.0
<b>Total</b>	<b>21.9</b>	<b>37.2</b>

**DEFERRED TAX**

in CHF mn	2008			2009		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Category						
January 1	55.1	-56.8	-1.7	62.6	-65.8	-3.2
Credited (+)/debited (-) to income statement	10.6	-7.7	2.9	3.7	10.3	14.0
Exchange differences	-6.3	3.6	-2.7	0.0	1.6	1.6
Acquisitions / divestments <sup>1</sup>	3.2	-4.9	-1.7	2.9	-8.7	-5.8
<b>December 31</b>	<b>62.6</b>	<b>-65.8</b>	<b>-3.2</b>	<b>69.2</b>	<b>-62.6</b>	<b>6.6</b>

**ALLOCATION OF ASSETS AND LIABILITIES**

in CHF mn	2008			2009		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Category						
Tax losses brought forward	4.4	–	4.4	7.9	–	7.9
Current assets	18.0	-8.0	10.0	17.6	-6.3	11.3
Property, plant and equipment	4.7	-23.4	-18.7	6.6	-23.6	-17.0
Other non-current assets	2.9	-30.2	-27.3	1.4	-29.2	-27.8
Liabilities	32.6	-4.2	28.4	35.7	-3.5	32.2
<b>Total</b>	<b>62.6</b>	<b>-65.8</b>	<b>-3.2</b>	<b>69.2</b>	<b>-62.6</b>	<b>6.6</b>

<sup>1</sup> currency translation effect included

Tax losses brought forward 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 losses brought forward of CHF 1.0 mn (CHF 0.3 mn) were offset and deferred tax assets from losses brought forward of CHF 4.7 mn (CHF 2.4 mn) were generated.

## 11 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.** 29 Group companies maintain defined-benefit employee pension funds. Included are these 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	2008			2009		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Employee benefit plans with defined benefits	15.7	99.5	83.8	8.8	101.2	92.4
Other employee commitments	0.0	28.2	28.2	0.0	29.1	29.1
<b>Total</b>	<b>15.7</b>	<b>127.7</b>	<b>112.0</b>	<b>8.8</b>	<b>130.3</b>	<b>121.5</b>

Sika companies in Switzerland also maintain a plan that allows for early retirement. In the year under review 22 employees took advantage of this possibility. Pension liabilities and terminal payments are determined based on actuarial appraisals.

Other long-term obligations derive from service jubilee premiums and similar benefits that Sika grants to its employees.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### ACTUARIAL PRESENT VALUE OF DEFINED BENEFIT OBLIGATION (DBO)

in CHF mn	2008	2009
<b>Opening balance</b>	<b>536.3</b>	<b>567.9</b>
Current service cost	22.0	23.9
Interest cost	19.4	20.9
Contributions by plan participants	8.2	8.4
Actuarial gains(-)/losses(+)	-6.1	1.3
Exchange differences	-12.4	-0.4
Benefits paid	-20.1	-34.3
Past service costs	0.5	1.0
Business combinations and others	20.1	0.0
Curtailments	0.0	-0.3
Settlements	0.0	-2.3
<b>Closing balance</b>	<b>567.9</b>	<b>586.1</b>

### FAIR VALUE OF PLAN ASSETS

in CHF mn	2008	2009
<b>Opening balance</b>	<b>462.3</b>	<b>413.3</b>
Expected return on plan assets	21.9	18.5
Actuarial gains(+)/losses(-)	-100.3	35.7
Exchange differences	-1.4	0.0
Contributions by employer	18.8	17.4
Contributions by plan participants	8.2	8.4
Benefits paid	-13.2	-27.7
Business combinations and others	17.1	0.0
Settlements	-0.1	0.0
<b>Closing balance</b>	<b>413.3</b>	<b>465.6</b>

### STATUS

in CHF mn	2008	2009
Actuarial present value of defined benefit obligations (DBO)	567.9	586.1
Fair value of plan assets	413.3	465.6
<b>Deficit(+)/ Surplus(-)</b>	<b>154.6</b>	<b>120.5</b>
Unrecognized actuarial loss(-)/ gain(+)	-82.6	-45.0
Unrecognized past service costs	-0.5	-1.2
Unrecognized assets	12.3	18.1
<b>Net liability recognized in balance sheet</b>	<b>83.8</b>	<b>92.4</b>

**INCOME STATEMENT**

<b>in CHF mn</b>	<b>2008</b>	<b>2009</b>
Current service costs	22.0	23.9
Interest cost	19.4	20.9
Anticipated return on plan assets	-21.9	-18.5
Actuarial gains(-)/losses(+)	20.0	3.1
Past service costs	0.1	0.3
The effect of any curtailments and settlements	0.1	-2.4
The effect of the limit in Par. 58b	-13.0	5.8
<b>Net periodic benefit costs</b>	<b>26.7</b>	<b>33.1</b>
Actual gain(+)/loss(-) on plan assets	-78.4	54.2

Expected contributions to defined-benefit plans for 2010 amount to CHF 17.6 mn.

The Group's entire pension expenses are recorded in the Consolidated Income Statement under "Personnel expenses."

**MAJOR CATEGORIES OF TOTAL PLAN ASSETS**

<b>in % of market value</b>	<b>2008</b>	<b>2009</b>
Shares	34.6	29.5
Bonds	38.1	35.4
Real estate	17.9	17.2
Other assets	9.4	17.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**AMOUNTS INCLUDED IN PLAN ASSETS**

<b>in CHF mn</b>	<b>2008</b>	<b>2009</b>
Shares	8.6	8.3
Bonds	0.5	0.0
Property occupied by Sika	13.2	14.5
<b>Total</b>	<b>22.3</b>	<b>22.8</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### ANNUAL COMPARISON IN ABSOLUTE TERMS

in CHF mn	2005	2006	2007	2008	2009
Actuarial present value of defined benefit obligations (DBO)	465.5	515.8	536.3	567.9	586.1
Fair value of plan assets	385.7	456.3	462.3	413.3	465.6
<b>Deficit(+)/Surplus(-)</b>	<b>79.8</b>	<b>59.5</b>	<b>74.0</b>	<b>154.6</b>	<b>120.5</b>
Experience adjustments on plan liabilities		7.8	16.5	-11.7	-3.9
Experience adjustments on plan assets		21.8	2.5	-100.1	35.7

The stated deficit results in large part from the DBO of the unfunded benefit plans of CHF 79.9 mn (CHF 84.6 mn). Primarily plans in Germany do not have segregated assets.

### ANALYSIS OF THE DEFINED BENEFIT OBLIGATION FROM FUNDED AND UNFUNDED PLANS

in CHF mn	2008	2009
Funded plans	483.3	506.2
Unfunded plans	84.6	79.9
<b>Total</b>	<b>567.9</b>	<b>586.1</b>

### ACTUARIAL ASSUMPTIONS

	2008	2009
Discount rate in the year under review (%)	3.8	3.6
Return <sup>1</sup> on plan assets in the year under review (%)	4.5	4.5
Pension trend (%)	0.6	0.6
Salary trend (%)	2.1	2.1
Number of insured employees	4 609	4 705
Number of insured retired persons	1 311	1 375
Total number of defined benefit plans	29	28
thereof number of defined benefit plans funded	9	10
thereof number of defined benefit plans unfunded	20	18

<sup>1</sup> 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.

**12 BANK OVERDRAFTS AND LOANS.** CHF 2.2 mn (CHF 13.5 mn)

Short-term bank loans amounted to CHF 1.6 mn (CHF 13.3 mn). In addition, long-term bank loans and mortgages of CHF 0.6 mn (CHF 0.2 mn) are reported. To safeguard the liquidity of Sika AG a syndicated credit facility of CHF 450 mn (CHF 450 mn) is available until November 15, 2010, and was unused at the end of the reporting period. Some Group companies have proprietary but overall insignificant credit limits at their disposal.

**13 NON-CURRENT LIABILITIES DUE WITHIN 12 MONTHS.** CHF 0.3 mn (CHF 0.1 mn)

Non-current liabilities due in the next twelve months are being classified as current liabilities. The position includes finance lease liabilities amounting to CHF 0.2 mn (CHF 0.1 mn) and bank loans of CHF 0.1 mn (CHF 0 mn).

**14 ACCOUNTS PAYABLE.** CHF 355.2 mn (CHF 398.1 mn)

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

**15 ACCRUED EXPENSES.** CHF 211.8 mn (CHF 197.4 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.

**16 OTHER CURRENT LIABILITIES.** CHF 15.7 mn (CHF 22.0 mn)

Included here are all other current liabilities with open derivative financial instruments of the category "fair value through profit or loss" of CHF 0.1 mn (CHF 1.9 mn). The Group does not apply hedge accounting (see also Note 31).

**17 BONDS.** CHF 1066.9 mn (CHF 767.9 mn)

In the year under review Sika AG issued a five-year bond in an amount of CHF 300 mn with a coupon of 3.5% per annum on the Swiss capital market. The payment under subscription took place on June 4, 2009.

Included are the following bonds:

in CHF mn	Amortized costs	Nominal
2.750% 2006–2011	274.1	275.0
2.375% 2006–2013	247.9	250.0
3.500% 2009–2014	297.5	300.0
2.875% 2006–2016	247.4	250.0
<b>Total</b>	<b>1 066.9</b>	<b>1 075.0</b>

**18 PROVISIONS.** CHF 146.6 mn (CHF 107.1 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%.

In the year under review Sika resolved to take restructuring measures in Europe particularly in its production network for adhesives and roofing membranes, for which provisions were made.

