

SIKA BUSINESS YEAR

2020

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BUILDING TRUST



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All Sika Annual Report content is available in German and English, and can also be accessed on our website www.sika.com/annualreport.



WEBSITE

- ▶ Complete content
- ▶ PDF downloads
- ▶ Excel tables



MAGAZINE

- ▶ Key content in brief
- ▶ Strategy and implementation

LETTER TO SHAREHOLDERS

SUCCESS STORY CONTINUES



Dr. Paul Hälg, Chair of the Board

Paul Schuler, Chief Executive Officer

Dear Shareholders

Our 2020 fiscal year was overshadowed by the COVID-19 pandemic, which had a number of severe effects for the construction and automotive sectors. Despite this difficult environment, we were nonetheless able to achieve record results. Sales in local currencies increased by 3.4% to CHF 7,877.5 million. Due to negative currency effects, this equates to a slight decline in sales in Swiss francs of -2.9% compared to the prior year. Operating profit (EBIT) recorded an over-proportional rise of 7.1% to CHF 1,130.5 million – which represents a new record result. In keeping with this development, new records were also set for net profit at CHF 825.1 million (year-on-year rise of 8.8%), and for operating free cash flow at CHF 1,259.4 million (year-on-year rise of 22.7%).

In most of the 100 countries in which Sika is present, lengthy lockdowns have partially restricted construction activity. Furthermore, many of our customers in the automotive industry had to close their factories for a number of weeks. Thanks to our strong market position and the swift, targeted implementation of measures, we were able to record very robust results despite this challenging environment.

The focus of the measures we initiated was threefold: Employees, customers, and suppliers needed to be protected, operating activity was continued at a high level, and our strong customer focus was retained or even strengthened. For example, we implemented social distancing rules all around the world at a very early stage, introduced mask-wearing and protective clothing in production processes, and complied with rigorous travel restrictions. Our emphasis was on working from home wherever possible, and all meetings were held virtually. Our close contact with customers even increased during the crisis. We, for example, held more than 150,000 webinars with trainings for our customers worldwide.

SIKA – ENABLER OF SUSTAINABLE CONSTRUCTION AND ENVIRONMENTALLY FRIENDLY MOBILITY

In addition to the pandemic, the climate change is presenting major challenges to society. As part of our growth strategy, we have committed to reducing CO₂ emissions by 12% until 2023. The ultimate goal is for Sika to be climate-neutral by 2050 at the latest. Our interim target is to halve greenhouse gas emissions per ton of product sold by 2030 compared to the levels recorded in 2019. We are achieving this by increasing the energy efficiency of the production processes and obtaining an increasing proportion of the energy it requires from renewable resources (Scope 1+2). Already in the past fiscal year, we clearly exceeded our prescribed target of a 3% reduction in CO₂ annually, reducing our CO₂ emissions by 26%. Today, Sika releases 20kg of CO₂ per ton of product sold (previous year: 27kg).

In our clear commitment to sustainability, we are looking not only to reduce our own CO₂ emissions, but also to help our customers reduce their CO₂ footprint massively with innovative solutions and products. In many respects, our technologies make us an “enabler” with the expertise to achieve the goal of climate neutrality in the construction and automotive industries. Our admixtures facilitate low-emission and resource-saving construction, our facade systems allow for energy-efficient buildings, and our adhesives contribute to climate-friendly vehicles.

RECORDS FOR PROFIT AND CASH FLOW

We were able to achieve new record figures for both profit and cash flow in the fiscal year 2020. This shows that we can rapidly adapt to changing market conditions and work cost-efficiently even in a difficult year. Sika increased EBIT by 7.1% to CHF 1,130.5 million (previous year: CHF 1,055.1 million), while the EBIT margin came in at 14.4% (previous year: EBIT margin 13.0%). In keeping with this development, net profit rose by 8.8% to CHF 825.1 million (previous year: CHF 758.5 million). Yet another record was set by operating free cash flow, which amounted to CHF 1,259.4 million (previous year: CHF 1,026.1 million).

MARKET SHARE EXPANDED IN ALL REGIONS

In an environment characterized by widespread temporary lockdowns, we were able to grow more strongly than the market in all regions. Furthermore, the distribution business posted considerable gains in all regions.

The EMEA region (Europe, Middle East, Africa) reported a sales increase in local currencies of 4.4% in 2020 (previous year: 11.6%). A strong improvement started to become apparent in the markets in the fourth quarter in particular. The countries that benefited from the biggest recovery were those of southern Europe – Italy, Spain, Portugal, and France – as well as the countries of Eastern Europe, Scandinavia, the Middle East, and Africa.

The Americas region recorded sales growth in local currencies of 1.0% (previous year: 19.2%). Despite the high COVID-19 infection rates recorded in Mexico, Brazil, and the United States, Sika recorded an uptrend in the Americas region in the last quarter of 2020. Many cities in North America continue to be affected by the pandemic and construction projects have slowed. The situation in Latin America has seen a clear improvement.

Growth in the Asia/Pacific region amounted to 12.6% (previous year: 35.1%). China in particular has performed impressively over the last few months, recording double-digit organic growth rates, and most target markets are on a clear growth trajectory. Australia was also able to contribute to the positive business development of this region. By contrast, India and a number of countries in the Southeast Asia region recovered only slowly from the far-reaching effects of the pandemic.

Global Business recorded a sales decline of -11.4% in 2020 (previous year: +3.0%). In the period under review, the automotive sector reported a global decline in output of -17%. Despite the pandemic-related decline in sales figures during the crisis year of 2020, Sika is convinced that the megatrends shaping modern automotive construction – which include e-mobility, further new drive concepts, and the trend toward lightweight construction – will help the Group to capture additional market share.

DIVIDEND INCREASE AND OUTLOOK

Given the increase in net profit, the Board of Directors will be proposing an 8.7% increase in the gross dividend to CHF 2.50 at the Annual General Meeting of April 20, 2021 (previous year: CHF 2.30).

Our business model has shown itself to be truly resilient in what has been a serious global crisis. Particularly crisis-resistant in 2020 were the distribution business, the refurbishment business, and our building finishing activities. Furthermore, in the future we will be beneficiaries of stimulus programs designed to support the economy in the form of national subsidies for infrastructure projects. As an additional factor, the strong growth in demand for environmentally friendly products is making its own contribution to our positive business development. Sika is leading in the development of solutions for sustainable construction and sustainable mobility. Already today, a large part of our sales is generated by technologies that provide sustainability benefits for customers, the environment, and society.

Despite the coronavirus crisis and its repercussions for operating results, Sika is confirming its 2023 strategic targets. The company remains aligned for long-term success and profitable growth. With its focus on the six strategic pillars – market penetration, innovation, operational efficiency, acquisitions, strong corporate values, and sustainability – Sika is seeking to grow by 6%–8% a year in local currencies up to 2023. From 2021, the company is aiming to increase its EBIT margin to 15%–18%. Projects in the areas of operations, logistics, procurement, and product formulation should result in an annual improvement in operating costs equivalent to 0.5% of sales.

For the 2021 fiscal year, Sika is expecting an increase in sales in local currencies of 6%–8%, along with an over-proportional rise in EBIT. The EBIT margin should for the first time reach 15%.

With strong customer focus, Sika has managed to perform successfully in this challenging market environment and achieve above-average results. We are very well positioned in what remains a difficult environment – thanks to our innovative products and solutions, as well as to our employees, who with great dedication and identification with the company have continued to perform at a high level, even at times like these. Our thanks go to them.

Dear shareholders, Sika has managed to generate enduring added value and look after the well-being of its workforce of 25,000 people, despite the pandemic. We will do everything in our power to repeat this performance going forward. Our heartfelt thanks to you for your trust, your loyalty, and your enduring commitment even at a time of crisis.

Sincerely



DR. PAUL HÄLG
Chair of the Board



PAUL SCHULER
CEO

AT A GLANCE

FACTS & FIGURES 2020

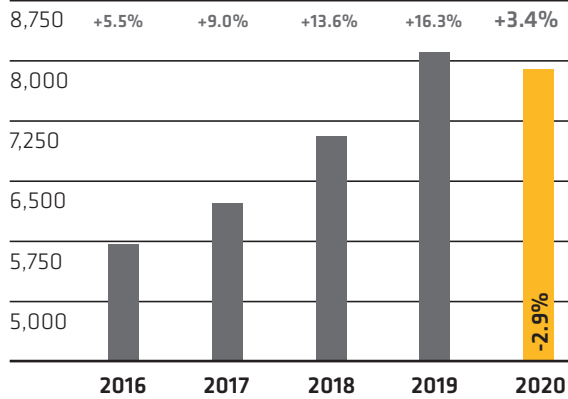
SIKA STRONG IN YEAR OF CORONAVIRUS

The COVID-19 pandemic prescuted a number of challenges for Sika. Nevertheless, record values in EBIT, net profit, and operating free cash flow were achieved.

in CHF mn		Changes in %
7,877.5	Net sales	-2.9%
1,130.5	EBIT	+7.1%
825.1	Net profit	+8.8%
1,259.4	Operating free cash flow	+22.7%
16.6%	ROCE	-2.6%-points
24,848	Employees	-1.2%
-25.9%	CO ₂ emissions per ton sold	
-21.2%	Energy consumption per ton sold	
-12.1%	Waste per ton sold	
6	New / expanded factories	
1	Acquisition	
83	New patents, 123 Inventions	
1,085	Employees in R&D	
21	Global Technology Centers	

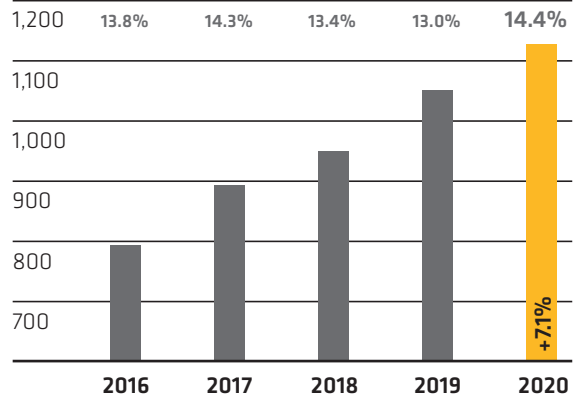
NET SALES (consolidated)

in CHF mn Growth in % local currencies



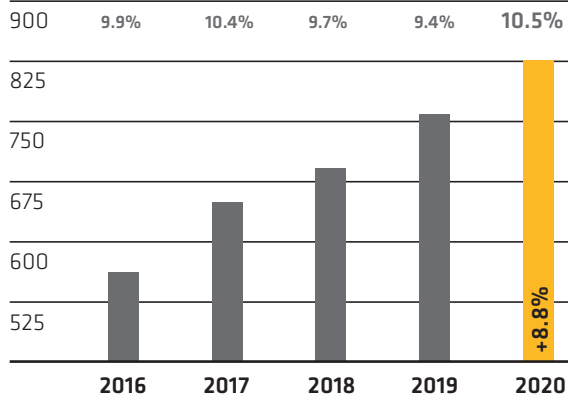
OPERATING PROFIT (EBIT)

in CHF mn in % of net sales



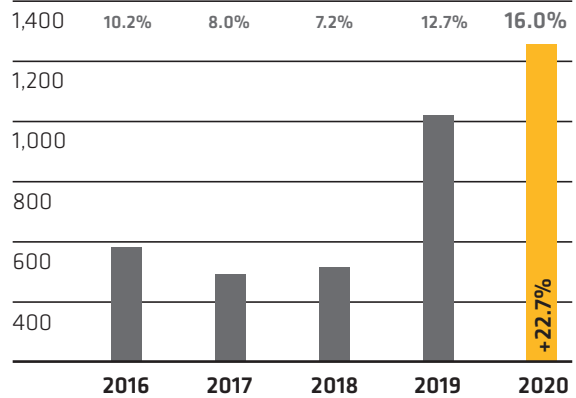
NET PROFIT

in CHF mn in % of net sales



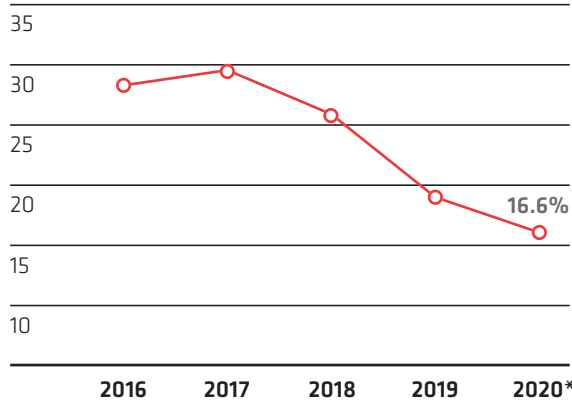
OPERATING FREE CASH FLOW

in CHF mn in % of net sales



ROCE

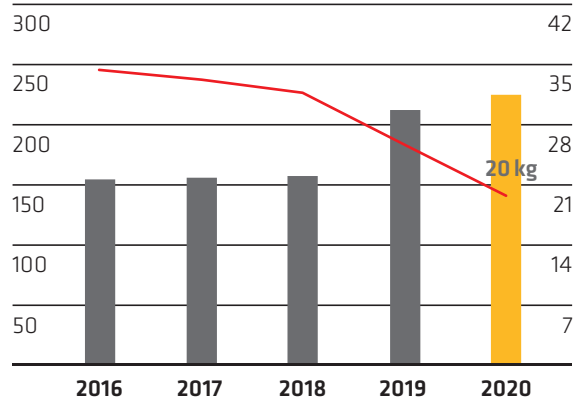
in %



* Adjusted for acquisitions, ROCE in 2020 would be 29.3%.

CO₂ EMISSIONS SCOPE 1+2

in 1,000 t — kg per ton sold

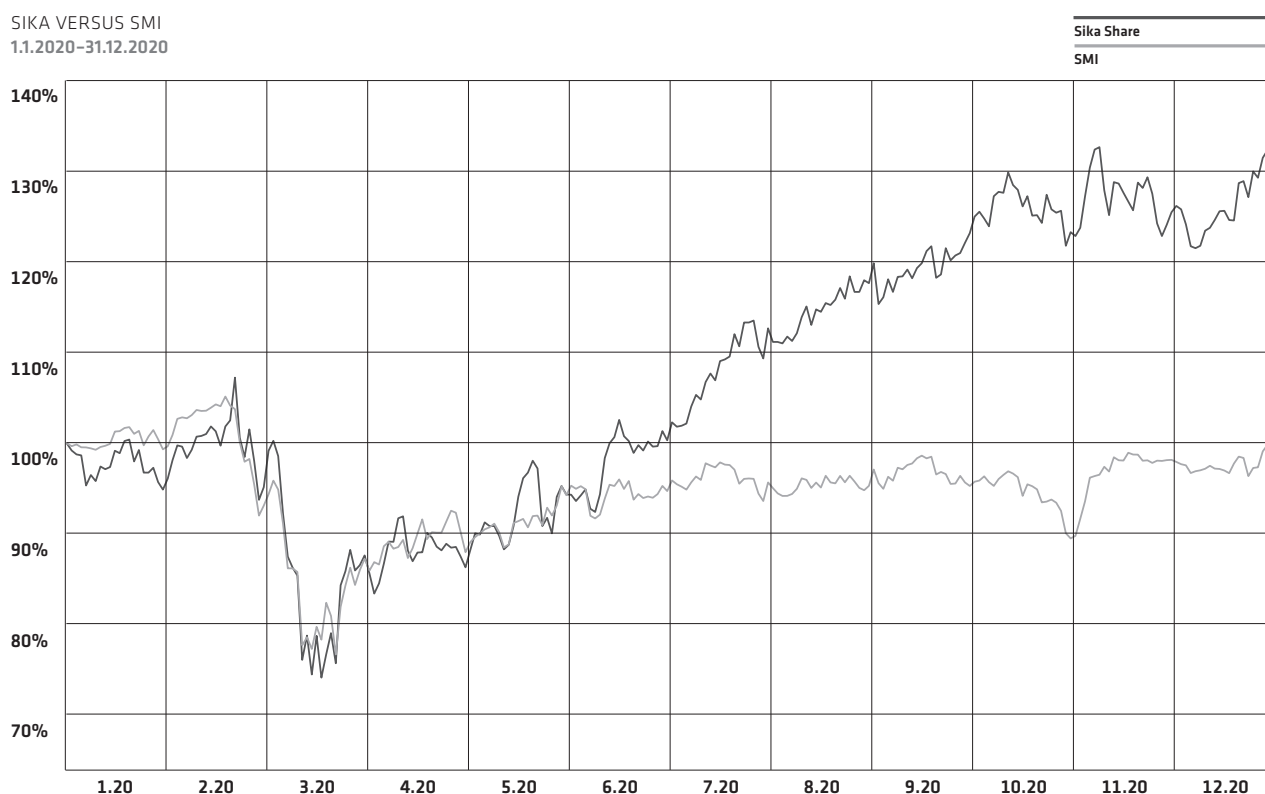


THE SIKA SHARE

STOCK MARKET ON ROLLERCOASTER RIDE

At the beginning of the year, the Sika share moved in parallel with the stock exchange and sharply dropped in value. The good business performance of the Group led to a strong stock price development from April on; The share reached a new record high and closed the year with a gain of 32.1%.

SIKA VERSUS SMI
1.1.2020–31.12.2020



SUMMARY

With a share price increase of 32.1%, the Sika stock performed better than the SMI Index.

Closing price of the Sika share in 2019: CHF 181.85
Closing price of the Sika share in 2020: CHF 241.80

The key global share indices performed as follows in 2019:

- SMI +0.03%
- DAX +2.49%
- Dow Jones +6.02%
- Nikkei +18.27%

Sika shareholders benefit additionally from the company's good result: dividend increase of 8.7% proposed

STOCK EXCHANGE RATIOS SIKA

in CHF	2020
Market capitalization as at 31.12.2020 in CHF mn	34,282.69
Yearly high	248.60
Yearly low	134.80
Year end	241.80
Dividend 2019	2.30
Dividend 2020 ¹	2.50
Earnings per Share (EPS) ²	5.82

1) Pursuant to proposal to Annual General Meeting

2) Undiluted

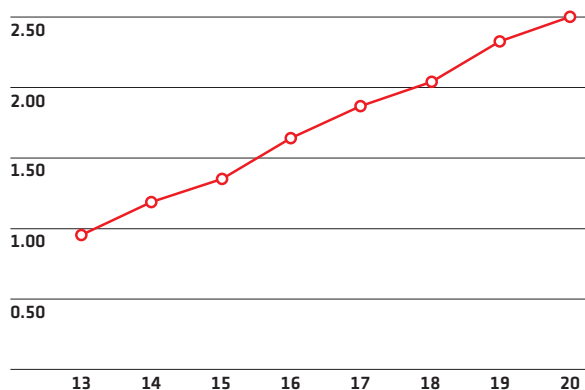
DIVIDEND PAYOUT

DIVIDEND INCREASE BY 8.7%

Sika's growth strategy is sustainable and guarantees good results. Profits have continuously increased over the past few years. Shareholders also benefit as Sika has been able to raise the dividend year after year. The Board of Directors will be proposing a 8.7% increase in gross dividend to CHF 2.50 per share (2020: CHF 2.30) to shareholders at the Annual General Meeting of April 20, 2021.

DIVIDEND

CHF / share



2020: Pursuant to proposal to Annual General Meeting CHF 2.50. Due to the split, the dividend per share for 2013-2017 has been adjusted by the factor 60 to ensure comparability.

STRATEGY & FOCUS

BUSINESS ENVIRONMENT

CRISIS-RESISTANT THANKS TO ATTRACTIVE BUSINESS MODEL,
MEGATRENDS, AND PRODUCTS FOR SUSTAINABLE CONSTRUCTION
AND SUSTAINABLE MOBILITY

Despite the challenging market environment overshadowed by COVID-19, Sika performed well in the crisis year of 2020, demonstrating once again the strengths of the business model.

ATTRACTIVE INDUSTRIES AND MARKETS

As a company operating in the field of specialty chemicals, Sika has a leading position in the development and production of systems and products for bonding, sealing, damping, reinforcing, and protecting in the building sector and motor vehicle industry. The company is active in eight target markets: concrete, waterproofing, sealing & bonding, roofing, flooring, refurbishment, building finishing, and industry. The cumulative total volume of construction market sales in 2020 was estimated at more than CHF 70 billion, despite the influences of the COVID-19 pandemic. According to forecasts, the volume of this market should rise to around CHF 80 billion by 2025. In other words, Sika is active in substantial markets with solid medium-term and long-term growth rates. Moreover, the pronounced fragmentation of these markets provides the company with additional potential to expand its business volume in attractive segments. For example, the combined market share of the ten largest internationally active companies in the construction chemicals sector is less than 40%. Sika's global market share amounts to 9-10%, and the aim is to increase this to 12% by 2025. In many cases, the individual markets and countries are characterized by numerous small and medium-sized companies with a very small market share and a modest market position. Sika uses its reputation and strong distribution organization to expand its market position on an ongoing basis – and continued to do this during the crisis.

EXTERNAL GROWTH THROUGH ACQUISITIONS IN FRAGMENTED MARKETS

Sika's acquisition strategy should also be viewed against this backdrop, even if fewer acquisitions were made in the crisis year of 2020 than in previous years, as travel restrictions prevented some of the key steps involved in due diligence, which is an exercise requiring the utmost rigor. Nonetheless, external growth remains one of the Group's explicit targets. The basic prerequisite for any acquisition is for a company to possess a complementary product portfolio with new technologies so that added value can be offered to clients, or if an acquisition would enable Sika to expand its distribution channels and market access. Expanding market leadership in strategically important business areas is a further criterion used by Sika to evaluate acquisitions. This is very much the context in which the Parex acquisition in 2019 and its successful integration in 2020 should be viewed, as this enabled Sika to position itself as a market

leader in the building finishing trade with an expanded product offering, wider distribution channels, and a high degree of resilience in the face of the coronavirus pandemic. In addition, new growth platforms are opening up for both Sika and the acquired company, thereby underlining impressively the success of this takeover.

STRONG BUSINESS MODEL FOR ALL PHASES OF A CONSTRUCTION'S LIFE CYCLE

Sika offers solutions for all phases of a construction facility's life cycle, and is superbly positioned in both emerging and mature markets thanks to its global network of 100 national subsidiaries, along with its first-class products and system solutions that are specifically tailored to customer needs. This enables the company to market technologies for all stages of a construction object's life cycle – from new buildings through to refurbishment work.

Given the very different stages of economic development of the countries in which it is active, Sika can supply products to all sorts of different construction projects. The company has a highly diversified business model that proved itself to be crisis-resistant once again in 2020, thanks to strong distribution and e-commerce activities, unwavering customer focus, and a high-performance portfolio. Generally speaking, Sika distinguishes between three levels of maturity in its construction markets:

The dominant feature of activity in emerging markets is the expansion of infrastructure in the form of transportation projects such as roads, airports and ports, energy projects such as power plants, and the construction of public buildings and facilities such as hospitals.

Markets that are in the process of maturing tend to attract greater investment in advanced building standards and high-quality solutions. There is demand for products that offer greater safety, targeted fire protection, higher energy efficiency, increased efficiency in application and that are environmentally friendly.

In mature markets, the refurbishment of building facilities and renovation projects takes center stage. In such cases, repairing the existing building fabric is often the most sustainable and cost-efficient solution. For example, renovation projects encompass the waterproofing and reinforcement of bridges, as well as commercial and private residential buildings.

Moreover, multi-billion infrastructure investment programs are unleashing crucial growth stimuli for the global construction economy. The equivalent of no less than CHF 10 trillion is expected to be channeled into construction projects around the world over the coming years as a means of stimulating the

economy. The expansion of transport infrastructure, the construction of public buildings such as schools and hospitals, the expansion of IT infrastructure, and the exploitation of renewable energy sources are just some of the key goals being pursued with public-sector funds over long timeframes. As the international leader in the construction chemicals market, Sika is ideally positioned to benefit from this development.

STRUCTURAL GROWTH THROUGH NEW FORMS OF CONSTRUCTION AND MOBILITY

The world is changing. Overarching megatrends determine the future – and therefore by definition social and economic developments. These megatrends serve as a logical starting point for strategic planning. Together with the requirements emerging from the COVID-19 pandemic, they are accelerating Sika's structural growth opportunities. These include new forms of mobility with alternative drive concepts, and new forms of construction with automated and digital construction processes, as well as sustainable building concepts. The overriding objective here is to reduce greenhouse gases and develop a new approach to construction and modernization that is both resource-sparing and environmentally friendly. As a leading construction chemicals company, Sika has the product solutions, technologies, and necessary strength of innovation to drive this transformation forward in construction and automotive production, generating added value for its stakeholder groups.

LIGHTWEIGHT CONSTRUCTION AND E-MOBILITY TO FACILITATE ENVIRONMENTALLY FRIENDLY DRIVING

Despite the pandemic-related decline in sales figures during the crisis year of 2020, Sika is convinced that the megatrends shaping modern automotive construction – which include e-mobility, developing new drive concepts, and the trend toward lightweight construction – will help the Group to capture additional market share and generate profitable long-term growth. For example, heat management in the modern battery systems of electric vehicles is a key element in the paradigm shift away from the pure combustion engine and toward new drive systems. Sika is a leading player with its solutions in this area, and is facilitating the transformation to sustainable mobility with high safety and comfort standards.

MEGATRENDS

DEFINE THE FUTURE

Megatrends are driving social and ecological transformation as well as shaping our future. Such fundamental shifts are feeding into Strategy 2023 and will help to maintain sustainable dynamic growth.

CLIMATE CHANGE

Climate change and a scarcity of resources call for new ideas, sustainable energy sources, as well as products and processes that are both low in emissions yet resource-efficient. Sika is rising to this challenge, and rooting the theme of sustainability deep in its organization as part of its Strategy 2023. The inclusion of Sika shares in sustainability-based equity indices such as the S&P 500 Sustainability Index, MSCI Switzerland Sustainability Index, STOXX Europe Sustainability, and FTSE4Good, is a logical consequence of this orientation.

Sika has committed itself to reducing energy consumption and greenhouse gas emissions, and wants to help its customers to achieve the same in a very targeted way. This involves energy efficiency and the substitution of fossil fuels with renewable energy, as well as efficiency in their use. Sika has set itself the target of reducing CO₂ emissions by 12% per ton of products sold by 2023. In the year under review, an average of 20 kg of CO₂ per ton sold was released in manufacturing Sika products, which corresponds to a reduction of 26% compared to the previous year. The company has improved its energy efficiency, further optimized the energy mix, invested in resource-saving technologies, and profited from a positive acquisition impact.

The key lever for a sustainable future is Sika's development of product solutions that enable customers to be more sparing in the use of resources. Sika is playing a leading role in the journey to a world of sustainable construction and sustainable mobility. All across the world, Sika develops new solutions by consistently pursuing the approach of combining innovation with sustainability and high performance. In the area of product innovation, Sika remains true to its principle of enhanced performance and greater sustainability, so that its products can deliver more while at the same time being more environmentally friendly. Even as things stand, Sika generates more than 70% of its sales through solutions that achieve a positive sustainability effect for customers, the environment, and society – and the trend is only going one way.

As market leader in the specialty chemicals industry, Sika provides valuable support to customers in the area of sustainable construction and the realization of sustainable mobility. New regulatory requirements – such as the EU's Green Deal – are forcing all sectors to rethink their approach, including the cons-

truction industry. Indeed, the EU's goal is to emit no greenhouse gases at all on a net basis by 2050. In order to achieve this, the energy efficiency of buildings must be improved massively, and renovations accelerated with binding standards and subsidies. Sika is pushing for environmental, social, and governance criteria (ESG criteria) to be introduced along the entire value chain. For example, the company uses ESG criteria to promote the theme of sustainability in its dialogue over training and cooperations with customers, suppliers, the public, and other stakeholder groups. The same criteria are also incorporated into risk management.

URBANIZATION, SUBURBANIZATION, AND INFRASTRUCTURE NEEDS

More than half of the world's population already lives in an urban environment, and the momentum of the urbanization trend will be with us for the long term. It is predicted that some 75% of the world's population will live in urban centers by 2050.

In 2020, a number of emerging markets still lagged a long way behind the industrialized nations of Europe and North America. In Africa and Asia in particular, a substantial structural shift in the migration of people from rural areas to towns and cities is expected. In Latin America, the degree of urbanization has already reached a high level. However, the gap between existing infrastructure and the new infrastructure requirements of cities that are home to millions of people is significant, and the expansion of these infrastructures cannot currently keep up with the dramatic growth in the urban population.

In the leading industrialized nations, there are currently signs of a slight migration towards suburban areas. One factor has been the COVID-19 pandemic, which has temporarily led to the centers of major cities being less frequented due to widespread home working, but there is also evidence of a general expansion of urban areas, as suburban centers and the corresponding new infrastructure investment spring up in what were previously peripheral urban zones. Transport connections to city centers, telecommunication networks, and the development of schools, hospitals, and leisure centers will have to keep up with population development and be expanded accordingly. The phenomenon of suburbanization is acting as a spur for the construction of new infrastructures.

TECHNOLOGICAL PROGRESS

Digitalization received an enormous boost from the global pandemic in the crisis year of 2020, unleashing rapid and fundamental changes in the world of work. Home working, digital meetings, and webinars, as well as virtual and hybrid events have come to dominate both the working day and social interaction. With its innovative technologies and initiatives, Sika is driving forward change in its industries, and has adapted to the rapidly changing parameters. The transformation in information technology itself, involving digitalization, 5G, and cloud solutions, is leading to a strong increase in the need for infrastructure installations such as computer centers, data centers, and data warehouses. The construction of computing centers alone is expected to rise by an annual figure of around 10% between 2020 and 2024. For example, China is gearing itself up for this process of technological transformation with a huge volume of infrastructure investment equivalent to more than CHF 6 trillion, focusing on IT infrastructure, IT networks, cloud computing, and computing centers.

Sika already supplies the operators of computing centers with its comprehensive portfolio of products and solutions, which extend from foundation to roof.

The nature of the construction process itself is also undergoing a fundamental change due to digitalization. Automated processes involving modular construction, ready-mixed concrete elements, and 3D concrete printing are laying the groundwork – and not just during the pandemic – for adherence to distancing and safety guidelines with a reduction in human resources. These processes are also leading to greater efficiency, controllable work processes in factories and building sites, and an acceleration in construction project completion times by up to 50%. Ideas are being created on computers and simulated with the use of datasets, which then results in seamless realization on construction sites. Sika is embracing these challenges and developing holistic and system-based innovations for changing customer needs, ensuring at the same time that these solutions are easy to apply, long-lasting, and above all sustainable. Thanks to its unique competitive advantage, Sika has in-depth expertise of construction materials and processes, as well as expertise in the automation and increasing efficiency of industrial processes.

DYNAMIC ECONOMY

Compared to the established industrialized nations of the West, the emerging markets are becoming an even more important part of the global economy. For example, both Asia and Africa are seeing a rise in growth momentum, driven by rapid population growth. Sika is expanding its position in these emerging and high-growth markets in a targeted manner, and harnessing the opportunities that open up in these regions.

In Asia, Sika holds a strong market position and has further strengthened it through the Parex acquisition with an expansion of distribution channels and the product portfolio. As a result, Sika was already able to profit at a high level from the business potential of the high-growth market in the past business year. Particularly in China, the world's largest economy, Sika once again massively accelerated its business momentum. Sika products are now marketed in some 38,000 building material stores through shop-in-shop concepts. In a reciprocal way, the Parex portfolio is being successfully introduced into the project business through cross-selling activities. China also occupies the top position internationally in the automotive business and is now the world's largest market. Sika is represented here through the supply of products to all the leading OEMs and their joint venture partners, and is continuously expanding its market share.

Meanwhile, Sika has been steadily building up its presence in Africa in recent years as part of its growth strategy, and is now represented in almost every part of the African continent with its own companies and factories.

DEMOGRAPHIC CHANGE

A key social megatrend is demographic change. Labor shortages are growing as populations increasingly age, while at the same time we are seeing shifts in consumer behavior. For this reason, Sika is reinforcing its efforts in automation, breaking new ground in logistics, and focusing on user-friendly solutions. Robust and long-lasting products that can be easily and rapidly applied in a way that reduces not only process steps but also the deployment of human resources is Sika's answer to the key trend of our time.

STRATEGY 2023

SUSTAINABLE AND PROFITABLE GROWTH

The new corporate strategy was developed and launched in 2019. In addition to even more ambitious financial targets, important elements include a focus on operational efficiency, an increase in market penetration, and the targeted orientation on environmentally friendly products and sustainability.

THE SIX PILLARS OF THE STRATEGY

SUSTAINABILITY

With its newly defined sustainability targets for the reduction of energy and water consumption, as well as waste, Sika will be minimizing its need for resources and the environmental impacts of the production process. Sika's overriding goal is to reduce CO₂ emissions per ton sold by 12% by 2023.

MARKET PENETRATION

One strategic pillar of Strategy 2023 is to increase market penetration. Growth drivers include targeted sales of a comprehensive product portfolio with complete systems, increased presence in the distribution channels, key project management, and the continued expansion in emerging markets.

INNOVATION

By 2023 the company aims to generate 25% of sales with products that have been launched on the market in the last five years. Innovation at Sika is always determined by the needs of customers. These needs feed into both fundamental and applied research. Furthermore, the company has committed itself to ensuring that every new product must offer a higher performance as well as additional sustainability benefits. Already today, Sika offers its clients a broad spectrum of environmentally friendly product technologies.

OPERATIONAL EFFICIENCY

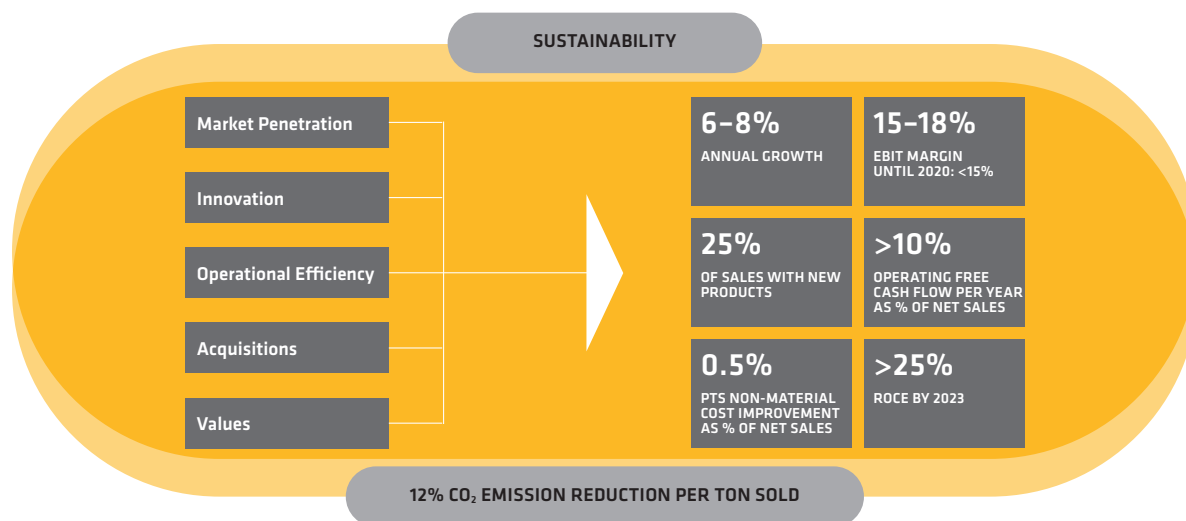
To a significant extent, the improvement in margins will be achieved through operational efficiency. Projects in the areas of operations, logistics, procurement, and product formulation should result in an annual improvement in operating expenses equivalent to 0.5% of sales.

ACQUISITIONS

Acquisitions are an important element of Sika's growth strategy, enabling the company to enhance its core business with complementary technologies, improved market access, or expanded distribution channels. The focused approach allows Sika to establish the acquired businesses as platforms for additional growth.

VALUES

Sika's strong corporate culture lays the foundation for its success. Customer First, Courage for Innovation, Sustainability & Integrity, Empowerment & Respect, and Manage for Results – these are the values that drive business activity and are put into action by employees every single day, all around the globe.



SUSTAINABILITY STRATEGY

HONORING THE RESPONSIBILITIES

With its sustainability strategy “More Value – Less Impact”, which was realigned in the year under review, the company pursues the objective of creating lasting value for people and the environment, while at the same time adopting a moderate and sustainable approach to the utilization of resources. Thus, shaping the future responsibly.

SUSTAINABLE SOLUTIONS

We are leading the industry by pioneering a comprehensive portfolio of customer-focused solutions, combining both higher performance and improved sustainability.

TARGET 2023

- All new product developments with “Sustainable Solutions”



CLIMATE PERFORMANCE

We run our business in a responsible way and mitigate climate change and its impacts.

TARGET 2023

- 12% reduction of CO₂ emissions per ton sold



COMMUNITY ENGAGEMENT

We build trust and create value – with customers, communities, and with society.

TARGET 2023

- 10,000 working days of volunteering work p. a.
- 50% more projects
- 50% more direct beneficiaries



MORE VALUE

LESS IMPACT

ENERGY

We manage resources and costs carefully.

TARGET 2023

- 15% less energy consumption per ton sold
- Increase share of electricity from renewable energy sources



WASTE / WATER

We increase material and water efficiency.

TARGET 2023

- 15% less waste generation per ton sold
- 25% higher recycling rate of total waste
- 15% less water consumption per ton sold



OCCUPATIONAL SAFETY

Sika employees leave the workplace healthy.

TARGET 2023

- 50% less accidents
- 0 fatalities



COMMUNITY ENGAGEMENT

A SUSTAINABLE FUTURE FOR MANKIND AND THE ENVIRONMENT

As a socially responsible company, Sika supports local communities. The “Sika Cares” community engagement program focuses on improving the quality of life of children, adults and families in the communities in which the company is active.

COMMITMENT DURING THE PANDEMIC

Sika focuses on three areas: education and vocational training, buildings and infrastructure and water and climate protection. The company endeavors to provide intelligent support for projects through the application of company-specific expertise, voluntary work by its employees, and long-term collaboration with partners.

WIDE-RANGING IMPACT IN THE DIRECT ENVIRONMENT

As a result of the pandemic, no – or only very few – social projects involving voluntary work could be implemented in many countries in 2020. In order to mitigate this critical situation, Sika has been providing disinfectant and masks to charitable organizations, hospitals, and care homes free of charge all around the world, as well as in some cases helping with the construction of infrastructures, such as test centers with a modular design.

FOCUS AREAS

BUILDINGS AND INFRASTRUCTURE

The health and dynamism of communities also depends on the infrastructure in place for people and the environment. This is where Sika comes in with its expertise and product solutions.

EDUCATION AND VOCATIONAL TRAINING

Investment in good education gives young people the most important tool they need to lead an independent life. Sika works to ensure that disadvantaged children and young people get a genuine chance in life.

WATER AND CLIMATE PROTECTION

Sika employees support projects which link social causes with ecological interests.

SIKA EMPLOYEES THE KEY TO SUCCESS

CLOSE TO THE CUSTOMERS

A high customer focus and above-average commitment form the core of Sika's corporate values, which employees live every day at work. Their engagement contributed significantly to the Group's resilience during the COVID-19 pandemic. In this challenging environment, communication with customers was further intensified. Within the framework of the community engagement program, more social projects were implemented, and the number of people benefiting increased once again.



SIKA TEAM DISTRIBUTION GLOBAL

Close cooperation between Sika countries and the Corporate team is essential to be able to share our strategy and action plans, and discuss their implementation. We replaced business trips with regular

virtual meetings and online conferences, and tried to keep the social aspect of meeting in person alive. These connections are the key to a successful strategy implementation.



SIKA CHILE - TEAM INFRASTRUCTURE

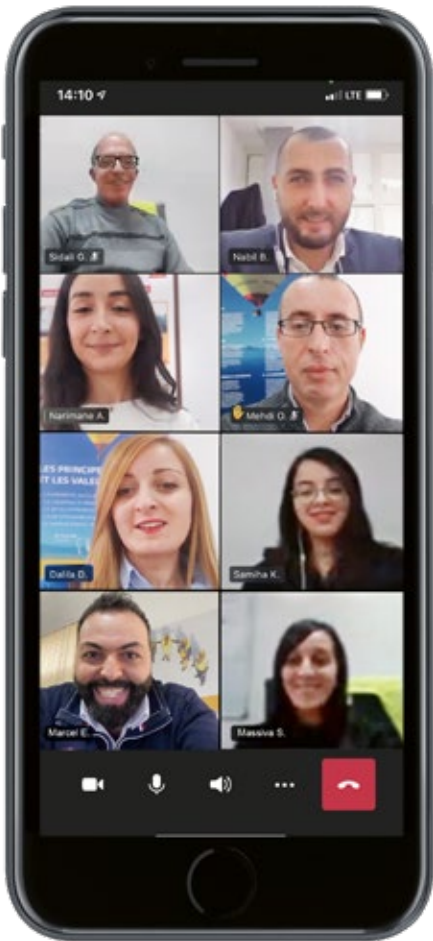
Even in challenging economic times, the investments in infrastructure projects and their on-time completion is of great importance. We supported customers in all aspects, whether on-site, or virtual presentations, or virtual meetings. The whole team adapted quickly in order to keep the projects on schedule.

TEAM SIKA ALGERIA

We took immediate measures to ensure the health and safety of our employees and partners - but also to serve our customers in the best possible way. With a strong team spirit, we found innovative ways to keep and build our customer relationships.

SIKA PERU - TECHNICAL SUPPORT TEAM

We continue to support our customers with training and advice on-site. Our technical support team regularly visit the “Mejoramiento de la Vía Oyón-Ambo” project, which will enhance the safety and durability of a main road connection in central Peru as well as reduce maintenance costs. The improvement will positively impact more than 140,000 people from three cities.



SIKA CHINA - PROJECT TEAM

Sika provided a comprehensive range of solutions for Suzhou Second Workers’ Cultural Palace from floor to roof, and from the external structure to interior finishing. By coordinating sales from many Target Markets and with the full support of operations, we overcame the difficulties caused by COVID-19, and ensured that the project was completed on schedule.



**SIKA COLOMBIA –
CROSS-REGIONAL TEAM SALES**

Working from their home office, our sales teams from different regions attended the Sika® CarboDur® training to learn more about Sika's reinforcement systems and to coordinate their marketing and sales approach related to repair and refurbishment projects in Colombia. We strive to learn from each other and stay connected.