From the sum of provisions, CHF 103.1 mn (CHF 93.1 mn) are shown under non-current liabilities, since an outflow of funds is not expected within the next 12 months.

For provisions of CHF 43.5 mn (CHF 14.0 mn), an outflow of funds is expected during the next 12 months. These amounts are shown as current provisions.

in CHF mn	Short-term provisions	Long-term provisions			
		Warranties	Restructu- rings	Sundry risks	Total
<b>As of January 1, 2008</b>	<b>16.0</b>	<b>69.4</b>	<b>2.1</b>	<b>56.5</b>	<b>128.0</b>
Exchange differences	-1.3	-3.4	-0.3	-2.1	-5.8
Assumed on acquisition	3.5	0.8	0.0	0.0	0.8
Additions	11.2	18.3	0.4	7.9	26.6
Utilization	-8.9	-15.6	-1.0	-14.0	-30.6
Reversal	-6.5	-7.3	0.0	-18.6	-25.9
<b>As of December 31, 2008</b>	<b>14.0</b>	<b>62.2</b>	<b>1.2</b>	<b>29.7</b>	<b>93.1</b>
Exchange differences	-0.1	-0.8	0.2	0.6	0.0
Assumed on acquisition	0.0	6.4	0.0	0.4	6.8
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
<b>As of December 31, 2009</b>	<b>43.5</b>	<b>71.9</b>	<b>2.1</b>	<b>29.1</b>	<b>103.1</b>

The short-term provisions as of December 31, 2009, encompass CHF 11.7 mn for warranties, CHF 28.2 mn for restructuring and CHF 3.6 mn for sundry risks.

**19 SHAREHOLDERS' EQUITY.** CHF 1 593.0 mn (CHF 1 464.7 mn)

The equity share in total assets amounts to 43.9% (45.6%).

**CAPITAL STOCK**

in CHF mn	Number	2008	2009
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
<b>Capital stock</b>		<b>22.9</b>	<b>22.9</b>

**20 NET SALES.** CHF 4 154.9 mn (CHF 4 624.5 mn)

Sales of goods account for practically all net sales. In comparison with the previous year net sales declined by 10.2% in Swiss francs. Taking currency effects amounting to -6.3% into consideration, sales decreased in local currencies by 3.9%. Growth through acquisitions of 2.3% is included.

Sales from construction contracts in the year under review amounted to CHF 14.9 mn (CHF 13.1 mn). On the date of the balance sheet accrued construction costs and recognized profit (less recognized losses) were CHF 65.3 mn (CHF 50.5 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.

**21 OPERATING REVENUE.** CHF 4 146.1 mn (CHF 4 641.8 mn)

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

**22 MATERIAL EXPENSES.** CHF 1 850.8 mn (CHF 2 251.0 mn)

Material expenses declined as a percentage of net sales by 4.2 percentage points, resulting from the sharp decrease in raw material prices during the period under review.

**23 OPERATING PROFIT BEFORE DEPRECIATION AND RESTRUCTURING.** CHF 539.9 mn (CHF 556.1 mn)

In the year under review Sika benefited from falling raw material prices, which had a direct effect on gross profit, allowing it to rise from 51.7% to 55.2% of net sales by the end of the business year. Personnel costs, adjusted for acquisitions, and other operating costs could be substantially reduced, thereby limiting the decrease of operating profit before depreciations and restructuring to -2.9%.

Research and development expenses are included in other operating costs. Sika invested CHF 74.7 mn (CHF 74.1 mn) in the year under review, or 1.8% (1.6%) 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	2008	2009
Gross result	2 390.8	2 295.3
Personnel expenses <sup>1</sup>	-957.8	-954.3
Other operating expenses	-876.9	-801.1
<b>Operating profit before depreciation and restructuring costs</b>	<b>556.1</b>	<b>539.9</b>

**PERSONNEL EXPENSES**

in CHF mn	2008	2009
Wages and salaries	780.1	769.1
Social charges	177.7	185.2
<b>Total personnel expenses</b>	<b>957.8</b>	<b>954.3</b>

**EMPLOYEE BENEFIT COSTS**

in CHF mn	2008	2009
Employee benefit plans with defined benefits <sup>1</sup>	26.7	33.1
Other employee benefit plans	25.8	29.5
<b>Total</b>	<b>52.5</b>	<b>62.6</b>

<sup>1</sup> Details to be found in Note 11

**Employee share plan.** Executive managers receive Sika AG shares as a component of their salary. The shares are valued at market prices and subject to selling restrictions. All shares were acquired on the market and the associated expense is posted as personnel expenses. The stock was therefore not diluted. In the year under review 1727 (767) shares were granted at the currently prevailing market value of CHF 1.6 mn (CHF 1.4 mn). They were granted at market prices. Stock option plans do not exist within the group.



**24 DEPRECIATION/AMORTIZATION/IMPAIRMENT.** CHF 139.3 mn (CHF 134.1 mn)

During the period under review it was necessary to undertake various smaller impairments of customer bases and fixed assets in a combined total of CHF 2.8 mn (CHF 6.0 mn). The impairment charge was calculated based on the value of use.

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

**25 RESTRUCTURING.** CHF 56.6 mn (CHF 0.0 mn)

In the year under review Sika took the decision to adapt structures for production of adhesives, sealants and polymeric membranes due to advances in production technology as well as the continually changing market conditions. The new organization should ensure the company's competitiveness in a sustainable manner. The measures affect various sites in Europe; among other steps individual production lines will be shut down as Sika concentrates its fabrication on the most efficient plants.

The extraordinary expenditures for restructuring are outlined as follows:

in CHF mn	2009
Impairments on PPE	20.1
Personnel expenses	31.8
Other operational expenses	4.7
<b>Total</b>	<b>56.6</b>

The impairments refer mainly to the production lines that will be shut down and can neither be otherwise employed nor sold, in which sense they were wholly impaired. The affected properties were depreciated to fair market value. Their future use is yet uncertain, though sales within the business year appear unrealistic. The personnel expenses deal primarily with severance payments.

**26 INTEREST EXPENSES/OTHER FINANCIAL EXPENSES.** CHF 37.7 mn (CHF 63.2 mn)

Interest expenses increased slightly to CHF 27.4 mn (CHF 25.8 mn). The effective interest on bonds amounts to CHF 28.5 mn (CHF 22.1 mn). Due to a change in the financial accounting standards (IAS 23) interest in an amount of CHF 3.7 mn (CHF 0 mn) was capitalized during the year under review at a rate of 4.6%.

Other financial expenses declined from CHF 37.4 mn to CHF 10.3 mn. In the previous period these expenses were considerably higher due to negative currency effects.

**27 INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES.**

CHF 9.3 mn (CHF 14.5 mn)

Short-term surpluses in liquidity in various countries led to interest income of CHF 3.1 mn (CHF 5.1 mn). Income from associated companies decreased to CHF 5.3 mn (CHF 6.2 mn). Other financial income was reduced to CHF 0.9 mn (CHF 3.2 mn).

**28 INCOME TAXES.** CHF 89.9 mn (CHF 105.9 mn)

The income tax rate remained almost unchanged at 28.5% (28.4%). Income taxes of CHF 89.9 mn consist of:

**INCOME TAXES**

in CHF mn	2008	2009
Income tax during the year under review	101.5	98.3
Deferred income tax	-2.9	-14.0
Income tax from prior years	7.3	5.6
<b>Total</b>	<b>105.9</b>	<b>89.9</b>

**RECONCILIATION BETWEEN ANTICIPATED AND EFFECTIVE TAX EXPENSE**

	%	2008	%	2009
Profit before taxes	–	373.3	–	315.6
Anticipated tax expense	24.4	91.0	24.5	77.3
Non-tax-deductible expense	0.6	2.3	0.8	2.7
Non-tax-deductible goodwill impairment	0.4	1.7	0.0	0.0
Effect of non-recognition of tax losses	0.6	2.1	1.3	4.0
Change in anticipated tax rate	0.1	0.5	-0.3	-1.0
Adjusted tax expense from earlier periods	2.0	7.3	1.3	4.3
Valuation adjustment on deferred tax assets	0.0	0.0	0.9	2.7
Other	0.3	1.0	-0.0	-0.1
Tax expense as per consolidated income statement	28.4	105.9	28.5	89.9

The anticipated average Group income tax rate of 24.5% (24.4%) corresponds with the average tax on profits of the individual Group companies in their respective fiscal jurisdictions.

**29 MINORITY INTERESTS.** CHF -0.2 mn (CHF 0.7 mn)

Most important companies with minority interests:

- Consorzio IGS, Switzerland (35%)
- Sika UAE LLC, Dubai (34%)
- Sichuan Keshuai Additive Co., Ltd., China (20%)
- Jiangsu TMS Admixture Co., Ltd., China (30%)

**30 EARNINGS PER SHARE.** CHF 91.03 (CHF 107.00)

	2008	2009
<b>Undiluted ("basic EpS")</b>		
Net profit / CHF mn	266.7	225.9
<b>Weighted average number of shares<sup>1</sup></b>		
Bearer shares <sup>2</sup> / units	2 103 435	2 092 632
Registered shares <sup>3</sup> / units	2 333 874	2 333 874
<b>Earnings per share</b>		
Bearer shares <sup>2</sup> / CHF	107.00	91.03
Registered shares <sup>3</sup> / CHF	17.83	15.17

<sup>1</sup> Excluding bearer treasury shares held in the Group at a nominal value of CHF 9.00 (CHF 9.00)

<sup>2</sup> Nominal value: CHF 9.00 (CHF 9.00)

<sup>3</sup> Nominal value: CHF 1.50 (CHF 1.50)

Consolidated earnings per share (EPS) amount to CHF 91.03 (CHF 107.00). The EPS is calculated on the basis of consolidated net profit after minority interests and the number of shares entitled to dividend, weighted over the course of the year. No dilution effect results because no options or convertible bonds are outstanding. For the business year 2008 dividend amounted to CHF 45.00 per bearer share and to CHF 7.50 per registered share.