SIKA CROATIA – TEAM ZAGREB AREA

In these unpredictable times, our way of doing business has suddenly changed significantly. The motivation for and dedication to our work has become even greater. Whether we work from home or after office hours is irrelevant when everyone is giving their best – for the team and for our customers.

**SIKA GERMANY –
LOGISTICS TEAM IN ROSENDAHL**

“We hold the fort for you.” That is our motto in production, logistics, and R&D. Our work cannot be relocated to a home office, but we are continuing our activities with a high level of dedication. Communication with our colleagues from sales is excellent, which allows us to serve our customers reliably and ensure on-time deliveries.





SIKA THAILAND – TEAM SALES AND CUSTOMER

Our commitment to Sika’s “Customer First” core value reinforced our relationship with key customers and ensured continued success. We engaged and communicated more frequently throughout the pandemic and were able to offer on-site consultation to our customers and business partners.



SIKA SOUTH AFRICA – PROJECT TEAM DURBAN HEIGHTS 3

Adapting swiftly to one of the most challenging years yet has brought every department together collectively to ensure every requirement of our customers is met. An illustration of this was on a large-scale refurbishment project, Durban Heights Reservoir 3, where close collaboration among our teams and with our customer allowed the project to be completed on time despite lockdown restrictions.



TEAM TURKEY – TEAM WAREHOUSE / LOGISTICS

One of the most important features in difficult times is to “be there” whenever needed. The trust we have built with our business partners over the past years proved valuable during COVID-19. It was a challenge to provide products amid the global pandemic that affected the entire supply chain. But as a team, we proved once again that we stand by our customers and partners; we give our very best every day and “build trust”.

SIKA RUSSIA – SALES TEAM

It is of great importance to us to stay close to our customers and their needs while following the local guidelines that are in place. For example, we supplied a railway bridge project that is essential for the public transportation network in a major city with our waterproofing systems. We are there to advise on-site or remotely, at all times and all year round.





SIKA CHILE – TEAM DISTRIBUTION
 The integration of the Parex business into Sika ran successfully and smoothly. We are working closely together in the newly combined teams and focusing on joint product promotions at distributor locations. Furthermore, we are concentrating on brand integration to expand the Sika product family with the acquired product portfolio.

SIKA CAMBODIA – COMMUNITY ENGAGEMENT TEAM

Each Sika subsidiary is also part of a community, and during a pandemic it is all the more important to help those in need. We donated repair products, food, and office supply material to contribute to the education of more than 60 orphaned children.



SIKA ARGENTINA – PRODUCT SPECIALIST TEAM

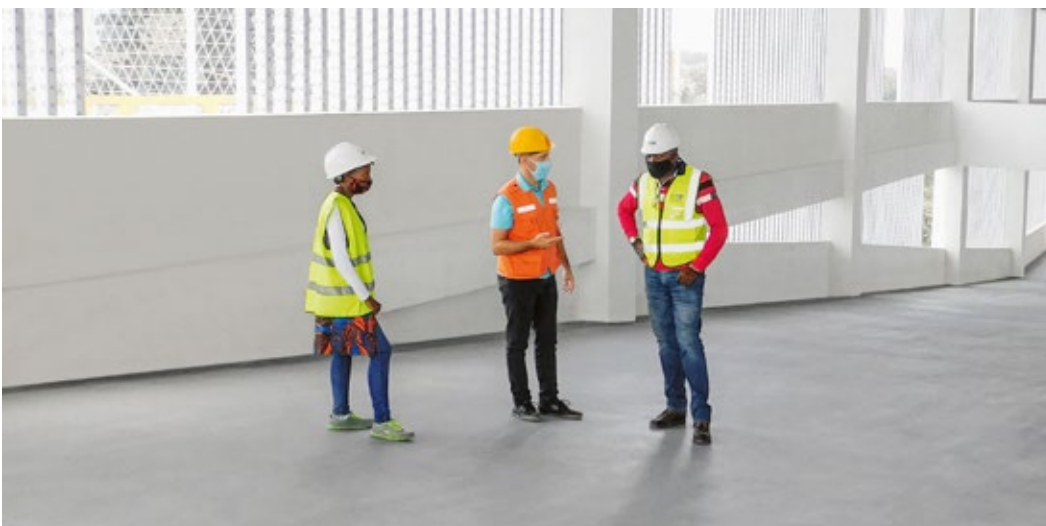
To stay close to our customers, we created an online applicator community, with access to news, trainings, trends, and tutorials. We provided several online trainings on the application of our products and systems. Of course, we also focused on showing the combined systems of the acquired Reveal range, as well as Sika solutions such as the multipurpose adhesive and sealant Sikaflex 11 FC.



SIKA UK - TEAM ROOFING
 We met regularly in online team meetings to keep each other up to speed and in the loop with ongoing projects. We coordinated and aligned all sales and marketing activities to effectively organize online trainings for our customers.

SIKA MOROCCO - TEAM PRODUCTION

All teams work with the highest level of motivation and are determined to provide the best possible customer service. This includes reliable production and supply, being available when needed, and working closely together with all other teams to achieve the best possible results.



SIKA KENYA - TEAM SALES AND CUSTOMER
 Upper Hill Chambers is a commercial building with 26 floors, where we provided product solutions for the parking area and the facade. Our sales team worked closely with the customer and visited the construction site multiple times to ensure the best possible anti-slip surface in the parking area and the most suitable weather resistant sealant for the facade installation.



TEAM SIKA EGYPT

Sika Egypt has been pioneering the digitalization of sales in our market. Already a few years ago we decided to reach out in this way to customers across the country. The pandemic has forced us to adapt even more quickly in how we communicate and interact digitally. We saw this as an opportunity, invested in new technology, and focused on digital projects. Our technical sales team was able to keep acquiring customers while – most importantly – we communicated safely.

COMMUNITY ENGAGEMENT TEAM – SIKA SOUTH AFRICA

A total of 43 different Sika products were delivered to eight schools in Durban. Each of these schools were in the middle of renovations or in the initial phase of building a new structure. Our Sika product donation was the ideal support and we are proud to contribute to enjoyable and motivating learning environments in the Durban community.



SIKA COLOMBIA – TEAM PRODUCTION

There was a severe shortage of various raw materials during the lockdown. Nevertheless, we are proud to report a production record at our Tocancipá site during this time. This result was only possible due to great efforts from all the teams and ultimately allowed us to supply our customers without interruption.

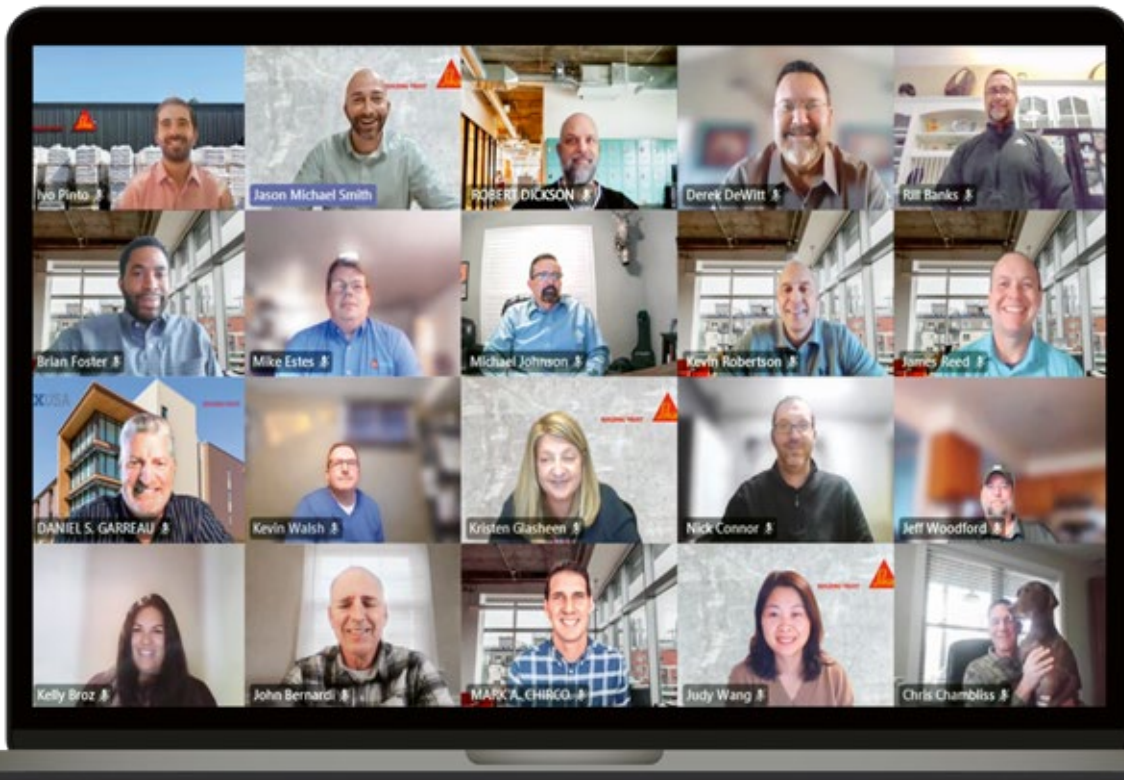


SIKA BRAZIL - PROJECT TEAM TAMOIOS HIGHWAY WITH CUSTOMER

This highway is one of many major infrastructure projects in Brazil. The specific terrain and geographical circumstances called for very detailed and in-depth understanding of the technical requirements for this project. In close collaboration with the customer and all teams involved, an extensive solution was established, and the completion of the highway is on schedule.

TEAM SIKA POLAND

Despite the challenging times, we succeeded in staying close to our customers. We arranged live demonstrations of our products and on a weekly basis held a webinar where contractors and applicators were able to ask questions "live". These initiatives were well received and helped us to expand our brand awareness.



SIKA NORTH AMERICA - LEADERSHIP PROGRAM

With the constant change in our working environment due to COVID-19, the continued training of employees is more important than ever. Training and development of personal and professional skills is

crucial. With intensified internal online trainings, we help our employees to develop the skills they need and to ensure they stay close to our customers no matter the circumstances.

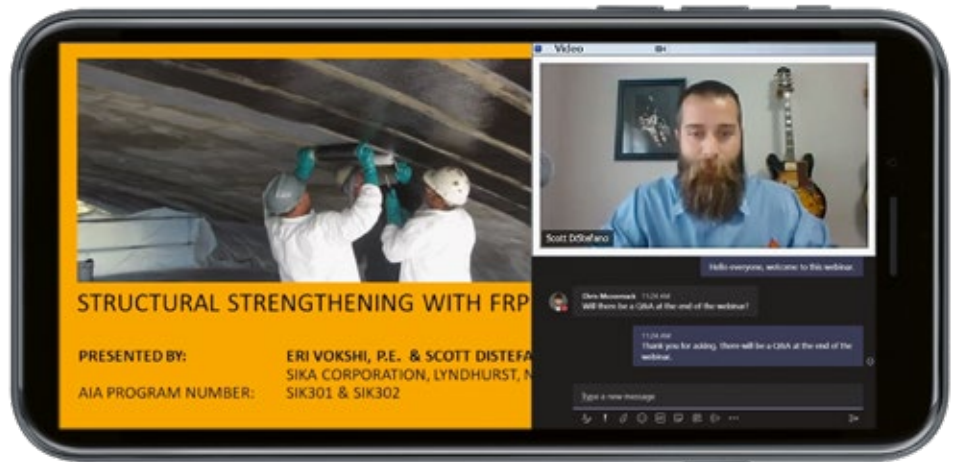


SIKA FRANCE - TEAM E-COMMERCE WITH CUSTOMER

During the first lockdown we quickly realized the need to adapt online campaigns to provide the best customer experience. We developed a great partnership with one of our e-commerce key accounts to make sure we are meeting customers' expectations in the online world.

SIKA USA - TEAM STRUCTURAL STRENGTHENING

When faced with the COVID-19 pandemic, the structural strengthening team pivoted their in-person training programs to a remote format and online training tool. The Fiber Reinforced Polymer (FRP) composite training session had over 230 attendees and allowed Sika to stay engaged with contractors that apply our products.



SIKA PANAMA - TEAM PRODUCTION / WAREHOUSE

We are a diverse team, with employees from many countries with different levels of experience. This is part of our culture and makes us stronger and more resilient than ever. Our team believes in teamwork to grow further, especially during these challenging times.



TEAM SIKA NETHERLANDS

With the COVID-19 pandemic, the team immediately took action to find new ways to stay in close contact with existing customers and gain new ones. Through social media channels we provided our customers with answers by messaging and sharing pictures and videos. We also offered several webinars and trainings for architects, engineers, and contractors.



SIKA USA – TEAM AUTOMOTIVE

We created a superior product which allowed an automobile manufacturer to consolidate three specifications into one. Furthermore, our production facility had qualified and ramped up production systems to satisfy the very high-volume requirements. This was followed by a rigorous “stress durability” testing program. Our team successfully conducted thousands of coupon test samples, which now allows the product to be further domesticated in both Europe and China to support the global initiative programs and platforms of our customer. With this comprehensive support, we built a strong relationship between us and our customer.

COMMUNITY ENGAGEMENT TEAM – SIKA BRAZIL

Our production team produced hand sanitizer to donate to the city of Osasco. The mayor of Osasco and his team distributed the hand sanitizers to healthcare centers and intensive care units that were specifically set up for COVID-19 patients. We were glad to contribute and help the community around us in these challenging times.



SIKA PURPOSE & BRAND

SIKA STANDS FOR QUALITY, INNOVATION, AND SERVICE – BUILDING TRUST EVERY DAY

THE SIKA PURPOSE

Sika's purpose is to anticipate and meet future challenges by providing reliable, innovative, sustainable, and long-lasting solutions in the construction, building, and manufacturing industries. In everything we do, we provide a seal of quality which our employees, customers, and all stakeholders can rely on – building trust every day.

THE SIKA BRAND

Branding lends products a distinct identity and associates them with a specific set of values. This fact was recognized early in Sika's history by founder Kaspar Winkler, who coined the company's name and designed its logo. Having changed only slightly since its creation, the logo epitomizes continuity and solidity, and it is recognized across the world as synonymous with innovation, quality, and customer proximity. The combined word/picture trademark has proven a valuable global asset during the Sika Group's decades-long expansion and is readily accepted across all cultural boundaries. Customers throughout the world can rest assured that they will receive Sika quality and service wherever they see the Sika logo.

WORLDWIDE TRADEMARK PROTECTION

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

The Sika umbrella brand, and some 1,098 Sika product trademarks, such as Sika® ViscoCrete®, SikaBond®, or Sikaflex®, sharpen the company's competitive edge. Hence the crucial role of trademark protection as a management task, performed both globally at Group level and locally at national level. In total, Sika held 8,504 trademark registrations in 152 countries at the end of 2020. Sika continuously monitors its trademarks and takes appropriate legal action in cases of infringement.

CORPORATE IDENTITY

The rollout of Sika's revamped corporate identity in 2013 gave the company's public face a fresh and modern look. The aim of the corporate identity process preceding this was to achieve a clear-cut positioning of the brand based on uniform corporate design guidelines. Inspired by Google's Material Design, a visual language and system that unifies the user experience across all digital platforms was introduced, focusing on the digital development of the brand. The main initiative in 2020 was the global rollout of over 100 country and subsidiary websites.

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

The second core element of the Sika brand, alongside its positioning, is the brand personality. The three attributes that form the backbone of this personality are pioneering, team-oriented, and committed. Today they shape the awareness of Sika employees worldwide. To ensure that internal collaboration remains strong in the digital age, Sika's already well-established social intranet was further developed. Complementing internal measures, employer branding campaigns have also been stepped up in external communications to make the Sika Spirit visible and tangible outside the company and to further increase the awareness of Sika as an employer.

BUILDING TRUST

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

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

Committed to excellence.

Inspired by innovation.

Building Trust."

STRATEGIC TARGET MARKETS

CUSTOMER FOCUS

CONCRETE

Sika develops and markets a complete range of admixtures and additives for use in concrete, cement, and mortar production. These products enhance specific properties of fresh or hardened concrete, such as workability, watertightness, durability, load-bearing capacity, and early and final strength. The demand for admixtures and additives is currently on the rise, due to the increased performance requirements placed on concrete and mortar, especially in urban areas and for infrastructure construction. Furthermore, there is a growing need for Sika additives and admixtures as they enable the use of alternative materials, such as processed aggregates (sand) and materials with cementitious properties in cement, mortar – and therefore also in concrete – to reduce the use of clinker and natural sand. This in turn helps to increase sustainability and significantly reduce CO₂ emissions in the construction industry.

ROOFING

Sika provides a full range of flat roofing systems, incorporating both flexible sheet and liquid-applied membranes. In recent years, bituminous technologies have been acquired in markets where bitumen dominates. Sika is recognized as a prime brand in roofing markets worldwide. A more than 50-year history has documented that Sika roofing solutions are outstanding performers: reliable, sustainable, and long-lasting. Demand in this segment is driven by the need for eco-friendly, energy-saving solutions such as green roof systems, cool roofs, and solar roofs, which simultaneously help to reduce CO₂ emissions. While refurbishment projects continue to gain significance in mature markets, emerging markets are moving towards higher-quality roofing solutions for newbuild structures. For both market segments, Sika's innovative roofing systems comprise all elements needed, including vapor control layers, adhesives, insulation, fixation, roof drainages, and all kind of accessories.

WATERPROOFING

Sika's system solutions for waterproofing cover the full range of technologies used for below and above-ground waterproofing: flexible membrane systems (polymeric sheets, modified bitumen sheets), liquid applied membranes, joint waterproofing systems (waterstops, swelling profiles, adhered tapes), waterproofing mortars and mortar admixtures, and injection resins and grouts. Key market segments are commercial and residential basements, tunnels, bridges, and all types of water-retaining structures, such as reservoirs, storage basins, and storage tanks. Waterproofing systems face increasingly stringent requirements regarding speed and ease of application, as well as total cost management. The selection of the appropriate system in line with the needs and expectations of the end customer, as well as well-trained and competent specialized waterproofing contractors, are key for long-lasting and water-tight structures.

BUILDING FINISHING

Building Finishing encompasses ceramic tiles and natural stones installation, facade protection and decoration systems, as well as interior wall finishing – for both residential and commercial buildings. Sika is a global leader in Building Finishing and provides one of the most comprehensive sets of solutions such as tile adhesives and grouts, systems for under-tile waterproofing and sound reduction, as well as renders and decorative finishes for both exterior and interior walls, and Facade Exterior Insulation Finish Systems (EIFS).

Global trends such as urbanization, the increasing need for home improvement, fuel the market growth. Reducing the energy demand and CO₂ footprint of the building stock will for example foster the further expansion of facade insulation systems. Sika's market leadership and global span offers strong potential to further roll out its Building Finishing products and systems portfolio into more Sika countries. Building Finishing is reinforcing Sika's comprehensive portfolio of complementary technologies for the building envelope from basement to roof and growing its presence in distribution channels.

FLOORING

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

REFURBISHMENT

This segment features repair, strengthening and protective solutions for concrete structures, such as repair mortars, shrinkage compensated high-strength grouts, anchoring adhesives, protective coatings, corrosion control and structural strengthening systems. Especially in developed markets, many structures are decades old and need to be refurbished. Sika refurbishment systems enable lifetime extension of structures and buildings which often is the more sustainable solution than tearing down and build new. Sika provides technologies for the entire life cycle of commercial buildings and infrastructure constructions, as well as design and calculation software for structural engineers and designers. The present uptrend in demand is attributable to a rising volume of infrastructure rehabilitation projects in the transport, water management, and energy sector, such as the construction and maintenance of wind energy farms.

SEALING & BONDING

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

INDUSTRY

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

PRODUCTS & INNOVATIONS

COURAGE FOR INNOVATION

Sika's long history of innovation has led to unparalleled success in becoming a recognized global technology leader in many markets, as well as creating value for Sika's customers. While investing in established and new Technology Centers around the world, the company also nurtures and develops an international network of scientists, partners, suppliers, and customers.

GROWTH THROUGH INNOVATION AND SUSTAINABILITY

Creativity, innovation, customer-centricity, and research are components of Sika's long-term success and future growth. Multiple large-scale projects are cultivated simultaneously around the globe, resulting not only in effective and original products for customers, but also in opportunities for knowledge sharing among R&D teams in different countries. Securing and enforcing patents is an active part of protecting Sika's intellectual property. Besides, Sika is dedicated to contribute to reducing the impact of global warmth especially since climate change and growing population requires cleaner and better-functioning cities. These forces are driving the demand for intelligent construction materials and smart mobility systems to ease congestion and reduce CO₂ emissions. Sika technologies that use less or no Ordinary Portland Cement (OPC) contribute to the reduction of the carbon footprint. This is realized most efficiently by highly specific admixtures that ease processing and application, the use of cement with increased ratio of recycled raw materials as binder, such as slags, and/or using lower quality aggregates as an alternative to quartz-based sand and gravel in concrete or

mortar. The use of polymer and metal fibers as internal reinforcement of concrete opens the opportunity to realize slimmer structures with comparable strength thus reducing the overall amount of OPC. In this context, one challenge is to further introduce digital intelligence to construction sites. Sika leads the way when it comes to 3D concrete printing technology. The Group has mastered all the process steps needed to print concrete on an industrial scale, and the solution has been developed, field-tested and successfully launched in the market.

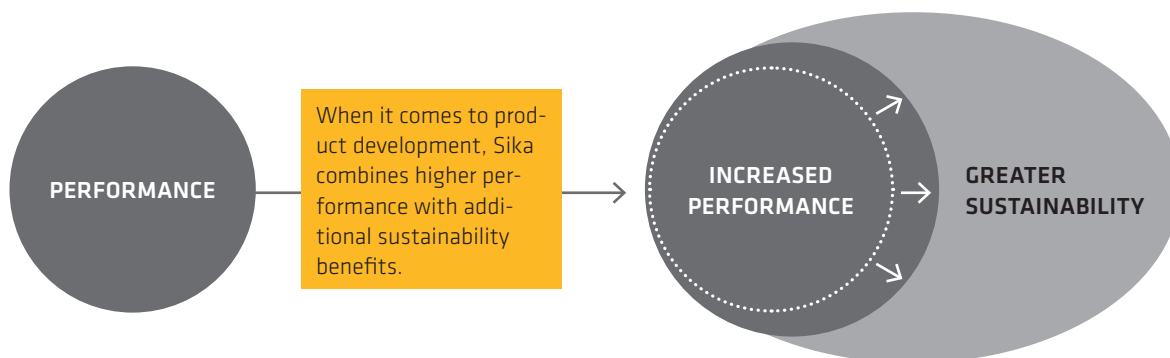
CUSTOMER CENTRICITY

Sika's objective is to meet the challenges faced by customers today, by launching new products in response to tighter regulations for adhesives and sealants, developing new solutions to meet the ever-greater demands in terms of easy and efficient application and environmental compatibility. In 2020, the dedicated focus on the development of innovative product solutions for bonding, sealing, damping, reinforcing, and protecting load-bearing structures has again been the cornerstone of Sika's success in all target markets. The research and development of new products, systems, technologies, applications, and production processes form the basis of Sika's innovations. Its research activities are carried out by around 1,100 employees across 21 global Technology Centers. 55 local and 20 regional research and development facilities are globally aligned to Sika Technology AG.

INCREASED PERFORMANCE AND MORE SUSTAINABILITY BENEFITS

At Sika, innovation is always driven by customers' needs. Innovation being one of Sika's strategic pillars, the company aims to achieve 25% of sales with products released in the past five years by 2023. To meet this strategic requirement every new Sika solution must add value for customers with improved environmental impact. Today, Sika already offers its customers a

SIKA SOLUTIONS DELIVER GREATER PERFORMANCE AND ARE MORE SUSTAINABLE



wide range of environmentally friendly product technologies, including solutions for energy-efficient construction and environmentally friendly vehicles. Moving forward, all new product developments will not only deliver better performance, but will also feature enhanced environmental benefits (see chapter “Sustainability Report”, page 51). Furthermore, Sika has set itself ambitious goals to reduce its annual energy and water consumption, as well as its waste output. With its feasibly ambitious sustainability targets, Sika will minimize resource consumption and the environmental impact of its production processes. Sika’s overriding goal is to reduce CO₂ emissions per ton manufactured by 12% until 2023.

RESEARCH STRATEGY

Sika’s research and development activities are carried out at its 21 global Technology Centers, with Switzerland as a key location. The research program targets the development of proprietary technology that provides key performance benefits and thus allows Sika’s product platforms to respond to global trends such as resource-saving building methods, energy-efficient and low-emission construction materials, high-speed manufacturing methods, modular construction, and lighter and safer vehicles. Key projects focus on high-performance molecules with tailored features, smart refining techniques for polymers and surfaces, renewable materials including recycling processes and sustainable construction methods, and digitalized manufacturing technologies such as 3D printing, allowing not only high-precision automation, but also individualized production of complex components and structures, both in the laboratory and in full-size production. Total expenditure on research and development for the Group in the year under review totaled CHF 193.6 million (previous year: CHF 202.2 million), equivalent to 2.5% of net sales.

GLOBAL PLATFORM AND GUIDING FORMULATIONS

Sika’s research and development was transformed to a fully global operating unit to fulfil the pledge of value generation by new technology and innovation, Sika has put a high effort to reshuffle the way of how new technologies are driven. Platforms encompass substantial new technologies that will impact many products globally. Several platform projects, which are based on one or two new technologies, were defined and rolled out on local product level. In order to bundle single projects to comprehensive solutions, Sika is further developing platform projects that are going to be fully embedded in the organization.

With the platform concept, the focus will be shifted towards an early involvement in new technological development with substantial global reach, optimized price positioning such as higher margins and economies of scale. A Platform provides the complete “umbrella” technology from formulations to production technology to training and quality control.

In order to maintain organic growth and enable pioneering innovation, the platform concept will be rolled out across the group. 15 technologies will be selected at the beginning of 2021. Those platforms will be chosen by significance for the Group and will be reviewed by the Group Management as they encompass a large business case with a global reach and local impact.

VALUE-DRIVEN INNOVATIONS

To create value for its customers and other stakeholder groups, Sika expanded the interdisciplinary collaboration of innovation and project teams in 2020. The task of these teams is to develop possible future scenarios to identify the problems and product needs that are likely to emerge as a result.

From these findings, valuable new solution approaches are defined. Sika’s engineers, chemists, and market experts are working in interdisciplinary teams on the definition and implementation of new solution approaches for current and future challenges that can deliver added value. This approach enables the company to define new strategies and procedures, and to create and validate innovations in an efficient way. Together with customers, scientists, and development partners, expert teams optimize existing solutions, develop new prototypes of products, and create excitement for the introduction of new technologies.

Megatrends such as digitalization in construction, climate change, as well as urbanization and new forms of mobility are leading the way to future developments.

Agility, creative freedom, and new cooperations and tools – including processes such as speculative design, scrum frameworks, horizon scanning, trend analyses, emerging issues analyses, and agile project management – will open up new possibilities. The focus is on intensifying value creation, subjecting the status quo to close scrutiny, and coming up with new ideas and concepts that go beyond what is currently possible. Projects such as the concrete recycling procedure reCO₂ver for extracting admixes and powdery mineral materials from rubble, the development of new systems for insulating materials, the innovative manufacture of ready-to-use plastering systems, and the development of high-quality aqueous systems were all driven forward in the year under review.

DIGITALIZATION OF CONSTRUCTION AND INDUSTRY

Sika’s know-how in digitalization and industrialization in the construction business, built over decades, ranges from robotics, process control and extrusion systems, to mortar technology with mix design and formulation of 3D mortars to allow for precise control of the material performances. Sika is the only company capable of supplying all the technologies required for industrial 3D concrete printing from a single source. Investments and inventions in 3D concrete printing technology have quickly demonstrated their market potential: In the year under review, US-based Pikus Concrete teamed up with Sika to commercialize 3D concrete printing technology in the construction industry and to capture its vast potential. Pikus’ first 3D concrete printer with Sika technology has commenced operation in Lehi, Utah. Other customers including construction companies in the EMEA region aiming to set the pace in terms of efficiency, freedom of design and flexibility at the construction site.

In the year under review, Sika has expanded its cooperation with CiDRA Concrete Systems Inc., headquartered in Eden Prairie, Minnesota, and has completed a growth equity investment

agreement to supplement its existing global relationship. CiDRA specializes in IoT-based digital systems to monitor concrete properties during transport. Sika and CiDRA already offer this service to customers in the US and Canada – concrete producers in other countries will follow. CiDRA Concrete Systems is a market leader in digital monitoring and information systems for concrete loads in trucks. High-precision on-board systems measure the quality of the concrete during its transport from the batching plants to the job sites. Currently, customers in the US and Canada benefit from this offering through a data subscription service, enabling concrete producers to access real-time concrete quality data such as workability and air content through a cloud-based data portal for every truck operating in their fleet. The partnership between Sika and CiDRA will now be expanded to other countries so that concrete producers outside of the US and Canada will also have access to this service.

Outside of Zurich, in the year under review, various others 3D printing activities with the focus on supporting and improving production at manufacturing sites took place. In the US, for example, the 3D printing capabilities were expanded to establish an automated roof repair process by enabling the use of a 3D printer drone which automatically scans roofs for damage and makes repairs, therefore reducing the need for inspections and protecting the structure from roof leaks. A working prototype of a 3D printing drone was developed. The prototype consists of a delta-type 3D printer attached to an octocopter drone.

DEVELOPMENT FOCUS IN INDIVIDUAL TARGET MARKETS

CONCRETE

With the increasing demand for environmental responsibility, Sika teams are working on the development of sustainable products for concrete with reduced CO₂ footprint. In the context of the so-called LC³ project, Sika has been conducting research to allow faster adoption of the LC³ technology, which can reduce the carbon footprint of concrete up to 50%. Sika supports the LC³ project and is working in cooperation with key players on the development of products for the next generation of cement and concrete. LC³ is considered a game changer in the construction industry and is aligned with Sika's sustainability strategy "More Value – Less Impact". LC³ represents a great opportunity for Sika to develop and provide new solutions for cement production, concrete production and adapt this technology for mortars. Considering the brand-new possibilities to manufacture cement using different materials and trying to reduce CO₂ emissions, new products from the SikaGrind[®] LC³ range are being developed by the Sika team. The main goal is to adapt and improve specific characteristics of the produced cement such as water demand, workability and strength. The success will be reflected by fulfilling the requirements of the cement industry and supplying cements, which become an interesting alternative for the end users.

Superplasticizers based on Sika[®] ViscoCrete[®] technology are widely used as concrete admixtures to improve concrete workability during placing, and durability after hardening. Sika has identified superplasticizer technologies most compatible with LC³ type binders. These technologies will be implemented in dedicated LC³ superplasticizer concrete admixture products. Sika

will continue focusing on new products and innovative approaches to assist its customers to meet and surpass everchanging requirements of the concrete industry and its legislation. Utilization of renewable raw materials, further exploration of products and technologies leading to reduction of CO₂ in concrete and systemic solutions for issues related to decreasing quality of concrete raw materials, will continue to be in focus for 2021.

WATERPROOFING

Sika Technology was able to establish the technology platform of SikaProof[®] A+, a patented new technology that provides a unique, mechanical bond effect to the concrete structure and prevents any lateral water underflow between the membrane and the concrete. The new production line dedicated to efficiently produce this technology platform was completed in 2020 and is now fully operational. Multiple products were developed in 2020 to extend the portfolio of this great product offering. SikaProof[®]-808 was developed as a waterproofing product that will be tested in APAC market in combination with our bituminous membranes for waterproofing basements and below ground structures. Now, a well-proven bituminous system can be combined with Sika's latest technology in a very exciting market. Further integration work of our internally produced bituminous products to fit the local regulations were conducted along with technology transfers between the technology sites.

ROOFING

To address the diminishing skilled labour force, Sika created systems that are easier to apply. The product Sarnafil[®] AT ensures great flexibility and safe application on skylights, corners and other details. This product line was also extended with a self-adhered version, where the bonding competence and membrane competence were ideally combined. This technology also meets the company's great efforts in making new products more sustainable. Sarnafil[®] AT is the first roofing membrane to be Cradle to Cradle Certified[™]. With that, Sika contributes further to the circular economy, just like with the PVC recycling program in the US, where old products are fed back into the raw material feed stream.

LIQUID APPLIED MEMBRANE ROOFING

The focus for Liquid Applied Membranes continued to be environmentally friendly products with reduced emissions. This was combined with the need to ensure all developments were in line with, or exceeded, any potential changes in legislation. Further performance and durability improvements were achieved in novel water-based products with the aim to achieve similar performance to reactive systems. Developments in two-component products continued with the launch of a 100% solid, hand-applied, general-purpose roof waterproofing solution, along with a high-performance topcoat for enhanced durability. The focus continues to be on low-odor, sustainable products with excellent durability.

FLOORING

Resin Flooring developments continue to focus on low-emission, high-performance sustainable products. A novel epoxy floor coating based on a new amine hardener was launched in the year under review. The new solution meets the most stringent indoor emissions regulations and with its fast-curing time reduces business interruptions due to construction work to a minimum. It can

be applied at lower temperatures than conventional epoxies. Further developments in water-based solutions continued with the rollout of an industrial floor which has excellent fire-resistant properties. The product is ideal for fire escape routes and can be used as a general-purpose industrial floor. A complete low-odor balcony offering was also launched in the year under review.

SEALING & BONDING

Sika, the world's biggest manufacturer of adhesives and sealants for the building sector and automotive industry, has developed a new polyurethane technology, which is launched under the Purform® brand. Thanks to its new Purform® technology, Sika is supplying customers with products satisfying the highest standards in terms of performance and sustainability while already fulfilling the upcoming stricter REACH regulations for enhanced health and safety safeguards for users. Sikas Purform® products can offer major performance advantages to the customers. For example, it enables applications at low temperatures, offers the best compatibility with sensitive surfaces such as natural stone, or provides improved weather resistance withstanding exposure to UV light outdoors considerably longer. Thanks to their high durability, they are also more sustainable. Durable high-performance adhesives and sealants, for use in construction and fast-curing systems for enhancing efficiency, are more in demand than ever.

REFURBISHMENT AND BUILDING FINISHING

Sika's priority within the cementitious technology besides the continuous improvement of the performance, is the sustainability of the mortars range. In the year under review, Sika developed CO₂-reduced products such as masonry mortars, which provide a long-term performant solution by virtue of the durability, adaptability and maintainability of the masonry structure, and cementitious tile adhesives with an improved "comfort in use" profile for the applicator. The replacement of Ordinary Portland Cement (OPC) by supplementary cementitious materials continued to have a prioritized focus: This approach enabled the reduction of global CO₂ emissions by more than 100,000 tons in 2020.

Furthermore, the launch of Sika MonoTop® in Europe started. Sika MonoTop®-4012 and Sika MonoTop®-3020 are new high performing, smoothing and levelling ready to mix mortars for concrete repair and protection. They have been formulated around a supplementary cement material (SCM) and help to achieve better workability and application, less shrinkage and an improved finishing of the surface. Identifying reliable sources of alternative sands and binders are a major focus for Sika: These can be materials from recycling, industrial by-products or waste from any industries, including Sika's own production facilities. A dedicated team works on developing ways to make their use technically feasible, not forgetting the operational, cost and industrial parameters. Sika is working in reusing and valorizing production tails, or dust collector fines from Sika plants. Alternative raw materials are linked to additional functionalities when being integrated into formulated products such as lightening, deformability, and other outstanding functionalities like abrasion resistance. The new building and engineering mortars in this context combine sustainability with competitiveness for gaining new market share.

INDUSTRY

Within the industrial environment the sealing & bonding technology further replaces traditional joining technologies like welding or screws and enables joining of new and different materials that allow new design realizations. Especially with Sika's innovative structural bonding solutions SmartCore® or Sika Powerflex®, customers can rely on the highest performance and durability levels for their products. With the Curing by Design Technology, high process efficiency is offered to our customers by reducing process time up to 70%.

Sika's adhesives support the global trend of automatization in the construction environment with prefabricated houses or modules produced in an industrial environment and assembled at the construction site. As a leader in elastic bonding and the world's biggest manufacturer of polyurethane adhesives and sealants, Sika has developed the Purform® technology with outstanding performance and sustainability benefits for its customers. While Sika's Purform® products already fulfil upcoming EHS REACH regulations today, the technology allows to formulate the first truly designed adhesive for plastic bonding without compromising on stress cracking, mechanical properties, plasticizer migration or adhesion strength.

The new generation of SikaForce® adhesives offers an effective solution for bonding and assembly of polymeric composite materials for lightweight vehicles, transparent plastics for panorama roof constructions, fiberglass boats, metal fabrications and many other applications that require a strong, reliable bond.

AUTOMOTIVE

The automotive industry is currently going through a process of structural transformation, with production and distribution functions being altered by new propulsion systems, digital technologies, and materials. Thanks to its decade-long expertise in automotive adhesives and sealants, Sika is well prepared for this change. Electro-mobility and lightweight chassis construction are increasing the importance of superior auxiliary materials capable of making vehicles more efficient, safer, and quieter. Sika's heat-conductive materials are contributing to the dramatic reduction of battery charging times, something that will be crucial for the market penetration of electric vehicles. In the current climate debate, new ways of mobility are becoming increasingly important. More and more car manufacturers rely on hybrid or pure electric drives. For battery systems, Sika supplies adhesives and sealants that meet high technical requirements for high temperature resistance and high thermal conductivity. In the year under review, Sikaflex®-953 L30 has proven as high-performance sealant for aluminum battery boxes. In this product, Sika's STP technology allows to combine the strengths of its polyurethane backbone with the high adhesion performances of functional silanes. With SikaGard®-839 series first intumescent coatings were introduced to coat battery boxes of e-vehicles. These coatings expand under heat, in case of fire due to a battery dysfunction, the coating expands and protects the passengers, by insulating the cabin from the generated heat.

PRODUCT CREATION PROCESS RESEARCH STRATEGY

In the year under review, Sika continued to improve the performance of the R&D, Operations and Sustainability organization by further developing transparency on resources and achievements throughout the global organization. The main areas of the newly established Strategic Performance Management team are project & process management, performance and KPI management as well as communication and content provision. The overall goal is to substantiate and to improve the performance of Sika by a systematic method through an ongoing procedure of measuring, analyzing, and defining actions. This includes processing and refining of information for management decisions and external reporting. In 2020, the development and deployment of a portfolio management and KPI-tool to increase the alignment and efficiency of all Sika Technology Centers has been given priority. With this tool, the company is able to assess how R&D initiatives, programs, and projects perform.

COOPERATION WITH ACADEMIA

Sika complements its internal research efforts by working with major universities and scientific institutes on fundamental technologies. Sika engages in the cooperation with the ETH Zurich (Swiss Federal Institute of Technology in Zurich), the University of Fribourg (Switzerland), EPFL (Swiss Federal Institute of Technology in Lausanne), the ESPCI ParisTech (School of Industrial Physics and Chemistry of the City of Paris, France), the University of Burgundy (France), Princeton University (USA), the Beijing University of Chemical Technology (PRC), the University of Tokyo (Japan), and similar institutions across the globe. Sika's local subsidiaries cooperate with research institutes and provide mutual support.

2020 was the eleventh year in which the Sika Master Award was presented to the authors of two outstanding master thesis in the field of civil engineering, based on the recommendation of ETH's Department of Civil, Environmental, and Geomatic Engineering of Sustainable Construction. This interdisciplinary forum promotes dialogs on current research topics. Sika also participates in ETH Zurich's Partnership Council, supports knowledge transfer, and encourages the launch of joint research projects in the field of sustainable construction. Furthermore, Sika has intensified its cooperation with Innosuisse, the Swiss Innovation Agency, an entity under public law to promote science-based innovation in the interests of industry and society. The company is part of a program dedicated to bring together the most important players from science, industry and society in Switzerland in promising fields of innovation ("Innovation Boosters"). In this framework, Sika entered into a joint research project on wood-concrete composite elements for innovative and sustainable hybrid structures for the building sector, and successfully finalized the project "Durarroof" in which a calculation model for the lifetime prediction of roofing membranes based on location-specific ageing parameters. Sika also supported the association Additive Manufacturing (AM) Network with their proposal for an Innovation Booster Additive Manufacturing (IBAM). Sika is actively exploring the potential of additive manufacturing processes to speed up prototyping, allowing new

designs, reducing production costs of small series and enable the fast and global availability of customized parts on demand, e.g. for production equipment or for adapted objects on construction sites.

In the year under review, Sika has continued to engage in the "Mesh Mould" project, in partnership with the ETH Zurich and other partners, in the development of a robotized construction method for building load-bearing concrete elements of any shape without formwork. Sika also participates in international research projects and networks, such as the "EnDurCrete" and the "InnovaConcrete" projects. These grant-supported consortium projects operate under the HORIZON 2020 program of the European Union and focus on durable, environmentally friendly reinforced concrete for demanding infrastructure, as well as the conservation of cultural heritage. Sika also entered a joint research project supported by the Swiss government on wood-concrete composite elements for innovative and sustainable hybrid structures for the building sector. Furthermore, Sika is cooperating with the National Institute for Standards and Technology (NIST), USA, and with the University of Sherbrooke, Canada, under the subject of concrete research.

With funding from the Swiss Agency for Development and Cooperation through its Global Program in Climate Change, the Technical University of Lausanne (EPFL) has been able to pursue the idea of replacing clinker by Supplementary Cementitious Materials (SCM), the LC³ project, from Switzerland to all parts of the world. Together with different cement producers worldwide, Sika has been supporting the LC³-project's activities by conducting research on technical key questions to facilitate the uptake of LC³.

Sika supports Innovandi, the Global Cement and Concrete Research Network. The network connects industry with scientific institutions to drive new ways of working and innovation. It builds on the industry's long-held commitment to ensure a sustainable future.

INTELLECTUAL PROPERTY

Innovation is a key element of Sika's growth strategy, and "courage for innovation" is one of the corporate values. Sika has launched a new web-based Intellectual Property (IP) management tool, including an inventor portal, to streamline the submission and management processes for new inventions and to improve R&D effectiveness by providing an online overview of Sika's IP management. The use of the new IP management tool is mandatory for all inventors submitting inventions. The growing importance of intangible assets has made intellectual property management increasingly important for Sika. An extended version of the new tool including the management of trademarks was released too.

Sika maintains exclusivity over its innovative products through the systematic registration of its intellectual property rights. 123 new inventions were reported in 2020 (previous year: 121) and 83 new patent applications were filed (previous year: 91). By the end of 2020, Sika's patent portfolio included more than 910 unique patent families with more than 3,500 single national patents.

NEW PRODUCTS IN 2020

Sika launched a number of important new products in 2020, including the following:

CONCRETE

- **Sika ViscoCrete®-850 Végétal:** made from renewable raw materials, the new superplasticizer offers an excellent performance.
- **Sigunit® L-5650 AF:** alkali-free suspension accelerator. In 2020, two new production facilities started operation to cope with the increasing demand of high-performance suspension type shotcrete accelerators.

MORTARS

BUILDING FINISHING

- **FACITE:** New base coat and adhesive for ETICS systems, with an improved workability for manual and machine applications.
- **MONOLISSE:** lightweight one-coat mineral render for protection and aesthetics of facades, formulated to provide an extra smooth and white surface.
- **526 PROLIAQUA:** cementitious tile adhesive specially designed for wet rooms (kitchen, bathrooms, swimming pools). Easy to apply even in hot climatic conditions.

TECHNICAL MORTARS

- **Sika MonoTop®-4012/3020:** durable and sustainable concrete repair mortars with supplementary cementitious material to save CO₂ emissions.
- **Sika MonoTop®-4100 Protect:** concrete repair mortar, 1-component cementitious polymer-modified mortar, hand-applied and spray-applied, fiber reinforced for structural repair and waterproofing in one layer.
- **Sika MonoTop®-4200 Multi Flow:** multiconsistency concrete repair mortar with low CO₂ footprint and improved resistance to aggressive environment.

COATINGS

- **Sikalastic®-702:** a hand-applied two-component solvent-free, odorless Polyurethane/Polyurea hybrid for waterproofing. Part of the SikaRoof® Purform® range.
- **Sikafloor®-2350 ESD:** based on a unique resin, a new ESD epoxy floor with excellent aesthetics, low odor and emissions and fast return to service.
- **Sikalastic®-625 N:** highly flexible roof waterproofing material, ideal for metal roofs.

- **Sikafloor®-418:** a clear topcoat solution with low-odor based on i-cure technology. Ideal for balcony solutions where UV stability, chemical resistance and aesthetics are important.
- **Sikafloor® Marine-595:** lightweight 2-component polyurethane decorative resin with cool touch and feel. This technology is unique in the marine market and provides limitless comfort to passengers and crew with a cool feeling when exposed to heat.

THERMOPLASTICS

- **SikaProof®-808:** a flexible polyolefin-based sheet membrane for below-ground waterproofing of reinforced concrete structures. A special version for the APAC countries, used for baseslabs.
- **SikaRoof® AT FSA P:** self-adhered detailing membrane that is easy to apply, allowing smooth detailing, fast installation, and a long-lasting performance for sustainably designed roofs.

ADHESIVES AND SEALANTS

- **Sikaflex®-11 FC Purform®:** impresses with faster curing, increased durability, and less exposure to monomer diisocyanate content compared to traditional PUR systems. Purform® Technology – another milestone in Sika's polyurethanes success story.
- **Sikaflex®-554:** industrial assembly adhesive based on Sikas STP technology, that can be accelerated with Sika's Booster® and PowerCure® systems. It bonds well to a wide range of substrates with minimal pretreatment and fulfilling highest sustainability requirements due to its solvent-, isocyanate-, phthalate- and PVC-free nature.
- **SikaPower®-830:** a new structural two-component cold-curing epoxy adhesive using Smartcore® technology, offers excellent toughness and higher mechanical properties for wind blade bonding and can be manufactured locally in all regions.
- **SikaFast®-550:** a newly designed adhesive for fenestration. The adhesive performs excellent not only at minus temperatures but also at high temperatures. This new fast curing two-component acrylate adhesive is perfectly designed in order to fulfil high automatization processes. Only few minutes after application the adhesive is fully cured and therefore allows fast and efficient production.
- **SikaForce®-820 and SikaForce®-825:** new 2-component PUR adhesives for roof and tailgate bonding with excellent adhesion to various plastic substrates. The solutions prevent stress cracking and show constant mechanical properties throughout the whole service temperature range and therefore are preferred solutions for multiple substrate bonding.

AUTOMOTIVE

- **SikaMelt®-710:** a sprayable PUR hot-melt lamination adhesive with low monomer content, excellent spray properties, and high initial strength ideal for fold-over applications.
- **SikaGard® -839 eBF:** intumescent coating for battery lid protection of e-vehicles. In case of battery dysfunction, the coating expands and protects the passengers, by insulating the cabin from the generated heat.
- **SikaDamp®-282:** automatic applicable bitumen-based damping material for body shop application.
- **Sika® Primer-506 and Sika® Primer-219:** long open-time pre-treatments, allowing pre-application of primers at the tiers (automotive suppliers) on various substrates such as glass or PU-RIM materials. The final part can consequently be bonded with Sikaflex® polyurethane adhesives at the assembly line without pre-treatments.
- **Sikaflex®-282 eLS + P50:** the solution for bonding the battery box lid of e-vehicles provides high strength and a well-balanced curing speed to allow leakage tests three hours after production without delamination of the adhesive from the substrate, and full cure within 24 hours.

ACQUISITIONS & INVESTMENTS

SUPPORTING GROWTH IN THE TARGET MARKETS

Acquisitions are an important element of Sika's growth strategy, enabling the company to enhance its core business with related technologies, as well as to improve access to certain markets or additional distribution channels. Through capacity expansion fine-tuned to market demands and investment in plant efficiency, the Group ensures the consolidation of its global growth potential. Acquisitions thus become a platform for further growth.

ACQUISITION STRATEGY

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

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

The regions generally assume responsibility for the business aspect and integration of an acquisition, but the whole process is supervised and coordinated at Group level.

2020 ACQUISITIONS

On March 31, 2020, Sika concluded the takeover of Adeplast SA. The transaction was first announced at the end of November 2019. Adeplast is a leading manufacturer of mortars and thermal insulation solutions in Romania. The acquisition significantly strengthens Sika's position in the local construction chemicals market, and extends its manufacturing capacity. Adeplast generates annual sales of approximately CHF 120 million with a workforce of 460 employees.

In June, Sika acquired Modern Waterproofing Group, a leading manufacturer of bituminous roofing and waterproofing systems in Egypt. The acquisition supplements and rounds off the product portfolio of Sika Egypt and offers new opportunities for growth in the Egyptian construction market. The acquired business generates annual sales of around CHF 26 million.

2020 INVESTMENTS

Due to the corona pandemic one of the preventive actions implemented to free up cash was deferring capital expenditures leading to a substantial reduction in investment spent for 2020. Resetting capital spending in the wake of COVID-19 is a focus for the coming year by continuing the investment strategy which is geared to consolidate the global presence Sika has built up over the last few years, and, to this end, unlock new markets or expand its activities. To encourage focused growth, selected markets, customers, technologies, and products are prioritized. With the Strategy 2023 Sika will continue to invest in those regions where the Group can tap into new markets or further penetrate its existing presence. Additionally, Sika will invest in innovation and operational efficiency to strengthen its current footprint and commitment to reduce CO₂ emissions.

In the year under review, Sika invested CHF 131.8 million (2019: CHF 192.3 million), which is equivalent to 1.7% of net sales. The breakdown of the investments are as follows: expansion of production capacity at 29% (2019: 44%), 39% (2019: 25%) was needed for maintenance and upgrades in existing facilities, 23% (2019: 22%) was used for rationalization, efficiency improvements and digitalization, and 9% (2019: 9%) was spent on environmental protection, health and safety, and quality control. The share of investment in the emerging markets was 30% (2019: 36%).

RISK MANAGEMENT

EARLY IDENTIFICATION OF POSSIBLE RISKS

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

RISKS AND OPPORTUNITIES

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

GROUP MANAGEMENT AND BOARD OF DIRECTORS

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

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

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

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

SUPPLIER MANAGEMENT AND RAW MATERIAL PROCUREMENT

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

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

Since February 2020, Sika is an active member of the Together for Sustainability (TfS) initiative. The organization, founded in 2011, aims to improve sustainability practice within the supply chain of the chemicals industry. The TfS program is based on the UN Global Compact and Responsible Care® principles and allows Sika to assess and evaluate the performance of its suppliers in various aspects. This includes economic, environmental and social criteria in order to positively impact the sustainability performance of Sika and its suppliers. (see chapter "Sustainability Report", page 51).

Sika's procurement specialists and technical experts work closely with suppliers' technical units to fully understand the raw material flows, and continually optimize costs, quality, availability, and sustainability. Potential suppliers are closely screened by Sika and must demonstrate compliance with all laws, regulations and international standards set out through Sika's qualifying and selection process. All suppliers are required to sign the Supplier Code of Conduct, which includes the Sustainability, Ethics, and Fair Competition principles. TfS evaluations will be an additional requirement introduced in 2021, in which all potential suppliers must also participate in a TfS Assessment.

Suppliers are regularly evaluated by a comprehensive supply risk management process to achieve continuous uninterrupted material availability, quality, cost competitiveness, and compliance, essential for business success. The corresponding findings are incorporated into the risk assessment, along with the suppliers' self-assessments and data available in the public domain. If a relevant risk is identified, Sika will conduct an audit of the supply company in question to ensure expected functionality of the latter's internal risk management system.

Raw materials are systematically evaluated within Sika to identify potential risks and to determine relevant measures, such as maintaining safety stocks, and/or securing long-term supply contracts. Despite the unusual circumstances as a result of COVID-19, 2020 again saw a successful execution of Sika's risk management process, allowing the company to better identify potential risks and secure well-structured mitigation practices. Sika continues to use this risk management process stringently to ensure any potential impacts on the company and its customers are mitigated.

PRODUCTION AND LOGISTICS

Sika sets defined standards for risk provisions that are binding for its production and logistics operations. These standards form part of the Group-wide "Sika Corporate Management System" and determine minimal requirements and best practices; for example, processes and guidelines in the areas of safety, health, environment, quality, sourcing, manufacturing, and logistics. The "Sika Corporate Management System" is accessible to all employees of the Sika Group. Together with the local regulatory requirements, these standards are subsequently documented in individually maintained Sika management systems of the local Sika companies. Additionally, Sika production companies are certified to ISO 9001:2015 (quality management), ISO 14001:2015 (environmental protection), ISO 45001:2018 (occupational health and safety management) and IATF 16949:2016 (automotive quality management). A growing number of larger facilities are also certified to ISO 50001:2018 (energy management). The current certification status of individual Group companies is shown on page 150 et seq. of this report.

Audits and inspections are core elements of Sika's comprehensive management system. They provide management at Group, regional, and local company levels with a regular, independent assessment of compliance with official requirements, as well as with Sika's internal risk management guidelines and principles. These audits and inspections ensure the effectiveness of processes and related controls. Quality, environment, health, safety, sustainability, property loss prevention and business interruption, product development and technology, legal matters, application risks, IT security, suppliers, and product performance are all subject to audit. In 2020, Sika conducted 135 centrally documented audits throughout the organization.

Supplier audits are carried out by the purchasing and quality assurance departments based on the risk assessment. The number of reviews is steadily increasing. Membership in the "Together for Sustainability" (TfS) initiative enables Sika to ensure that global standards for environmental, social and governance are met by suppliers. In 2020, 44 supplier audits were executed, and supplier audit trainings for more than 80 purchasing and quality assurance employees were conducted.

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

PRODUCT DEVELOPMENT AND MARKETING

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

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

CUSTOMERS AND MARKETS

Sika has a policy of strategic diversification to limit market and customer-related risks. Geographical diversification is tremendously important in the locally based construction industry, given the sometimes contrary business trends witnessed in this sector in different regions of the world. Customer diversification – with no single customer accounting for more than 2.5% of Sika's turnover – is another stabilizing factor. As a further safeguard against economic fluctuations, Sika operates both in the newbuild sector, and in the less cyclical renovation and maintenance market.

FINANCIAL RISKS

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

Liquidity is optimized by means of a cash-pooling arrangement. Sika also manages its net working capital with the utmost prudence. For example, the local companies have precisely defined processes for handling accounts receivable. A cost structure dovetailed to the prevailing market conditions ensures adequate cash generation. Sika attaches high priority to open and cost-efficient access to capital markets. In this context, the A-/stable rating of Standard & Poor's must be taken into account.

Financial risk management is described in greater detail on page 143 et seq. of this report.

INTERNAL AUDIT

Internal Audit carries out audits as set out in the annual audit plan, approved by the Audit Committee. The internal audits are primarily in the areas of sales, accounts receivable and accounts payable management, product development, purchasing, production, quality control, inventory management, financial and operational reporting, compensation and benefits, and IT management. Furthermore, the governance structure, compliance with the Code of Conduct, and the internal control system are assessed at the Group companies. In addition to the global audit of sales and production companies, regular in-depth audits are carried out in the area of headquarter functions and Group-wide support processes. Internal Audit is an instrument of the Board of Directors and reports to the Audit Committee.

CLIMATE RISKS

Global climate change and government measures to mitigate this change can impact our day-to-day business in many different ways and/or influence demand for our products. Within Sika, climate risks are essentially divided into two categories: (a) transitional risks, which are temporary risks connected with the transition to a low-carbon economy and (b) physical risks, or actual risks created by the occurrence of an event. The respective risks are mapped out in greater detail in the "Sustainability Report" section (see page 51), alongside related measures to reduce risk and the corresponding parameters.

The analysis of climate risks confirms how fundamental it is that critical dependencies and the external effects of climate change on Group strategy are well understood. Climate-change time horizons are challenging, as these horizons are much longer than political terms of office and investor outlooks, and stretch far beyond typical planning cycles.

Sika is accelerating its efforts to drive the transition to a low-carbon economy. The Group continues to increase its use of renewable energy sources in its own operations and enables customers to improve their environmental footprint through its products and solutions. Sika will continuously launch products that offer environmental benefits combined with enhanced performance. This includes product (re)formulations with less emitting materials and at the same time contribute to a circular economy.

CYBERRISKS

The ever-increasing use of information technology, cloud computing, automated processes, and new communication standards (5G) combined with increasing interconnectedness is giving rise to new business models. The flip side of this coin is that new technologies also entail inherent and at times covert risks, such as espionage, data theft, and sabotage. Companies are increasingly exposed to such risks, which can take shape through cyberattacks carried out by national governments, individuals, groups, or organizations.

Sika follows such unwelcome developments very closely, provides its staff with the requisite training, and has reinforced its IT organization within the Group accordingly. The measures to combat and defend against such attacks are continually reviewed with the help of external specialists and adapted in line with any new situations that may arise.

The catalog of measures is set out in the Cyber Defense Strategy and comprises the following key elements:

- Ongoing adjustment and expansion of our IT security systems to safeguard our IT architecture, processes, and data in step with the continually changing cyber threat scenarios
- Building up internal cybersecurity skills that are backed up by support from external specialists
- Regular training of the Sika workforce on developments in cyber risks and the correct way to counter these risks
- Continued further development of our IT/Business Community Frameworks
- Introduction and expansion of a Global Cyber Crisis Management Concept

REPUTATIONAL RISKS

Sika's internationally highly regarded reputation contributes significantly to the company's value. The Sika Code of Conduct and Sika's Values and Principles are the guiding principles for integrity and ethical behavior. All employees and all those who join Sika through acquisitions are trained in the Code of Conduct and in dealing with the Sika Trust Line (Whistleblower Line).

External tools support the monitoring and management of potential reputational issues. With the goal of identifying crisis topics, so-called issues, at an early stage, a global issue monitoring system was established last year. In this context, the company focuses on potential negative issues and, in particular, adverse reporting on online and offline platforms or media. The aim is to identify these at an early stage and respond accordingly.

An external database is used to search for potential negative ESG topics with which Sika is associated. For this purpose, a comprehensive set of search terms from various categories was defined, which comprise the following topic complexes:

- Community Relations
- Employee Relations
- Environment
- Governance
- Group Management
- Board of Directors
- Main Legal Entities
- Main Brands/Products

Monthly reporting was established in January 2021. The system is to be rolled out to other areas and departments in the current fiscal year.

GROUP REVIEW

GROUP REPORT

THE CORONAVIRUS PANDEMIC IS WEIGHING ON SALES. SIKA HAS POSTED NEW RECORDS FOR BOTH PROFIT AND OPERATING FREE CASH FLOW.

The 2020 fiscal year was overshadowed by the COVID-19 pandemic, which had a number of severe effects for the construction and automotive sectors. Sika nonetheless achieved record results in a difficult environment. Sales in local currencies increased by 3.4%. Due to negative currency effects, this equates to a slight year-on-year decline in sales in Swiss francs of -2.9% (CHF 7,877.5 million). Operating profit (EBIT) grew by an over-proportional 7.1% to CHF 1,130.5 million – a new record result. In keeping with this development, new peak figures were also recorded for net profit (CHF 825.1 million, +8.8% year-on-year) and operating free cash flow (CHF 1,259.4 million, +22.7% year-on-year).

CORONAVIRUS PANDEMIC AND MEASURES TAKEN IN RESPONSE

In most of the 100 countries in which Sika is present, lengthy lockdowns have partially restricted construction activity. Furthermore, many of our customers in the automotive industry had to close their factories for a number of weeks. Thanks to its strong market position and swift, targeted implementation of measures, Sika was able to achieve very impressive results despite this challenging market environment.

The focus of the measures initiated was threefold. Employees, customers, and suppliers needed to be protected, operating activity was continued at a high level, and the Group's strong customer focus had to be retained or even strengthened. Sika therefore implemented social distancing rules all around the world at a very early stage, introduced mask-wearing and protective clothing in production processes, and complied with rigorous travel restrictions. The emphasis was on home working wherever possible, and meetings were held virtually. But Sika's close contact with its customers was actually increased during the crisis. For instance, more than 150,000 customers worldwide have been trained in webinars.

SIKA – ENABLER OF SUSTAINABLE CONSTRUCTION AND ENVIRONMENTALLY FRIENDLY MOBILITY

In addition to the pandemic, the climate change is presenting major challenges to society. As part of its growth strategy, Sika has committed to reducing CO₂ emissions by 12% by 2023, with the ultimate goal of being climate-neutral by 2050 at the latest. The interim target is to halve greenhouse gas emissions per ton of product sold by 2030 compared to the levels recorded in 2019. This is being achieved by increasing the energy efficiency of the production process, and obtaining an increasing proportion of the energy it requires from renewable resources (Scope 1+2). Already in the fiscal year just ended, Sika clearly exceeded its prescribed target of a 3% reduction in CO₂, reducing emissions by no less than 26%. Today, Sika releases 20 kg of CO₂ per ton of products sold (previous year: 27 kg).

In its clear commitment to sustainability, Sika is looking not only to reduce its own CO₂ emissions, but also to support customers in a targeted way so that they can massively reduce their CO₂ footprint with innovative solutions and products. In many respects, Sika's technologies make it an "enabler" – a trailblazer with the expertise to achieve the goal of climate neutrality in the construction and automotive industries. Sika's admixtures facilitate low-emission and resource-saving construction, its facade systems allow for energy-efficient buildings, and Sika adhesives form an integral part of climate-preserving vehicles.

MARKET SHARE GAINS IN ALL REGIONS

In an environment characterized by widespread temporary lockdowns, Sika managed to grow more strongly than the market in all regions. It also expanded its distribution business in all regions.

The EMEA region (Europe, Middle East, Africa) reported a sales increase in local currencies of 4.4% in 2020 (previous year: 11.6%). A strong improvement started to become apparent in these markets in the fourth quarter in particular. The countries that benefited from the biggest recovery were those of Southern Europe – Italy, Spain, Portugal, and France – as well as the countries of Eastern Europe, Scandinavia, the Middle East, and Africa.

The Americas region recorded sales growth in local currencies of 1.0% (previous year: 19.2%). Despite the high COVID-19 infection rates recorded in Mexico, Brazil, and the United States, Sika recorded an uptrend in the Americas region in the last quarter of 2020. Although many cities in North America continue to be affected by the pandemic and construction projects have slowed, the situation in Latin America has improved markedly.

Growth in the Asia/Pacific region amounted to 12.6% (previous year: 35.1%). China in particular performed impressively over the last few months, recording double-digit organic growth rates, and most target markets are on a clear growth trajectory. Australia was also able to contribute to the positive business development of this region. By contrast, India and a number of countries in the Southeast Asia region recovered only slowly from the far-reaching effects of the pandemic.

Global Business recorded a sales decline of -11.4% in 2020 (previous year: +3.0%). In the same period, the automotive sector reported a global decline in output of -17%. Despite the pandemic-related decline in sales figures during the crisis year of 2020, Sika is convinced that the megatrends shaping modern automotive construction – which include e-mobility, further new drive concepts, and the trend toward lightweight construction – will help the Group to capture additional market share.

RECORDS FOR PROFIT AND CASH FLOW

The Group was able to post new records for both profit and cash flow in fiscal 2020. This proves that Sika is able to adapt to market parameters rapidly and work cost-efficiently even in a difficult year. The material margin recorded a year-on-year increase from 53.6% to 54.8%. Sika increased EBIT by 7.1% to CHF 1,130.5 million (previous year: CHF 1,055.1 million), while the EBIT margin came in at 14.4% (previous year: EBIT margin 13.0%). In keeping with this development, net profit rose by 8.8% to CHF 825.1 million (previous year: CHF 758.5 million). Yet another record was set by operating free cash flow, which amounted to CHF 1,259.4 million (previous year: CHF 1,026.1 million).

HIGH DIVIDEND TO BE PROPOSED

In keeping with the increase in net profit, the Board of Directors will be proposing an 8.7% increase in the gross dividend to CHF 2.50 at the Annual General Meeting of April 20, 2021 (previous year: CHF 2.30).

Our business model has shown itself to be truly resilient in what has been a serious global crisis. Particularly crisis-resistant in 2020 were the distribution business, the refurbishment business, and our building finishing activities. In the future, we will additionally benefit from stimulus programs designed to support the economy in the form of national subsidies for infrastructure projects. Moreover, the strong growth in demand for environmentally friendly products is making its own contribution to our positive business development. Sika is the global leader in solutions for sustainable construction and sustainable mobility. Already today, a large part of our sales is generated by technologies that provide sustainability benefits for customers, the environment, and society.

KEY BALANCE SHEET FIGURES

The ratio of net working capital to net sales once again declined substantially in 2020, to 16.9% (previous year: 18.1%). This reduction was achieved through improved inventory management and a modified sales mix in acquired companies. At the end of 2020, cash and cash equivalents amounted to CHF 1,318.7 million (previous year: CHF 995.1 million). Net debt was reduced to CHF 2,855.8 million (previous year: CHF 3,407.8 million), while gearing fell to 86.9% (previous year: 107.8%). The equity ratio increased slightly and now stands at 33.6% (previous year: 31.7%). Return on capital employed (ROCE) came to 16.6% (previous year: 19.2%). Adjusted for acquisitions, ROCE for 2020 would be 29.3% (previous year: 31.3%).

GROUP REPORT REGIONS

MARKET SHARE EXPANDED IN ALL REGIONS

The 2020 fiscal year was overshadowed by the COVID-19 pandemic, which presented a number of challenges for Sika. The first part of the year was characterized by lockdowns all around the world, in some cases of a prolonged nature. In the majority of the hundred countries in which Sika is active and represented by national subsidiaries, this had the effect of severely restricting construction activity. Thanks to its outstanding market position and swift, targeted implementation of measures, Sika was able to record solid sales figures despite the repercussions of the global pandemic, growing more strongly than the market. Furthermore, the distribution business expanded in all regions.

EMEA (EUROPE, MIDDLE EAST, AFRICA)

For the EU countries, 2020 was the most challenging year since the end of the Second World War, with economic growth proving negative to the tune of -8%. Whereas a number of countries – including some of the largest economies such as the UK, France, Italy, and Spain – recorded a heavy, double-digit fall in economic growth, the contraction in other countries proved less severe and was limited to single-digit percentage territory, such as in Norway, Switzerland, Sweden, and Poland.

Sika increased sales in local currencies in the EMEA region by 4.4% in 2020 (previous year: 11.6%). A strong improvement started to become apparent in the markets in the fourth quarter in particular. The countries that benefited from the biggest recovery were those of Southern Europe – Italy, Spain, Portugal, and France – as well as the countries of Eastern Europe, Scandinavia, the Middle East, and Africa. Sales developed in a more stable manner in Central Western European countries such as Germany, Austria, and Switzerland. The project business in the UK took a double hit in 2020 from the twin factors of Brexit and the pandemic. By contrast, the distribution channel managed to post double-digit growth.

In the year under review, Sika initiated the manufacture of shotcrete admixtures used in tunnel construction at its main plant in Gournay-en-Bray, to the north west of Paris, and invested in

new facilities. Sika also expanded its production in Switzerland, with a new, high-performing, and environmentally friendly polyurethane technology produced at its Düringen site. At the site in Sarnen, a new facility commenced operations at the start of the year for the manufacture of the structural waterproofing membrane SikaProof®. In Dubai, production capacity in the United Arab Emirates was expanded further. In addition to concrete admixtures, epoxy resins are now being produced locally for the Target Market Flooring.

Furthermore, a leading Egyptian manufacturer of roofing and waterproofing systems was acquired in the year under review in the form of the Modern Waterproofing Group. The completion of the acquisition of Adeplast SA also brought a renowned manufacturer of mortar products and thermal insulation solutions based in Romania into the Group.

AMERICAS

Economic output in the United States declined by -3.7% in 2020, while Canada recorded an even higher decline of -5.5%. However, the north of the American continent fared better than large parts of Latin America, where gross domestic product slumped heavily. The contraction in Argentina, Mexico, and Peru amounted to as much as 10%.

Within the Sika Group, the Americas region recorded a sales increase in local currencies of 1.0% (previous year: 19.2%). Despite the high COVID-19 infection rates recorded in Mexico, Brazil, and the United States, Sika recorded an uptrend in the Americas region in the last quarter of 2020. Many cities in North America continue to be affected by the pandemic and construction projects have slowed. The situation in Latin America has seen a clear improvement. Many countries such as Brazil, Chile, Peru, and Uruguay have recovered from lockdowns lasting many months, or are once again growing at double-digit rates.

To lay the basis for further growth, Sika invested in the production of concrete admixtures, acrylic-based liquid applied membranes, and mortars in Barranquilla, the fourth largest city in Colombia. Furthermore, the company's collaboration with CIDRA Concrete Systems Inc., which is headquartered in Eden Prairie, Minnesota, was expanded, and a growth equity investment agreement to supplement the existing global partnership was signed. CIDRA specializes in digital systems for monitoring concrete properties during transportation.

ASIA/PACIFIC

China emerged from the fiscal year just ended as the only major economy to record positive growth (2%). Most countries in this region recorded a GDP decline of around 5% as a result of the COVID-19 pandemic.

Growth in the Asia/Pacific region amounted to 12.6% (previous year: 35.1%). China in particular performed impressively over the last few months, recording double-digit organic growth rates, and most target markets are now back on a clear growth trajectory. The former Parex business has been especially resilient in the face of the crisis, generating further growth in its various distribution channels. The project business in China is now also once again recording double-digit growth rates thanks to infrastructure orders. Australia was additionally able to contribute to the positive business development of this region. By contrast, India and a number of countries in the Southeast Asia region are still suffering from the significant repercussions of the coronavirus pandemic. Throughout the region, the distribution business defied the pandemic and recorded healthy growth. In particular, there was a strong rise in the number of shops in which Sika products are sold.

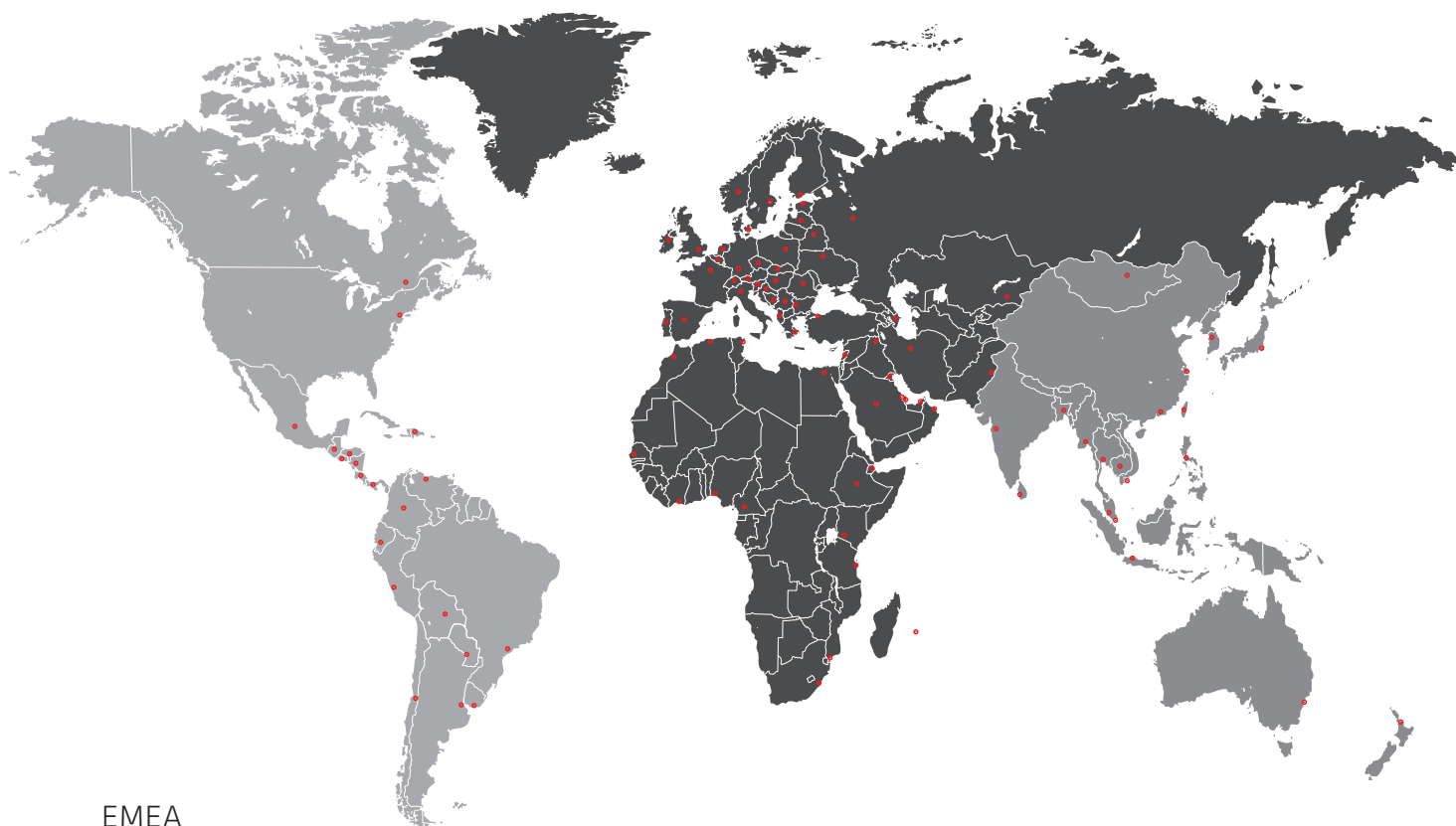
Sika has further expanded its capacity in the fast-growing mortar market in China with the commissioning of a new factory in Chengdu.

GLOBAL BUSINESS

In 2020, the automotive sector reported a global decline in output of -16.7%. Whereas the decline in the number of vehicles sold in China was kept within reasonable limits at -4.2%, the automotive markets of both Europe and North America experienced dramatic slumps in their production rates, of -22.6% and -20.1% respectively. Although business volumes in the automotive area recovered noticeably in the second half of the year in Europe in particular, it is expected to take some time before sales volumes in this sector return to 2019 levels.

Sika Global Business recorded a sales decline of -11.4% in 2020 (previous year: +3.0%). Despite the pandemic-related decline in sales figures during the crisis year of 2020, Sika is convinced that the megatrends shaping modern automotive construction – which include e-mobility, further new drive concepts, and the trend toward lightweight construction – will help the Group to capture additional market share and generate profitable long-term growth. For example, heat management in the modern battery systems of electric vehicles is a key element in the paradigm shift toward new drive systems. Sika is a leading player with its solutions in this area and is enabling the transformation to sustainable mobility.

THE REGIONS IN BRIEF



EMEA

Net sales in CHF mn

2020: 3,410

2019: 3,432

AMERICAS

Net sales in CHF mn

2020: 1,996

2019: 2,162

ASIA/PACIFIC

Net sales in CHF mn

2020: 1,696

2019: 1,585

GLOBAL BUSINESS

Net sales in CHF mn

2020: 776

2019: 930

	EMEA	AMERICAS
Growth in local currencies	4.4%	1.0%
Currency impact	-5.0%	-8.7%
Acquisitions effect	7.6%	5.2%
Organic growth	-3.2%	-4.2%
Employees	10,533	5,139

	ASIA/PACIFIC	GLOBAL BUSINESS
Growth in local currencies	12.6%	-11.4%
Currency impact	-5.6%	-5.2%
Acquisitions effect	13.0%	0.0%
Organic growth	-0.4%	-11.4%
Employees	6,097	2,435

GROUP REPORT OUTLOOK

CONTINUATION OF SUCCESSFUL GROWTH STRATEGY

Despite the coronavirus crisis and its repercussions for operating results, Sika is confirming its strategic targets for 2023. The company remains aligned for long-term success and profitable growth. With its focus on the six strategic pillars – market penetration, innovation, operational efficiency, acquisitions, strong corporate values, and sustainability – Sika is seeking to grow by 6%–8% a year in local currencies up to 2023. From 2021, the company is aiming to increase its EBIT margin to 15%–18%. Projects in the areas of operations, logistics, procurement, and product formulation should result in an annual improvement in operating costs equivalent to 0.5% of sales.

For the 2021 fiscal year, Sika is expecting an increase in sales in local currencies of 6%–8%, along with an over-proportional rise in EBIT. The EBIT margin should for the first time reach 15%.

SUSTAINABILITY REPORT

ENHANCING CUSTOMER VALUE, REDUCING ENVIRONMENTAL IMPACTS,
AND ASSUMING SOCIAL RESPONSIBILITY

As a global company, Sika is committed to sustainable development. The company honors its responsibilities by offering sustainable solutions for energy-efficient construction and innovative vehicles. Furthermore, it implements numerous projects and measures aimed at boosting the Group's economic, social, and environmental sustainability.

SIKA'S SUSTAINABILITY STRATEGY

The Sika Growth Strategy 2023 ensures long-term success and profitable growth. The company's innovative drive combined with sustainability is a key component. The Sustainability Strategy "More Value - Less Impact" refers to Sika's ambition to maximize the value of its solutions and contributions for all stakeholder groups, while simultaneously minimizing the risks and resource consumption associated with value generation. There is a close alignment between the growth strategy and the sustainability strategy. Sustainability is the overarching principle with the overall goal to reduce the CO₂ emissions per ton sold by 12% until 2023. With the Sustainability Strategy "More Value - Less Impact", Sika pursues six strategic target areas, focusing on sustainable solutions, climate performance, community engagement, energy, waste/water, and occupational safety.

With the adoption of the Paris agreement, governments worldwide agreed to limit global warming to well below 2°C and to pursue efforts to limit it to 1.5°C. Global GHG emissions must peak and be subsequently reduced by the middle of the century in order to deliver on these goals. Consequently, in a first step Sika has been focusing on reducing its scope 1 and scope 2 GHG emissions by investing in high-impact efficiency improvements of production processes. It is the ambition of Sika to increase the coverage of scope 3 GHG emission data collection and reporting. At the end of the reporting year, the company started to prepare a road map to define and process science-based targets covering the entire value chain. Furthermore, within the framework of reporting according to the TCFD recommendations the company identified climate-relevant risks at operation level and is considering transition and physical risks along its value chain.

In 2021, the company will conduct a GHG scope 3 baseline assessment. This includes a materiality assessment of the relevant carbon-related scope 3 activities and will enable the identification of the material scope 3 categories as defined in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Based on this analysis, Sika will quantify the GHG emissions per material scope 3 category and define a carbon reduction pathway to reach net zero in the long-term.

CIRCULAR ECONOMY

The business case for adopting circularity principles is becoming more and more compelling due to higher awareness and shifting demand towards more sustainable solutions among customers in construction and transportation markets. Sika's initiatives to impact the development towards a circular economy in its industry, range from the alignment with the UN Sustainable Development Goals (SDGs) 11, 12, and 13 in particular, to the partnering with downstream clients, universities and startups to co-design and implement products. Collaboration projects are essential because the deployment of deep circularity interventions relies on access to cost-effective sustainable energy and renewable/recyclable feedstock with appropriate specifications.

Sika has actively started a few years ago to seek performance enhancements by using recycled materials and sustainable raw materials, for example in the field of mortars formulated with the addition of recycled aggregates or residues that come from other industries. In addition, projects about the use of post-consumer recycled plastics in membranes packaging and adhesive cartridges have been successfully developed in 2020 together with qualified partners who bring their expertise in material selection, manufacturing process, and packaging designing.

MANAGEMENT AND ORGANIZATION

The further development and the implementation of the Sustainability Strategy in 2020 has been assigned to the department "Sustainability and Operations Technology" (S&OT). This department encompasses Manufacturing and Product Sustainability, Environment, Health and Safety (EHS), as well as Factory KPI Reporting. Other areas of S&OT are Quality Assurance, Risk Management, and Operations Technology. The Sustainability Strategy is implemented and anchored locally by the line organization. A particular degree of responsibility lies with the General Managers, Target Market Managers, R&D Managers, and Operations Managers, who drive the development and implementation of local action plans. The existing network of local and regional EHS and sustainability resources supports Sika companies in ideation, planning, and implementation of higher-level regional measures. In 2019, a world-wide EHS network was established, including regional and area representatives. In 2020, a network of four Regional Sustainability Managers, coordinated by the Global Sustainability team, has been set up with the objective to strengthen the rollout of the Sustainability Strategy at regional and local levels.

In addition, Sika established a Sustainability Advisory Board (SAB) in 2016. An independent expert opinion aimed to provide Sika management additional guidance regarding the direction and implementation of Sika's Sustainability Strategy. In 2020, the SAB met twice, in July and in November. The focus topics concentrated on the target areas "climate change" and "product sustainability". Further focus topics were encompassing the new initiative "Together for Sustainability" (TfS) that Sika joined in 2020 and a status report on the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

SUSTAINABLE DEVELOPMENT GOALS

Sika committed to contribute to the UN 2030 Agenda for Sustainable Development, focusing on eight of the 17 goals. Sika's contribution to both construction and vehicle industry can highly influence these goals: 3 (good health and well-being), 4 (quality education and lifelong learning), 6 (clean water and sanitation), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure), 11 (sustainable cities and communities), 12 (responsible consumption and production), 13 (climate action). More detailed information about the integration of the UN Sustainable Development Goals can be found at www.sika.com/sustainability.

SUSTAINABLE TARGETS – SUCCESSFUL IMPLEMENTATION

In 2020, Sika continued to pursue its sustainability strategy “More Value – Less Impact”. With the help of this framework, the company is seeking to deliver on its promise to create lasting value in a sustainable, environmentally-friendly, and resource-sparing way. In the year under review, Sika developed positively in all areas of its sustainability strategy.

SUSTAINABLE SOLUTIONS

2020

- When it comes to product development, Sika combines higher performance with additional sustainability benefits

CLIMATE PERFORMANCE

2020

- -26% CO₂ decline in CO₂ emissions per ton sold. The emission of greenhouse gases was reduced significantly to 20kg per ton sold, a reduction of 7kg compared 2019.

COMMUNITY ENGAGEMENT

2020

- 1,119 working days were dedicated to volunteering work, an increase of 178%.
- 183 projects were carried out in and for local communities, 23% more projects than the prior year.
- 268,581 direct beneficiaries of the Community Engagement Program, 656% more than the year before.

ENERGY

2020

- -21% lower energy consumption per ton sold. Consumption per ton decreased by 77 MJ to 286 MJ.
- 24% of procured electricity was derived from renewable sources. This was a significant rise on the prior-year figure (15%).

WASTE / WATER

2020

- -12% less waste per ton sold. The volume of waste was reduced to 12.4kg per ton sold.
- 35% of all waste was recycled. This was an improvement on the 2019 figure (34%).
- -35% reduction in water consumed per ton sold. The required amount of water per ton declined to 0.22 m³.

OCCUPATIONAL SAFETY

2020

- 8.4 occupational accidents per 1,000 employees, 12% fewer accidents than in the prior year.
- One fatal accident involving a Sika employee, unchanged compared to 2019.

TCFD – SIKA'S DISCLOSURE ABOUT CLIMATE RISKS, SCENARIO ANALYSIS AND RESPONSES

Sika recognizes that climate change will have an impact on the world it is operating in and it therefore needs to be addressed in the strategic planning and the risk management process. Evaluating climate-related risks and opportunities related to its business and developing appropriate response measures are of vital importance to ensure a sustainable development and the business continuity of Sika. As a framework to disclose the impacts of climate change on Sika's business and to increase the understanding of the related risks and opportunities, the Group has endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Sika has started a process for identifying and assessing the potential implications of plausible future scenarios. Those scenarios allow Sika to explore and develop an understanding of how various combinations of climate-related risks, both transition and physical risks, may affect its businesses, strategies, and financial performance over time. In 2020, Sika started to apply a basic level of scenario analysis in its strategic planning and risk management processes. Going forward, Sika will expand the scope of its scenario analysis to include more details on geographical and technology-related risks and opportunities.

GOVERNANCE

The highest governance level of climate-related risks and opportunities is the Board of Directors. The Board's responsibility is to review and endorse the development and implementation of sustainability policies and strategies. It is one of the main tasks of the Chair of the Board to steer and oversee climate-related topics. The Board of Directors has approved the Group's long-term climate ambition to achieve net-zero greenhouse gas emissions by 2050.

Group Management is responsible for the development and implementation of initiatives and actions addressing climate change, in line with the defined sustainability strategy and targets.