**31 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 m		2008		2009	
	Level	Book value	Market value	Book value	Market value
<b>Financial assets</b>					
Cash and cash equivalents		318.3	318.3	801.6	801.6
Available-for-sale financial assets	1	10.7	10.7	18.9	18.9
Loans and receivables		787.0	787.0	747.5	747.5
Financial assets at fair value through profit and loss	2	19.9	19.9	1.5	1.5
<b>Total</b>		<b>1 135.9</b>	<b>1 135.9</b>	<b>1 569.5</b>	<b>1 569.5</b>
<b>Financial liabilities</b>					
Bank overdrafts		13.5	13.5	2.3	2.3
Bonds		767.9	758.7	1 066.9	1 107.9
Accounts payable		398.1	398.1	355.2	355.2
Other financial liabilities		4.6	4.6	4.7	4.7
<b>Financial liabilities measured at amortized cost</b>		<b>1 184.1</b>	<b>1 174.9</b>	<b>1 429.1</b>	<b>1 470.1</b>
Financial liabilities at fair value through profit and loss	2	1.9	1.9	0.1	0.1
<b>Total</b>		<b>1 186.0</b>	<b>1 176.8</b>	<b>1 429.2</b>	<b>1 470.2</b>

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

- Level 1: quoted (unadjusted) prices on active markets for similar 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 three procedures.

A gain of CHF 2.4 mn (loss CHF 3.7 mn) on available-for-sale financial assets was recognized in comprehensive income. Through sale or a depreciation in value a loss of CHF 2.4 mn (loss CHF 0.2 mn) was transferred from shareholders' equity to the income statement.

A net loss of CHF 20.1 mn (profit CHF 12.6 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 co-operation with the Group's operating units.

### TO SECURE OWN OBLIGATIONS, PLEDGED OR CEDED ASSETS (ENCUMBERED ASSETS)

in CHF mn	2008	2009
Receivables	1.7	1.9
Property, plant and equipment	1.3	1.4
<b>Total encumbered assets</b>	<b>3.0</b>	<b>3.3</b>

### OPEN DERIVATIVES

in CHF mn	Contractual value upon maturity				
	Replacement value		Contract value	Up to 3 months	3 to 12 months
(+)	(-)				
<b>Open derivatives 2008</b>					
Forward contracts (foreign exchange)	0.0	-1.9	54.2	54.2	0.0
Swaps (foreign exchange)	19.9	0.0	658.5	437.1	221.4
<b>Total derivatives</b>	<b>19.9</b>	<b>-1.9</b>	<b>712.7</b>	<b>491.3</b>	<b>221.4</b>
<b>Open derivatives 2009</b>					
Forward contracts (foreign exchange)	–	-0.1	13.4	3.1	10.3
Swaps (foreign exchange)	1.5	–	619.0	395.5	223.5
<b>Total derivatives</b>	<b>1.5</b>	<b>-0.1</b>	<b>632.4</b>	<b>398.6</b>	<b>233.8</b>

**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 the main instrument used to hedge foreign exchange risks. Gains and losses on foreign exchange hedges and assets or liabilities carried at fair value are recognized through profit or loss. The Group does not apply hedge accounting.

Sika carries out a sensitivity analysis for the dominant foreign currencies Euro and US Dollar. The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments, Group-internal 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	
	2008	2009
EUR: +5% (+5%)	-1.6	-0.5
EUR: -5% (-5%)	1.6	0.5
USD: +8% (+8%)	-6.5	-6.5
USD: -8% (-8%)	6.5	6.5

**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 had 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 2008 nor at year-end 2009. The largest possible risk represented by these items are the book value of the accounts and any warranties granted.

**Liquidity risk.** Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities (see Note 12). 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
<b>December 31, 2008</b>				
Bank loans	13.3	0.2	0.0	13.5
Bonds	20.7	592.6	271.5	884.8
Accounts payable	398.1	0.0	0.0	398.1
Other financial liabilities	0.1	1.3	3.2	4.6
<b>Financial liabilities measured at amortized cost</b>	<b>432.2</b>	<b>594.1</b>	<b>274.7</b>	<b>1 301.0</b>
Financial liabilities at fair value through profit and loss	1.9	0.0	0.0	1.9
<b>Total</b>	<b>434.1</b>	<b>594.1</b>	<b>274.7</b>	<b>1 302.9</b>
<b>December 31, 2009</b>				
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
<b>Financial liabilities measured at amortized cost</b>	<b>388.6</b>	<b>924.5</b>	<b>265.8</b>	<b>1 578.9</b>
Financial liabilities at fair value through profit and loss	0.1	0.0	0.0	0.1
<b>Total</b>	<b>388.7</b>	<b>924.5</b>	<b>265.8</b>	<b>1 579.0</b>

**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, 2009 and December 31, 2008. The Group monitors the equity ratio, which is shareholders equity divided by total capital.



**32 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	2008	2009
Raw material supply contracts <sup>1</sup>	209	159
Delivery contracts for finished goods <sup>1</sup>	513	370

<sup>1</sup> Contract runs until 2018, maximum

**Contingent liabilities.** 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%. As a result these risks are shown as contingent liabilities and are not contained in the consolidated financial statements.

in CHF mn	2008	2009
Guarantees and letters of comfort	30	28

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 within one year roughly one-third would be due, and the remainder within five years.

### 33 CASH FLOW ANALYSIS.

Compared to the prior year the cash flow in the year under review was characterized by:

- a lower consolidated net profit (CHF -57.7 mn)
- changes in net working capital (CHF +63.2 mn)
- a lower amount invested (CHF +69.2 mn)
- a bond issue (CHF +297.2 mn)

in CHF mn	2008	2009
Inflow (+)/outflow (-) from		
Operating activities	376.8	526.3
Investment activities	-287.3	-213.8
Financing activities	-187.4	172.0
Exchange differences	-21.9	-1.2
<b>Net change in cash and cash equivalents</b>	<b>-119.8</b>	<b>483.3</b>

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

in CHF mn	2008	2009
Cash flow from operating activities	376.8	526.3
Net investment in		
Property, plant and equipment	-172.8	-131.1
Intangible assets	-38.2	-26.5
Acquisitions less cash and cash equivalents	-74.6	-45.9
Acquisition of minority interests	-5.0	0.0
Capital increase at associated companies	0.0	-2.0
Acquisitions (-)/Disposals (+) of financial assets	3.3	-8.3
<b>Free cash flow</b>	<b>89.5</b>	<b>312.5</b>
Acquisitions/Disposals less cash and cash equivalents <sup>1</sup>	79.6	47.9
Acquisitions (+)/ Disposals (-) of financial assets	-3.3	8.3
<b>Operating free cash flow</b>	<b>165.8</b>	<b>368.7</b>

<sup>1</sup> incl. purchase of minority interests and share capital increases in associated companies

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

in CHF mn	2008	2009
Non-liquidity-related interest expenses/income	0.0	7.1
Non-liquidity-related financial expenses/income	-0.4	5.0
Profit/loss from disposals of PPE	-4.2	0.0
Other	-0.4	-1.6
<b>Total</b>	<b>-5.0</b>	<b>10.5</b>

### 34 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 16. From the acquisition of the Iotech Group companies were assigned to Regions Europe North, Europe South and North America. The acquired Jiangsu TMS Admixture Co. is assigned to Region Asia/Pacific.

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			2008			2009
	With third parties	With other segments	Total	With third parties	With other segments	Total
Europe North	1 735.9	111.8	1 847.7	1 474.8	86.5	1 561.3
Europe South	1 050.4	33.3	1 083.7	934.6	35.7	970.3
North America	656.8	15.4	672.2	602.3	17.1	619.4
Latin America	432.9	0.1	433.0	395.3	0.1	395.4
IMEA	257.7	1.9	259.6	263.6	1.0	264.6
Asia/Pacific	482.8	7.0	489.8	472.6	4.0	476.6
Central Services	8.0	–	8.0	11.7	–	11.7
Eliminations	–	-169.5	-169.5	–	-144.4	-144.4
<b>Consolidated net sales</b>	<b>4 624.5</b>	<b>–</b>	<b>4 624.5</b>	<b>4 154.9</b>	<b>–</b>	<b>4 154.9</b>
Products for construction industry			3 699.6			3 381.7
Products for industrial manufacturing			924.9			773.2

The first application of IFRS 8, Business Segments, affected segment reporting for business year 2008 in the following way:

- Companies generated net sales with third-party customers amounting to CHF 8.3 mn that is now attributed to Central Services. Prior to introduction of IFRS 8 this was attributed to Region Europe North.
- The internal business area Sika Supply Center (containing among others central factories) that was assigned to the two European Regions in 2008 is now attributed to Central Services. The net sales and the operating result of Central Services as well as of the Regions Europe North and Europe South were consequently adjusted. Due to this conversion the operating profit of Central Services is listed as CHF 18.5 mn lower, while correspondingly those of Europe North and South are respectively listed as CHF 7.9 mn and CHF 10.6 mn higher.

## SEGMENT INFORMATION

### CHANGES IN NET SALES

in CHF mn	2008	2009	Change compared to prior year (+/- in %)		
			In Swiss francs	In local currencies	Currency impact
<b>By Region</b>					
Europe North	1 735.9	1 474.8	-15.0	-8.8	-6.2
Europe South	1 050.4	934.6	-11.0	-4.0	-7.0
North America	656.8	602.3	-8.3	-7.7	-0.6
Latin America	432.9	395.3	-8.7	8.0	-16.7
IMEA	257.7	263.6	2.3	11.2	-8.9
Asia/Pacific	482.8	472.6	-2.1	-0.1	-2.0
Central Services	8.0	11.7	46.3	46.3	-
<b>Consolidated net sales</b>	<b>4 624.5</b>	<b>4 154.9</b>	<b>-10.2</b>	<b>-3.9</b>	<b>-6.3</b>
Products for construction industry	3 699.6	3 381.7	-8.6	-2.0	-6.6
Products for industrial manufacturing	924.9	773.2	-16.4	-11.3	-5.1

### PERFORMANCE FIGURES

in CHF mn	2008				2009			
	Operating profit before restructuring	Depreciation/ amortization	Impairment	Capital expenditures	Operating profit before restructuring	Depreciation/ amortization	Impairment excluding restructuring	Capital expenditures
Europe North	190.5	27.5	6.0	66.7	159.0	28.5	2.0	45.3
Europe South	144.8	15.0	0.0	21.4	136.4	19.2	0.2	16.8
North America	46.6	24.9	0.0	26.1	63.6	25.3	0.0	23.6
Latin America	59.0	6.3	0.0	25.6	56.7	6.2	0.0	7.7
IMEA	32.0	3.0	0.0	7.1	42.5	3.2	0.0	10.7
Asia/Pacific	31.6	11.6	0.0	19.5	54.3	12.6	0.6	10.8
Central Services	-82.5	39.8	0.0	63.9	-111.9	41.5	0.0	46.3
<b>Total</b>	<b>422.0</b>	<b>128.1</b>	<b>6.0</b>	<b>230.3</b>	<b>400.6</b>	<b>136.5</b>	<b>2.8</b>	<b>161.2</b>

### OPERATING PROFIT BEFORE RESTRUCTURING

in CHF mn	2008	2009	Change compared to prior year	
			(+/-)	(+/- in %)
<b>By Region</b>				
Europe North	190.5	159.0	-31.5	-16.5
Europe South	144.8	136.4	-8.4	-5.8
North America	46.6	63.6	17.0	36.5
Latin America	59.0	56.7	-2.3	-3.9
IMEA	32.0	42.5	10.5	32.8
Asia/Pacific	31.6	54.3	22.7	71.8
<b>Operating profit before restructuring</b>	<b>504.5</b>	<b>512.5</b>		
Share of Central Services	-82.5	-111.9	-29.4	-35.6
<b>Operating profit of the Group before restructuring</b>	<b>422.0</b>	<b>400.6</b>	<b>-21.4</b>	<b>-5.1</b>

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

in CHF mn

	Net sales				Non-current assets <sup>1</sup>			
	2008	%	2009	%	2008	%	2009	%
Switzerland	321.5	7.0	298.1	7.2	510.5	37.0	524.0	36.2
USA	587.1	12.7	529.2	12.7	218.2	15.8	213.2	14.7
Germany	640.2	13.8	549.0	13.2	168.8	12.2	152.7	10.5
All other	3 075.7	66.5	2 778.6	66.9	482.2	34.9	558.9	38.6
<b>Total</b>	<b>4 624.5</b>	<b>100.0</b>	<b>4 154.9</b>	<b>100.0</b>	<b>1 379.7</b>	<b>100.0</b>	<b>1 448.8</b>	<b>100.0</b>

<sup>1</sup> Non-current assets without financial instruments, deferred tax assets and post-employment benefit assets

**35 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, 2009, owned 54.1% of all voting shares, in part through the Schenker-Winkler Holding AG, Baar. Lone Pine Capital LLC, headquartered in Greenwich, Connecticut, held 5.0% of all voting shares on the balance sheet date.

**Associated companies.** In the year under review goods totaling CHF 10.5 mn (CHF 16.4 mn) were sold by the Sika Group to Sika Gulf B.S.C. Goods totaling CHF 10.1 mn (CHF 9.1 mn) were sold to Addiment Italia S.r.l. In addition deliveries were made by the Sika Group to other associated companies with a sum value of CHF 12.3 mn (CHF 9.8 mn).

**Employee benefit plans.** In Switzerland, employee benefit plans are handled through legally independent foundations, to which a total of CHF 18.9 mn (CHF 18.7 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 2009 amounted to CHF 0.5 mn (CHF 0.4 mn). No further major transactions were conducted with related parties.

**Members of the Board of Directors.** In the year under review CHF 0.3 mn (CHF 3.1 mn) was spent on property, plant and equipment, and CHF 0.6 mn (CHF 0.4 mn) on services from companies of two directors. These transactions were conducted at market conditions.

**36 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	2008	2009
Current benefits <sup>1</sup>	11.8	14.7
Pension fund contribution	1.3	1.5
<b>Total</b>	<b>13.0</b>	<b>16.2</b>

<sup>1</sup> Members of Group Management draw 20% or 40% of their salary in the form of shares. The allocation occurs at market values.

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 145).

**37 RELEASE OF FINANCIAL STATEMENTS FOR PUBLICATION.**

The Board of Directors of Sika AG approved the Consolidated Financial Statements for publication on February 26, 2010.

**38 EVENTS AFTER THE BALANCE SHEET DATE.**

Between December 31, 2009, and the approval of the presented Consolidated Financial Statements there were no major business-relevant occurrences.

**39 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 31 to the Consolidated Financial Statements.



## LIST OF GROUP COMPANIES

Country	Company	Capital stock in thousands	% holding	ISO 9001	ISO 14001
<b>Europe</b>					
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, 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 56 000	100		
	○ Sika Deutschland GmbH, Stuttgart	EUR 75	100	*	*
	○ Proxan Dichtstoffe GmbH, Greiz-Dölau	EUR 102	100		
	○ Sika Automotive GmbH, Hamburg	EUR 5 300	100	*	*
	○ Sika-Tocal GmbH, Troisdorf	EUR 3 835	100	*	
	○ Tricosal Bauabdichtungs GmbH, Illertissen	EUR 50	100		
Great Britain	○ Sika Ltd., Welwyn Garden City	GBP 10 000	100	*	*
	✦ Sarnafil Ltd., Bowthorpe	GBP 200	100		
	▲ Iotech Limited, Lancashire	GBP 100	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		
Kazakhstan	○ Sika Kazakhstan LLP, Almaty	CHF 200	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	*	*
Portugal	○ Sika Portugal – Produtos Construção e Indústria SA, Vila de Gaia	EUR 1 500	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

## LIST OF GROUP COMPANIES

Country	Company		Capital stock in thousands	% holding	ISO 9001	ISO 14001
<b>Europe</b>						
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, Zemun	EUR	373	100		
Slovakia	❖ Sika Slovensko spol. s.r.o., Bratislava	SKK	34 058	100	*	*
Slovenia	❖ Sika Slovenija d.o.o., Trzin	EUR	1 029	100	*	*
Spain	○ Sika SA, Alcobendas	EUR	19 867	100	*	
Sweden	○ Sika Sverige AB, Järfälla	SEK	10 000	100	*	*
Switzerland	○ Sika Schweiz AG, Zurich	CHF	52 000	100	*	*
	■ IGS Consorzio, Zurich	CHF	0	65		
	▲ Sika Services AG, Zurich	CHF	300	100	*	*
	▲ Sika Technology AG, Baar	CHF	300	100	*	*
	▲ Sika Informationssysteme AG, Widen	CHF	400	100		
	■ Sika Bau AG, Zurich	CHF	5 300	100	*	
	▲ Sarna Kunststoff Holding AG, Sarnen	CHF	2 400	100		
	○ 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	
<b>Africa, Near and Middle East</b>						
Algeria	□ Sika El Djazaïr, Eucalyptus Alger	EUR	38	100		
Bahrain	◊ ○ Sika Gulf B.S.C., Adliya	BHD	1 000	45	*	
Egypt	○ Sika Egypt for Construction, Chemicals S.A.E., Cairo	EGP	10 000	100	*	*
	○ Sika Manufacturing for Construction Products, S.A.E., Cairo	EGP	2 000	100	*	*
Iran	❖ Sika Parsian P.J.S. Co., Tehran	IRR mn	3 000	100		
Lebanon	○ Sika Near East SAL, Sin El-Fil, Jisr El-Bacha	LBP	400	100		
Mauritius	○ Sika Mauritius Ltd., Plaine Lauzun	MUR	2 600	100		
Morocco	○ Sika Maroc SA, Casablanca	MAD	5 000	100	*	*
Saudi Arabia	◊ Sika Saudi Arabia LLC, Jeddah	SAR	15 000	45		
South Africa	○ Sika South Africa (Pty) Ltd., Pinetown	ZAR	25 000	100	*	*
Tunisia	□ Sika Tunisienne Sàrl, Douar Hicher	TND	150	86	*	*
UAE	❖ Sika UAE LLC, Dubai	AED	300	66		
	❖ Sika FZCO, Dubai	AED	500	80		
<b>North America</b>						
Canada	○ Sika Canada Inc., Pointe Claire / QC	CAD	5 600	100	*	*
USA	○ Sika Corporation, Lyndhurst / NJ	USD	72 710	100	*	*
	○ Liquid Plastics Inc., Middletown / CT	USD	0	100	*	*
	○ Incorez Corporation, Middletown / CT	USD	0	100	*	*
	▲ Iotech Properties Inc., Middletown / CT	USD	0	100		
<b>Latin America</b>						
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	1 382	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	VEB mn	3 398	100	*	*