The external Sustainability Advisory Board and the internal Sika Sustainability Committee ensure that climate-related aspects are adequately considered in the Group's strategy and operations. The external Sustainability Advisory Board gives recommendations for the agenda setting on global level. The task of the internal Sika Sustainability Committee is to prepare the decision-making of the Group Management.

Identification, assessment, and management of climate-related risks are integrated into multi-disciplinary company-wide risk identification, assessment, and management processes.

Information on specific climate-related risks is collected on regional level and consolidated on corporate level aligned with the overall strategy. Sika's global management set-up drives and steers effective risk management. Unexpected environmental, climate-related disasters and economy fluctuation might have an impact on global and local markets. The governance structure fosters the build-up of expertise to catch and evaluate the impact of unexpected risks.

STRATEGY

To evaluate the potential risks and opportunities of climate change impact including its upstream and downstream value chain, Sika has performed a high-level assessment of physical and transitional exposures.

Two scenario narratives have been considered in terms of global temperature rise by 2100:

- 2°C aligned with the Paris Agreement,
- 4°C corresponding to a "business as usual" scheme.

These scenarios are the most commonly used by the companies to describe the potential impacts of climate change. One of the scenarios illustrates fully executed climate-change mitigation, the other an environment with no mitigating measures or regulations. In line with the work of the Intergovernmental Panel on Climate Change (IPCC), they take into consideration different possible development scenarios for future greenhouse gas emissions.

There are several uncertainties in future climate predictions which includes unknown future emissions of greenhouse gases. The Group has chosen a projection horizon to 2030 which is aligned with its objective to reduce CO₂ emissions by 50% until this year and represents a realistic view on this intermediate goal. The period 2021 to 2030 refers to the near future.

To complete this task, an internal cross-functional team has been set up which also relied on the advice of an external expert consultant in this field.

Both scenario narratives present strategic risks and opportunities based upon assumptions which consider research done by organizations such as International Energy Agency (IEA), Intergovernmental Panel on Climate Change, or World Business Council for Sustainable Development (WBCSD).

MANAGEMENT OF CLIMATE-RELATED RISKS

PHYSICAL RISKS

Sika assumes that business impacts due to physical risks are similar for both scenarios until 2030. Physical risks have a higher probability to impact global water situation, raw materials, and energy supply. This may lead to an increase in raw material and manufacturing costs. Increased frequency of extreme weather event would cause increased incidence of disruption in the manufacturing and distribution networks. Acute water stress would affect the water supply and limit production capacity in water-stressed areas.

The Group has set up action plans to mitigate the climate-related physical impacts. These include extended cooperation with suppliers to validate alternative raw materials and work on improved product formulations. A global energy efficiency program including local road maps is in place to reduce energy intensity and decrease greenhouse gas emissions in the operating units by 50% until 2030. The identification of Sika's countries at risk of water scarcity and the related action plan will be done in 2021.

TRANSITIONAL RISKS

The analysis shows that there likely will be differences in transitional risks in the two scenarios. Under the Paris Agreement scenario narrative (2°C), macro shifts will be required to move to a low-carbon economy such as policy and regulatory changes (adoption of local carbon pricing, incentives for renewable energy use, etc.) which will lead to raw material and manufacturing cost increases.

Global construction growth is expected to continue with more stringent standards for construction processes and product certifications.

The construction sector will be impacted by increased stakeholder and customer concerns with increased priority on sustainable products and solutions.

This will impact revenue and growth projections, as well as indirectly influence business in many other areas, such as community engagement and employee attraction.

Under the "business as usual" scenario narrative (4°C), the above assumptions and impacts will be less pronounced such as no harmonized carbon taxes implementation, less decarbonizing trends, lower awareness of severe consequences of climate change, and less priority on purchasing sustainably grown products and solutions.

METRICS AND TARGETS

RISK DESCRIPTION	RISK MITIGATION	PERFORMANCE INDICATOR
Transitional risk: more stringent regulations enforced on CO₂ emissions	<ul style="list-style-type: none"> - Build-up of global expertise to catch and evaluate potential impact of carbon regulation and regulatory changes - Analyze applicable regulatory restrictions and their financial impact on products (raw materials) and production (energy) - Sustainability Portfolio Management (SPM) development, implementation, and rollout - As part of the capital investment process, specific focus set on energy and CO₂ efficiency (production processes, equipment, facilities/buildings) - Efficient production means reducing and reusing production scrap and packaging materials as well as improving packaging design, resulting in higher productivity and lower material use 	<p>In place</p> <ul style="list-style-type: none"> - % of CO₂ / ton sold reduction - % of energy consumption / ton sold reduction - recycling rate of waste <p>Planned</p> <ul style="list-style-type: none"> - Number of products with improved SPM profiles (climate category) - % of virgin raw materials saved
Transitional risk: changing customer preferences	<ul style="list-style-type: none"> - Focus on business intelligence to better understand how consumers' lives and decisions may be affected by environmental changes and to anticipate new needs - Align R&D resources and develop formulations, products, and solutions to adapt to environmental developments and changed customer requirements - Development of new solutions together with customers and business partners 	<p>Planned</p> <ul style="list-style-type: none"> - Number of R&D projects with a focus on climate-related changes of customer preferences - Number of collaboration projects with business partners in this area
Transitional risk: electricity supply disruption and price increase	<ul style="list-style-type: none"> - Global energy efficiency initiatives at manufacturing sites (operational efficiency), reduction of energy consumption and investments in low energy equipment - Purchasing of electricity from renewable sources - Production of renewable energy 	<p>In place</p> <ul style="list-style-type: none"> - % of energy consumption / ton sold reduction - % of renewable electricity use
Physical risk: depletion of raw materials	<ul style="list-style-type: none"> - Extend cooperation with suppliers to improve factory resource efficiency and alternative sources - New product formulations considering alternative raw materials, for example as a substitute for high quality sand from river and sea - As raw material alternatives might become scarce, new product formulations are continuously challenged 	<p>Planned</p> <ul style="list-style-type: none"> - Number of formulations considering alternative raw materials
Physical risk: global water situation	<ul style="list-style-type: none"> - Identification of Sika's countries at risk versus water scarcity and floods through the Water Risk Atlas data base - Set up action plan to mitigate impact in formulation and operations - As part of the capital investment process, focus on lowering water demand (specifically in critical countries) 	<p>In place</p> <ul style="list-style-type: none"> - % water consumption / ton sold reduction <p>Planned</p> <ul style="list-style-type: none"> - % of water consumption in countries of risk

CONCLUSIONS

Sika is accelerating its efforts to drive the transition to a low-carbon economy. The Group continues to increase the use of renewable energy sources in its own operations and enables, through its SPM based “More Performant More Sustainable” driven products and solutions, customers to improve their own environmental footprint. Sika will continuously launch products with sustainability benefits combined with enhanced performance, including product (re-)formulations with less emitting materials and contributions to a circular economy, amongst others. Financial planning on group and local level is more intensively pointing towards mitigating climate-related risks and towards continuously enabling sustainable construction and transportation.

The work started in 2020 confirms the importance of further understanding critical dependencies and externalities of climate change on the Group strategy. Climate-change time horizons are challenging, as they are significantly longer than political terms, investor outlooks, and planning cycles.

This analysis demonstrates that both scenario narratives present financial risks and market opportunities and that actions taken by Sika to mitigate risks and capture opportunities will contribute to the resilience of the organization’s long-term performance. In this regard, strategic climate-related risk management for Sika is always linked to business opportunities from a market perspective.

The company will continue to develop the climate scenarios narrative assessment next year and onwards by for example, giving more details on impacts related to geography and core technology.

Sika will also pursue its collaboration with the World Business Council for Sustainable Development (WBCSD) which gathers experiences from several leading companies on climate-related risks and opportunities.

PROCUREMENT

Sustainable procurement ensures that sustainability as a core element of Sika's growth strategy is integrated throughout the supply chain. Procurement plays a key role guaranteeing to select and cooperate with vendors according to the highest ESG standards. With a strong focus on sustainable supply, cost, and efficiency improvement, Sika ensures responsible sourcing and compliance with sustainability and quality standards within procurement and supply chains. In the year under review, Sika joined the "Together for Sustainability" (TfS) initiative as a new member. The organization, founded in 2011, aims to improve sustainability practice within the supply chain of the chemicals industry. The TfS program is based on the UN Global Compact and Responsible Care® principles and allows Sika to assess and evaluate the performance of its suppliers in various aspects. This includes environmental, labor and human rights, ethical and sustainable procurement performance. The participation at the TfS initiative enables Sika to learn from and have an exchange with its members on best practices in sustainable procurement principles, and to actively participate in the improvement of sustainability practices within the chemical industry supply chains. More information about Sika's commitment in sustainable procurement in the chapter "Risk Management", page 40.

STANDARDS AND COMPLIANCE

Sika has a Group-wide, culturally well-established and integrated Compliance Management System (CMS). The Group pursues a holistic approach to compliance. It thus has put the compliance and HR functions under the joint leadership of a "Corporate Head Human Resources & Compliance". The resulting symbiosis of HR and Compliance greatly facilitates the infusion of compliance initiatives in the whole organization, throughout hierarchies, functions, and geographical areas. Five core activities contributed to a further strengthening of Sika's CMS in 2020.

DESIGN OF COMPLIANCE AUDIT PROGRAM

Sika's CMS rests on a life cycle of three closely interrelated core activities: Prevent – Detect – Respond & Adjust. In the context of detecting compliance violations, Corporate HR & Compliance in 2020 developed the necessary cornerstones to build up a compliance audit program. In close cooperation with other assurance functions at Group level, including Internal Audit, Legal, Finance, EHSSQ (Environment-Health-Safety-Sustainability-Quality), Procurement and R&D, Corporate HR & Compliance designed a "Compliance Self-Assessment" questionnaire for General Managers (GMs).

The questionnaire aims at three goals: to identify "high risks" and "focus entities" for targeted compliance audits; to monitor the local implementation of compliance requirements at all Sika entities; and to align closely with the above-mentioned assurance functions and their audit activities.

To reduce complexity, it was split into two parts. Part 1 was rolled out and completed in the fourth quarter of 2020, with a 100% response rate (123 out of 123 GMs). It focused on five compliance risk areas: (i) integrity/speak-up culture, (ii) anti-corruption, (iii) antitrust, (iv) third-party risks, and (v) EHSSQ. Based on the feedback received, neither "high risk" areas nor "focus entities" with an urgent need for intervention or follow-up regarding these five topics could be identified. Part two will be rolled out in the second half of 2021, focusing on compliance requirements related to Procurement, R&D, Finance and HR.

Based on its results, Corporate HR & Compliance will finalize both the scope and contents of its Compliance Audit Program and create a detailed Compliance Audit Plan, to be implemented in 2022.

DEVELOPMENT OF FOCUSED TRAINING INITIATIVES

Throughout 2020 and due to COVID-19, travel restrictions reduced drastically the possibility to deliver on-site compliance trainings. Therefore, Corporate HR & Compliance decided to focus on the development of online trainings.

Sika's internal risk analysis in 2019 had shown that fostering awareness among Sika employees about anti-corruption and conflict of interest was likely to help prevent future compliance cases. With the support of Sika's top management, therefore, Corporate HR & Compliance designed a new ABC e-learning, which it embedded in a broader campaign about values and leadership. This campaign will be launched in the first quarter of 2021, on a Group-wide level. Campaign materials, including the new anti-corruption e-learning, will be translated into a dozen languages. While the campaign aims at reaching all of Sika's nearly 25,000 employees, the anti-corruption and conflict of interest e-learning is targeting only the group of Sika employees chiefly exposed to those risks, including Sika Senior Managers, GMs, and the members of the Sales, Procurement and R&D functions.

A second training initiative in 2020 focused on the revision of Sika's existing anti-fraud online training, in close collaboration with Corporate Finance. This e-learning aims to raise the awareness about cyberfraud, again primarily among those employees most exposed to cyber risks. It is expected to be launched in the second half of 2021.

IMPLEMENTATION OF AN AUTOMATED SANCTIONS SCREENING TOOL

Trading globally, Sika is required to comply with a broad range of trade sanctions. In 2020, Sika initiated the Group-wide implementation of SAP-GTS (Global Trade Services). SAP-GTS allows for a largely automated, digitalized screening of select "sanctioned parties lists" (SPL). Sika's IT team, in close cooperation with the SAP Business Team and Corporate HR & Compliance, currently is developing the project design for a progressive global rollout of automated SPL checks to all Sika entities, including those not yet using SAP. Project implementation is expected to start in the second quarter of 2021.

COLLECTION OF ANNUAL GRI CONFIRMATIONS

Each fiscal year, General Managers are required to fill in and sign the "GRI Compliance Confirmation". Via a digitalized questionnaire, Corporate Compliance in 2020 again obtained assurance from all General Managers that core compliance policies and manuals regarding fundamental environmental, anti-corruption, antitrust, and labor laws were implemented at each entity, and that GMs provided adequate information and training to their staff.

EFFECTIVE CASE MANAGEMENT

Addressing compliance cases helps Sika not only to detect possible risk areas, but also to address them right away with targeted measures. Sika identifies compliance cases based on internal and external complaints. Complaints are escalated to Corporate HR & Compliance via several channels, including Sika's whistleblower platform ("Sika Trust Line") permitting anonymous reporting. In 2020, Corporate HR & Compliance received 60 complaints. The complaints triggered 44 internal compliance investigations. In 23 cases, allegations of misconduct could be substantiated. 17 cases could not be substantiated. Four cases still are under investigation.

The analysis of the 2020 compliance investigations allows for the following conclusions:

- Sika's number of reported (60) and confirmed/substantiated (23) compliance cases is very low, considering the size of the company.
- Most investigations (80%) centered on either interpersonal tension (17) or fraudulent behavior (18).
- Of 23 reports submitted anonymously, only one (4%) could be substantiated.
- Sika employees remain the main channel to openly report misconduct. Of the 18 incidents they have escalated, 12 (66%) could be substantiated. While eleven of the 18 cases were reported by business employees (first line), five were reported by assurance functions (2nd line) and two by Internal Audit (3rd line).
- External partners were a second important source of reports. Out of the 13 external complaints brought to our attention, ten (77%) could be substantiated.
- In 19 out of the 23 substantiated cases, sanctions were imposed (seven warning letters, 15 dismissals). The consequent imposition of serious sanctions confirms Sika's zero tolerance for compliance violations and an overall consistency in punishment.

SIKA SUSTAINABILITY ACADEMY

In alignment with Sika's global growth strategy and focus on continuous improvement, the company encourages employees at all levels to work on their career development. Sustainability is an important business pillar, a competitive advantage and a key component of the company's innovation drive and Growth Strategy 2023. The Sustainability Academy is Sika's flagship global sustainability education program, providing the necessary skills, methods, and practical examples to the participants in the countries to develop, coordinate, and implement local activities and projects to achieve the set sustainability targets.

In 2020, the annual Sika Sustainability Academy was planned to be held in Preston (UK) but is has been postponed to autumn 2021 due to the COVID-19 pandemic. As a consequence, several webinar were offered in the second half of year with the aim to provide training opportunities within the relevant subject areas of product sustainability, to increase awareness of product sustainability themes within Sika, to help Sika colleagues build knowledge on a variety of topics related to product sustainability and to connect with colleagues and start new dialogues. The 11 live-webinar sessions with Q&A options were attended by over 900 colleagues from all regions, with technical, marketing, sales and sustainability roles in their respective organizations.

In the year under review, Sika organized international and local events where employees had the opportunity to participate in pitches to present ideas, get feedback, and bring innovative projects forward. Pitches about innovation and sustainability, so-called "Shark Tank" events, were organized online, a diverse audience gave their vote. The winners of an European contest in the Automotive sector for example produced ideas on a new sustainable foaming agent and a new adhesive application technique.

INSPECTIONS AND AUDITS

Inspections and audits are core elements of Sika's comprehensive management system. They provide management at Group, regional, and local company level with a regular, independent assessment on whether activities in scope comply with official requirements, as well as with Sika's own internal guidelines, principles, and risk management specifications. The inspections and audits thereby ensure the effectiveness of the relevant processes and controls at Sika.

Audits are performed by various assurance functions across the Group covering quality, environment, safety, health, risk, technology, application, legal and compliance, branding, IT security, suppliers, and products. The results and subsequent corrective actions of these audits are regularly presented to Group Management. Besides those assurance functions, an independent Corporate Internal Audit function, reporting to the Audit Committee of the Board of Directors, validates the effectiveness of internal controls in both legal entity audits and reviews of Group processes and functions.

In total, Sika conducted 135 audits in 2020 which included 44 supplier audits. The past audit year was dominated by the impact of the COVID-19 pandemic. Global restrictions on travel required Sika to introduce a revised audit concept which included desktop and online assessments, virtual site visits, and the on-site use of local experts where possible. This approach will continue until the global travel situation starts to normalize. It allows the audit team to continue to cover business-critical areas and to mitigate immediate business risks. Overall, travel and on-site visit restrictions led to a reduction of on-site audits in all areas (previous year: 181 audits). Associated improvements were implemented wherever necessary. To ensure that suppliers also meet the official requirements and labor standards, they are asked to perform self-assessments. In the year under review, all

new suppliers were assessed according to the vendor evaluation process. Most of these audits are reviewed by safety, quality, or technology experts. This enhances continuous improvement in collaboration with suppliers, including sustainability aspects. Being a key supplier in the automotive and industrial sectors, Sika is regularly subjected to external audits. These audits are designed to ensure compliance with international labor standards, and quality, environment, safety, and health requirements.

TAX APPROACH

SIKA'S TAX VALUES

Through its tax principles, internal policies, and actions, Sika is committed to be a socially responsible corporate fiscal citizen. Sika pursues a long-term sustainable tax strategy with focus on compliance with national and international tax laws and regulations.

A reasonable tax strategy with active management of tax matters ensures that Sika pays a fair share of tax in each of the more than 100 countries where Sika operates. This section outlines the most important aspects of the Sika Group's tax strategy in relation to compliance and corporate sustainability.

TAX GOVERNANCE

Sika's tax approach is in line with OECD/G20 guidelines and their general objectives. By following a business-oriented approach based on functions, assets, and operating risks when determining processes and transactions, Sika has a market-based outcome. Therefore, a fair amount of taxes is paid in each jurisdiction where the company operates. The outcome of the business-oriented approach is always checked for its compliance with all applicable laws. Furthermore, potential impacts on stakeholders and Sika's reputation are taken into account. In line with Sika's corporate values, the objective of Sika's tax policy is to comply in good faith with the letter and the spirit of all applicable tax laws and obligations in all countries where the company operates, across all direct and indirect taxes, as a company and employer, as well as with international treaties and guidelines. Such approach results in an effective Group tax rate that reflects Sika's global footprint, the decentralized nature of the business, and the Group's successful local operations.

TAX RISK MANAGEMENT

Based on genuine business rationale and with a long-term view of sustainability and predictability, Sika proactively manages, monitors and controls the tax aspects of its business operations and transactions. The company manages its total tax costs for doing business within clear risk parameters in line with the Sika Group business operations and responsible strategies. Sika adheres to the arm's length principles and complies with local laws and regulations for pricing of intercompany transactions. Sika companies maintain contemporaneous transfer pricing documentation in compliance with local legislation.

FULL DISCLOSURE OF TAX RISK AND TAX PLANNING

Sika does not engage in aggressive tax planning and does not use complex structures or offshore havens to minimize its tax liabilities. Sika does not adopt tax schemes based on form without commercial substance. Sika does not use offshore entities that lack business purpose and substance. Sika does not use hybrid instruments and/or entities in structures that result in tax avoidance, double deduction, or no taxation. Sika engages external advisors when appropriate to manage tax risks.

INTERACTIONS WITH TAX AUTHORITIES

Sika promotes open and transparent working relationships with tax authorities. When applicable, Sika uses appropriate mechanisms to clear the tax impact of major transactions with relevant tax authorities in advance. Tax audits are conducted in a supportive and collaborative way and requested information is provided in a timely manner. On certain occasions, Sika may provide technical input to the relevant authorities with respect to proposed tax legislations using the appropriate channels, in an effort to constructively improve the competitiveness of a tax system.

COUNTRY-BY-COUNTRY REPORTING

Starting in 2016, Sika was one of the first companies to submit an annual Country-by-country Report (CbCR) to the Swiss Federal Tax Administration (SFTA) on a voluntary basis. This OECD/G20 standard includes pertinent information such as profit and taxes paid per country where the company is active. In line with the OECD's intention, the SFTA passes this report on to the tax authorities in other countries where Sika is subject to taxation (SFTA currently has activated more than 60 CbCR exchange relationships and is one of the most active in promoting transparency). The result of the CbCR demonstrates that Sika is duly complying with its tax obligations and paying its fair share of tax.

THE OUTCOME

The tax strategy based on sustainable practices, business reality and adhering to national and international tax regulations has ensured Sika a very stable and fair effective tax rate year after year. The application of this strategy has been tested during tax audits where tax authorities typically have accepted our approach. As a result, the total prior tax expense adjustments based on tax audits or changed tax accounting assessments has typically been less than 1% point for the last ten years. The success of this tax strategy relies mainly on Sika's commitment to be a socially responsible fiscal citizen, paying our fair share, and protecting our shareholders' interest.

MORE VALUE – LESS IMPACT RESULTS 2020 (OVERVIEW)

Sika takes a long-term perspective on the development of its business. The company seeks to generate benefits for stakeholders that outweigh the potential environmental impacts of the production process and resources consumption. The Sika journey to global leadership is founded on the company's entrepreneurial philosophy and the Sika Spirit, which is a synonym for the strong set of five values and principles that make up the DNA and culture of the company: customer first, courage for innovation, sustainability & integrity, empowerment & respect, and manage for results. In this respect, 2020 has been the year of implementation of the new Sustainability Strategy across the Group. The 2020 figures include the acquired company activities on a full year basis, including Parex, whose integration had a substantial impact on the monitored KPI's. The following details relate to all business operations of the Sika Group focusing on the core themes of sustainable solutions, community engagement, energy, water/waste, occupational health and safety, and CO₂ emissions at the more than 300 Sika production sites.

In 2020, two out of the six targeted strategic pillars, namely Operational Efficiency and Sustainability, has driven most of the initiatives at Sika's production sites. Therefore, to monitor the performance and supporting management decisions, Sika has implemented additional sustainability indicators within the factory KPI's reporting system. This reporting finally enables Sika to track the finance, operations, quality and sustainability performance at once, thus supporting managers at all levels in their short, mid, and long-term decisional process.

SUSTAINABLE SOLUTIONS

Innovation in "Sustainable Solutions" is a key objective in the Sika Strategy 2023, to create value-added products – combining performance and sustainability into one integral concept. Managing innovation and sustainability together, minimizing the risks and maximizing the opportunities and creating positive business impact: this is the purpose of the new Sustainability Portfolio Management (SPM)-based concept.

The main focus in 2020 was the further development of the SPM methodology which will be fully implemented by end of 2021. This methodology represents the core mechanism used by Sika to evaluate, classify, and position products in defined market segments in terms of Performance and Sustainability-related criteria. The Sika SPM methodology provides guidance on how a "Sustainable product" is defined and ensures that sustainability is measured and communicated in a systematic and comprehensive way in the market. It is built on the World Business Council for Sustainable Development (WBCSD) chemical industry framework, which is a best practice approach to guide companies from the chemical industry in developing and applying consistent, high quality SPM approaches that will result in more sustainable product portfolios and proactively steering their overall product portfolios towards improved sustainability

results. The aim of Sika's SPM based concept is to build a portfolio of Sustainable Solutions as part of the Sika innovation strategy. Long-term, this approach will support Sika in steering its product portfolio towards proven sustainability benefits aligned with key sustainability megatrends. It is a strong management tool to integrate sustainability into strategic and operational processes.

"MORE PERFORMANT MORE SUSTAINABLE" PRODUCTS

The new Sika SPM methodology will form part of the Sika product development process. This will lead to a deeper understanding of the performance and sustainability profiles of Sika's newly developed products and solutions. Over the coming years, Sika plans to apply the concept across its product portfolio, to systematically evaluate not only new products but also identify mitigation actions for existing products.

Sika innovates along the entire value chain to respond to the market demand for sustainable solutions. The integrated concepts and solutions address the entire life cycle of a built structure, from initial construction and maintenance through to refurbishment, expansion, or ultimately demolition. Sika products offer manifold sustainable benefits and have a positive effect on the clients' entire value chain, from material sourcing, product formulation, and manufacturing to the recycling of used materials. Sika offers solutions which enable the reduction of energy and resource consumption during application and use, reduce embodied carbon footprint or CO₂ emissions at customer sites, improve air quality during application and use, health and safety for the applicators, or contribute to green building programs.

More detailed information and various product innovation examples can be found at www.sika.com/sustainability on how Sika solutions enable sustainable construction and transportation and help to save energy, raw materials, and water, and reduce CO₂ emissions while meeting sustainable building standards.

CLIMATE PERFORMANCE

Sika aims to run business in a responsible way to mitigate climate change and its impacts. CO₂ emissions are a consequence of energy consumption and can be limited by increasing energy efficiency and improving energy mix.

Total CO₂ emissions (scope 1, 2, and partially 3) in 2020 summed up to 239,228 tons (previous year: 243,000 tons). On relative terms, the CO₂ emissions have decreased from 27 kg per ton sold in 2019 to 20 kg per ton sold in 2020. This significant decrease is due to acquisitions and scope impact for 3 kg per ton sold and several initiatives implementation as Renewable Energy purchase and Energy management improvement for 4 kg per ton.

Direct CO₂ emissions (scope 1): CO₂ emissions from burning fossil fuels by all Sika companies and by its own vehicles are calculated based on the reported fuel quantities. In 2020, CO₂ emissions from the use of primary energy sources amounted to 102,528 tons (previous year: 88,000 tons).

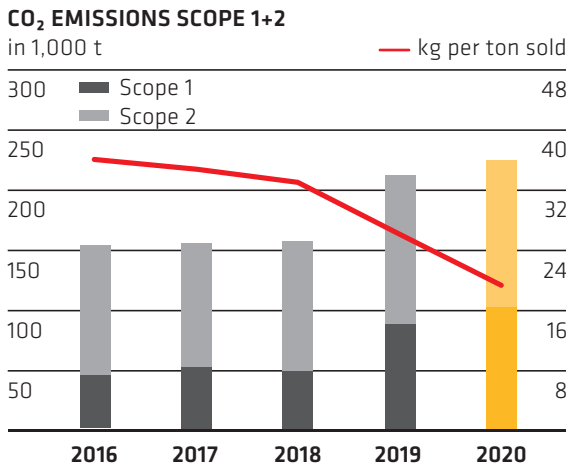
Indirect CO₂ emissions (scope 2): CO₂ emissions from electricity consumption are derived from the reported energy quantities. In 2020, CO₂ emissions caused by electricity consumption amounted to 121,700 tons (previous year: 124,000 tons).

Leased vehicles and business travels (part of scope 3) caused additional CO₂ emissions of 11,000 tons and 4,000 tons.

Several countries, among them for example China, UK, United States, Brazil, Canada, Chile, and Paraguay have decided to either switch to 100% renewable electricity contracts or commit to purchase Renewable Electricity Certificates (REC) which led to a 10% CO₂ scope 2 reduction in 2020.

In Italy, process optimization in bituminous production has led to a 4% decrease in CO₂ scope 1 emissions with an estimated reduction of 20% by 2022. In China, United States, and Mexico, the replacement of 30 diesel forklifts by electrical ones and LED lighting implementation will also contribute to lower CO₂ scope 1 emissions.

In 2021, the company will conduct a deeper GHG scope 3 baseline assessment. This includes a materiality assessment of the relevant carbon-related scope 3 activities and will enable the identification of the material scope 3 categories as defined in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Based on this analysis, Sika will quantify the GHG emissions per material scope 3 category and define a carbon reduction pathway to reach net zero in the long-term.



ENERGY

Apart from raw materials, energy is the main resource input for Sika's operations and thus a relevant cost factor. Therefore, the efficient use of energy is highly important for the company to develop sustainably.

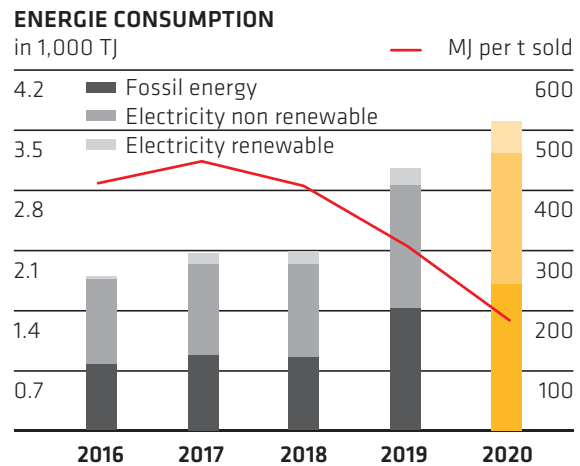
Due to the lower energy intensity of the acquired Parex company and the initiatives put in place, energy consumption per ton sold has further decreased in the year under review. Energy consump-

tion in 2020 was 286 megajoules per ton sold (previous year: 363 megajoules per ton sold) which leads to a reduction of 21% compared to the previous year.

Reduction of fossil fuel consumption by upgrading sand drying equipment in mortar production, decrease of electricity usage by more efficient processes in membrane production and higher efficiency of compressed air equipment are some of the key measures set up to reduce energy consumption.

In Serbia for example, sand drying optimization through the installation of two online moisture sensors will reduce gas consumption by 30%. The same scheme has been installed in Chile.

In Singapore and Malaysia, the replacement of older sand dryers by state-of-the-art technology will significantly contribute to the reduction of energy consumption. In Germany, the switch to liquid instead of flakes production contributed to reduce energy costs by CHF 200,000 on a yearly basis.



WATER

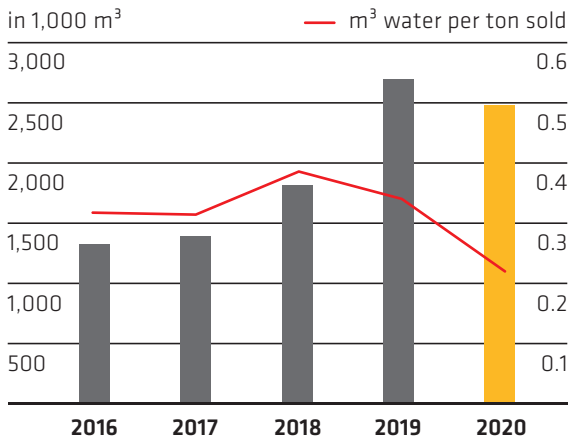
Sika takes measures to use water economically by reducing consumption, treating water or using lower-grade water qualities when possible, especially in geographies with water scarcity.

In 2020, Sika used approximately 2.5 million cubic meters of water (previous year: 2.7 million cubic meters). The water consumption per ton sold was around 0.22 cubic meters (previous year: 0.34 cubic meters). This decrease is mainly due the acquisitions completed since 2019 and the initiatives implemented by the countries.

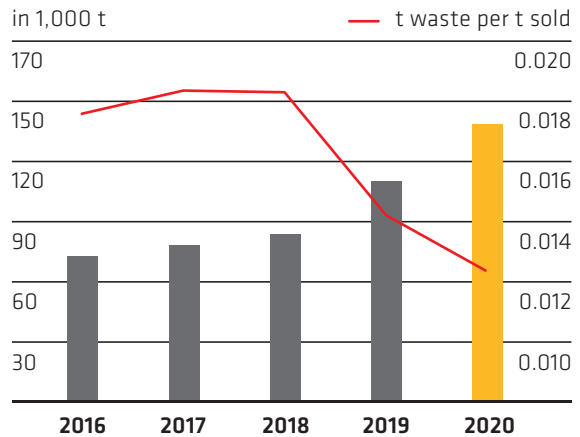
Efficient production projects have been implemented using closed-loop cooling, cooling towers, and switching from public to groundwater.

In Spain for example, production process optimization allowed to reduce water consumption by 7,000 cubic meters.

WATER CONSUMPTION



WASTE GENERATION



WASTE

Efficient use of input materials is key for all Sika companies. Sika's production facilities use resources such as sand, cement, fillers, organic raw materials, packaging, and transportation materials. The impact of input materials makes their efficient use and reuse a mandatory element. Efficient production means reducing waste at source, reusing production scrap and packaging materials as well as improving packaging design.

With an increased production volume, the company generated 141,675 tons of waste (previous year: 112,000 tons). This corresponds to 12.4 kilograms of waste per ton sold (previous year: 14.1 kilograms per ton sold) or a decrease of 12% compared to 2019.

Overall, Sika reduces the amount of waste by putting in place activities such as recycling scrap membranes, as for example in Russia, where quantities to be discarded have been reduced by 200 tons. The recycling rate of the total waste volume was 35% in 2020. This was an improvement on the 2019 figure (34%).

In South Africa, cement and sand waste from mortar production is being valorized to a dedicated program (Reconstruction and Development Program) in charge of building houses for disadvantaged people, lowering the waste sent to landfill by 70%. In Singapore, a sand crusher has been set up in 2020. This initiative will contribute to reduce the reject of oversized sand going to the sand dryer.

In Paraguay, the new water treatment plant set up end 2020 will reduce the wastewater generation by 50% and operating costs by 75%. In addition, the final effluent will have the required quality to be reused in the production processes reducing also the water withdrawal of the plant.

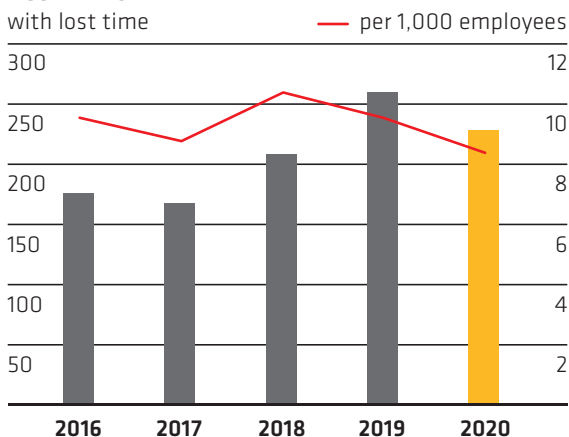
OCCUPATIONAL HEALTH AND SAFETY

The number of occupational accidents with one or more lost working days decreased by 11.9% in 2020 compared to 2019. In the year under review, 8.4 occupational accidents per 1,000 employees were recorded (previous year: 9.6). In 2020, injuries caused absences, on average, of 20.2 days (previous year: 21.5 days). There has been one fatality of a Sika employee due to a road traffic accident. In 2020, Sika has further strengthened the global, regional and area EHS structure by taking an integrated approach to Quality and EHS, the supporting management systems, and through building a stronger network of global, regional, and local EHS professionals.

The health, safety, and wellbeing of all Sika employees, contractors and visitors is of paramount importance for Sika. The company is committed to improving its safety performance as part of the Sika Strategy 2023. In order to achieve the targets of a 50% reduction in accidents and zero fatalities by 2023, Sika has established the Sika Vision Zero Program. One of the first measures of this program has been the definition and implementation of Minimum Requirements for each Sika company in relation to workplace safety. In addition, Sika Life Saving Rules have also been defined to raise awareness of key risks and to help keep all Sika employees safe. Together with the Minimum Requirements, these Life Saving Rules are mandatory for all Sika companies.

With regards to the Minimum Requirements, the first four instructions approved by Group Management encompass General Site Rules for all employees, further instructions dedicated to contractors and their employees, and for visitors. These are supplemented by an instruction on Personal Protective Equipment (PPE) to protect employees, contractors, and visitors from hazards. The implementation of this first set of instructions and the Life Saving Rules has been completed in 2020 supported by EHS professionals and signed off by management. Key areas of focus in 2021 will be leadership commitment to safety and employee participation on safety topics.

ACCIDENTS



COMMUNITY ENGAGEMENT

In 2020, Sika sponsored 183 projects (previous year: 149 projects). This equates to a year-on-year increase of 22.8%. In total, Sika employees spent 1,119 man-days of volunteering work (2019: 401 man-days, +178%). 268,581 individuals were benefiting of the community engagement projects directly (previous year: 35,539).

In 2020, fewer social projects could be carried out in many countries due to COVID-19 restrictions, especially in combination with volunteering schemes. At the same time, Sika companies carried out projects all over the world to support social institutions in coping with the pandemic, through the production and distribution of disinfectants and masks as well as in the construction of urgently needed pandemic-related infrastructure. The strong increase of the number of direct beneficiaries derives from projects which supported neighborhoods to cope with COVID-19. A high number of individuals benefitted from these activities.

The “Sika Cares” community engagement program focuses on improving the quality of life of children, adults, and families in the communities in which the company is active. There are three focus areas: education and vocational training, buildings and infrastructure as well as waste and climate protection. The company endeavors to provide intelligent support for projects through the application of company-specific expertise, voluntary work by its employees, and long-term collaboration with partners.

EDUCATION AND VOCATIONAL TRAINING

Investment in good education gives young people the most important tool they need to lead an independent life. Sika works to ensure that disadvantaged children and young people get a genuine chance in life. Projects sponsored by Sika in the year under review include initiatives such as the support of children’s homes throughout the world. In China, Sika supports the Library Project, a nationwide initiative to sponsor libraries in public schools. Between 2015 and 2020 the Sika team helped to create reading rooms and corners in 99 schools, donating more than 94,000 books and providing comfortable, well-equipped learning environments for more than 24,000 children. Alone in 2020, direct beneficiaries of this project amounted to 4,082 children and 233 teachers.

BUILDINGS AND INFRASTRUCTURE

The health and dynamism of communities also depends on the infrastructure in place for people and the environment. This is where Sika comes in with its expertise and product solutions. Sika Chile for example has joined the “Zona Cero” project of the University of Chile. Due to the COVID-19 pandemic, hospitals in the country were facing an increase of inpatients. The Faculty of Architecture and Urbanism, University of Chile, developed auxiliary building modules that could be easily located outside hospital facilities. The implementation of this modular building design has been made possible due to the expertise of Sika and its technologies.

WATER AND CLIMATE

Sika employees support projects which link social causes with ecological interest. Sika also seeks to promote on-the-ground self-help. The main sponsorship partner in this field is the Global Nature Fund (GNF). Sika has supported the GNF and its international Living Lakes environmental program since 2004. Made up of over 100 partner organizations from various lake regions across the globe, the Living Lakes network aims to promote sustainable development and the protection of drinking water, lakes, and wetlands. In 2020, Sika sponsored projects to ensure drinking water in Angola and Botswana. Furthermore, community development projects were planned and implemented in Mexico and India.

LEADERSHIP

ORGANIZATION & LEADERSHIP

INTEGRATED MANAGEMENT, FLAT HIERARCHIES

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

ORGANIZATIONAL STRUCTURE

Its worldwide activities are conducted by countries with corresponding companies that are grouped into regions with area-wide managerial functions. The heads of the regions are members of Group Management and are responsible for EMEA, Asia/Pacific, Americas, and Global Business. The regional and nation-

al management teams bear full profit and loss responsibility, and, based on the Group strategy, set country-specific growth and sustainability targets, and allocate resources. An overview of the organization by regions for the 2020 financial year can be found on page 47 of this report. Sika's regional breakdown is based on unified economic areas and coordinated supply chain structures.

Overarching leadership responsibility ensures integrated management, from production to the customer. Sika's customer-facing organization is geared to eight target markets: Concrete, Waterproofing, Roofing, Flooring, Sealing & Bonding, Refurbishment, Industry, and Building Finishing. This market-oriented approach enables Sika to sharpen its customer focus, optimize its technical market support activities, and concentrate its R&D operations on market needs.

ORGANIZATIONAL CHART

Sika is committed to sustainable corporate management. Business areas are developed on a long-term basis with the aim of securing lasting value enhancement for all stakeholders. A clear focus on our corporate values is just as fundamental as assuming social responsibility and ensuring a careful approach to the environment and resources. This forms the foundation of our success.

BOARD OF DIRECTORS

Paul J. Hälg, President

Viktor W. Balli
Frits van Dijk

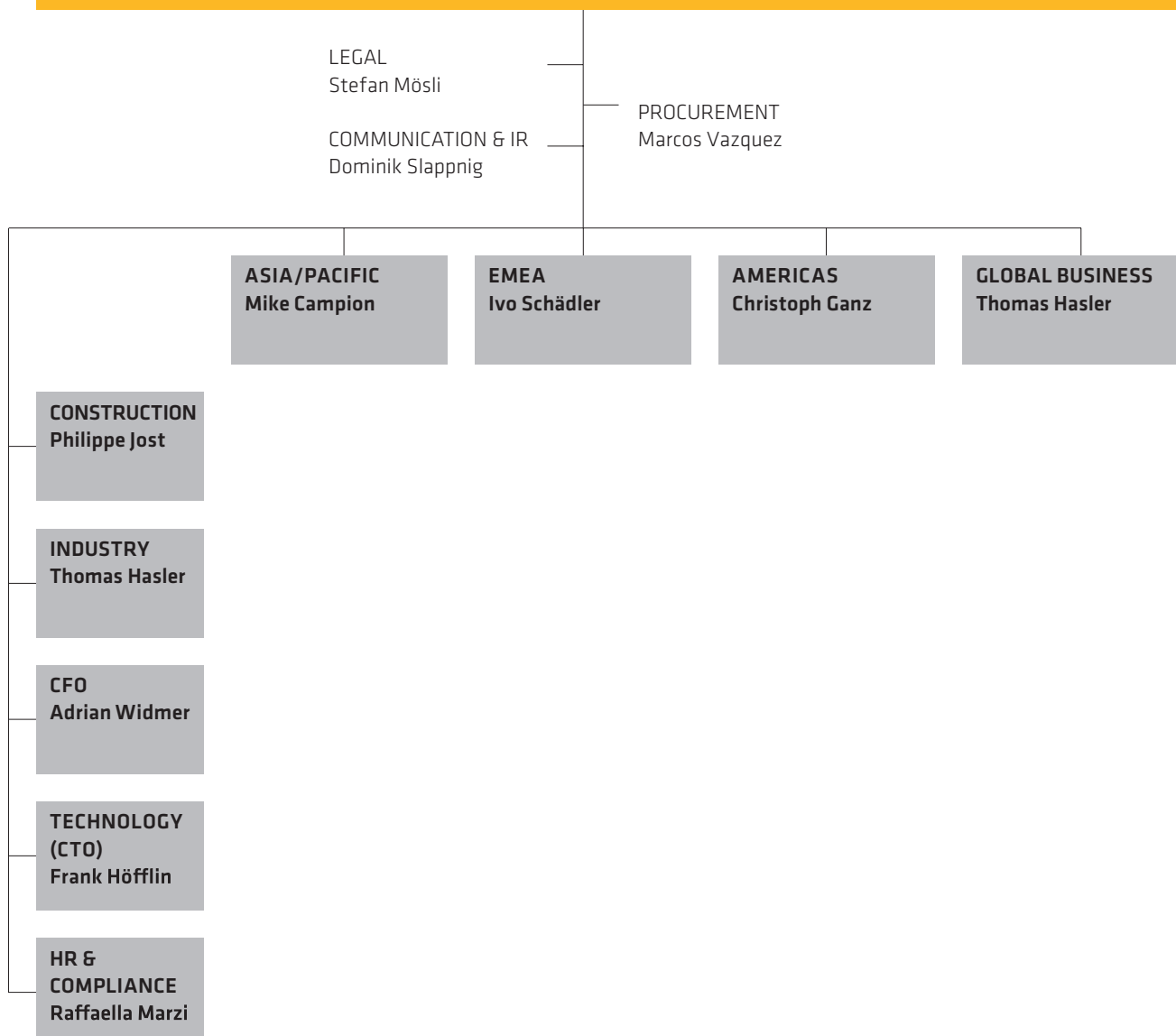
Justin M. Howell
Monika Ribar

Daniel J. Sauter
Christoph Tobler

Thierry F. J. Vanlancker

CEO

Paul Schuler



GROUP MANAGEMENT

RESILIENCE IN TIMES OF CRISIS

The experienced team of nine Group Management members, has defined targeted measures to minimize the impact of the COVID-19 pandemic on the organization and enable business operations to continue at a high level. Their top priority is the safety of employees, customers, and suppliers. Crises can also be used as times of opportunity, however. This is reflected, for example, in the substantial expansion of the distribution business, which has seen double-digit growth rates.