## LIST OF GROUP COMPANIES

Country	Company		Capital stock in thousands	% holding	ISO 9001	ISO 14001
<b>Asia/Pacific</b>						
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 Jiangsu	USD	35 000	100	*	*
	✦ Sika (Guangzhou) Trading Company Ltd., Guangzhou	CNY	3 723	100		
	○ Sarnafil Waterproofing Systems, (Shanghai) Ltd., Shanghai	USD	10 000	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		
	▲ Suzhou Sika Technology Co. Ltd., Suzhou	CNY	10 000	100		
Hong Kong	○ Sika Hongkong Ltd., Shatin N.T.	HKD	30 000	100	*	*
India	○ Sika India Private Ltd., Kolkata	INR	45 000	100	*	
Indonesia	○ P.T. Sika Indonesia, Bogor	IDR mn	3 282	100	*	*
Japan	○ Sika Ltd., Hiratsuka-Shi, Kangawa	JPY	490 000	100	*	*
Korea	○ Sika Korea Ltd., Anyang-Si Kyunggi-Do	KRW mn	5 596	100	*	*
Malaysia	○ Sika Kimia Sdn. Bhd., Nilai	MYR	5 000	100	*	*
	▲ Sika Harta Sdn. Bhd., Nilai	MYR	10 000	100		
New Zealand	○ Sika (NZ) Ltd., Auckland	NZD	1 100	100	*	*
Philippines	○ Sika Philippines Inc., Manila	PHP	56 000	100	*	*
Singapore	✦ Sika (Singapore) Pte. Ltd., Singapore	SGD	400	100	*	
	▲ Sika Asia Pacific Mgt. Pte. Ltd., Singapore	SGD	100	100		
Taiwan	○ Sika Taiwan Ltd., Taoyuan County	TWD	40 000	100	*	*
Thailand	○ Sika (Thailand) Ltd., Cholburi	THB	200 000	100	*	*
Vietnam	○ Sika Limited (Vietnam), Dong Nai Province	VND mn	44 190	100	*	*

□ 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

**REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS.** As statutory auditor, we have audited the accompanying 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 76 to 128) for the year ended on December 31, 2009.

**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, 2009 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 26, 2010

Ernst & Young Ltd



Edgar Christen  
Licensed audit expert  
(Auditor in charge)



Bernadette Koch  
Licensed audit expert

**FIVE-YEAR REVIEWS**
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31**

in CHF mn		2005	2006	2007	2008	2009
<b>Balance sheet total</b>	<b>a</b>	<b>2 610</b>	<b>3 064</b>	<b>3 318</b>	<b>3 209</b>	<b>3 629</b>
<b>Current assets</b>	<b>b</b>	<b>1 293</b>	<b>1 743</b>	<b>1 916</b>	<b>1 744</b>	<b>2 094</b>
Cash, cash equivalents and securities		168	434	444	321	811
Accounts receivable	c	692	790	861	779	739
Inventories	d	371	413	500	513	451
Other current assets		62	106	111	131	92
<b>Non-current assets</b>	<b>e</b>	<b>1 317</b>	<b>1 317</b>	<b>1 402</b>	<b>1 466</b>	<b>1 535</b>
Property, plant and equipment		748	764	831	833	862
Financial assets		8	10	34	27	34
Intangible assets		495	486	463	525	562
Other non-current assets <sup>1</sup>		66	57	74	81	78
<b>Assets held for sale</b>		<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current liabilities</b>	<b>f</b>	<b>1 201</b>	<b>713</b>	<b>742</b>	<b>685</b>	<b>666</b>
Short-term debt <sup>2</sup>		624	38	17	13	2
Accounts payable	g	344	387	439	398	355
Other current liabilities		233	288	286	274	309
<b>Non-current liabilities</b>		<b>313</b>	<b>1 076</b>	<b>1 101</b>	<b>1 060</b>	<b>1 370</b>
Long-term debt <sup>3</sup>		24	20	11	5	7
Provisions, employee benefit liabilities <sup>4</sup>		220	237	266	221	233
Deferred taxes		69	54	57	66	63
Bonds		0	765	767	768	1 067
<b>Shareholders' equity</b>	<b>h</b>	<b>1 096</b>	<b>1 274</b>	<b>1 475</b>	<b>1 465</b>	<b>1 593</b>
Capital stock		72	23	23	23	23
Capital surplus		256	256	256	256	256
Treasury shares		-2	-2	-65	-118	-106
Currency translation differences		-110	-118	-116	-225	-224
Fluctuations in value of financial instruments		-2	-1	-1	-5	0
Retained earnings		873	1 105	1 375	1 530	1 640
Minority interests		9	11	3	3	5

<sup>1</sup> Employee benefit assets, other non-current assets, deferred taxes

<sup>2</sup> Bank loans and long-term debts with a maturity within the next 12 months.

<sup>3</sup> Bank loans, mortgages and other long-term debt.

<sup>4</sup> "Provisions with a reversal within 12 months" are posted under current liabilities.

**CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31**

in CHF mn	2005	2006	2007	2008	2009
<b>Net sales</b>	<b>2 917</b>	<b>3 896</b>	<b>4 573</b>	<b>4 625</b>	<b>4 155</b>
<b>Operating revenue</b>	<b>2 924</b>	<b>3 910</b>	<b>4 573</b>	<b>4 642</b>	<b>4 146</b>
Material expenses	1 298	1 809	2 137	2 251	1 851
<b>Gross result</b>	<b>1 626</b>	<b>2 101</b>	<b>2 436</b>	<b>2 391</b>	<b>2 295</b>
Personnel expenses	687	845	926	958	954
Other operating expenses	587	741	872	877	801
<b>Operating profit before depreciation and restructuring</b>	<b>352</b>	<b>515</b>	<b>638</b>	<b>556</b>	<b>540</b>
Depreciation / amortization / impairment	107	143	127	134	139
<b>Operating profit before restructuring</b> i	<b>245</b>	<b>371</b>	<b>511</b>	<b>422</b>	<b>401</b>
Restructuring	0	0	0	0	57
<b>Operating profit</b>	<b>245</b>	<b>371</b>	<b>511</b>	<b>422</b>	<b>344</b>
Interest income / expense	5	18	22	21	24
Financial income / expense	6	19	9	28	4
<b>Net profit before taxes</b>	<b>234</b>	<b>334</b>	<b>480</b>	<b>373</b>	<b>316</b>
Income taxes	79	99	138	106	90
<b>Net profit</b>	<b>155</b>	<b>235</b>	<b>342</b>	<b>267</b>	<b>226</b>
Free cash flow	-249	146	183	90	313
Gross result as % of net sales	55.7	53.9	53.3	51.7	55.2
Operating profit (EBIT) as % of net sales	8.4	9.5	11.2	9.1	9.6
Consolidated net profit as % of net sales (ROS)	5.3	6.0	7.5	5.8	5.4
Consolidated net profit as % of shareholders' equity (ROE)	14.1	18.4	23.2	18.3	14.2

**KEY BALANCE SHEET DATA**

in CHF mn	Calculation	2005	2006	2007	2008	2009
Net working capital	(c+d-g)	719	816	922	893	835
Net working capital as % of net sales		25	21	20	19	20
Non-current assets as % of balance sheet total	(e : a)	50	43	42	46	42
Shareholders' equity as % of non-current assets	(h : e)	83	97	105	100	104
Net debt <sup>1</sup>	j	480	389	352	465	265
Gearing in %	(j : h)	44	31	24	32	17
Equity ratio in %	(h : a)	42	42	44	46	44

<sup>1</sup> 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 <sup>1</sup>	2005	2006	2007	2008	2009
Capital employed <sup>1</sup>		1 792	1 884	2 041	2 109	2 041
Annual average of capital employed	k	1 459	1 838	1 963	2 075	2 075
Operating profit before restructuring	i	245	371	511	422	401
Return on capital employed (ROCE) in %	(i :k)	17	20	26	20	19

<sup>1</sup> Capital employed=Operating assets./.cash./.non interest bearing current liabilities

## SEGMENT INFORMATION

in CHF mn	Europe North					Europe South				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Net sales	1 106	1 439	1 713	1 736	1 475	846	947	1 101	1 050	935
Operating profit before restructuring	114	155	228	191	159	90	127	168	145	136
in % of net sales	10.3	10.8	13.3	11.0	10.8	10.6	13.4	15.3	13.8	14.6
Depreciation / amortization	31	49	50	28	29	19	21	21	15	19
Impairment	0	6	-1	6	2	7	0	0	0	0
Capital expenditures	37	39	78	67	45	26	17	27	21	17

in CHF mn	IMEA					Asia/Pacific				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Net sales		164	223	258	264	354	407	478	483	473
Operating profit before restructuring		20	29	32	43	29	36	43	32	54
in % of net sales		12.2	13.0	12.4	16.1	8.2	8.8	9.0	6.5	11.5
Depreciation / amortization		2	2	3	3	9	10	13	12	13
Impairment		1	-1	0	0	9	3	1	0	1
Capital expenditures		7	12	7	11	13	23	21	20	11

The Region IMEA encompasses India, the Middle East and the eastern countries of Africa (see also the world map on page 16). 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				
2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
376	637	681	657	602	235	302	377	433	395
19	45	64	47	64	29	35	50	59	57
5.1	7.1	9.4	7.1	10.6	12.3	11.6	13.3	13.6	14.3
18	30	26	25	25	5	6	6	6	6
3	1	0	0	0	0	0	0	0	0
15	36	28	26	24	8	9	12	26	8
Central Services					Total				
2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
			8	12	2 917	3 896	4 573	4 625	4 156
-36	-48	-71	-83	-112	245	371	511	422	401
					8.4	9.5	11.2	9.1	9.6
6	10	10	40	42	88	128	128	128	137
0	0	0	0	0	19	11	-1	6	3
17	8	8	64	46	116	139	186	230	161

## EMPLOYEES

	2005	2006	2007	2008	2009
<b>Employees by region (as of December 31)</b>					
<b>Europe North</b>	<b>3 417</b>	<b>4 151</b>	<b>4 248</b>	<b>4 741</b>	<b>4 417</b>
Switzerland	1 333	1 773	1 792	2 036	1 900
Germany	1 167	1 375	1 302	1 422	1 336
<b>Europe South</b>	<b>1 709</b>	<b>1 869</b>	<b>1 922</b>	<b>1 994</b>	<b>2 108</b>
France	643	651	664	685	617
<b>North America</b>	<b>1 099</b>	<b>1 330</b>	<b>1 319</b>	<b>1 358</b>	<b>1 163</b>
USA	983	1 192	1 155	1 180	991
<b>Latin America</b>	<b>1 248</b>	<b>1 365</b>	<b>1 539</b>	<b>1 729</b>	<b>1 561</b>
Brazil	159	169	188	209	220
<b>IMEA</b>	<b>465</b>	<b>496</b>	<b>789</b>	<b>873</b>	<b>892</b>
<b>Asia/Pacific</b>	<b>1 764</b>	<b>2 098</b>	<b>1 906</b>	<b>2 205</b>	<b>2 228</b>
Japan	239	210	211	212	197
<b>Total</b>	<b>9 702</b>	<b>11 309</b>	<b>11 723</b>	<b>12 900</b>	<b>12 369</b>
<b>Personnel expenses (in CHF mn)</b>					
Wages and salaries	548	678	746	780	769
Social charges, other	138	167	180	178	185
<b>Total personnel expenses</b>	<b>686</b>	<b>845</b>	<b>926</b>	<b>958</b>	<b>954</b>
Personnel expenses as % of net sales	24	22	20	21	23
<b>Key data per employee (in CHF 1 000)</b>					
Net sales	308	352	397	376	329
Net value-added <sup>1</sup>	98	110	125	112	103

<sup>1</sup> See next page, Five-year reviews, Value-Added Statement

## VALUE-ADDED STATEMENT

in CHF mn	2005	2006	2007	2008	2009
<b>Source of value-added</b>					
Corporate performance (net sales)	2 917	3 896	4 573	4 625	4 155
Intermediate inputs	-1 873	-2 524	-2 982	-3 132	-2 676
<b>Gross value-added</b>	<b>1 044</b>	<b>1 372</b>	<b>1 591</b>	<b>1 493</b>	<b>1 479</b>
Expenses not affecting liquidity					
Depreciation and amortization	-108	-143	-127	-134	-139
Change in provisions	-5	-12	-27	21	-42
<b>Net value-added</b>	<b>931</b>	<b>1 217</b>	<b>1 437</b>	<b>1 380</b>	<b>1 298</b>
<b>Distribution of value-added</b>					
To employees					
Wages and salaries	548	678	746	780	769
Social charges	138	167	180	178	185
To governments (capital and income taxes)	79	99	138	106	90
To lenders (financial expenses)	11	38	31	49	28
To shareholders (dividend payout, incl. minority interests)	43	49	79	112	112
To the company					
Net profit for the year	155	235	342	267	226
Less dividend payout	-43	-49	-79	-112	-112
<b>Net value-added</b>	<b>931</b>	<b>1 217</b>	<b>1 437</b>	<b>1 380</b>	<b>1 298</b>
<b>Number of employees</b>					
End of year	9 702	11 309	11 723	12 900	12 369
Annual average	9 460	11 080	11 516	12 312	12 635
<b>Net value-added per employee (in CHF 1 000)</b>	<b>98</b>	<b>110</b>	<b>125</b>	<b>112</b>	<b>103</b>

### Net value-added 2009

Intermediate inputs	64.4%	(67.7%)
Non-liquidity-related expenses	4.4%	(2.4%)
<b>Net value-added</b>	<b>31.2%</b>	<b>(29.8%)</b>

### Distribution of value-added = 100%

Employees	73.5%	(69.4%)
Company	26.0%	(27.4%)
Government	6.9%	(7.7%)
Shareholders	8.6%	(8.1%)
Lenders	2.2%	(3.6%)

**SIKA AG FINANCIAL STATEMENTS**
**SIKA AG BALANCE SHEET AS OF DECEMBER 31**
**ASSETS**

in CHF mn	Notes	2008	2009
<b>Current assets</b>			
Cash in bank	1	169.8	674.8
Securities	2	2.7	7.3
Accounts receivable from subsidiaries	3	856.4	765.5
Accounts receivable from third parties	3	8.9	10.1
Treasury shares	4	55.4	50.1
Accrued income		0.1	0.5
<b>Total current assets</b>		<b>1 093.3</b>	<b>1 508.3</b>
<b>Non-current assets</b>			
Furnishings	5	0.0	0.0
Trademark licenses	6	1.8	1.3
Investments	7	1 005.7	1 031.4
Long-term loans and other non-current assets	8	9.9	10.1
<b>Total non-current assets</b>		<b>1 017.4</b>	<b>1 042.8</b>
<b>Total assets</b>		<b>2 110.7</b>	<b>2 551.1</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

in CHF mn	Notes	2008	2009
<b>Liabilities</b>			
Accounts payable to subsidiaries	9	31.7	35.8
Accounts payable to third parties	9	3.0	4.5
Deferred income	10	14.0	38.4
<b>Total current liabilities</b>		<b>48.7</b>	<b>78.7</b>
Bonds	11	775.0	1 075.0
Provisions for risks related to investments	12	60.1	70.1
<b>Total non-current liabilities</b>		<b>835.1</b>	<b>1 145.1</b>
<b>Total liabilities</b>		<b>883.8</b>	<b>1 223.8</b>
<b>Shareholders' equity</b>			
Capital stock	13	22.9	22.9
Legal reserve		113.4	113.4
Reserve for treasury shares		117.6	106.3
Free reserves		4.0	15.3
<b>Total reserves</b>	14	<b>235.0</b>	<b>235.0</b>
Profit brought forward		734.8	857.2
Net profit for the year		234.2	212.2
<b>Retained earnings</b>	15	<b>969.0</b>	<b>1 069.4</b>
<b>Total shareholders' equity</b>	16	<b>1 226.9</b>	<b>1 327.3</b>
<b>Total liabilities and shareholders' equity</b>		<b>2 110.7</b>	<b>2 551.1</b>

**SIKA AG INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31**

in CHF mn	Notes	2008	2009
<b>Income</b>			
Income from subsidiaries	17	277.3	203.4
Financial income	18	54.5	52.0
Trademark licenses	19	36.3	31.6
Other income		0.2	1.3
<b>Total income</b>		<b>368.3</b>	<b>288.3</b>
<b>Expenses</b>			
Administrative expenses	20	14.4	13.7
Financial expenses	21	113.4	37.4
Taxes	22	0.1	1.3
Depreciation / change in provisions	23	2.1	20.5
Other expenses	24	4.1	3.2
<b>Total expenses</b>		<b>134.1</b>	<b>76.1</b>
<b>Net profit for the year</b>		<b>234.2</b>	<b>212.2</b>

**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 5-year syndicated credit line established February 20, 2003, to November 15, 2010, increasing it from CHF 350 mn to CHF 450 mn.

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

**1 CASH IN BANK.** CHF 674.8 mn (CHF 169.8 mn)

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

in CHF mn	2008	2009
Swiss francs (CHF)	169.7	674.7
Foreign currencies	0.1	0.1
<b>Total cash in banks</b>	<b>169.8</b>	<b>674.8</b>

**2 SECURITIES.** CHF 7.3 mn (CHF 2.7 mn)

The increased value of shares resulted from the purchase of shares for CHF 4.0 mn as well as stock price gains during the year under review. The portfolio is available for sale.

### 3 ACCOUNTS RECEIVABLE FROM SUBSIDIARIES AND THIRD PARTIES.

Total of accounts receivable amounts to CHF 775.6 mn (CHF 865.3 mn). Receivables consist mainly of CHF 750.9 mn (CHF 831.2 mn) in loans to subsidiaries. These loans constitute part of the Group-wide cash management concept. Due to positive development of liquidity subsidiaries reduced their loans.

in CHF mn	2008	2009
Europe North	174.4	110.4
Europe South	142.8	146.7
North America	180.7	124.8
Latin America	13.7	10.3
IMEA	28.8	41.2
Asia/Pacific	102.2	92.9
Corporate	188.6	224.6
<b>Total loans</b>	<b>831.2</b>	<b>750.9</b>

Data from the previous year was adjusted due to the first application of IFRS 8.