**IVO SCHÄDLER**

EMEA
With Sika for 24 years in
Switzerland and the UK

FRANK HÖFFLIN

Technology (CTO)
With Sika for 18 years in
Switzerland and the USA

ADRIAN WIDMER

CFO
With Sika for 14 years
in Switzerland

PAUL SCHULER

CEO
With Sika for 33 years in
Switzerland, Germany, and the USA

THOMAS HASLER

Global Business and Industry
With Sika for 32 years in
Switzerland and the USA

MIKE CAMPION

Asia/Pacific
With Sika for 23 years in
Asia and the USA

RAFFAELLA MARZI

Human Resources & Compliance
With Sika for 7 years in
Switzerland and Italy

PHILIPPE JOST

Construction
With Sika for 24 years in
USA and Switzerland

CHRISTOPH GANZ

Americas
With Sika for 25 years in
Switzerland, France, and the USA

PAUL SCHULER, MBA
CEO

Nationality: Swiss; year of birth: 1955
CEO since 2017; Member of Group Management since 2007
2013–2017: Regional Manager EMEA; 2007–2012: Regional Manager North America; General Manager Sika USA; 2003–2006: General Manager Sika Germany; 1988–2002: Product Manager, Head of Sales Industry; Marketing Manager Industry; Business Unit Leader Industry; 1982–1988: International Key Account Sales Manager Switzerland, EMS Chemie AG, Switzerland; 1980–1982: Project Manager Air Condition Plants, Luwa AG, Hong Kong, China; 1976–1980: Production Manager, Hemair AG, Switzerland
Further commitments: Member of the Board Swisspearl Group AG, Switzerland; Member of Advisory Council Peri GmbH, Germany

MIKE CAMPION, BSc Chemistry
Regional Manager Asia/Pacific

Nationality: US; year of birth: 1965
Regional Manager Asia/Pacific and Member of Group Management since 2017
2016–2017: Head Target Market Concrete Asia/Pacific; 2015–2017: General Manager Sika China; Area Manager Greater China; 2013–2015: Senior Vice President Target Markets Concrete and Waterproofing, Sika USA; 2011–2015: General Manager Sika Greenstreak, USA; 1998–2011: Management Positions in Target Market Concrete and in Business Unit Construction, Sika USA; 1991–1998: Management Positions, Stonhard Inc., USA

CHRISTOPH GANZ, lic. oec. HSG (University of St. Gallen)
Regional Manager Americas

Nationality: Swiss; year of birth: 1969
Regional Manager Americas since 2018; Member of Group Management since 2007
2013–2018: Regional Manager North America; General Manager Sika USA; 2007–2012: Head of Corporate Business Unit Distribution; 2009–2012: General Manager Sika France; Area Manager France, North Africa, Mauritius; 2003–2006: Head of Business Unit Distribution; 1999–2003: Corporate Market Field Manager Distribution; 1996–1999: Project Manager Distribution, Sika Switzerland

THOMAS HASLER, Dipl. Ing. Chem. HTL, Executive MBA
Head Global Business and Industry

Nationality: Swiss; year of birth: 1965
Head Global Business and Industry since 2018; Member of Group Management since 2014
2017–2018: Head Industry and Automotive; 2014–2017: CTO; 2011–2013: Head Global Automotive; 2008–2010: Senior Vice President of Industry and Automotive, Sika USA; 2005–2008: Senior Vice President Automotive North America, Sika USA; 2004–2005: Automotive Manager Europe; 2000–2003: Automotive Manager Switzerland; 1995–2000: Business Development Manager; 1992–1995: R&D Head Automotive OEM Adhesives; 1989–1992: Research Chemist Industry Adhesives

FRANK HÖFFLIN, Ph.D. Chemistry
Chief Technology Officer (CTO)

Nationality: German, US; year of birth: 1964
CTO and Member of Group Management since 2017
2014–2017: Corporate Technology Head Thermoplastic Systems;
2011–2014: Corporate Technology Head Roofing and Waterproofing;
2004–2011: Vice President Research and Development, PTD Acoustics and Reinforcement, Sika USA; 2003–2004: Director Research and Development, Sika USA; 2001: Global Technology Manager, Exatec, USA; 1996–2001: Management Positions, Weatherables, GE Plastics, USA

PHILIPPE JOST, MSc Civil Engineer Swiss Federal Institute of Technology (ETH), MBA
Head Construction

Nationality: Luxembourg; year of birth: 1971
Head Construction and Member of Group Management since 2019
2015–2019: Head of Corporate Human Resources; 2010–2014: Corporate Target Market Manager Concrete; 2006–2010: Manager Global Business Development Corporate Construction, Vice President New Market Development; 1998–2006: Product Engineer, Director of Marketing, Sika USA; 1997–1998: Testing Engineer, Sika Switzerland
Further commitments: Chair of the Board Peikko Group, Finland

RAFFAELLA MARZI, J.D., Law (Catholic University of Milan)
Head Human Resources & Compliance

Nationality: Italian; year of birth: 1970
Member of Group Management since 2020; Head Human Resources & Compliance since 2019
2016–2019: Group Compliance Officer; 2014–2016: Group Compliance Officer and Legal Counsel, Sika Italy; 2013–2014: Partner, Baker & McKenzie, Italy; 2011–2013: Counsel, Baker & McKenzie, Italy; 2009–2009: Secondment, Baker & McKenzie, Germany; 2001–2009: Senior Associate, Baker & McKenzie, Italy; 2000–2001: Secondments as In-house Legal Counsel, Recordati S.p.A.; 1997–2000: Associate, Baker & McKenzie, Italy; 1996–1997: Legal Consultant, Beiersdorf S.P.A., Italy

IVO SCHÄDLER, MSc Materials Engineer Swiss Federal Institute of Technology (ETH), Executive MBA
Regional Manager EMEA

Nationality: Swiss, Liechtenstein; year of birth: 1966
Regional Manager EMEA and Member of Group Management since 2017
2015–2017: Area Manager Europe South, Head Target Market Refurbishment EMEA; 2012–2015: General Manager Sika UK and Sika Ireland; 1997–2012: Head Business Unit Contractors and Industry, Head Marketing Construction, Product Engineer Industrial Flooring, Deputy Manager Diagnostic Center, Sika Switzerland; 1996–1997: Head Department Materials Testing and R&D, Wolfseher and Partner AG, Switzerland; 1993–1995: Manager Department Materials Testing, EMS Chemie AG, Switzerland

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

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

BOARD OF DIRECTORS

PAUL HÄLG, Dr. sc. techn., ETH Zurich
Chair of the Board of Directors

Nationality: Swiss; year of birth: 1954
Member since: 2009, President since: 2012
2004–2016: CEO, Dätwyler Group, Altdorf; 2001–2004: Executive Vice President, Forbo International SA, Eglisau; 1987–2001: Product Manager, Commercial Director, CEO, Gurit Essex AG, Freienbach; 1981–1986: Project and Group Leader, Schweizerische Aluminium AG (Alusuisse), Zurich

Mandates in listed companies:
Chair of the Board: Datwyler Holding AG (and therefore also of PEMA AG and Dätwyler Führungs AG), Altdorf

Mandates in non-listed companies and organizations:
Member of the Board: Sonceboz Automotive SA, Sonceboz
Chair of the Board: Welfare Foundation Sika, Baar
Member of the Foundation Council: ETH Foundation (supports education and research at ETH), Zurich; Swisscontact (Swiss foundation promoting economic, social and ecological development in emerging economies), Zurich; REGA (non-profit Swiss air rescue service), Zurich

VIKTOR WALDEMAR BALLI, MSc Chemical Engineer, Swiss
Federal Institute of Technology Zurich (ETH); M.A. Economics,
University of St. Gallen (HSG)

Nationality: Swiss; year of birth: 1957
Member since: 2019; Committees: Audit Committee
2007–2018: CFO Barry Callebaut Group, Zurich; 1996–2006: Director of Niantic Group (Family Holding), Amsterdam, Netherlands; 1991–1995: Principal, Adinvest AG, Zurich; 1989–1991: Head Corporate Finance, Marc Rich & Co Holding AG, Zug; 1985–1989: Financial Analyst and Manager, EniChem International AG, Zurich, Switzerland, and Milan, Italy

Mandates in listed companies:
Member of the Board: Givaudan AG, Vernier (Compensation and Audit Committee); Medacta International SA, Castel San Pietro (Chair of the Audit and Risk Committee); KWS Saat SE & Co. KGaA, Einbeck, Germany (Chair of the Audit Committee)

Mandates in non-listed companies and organizations:
Member of the Board: Swiss Federal Audit Oversight Authority (RAB), Bern; Hemro AG, Bachenbülach; Louis Dreyfus Holding BV, Amsterdam, Netherlands (Chair of the Audit and Risk Committee)

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

Nationality: Dutch; year of birth: 1947
Member since: 2012
1970–2011: Career within Nestlé (focus region Asia), of which the last ten years as member of the Nestlé SA Executive Board, responsible for Asia, Oceania, Africa & Middle East

Mandates in listed companies:
Member of the Board: Nestlé Malaysia Berhad

JUSTIN MARSHALL HOWELL, LL.B and B.C.L., McGill University,
Canada

Nationality: Canadian; year of birth: 1971
Member since: 2018; Committees: Chair of Nomination and Compensation Committee
Since 2010: Senior Investment Manager, BMGI, Kirkland, WA, USA; 2007–2009: Vice President, Investment Banking, Bank of America Merrill Lynch, New York, NY, USA; 2003–2007: Associate, Cravath, Swaine & Moore LLP, New York, NY, USA

Mandates in non-listed companies and organizations:
Member of the Board: OE Holdings, LLC, Texas, USA

MONIKA RIBAR, lic. oec. University of St. Gallen (HSG)

Nationality: Swiss; year of birth: 1959
Member since: 2011; Committees: Chair of the Audit Committee
2006–2013: CEO, Panalpina AG, Basel; 2005–2006: CFO, Panalpina AG, Basel; 2000–2005: Chief Information Officer (CIO), Panalpina AG, Basel; 1991–2000: various functions within Controlling, IT and Global Project Management, Panalpina AG, Basel

Mandates in listed companies:
Member of the Board: Lufthansa Group, Frankfurt am Main (until August 31, 2020)

Mandates in non-listed companies and organizations:
Chair of the Board: SBB AG (Swiss Federal Railways), Bern
Member of the Board: Chain IQ Group, Zurich

DANIEL J. SAUTER, Swiss-certified Banking Specialist, Swiss Banking School

Nationality: Swiss; year of birth: 1957

Member since: 2000; Committees: Nomination and Compensation Committee

1994–2001: CEO and Delegate of Board of Directors, Xstrata AG, Zug; 1983–1998: Senior partner and CFO, Glencore International AG, Baar; 1976–1983: various banks, incl. Bank Leu, Zurich

Mandates in non-listed companies and organizations:

Chair of the Board: Trinsic AG, Zug; Tabulum AG, Zug; Hadimec AG, Mägenwil

Member of the Board: ARAS Holding AG, Lenzburg; AS Print AG, Villmergen; Richnerstutz AG, Villmergen

CHRISTOPH TOBLER, Dipl. El. Ing. EPFL

Nationality: Swiss; year of birth: 1957

Member since: 2005; Committees: Audit Committee

Since 2004: CEO, Sefar Holding AG, Thal SG; 1998–2004: Head of Industry Division and Member of Group Management, Sika AG, Baar; 1994–1998: Adtranz Schweiz; 1988–1994: McKinsey & Company, Zurich

Mandates in listed companies:

Member of Regional Advisory Board: Swiss National Bank

Mandates in non-listed companies and organizations:

Member of the Board: Sefar Holding AG, Thal SG

THIERRY F.J. VANLANCKER, MSc Chemical Engineer, University of Gent, Belgium

Nationality: Belgium; year of birth: 1964

Member since: 2019; Committees: Nomination and Compensation Committee

Since 2017: CEO, AkzoNobel, Amsterdam, Netherlands; 2016–2017: Head Specialty Chemicals and Executive Committee Member, AkzoNobel, Amsterdam, Netherlands; 2015–2016: President Fluoroproducts, Chemours; President Chemours EMEA, Geneva, Switzerland, and Wilmington, USA; 1989–2016: Various functions within DuPont: Vice President DuPont Performance Coatings EMEA, Cologne, Germany, Global Business & Marketing Director Fluorochemicals, DuPont, Wilmington, USA

Mandates in non-listed companies and organizations:

Member of the Board: Aliaxis Group NV, Brussels, Belgium (since May 27, 2020)

CORPORATE CULTURE

ENGAGEMENT AND STRONG VALUES AS THE BASIS OF CORPORATE SUCCESS

Sika firmly believes that its success as a company is only possible with committed employees who have the necessary specialist knowledge and share a common purpose. Each and every day, more than 24,800 employees worldwide are highly dedicated to work for the company. Their exceptional degree of commitment and high level of identification with the company's values were impressively demonstrated during this extraordinary year.

MAXIMUM PERFORMANCE THROUGH STRONG COMMITMENT DURING COVID-19

The global employee survey conducted in 2019 revealed a very high level of employee commitment and identification with the company and the work. It was precisely this high level of engagement that became the cornerstone of success and maintenance of business activities in the year under review despite the special circumstances and restrictions imposed by the corona pandemic.

Sika's top priority in the reporting year and during the COVID-19 pandemic was the protection of its employees. Sika acted very early and implemented travel restrictions as well as safety and hygiene measures. Task force teams were formed in all 100 subsidiaries to closely follow the situation and local regulations and to inform employees. Local management and global coordination enabled Sika to act with flexibility and agility. Operational business activities, including production, were maintained at a high level in order to continue supplying customers. Employee safety played a central role in this. Support functions and sales teams switched to work from home in most countries. Extensive protection concepts have been introduced at all production sites and labs worldwide.

Despite the ongoing challenges, all Sika's subsidiaries have been working tirelessly to keep our employees safe and support their local communities wherever possible. In Europe, the production and distribution of hand sanitizer and face masks helped to keep employees safe whilst slowing down the spread of the virus. Similarly, in the US, Sika's Research and Development teams utilized 3D printers to create face shields which were also used by employees.

As a result of the pandemic, Sika's plan to create a "digital workplace" for its employees was accelerated to match the evolving need of its global organization. The swift adoption of new digi-

tal tools directly improved communication and collaboration and allowed for virtual meetings with customers and colleagues. Our commitment to keep employees safe in this new, unknown situation, would not have been possible without the dedication and high engagement of Sika's entire workforce and its capacity to adapt their way of working under the new circumstances.

STRONG VALUES AS A SHARED BASIS

Customer First, Courage for Innovation, Sustainability & Integrity, Empowerment & Respect and Manage for Results are the defining elements of Sika's corporate culture. These values and principles serve as a compass in all countries where Sika operates and are adhered to by all employees around the globe. Thus, the Group's culture of trust, transparency, and openness has a firm global foundation that is lived by each employee every day.

Last year, a new "Leadership Commitment" framework was presented to senior managers and the Group-wide rollout was jointly planned for the coming year. The Leadership Commitment reflects the close connection between values and leadership based on the four pillars Drive Change, Unlock Potential, Win Together, and Inspire. In a fast-changing world and growing organization, this framework will help to preserve Sika's corporate culture and inspire our employees. Together with the Values and Principles and our Code of Conduct, it provides managers and employees with clear and tangible guidelines.

ETHICAL CONDUCT AS A CORNERSTONE OF REPUTATION

Ethical conduct and integrity are two further cornerstones of Sika's corporate culture. They are firmly anchored in the company's "Values & Principles" as well as its "Leadership Commitment". Sika's Code of Conduct calls on all employees to be guided by these two central principles in their actions. That is why the two values are truly lived in the company and form the foundation of Sika's excellent reputation.

Last year, all new Sika employees were trained in the application of the Code of Conduct as part of their introduction program. In addition, 123 general managers were asked by means of a compliance questionnaire to confirm that they conduct annual training sessions with all their employees on Sika's values and corporate culture. Around 85 percent of General Managers confirmed this, while the others indicated that training could not be provided or could only be provided partially due to COVID-19. Management and Corporate Compliance will ensure that cancelled training courses are made up for in 2021 as far as possible. Also in 2021, online training on prevention of corruption and conflicts of interest will be introduced for specific, risk-exposed target

groups of Sika employees combined with an educational campaign for all Sika employees. This digital training was prepared last year and particularly underlines the great importance Sika attaches to ethical conduct and integrity. It will be part of a broader, Group-wide campaign on Sika's values and leadership principles.

LABOR AND SOCIAL STANDARDS

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

Sika protects and ensures compliance with human rights. The company respects and supports the right to freedom of association. However, it must be noted that Sika also operates in countries where the right to freedom of assembly and collective bargaining are restricted by national legislation. Sika tolerates neither child labor nor any type of forced labor and observes all laws and guidelines to combat discrimination in any form.

Sika actively promotes a recruitment policy aimed to achieve a diverse and inclusive workforce. Chapter 9 of Sika's Code of Conduct contains a zero tolerance guideline with regards to inappropriate behaviour of any kind, including discrimination in the workplace. In the reporting year, Sika's compliance management system was further strengthened in order to promote the Sika Group's culture of trust, transparency, and openness. The companies whistleblower platform, the Sika Trust Line, allows any employees to escalate observed misconduct to Corporate Compliance.

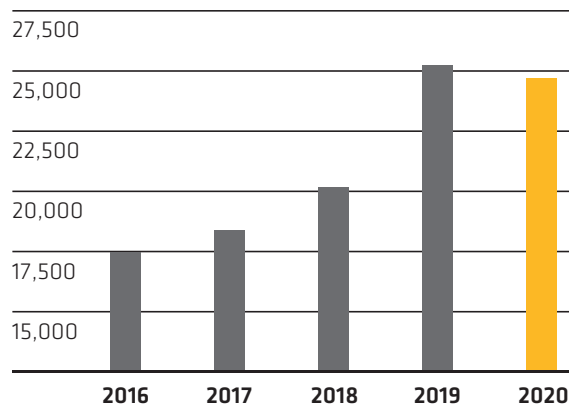
EMPLOYEES – THE KEY TO SUCCESS

The number of employees decreased slightly by 1.2% during the year under review to 24,848 (previous year: 25,141). Regional distribution is as follows: EMEA: 10,533 (previous year: 10,146), Americas: 5,139 (previous year: 5,450), Asia/Pacific: 6,097 (previous year: 6,316), Global Business: 2,435 (previous year: 2,547), and Corporate Services: 644 (previous year: 682).

In 2020, 603 new employees joined Sika as a result of acquisitions. The company headcount therefore decreased organically by 896 employees.

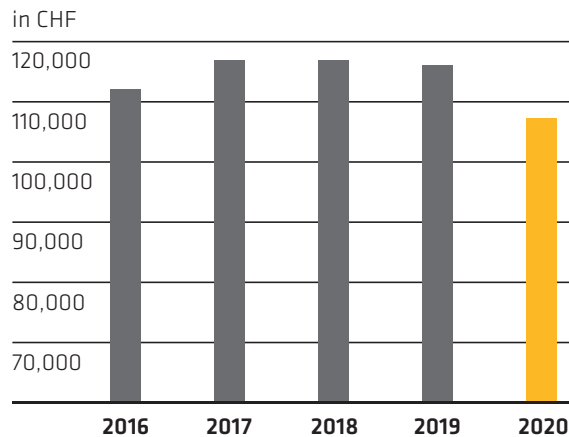
The age structure at Sika is broadly balanced: 13% of employees are under 30 years of age and 25% over 50. Sika is committed to offering its employees long-term prospects with the company and supports internal promotions. More than 95% of employees have permanent employment contracts.

EMPLOYEES



Together, the workforce generated a net added value of CHF 2,666 million in 2020 (previous year: CHF 2,613 million). This corresponds to net added value per employee of CHF 107,000 (previous year: CHF 116,000).

NET ADDED VALUE PER EMPLOYEE



SIKA'S FIRM COMMITMENT TO DIVERSITY AND AN IMPROVED GENDER BALANCE

Sika's global presence and associated proximity to customers makes it extremely important to integrate different cultures and share experience and know-how across national boundaries. The company firmly believes that the diversity experienced by employees on a daily basis is one of the factors in its success, and it supports an open and inclusive culture, which nurtures a strong sense of belonging and community. A diverse and inclusive workforce enables a wider talent pool, drives innovation and enhances profitability and competitiveness. At courses and seminars, Sika managers are encouraged to give high priority to diversity in team and project planning. 46 nationalities are represented among Sika's Senior Managers and the percentage of women has raised from 9.2% to 10.9% in 2020. In general, women account for 23.1% of the Group's total headcount (previous year: 23.0%). Including the recent acquisitions, the percentage of women slightly decreased to 22.8%.

Sika is strongly committed to improving its gender balance at all hierarchy levels and supported several initiatives during the year under review to improve the quota of women in the company. A clear focus of Sika's strategy is to recruit and promote more women, particularly in sales. Recruitment campaigns in various channels are increasingly targeting women.

As part of the "Women of Sika" campaign, an action plan with toolkits was developed that focuses on the following three pillars: increased recruitment, retention, and advancement of women at Sika. The "Women of Sika" campaign will be embedded in a broader initiative aimed at fostering the Sika culture, ethical behavior, and diversity. The goal of the overall initiative is the promotion of an integrated value set across the whole Sika organization.

INTERESTING PERSPECTIVES ALL AROUND THE WORLD

Sika has a local presence in 100 countries and its products are available worldwide. The company is growing fast and is able to offer employees adaptable career paths as opposed to rigid development plans. With its culture of flexibility and trust in talents, Sika creates and nurtures individual career opportunities. Internal candidates are given preference. The long-term employment prospects and the corporate culture of empowerment and respect are among the reasons behind Sika's low employee turnover rate of 6.4% (2019: 6.0%) and high engagement. Sika is proud to have employees who remain with the company for a long time and contribute their know-how and experience over a lengthy period. By building an employer brand and introducing related measures focusing on digital communication, Sika is further enhancing its reputation as an employer of choice. The external recruitment strategy is aimed predominantly at hiring and developing young talents, improving gender balance, and attracting more candidates from emerging economies.

LEARNING FOR LONG-TERM SUCCESS

As a multinational company, Sika is still able to act as rapidly as a medium-sized enterprise and respond to business opportunities with high implementation speeds. To ensure that this remains the case, employee know-how must be kept in sync with current trends and market demands. In the year under review, Sika spent a total of CHF 6.4 million (previous year: CHF 12.3 million) on employee development. The aim is to provide at least ten hours of training per year for each employee. In 2020, this number was 10.1 hours (previous year: 11.4 hours). Supported is both, internal as well as external training.

Sika, as knowledge and learning organization, has significantly expanded its online portfolio with more than 500 programs available for employees. In 2020, 14,000 hours were dedicated to compliance training, professional skill building and leadership development. The digital learning trend is rapidly accelerating with the pandemic and the implementation of Sika's global Learning Management System is now live in all Sika countries. Digitalisation has been a major transformation driver, enhancing collaboration, innovation and learning across the organization. 33 courses were offered in the year under review and attended by 500 participants. All programs were delivered virtually.

For continuing education of its over 170 Senior Managers, Sika partnered with the London Business School to deliver a three-day program on strategy and leadership called "Building Together For Our Future." Five programs were delivered, attended by 110 Senior Managers. 65% of all Sika Business School courses are sales-oriented. To promote the development of sales skills within the company, sales and marketing training was expanded to include these new courses: Foundation For Sales, Making The Sale, Pricing For Sales, and Key Account Sales. Sika also delivers several additional ad hoc trainings in specific areas such as compliance, legal, operations, sustainability, and procurement. Many training courses on Sika products and their applications have been moved to a virtual or digital learning format. The company's expertise in advising customers both remotely and in person has been further developed.

DIGITAL COMMUNICATION PLATFORMS

The web's omnipresence means that real and virtual worlds are growing increasingly into an Internet of Things. In the year under review, Sika made further headway with the wide-scale integration of employees, customers, and business partners into business, value creation, and communication processes. Internal and external digital media therefore play a crucial role in shaping Sika's corporate culture.

In 2020, the rollout of the new website was completed. This is part of Sika's global strategy to focus on customer centricity. From a digital perspective, Sika's websites are their most valuable brand assets and serve as the primary interface for existing and potential customers. One of the main goals of the new websites is to support the entire customer journey with relevant content and easy access to the most requested information and functionalities. At the same time, the aim is to drive Sika's business growth with the new web interface and anticipate the needs of future customers.

Sika's growth strategy, and the integration of companies and teams, require an innovative and state-of-the-art IT environment. In the year under review, external conditions put the digital workplace to the test for all employees. Thanks to the accelerated digital transformation of recent years, Sika employees worldwide were able to adapt quickly to the new situation and new way of working. Remote work has become the norm this year. Efficient collaboration and enhanced communication across distances has become a strong competitive advantage. The migration to Office 365 was completed in the reporting year. In addition, SikaWorld, Sika's integrated intranet, was upgraded to a new version. The new IT landscape strengthens Sika's technology leadership in today's digital world.

A differentiated online communication strategy remains in focus. In the reporting year, the number of Sika's corporate social media channels continued to increase strongly. At the end of 2020, over 273,000 followers used the various platforms. LinkedIn remained the most popular channel with 202,000 followers.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

COMMITMENT TO OPENNESS AND TRANSPARENCY

Good Corporate Governance safeguards the sustainable development and performance of the company. Sika is committed to openness and transparency and provides information on structures and processes, areas of responsibility and decision procedures, as well as rights and obligations of various stakeholders. Reporting at Sika follows the SIX Swiss Exchange guidelines.

GROUP STRUCTURE AND SHAREHOLDERS

Sika AG, headquartered in Baar, is the only listed company of the Sika Group. Sika AG's shares are listed on SIX Swiss Exchange under Swiss security no. 41879292 and ISIN CH0418792922. At the end of the year under review, the market capitalization of Sika AG was CHF 34,282.69 million. In the year under review, the Sika Group encompassed unlisted subsidiaries in 100 countries. 213 companies are included in the scope of consolidation. Companies of which Sika holds 50% or less of the voting rights are not consolidated. These are namely Condensil SARL, France, as well as Hayashi-Sika Automotive Ltd., Chemical Sangyo Ltd., and Seven Tech Co. Ltd., Japan. Detailed information on the Group companies can be found on page 150 et seqq. of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

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

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

The heads of the central Finance, Research and Development, as well as Human Resources and Compliance departments are likewise members of Group Management, which consists of nine members. All Group business is consolidated in Sika AG, the holding company, which itself is under the supervision of the Board of Directors. The organizational structures are presented on pages 66 to 72 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

As of the balance sheet date of December 31, 2020, Sika had received notification of four significant shareholders whose voting rights exceed 3%: (1) BlackRock Inc., which owned 7.7% of all voting rights. (2) William H. Gates and Melinda French Gates, who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (3) The Capital Group Companies, which held 5.0% of all voting rights via Capital Research and Management Company, Capital Bank and Trust Company, Capital International Limited, Capital International, Inc., and Capital International Sarl. (4) Massachusetts Financial Services Company, which held 3.03% of all voting rights. A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

There are no cross-shareholdings exceeding 3%, either in terms of capital or votes.

CAPITAL STRUCTURE

As of December 31, 2020, the outstanding share capital totaled CHF 1,417,811.60 and was divided into 141,781,160 registered shares, each with a nominal value of CHF 0.01. All shares are fully paid in and one share represents one vote at the General Meeting. In addition, there is a maximum amount of CHF 155,893.20 in conditional capital (which represents 11.0% of the outstanding share capital as of December 31, 2020), unrestricted in time, comprising 15,589,320 registered shares with a nominal value of CHF 0.01 each. These shares are reserved for the exercise of option or conversion rights. The shareholders' subscription rights are excluded.

Further information on the conditional capital can be found in art. 2 para. 4 of the Sika Articles of Association (available at Sika AG does not have an authorized capital).

Sika has not issued any participation certificates, dividend right certificates, or stock options.

Option plans do not exist for members of the Board of Directors, Group Management, or employees. Changes in the share capital, reserves, and retained earnings during the last five years, are posted on page 159 et seqq. of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

There has been no changes in conditional capital in the last three fiscal years. The purchase of Sika registered shares is open to all legal persons and individuals. The company maintains a share register for the registered shares in which the legal owners and usufructuaries are registered with their name and address. Vis-à-vis the company, the person who is registered in the share register is deemed to be the shareholder or usufructuary. The company may deny registration in the share register if, upon the company's request, the acquirer does not explicitly declare that the shares have been acquired in their own name and for their own account. After consulting the party concerned, the company may cancel the registration in the share register if the registration is the result of false information provided by the acquirer. The acquirer must be informed of the cancellation immediately. The acquirer must provide a statement declaring that the registered shares were transferred to him in due form. It is the company's current practice to register Nominees, i.e., shareholders who acquire shares in their own name but on the account of third parties, as shareholders with voting rights up to a maximum of 3% of the total share capital outstanding at the time. Above this limit of 3%, the Board of Directors decides on a case-by-case basis. In 2020, the Board of Directors has not registered any Nominees with voting rights exceeding 3%.

CONVERTIBLE BONDS

As of December 31, 2020, Sika AG had the following convertible bonds outstanding:

(1) Sika AG had a convertible bond listed on the SIX Swiss Exchange (security no.: 41399024, ISIN: CH0413990240, ticker: SIK185) with a total outstanding nominal amount of CHF 1,650,000,000.

Principal Amount	Current Conversion Ratio	Current Conversion Price	Maturity Date	Coupon
Nominal value of CHF 20,000 each	105.50749 registered shares with a nominal value of CHF 0.01	CHF 189.56	5.6.2025	0.15% payable annually on June 5

When conversion rights are exercised, new or existing shares of the company may – at Sika AG's discretion – be delivered. The respective maximum number of registered shares of the company to be delivered upon conversion or, respectively, the maximum increase of the company's share capital upon conversion, correspond to 6.14% of the outstanding registered shares as of December 31, 2020, respectively, the company's share capital immediately issued before the convertible bond was issued taking into account the company's capital reduction of 2018.

As of December 31, 2020, none of the convertible bonds have been converted into shares. Sika AG may call the bonds at any time:

- after the settlement date at the net principal amount, if less than 15% of the aggregate principal amount of the bonds are outstanding at the time of the notice;
- on or after the 21st calendar day after the 5th anniversary of the settlement date at the relevant net principal amount, if the VWAP of the Sika AG's shares is at least 130% of the conversion price on at least 20 out of 30 consecutive trading days.

(2) In January 2019, Sika AG has issued a subordinated mandatory convertible note listed on the SIX Swiss Exchange (security no.: 45929742, ISIN: CH0459297427, ticker: SIK19) with a total outstanding nominal amount of CHF 1,300,000,000.

Principal Amount	Current Conversion Ratio	Current Conversion Price	Maturity Date	Coupon
Nominal value of CHF 200,000 each	Minimum 1,407.16246	Minimum CHF 126.34	30.1.2022	3.75% payable annually on January 30
	Maximum 1,583.02992	Maximum CHF 142.13		

The notes will be mandatorily converted into new or existing registered shares of Sika AG at maturity. The maximum number of registered shares of the company to be delivered upon mandatory conversion of the notes, respectively, the maximum increase of the company's share capital upon mandatory conversion of the notes, correspond to 7.26% of the outstanding registered shares as of December 31, 2020, respectively, the company's share capital immediately issued before the convertible notes were issued (based on the minimum conversion price of CHF 126.34). Subject to the occurrence of extraordinary events that could lead to an early mandatory conversion, the conversion period for noteholders begins on July 1, 2021. Sika may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the notes.

Further information on the convertible bonds can be found on page 134 of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

BOARD OF DIRECTORS

The Board of Directors is Sika's highest governing body and is mainly responsible for the:

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

The members of the Board of Directors are elected by the Annual General Meeting for a term of office of one year. They can be reelected. Detailed information on individual members of the Board of Directors as per the balance sheet date of December 31, 2020, is listed on page 71 and 72 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>). The curricula vitae of the members of the Board of Directors over the last five years can be found in the Annual Report 2019 on pages 63 and 64, in the Annual Report 2018 on page 58, in the Annual Report 2017 on pages 42 and 43, in the Annual Report 2016 on pages 19 and 20, and in the Annual Report 2015 on pages 28 and 29 (all available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>). No directorships are maintained with other listed companies on a reciprocal basis.

Further information regarding the election and the composition of the Board of Directors can be found in art. 8.1 of the Sika Articles of Association (available at <https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html>).

The Board of Directors of Sika AG currently consists of eight members and comprises non-executive members only. None of the members of the Board of Directors was a member of Group Management or the executive management of a Sika Group company during the three preceding business years. Neither the members of the Board of Directors nor any company nor organization represented by a member of the Board of Directors has a significant business connection with Sika AG or any of the Sika Group companies. The Board of Directors convenes at the Chair's request as often as business demands. Meetings are generally held every one to two months. In the business year 2020, the Board of Directors met twelve times, with all members present at all meetings. The meetings lasted between four and six hours.

ATTENDANCE OF INDIVIDUAL BOARD MEMBERS

Board Member	Member since	Number of meetings attended
Paul Hälgi	2009	12 of 12
Viktor W. Balli	2019	12 of 12
Frits van Dijk	2012	12 of 12
Justin M. Howell	2018	12 of 12
Monika Ribar	2011	12 of 12
Daniel J. Sauter	2000	12 of 12
Christoph Tobler	2005	12 of 12
Thierry F. J. Vanlancker	2019	12 of 12

The Chief Executive Officer (CEO) participates in the meetings of the Board of Directors in an advisory capacity. The other members of Group Management take part as necessary, also in an advisory capacity. In 2020, the CEO participated in all and the

other members of Group Management in two to twelve of the twelve meetings. Company officers report regularly and comprehensively to the Chair of the board concerning the implementation of decisions of the Board of Directors. The CEO, as well as the Chief Financial Officer (CFO), report to the Board of Directors in writing on the development of business at least once per month. Extraordinary events are reported immediately to the Chair of the Board of Directors or the Audit Committee, insofar as such events relate to the latter's area of responsibility. The Internal Audit staff report to the Chair of the Board of Directors, as well as the Audit Committee, within the scope of the review schedule. In 2020, the Internal Audit participated in five of the five meetings of the Audit Committee.

Information regarding the number of permitted mandates of members of the Board of Directors outside the Sika Group can be found in art. 8.4 of the Sika Articles of Association (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>).

BOARD COMMITTEES

Sika has two committees of the Board of Directors: the Audit Committee and the Nomination and Compensation Committee. The members of the Nomination and Compensation Committee are elected annually by the General Meeting. Reelection is possible. The members of the Audit Committee, as well as the chairperson of each committee, are (re)elected annually by the Board of Directors. Otherwise, the committees organize themselves. Detailed information on the members of the committees can be found on page 71 and 72 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

AUDIT COMMITTEE

The Audit Committee mainly reviews the results of internal and external audits, as well as risk management. The committee convenes at the request of its chairperson as often as business demands. Customarily, the Chair of the Board of Directors and the CFO, as well as the CEO if necessary, take part in these meetings in an advisory capacity. Meetings are generally held every two to three months, lasting between three and four hours. In the year under review, the Audit Committee met five times, with all members present at all meetings. The Chair of the Board of Directors, the CEO, the CFO, and the Internal Audit participated in five of the five meetings. The auditor participated in three of the five meetings.

More detailed information regarding the competences and activities of the Audit Committee can be found in the Organizational Rules of Sika AG and Sika Group on page 6, section 7 (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/organizational-rules.html>) and in the Charter of the Audit Committee which is included on pages 14 to 16 of the Organizational Rules of Sika AG and Sika Group (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/organizational-rules.html>).

ATTENDANCE OF INDIVIDUAL AC MEMBERS

Audit Committee Member	Number of meetings attended
Monika Ribar, AC Chair	5 of 5
Viktor W. Balli	5 of 5
Christoph Tobler	5 of 5

NOMINATION AND COMPENSATION COMMITTEE

The Nomination and Compensation Committee prepares personnel planning at the level of the Board of Directors and Group Management and handles matters relating to compensation. One of the central tasks of the Nomination and Compensation Committee is succession planning for the Board of Directors and Group Management. The committee convenes at the request of its chairperson as often as business demands. Usually the Chair of the Board of Directors and the CEO participate in these meetings in an advisory capacity, insofar as they are not themselves affected by the items on the agenda. Meetings are generally held on a bimonthly basis, lasting between one and a half and two and a half hours. In the year under review, the Nomination and Compensation Committee held five ordinary meetings. Two members attended all Committee meetings. At the Annual General Meeting on April 21, 2020, Thierry Vanlancker was elected to the Nomination and Compensation Committee. Frits van Dijk did not stand for reelection to the Nomination and Compensation Committee. Thierry Vanlancker joined two of the three meetings which took place after he was elected. Frits van Dijk joined two of the two meetings which took place before he stepped down as an NCC member. The Chair of the Board of Directors and the CEO participated in all of the five meetings in an advisory capacity. They did not attend when their own compensation and/or performance were being discussed. The external advisor retained to provide services related to executive compensation matters participated in five of the five meetings of the Nomination and Compensation Committee to attend the discussions on compensation. For more information on the external advisor, reference is made to the compensation report on page 87 of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>)

More detailed information regarding the competences and activities of the Nomination and Compensation Committee can be found in art. 9 of the Sika Articles of Association (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>), in the Organizational Rules of Sika AG and Sika Group on page 6, section 6 and in the Nomination and Compensation Committee Charter which is included on pages 12 and 13 of the Organizational Rules of Sika AG and Sika Group (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/organizational-rules.html>), as well as on page 86 et seq. of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

ATTENDANCE OF INDIVIDUAL NCC MEMBERS

Nomination and Compensation Committee Member	Number of meetings attended
Justin M. Howell, NCC Chair	5 of 5
Daniel J. Sauter	5 of 5
Thierry F. J. Vanlancker, (NCC Member as of AGM April 21, 2020)	2 of 3
Frits van Dijk, (NCC Chair until AGM April 21, 2020)	2 of 2

INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS GROUP MANAGEMENT

Within the framework of its non-transferable and inalienable duties, the Board of Directors of Sika supervises Group Management. The members of Group Management report to the CEO, who in turn reports to the Chair of the Board of Directors. The Chair of the Board of Directors is regularly and comprehensively informed by the CEO and the CFO on all matters pertaining to Sika.

Extraordinary events are reported to the Chair of the Board of Directors immediately. In every meeting, the Chair of the Board of Directors, or, at the Chair's instruction, the CEO, informs the Board of Directors about the ongoing business. More detailed information regarding the information and reporting rights can be found in the Organizational Rules of Sika AG and Sika Group on page 5, section 3.4 (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/organizational-rules.html>).

Sika has a comprehensive risk management, as well as an Internal Audit. Details can be found in the chapter "Risk Management" beginning on page 40 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>). As part of its audit plan, the Internal Audit reports to the Chair of the Board of Directors as well as to the Audit Committee.

GROUP MANAGEMENT

Within the framework of the resolutions of the Board of Directors, Sika's operative leadership is incumbent on Group Management. The structure of Group Management is outlined at the beginning of the Corporate Governance section, on page 77 of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>). The members of Group Management and their functions as per the balance sheet date of December 31, 2020, are listed on pages 68 to 70 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>). Detailed information on their backgrounds and activities can be found on pages 69 and 70 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>). The curricula vitae

of the members of Group Management over the last five years can be found in the Annual Report 2019 on page 61 and 62, in the Annual Report 2018 on pages 56 to 57, in the Annual Report 2017 on pages 40 and 41, in the Annual Report 2016 on pages 16 and 17, and in the Annual Report 2015 on pages 25 and 26 (all available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

Information regarding the number of permitted mandates of members of Group Management outside the Sika Group can be found in art. 10 para. 3 of the Sika Articles of Association (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>). Sika had no management contracts with third parties in the year under review.

REGULATION OF RESPONSIBILITIES

The powers, tasks, and responsibilities of the Board of Directors and Group Management are set out in detail in the Organizational Rules of Sika AG and Sika Group on pages 3 to 11 (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/organizational-rules.html>). Furthermore, for the tasks and duties of the Board of Directors and Group Management, reference is made to art. 8.2 and art. 10 of the Sika Articles of Association (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>).