Sika AG has additional receivables of CHF 14.6 mn (CHF 25.0 mn) due from Sika subsidiaries on open accounts.

Receivables from third parties of CHF 10.1 mn (CHF 8.9 mn) include CHF 0.3 mn (CHF 0.5 mn) in credits from the Swiss tax authorities, CHF 1.7 mn (CHF 0) from an insurance company and CHF 8.1 mn (CHF 8.3 mn) due from the associated company Sika Gulf.

### 4 TREASURY SHARES. CHF 50.1 mn (CHF 55.4 mn)

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

in CHF mn	Bearer shares nominal value CHF 9.00		Registered shares nominal value CHF 1.50		Total
	Units	Units	Units	Units	
<b>As of December 31, 2007</b>	<b>34 020</b>	<b>66.1</b>	<b>0</b>	<b>0.0</b>	<b>66.1</b>
Reductions	-767	-1.5	0	0.0	-1.5
Additions	28 255	53.4	0	0.0	53.4
Valuation adjustment	–	-62.6	–	0.0	-62.6
<b>As of December 31, 2008</b>	<b>61 508</b>	<b>55.4</b>	<b>0</b>	<b>0.0</b>	<b>55.4</b>
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
<b>As of December 31, 2009</b>	<b>55 627</b>	<b>50.1</b>	<b>0</b>	<b>0.0</b>	<b>50.1</b>

**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 1.3 mn (CHF 1.8 mn)

Capitalized trademark licenses are amortized over their useful life.

**7 INVESTMENTS.** CHF 1 031.4 mn (CHF 1 005.7 mn)

In Region Europe South Sika acquired the Iotech Group Ltd. at a value of CHF 49.6 million. Capital increases amounting to CHF 28.0 million were undertaken in various Regions. In Europe North and Latin America capital reductions took place amounting to CHF 51.8 million. Major participations are indicated in the List of Group Companies beginning on page 125.

**CHANGES IN INVESTMENTS**

in CHF mn	2008	2009
<b>As of January 1</b>	<b>981.7</b>	<b>1 005.7</b>
Europe North	-2.0	-27.2
Europe South	0.0	46.9
North America	0.0	0.0
Latin America	0.0	-0.1
IMEA	12.6	0.0
Asia/Pacific	13.4	3.5
Corporate	0.0	2.6
<b>Total net</b>	<b>24.0</b>	<b>25.7</b>
<b>As of December 31</b>	<b>1 005.7</b>	<b>1 031.4</b>

**8 LOANS AND OTHER NON-CURRENT ASSETS.** CHF 10.1 mn (CHF 9.9 mn)

Long-term loans of CHF 2.3 mn consist of shareholders' loans to Sika Argentina SAIC, Argentina, and to a third party company. Other non-current assets contain capitalized bond issuance costs as well as premiums for issued bonds.

**9 ACCOUNTS PAYABLE TO SUBSIDIARIES AND THIRD PARTIES.** CHF 40.3 mn (CHF 34.7 mn)

The total includes CHF 35.8 mn (CHF 31.7 mn) in liabilities to Sika subsidiaries, resulting from the worldwide cash management concept. The remaining liabilities of CHF 4.5 mn (CHF 3.0 mn) consist of accounts payable to third parties.



**10 DEFERRED INCOME.** CHF 38.4 mn (CHF 14.0 mn)

Deferred income includes pro-rata interest of CHF 18.1 mn (CHF 12.1 mn), unrealized foreign exchange gains on Group loans of CHF 18.1 Mio. (CHF 0), as well as other accrued expenses of CHF 2.2 mn (CHF 1.9 mn).

**11 BONDS.** CHF 1 075.0 mn (CHF 775.0 mn)

In 2006 three bonds were issued to finance the acquisition of Sarna Polymer Holding Inc. as well as Group growth, and in 2009 another bond was issued for long-term, general financing of the company.

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 70.1 mn (CHF 60.1 mn)

Provisions for risks related to investments were increased by CHF 10.0 mn to CHF 40.0 mn. They relate to the economical, financial and political risks of a globally operating company. Provisions to cover credit risks of Group loans were left unchanged at CHF 30.1 mn.

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

On December 31, 2009, the company had 52 (56) registered shareholders. Information regarding major shareholders can be found on page 124.

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

The capital stock consists of:

	<b>Bearer shares<sup>1</sup></b> <b>nominal value CHF 9.00</b>	<b>Registered shares<sup>1</sup></b> <b>nominal value CHF 1.50</b>	<b>Total<sup>1</sup></b>
12/31/2008 (units)	2 151 199	2 333 874	4 485 073
Nominal value (CHF)	19 360 791	3 500 811	22 861 602
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

<sup>1</sup> 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	2008	2009
General statutory reserve	113.4	113.4
Reserve for treasury shares	117.6	106.3
Free reserve	4.0	15.3
<b>Total</b>	<b>235.0</b>	<b>235.0</b>

**15 RETAINED EARNINGS.** CHF 1069.4 mn (CHF 969.0 mn)

Net profit of the year reflects the regular business activities. A dividend of CHF 111.7 mn for the business year 2008 was distributed to shareholders in April 2009.

in CHF mn	2008	2009
Profit brought forward	734.8	857.2
Net profit for the year	234.2	212.2
<b>Retained earnings</b>	<b>969.0</b>	<b>1 069.4</b>

**16 SHAREHOLDERS' EQUITY.** CHF 1 327.3 mn (CHF 1 226.9 mn)

Shareholders' equity lies above the level of the prior year. The ratio of shareholders' equity to balance sheet total decreased from 58.1% to 52.0%.

**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 the Sarna Kunststoffbeteiligungs GmbH, Stuttgart, Germany. 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.

in CHF mn	2008	2009
<b>Letters of guarantee</b>		
Issued	160.7	152.6
Used	9.1	9.1
<b>Letters of comfort</b>		
Issued	5.4	8.0
Used	2.8	0.1
<b>Credit lines to subsidiaries</b>		
Used	1.5	0.8

**17 INCOME FROM ASSOCIATED COMPANIES.** CHF 203.4 mn (CHF 277.3 mn)

Income from subsidiaries includes dividend distributions.

**18 FINANCIAL INCOME.** CHF 52.0 mn (CHF 54.5 mn)

Financial income includes interest income and gains from foreign exchange transactions.

Financial income consists of:

in CHF mn	2008	2009
Interest income from		
subsidiaries	50.6	45.6
banks	1.4	0.8
Income from securities	0.1	0.0
Gains from securities and foreign exchange	2.4	4.9
Valuation adjustments to securities	0.0	0.6
Other income	0.0	0.1
<b>Total</b>	<b>54.5</b>	<b>52.0</b>

**19 TRADEMARK LICENSES.** CHF 31.6 mn (CHF 36.3 mn)

Income from trademark licenses reflects business development in 2009.

**20 ADMINISTRATIVE EXPENSES.** CHF 13.7 mn (CHF 14.4 mn)

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

**21 FINANCIAL EXPENSES.** CHF 37.4 mn (CHF 113.4 mn)

Financial expenses include the cost of interest on loans and similar expenses 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 which decreased in 2009. The difference to the prior year is due moreover to the one-time value adjustment of treasury shares of CHF 62.6 million.

Financial expenses consist of:

in CHF mn	2008	2009
Loan and bank interest	22.5	28.6
Interest paid to local companies	1.1	0.9
Coupon redemption expenses	0.2	0.2
Bank fees	0.6	0.4
Fees for syndicated credit line	0.3	0.3
Valuation adjustments to securities and treasury shares	64.7	0.0
Foreign exchange losses from foreign currencies, securities, hedges	24.0	7.0
<b>Total</b>	<b>113.4</b>	<b>37.4</b>

**22 TAXES.** CHF 1.3 mn (CHF 0.1 mn)

Tax expenses include the required tax provisions for the year under review.

**23 DEPRECIATION/CHANGE IN PROVISIONS.** CHF 20.5 mn (CHF 2.1 mn)

The provision for participations was increased by CHF 10.0 million. Due to the capital reduction in Sika Holding GmbH, Stuttgart, Germany, CHF 6.2 million were written off. A loan of CHF 3.5 million to Sarna Immobilien AG, Buochs, Switzerland, was written off; the company merged as of January 1, 2009, with Sika Sarnafil Manufacturing AG, Sarnen, Switzerland. A short-term provision of CHF 0.3 million was established for a foreign tax claim. Trademark licenses were depreciated as is customary.

in CHF mn	2008	2009
Current provisions	0.0	0.3
Depreciation/provisions of investments	1.3	19.7
Trademark licenses	0.8	0.5
<b>Total</b>	<b>2.1</b>	<b>20.5</b>

**24 OTHER EXPENSES.** CHF 3.2 mn (CHF 4.1 mn)

This item consists of:

- Non-recoverable withholding taxes: CHF 2.5 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 2009 (2008):

in 1 000 CHF	Walter Gruebler Chairman		Thomas W. Bechtler <sup>2</sup> Vice Chairman		Urs F. Burkard <sup>3</sup>		Urs B. Rinderknecht <sup>4</sup>		Toni Rusch	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
<b>Cash</b>										
Fix fees	170.0	168.6	150.0	149.1	120.0	118.9	120.0	119.8	130.0	128.7
Fix salary	396.2	394.9								
Variable salary portion <sup>1</sup>	344.2	339.9								
Other expenses	41.4	41.4	25.0	22.5	22.0	20.0	22.0	16.0	22.0	24.0
<b>Payments in kind</b>					<b>5.8</b>	<b>5.8</b>				
<b>Benefit obligations</b>										
Social security contributions	14.9	9.0	16.8	10.5	14.1	8.7		2.2	14.3	9.4
Management insurance	55.3	55.3								
Benefit plan										
<b>Total</b>	<b>1 022.0</b>	<b>1 009.1</b>	<b>191.8</b>	<b>182.1</b>	<b>161.9</b>	<b>153.4</b>	<b>142.0</b>	<b>138.0</b>	<b>166.3</b>	<b>162.1</b>

in 1 000 CHF	Daniel J. Sauter		Fritz Studer		Ulrich W. Suter		Christoph Tobler		Total	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
<b>Cash</b>										
Fix fees	120.0	118.8	120.0	117.4	120.0	119.0	120.0	119.2	1 170.0	1 159.5
Fix salary									396.2	394.9
Variable salary portion <sup>1</sup>									344.2	339.9
Other expenses	20.0	20.0	10.0	20.0	17.0	19.0	16.0	14.0	195.4	196.9
<b>Payments in kind</b>									<b>5.8</b>	<b>5.8</b>
<b>Benefit obligations</b>										
Social security contributions	14.0	8.7	10.4	7.3	14.1	8.7	14.0	8.4	112.6	72.9
Management insurance									55.3	55.3
Benefit plan									0.0	0.0
<b>Total</b>	<b>154.0</b>	<b>147.5</b>	<b>140.4</b>	<b>144.7</b>	<b>151.1</b>	<b>146.7</b>	<b>150.0</b>	<b>141.6</b>	<b>2 279.5</b>	<b>2 225.2</b>

<sup>1</sup> 20% or 40% has to be drawn in the form of shares. The allocation occurs at market values.

<sup>2</sup> In the reporting year 2009 CHF 0.6 mn (CHF 0.4 mn) was paid for services to a company associated with T. Bechtler.

<sup>3</sup> In the reporting year 2009 CHF 0.3 mn (CHF 3.1 mn) was paid for equipment to a company owned by U. Burkard.

<sup>4</sup> Remuneration of U. Rinderknecht is paid to UBS AG.

No member of the Board of Directors was granted a loan during the business year. No loans were outstanding at the end of the year under review. No compensation was paid in 2009 to Paul Hälg, a member of the Board of Directors since April 2009.

**26 REMUNERATION OF GROUP MANAGEMENT.**

For the business years listed the Group Management is entitled to the following remuneration:

in 1 000 CHF	Ernst Bärtschi CEO		Total	
	2008	2009	2008	2009
<b>Cash</b>				
Fix salary	806.1	908.0	5 562.0	7 036.0
Variable salary portion <sup>1</sup>	679.7	820.5	3 379.2	4 625.5
Other expenses	45.6	45.6	402.6	408.4
<b>Payments in kind</b>	<b>0.0</b>	<b>0.0</b>	<b>319.5</b>	<b>494.4</b>
<b>Benefit obligations</b>				
Management insurance	182.8	227.0	965.0	1 294.8
Benefit plan	14.0	12.7	129.8	120.8
<b>Total</b>	<b>1 728.2</b>	<b>2 013.8</b>	<b>10 758.1</b>	<b>13 979.9</b>

<sup>1</sup> 20% or 40% has to be drawn in the form of shares. The allocation occurs at market values.

The greater remuneration of Group Management results essentially from the expansion of Group Management by two members and from additional salaries consequential to the foreign delegation of two members of Group Management.

All bonuses shown are accrued and pertain to entitlements acquired in 2009 that will be paid out in 2010. The entitlements are subject to the Nomination and Compensation Committee, which will decide upon them following approval of the Consolidated Financial Statements.

**Payments to former executives and directors.** In the year under review compensation in the amount of TCHF 702.8 (TCHF 1 674.4) was paid to former members of Group Management. This included TCHF 503.8 (TCHF 648.2) fix salary, bonuses in the amount of TCHF 185.8 (TCHF 451.6) and expenses of TCHF 13.2 (TCHF 28.3).

## 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)	
	2008	2009	2008	2009
<b>Board of Directors</b>				
Walter Gruebler, Chairman	1 886	2 046	0	0
Thomas W. Bechtler, Vice Chairman	221	238	0	0
Urs F. Burkard <sup>1</sup>	2 800	1 050	0	0
Paul Hälg	0	0	0	0
Urs B. Rinderknecht	1 000	1 000	540	0
Daniel J. Sauter	2 487	1 487	0	0
Fritz Studer	20	20	0	0
Ulrich W. Suter	0	0	0	0
Christoph Tobler	400	260	0	0
<b>Group Management</b>				
Ernst Bärtschi, CEO	1 134	1 019	0	0
Silvio Ponti, deputy CEO	312	425	0	0
Alexander Bleibler	422	584	0	0
Iven Chadwick	0	54	0	0
Bruno Fritsche	34	63	0	0
Christoph Ganz	58	58	0	0
Jan Jenisch	320	263	0	0
Peter Kresner	90	133	0	0
Urs Mäder	119	168	0	0
Hubert Perrin de Brichambaut	0	0		
Ernesto Schümperli	88	108	0	0
Paul Schuler	146	197	0	0
Ronald Trächsel	29	241	0	0
José Luis Vasquez	470	411	0	0
<b>Total</b>	<b>12 279</b>	<b>9 825</b>	<b>540</b>	<b>0</b>

<sup>1</sup> Urs. F. Burkard also has an interest in the Schenker-Winkler Holding, which holds 2 408 062 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 31 to the Consolidated 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	2008	2009
<b>Composition of retained earnings</b>		
Net profit for the year	234.2	212.2
Profit brought forward	734.8	857.2
<b>Retained earnings</b>	<b>969.0</b>	<b>1 069.4</b>
Allocation to general statutory reserve <sup>1</sup>	0.0	0.0
Allocation to free reserve	0.0	0.0
<b>Dividend payment</b>		
Dividend payment <sup>2</sup>	111.7	111.8
Balance to be carried forward <sup>3</sup>	857.2	957.6
<b>Total</b>	<b>969.0</b>	<b>1 069.4</b>

<sup>1</sup> As the general statutory reserve currently exceeds 20% of capital stock, this allocation was waived.

<sup>2</sup> Dividend payment for shares entitled to dividends (without treasury shares as per December 31, 2009).

<sup>3</sup> Rounding difference CHF 0.1 mn

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

in CHF	2008	2009
<b>Bearer share<sup>1</sup> nominal value CHF 9.00</b>		
Gross dividend	45.00	45.00
35% withholding tax on gross dividend	-15.75	-15.75
<b>Net dividend</b>	<b>29.25</b>	<b>29.25</b>
<b>Registered share<sup>1</sup> nominal value CHF 1.50</b>		
Gross dividend	7.50	7.50
35% withholding tax on gross dividend	-2.63	-2.63
<b>Net dividend</b>	<b>4.87</b>	<b>4.87</b>

<sup>1</sup> Registered and bearer shares held by Sika AG are non-voting shares and do not qualify for a dividend.

Payment is tentatively scheduled for Tuesday, April 27, 2010, upon presentation of coupon No. 18 for bearer shares. Registered shareholders will receive payment 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 20, 2010, 3 p.m. in the Lorzensaal in Cham, Switzerland.

Baar, February 26, 2010

For the Board of Directors

The Chairman:

**Dr. Walter Grüberler**



**REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS.** As statutory auditor, we have audited the accompanying financial statements of Sika AG, which comprise the balance sheet, income statement and notes (pages 136 to 148) for the year ended December 31, 2009.

**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, 2009 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 26, 2010

Ernst & Young Ltd



Edgar Christen  
Licensed audit expert  
(Auditor in charge)



Bernadette Koch  
Licensed audit expert

## **APPENDIX**

### **FINANCIAL CALENDAR 2010**

#### **TUESDAY, APRIL 20**

42th Annual General Meeting, Lorzensaal,  
Cham, Switzerland, 3 pm

#### **WEDNESDAY, APRIL 21**

Letter to shareholders (first-quarter report)

#### **TUESDAY, APRIL 27**

Dividend payment

#### **FRIDAY, JULY 30**

Letter to shareholders (half-year report)

#### **FRIDAY, NOVEMBER 5**

Letter to shareholders (third-quarter report)

**PUBLISHED BY**

Sika AG  
Zugerstrasse 50  
CH-6341 Baar  
Switzerland  
Phone +41 58 436 68 00  
Fax +41 58 436 68 50  
sikagroup@ch.sika.com  
www.sika.com

**PROJECT MANAGEMENT**

Dr. Rainer Weihofen and Christine Kukan, Sika Services AG  
Corporate Communications & Investor Relations

**CONCEPT, DESIGN AND REALIZATION**

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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](http://www.sika.com). The printed German text is the definitive version.

Sika AG  
Zugerstrasse 50  
CH-6341 Baar  
Switzerland  
Phone +41 58 436 68 00  
Fax +41 58 436 68 50  
sikagroup@ch.sika.com  
www.sika.com