GOVERNANCE STRUCTURES IN CONNECTION WITH CLIMATE-RELATED RISKS AND OPPORTUNITIES

The highest governance level of climate-related risks and opportunities is the Board of Directors. The Board's responsibility is to review and endorse the development and implementation of sustainability policies and strategies. It is one of the main tasks of the Chair of the Board to steer and oversee climate-related topics.

Group Management is responsible for the development and implementation of initiatives and actions addressing climate change, in line with the defined sustainability strategy and targets.

Identification, assessment and management of climate-related risks is integrated into multi-disciplinary company-wide risk identification, assessment, and management processes.

More information on Sika's approach towards the implementation of the recommendations of TCFD (Task Force on Climate related Financial Disclosure) can be found on page 54 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

COMPENSATION, SHAREHOLDINGS, AND LOANS

With regards to the information on the compensation of the members of the Board of Directors and the Management Board, reference is made to the compensation report beginning on page 84 of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

SHAREHOLDER PARTICIPATION RIGHTS

Each shareholder can have his shares represented by another shareholder with voting rights, or the independent proxy. Proxies and instructions can be issued to the independent proxy in writing or electronically. The Annual General Meeting elects the independent proxy annually for a one-year term until the conclusion of the next Annual General Meeting. Reelection is possible. For more detailed information on the participation, representation, and instruction rights of shareholders reference is made to art. 3, art. 4, and art. 7.3 of the Sika Articles of Association (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>).

Information on the legal quora can be found in art. 703 et seq. of the Swiss Code of Obligations (CO); information on what constitutes a quorum under the Sika Articles of Association can be found in art. 7.3 para. 4 of the Sika Articles of Association (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>). The resolutions for which a qualified majority (at least two thirds of the votes represented, and an absolute majority of the par value of shares represented) is required are defined therein. The Sika Articles of Association can be found at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>. The invitation modalities and deadlines for the General Meetings match with legal requirements (art. 699 et seq. CO).

In addition, during a period published by the company in the Swiss Official Gazette of Commerce, shareholders representing shares with a nominal value of CHF 10,000 can request in writing to have an item placed on the agenda, indicating the proposals to be put forward.

The publication of the convening of the General Meeting is made in the Swiss Official Gazette of Commerce. The convening also contains the agenda items and the proposals of the Board of Directors. In addition, the invitation to the General Meeting is sent by post to the shareholders. Shareholders will not be registered by the company one business day prior to a General Meeting. Therefore, registered shares sold between the deadline and a General Meeting are not entitled to be voted.

CHANGE IN CORPORATE CONTROL AND DEFENSE MEASURES

The Articles of Association of Sika AG (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>) do not provide for an opting out or opting up in the meaning of art. 125 and 135 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FinMIA). There are no change of control clauses.

AUDITOR

The auditor of Sika AG is elected by the Annual General Meeting for a term of one year. In the year under review, Ernst & Young AG, listed as auditor in the commercial register since February 7, 1995, served in this capacity.

The auditor participates regularly in the meetings of the Audit Committee, providing oral and written reports on the results of its reviews. In 2020, the auditor participated in three of the five meetings of the Audit Committee. The Audit Committee checks and evaluates the auditor and makes recommendations to the Board of Directors. For further information regarding reporting and control of the auditor, reference is made to the Charter of the Audit Committee which is included on pages 14 to 16 of the Organizational Rules of Sika AG and Sika Group (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/organizational-rules.html>).

The independence of the auditor is ensured by various measures. The Audit Committee has defined a percentage threshold for non-audit services in relation to the audit services. In addition, services outside the audit which individually exceed CHF 100,000 are subject to prior approval by the chair of the Audit Committee. As part of its reporting for the consolidated and statutory financial statements, the auditor confirms its independence vis-à-vis Sika AG. In accordance with legal requirements, the lead auditor is replaced after a maximum period of seven years. The current lead auditor has been responsible for the audit mandate since 2015. As set out in section 2.4 of the Charter of the Audit Committee which is included on pages 14 to 16 of the Organizational Rules of Sika AG and Sika Group (available at <https://www.sika.com/en/investors/corporate-governance-risk-management/organizational-rules.html>), the Audit Committee reviews any potential conflicts between the audit and non-audit services of the auditor.

The performance of the auditor is evaluated by the Audit Committee as well as by employees of Sika who are in regular contact with the auditor. The assessment is based on criteria such as the professional expertise and know-how, the understanding of the corporate structure and company-specific risks, comprehensibility of the audit strategy proposed by the auditor and diligence in the implementation of the proposed audit strategy, as well as the coordination of the auditor with the Audit Committee and the finance department of the Sika Group.

In addition, the Audit Committee reviews the results of the audit, particularly the audit report for the consolidated annual financial statements and the interim financial statements.

The budget for the audit fees is proposed by the CFO and approved by the Audit Committee. During the year under review, Ernst & Young AG invoiced in total CHF 6.4 million for its services. Thereof, CHF 5.5 million related to audit services, which included the audit of the statutory financial statements of Sika AG and of practically all subsidiaries, as well as the audit of the consolidated financial statements. Ernst & Young AG received additional fees totaling CHF 0.9 million for tax consultancy services.

INFORMATION POLICY

Sika provides extensive information on the development of business in its annual, half-year and quarterly reports, at the annual media and financial analyst conference, as well as at the Annual General Meeting. The continually updated website at www.sika.com as well as media releases regarding important developments (<https://www.sika.com/en/media/media-releases.html>) are also integral components in Sika's communication activities. As a company listed on SIX Swiss Exchange, Sika is also obligated to comply in particular with the requirements of ad hoc disclosure, i.e., the publication of price-sensitive facts. Anyone who would like to receive ad hoc publications of Sika can register for the push service on Sika's website under: <https://www.sika.com/en/investors/contact/stay-informed.html>. In addition, Sika maintains a dialog with investors and the media through special events and roadshows. Official publications of the company are made in the Swiss Official Gazette of Commerce. The contact details of the company are: Sika AG, Zugerstrasse 50, 6341 Baar, Switzerland (phone +41 58 436 68 00, sikagroup@ch.sika.com, www.sika.com).

FINANCIAL CALENDAR

Sales first quarter 2021	Tuesday, April 20, 2021
53 rd Annual General Meeting	Tuesday, April 20, 2021
Dividend payment	Monday, April 26, 2021
Half-Year Report 2021	Thursday, July 22, 2021
Results first nine months 2021	Friday, October 22, 2021
Net sales 2021	Tuesday, January 11, 2022
Media conference / analyst presentation on full-year results 2021	Friday, February 18, 2022

SIGNIFICANT CHANGES SINCE BALANCE SHEET DATE

Material changes having occurred between the balance sheet date (December 31, 2020) and the editorial deadline for the Annual Report are referenced on page 149 of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

COMPENSATION REPORT

COMPENSATION REPORT

The Compensation Report describes the compensation principles and programs, as well as the governance framework related to the compensation of the Board of Directors and the members of Sika's Group Management. The report also provides details regarding the compensation programs and the payments made to members of the Board of Directors and of Group Management in the 2020 business year.

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

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INTRODUCTION BY THE CHAIR OF THE NOMINATION AND COMPENSATION COMMITTEE

DEAR SHAREHOLDERS,

In the name of the Board of Directors and the Nomination and Compensation Committee, I am pleased to introduce the 2020 Compensation Report.

The 2020 fiscal year was overshadowed by the global coronavirus pandemic, which had a number of serious repercussions for the construction and automotive sectors. Thanks to the strong motivation of our employees and their pronounced customer focus, Sika managed to perform successfully in this highly challenging market environment and achieve above-average results. The Compensation Report outlines how these results impacted the variable incentive payments made to the members of Group Management under the different compensation plans.

In the reporting year, the Nomination and Compensation Committee focused its activities on the succession planning for positions on the Board of Directors and Group Management. Raffaella Marzi, Corporate Head Human Resources & Compliance, was appointed to Group Management effective November 1, 2020. This is an expression of our commitment to put our people at the heart of our success and of the strategic importance of human resources for the company.

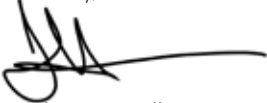
Otherwise, the Nomination and Compensation Committee performed its regular activities throughout the year, such as the annual review of the compensation programs, the performance goal setting of Group Management at the beginning of the year and their performance assessment at year end, the determination of the compensation of the members of the Board of Directors and Group Management, as well as the preparation of the Compensation Report and of the say-on-pay votes at the Annual General Meeting.

Following an extensive review of the compensation programs in 2018, several changes to the compensation of the Board of Directors and of Group Management were implemented in 2019. The Nomination and Compensation Committee established that the compensation design is well aligned with the business strategy and the shareholders' interests and decided not to implement any change for 2020, with one exception: As announced in last year's Compensation Report, the reduction of Sika's carbon footprint will be introduced as a new performance objective for the annual Performance Bonus. This objective was chosen to recognize the importance of mitigating the company's impact on the environment and to encompass sustainability in the measurement of the performance of Group Management. Further details on this change are provided in this Compensation Report. The compensation system applicable for 2020 as described in this report will also apply for 2021.

At the 2020 Annual General Meeting, a binding vote on the aggregate maximum compensation amounts for the Board of Directors and for Group Management was conducted, as well as a consultative vote on the Compensation Report, so that shareholders could express their opinion on our compensation policies and principles. The shareholders approved the compensation amounts for the Board of Directors and for Group Management and the consultative vote on the Compensation Report with a very high approval rate. These positive voting outcomes show that the company's active dialogue with investors is fruitful and that shareholders endorse the company's compensation system. We would like to thank investors for their continued trust and support.

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

Sincerely,



Justin M. Howell
Chair of the Nomination and Compensation Committee

COMPENSATION GOVERNANCE

NOMINATION AND COMPENSATION COMMITTEE

In accordance with the Articles of Association and the Organizational Rules of Sika AG, the Nomination and Compensation Committee is composed of three members of the Board of Directors who are elected individually by the Annual General Meeting for a period of one year. At the Annual General Meeting 2020, Mr. Justin M. Howell (Chair), Mr. Daniel J. Sauter and Mr. Thierry F. J. Vanlancker were elected members of the Nomination and Compensation Committee.

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

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

LEVELS OF AUTHORITY

	CEO	BoD Chair	NCC	BoD	AGM
Compensation policy and principles			Proposes	Approves	
Maximum aggregate compensation amounts of BoD and GM			Proposes	Reviews	Approves (binding votes)
Compensation of BoD Chair			Proposes	Approves	
Individual compensation of BoD members			Proposes	Approves	
Compensation of CEO		Proposes	Reviews	Approves	
Individual compensation of members of GM	Proposes		Reviews	Approves	
Compensation Report			Proposes	Approves	Consultative vote

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

In 2020, the Nomination and Compensation Committee held five meetings according to the following predetermined annual agenda.

	Feb	Apr	May	Oct	Dec
Review of overall compensation policy and compensation governance					
Review of external stakeholder feedback on compensation policy and disclosure			■		
Review of overall compensation policy			■		
Preparation and approval of Compensation Report	■				■
Review of shareholdings of member of Group Management (share ownership guideline)	■				
Preparation of say-on-pay vote for next Annual General Meeting	■				
Review of committee duties, accountabilities, and responsibilities	■				
Approval of meeting schedule of the Nomination and Compensation Committee	■				
Self-assessment by the Nomination and Compensation Committee	■				
Compensation of Board of Directors					
Determination of compensation for following compensation period (AGM to AGM)		■			
Benchmark of compensation of the Board of Directors (every 3–4 years)					■
Compensation of Group Management					
Preliminary performance evaluation (previous year)	■				
Final performance evaluation (previous year)		■			
Determination of short-term incentive payout for previous year		■			
Determination of long-term incentive vesting (previous performance period)	■				
Preliminary compensation review for following year (including benchmarking analysis)				■	
Determination of compensation (at target) for following year					■
Determination of performance objectives for following year					■
Nomination items					
Review of Board of Directors constitution			■		
Appraisal and management development plan for members of Group Management			■	■	
Succession planning for Group Management positions				■	

For details on attendance at meetings, please refer to the Corporate Governance Report on page 80.

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

The Nomination and Compensation Committee may decide to consult an external advisor from time to time for specific compensation matters. In 2020, Agnès Blust Consulting continued to provide services related to executive compensation matters. This company does not have other mandates with Sika. In addition, support and expertise are provided by internal compensation experts, such as the Head of Human Resources and the Head of Compensation & Benefits.

SHAREHOLDER INVOLVEMENT

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

- PRINCIPLES OF COMPENSATION APPLICABLE TO THE BOARD OF DIRECTORS (Articles 11.1, 11.3, and 11.8): The Board of Directors receives fixed compensation in cash and/or in shares.
- PRINCIPLES OF COMPENSATION APPLICABLE TO GROUP MANAGEMENT (Articles 11.1, 11.4 to 11.6, and 11.8): Group Management receives fixed and variable compensation. The variable compensation consists of a Performance Bonus paid in cash and of a long-term incentive in the form of equity compensation. For the CEO, the variable compensation (value of paid-out Performance Bonus and grant value of the long-term incentive) may not exceed 300% of the fixed compensation. For the other members of Group Management on average, the variable compensation may not exceed 200% of the fixed compensation.
- BINDING VOTE BY THE ANNUAL GENERAL MEETING (Article 11.2): The Annual General Meeting annually approves the total fixed compensation amount for the Board of Directors for the period until the next ordinary Annual General Meeting and the maximum total fixed and variable compensation amount for Group Management for the next business year.
- ADDITIONAL AMOUNT FOR NEW MEMBERS OF GROUP MANAGEMENT (Article 11.7): The total additional compensation for each new member of Group Management may not exceed the average total compensation of Group Management in the previous business year by more than 200%, or 400% for a new CEO. Proven disadvantages from a change of position may be compensated within this additional amount.
- CREDIT FACILITIES, LOANS, AND POST-EMPLOYMENT BENEFITS (Article 12): The company does not offer any loans, credit facilities, guarantees, or other securities to members of the Board of Directors and Group Management. Pension benefits are offered only in accordance with the occupational pension plans, which are specified in the respective regulations.

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

METHOD FOR DETERMINING COMPENSATION

PERIODIC BENCHMARKING

The compensation of the Board of Directors is regularly reviewed against prevalent market practice of other multinational industrial companies. In 2018, a thorough review was conducted to determine the competitiveness of the Board compensation in terms of structure and quantum. For this purpose, a peer group of Swiss multinational companies of the industry sector listed on the SIX Swiss Exchange was selected for the benchmarking analysis. The peer group consists of ABB, Adecco, Barry Callebaut, Clariant, EMS-Chemie, Geberit, Givaudan, Kühne+Nagel, LafargeHolcim, Lindt, Lonza, Richemont, Schindler, SGS, Sonova, Straumann, Swatch, and Swisscom and is well balanced in terms of market capitalization, revenue size, and headcount. The analysis showed that while the compensation structure was broadly in line with prevalent market practice, the compensation levels were slightly below market. Consequently, the fees of the Board of Directors were increased in 2019, and a higher portion of the compensation is now delivered in blocked shares. Since then, the compensation structure and levels of the Board of Directors remain unchanged.

Regarding the compensation of Group Management, a benchmarking analysis is conducted every two years with the support of an independent consultant, Willis Towers Watson. This analysis was performed again in 2020. For the Group Management positions based in Switzerland, the same peer group of companies was used as for the review of compensation of the Board of Directors. For the Group Management positions based outside Switzerland, compensation data of similar positions in industrial companies in the country of employment, which are available in the Willis Towers Watson database, are used as a benchmark. Willis Towers Watson compiled the relevant benchmarking data in a report that served as a basis for the Nomination and Compensation Committee to analyze the compensation of the CEO and Group Management, and to set their target compensation levels for 2021. Sika's policy is to pay market median compensation for solid performance (target compensation) and to provide for compensation above the market median in case of strong performance. For newly promoted members of Group Management, Sika's policy is to set target compensation below the market median and to subsequently increase it to market level over a period of two to five years, conditionally upon solid performance.

PEER GROUP FOR BENCHMARKING PURPOSES

In CHF thousands	Market capitalization (12/31/2020)	Revenue (12/31/2019)	Headcount (12/31/2019)
Sika	34,273	8,109	25,141
upper quartile	30,984	17,601	67,843
median	20,269	6,955	17,393
lower quartile	13,944	4,070	12,178

PERFORMANCE MANAGEMENT

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

COMPENSATION PRINCIPLES

COMPENSATION OF THE BOARD OF DIRECTORS

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

COMPENSATION OF GROUP MANAGEMENT

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

Pay for performance and sustainable success

The compensation of Group Management is linked to Sika's performance and to individual performance. Through a well-balanced combination of incentive programs, both annual performance and long-term success are rewarded. Furthermore, performance is measured both in absolute terms (year-on-year improvements) and in relative terms (compared to other companies subject to similar market cycles).

Alignment with shareholder interests

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

Market competitiveness

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

Transparency

Compensation programs are straightforward and transparent.

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

WHAT WE DO

- ⊕ Conduct an annual review of the compensation policy and programs
- ⊕ Maintain compensation plans with a strong link between pay and performance
- ⊕ Conduct a rigorous performance management process
- ⊕ Maintain compensation plans designed to align executive compensation with long-term shareholder interests
- ⊕ Require that the CEO and the other members of Group Management own a minimum number of Sika shares in percentage of their annual base salary
- ⊕ Include clawback and malus provisions in the incentives
- ⊕ Offer employment contracts with a notice period of a maximum of twelve months

WHAT WE DON'T DO

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

ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

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

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

STRUCTURE OF BOARD COMPENSATION

in CHF	in cash	in restricted share units
Retainer (gross p.a.)		
Chair of the Board of Directors	450,000 + 30,000 allowance	450,000 ¹⁾
Members of the Board of Directors	125,000	125,000 ¹⁾
Committee fees (gross p.a.)²⁾		
Committee chair	60,000	
Committee members	40,000	

1) Converted into restricted share units on the basis of the average closing share price in the five first trading days of April before the beginning of the year of office. The restricted share units are settled in shares that are allocated to the members of the Board of Directors shortly after the end of the year of office.

2) The Board chair is not eligible for committee fees.

ARCHITECTURE OF COMPENSATION OF THE MEMBERS OF GROUP MANAGEMENT

COMPENSATION MODEL AND COMPENSATION ELEMENTS

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

- fixed base salary;
- variable compensation: short-term and long-term incentives;
- benefits and perquisites.

STRUCTURE OF COMPENSATION OF GROUP MANAGEMENT

	Vehicle	Purpose	Drivers	Performance measures
Annual base salary	Monthly cash salary	Attract and retain	Position, market practice, skills, and experience	
Performance bonus (STI)	Annual bonus in cash	Pay for performance	Annual performance	Group EBIT Group net sales Sustainability (CO ₂ emissions) Unit/individual goals
Long-term incentive (LTI)	PSU with a 3-year performance vesting	Reward long-term performance Align to shareholders	Business performance over 3 years	Return on capital employed (ROCE) Relative total shareholder return (TSR)
Benefits	Pension and insurances Perquisites	Protect against risks Attract and retain	Market practice and position	

FIXED ANNUAL BASE SALARY

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

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

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

PERFORMANCE BONUS (SHORT-TERM INCENTIVE)

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

The Performance Bonus target (i.e. bonus at 100% target achievement) is reviewed annually and is expressed as a percentage of base salary. It amounts to 119% for the CEO and ranges from 43% to 77% for the other members of Group Management. Group performance accounts for 70% of the total bonus, while the achievement of unit/individual objectives accounts for 30%.

GROUP PERFORMANCE

The performance measures for the Group are proposed by the Nomination and Compensation Committee and approved by the Board of Directors. For 2020, they were the same as in previous years:

- EBIT (earnings before interest and tax) improvement during the year, relative to a peer group of companies;
- net sales growth during the year relative to the same peer group;
- sustainability: reduction of CO₂ emissions per ton sold.

EBIT and net sales performance are measured based on an evaluation provided by an independent consulting firm, Obermatt. This benchmark compares and ranks Sika against the performance of a selected peer group of 22 companies, all industrial firms which were chosen because they have a comparable base of products, technology, customers, suppliers or investors, and are thus exposed to similar market cycles.

PEER GROUP (OBERMATT BENCHMARK)

3M – Industrial & Transportations
 Armstrong World Industries Inc.
 Ashland
 Beacon Roofing Supply, Inc.
 Beiersdorf – Tesa
 Carlisle – Construction Materials
 Cemedine Co., Ltd.

EMS-Chemie Holding AG
 Forbo – Flooring Systems
 Fuller HB Company
 Geberit
 GCP Applied Technologies
 Henkel – Adhesive Technologies
 Hilti Corporation ¹
 Huntsman – Performance Products

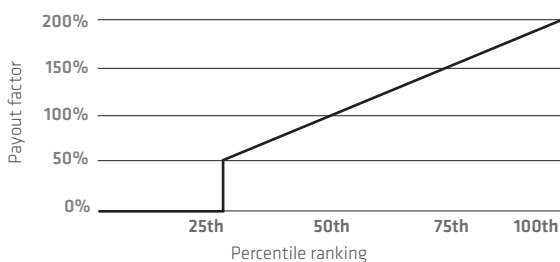
Owens Corning
 Pidilite Industries Limited
 RPM
 Saint-Gobain
 SK Kaken Co., Ltd.
 Sto AG
 Uzin Utz AG

The peer group was slightly adjusted in 2020: Saint-Gobain is now included with the results of the group considering that the Construction Products segment does not exist anymore; BASF was taken out of the peer group considering that the division Construction Chemicals was sold and the group as a whole is not deemed a relevant peer for Sika.
 1) Hilti is not listed on the stock market and is therefore not included for the relative TSR in the LTI plan.

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

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

PAYOUT CURVE FOR THE OBERMATT BENCHMARK



The sustainability objective was introduced in 2020 in order to recognize the importance of mitigating the company's impact on the environment and to encompass sustainability in the measurement of the performance of Group Management. It is an objective to reduce CO₂ emissions per ton sold by 3% annually.

UNIT/INDIVIDUAL PERFORMANCE

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

- unit performance: includes performance objectives linked to the business under responsibility (Group, region, Target Market or Group function). These objectives either contribute to the top-line growth, bottom-line profitability or the efficient management of the company's capital. In 2020, the Nomination and Compensation Committee decided to focus on EBIT (expressed as an improvement versus previous year);
- people and projects management: includes strategic and sustainability objectives, such as for example entry into new markets, introduction of new products, improvement of processes and operational efficiency, health and safety; and leadership objectives.

The weight of each category depends on the business priorities inherent to the respective function.

At the end of the financial year, the actual achievement is compared with the objectives that were set at the beginning of the year. The level of achievement for each objective corresponds to a payout percentage for that objective, which is always between 0% and 200%.

OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING

				CEO, Corporate functions	Regional heads
Performance Bonus	← Group performance (70%)	← Relative to Peer Group	← EBIT improvement	40%	40%
			← Net sales growth	20%	20%
		Absolute	← Sustainability: CO₂	10%	10%
	← Unit performance (20%)	← Absolute	← Bottom line/ profitability	20% EBIT Group	20% EBIT region
	← Individual performance (10%)	← Absolute	← People & projects	10% Personal objective	10% Personal objective

Considering the increasing focus on environment, social and governance (ESG) matters, the Performance Bonus now includes between 10% and 20% of ESG objectives: 10% relate to environmental matters, with the reduction of CO₂ emission objective, and for certain roles, 10% relate to social matters with the health and safety and/or the leadership performance objectives.

The overall bonus payout is capped and cannot exceed 150% of the Performance Bonus target. The Performance Bonus is paid out in April of the following year.

LONG-TERM INCENTIVE

Sika's compensation policy is designed to also align a significant portion of compensation of Group Management to the company's long-term performance and to strengthen Group Management's alignment with shareholders' interests. Members of Group Management are eligible for a long-term incentive. The long-term incentive target is reviewed annually and amounts to 119% of annual base salary for the CEO, and ranges from 42% to 77% for the other members of Group Management.

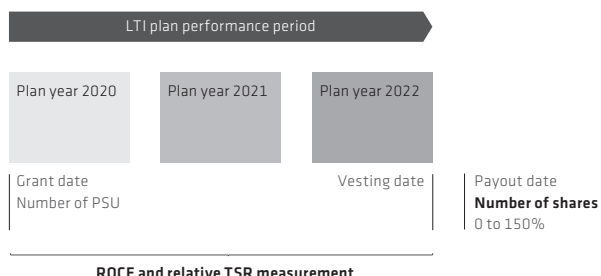
The long-term incentive plan is a performance share unit (PSU) plan. At the beginning of the vesting period, a number of PSUs is granted to each member of Group Management. The PSUs vest after a period of three years, conditionally upon fulfilling two equally weighted performance conditions, the return on capital employed (ROCE) and relative total shareholder return (relative TSR). The ROCE objective is determined at the beginning of the vesting period by the Board of Directors and is measured at the end of the vesting period as the average ROCE of the first year, the second year, and the third year of the vesting period. Acquisitions are excluded from the ROCE calculation in the year of acquisition and for two additional calendar years. The relative TSR is measured in relation to a peer group as a percentile rank and the objective is to reach the median of the peer group. The peer group consists of all listed companies of the peer group used for the Performance Bonus as disclosed on page 92.

For both performance conditions, the maximum achievement level is capped at 200%, however the overall vesting level for the LTI is capped at 150%. This is in line with the compensation philosophy of the company to align pay with performance and to keep the incentive plan leverage at a reasonable level. The final share allocation is determined after the three-year performance period, based on the following vesting rules:

Performance measures	ROCE (2020–2022)	Relative TSR (2020–2022)
Purpose	Rewards the efficient management of the company's capital	Aligns executive compensation with shareholders' returns
Weighting	50% of the PSU grant	50% of the PSU grant
Target level	ROCE of 28% 100% payout	Relative TSR at the median of the peer group 100% payout
Maximum achievement level	200%	200%
	Combined maximum payout capped at 150%	
Vesting rules	<ul style="list-style-type: none"> • Threshold: ROCE of 25% = 50% payout • Target: ROCE of 28% = 100% payout • Maximum: ROCE of 31% = 200% payout • Linear interpolation between threshold, target, and maximum 	<ul style="list-style-type: none"> • Threshold: 25th percentile = 50% payout • Target: median = 100% payout • Maximum: best of all peers = 200% payout • Linear interpolation between threshold, target, and maximum

The shares are allocated at their market value (closing price at grant date on the SIX Swiss Exchange), shortly after the Annual General Meeting in the month of April following the three-year vesting period. In some countries where the allocation of shares may be illegal or impractical, the award may be settled in cash after the performance period.

LONG-TERM INCENTIVE PLAN PERIOD



In case of termination of employment due to retirement, death, disability, or in case of liquidation or a change of control, the unvested PSUs are subject to early vesting, prorated for the number of months that have expired from the grant date until the termination date and based on an achievement payout of 100%. In case of termination for any other cause, such as resignation or involuntary termination, the unvested PSUs are forfeited.

CLAWBACK AND MALUS PROVISIONS

Clawback and malus provisions apply to both the Performance Bonus and the long-term incentive plans. In case of financial restatement due to non-compliance to accounting standards or fraud, and/or in case of violation of law or of internal rules by a member of Group Management, the Board of Directors may deem any Performance Bonus payment and/or unvested PSUs to be forfeited (malus provision) or may seek reimbursement of any paid Performance Bonus and/or allocated shares under the long-term incentive (clawback provision) within a period of three years after the year of restatement or of the fraudulent/non-compliant behavior.

SHARE OWNERSHIP GUIDELINE

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

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

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

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

BENEFITS: PENSIONS

As Group Management is international in its nature, the members participate in the benefits plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance, and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to the risk of retirement, disability, death, and illness. The members of Group Management with a Swiss employment contract participate in Sika's pension plans offered to all employees in Switzerland. These consist of the pension fund of Sika Schweiz AG, in which base salaries up to an amount of CHF 135,090 per annum are insured, as well as a supplementary plan, in which base salaries in excess of this limit are insured up to the maximum amount permitted by law. Sika's pension funds exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors, and Disability Pension Plans (BVG). Members of Group Management under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and at a minimum, in accordance with the legal requirements of the respective country.

Moreover, an early retirement plan is in place for members of the top management of Sika. The plan, entirely financed by the employer, is administered by a Swiss foundation. Beneficiaries may opt for early retirement from the age of 60, provided that they have been in a top management position for at least five years. Benefits under the plan are twofold:

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

BENEFITS: PERQUISITES

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

EMPLOYMENT CONTRACTS

The members of Group Management are employed under employment contracts of unlimited duration and are all subject to a notice period of one year, with the exception of the CEO, who reached the retirement age (65) in 2020 and is now subject to a reduced notice period of four months. Members of Group Management are not contractually entitled to termination payments, or any change of control provisions, other than the early vesting and early unblocking of share awards mentioned above. Their contract may foresee non-competition provisions that are limited in time to a maximum of two years and which allow compensation up to a maximum of six months.

COMPENSATION AWARDED TO THE BOARD OF DIRECTORS IN 2020

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

In 2020, members of the Board of Directors received a total compensation of CHF 3.0 million (2019: CHF 2.8 million) in the form of a retainer of CHF 1.3 million (2019: CHF 1.4 million), committee fees of CHF 0.3 million (2019: CHF 0.2 million), social security contributions of CHF 0.1 million (2019: CHF 0.1 million), and shares of CHF 1.3 million (2019: CHF 1.1 million). The increase in compensation compared to the previous year is due to changes in the composition of the Board of Directors and the new Board fees structure implemented from the 2019 Annual General Meeting which have a full impact in financial year 2020 compared to a partial impact in financial year 2019.

in CHF	Retainer (cash)	Commit- tee fees (cash)	Value of shares ¹	Social security ²	Total 2020	Retainer (cash)	Commit- tee fees (cash)	Value of shares ¹	Social security ²	Total 2019
Paul Hälgi, Board chair	480,000	0	450,085	11,893	941,978	490,000	0	400,897	11,893	902,790
Viktor W. Balli ³ , AC member	125,000	40,000	125,081	11,893	301,974	83,333	26,667	83,413	11,893	205,306
Justin M. Howell ⁴ , NCC chair	125,000	53,333	125,081	0	303,414	133,333	36,667	100,633	0	270,633
Monika Ribar, AC chair	125,000	60,000	125,081	11,893	321,974	133,333	56,667	100,633	11,893	302,526
Daniel J. Sauter, NCC member	125,000	40,000	125,081	11,893	301,974	133,333	36,667	100,633	11,893	282,526
Christoph Tobler, AC member	125,000	40,000	125,081	11,893	301,974	133,333	36,667	100,633	11,893	282,526
Ulrich W. Suter ⁵	0	0	0	0	0	50,000	0	17,220	4,212	71,432
Thierry F.J. Vanlancker ³ NCC member	125,000	26,667	125,081	0	276,748	83,333	0	83,413	0	166,746
Frits van Dijk	125,000	20,000	125,081	11,893	281,974	133,333	56,667	100,633	11,893	302,526
TOTAL	1,355,000	280,000	1,325,652	71,358	3,032,010	1,373,333	250,000	1,088,106	75,570	2,787,010

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

2) Includes social security contributions to the extent that they result in a benefit entitlement. Additional contributions that do not result in an increase of the benefit entitlement are excluded (additional contributions in the amount of CHF 94,066 in 2020 and CHF 89,303 in 2019 are excluded from the amount disclosed above). The previous year's amount has been restated accordingly to allow for comparability.

3) Since AGM of April 9, 2019.

4) Since AGM of April 21, 2020.

5) Until AGM of April 9, 2019.

The compensation disclosed in the Compensation Report always includes the respective calendar year (January to December). However, shareholders approve the compensation to be paid for the period between Annual General Meetings (May to April). The compensation paid for the periods between Annual General Meetings is disclosed below, including a comparison with the compensation amount approved by the shareholders.

At the Annual General Meeting on April 21, 2020, shareholders approved an aggregate maximum compensation amount of CHF 3,300,000 for the Board of Directors for the term of office from the 2020 Annual General Meeting until the 2021 Annual General Meeting. The compensation effectively paid for the portion of this term of office included in this Compensation Report (May 1, 2020, until December 31, 2020) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2021.

At the Annual General Meeting on April 9, 2019, shareholders approved an aggregate maximum compensation amount of CHF 3,300,000 for the Board of Directors for the term of office from the 2019 Annual General Meeting until the 2020 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 3,032,248 and is therefore within the approved limits.

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

In accordance with the Articles of Association, loans to members of the Board of Directors are not permitted. Hence, no member of the Board of Directors was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

COMPENSATION AWARDED TO THE CEO AND TO GROUP MANAGEMENT IN 2020

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

For 2020, the members of Group Management received a total compensation of CHF 16.3 million (2019: CHF 15.3 million). This amount comprises fixed salaries of CHF 5.0 million (2019: CHF 4.9 million), short-term bonus of CHF 5.6 million (2019: CHF 5.2 million), long-term incentives of CHF 3.6 million (2019: CHF 3.0 million), other expenses of CHF 0.6 million (2019: 0.8 million), contributions to social security of CHF 0.2 million (2019: CHF 0.2 million) and post-employment contributions of CHF 1.3 million (2019: CHF 1.2 million).

The highest-paid individual in 2020 was Paul Schuler, Group CEO.

In CHF thousands (gross) ¹	CEO 2020	CEO 2019	Total 2020 ²	Total 2019 ³
Fixed base salary ⁴	1,050	980	5,042	4,910
Performance Bonus (STI) cash ⁵	1,875	1,650	5,626	5,170
Long-term incentive (LTI) ⁶	1,245	1,110	3,576	2,997
Other payments ⁷	46	46	609	849
Social security ⁸	16	16	147	150
Pension contributions ⁹	217	268	1,271	1,239
TOTAL	4,449	4,070	16,271	15,315

1) All compensation amounts are stated gross.

2) On the basis of nine members, eight of whom served during the full year in 2020.

3) On the basis of nine members, seven of whom served during the full year in 2019.

4) Includes annual base salary and children/family allowances.

5) Estimated Performance Bonus (STI) for the reporting year that will be paid in April of the following year.

6) Grant value of the LTI in the reporting year. The grant value is based on the Monte Carlo evaluation of the PSU (due to the interdependency of the TSR and ROCE component).

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

8) Includes social security contributions to the extent that they result in a pension entitlement. Additional contributions that do not result in an increase of the pension entitlement are excluded (additional contributions excluded from the amount above in 2020: CHF 854,492, of which CHF 291,428 relate to the CEO; in 2019: CHF 820,510, of which CHF 263,113 relate to the CEO). The previous year's amount has been restated accordingly to allow for comparability.

9) Includes contributions to company provided pension plans, including the service cost to the pre-retirement plan.

Explanatory comments to the compensation table:

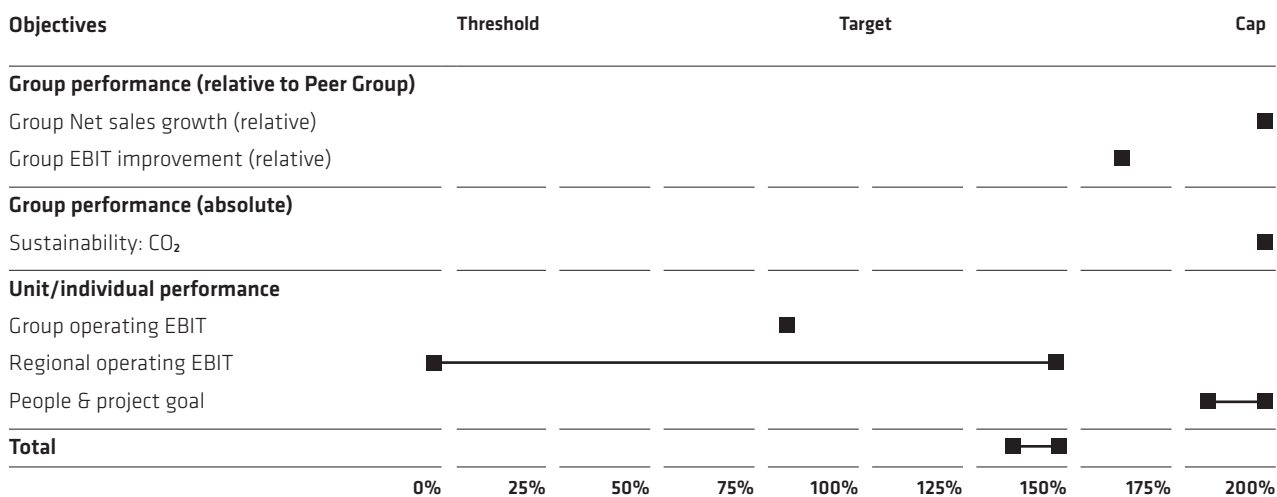
- There were nine members in Group Management in 2020, of which eight on a full-year basis, compared to nine members in 2019, of which seven on a full-year basis.
- The fixed compensation has slightly increased compared to the previous year (+3%). Members of Group Management who have been promoted in recent years received a salary increase in line with the company's policy to set their target compensation below market median at the time of promotion and subsequently increase it to market level over a reasonable period of time (two to five years).
- The "other" payments have decreased by 28% compared to the previous year, mainly due to the fact that certain cost allowance for international assignees have been ceased at repatriation.
- The performance achievement under the Performance Bonus was higher in 2020 than in 2019. Further details are provided below.
- The grant value of the long-term incentive has increased by 19% compared to the previous year. This is because members of Group Management who have been promoted in recent years received a higher grant in line with the company's policy to set their target compensation below market median at time of promotion and subsequently increase it to market level over a reasonable period of time, as mentioned above. Further, a new member of Group Management did not receive any grant in the previous year.
- The social security contributions remained stable. The disclosure of social security contributions has been changed and includes the employer contributions that lead to an entitlement to pension benefits. Contributions that do not lead to an increase in the entitlement to pension benefits, so-called "solidarity contributions" are no longer included (no benefit for the individual).
- The pension contributions have increased by 3%, which is solely due to changes in the constitution of Group Management. The contribution rates in the pension plan have not changed for several years.
- The variable compensation amounted to 297% of the annual base salary or 235% of the fixed compensation (annual base salary plus contributions to social security and pension plus other payments) for the CEO and to 183% of the annual base salary, or 130% of the fixed compensation for the other members of Group Management on average.

The total amount of compensation of CHF 16.3 million awarded to Group Management in 2020 is below the maximum aggregate amount of compensation of CHF 19.5 million approved by the shareholders at the 2019 Annual General Meeting for business year 2020.

PERFORMANCE IN 2020 (NOT AUDITED)

For the business year 2020 Sika achieved revenue growth in local currencies of 3.4% and 7.1% profitability increase (earnings before interest and tax). In the Performance Bonus, Sika has outperformed the peer companies in terms of net sales growth (ranked 1st, payout of 200%) and of EBIT improvement year on year (ranked 5th, payout of 167.8%). CO₂ emissions per ton sold in 2020 have been reduced by 15.2% compared to the previous year, which corresponds to a payout of 200%. The overall Group performance achievement is estimated at 178.5% (best estimate at the time of publication; the relative performance factor will be calculated by Obermatt based on the annual report publications of the peer companies before the payout date in April 2021). This compares to a strong year 2019, where Sika outperformed its peers on net sales growth (ranked best with a 200% payout) and outperformed the industry average in terms of EBIT improvement year on year (ranked 5th with a payout of 164.9%).

Unit/individual performance, which is mainly measured by EBIT and people & project objectives, ranges from 100% to 170% for members of Group Management and amounts to 140% for the CEO. Consequently, the overall bonus payout percentage ranges from 147.1% to 150% (cap) for members of Group Management and amounts to 150% for the CEO. This compares to a payout range of 101% to 147.5% for Group Management and to a payout of 113.5% for the CEO in 2019.



In the long-term incentive 2020–2022, 20,800 performance share units have been granted to the members of Group Management. Those PSUs had an overall grant value of CHF 3.5 million and will vest on December 31, 2022, based on the average ROCE performance during 2020–2022, on relative TSR performance during 2020–2022 and upon the continuous employment of the participant.

In the long-term incentive that vested in 2020 (LTI 2018–2020), the performance condition of 30% average ROCE over the vesting period has been overachieved: the average three-year ROCE, excluding acquisitions, amounts to 30.3%, leading to a payout of 100% (cap). Therefore, the 21,000 units granted to the current members of Group Management (including the CEO) have vested with a vesting value of CHF 5.1 million. The value at vesting is higher than the value at grant due to the positive development in the share price during the vesting period (2018–2020).

OVERVIEW OF THE OUTSTANDING PSU GRANTS (INCLUDES MEMBERS OF GROUP MANAGEMENT AS OF DECEMBER 31, 2019)

Plan		Grant date (PSU) ¹	Performance period	Vesting date (PSU)	Number of PSU granted ²	Total value at grant (CHF)	Vesting level in % of grant	Number of shares (vesting)	Total value at vesting (CHF)
LTI 2018	Group Mgt. (incl. CEO)	01/01/2018	2018–2020	12/31/2020	21,000	2,642,150	100%	21,000	5,077,800
	CEO	01/01/2018	2018–2020	12/31/2020	7,980	1,004,017	100%	7,980	1,929,564
LTI 2019	Group Mgt. (incl. CEO)	01/01/2019	2019–2021	12/31/2021	24,553	2,812,082	To be determined	To be determined	To be determined
	CEO	01/01/2019	2019–2021	12/31/2021	9,663	1,109,909	To be determined	To be determined	To be determined
LTI 2020	Group Mgt. (incl. CEO)	01/01/2020	2020–2022	12/31/2022	20,800	3,483,993	To be determined	To be determined	To be determined
	CEO	01/01/2020	2020–2022	12/31/2022	7,241	1,212,865	To be determined	To be determined	To be determined

1) For new members of Group Management, the grant date for the LTI 2018 may be different (pro rata participation in the previous LTI that are still in the vesting period).

Pro rata participation in the LTI 2019 and onwards is discontinued so that the grant date is always January 1.

2) Number of PSU after the share split following the Extraordinary General Meeting.

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

In accordance with the Articles of Association, loans to members of the Group Management are not permitted. Hence, no member of Group Management was granted a loan during the reporting year. No loans were outstanding at the end of the year under review.

SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT IN 2020

At the end of 2020, members of the Board of Directors held a total of 129,596 shares of Sika AG (2019: 123,287). At the end of 2020, members of Group Management held a total of 193,755 shares of Sika AG (2019: 180,844). This figure includes both privately acquired shares and those allocated under the Group's compensation schemes.

At the end of 2020, members of the Board of Directors and of Group Management did not hold any options.

Information regarding participations of the Board of Directors and Group Management in Sika AG can be found in the Sika AG Financial Statements (on page 172 of the download version of this Report).

EQUITY OVERHANG AND DILUTION AS OF DECEMBER 31, 2020

In total as of December 31, 2020, the equity overhang, defined as the total number of share units and blocked shares outstanding divided by the total number of outstanding shares (141,781,160 registered shares) amounts to 304,202 units, 0.21%.

The company's "burn rate," defined as the number of equities (shares and share units) granted in 2020 (108,553 units) divided by the total number of outstanding shares, is 0.08%.

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

REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT

We have audited pages 96 to 98 of the Compensation Report of Sika AG for the year ended December 31, 2020.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the Compensation Report for the year ended December 31, 2020, of Sika AG complies with Swiss law and articles 14–16 of the Ordinance.

Zurich, February 15, 2021

ERNST & YOUNG LTD

Christoph Michel
Licensed audit expert
(Auditor in charge)

Stefan Pieren
Licensed audit expert

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31

in CHF mn	Notes	%	2019	%	2020	Change in %
Net sales	1, 2	100.0	8,109.2	100.0	7,877.5	-2.9
Material expenses	3	-46.4	-3,765.2	-45.2	-3,562.7	
Gross result		53.6	4,344.0	54.8	4,314.8	-0.7
Personnel expenses	4	-19.0	-1,544.3	-19.4	-1,525.9	
Other operating expenses	5	-17.5	-1,412.1	-16.4	-1,291.3	
Operating profit before depreciation		17.1	1,387.6	19.0	1,497.6	7.9
Depreciation and amortization expenses	2, 15, 16	-4.1	-332.5	-4.6	-367.1	
Operating profit	2	13.0	1,055.1	14.4	1,130.5	7.1
Interest income	7	0.0	3.5	0.0	5.5	
Interest expenses	6	-0.7	-58.5	-0.7	-57.4	
Other financial income	7	0.1	6.0	0.1	6.0	
Other financial expenses	6	-0.5	-40.1	-0.3	-24.7	
Income from associated companies	7	0.0	0.6	0.0	0.5	
Profit before taxes		11.9	966.6	13.5	1,060.4	9.7
Income taxes	8	-2.5	-208.1	-3.0	-235.3	
Net profit		9.4	758.5	10.5	825.1	8.8
Profit attributable to Sika shareholders		9.3	751.9	10.5	824.5	
Profit attributable to non-controlling interests	24	0.1	6.6	0.0	0.6	
Undiluted earnings per share (in CHF)	9		5.30		5.82	9.8
Diluted earnings per share (in CHF)	9		4.81		5.22	8.5

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF mn	Notes	%	2019	%	2020	Change in %
Net profit		9.4	758.5	10.5	825.1	8.8
Actuarial gains (+)/losses (-) on employee benefit obligations	22	0.0	1.3	-0.2	-14.7	
Income tax effect	8	0.0	3.0	0.0	1.7	
Items that will not be reclassified to profit or loss		0.0	4.3	-0.2	-13.0	
Exchange differences taken to equity		-1.7	-134.6	-3.8	-300.1	
Items that may be reclassified subsequently to profit or loss		-1.7	-134.6	-3.8	-300.1	
Other comprehensive income		-1.7	-130.3	-4.0	-313.1	
Comprehensive income		7.7	628.2	6.5	512.0	-18.5
Attributable to Sika shareholders		7.6	622.5	6.5	511.6	
Attributable to non-controlling interests	24	0.1	5.7	0.0	0.4	

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

in CHF mn	Notes	2019	2020
Cash and cash equivalents	10, 26	995.1	1,318.7
Accounts receivable	11, 26	1,441.9	1,361.8
Inventories	12	866.5	814.0
Prepaid expenses and accrued income	13	139.9	120.7
Other assets	14, 26	26.5	19.4
Current assets		3,469.9	3,634.6
Property, plant, and equipment	15	1,795.8	1,702.6
Intangible assets	16	4,351.0	4,172.3
Investments in associated companies	17	5.6	2.5
Deferred tax assets	8	233.5	194.7
Other assets	14, 22, 26	103.9	87.3
Non-current assets		6,489.8	6,159.4
ASSETS		9,959.7	9,794.0
Accounts payable	18, 26	837.2	846.3
Accrued expenses and deferred income	19	414.0	454.0
Financial liabilities	20, 26	342.9	334.7
Income tax liabilities		195.8	163.3
Provisions	21	23.1	26.8
Current liabilities		1,813.0	1,825.1
Financial liabilities	20, 26	4,070.1	3,851.9
Provisions	21	95.7	98.3
Deferred tax liabilities	8	466.1	379.9
Employee benefit obligations	22	319.2	319.5
Other liabilities	23	34.4	31.3
Non-current liabilities		4,985.5	4,680.9
LIABILITIES		6,798.5	6,506.0
Capital stock		1.4	1.4
Treasury shares		-7.3	-5.2
Reserves		3,130.0	3,289.6
Equity attributable to Sika shareholders		3,124.1	3,285.8
Non-controlling interests		37.1	2.2
SHAREHOLDERS' EQUITY	24	3,161.2	3,288.0
LIABILITIES AND SHAREHOLDERS' EQUITY		9,959.7	9,794.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock	Capital surplus	Treasury shares	Currency translation differences	Retained earnings	Equity attributable to Sika shareholders	Non-con- trolling interests	Total equity
in CHF mn								
January 1, 2019	1.4	203.1	-11.1	-614.2	2,066.5	1,645.7	29.5	1,675.2
Impact of initial application of IFRS 16 Leases ¹					-8.6	-8.6	-0.1	-8.7
January 1, 2019 (adjusted)	1.4	203.1	-11.1	-614.2	2,057.9	1,637.1	29.4	1,666.5
Net profit					751.9	751.9	6.6	758.5
Other comprehensive income				-133.6	4.2	-129.4	-0.9	-130.3
Comprehensive income	0.0	0.0	0.0	-133.6	756.1	622.5	5.7	628.2
Transactions with treasury shares ²			3.8		-7.6	-3.8		-3.8
Share-based payments					7.9	7.9		7.9
Dividends ³					-290.6	-290.6	-2.8	-293.4
Issue of convertible bond ⁴					1,137.5	1,137.5		1,137.5
Tax impact ⁵					-0.9	-0.9		-0.9
Non-controlling interests from acquisitions ⁶						0.0	10.8	10.8
Buyout of existing non- controlling interests ⁷					-3.9	-3.9	-6.0	-9.9
Inflation adjustment ⁸					18.3	18.3		18.3
December 31, 2019	1.4	203.1	-7.3	-747.8	3,674.7	3,124.1	37.1	3,161.2
January 1, 2020	1.4	203.1	-7.3	-747.8	3,674.7	3,124.1	37.1	3,161.2
Net profit					824.5	824.5	0.6	825.1
Other comprehensive income				-299.9	-13.0	-312.9	-0.2	-313.1
Comprehensive income	0.0	0.0	0.0	-299.9	811.5	511.6	0.4	512.0
Transactions with treasury shares ²			2.1		-8.1	-6.0		-6.0
Share-based payments					9.7	9.7		9.7
Dividends ⁹					-326.0	-326.0	-1.0	-327.0
Non-controlling interests from acquisitions ¹⁰						0.0	0.1	0.1
Buyout of existing non-control- ling interests ¹¹					-44.5	-44.5	-34.4	-78.9
Inflation adjustment ⁸					16.9	16.9		16.9
December 31, 2020	1.4	203.1	-5.2	-1,047.7	4,134.2	3,285.8	2.2	3,288.0

1 Including deferred taxes of CHF 1.0 million.

2 Including income tax of CHF 0.2 million (CHF 0.1 million) in retained earnings.

3 Dividend per registered share (par value CHF 0.01): CHF 2.05.

4 For details on the convertible bond see note 20. This takes into account a deferred tax effect of CHF 1.4 million, see note 8.

5 Tax rate changes on items that were recognized directly in equity.

6 Non-controlling interests from the acquisition of Parex (see page 113 of the download version of this report).

7 Complete buyout of Sodap Maroc SA, Morocco, as well as Apurva India Pvt. Ltd., India, see page 113 of the download version of this report.

8 Hyperinflation accounting concerns the subsidiaries in Argentina.

9 Dividend per registered share (par value CHF 0.01): CHF 2.30.

10 Non-controlling interests from the acquisition of Modern Waterproofing Company S.A.E, Egypt (see page 115 et seq. of the download version of this report).

11 Complete buyout of Sika Arabia Holding Company WLL, Bahrain (including the Arabian subsidiaries), and Parex S.A., France. Furthermore, increase in shareholdings in Mortero Spa, Algeria.

CONSOLIDATED STATEMENT OF CASH FLOWS

in CHF mn	Notes	2019	2020
Operating activities			
Profit before taxes		966.6	1,060.4
Depreciation and amortization expenses	15, 16	332.5	367.1
Increase (+)/decrease (-) in provisions/ employee benefit obligations and assets		5.6	26.4
Increase (-)/decrease (+) in net working capital		88.1	124.5
Non-liquidity-related financial expenses (+)/income (-) as well as cash flow from hedging transactions		68.7	78.6
Other adjustments	25	15.4	4.9
Income taxes paid		-263.0	-288.5
Cash flow from operating activities		1,213.9	1,373.4
Investing activities			
Property, plant, and equipment: capital expenditures	15	-179.7	-120.1
Property, plant, and equipment: disposals	15, 25	2.9	17.4
Intangible assets: capital expenditures	16	-12.6	-11.6
Intangible assets: disposals	16	1.6	0.3
Acquisitions less cash and cash equivalents		-1,748.4	-136.1
Disposals less cash and cash equivalents		0.0	2.9
Acquisitions (-)/disposals (+) of financial assets		5.3	-5.9
Cash flow from investing activities		-1,930.9	-253.1
Financing activities			
Increase in financial liabilities	20	308.9	252.8
Repayment of financial liabilities	20	-1,299.5	-304.6
Repayment of lease liabilities	20	-85.0	-95.8
Repayment of a bond	20	-200.0	-160.0
Issue of bonds	20	1,130.0	0.0
Issue of a convertible bond	20	1,280.1	0.0
Repayment liability component of mandatory convertible bond (interest)	20	0.0	-48.8
Purchase of treasury shares		-95.9	-125.7
Sale of treasury shares		92.3	119.0
Dividend payment to shareholders of Sika AG		-290.6	-326.0
Dividends related to non-controlling interests		-2.8	-1.0
Buyout of existing non-controlling interests		-9.9	-78.9
Cash flow from financing activities		827.6	-769.0
Exchange differences on cash and cash equivalents		-29.5	-27.7
Net change in cash and cash equivalents		81.1	323.6
Cash and cash equivalents at the beginning of the year	10	914.0	995.1
Cash and cash equivalents at the end of the year	10	995.1	1,318.7
Cash flow from operating activities contains:			
Dividends from associated companies		1.0	0.5
Interest received		3.5	3.9
Interest paid		-24.3	-30.1

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES OF CONSOLIDATION AND VALUATION

CORPORATE INFORMATION

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

ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Sika have been prepared in conformity with the provisions of the International Accounting Standards Board (IASB). All standards (IAS/IFRS) and interpretations (IFRIC/SIC) applicable as of December 31, 2020, were considered. The financial statements have been prepared according to the going-concern principle. The consolidated financial statements have been prepared under the historical cost principle with the exception of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed on page 111 of this report.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting standards applied conform to those standards that were valid in the prior year. Exceptions are the following revised and new standards, which Sika applies since January 1, 2020. The application of these standards did not have any material impact on the consolidated financial statements of the Group:

- Amendments to IFRS 3 – Definition of a business
- Amendments to IAS 1 and IAS 8 – Definition of “Material”
- Amendments to the conceptual framework
- Amendments to IFRS 16 – Covid-19-related rent concessions
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform – phase 1

A number of new standards and amendments to standards and interpretations are effective for the financial year 2021 and later, and have not been applied in preparing these consolidated financial statements. If they had been applied in 2020, they would have had no significant effect on the consolidated financial statements of the Group:

- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform – phase 2 (applicable as of January 1, 2021)
- Amendments to IFRS 3 – Reference to the conceptual framework (applicable as of January 1, 2022)
- Amendments to IAS 16 – Proceeds before intended use (applicable as of January 1, 2022)
- Amendments to IAS 37 – Onerous contracts – Costs of fulfilling a contract (applicable as of January 1, 2022)
- Annual improvements (2018–2020 cycle) – Collective standard with amendments to various IFRS standards with the primary goal of eliminating inconsistencies and clarifying terminology (applicable as of January 1, 2022)
- Amendments to IAS 1 – Classification of liabilities as current or non-current (applicable as of January 1, 2023)

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

CONSOLIDATION METHOD

BASIS

The consolidated financial statements are based on the balance sheets and income statements of Sika AG, Baar, Switzerland, and its subsidiaries as of December 31, 2020, prepared in accordance with uniform standards.

SUBSIDIARIES

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

ASSOCIATED COMPANIES

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

INTRA-GROUP TRANSACTIONS

Transactions within the Group are eliminated as follows:

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

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

When subsidiaries are sold, the difference between the selling price and the net assets including goodwill plus cumulative translation differences is recognized in the consolidated financial statements as an operating result. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of takeover of control or up to the effective date of loss of control.

CONVERSION OF FOREIGN CURRENCIES

Foreign currency transactions are translated into the functional (local) currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency on every balance sheet date by applying exchange rates valid on the balance sheet date. The resulting exchange rate differences are recognized in the income statement. The exception is that exchange differences arising on monetary items that form part of the net investment in a foreign operation (so called “equity like loans”), are recognized in other comprehensive income and will only be recognised in profit or loss until the control of the net investment is lost.

The financial statements of the foreign subsidiaries are translated into Swiss francs as follows:

- Balance sheet at year-end rates
- Income statements at annual average rates

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

The rates listed below were applied:

Country	Currency	Quantity	2019 Balance sheet ¹ CHF	2019 Income statement ² CHF	2020 Balance sheet ¹ CHF	2020 Income statement ² CHF
Argentina	ARS	100	1.61	1.61	1.05	1.33
Australia	AUD	1	0.68	0.69	0.68	0.65
Brazil	BRL	100	24.04	25.22	16.95	18.20
Canada	CAD	1	0.74	0.75	0.69	0.70
Chile	CLP	10,000	12.85	14.16	12.38	11.84
China	CNY	100	13.88	14.39	13.46	13.60
Colombia	COP	10,000	2.94	3.03	2.57	2.54
Czech Republic	CZK	100	4.27	4.33	4.12	4.04
Egypt	EGP	100	6.02	5.90	5.59	5.94
Eurozone	EUR	1	1.09	1.11	1.08	1.07
Great Britain	GBP	1	1.28	1.27	1.20	1.20
India	INR	100	1.35	1.41	1.20	1.27
Indonesia	IDR	100,000	6.96	7.03	6.27	6.44
Japan	JPY	100	0.89	0.91	0.85	0.88
Mexico	MXN	100	5.11	5.16	4.42	4.36
Poland	PLN	100	25.50	25.89	23.69	24.09
Russia	RUB	1,000	15.52	15.35	11.81	12.98
Sweden	SEK	100	10.39	10.50	10.77	10.19
Thailand	THB	100	3.25	3.20	2.94	3.00
Turkey	TRY	100	16.24	17.52	11.85	13.34
USA	USD	1	0.97	0.99	0.88	0.94
Vietnam	VND	100,000	4.17	4.28	3.81	4.04

1 Year-end rates.

2 Annual average rates.

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

SIGNIFICANT ACCOUNTING ESTIMATES

Explanations of the key assumptions concerning forward-looking elements and other estimation uncertainties are provided below. These include the risk that a material adjustment to the carrying amounts of assets and liabilities may become necessary within the next financial year.

IMPAIRMENT OF GOODWILL

The Group tests for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units or groups of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates such as expected future cash flows and discount rates. The carrying value of goodwill as of December 31, 2020, was CHF 3,088.8 million (CHF 3,150.2 million). Further details are presented in note 16.

FAIR VALUE OF ACQUISITION

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

TRADEMARKS WITH INDEFINITE USEFUL LIVES

Trademarks with indefinite useful lives are tested annually for impairment. The impairment test is performed on the cash-generating unit or group of cash-generating units to which the trademark is allocated. This group can comprise several operating segments. The calculations of the recoverable amount require the use of estimates such as expected future cash flows and discount rates. The carrying value of trademarks with indefinite useful lives as of December 31, 2020, was CHF 72.4 million (CHF 72.4 million). Further details are presented in note 16.

CUSTOMER RELATIONS

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

DEFERRED TAX ASSETS

Deferred tax assets resulting from the carry forward of unrealized tax losses or timing differences are recognized to the extent that a realization of the corresponding tax advantage is probable. Assessing the probability of realizing the tax benefit requires assumptions based on planning data.

EMPLOYEE BENEFIT OBLIGATIONS

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

PROVISIONS

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

SCOPE OF CONSOLIDATION AND ACQUISITIONS

The consolidated financial statements of the Group comprise the financial statements of Sika AG, Zugerstrasse 50, 6340 Baar, Switzerland, as well as its subsidiaries (see list starting on page 150 et seq. of this report) and associated companies (see note 17). In the year under review the scope of consolidation was expanded to include the acquired companies (see the next pages) and the following newly founded company:

- Sika Davco (Zhejiang) New Materials Co., Ltd., Zhejiang, China.

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

- ParexGroup NV, Drongen, Belgium, was merged with Sika Belgium NV, Nazareth, Belgium.
- ParexGroup Belgium BVBA, Drongen, Belgium, was merged with Sika Belgium NV, Nazareth, Belgium.
- Dry Mix Solutions Aps, Viborg, Denmark, was liquidated.
- Dry Mix Solutions Investissements SAS, Issy-Les-Moulineaux, France, was merged with Financière Dry Mix Solutions SAS, Issy-Les-Moulineaux, France.
- ParexGroup Participations SAS, Issy-Les-Moulineaux, France, was merged with Financière Dry Mix Solutions SAS, Issy-Les-Moulineaux, France.
- Sodap Maroc, Gzenaya, Morocco, was merged with Sika Maroc, Casablanca, Morocco.
- Arcon Membrane Srl, Sfantu Gheorghe, Romania, was merged with Sika Romania s.r.l., Brasov, Romania.
- KVK Slovakia, s.r.o., Bratislava, Slovakia, was merged with Sika Slovensko, spol. s.r.o., Bratislava, Slovakia.
- Parexgroup Morteros, S.A.U., Les Franqueses del Vallès, Spain, was merged with Sika S.A.U., Alcobendas, Spain.
- Parex Chile Ltda, Santiago de Chile, Chile, was merged with Sika S.A. Chile, Santiago de Chile, Chile.
- Sika Latin America Mgt. Inc, Ciudad de Panamá, Panama, was liquidated.
- Butterfield Color, Inc., Aurora/IL, USA, was merged with Sika Corporation, Lyndhurst/NJ, USA.
- Dry Mix Solutions Australia Pty, Sydney, Australia, was merged with Sika Australia Pty. Ltd., Wetherill Park, Australia.
- ParexGroup Pty Ltd (Australia), Sydney, Australia, was merged with Sika Australia Pty. Ltd., Wetherill Park, Australia.
- ParexGroup Pte Ltd, Singapore, Singapore, was merged with Sika (Singapore) Pte. Ltd., Singapore, Singapore.

ACQUISITIONS 2019

In 2019, Sika acquired various companies or parts of companies. The purchase prices and their allocation (PPA) are now final.

On May 23, 2019, Sika acquired the Parex Group. The purchase price allocation for this acquisition still entailed some uncertainty. In the current reporting period, the provisional values were finalized, and the following restatements to balance sheet positions 2019 were made:

- Accrued expenses and deferred income (+CHF 6.1 million): the adjustments relate mainly to the employee-related accruals.
- Provisions including contingent liabilities (+CHF 9.7 million): the potential risks were reviewed, and the final assessment led to an increase in a provision, in particular for a legal dispute. The legal case is still pending and will be monitored continuously. The provision will be adjusted in line with ongoing developments.
- Deferred tax assets (+CHF 4.0 million) and deferred tax liabilities (-CHF 1.4 million): deferred tax assets were reviewed and adjusted accordingly. The increase is based on tax-deductible temporary differences. The reduction in deferred tax liabilities results from value adjustments in the purchase price allocation.
- Goodwill (+CHF 10.5 million): the increase in goodwill results from the various adjustments to the purchase price allocation explained above.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn	Parex Group – provisional 2019	Adjustment of provisional values	Parex Group – final 2020
Cash and cash equivalents	127.3		127.3
Accounts receivable	220.2		220.2
Inventories	108.5		108.5
Prepaid expenses and accrued income	15.5		15.5
Property, plant, and equipment	230.0		230.0
Right-of-use leased assets	97.7		97.7
Intangible assets	819.3		819.3
Deferred tax assets	14.4	4.0	18.4
Other assets	10.2		10.2
Total assets	1,643.1	4.0	1,647.1
Financial liabilities	1,087.6	0.1	1,087.7
Accounts payable	165.1		165.1
Accrued expenses and deferred income	109.6	6.1	115.7
Income tax liabilities	48.3		48.3
Provisions	57.3	9.7	67.0
Employee benefit obligation	17.3		17.3
Deferred tax liabilities	364.4	-1.4	363.0
Total liabilities	1,849.6	14.5	1,864.1
Net assets	-206.5	-10.5	-217.0
Non-controlling interests	-10.8		-10.8
Acquired net assets	-217.3	-10.5	-227.8
Goodwill	1,915.8	10.5	1,926.3
Total purchase price	1,698.5		1,698.5
Cash in acquired assets	-127.3		-127.3
Net cash outflow	1,571.2		1,571.2

The purchase prices of the other acquisitions and their allocation (PPA) are unchanged.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn	Other acquisitions ¹
Cash and cash equivalents	9.7
Accounts receivable	28.4
Inventories	14.4
Prepaid expenses and accrued income	1.2
Property, plant, and equipment	49.8
Right-of-use leased assets	8.7
Intangible assets	35.5
Deferred tax assets	0.0
Other assets	0.3
Total assets	148.0
Financial liabilities	15.9
Accounts payable	22.9
Accrued expenses and deferred income	4.1
Income taxes payable	0.7
Provisions	0.9
Deferred tax liabilities	10.5
Total liabilities	55.0
Net assets	93.0
Non-controlling interests	0.0
Acquired net assets	93.0
Goodwill	107.8
Fair value of initial investment	-0.2
Total purchase price	200.6
Cash in acquired assets	-9.7
Payments still due	-13.7
Net cash outflow	177.2

1 King Packaged Materials, Belineco, Arcon, Crevo-Hengxin and part; individually not material.

Since the purchase, Parex has contributed sales in 2019 of CHF 801.1 million and net profit of CHF 37.0 million. The other acquisitions have contributed sales in 2019 of CHF 86.5 million since the purchase and a net profit of CHF 8.6 million. If the acquisitions had occurred on January 1, 2019, consolidated proforma net sales would have been CHF 8,677.0 million (CHF 506.4 million from Parex and CHF 61.4 million from the other acquisitions). Consolidated net profit would have been CHF 788.3 million (CHF 25.2 million from Parex and CHF 4.6 million from the other acquisitions). The amounts have been calculated using the results of the acquired entities and adjusted for differences in the accounting policies and the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant, and equipment and intangible assets had applied from January 1, 2019.

The directly attributable transaction costs of all acquisitions amounted to CHF 21.0 million (whereof CHF 19.0 million from Parex) and were charged to other operating expenses.

ACQUISITIONS 2020

In 2020, Sika acquired various companies or parts of companies.

Company	Type of transaction	Stake in %	Closing date
Adeplast S.R.L., Romania	Share deal	100.0	3/31/2020
Modern Waterproofing Company S.A.E., Egypt	Share deal	98.9	6/8/2020

ADEPLAST S.R.L., ROMANIA

On March 31, 2020, Sika acquired Adeplast S.R.L., a major manufacturer of mortars and thermal insulation solutions in Romania. The acquisition significantly strengthens Sika's position in the Romanian construction chemicals market and extend its manufacturing footprint. Adeplast operates four state-of-the-art production plants. The strategically located facilities enable Sika to realize efficiency gains in logistics and warehousing as well as to further enhance its ability to serve customers with fast supply and excellent product availability. With the acquisition, Sika Romania strengthens its product portfolio for the Target Market Building Finishing and gains access to Adeplast's large, well-established network of distributors.

Since the purchase, Adeplast has contributed sales of CHF 85.6 million and net profit of CHF 10.2 million. Accounts receivable of Adeplast had a gross value of CHF 24.1 million and were recognized at fair value of CHF 18.8 million.

MODERN WATERPROOFING COMPANY S.A.E., EGYPT

On June 8, 2020, Sika acquired Modern Waterproofing Company S.A.E., a leading manufacturer of roofing and waterproofing systems in Egypt. The acquisition extends and completes Sika Egypt's offering of roofing, waterproofing, and building envelope systems. The production site will strengthen the local supply chain and the technical know-how as well as offering the possibility to efficiently serve other African countries.

Since the purchases, Modern Waterproofing Company has contributed sales of CHF 14.4 million and a net profit of CHF 1.6 million. Accounts receivable had a gross value of CHF 2.7 million and were recognized at fair value of CHF 2.6 million.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn	Adeplast	Modern Waterproofing Company
Cash and cash equivalents	10.6	1.4
Accounts receivable	18.8	2.6
Inventories	11.6	2.2
Prepaid expenses and accrued income	1.0	1.4
Property, plant, and equipment	49.1	6.4
Right-of-use leased assets	1.8	0.0
Intangible assets	20.8	5.1
Deferred tax assets	0.6	0.1
Total assets	114.3	19.2
Financial liabilities	30.1	1.7
Accounts payable	10.4	1.4
Accrued expenses and deferred income	1.2	1.0
Income taxes payable	0.4	1.0
Provisions	0.3	0.1
Deferred tax liabilities	4.7	1.9
Total liabilities	47.1	7.1
Net assets	67.2	12.1
Non-controlling interests		-0.1
Acquired net assets	67.2	12.0
Goodwill	62.6	15.9
Total purchase price	129.8	27.9
Cash in acquired assets	-10.6	-1.4
Payments still due	-9.0	-0.6
Net cash outflow	110.2	25.9

If the acquisitions had occurred on January 1, 2020, consolidated proforma net sales would have been CHF 7,909.8 million (CHF 24.1 million from Adeplast and CHF 8.2 million from Modern Waterproofing Company). The additional profit share would have been insignificant. The amounts have been calculated using the results of the acquired entities and adjusted for differences in the accounting policies and the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant, and equipment and intangible assets had applied from January 1, 2020.

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

The directly attributable transaction costs of all acquisitions amounted to CHF 1.0 million and were charged to other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NET SALES CHF 7,877.5 MN (CHF 8,109.2 MN)

Sika sells systems and products for bonding, sealing, damping, reinforcing and protecting in the building sector and the motor vehicle industry. Sales are recognized when control of the products has been transferred to the customer, i.e. when the products have been physically transferred to the buyer and there is a right to receive payment. Revenue is recognized in the amount of the consideration expected to be received by Sika in exchange for these goods or services. A receivable from the buyer is recognized upon sale. The receivables do not bear interest and are generally due within 30 to 90 days. All proceeds from the sale of goods and services are recorded at sales prices less discounts granted.

In some cases, Sika grants retrospective volume discounts based on aggregate sales over a twelve months period. Revenue from these sales are recognized based on the price specified in the contract, net of the estimated volume discounts. A refund liability (included in accrued expenses and deferred income) is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

Extended warranty contracts are sold for certain products on installed roofing systems. Revenue for separately priced extended warranties is deferred and recognized on a straight-line basis over the extended warranty period. The average warranty period is eight years (nine years). In 2020, revenues of CHF 4.2 million (CHF 4.4 million) were recognized. The deferred revenue positions are included in accrued expenses and deferred income (see note 19) as well as in other liabilities (see note 23).

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

2. SEGMENT REPORTING

Sika conducts its worldwide activities according to geographical regions and the global segment Global Business. Heads of the segments are members of Group Management. Group Management is the highest executive body that measures the success of the operating segments and allocates resources. The key figure of profit by which the segments are directed is operating profit, which is consistent with the consolidated financial statements. Financing (including financial expenses and income) and income taxes are managed on a Group-wide basis and are not allocated to the individual segments. The composition of the segments is shown on page 49 of the download version of this report.

Other segments and activities includes expenses for Group headquarter and income from services provided to Group companies.

The companies Adeplast S.R.L., Romania, and Modern Waterproofing Company S.A.E., Egypt, acquired in 2020, were allocated to the EMEA segment.

NET SALES

in CHF mn	2019			2020		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	3,431.5	216.2	3,647.7	3,410.4	170.6	3,581.0
Americas	2,162.0	11.7	2,173.7	1,995.5	5.0	2,000.5
Asia/Pacific	1,585.3	19.3	1,604.6	1,696.1	17.6	1,713.7
Global Business	930.4	16.6	947.0	775.5	15.6	791.1
Eliminations		-263.8	-263.8		-208.8	-208.8
Net sales	8,109.2	-	8,109.2	7,877.5	-	7,877.5
Products for construction industry			6,461.1			6,439.8
Products for industrial manufacturing			1,648.1			1,437.7

Sika's products for the construction industry include admixtures and additives for use in concrete, cement, and mortar production, waterproofing systems, roof waterproofing, flooring solutions, sealants, adhesive tapes, assembly foams and elastic adhesives for facade construction, interior and infrastructure construction, as well as concrete protection and repair solutions.

Products for industrial manufacturing are sold to manufacturers and service providers in automotive OEM, commercial vehicles, automotive aftermarket, marine vessels, renewable energy, sandwich panels, industrial equipment, HVAC, home and commercial appliances, modular building, facades and fenestration.

CHANGES IN NET SALES/CURRENCY IMPACT

in CHF mn	2019	2020	Change compared to prior year (in %)		
			In Swiss francs	In local currencies	Currency impact
By region					
EMEA	3,431.5	3,410.4	-0.6	4.4	-5.0
Americas	2,162.0	1,995.5	-7.7	1.0	-8.7
Asia/Pacific	1,585.3	1,696.1	7.0	12.6	-5.6
Global Business	930.4	775.5	-16.6	-11.4	-5.2
Net sales	8,109.2	7,877.5	-2.9	3.4	-6.3
Products for construction industry	6,461.1	6,439.8	-0.3	5.9	-6.2
Products for industrial manufacturing	1,648.1	1,437.7	-12.8	-6.9	-5.9

OPERATING PROFIT

in CHF mn	2019	2020	Change compared to prior year (in %)	
By region				
EMEA	472.7	558.9	86.2	18.2
Americas	352.9	343.9	-9.0	-2.6
Asia/Pacific	259.8	280.7	20.9	8.0
Global Business	113.8	73.7	-40.1	-35.2
Other segments and activities	-144.1	-126.7	17.4	n.a.
Operating profit	1,055.1	1,130.5	75.4	7.1

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	2019	2020
Operating profit	1,055.1	1,130.5
Interest income	3.5	5.5
Interest expenses	-58.5	-57.4
Other financial income	6.0	6.0
Other financial expenses	-40.1	-24.7
Income from associated companies	0.6	0.5
Profit before taxes	966.6	1,060.4
Income taxes	-208.1	-235.3
Net profit	758.5	825.1

in CHF mn	2019 Depreciation/ Amortization	2019 Capital expenditures	2020 Depreciation/ Amortization	2020 Capital expenditures
EMEA	137.5	87.2	150.9	46.7
Americas	77.1	40.7	81.7	36.2
Asia/Pacific	58.9	34.7	75.9	26.9
Global Business	29.4	19.0	29.1	11.6
Other segments and activities	29.6	10.7	29.5	10.3
Total	332.5	192.3	367.1	131.7

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

in CHF mn	Net sales				Non-current assets ¹			
	2019	%	2020	%	2019	%	2020	%
USA	1,518.6	18.7	1,431.2	18.2	957.0	15.6	847.8	14.4
China	654.6	8.1	870.3	11.0	1,214.9	19.7	1,162.2	19.8
Germany	777.2	9.6	713.3	9.1	396.9	6.4	384.2	6.5
France	530.0	6.5	578.2	7.3	775.4	12.6	698.7	11.9
Switzerland	398.1	4.9	362.7	4.6	589.8	9.6	616.1	10.5
All other	4,230.7	52.2	3,921.8	49.8	2,219.5	36.1	2,169.5	36.9
Total	8,109.2	100.0	7,877.5	100.0	6,153.5	100.0	5,878.5	100.0

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

3. MATERIAL EXPENSES CHF 3,562.7 MN (CHF 3,765.2 MN)

Material expenses decreased as a percentage of net sales by 1.2 percentage points. Lower raw material costs as well as slightly higher selling prices improved the gross margin from 53.6% to 54.8%. In addition, one-off effects of CHF 12.2 million related to the acquisition of Parex had a negative impact on gross profit in the previous year.

Material expenses include the value adjustment expenses for unsaleable goods and depreciation and amortization due to inventory differences in the amount of CHF 32.6 million (CHF 26.5 million).

4. PERSONNEL EXPENSES CHF 1,525.9 MN (CHF 1,544.3 MN)

in CHF mn	2019	2020
Wages and salaries	1,257.5	1,258.4
Social charges	286.8	291.0
Government grants	0.0	-23.5
Personnel expenses	1,544.3	1,525.9

Personnel expenses comprise all payments to persons in an employment relationship with Sika. This item also includes expenses such as pension fund contributions, health insurance contributions as well as taxes and levies directly related to personnel remuneration. Government grants related to employment relationships are recognized in personnel expenses when there is reasonable certainty that the grant will be received and all related conditions are met. They are recognized as income over the same period as the expenses they intend to compensate.

Personnel costs increased in relation to net sales from 19.0% to 19.4%, mainly due to the negative impact of the coronavirus pandemic on Sika's sales markets.

EMPLOYEE BENEFIT COSTS

in CHF mn	2019	2020
Employee benefit plans with defined benefits ¹	29.4	31.7
Other employee benefit plans	47.9	47.0
Employee benefit costs	77.3	78.7

1 Includes pension expense recognized in income statement (see note 22) without interest income/interest expenses.

EMPLOYEE PARTICIPATION PLAN – SHARE-BASED PAYMENTS

Sika operates the following share-based compensation plans. The cost of these compensation systems is recognized in personnel expenses over the period in which services are rendered by the employees.

PERFORMANCE BONUS (SHORT-TERM INCENTIVE)

SIKA SENIOR MANAGEMENT. Part of the performance bonus of Sika Senior Management (by definition, Sika Senior Management includes the management level reporting into Group Management, managing directors of subsidiaries and heads of central and regional functions; 168 participants) is paid in Sika AG shares. The allocated shares are subject to a four-year blocking period. Sika Senior Managers can choose to receive 0%, 20% or 40% of their performance bonus in Sika AG shares plus one bonus share for every two shares chosen. The market value of the grant was CHF 5.4 million. In the prior year the market value of the grant amounted to CHF 4.4 million.

LONG-TERM INCENTIVE (LTI-PLAN)

GROUP MANAGEMENT. The members of the top management (extended Group Management) participate in a long-term incentive plan. It consists of performance share units (PSUs). At the beginning of the vesting period, a number of PSUs is granted to each plan participant. The PSU vest after a period of three years, conditionally upon fulfilling two equally weighted performance conditions, the return on capital employed (ROCE), and relative total shareholder return (relative TSR) for the LTI plans 2019–2021 and 2020–2022. The ROCE objective is determined at the beginning of the vesting period by the Board of Directors and is measured at the end of the vesting period as the average ROCE of the first year, the second year, and the third year of the vesting period. Acquisitions are excluded from the ROCE calculation in the year of acquisition and for two additional calendar years. The relative TSR is measured in relation to a peer group as a percentile rank and the objective is to reach the median of the peer group. For both performance conditions, the maximum achievement level is capped at 200%, however, the overall vesting level for the LTI is capped at 150%. The share-based compensation is settled in Sika AG shares.

The market value of the PSUs includes both targets and is determined once at the time of grant. Thereby in a Monte Carlo simulation generally available market data regarding Sika, including expected dividend payments, and the peer group as well as internal estimates regarding the degree of achievement of the ROCE target are combined.

The LTI plan 2018–2020 contained only one performance target, the return on capital employed (ROCE) target. The market value of the PSUs was determined once at the grant date.

SIKA SENIOR MANAGEMENT. Sika Senior Managers participate in long-term incentive plans 2019–2021 and 2020–2022, which are structured in the same way as that for Group management (see above), except that they are settled in cash.

The fair value of the PSUs includes both targets and is determined at the time of allocation and redetermined at each balance sheet date. Thereby in a Monte Carlo simulation generally available market data regarding Sika, including expected dividend payments, and the peer group as well as internal estimates regarding the degree of achievement of the ROCE target are combined. For Senior Managers who move to another country during the performance period, a pro rata payment in shares is made for the earned portion up to the time of transfer. The shares are granted at market value on the grant date and are blocked until the end of the vesting period.

The LTI plan 2018–2020 included only one performance target, the return on capital employed (ROCE). The market value of the PSUs is redetermined at the time of allocation and on each balance sheet date.

LONG-TERM INCENTIVE

	Number of PSUs granted	Fair value per PSU in CHF	Fair value of grant in CHF million
Group Management LTI 2019–2021	27,237	114.63	3.1
Sika Senior Managers LTI 2019–2021	31,040	114.63	3.6
Granted in 2019			6.7
Group Management LTI 2020–2022	21,669	171.94	3.7
Sika Senior Managers LTI 2020–2022	22,573	171.94	3.9
Granted in 2020			7.6

BOARD OF DIRECTORS. Part of the compensation for members of the Board of Directors is awarded in Sika AG shares. The entitlement to shares is allocated at the beginning of the term of office and converted into shares at the end of the term of office. The shares are subject to a three-year blocking period. For the term of office from April 2020 to April 2021, entitlements to 8,458 shares were granted at a market value of CHF 1.3 million (CHF 156.72 per share). The conversion into shares will take place in April 2021. For the term of office from April 2019 to April 2020, entitlements to 9,230 shares were granted with a market value of CHF 1.3 million (CHF 143.65 per share). The conversion into shares took place in April 2020.

The share-based payments are made by means of transfer of treasury stock of Sika AG. Recognized personnel expenses for share-based compensation for the fiscal year 2020 totaled CHF 32.2 million (CHF 27.4 million), CHF 9.7 million (CHF 7.9 million) of which was recorded in equity and CHF 22.5 million (CHF 19.5 million) in liabilities. At year-end, liabilities from share-based compensation plans amounted to CHF 27.8 million (CHF 23.7 million).

There is no share dilution as no additional shares have been issued for these plans.

5. OTHER OPERATING EXPENSES CHF 1,291.3 MN (CHF 1,412.1 MN)

in CHF mn	2019	2020
Production and operation ¹	419.1	399.5
Logistics and distribution	391.1	401.6
Sales, marketing, and travel costs	283.2	212.0
Administration and other costs ²	318.7	278.2
Total	1,412.1	1,291.3

1 This position includes primarily costs for maintenance, repairs, and energy.

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

Other operating expenses decreased from 17.5% to 16.4%. On the one hand, efficiency programs and disciplined cost management are responsible for this. On the other hand, travel costs in particular have fallen significantly due to the coronavirus pandemic. Higher unit costs in logistics and distribution due to the pandemic had a cost-driving effect. Non-recurring effects of approximately CHF 32 million relating to the acquisition of Parex had a negative impact on the costs in 2019.

Other operating expenses include government support of CHF 3.0 million received in connection with the coronavirus pandemic (no material government support received in the prior year). Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. The grant is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Research and development expenses are not capitalized if the recognition criteria have not been met. Expenditures on research and development in the Group during the year under review totaled CHF 193.6 million (CHF 200.2 million), roughly equivalent to 2.5% (2.5%) of sales. Research and development expenses are included in personnel expenses, other operating expenses, as well as in depreciation and amortization expenses.

6. INTEREST EXPENSES/OTHER FINANCIAL EXPENSES CHF 82.1 MN (CHF 98.6 MN)

In general, interest and other expenses for the procurement of debt capital are charged to the income statement. Interest incurred in the course of development projects, such as the construction of new production facilities or the development of software, is capitalized together with the asset created.

Interest expenses consist of interest expenses for outstanding bond issues in the amount of CHF 35.9 million (CHF 34.1 million), interests on lease liabilities of CHF 11.9 million (CHF 12.6 million), other interest expense of CHF 7.9 million (CHF 8.4 million) as well as the interest component of pension expenses of defined benefit plans of CHF 1.7 million (CHF 3.4 million).

Other financial expenses include foreign exchange gains and losses from the management of foreign currency as well as net gains and losses from hedging and revaluation of loans to Group companies denominated in foreign currencies. Other financial expenses decreased to CHF 24.7 million (CHF 40.1 million).

7. INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES CHF 12.0 MN (CHF 10.1 MN)

Interest income is recognized pro rata temporis using the effective interest method. Short-term surpluses in liquidity in various countries as well as accrued interest on a legal claim resulted in interest income of CHF 5.5 million (CHF 3.5 million). Income from associated companies is CHF 0.5 million (CHF 0.6 million).

8. INCOME TAXES

in CHF mn	2019	2020
Income tax during the year under review	247.3	278.9
Deferred income tax	-33.1	-40.2
Income tax from prior years	-6.1	-3.4
Total	208.1	235.3

RECONCILIATION BETWEEN EXPECTED AND EFFECTIVE TAX EXPENSE

in CHF mn	%	2019	%	2020
Profit before taxes		966.6		1,060.4
Expected tax expense	21.0	203.1	20.8	220.5
Non-taxable income/non-tax-deductible expenses	0.3	2.7	0.6	5.7
Effect of changes in tax rates	-1.2	-11.0	-0.5	-5.1
Adjusted tax expense from earlier periods	-0.6	-6.1	-0.3	-3.4
Valuation adjustment on deferred tax assets	0.2	1.9	-0.2	-2.3
Withholding tax on dividends, licenses, and interests	2.1	20.7	1.5	16.3
Other	-0.3	-3.2	0.3	3.6
Tax expense as per consolidated income statement	21.5	208.1	22.2	235.3

Income tax expenses include income taxes based on current taxable income and deferred taxes. The tax rate increased to 22.2% (21.5%). The 'Effect of changes in tax rates' in 2019 includes one-time impacts of CHF -12.1 million from the revaluation of net deferred tax assets at slightly higher tax rates due to the tax reform in Switzerland.

The expected average Group income tax rate of 20.8% (21.0%) corresponds with the average tax on profits of the individual Group companies in their respective fiscal jurisdictions. The expected average tax rate was calculated using absolute values. The change in the expected tax rate is attributable to changing profits of the Group companies in their respective fiscal jurisdictions and to changes in their tax rates in some cases.

Tax liabilities include taxes due and accrued. If there is uncertainty as to whether a tax treatment will be accepted by the tax authorities, the uncertainty is reflected in the income tax payable based on a best estimate of the expected future cash outflow.

Deferred taxes are calculated using the liability method. According to this method, the effects on income taxes resulting from temporary differences between Group-internal and taxable balance sheet values are recorded as deferred tax assets or deferred tax liabilities, respectively. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the period when the asset is recognized, or the liability is settled based on the rates (and tax laws) that have been substantively enacted.

Changes in deferred taxes are reflected in income tax expense, the statement of comprehensive income, or directly in equity. Deferred income tax liabilities are provided for taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets including those that can be applied to carried forward tax losses are recognized to the extent that their realization is probable. Deferred tax liabilities are recognized for all taxable temporary differences insofar as the accounting regulations foresee no exception.

RECONCILIATION OF NET DEFERRED TAX ASSETS

in CHF mn	2019	2020
January 1	69.0	-232.6
Credited (+)/debited (-) to income statement	33.1	40.2
Credited (+)/debited (-) to other comprehensive income	3.0	1.7
Credited (+)/debited (-) to equity	1.6	-0.1
Exchange differences	15.8	11.5
Acquisitions/divestments ¹	-355.1	-5.9
December 31	-232.6	-185.2

ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF mn	2019 ¹			2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax losses	14.0		14.0	10.1		10.1
Current assets	30.0	-12.8	17.2	30.8	-18.7	12.1
Property, plant, and equipment	7.5	-124.9	-117.4	10.6	-131.5	-120.9
Other non-current assets	106.9	-247.4	-140.5	103.8	-206.7	-102.9
Liabilities	177.3	-13.4	163.9	185.3	-17.0	168.3
Temporary differences on investments ²	0.0	-169.8	-169.8	0.0	-151.9	-151.9
Gross values	335.7	-568.3	-232.6	340.6	-525.8	-185.2
Offsetting	-102.2	102.2	0.0	-145.9	145.9	0.0
Total	233.5	-466.1	-232.6	194.7	-379.9	-185.2

¹ 2019 restated, see Acquisitions 2019.

² This includes expected withholding taxes of CHF 15.5 million (CHF 14.1 million) on undistributed dividends from Group companies. Tax provisions of CHF 136.4 million (CHF 155.7 million) relate to expected tax payments in connection with legal restructurings of the acquired Parex companies in the coming years.

TAX LOSSES, FOR WHICH NO DEFERRED TAX ASSETS HAVE BEEN RECOGNIZED

in CHF mn	2019	2020
1 year or less	5.0	6.6
1-5 years	22.7	20.2
Over 5 years or non-expiring	14.2	21.4
Total	41.9	48.2

The underlying average tax rate of tax losses for which no deferred tax assets have been recognized is 29.0% (27.3%).

In the year under review, deferred tax assets from carried forward tax losses of CHF 4.3 million (CHF 1.4 million) were used and deferred carried forward tax losses of CHF 2.6 million (CHF 2.6 million) were capitalized. From acquisitions, no carried forward tax losses were recognized (CHF 5.7 million).

There are deductible temporary differences of CHF 452.8 million (CHF 462.8 million) for which no deferred tax asset has been recognized. The underlying average tax rate is 5.9% (6.8%). A realization of these theoretical tax benefits is not expected. CHF 400.0 million (CHF 362.0 million) result from the tax-free disclosure of hidden reserves in the tax balance sheet in Switzerland (so-called step-up). A further CHF 52.8 million (CHF 100.8 million) result from the issuance of the mandatory convertible bond (see note 20).

9. EARNINGS PER SHARE CHF 5.82 (CHF 5.30)

	2019	2020
Net profit attributable to Sika shareholders (in CHF mn)	751.9	824.5
Weighted average number of shares outstanding for calculation of basic earnings per share ¹	141,734,283	141,739,791
Additional weighted number of shares upon exercise of all conversion rights	16,980,224	18,297,749
Weighted average number of shares used to calculate diluted earnings per share	158,714,507	160,037,540
Undiluted earnings per share (in CHF)	5.30	5.82
Diluted earnings per share (in CHF)	4.81	5.22

1 Excluding treasury shares held in the Group.

Undiluted earnings per share (EPS) amount to CHF 5.82 (CHF 5.30) and are calculated on the basis of net profit after non-controlling interests and the number of shares entitled to dividend, weighted over the course of the year.

The convertible bonds issued (see note 20) have a dilutive effect. For the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted. It is assumed that all conversion rights were already exercised at the time of issue. In addition, the profit attributable to Sika shareholders will be increased by the interest costs for the convertible bonds in the amount of CHF 10.8 million (CHF 11.5 million) after consideration of the tax effect. Diluted earnings per share amount to CHF 5.22 (CHF 4.81).

10. CASH AND CASH EQUIVALENTS CHF 1,318.7 MN (CHF 995.1 MN)

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

11. ACCOUNTS RECEIVABLE CHF 1,361.8 MN (CHF 1,441.9 MN)

Receivables are recognized net of an allowance for expected credit losses over the entire lifetime. The classification and valuation principles for accounts receivable are described in note 26.

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

AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE

in CHF mn	2019	2020
Net accounts receivable	1,441.9	1,361.8
Of which		
Not overdue	1,106.1	1,105.0
Past due < 31 days	194.0	140.0
Past due 31 - 60 days	63.1	49.8
Past due 61 - 180 days	53.6	42.1
Past due 181 - 360 days	8.5	7.7
Past due > 365 days	16.6	17.2

MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS

in CHF mn	2019	2020
January 1	68.2	75.9
Additions to or increase in allowances	19.8	21.1
Reversal of allowances	-0.7	-3.5
Utilization of allowances	-8.3	-7.6
Exchange differences	-3.1	-7.3
December 31	75.9	78.6

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

12. INVENTORIES CHF 814.0 MN (CHF 866.5 MN)

in CHF mn	2019	2020
Raw materials and supplies	296.0	290.3
Semi-finished goods	62.8	61.6
Finished goods	418.9	383.1
Merchandise	88.8	79.0
Total	866.5	814.0

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

13. PREPAID EXPENSES AND ACCRUED INCOME CHF 120.7 MN (CHF 139.9 MN)

This includes advance payments and prepaid expenses for the accrual of expenses and income.

14. OTHER ASSETS CHF 106.7 MN (CHF 130.4 MN)

OTHER CURRENT ASSETS

in CHF mn	2019	2020
Derivatives (at fair value through profit and loss)	15.0	7.0
Securities (at fair value through profit and loss)	2.5	2.9
Other (at amortized cost)	9.0	9.5
Other financial assets	26.5	19.4
Other current assets	26.5	19.4

OTHER NON-CURRENT ASSETS

in CHF mn	2019	2020
Securities (at fair value through profit and loss)	59.2	58.1
Other (at amortized cost)	1.6	9.4
Other financial assets	60.8	67.5
Employee benefit assets ¹	42.0	18.7
Other	1.1	1.1
Other non-financial assets	43.1	19.8
Other non-current assets	103.9	87.3

¹ Includes the excess of assets for employee benefit plans with defined benefits, see note 22.

Other current assets consist of assets with maturities of less than twelve months. Non-current other assets have a term of more than one year. The classification and valuation principles for financial assets are described in note 26.

15. PROPERTY, PLANT, AND EQUIPMENT CHF 1,702.6 MN (CHF 1,795.8 MN)

	2019	2020
Own property, plant, and equipment	1,474.2	1,387.3
Right-of-use assets	321.6	315.3
Property, plant, and equipment	1,795.8	1,702.6

OWN PROPERTY, PLANT, AND EQUIPMENT

	Property	Plant	Equipment and motor vehicles	Plants and buildings under construction	Total
in CHF mn					
Acquisition cost	160.2	828.6	1,836.4	93.0	2,918.2
Cumulative depreciation and impairment	-1.9	-454.5	-1,247.6	0.0	-1,704.0
Net values at January 1, 2019	158.3	374.1	588.8	93.0	1,214.2
Additions	10.4	10.9	56.0	102.4	179.7
Acquired on acquisition	29.8	80.5	148.6	20.9	279.8
Exchange differences	-3.8	-7.8	-16.3	-3.4	-31.3
Disposals	0.0	-2.9	-4.2	0.0	-7.1
Reclassifications ¹	0.8	28.2	88.2	-117.6	-0.4
Depreciation charge for the year	-0.3	-29.3	-131.1	0.0	-160.7
December 31, 2019	195.2	453.7	730.0	95.3	1,474.2
Acquisition cost	197.3	927.3	2,067.7	95.4	3,287.7
Cumulative depreciation and impairment	-2.1	-473.6	-1,337.7	-0.1	-1,813.5
Net values at January 1, 2020	195.2	453.7	730.0	95.3	1,474.2
Additions	0.1	3.6	38.4	78.0	120.1
Acquired on acquisition	4.1	28.6	22.6	0.2	55.5
Exchange differences	-9.5	-23.6	-41.0	-5.6	-79.7
Disposals	-3.2	-1.9	-3.3	0.0	-8.4
Reclassifications ¹	-4.1	8.9	85.9	-95.8	-5.1
Depreciation charge for the year	0.0	-30.6	-138.7	0.0	-169.3
December 31, 2020	182.6	438.7	693.9	72.1	1,387.3
Acquisition cost	183.6	923.4	2,088.3	72.1	3,267.4
Cumulative depreciation and impairment	-1.0	-484.7	-1,394.4	0.0	-1,880.1
Net values at December 31, 2020	182.6	438.7	693.9	72.1	1,387.3

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

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

DEPRECIATION SCHEDULE

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

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

CAPITAL COMMITMENTS. Significant capital expenditure for property, plant, and equipment contracted for as at December 31, 2020, but not recognized as liabilities is CHF 11.3 million (CHF 19.5 million).

RIGHT-OF-USE ASSETS

in CHF mn	Right-of-use production sites	Right-of-use offices and warehouses	Right-of-use equipment and motor vehicles	Total
Net values at January 1, 2019	0.0	0.0	0.0	0.0
Impact of initial application of IFRS 16 Leases	52.5	131.2	58.6	242.3
Additions	2.9	18.4	35.8	57.1
Acquired on acquisition	72.2	23.0	11.2	106.4
Exchange differences	-5.0	-3.0	-1.5	-9.5
Remeasurements	1.8	0.3	1.7	3.8
Disposals	0.0	-0.6	-2.0	-2.6
Reclassifications ¹	0.7	0.1	0.1	0.9
Depreciation charge for the year	-14.0	-30.6	-32.2	-76.8
December 31, 2019	111.1	138.8	71.7	321.6
Acquisition cost	124.8	166.1	97.2	388.1
Cumulative depreciation and impairment	-13.7	-27.3	-25.5	-66.5
Net values at January 1, 2020	111.1	138.8	71.7	321.6
Additions	18.2	22.5	31.7	72.4
Acquired on acquisition	0.0	0.0	1.8	1.8
Exchange differences	-6.2	-6.9	-3.3	-16.4
Remeasurements	6.7	16.9	1.5	25.1
Disposals	-3.4	-1.6	-3.2	-8.2
Reclassifications ¹	4.8	-0.3	0.0	4.5
Depreciation charge for the year	-17.6	-32.1	-35.8	-85.5
December 31, 2020	113.6	137.3	64.4	315.3
Acquisition cost	141.8	191.7	112.9	446.4
Cumulative depreciation and impairment	-28.2	-54.4	-48.5	-131.1
Net values at December 31, 2020	113.6	137.3	64.4	315.3

¹ Right-of-use assets are reclassified to property, plant, and equipment when the purchase option is exercised.

After the inception of a contract, Sika assesses whether the contract is or contains a lease. Sika recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date, except for short-term leases of twelve month or less, low-value asset leases of CHF 5,000 or less and variable lease payments, which are expensed in the income statement over the lease term. The following expenses were recorded in other operating expenses:

in CHF mn	2019	2020
Expenses relating to leases of low-value assets	7.5	6.2
Expenses relating to short-term leases	22.2	21.8
Expenses relating to variable leases payments not included in lease liabilities	4.2	2.7

For the asset class 'motor vehicles' the non-leasing components (e.g. services included in the lease payments) are accounted for separately and are directly expensed in the income statement. For all other asset classes Sika does not account for the non-lease components separately.

At commencement date of the lease, the lease liability, measured at the present value of the lease payments to be made over the lease term, is recognized. The lease payments include fixed payments, variable payments that depend on an index or rate, extension options and exercise price of a purchase options reasonably certain to be exercised as well as payments of penalties for terminating a lease. The lease liability is subsequently measured at amortized cost using the effective interest rate method and remeasured (with a corresponding adjustment to the related ROU asset) when there is a change in future lease payments. Lease liabilities are recognized under financial liabilities (current and non-current).

The lease payments are discounted using the incremental borrowing rate. For the Group, the rate implicit in the lease cannot be readily determined. To determine the incremental borrowing rate, the Group where possible uses recent intra-Group-financing rates. Otherwise a build-up approach is used per country and currency.

At commencement date of the lease, the ROU asset comprises the initial lease liability and initial direct costs. ROU assets are depreciated on a straight-line basis over the lease term. If Sika is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over their estimated useful life. If there is a change in future lease payments, the liability is revalued (with corresponding adjustment of the ROU asset).

16. INTANGIBLE ASSETS CHF 4,172.3 MN (CHF 4,351.0 MN)

in CHF mn	Goodwill	Software	Trademarks	Customer relations	Other intangibles	Total
Acquisition costs	1,229.6	155.0	138.1	454.0	128.6	2,105.3
Cumulative amortization and impairment	-6.3	-127.3	-23.5	-191.8	-62.5	-411.4
Net values at January 1, 2019	1,223.3	27.7	114.6	262.2	66.1	1,693.9
Additions	0.0	12.6	0.0	0.0	0.0	12.6
Acquired on acquisition ¹	2,034.1	11.2	237.8	540.7	65.1	2,888.9
Exchange differences	-106.2	-0.8	-9.6	-26.8	-2.4	-145.8
Disposals	-1.0	-0.1	0.0	0.0	-2.0	-3.1
Reclassifications	0.0	-2.1	-0.4	-0.3	2.3	-0.5
Amortization for the year	0.0	-9.6	-17.4	-46.7	-21.3	-95.0
December 31, 2019	3,150.2	38.9	325.0	729.1	107.8	4,351.0
Acquisition costs	3,156.1	171.6	365.5	957.7	186.5	4,837.4
Cumulative amortization and impairment	-5.9	-132.7	-40.5	-228.6	-78.7	-486.4
Net values at January 1, 2020	3,150.2	38.9	325.0	729.1	107.8	4,351.0
Additions	0.0	11.6	0.0	0.0	0.0	11.6
Acquired on acquisition	78.5	0.0	6.1	15.3	4.5	104.4
Exchange differences	-139.9	-0.5	-6.4	-32.0	-4.0	-182.8
Disposals	0.0	-0.2	0.0	0.0	0.0	-0.2
Reclassifications	0.0	0.1	0.0	0.0	0.5	0.6
Amortization for the year	0.0	-11.1	-23.1	-54.1	-24.0	-112.3
December 31, 2020	3,088.8	38.8	301.6	658.3	84.8	4,172.3
Acquisition costs	3,094.2	165.6	363.6	930.1	184.9	4,738.4
Cumulative amortization and impairment	-5.4	-126.8	-62.0	-271.8	-100.1	-566.1
Net values at December 31, 2020	3,088.8	38.8	301.6	658.3	84.8	4,172.3

¹ Goodwill restated, see Acquisitions 2019.

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

Development costs for software are capitalized as intangible assets, provided that the software will generate a future economic benefit through sale or use within the Group and that its cost can be reliably measured. Conditions for capitalization are the technical feasibility of the asset and the intention and ability to complete its development, as well as the availability of adequate resources.

AMORTIZATION SCHEDULE

Software	3–8 years
Patents	5–10 years
Customer relations	1–23 years
Trademarks	3–20 years

The intangible assets (except for goodwill and trademarks with indefinite useful lives) each have finite useful lives over which the assets are amortized.

Acquired trademarks are amortized insofar as a useful life can be determined. Otherwise trademarks are not amortized. The indefinite useful life assessment is reviewed annually. Trademarks may 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 changing market requirements. The carrying value of trademarks with indefinite useful lives amounts to CHF 72.4 million (CHF 72.4 million) and is subject to an annual impairment test.

GOODWILL ITEMS TESTED FOR IMPAIRMENT. Impairment tests were performed on all goodwill items (including the still provisionally allocated goodwill items from the purchase price allocations of the acquired companies). The carrying amounts of trademarks with indefinite useful lives are allocated to the carrying amounts of the cash-generating units in accordance with the proportionate share of sales. The operating segments constitute the cash-generating units.

The impairment tests are based on the discounted cash flow method. The calculation of the value in use is based on the target figures and cash flow forecasts. The forecasting horizon is three years as approved by the Board of Directors. The sales growth rates used in the impairment test correspond to market expectations of the segments.

The growth rates used outside the three-year planning period (terminal growth rates) correspond to weighted expected inflation rates of the segments. The discount rates are determined on the basis of the weighted average cost of capital of the Group, considering country- and currency-specific risks within the context of cash flows taken into consideration. The sensitivity analyses performed on the growth rate outside the planning period and the discount rates indicate that a realistic change in assumptions would not result in the realizable value falling below the carrying amount.

GOODWILL ASSIGNED TO CASH-GENERATING UNITS

in CHF mn	Growth rates beyond the planning period (%)	Discount rates pre-tax (%)	Trademarks with indefinite useful lives	Goodwill ¹
EMEA	2.2	7.9	26.0	1,204.4
Americas	3.2	10.7	46.4	586.7
Asia/Pacific	2.4	9.6		1,068.0
Global Business	1.7	8.3		291.1
December 31, 2019			72.4	3,150.2
EMEA	2.0	8.4	23.7	1,259.6
Americas	3.3	10.9	48.7	525.9
Asia/Pacific	2.2	10.0		1,025.4
Global Business	1.9	8.9		277.9
December 31, 2020			72.4	3,088.8

¹ 2019 restated, see Acquisitions 2019.

17. INVESTMENTS IN ASSOCIATED COMPANIES CHF 2.5 MN (CHF 5.6 MN)

The following associated companies are included in the consolidated financial statements as of December 31, 2020: Condensil SARL, France (Sika stake 40%), Hayashi-Sika Automotive Ltd., Japan (50%), Chemical Sangyo Ltd., Japan (50%), and Seven Tech Co. Ltd., Japan (50%). The 50% stake in Sarna Granol AG, Switzerland was sold beginning of 2020. The other stakes are unchanged compared to the prior year. In the prior year, the remaining 50% of part GmbH, Germany, was acquired and fully consolidated for the first time as of January 1, 2019.

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

ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%)

in CHF mn	2019	2020
Sales	9.0	1.7
Profit (+)/loss (-)	-0.4	0.0

18. ACCOUNTS PAYABLE CHF 846.3 MN (CHF 837.2 MN)

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

19. ACCRUED EXPENSES AND DEFERRED INCOME CHF 454.0 MN (CHF 414.0 MN)

Accrued expenses and deferred income relate to outstanding invoices and liabilities for the past financial year, including performance-based compensation payable to employees and social security expenses in the following year. In addition, deferred revenues for warranty extensions in the amount of CHF 3.9 million (CHF 4.2 million) are included (see note 1).

20. FINANCIAL LIABILITIES CHF 4,186.6 MN (CHF 4,413.0 MN)

in CHF mn	2019			2020		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives	7.6	0.0	7.6	9.2	0.0	9.2
Bank loans	15.3	2.6	17.9	0.6	2.0	2.6
Lease liabilities	81.6	247.6	329.2	75.9	244.7	320.6
Bonds	160.1	3,719.7	3,879.8	170.0	3,554.2	3,724.2
Mandatory convertible bond (liability component)	48.7	96.3	145.0	48.7	48.3	97.0
Other financial liabilities	29.6	3.9	33.5	30.3	2.7	33.0
Total	342.9	4,070.1	4,413.0	334.7	3,851.9	4,186.6

Current financial liabilities consist of liabilities with maturities of less than twelve months. Non-current financial liabilities include financing operations with a term of more than one year.

Furthermore, Sika has the following credit facilities:

- Revolving credit facility of CHF 750.0 million, drawable in CHF, EUR, USD, or GBP. The term ends on April 1, 2024, with the option of two one-year extensions. As of December 31, 2020, Sika has not utilized this credit line.
- Revolving credit facility of CHF 500.0 million with a term until beginning of April 2021, drawable in CHF, EUR, USD, or GBP. This credit facility was closed on April 9, 2020, due to the existing uncertainties in connection with the coronavirus pandemic. As of December 31, 2020, Sika has not utilized this credit line.

The following bonds are outstanding:

in CHF mn						2019	2020
Issuer	Bond		Nominal	Coupon	Term	Book value	Book value
Sika AG, Baar, Switzerland	Straight bond	CHF	160.0	0.000%-0.050%	2018-03/27/2020	160.1	0.0
	Straight bond	CHF	170.0	0.125%	2018-07/12/2021	170.1	170.0
	Straight bond	CHF	150.0	1.750%	2012-07/12/2022	150.0	150.0
	Straight bond	CHF	200.0	1.875%	2013-11/14/2023	199.5	199.6
	Straight bond	CHF	250.0	0.625%	2018-07/12/2024	250.5	250.4
	Convertible bond	CHF	1,650.0	0.150%	2018-06/05/2025	1,600.4	1,609.4
	Straight bond	CHF	140.0	0.600%	2018-03/27/2026	140.0	140.0
	Straight bond	CHF	130.0	1.125%	2018-07/12/2028	130.9	130.8
Sika Capital B.V., Utrecht, Netherlands	Straight bond	EUR	500.0	0.875%	2019-04/29/2027	539.4	537.3
	Straight bond	EUR	500.0	1.500%	2019-04/29/2031	538.9	536.7
Total						3,879.8	3,724.2

In May 2018, Sika placed a convertible bond in the amount of CHF 1,650.0 million due in 2025. The convertible bond has a coupon of 0.15% p.a. The shares to be delivered upon conversion will be made available by existing shares or by the issue of new shares from the conditional capital. At the end of December 2020, the conversion price per share is CHF 189.56. No rights were converted in the reporting period.

On January 22, 2019, Sika placed a mandatory convertible bond in the amount of CHF 1,300.0 million due in 2022. The convertible bond has a coupon of 3.75% p.a. The bond will be mandatorily converted into registered shares of Sika at maturity, subject to the early conversion rights of Sika and bondholders in accordance with the terms and conditions of the bond. The shares to be delivered upon conversion will be made available by either existing shares or by the issue of new shares from the conditional capital. At the end of December 2020, the bond has a minimum conversion price of CHF 126.34 and a maximum conversion price of CHF 142.13. No rights were converted in the reporting period.

In summary, financial liabilities changed as follows:

in CHF mn	Bank loans	Bonds	Lease liabilities	Other financial liabilities	Total financial liabilities
January 1, 2019	13.8	2,992.8	0.3	25.6	3,032.5
Proceeds	306.1	2,410.1	0.0	2.8	2,719.0
Repayments	-1,290.9	-200.0	-85.0	-8.6	-1,584.5
Cash flow	-984.8	2,210.1	-85.0	-5.8	1,134.5
Impact of initial application of IFRS 16 Leases	0.0	0.0	252.1	0.0	252.1
Acquired on acquisition	997.9	0.0	100.6	5.1	1,103.6
Exchange differences	-9.0	-52.1	-9.8	-0.9	-71.8
Net equity component on convertible bond (see above)	0.0	-1,136.1	0.0	0.0	-1,136.1
New leases	0.0	0.0	56.1	0.0	56.1
Other changes	0.0	10.1	14.9	17.1	42.1
Non-cash movements	988.9	-1,178.1	413.9	21.3	246.0
December 31, 2019	17.9	4,024.8	329.2	41.1	4,413.0
January 1, 2020	17.9	4,024.8	329.2	41.1	4,413.0
Proceeds	250.1	0.0	0.0	2.7	252.8
Repayments	-294.6	-208.8	-95.8	-10.0	-609.2
Cash flow	-44.5	-208.8	-95.8	-7.3	-356.4
Acquired on acquisition	30.0	0.0	1.8	0.0	31.8
Exchange differences	-0.8	-5.2	-17.1	-1.6	-24.7
New leases	0.0	0.0	71.8	0.0	71.8
Other changes	0.0	10.4	30.7	10.0	51.1
Non-cash movements	29.2	5.2	87.2	8.4	130.0
December 31, 2020	2.6	3,821.2	320.6	42.2	4,186.6

The classification and valuation principles for financial liabilities are described in note 26.

21. PROVISIONS CHF 125.1 MN (CHF 118.8 MN)

Provisions required for liabilities arising from guarantees, warranties, and environmental risks as well as restructuring costs are recognized as liabilities. Provisions are only recognized if Sika has a third-party liability that is based on a past event and can be reliably measured. Contingent liabilities are not recognized in the balance sheet but only for acquisitions. Potential losses due to future incidents are not recognized in the balance sheet.

in CHF mn	Provisions		
	Warranties	Sundry risks	Total
Current provisions	20.0	6.8	26.8
Non-current provisions	22.7	75.6	98.3
Provisions	42.7	82.4	125.1
Reconciliation			
January 1, 2020¹	36.8	82.0	118.8
Additions	18.1	19.0	37.1
Assumed on acquisition	0.2	0.2	0.4
Exchange differences	-1.1	-9.4	-10.5
Utilization	-9.5	-5.5	-15.0
Reversal	-1.8	-3.9	-5.7
December 31, 2020	42.7	82.4	125.1

¹ Restated, see Acquisitions 2019.

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

From the sum of provisions, CHF 98.3 million (CHF 95.7 million) are shown as non-current liabilities, since an outflow of funds is not expected within the next twelve months. For provisions of CHF 26.8 million (CHF 23.1 million), an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

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, or on the Group's financial position or income. The Group is active in countries in which political, economic, social, and legal developments could impair business activity. The effects of such risks which can occur in the normal course of business is unforeseeable. In addition, their probability of occurrence lies below 50%.

22. EMPLOYEE BENEFIT OBLIGATIONS

in CHF mn	2019			2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Employee benefit plans with defined benefits	42.0	218.5	176.5	18.7	213.9	195.2
Other employee commitments	-	100.7	100.7	-	105.6	105.6
Total	42.0	319.2	277.2	18.7	319.5	300.8

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

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

DEFINED BENEFIT PENSION FUNDS. Defined benefit pension plans for staff exist in 44 Group companies. The biggest plans are in Switzerland, accounting for 79.8% (78.0%) of Sika's entire defined benefit pension obligations and 96.3% (96.2%) of plan assets.

SWISS PENSION PLANS. Sika companies in Switzerland have legally independent foundations, thereby segregating their pension obligation liabilities. The Federal Law on Occupational Retirement, Survivors', and Disability Pensions (BVG) regulates occupational benefits in Switzerland. In the event of a significant deficit, employees and employers must jointly bear any restructuring measures, for example through additional contributions. The Swiss pension plans therefore qualify as defined benefit plans and the actuarially determined surplus or deficit is recognized in the consolidated balance sheet. In accordance with local statutory requirements, Sika has no further obligations towards the pension plans beyond the regulatory contribution payments.

The Sika pension fund insures employees in Switzerland against the risks of old age, death, and disability. In addition, there is a management pension plan and a welfare foundation which provide for further regulatory benefits. Together with the statutory requirements, the retirement regulations form the basis for occupational pension benefits. The retirement pension is calculated by multiplying the retirement assets available at the time of retirement by the conversion rates stipulated in the regulations. The employee has the option of drawing the retirement benefit as a lump sum. The employee also has the right to early retirement.

The administration of the Sika pension fund is the responsibility of the board of trustees as the supreme body, which is composed of the same number of employee and employer representatives. It is responsible for the enactment and implementation of the pension fund regulations, the financing of benefits, and the investment of assets. The investment strategy is defined in such a way that the benefits can be paid when they fall due. The Sika pension fund as well as the welfare foundation bear the investment risks and the longevity risk themselves. The pension fund has taken out congruent reinsurance for the risks of death and disability. The insurance-related and investment risks of the management pension scheme are fully reinsured.

In the current year, as in the prior year, the Swiss pension plans are showing a surplus under BVG and it is not expected that additional contributions will be necessary for the next year.

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

MOVEMENT IN THE NET DEFINED BENEFIT OBLIGATION

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
At January 1, 2019	-917.9	746.0	-1.9	-173.8
Current service cost	-29.9			-29.9
Interest expense (-)/interest income (+)	-9.9	6.5		-3.4
Past service cost (-) and gains (+)/losses (-) on settlements and curtailments	0.5			0.5
Total expense recognized in income statement	-39.3	6.5		-32.8
thereof Switzerland	-27.4	5.7		-21.7
thereof others	-11.9	0.8		-11.1
Return on plan assets, excluding amounts included in interest income		93.7		93.7
Actuarial gains (+)/losses (-) from change in financial assumptions	-80.5			-80.5
Actuarial gains (+)/losses (-) from change in demographic assumptions	5.2			5.2
Experience gains (+)/losses (-)	-16.6			-16.6
Change in asset ceiling			-0.5	-0.5
Total remeasurement recognized in other comprehensive income	-91.9	93.7	-0.5	1.3
thereof Switzerland	-60.7	90.4	-0.5	29.2
thereof others	-31.2	3.3	0.0	-27.9
Exchange differences	7.3	-1.1		6.2
Contributions by employers		21.4		21.4
Contributions by plan participants	-15.6	15.6		0.0
Benefits paid	32.3	-24.5		7.8
Settlements paid	1.8	-1.8		0.0
Acquired in a business combination and others	-8.9	2.3		-6.6
At December 31, 2019	-1,032.2	858.1	-2.4	-176.5
thereof Switzerland	-805.5	825.2	-2.4	17.3
thereof others	-226.7	32.9	0.0	-193.8

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
At January 1, 2020	-1,032.2	858.1	-2.4	-176.5
Current service cost	-32.1			-32.1
Interest expense (-)/interest income (+)	-4.6	2.9		-1.7
Past service cost (-) and gains (+)/losses (-) on settlements and curtailments	0.4			0.4
Total expense recognized in income statement	-36.3	2.9		-33.4
thereof Switzerland	-26.1	2.5		-23.6
thereof others	-10.2	0.4		-9.8
Return on plan assets, excluding amounts included in interest income		20.1		20.1
Actuarial gains (+)/losses (-) from change in financial assumptions	-12.0			-12.0
Actuarial gains (+)/losses (-) from change in demographic assumptions	0.3			0.3
Experience gains (+)/losses (-)	-22.6			-22.6
Change in asset ceiling			-0.5	-0.5
Total remeasurement recognized in other comprehensive income	-34.3	20.1	-0.5	-14.7
thereof Switzerland	-38.9	20.7	-0.5	-18.7
thereof others	4.6	-0.6	0.0	4.0
Exchange differences	3.5	-0.7		2.8
Contributions by employers		19.3		19.3
Contributions by plan participants	-14.9	14.9		0.0
Benefits paid	27.5	-20.3		7.2
Settlements paid	0.1			0.1
At December 31, 2020	-1,086.6	894.3	-2.9	-195.2
thereof Switzerland	-867.5	861.4	-2.9	-9.0
thereof others	-219.1	32.9	0.0	-186.2

The contributions expected to be paid into the defined benefit pension plans for 2021 amount to CHF 22.1 million.

The Group's total expenses for employee benefits are included in the consolidated financial statements under "Personnel expenses".

The stated deficit results mainly from the defined benefit obligation of the unfunded benefit plans of CHF 159.6 million (CHF 164.1 million). Schemes in Germany, in particular, do not have segregated assets. For the Swiss pension plan the result is a deficit of CHF 9.0 million (surplus of CHF 17.3 million).

MAJOR CATEGORIES OF TOTAL PLAN ASSETS

in CHF mn	2019			2020		
	Switzerland	Others	Total	Switzerland	Others	Total
Cash and cash equivalents	36.2	5.7	41.9	25.1	5.4	30.5
Equity instruments	354.9	2.2	357.1	384.6	2.2	386.8
Debt instruments	265.0	2.3	267.3	293.8	4.5	298.3
Real estate investments	145.4	0.0	145.4	150.7	0.0	150.7
Other assets	23.7	22.7	46.4	7.2	20.8	28.0
Total	825.2	32.9	858.1	861.4	32.9	894.3

Most of the plan assets of the pension schemes are invested in assets with quoted market prices. In the year under review, 10.2% (10.0%) of the investments in real estate did not have a quoted market price. Furthermore, in the previous year, 10.2% of the other assets did not have a quoted market price.

AMOUNTS INCLUDED IN PLAN ASSETS

in CHF mn	2019		2020	
	Switzerland	Others	Switzerland	Others
Shares Sika AG ¹	37.4	0.0	42.1	0.0
Own property occupied by Sika	10.9	0.0	10.6	0.0
Total	48.3	0.0	52.7	0.0

1 According to Swiss law, employer shareholdings may not exceed 5% of assets.

ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

	2019		2020	
	Switzerland	Others	Switzerland	Others
Discount rate in the year under review (%)	0.30	1.03	0.15	1.07

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

in CHF mn	Change in assumptions	Impact on defined benefit obligation	
		Switzerland	Others
Discount rate	+0.25%	-34.3	-8.4
Discount rate	-0.25%	36.9	8.5

NUMBER OF PLANS

	2019		2020	
	Switzerland	Others	Switzerland	Others
Total number of defined benefit plans	6	43	5	39
thereof number of defined benefit plans funded	5	12	4	12
thereof number of defined benefit plans unfunded	1	31	1	27
Average weighted duration in years	16.0	17.6	15.5	16.2

23. OTHER LIABILITIES CHF 31.3 MN (CHF 34.4 MN)

Other liabilities consist of deferred revenue for warranty extensions that will not be realized within the next twelve months.

24. SHAREHOLDERS' EQUITY CHF 3,288.0 MN (CHF 3,161.2 MN)

in CHF mn	2019	2020
Capital stock	1.4	1.4
Capital surplus	203.1	203.1
Treasury shares	-7.3	-5.2
Currency translation differences	-747.8	-1,047.7
Retained earnings	3,674.7	4,134.2
Equity attributable to Sika shareholders	3,124.1	3,285.8
Non-controlling interests	37.1	2.2
Shareholders' equity	3,161.2	3,288.0

Equity accounts for 33.6% (31.7%) of the balance sheet total.

CAPITAL STOCK. The capital stock is equal to the par value of all issued registered shares and is structured as follows:

CAPITAL STOCK

in CHF mn	Number ¹	2019	2020
Registered shares, nominal value CHF 0.01	141,781,160	1.4	1.4
Capital stock		1.4	1.4

¹ Includes 22,795 registered shares (2019: 41,859 registered shares) held as treasury shares, that do not carry voting and dividend rights.

The share capital structure did not change this year.

CAPITAL SURPLUS. This item consists of the value of paid-in capital in excess of par value (less transaction costs).

TREASURY SHARES. Treasury shares are valued at acquisition cost and deducted from shareholders' equity. Differences between the purchase price and sales proceeds of treasury shares are shown as a change in retained earnings.

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

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

The Board of Directors proposes to the Annual General Meeting payment of a dividend of CHF 2.50 per registered share, in the total amount of CHF 354.5 million, to the shareholders of Sika AG.

NON-CONTROLLING INTERESTS. Non-controlling interests are accounted for at the corresponding share of the respective company. There are no material companies with non-controlling interests. The capital shares of all companies are disclosed in the list of group companies (see page 150 et seq. of this report).

25. CASH FLOW STATEMENT

DETAILS TO THE CASH FLOW STATEMENT. Compared to previous year, cash flow statement was influenced by:

- a higher net profit before taxes (CHF +93.8 million).
- a strong decrease in acquisition activity (CHF +1,612.3 million). The previous year was affected by the acquisition of Parex.
- a net repayment of bank debt of CHF 51.8 million. In the previous year, net debts of CHF 990.6 million were repaid. This is also mainly due to the acquisition of Parex as the bank debts of the Parex companies were assumed and repaid.
- a net cash outflow of CHF 208.8 million from the issuance and repayment of bonds compared to a net cash inflow of CHF 2,210.1 million in the prior year.
- Buyouts of non-controlling interests of CHF 78.9 million.

in CHF mn	2019	2020
Cash flow from operating activities	1,213.9	1,373.4
Cash flow from investing activities	-1,930.9	-253.1
Cash flow from financing activities	827.6	-769.0
Exchange differences	-29.5	-27.7
Net change in cash and cash equivalents	81.1	323.6

FREE CASH FLOW AND OPERATING FREE CASH FLOW

in CHF mn	2019	2020
Cash flow from operating activities	1,213.9	1,373.4
Net investment in		
Property, plant, and equipment	-176.8	-102.7
Intangible assets	-11.0	-11.3
Acquisitions less cash and cash equivalents	-1,748.4	-136.1
Disposals less cash and cash equivalents	0.0	2.9
Acquisitions (-)/disposals (+) of financial assets	5.3	-5.9
Free cash flow	-717.0	1,120.3
Acquisitions(+)/disposals (-) less cash and cash equivalents	1,748.4	133.2
Acquisitions (+)/disposals (-) of financial assets	-5.3	5.9
Operating free cash flow	1,026.1	1,259.4

OTHER ADJUSTMENTS

in CHF mn	2019	2020
Profit (-)/loss (+) from disposals of non-financial assets	4.7	-9.1
Personnel expenses settled through treasury shares	7.9	9.7
Others	2.8	4.3
Total	15.4	4.9

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Sika's financial instruments and the related risk management are presented in this note.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS. The classification depends on the financial asset's contractual cash flow characteristics. Sika uses the following categories:

- At amortized cost - Financial assets at amortized cost are measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the income statement when the asset is derecognized, modified, or impaired. Financial assets measured at amortized cost mainly comprise accounts receivable as well as smaller loans and other receivables. Accounts receivable are measured at the transaction price.
- At fair value through profit or loss - Financial assets held for trading and derivatives are carried at fair value through profit or loss. Fluctuations in value are recognized in the income statement. The classification of equity instruments in this category is consistent with the Group's risk management and investment strategy. Sika does not apply hedge accounting.

All purchases and sales of financial assets are recognized on the settlement date. Financial assets are derecognized when Sika loses the rights to receive cash flows that comprise the financial asset. Normally this occurs through the sale of assets or the repayment of loans and accounts receivable.

At each balance sheet date Sika determines whether a financial asset is impaired. If there are objective indications that an impairment of assets carried at amortized cost has occurred or could occur based on forward-looking data, the amount of the impairment is the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate.

For accounts receivable Sika applies a simplified approach in calculating expected credit losses. Therefore, an allowance is recognized at initial recognition and also at each subsequent balance sheet date for the expected credit losses over the entire term. Sika has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors. Receivables are derecognized if they are classified as uncollectible.

PROVISION MATRIX OF ACCOUNTS RECEIVABLE

in CHF mn	Estimated total gross carrying amount at default	Expected credit losses
Not overdue	1,107.8	1.7
Past due < 31 days	196.3	2.3
Past due 31-60 days	65.8	2.7
Past due 61-180 days	62.0	8.4
Past due 181-360 days	22.0	13.5
Past due > 360 days	63.9	47.3
December 31, 2019	1,517.8	75.9
Not overdue	1,107.1	2.1
Past due < 31 days	142.1	2.1
Past due 31-60 days	52.4	2.6
Past due 61-180 days	50.7	8.6
Past due 181-360 days	23.2	15.5
Past due > 360 days	64.9	47.7
December 31, 2020	1,440.4	78.6

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES. All financial liabilities are initially recognized at fair value, in the case of bonds and loans less directly attributable transaction costs. Subsequent measurement depends on their classification:

- At amortized cost - After initial recognition, interest-bearing bonds and loans are measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are amortized or derecognized. Amortized cost is calculated taking into account any premium or discount and any fees or costs that are an integral part of the effective interest rate. Amortization using the effective interest method is included in the income statement as part of interest expense.
- At fair value through profit or loss - Financial liabilities held for trading and derivative financial instruments are carried at fair value through profit or loss. Fluctuations in value are recognized in the income statement. Sika does not apply hedge accounting.

All purchases and sales of financial liabilities are recognized on the settlement date. A financial liability is derecognized when the underlying obligation has been fulfilled, cancelled, or expired. If an existing financial obligation is replaced by another financial liability of the same lender with substantially different contractual terms or if the terms of an existing liability are significantly changed, such an exchange or change is treated as a derecognition of the original liability and recognition of a new liability.

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES. The hierarchy below classifies financial instruments, by valuation method. The different levels have been defined as follows:

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

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

Sika holds level 2 derivative financial instruments, namely swaps and forward contracts. Their fair value is based on forward exchange rates.

Although the own bonds are listed on the stock exchange, their transaction frequency does not reliably meet our expectation of an active market and are therefore assigned to level 2. The disclosed fair value is based on the prices of the last transactions on or before the balance sheet date.

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

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

in CHF mn	Level	2019		2020	
		Book value	Fair value	Book value	Fair value
Cash and cash equivalents		995.1		1,318.7	
Accounts receivable		1,441.9		1,361.8	
Loans (at amortized cost)		10.6		18.9	
Securities (at fair value through profit and loss)	1	61.7	61.7	61.0	61.0
Derivatives (at fair value through profit and loss)	2	15.0	15.0	7.0	7.0
Financial assets at December 31		2,524.3		2,767.4	
Bank loans		17.9		2.6	
Accounts payable		837.2		846.3	
Lease liabilities		329.2		320.6	
Bonds	2	3,879.8	4,323.0	3,724.2	4,502.4
Mandatory convertible bond (liability component)		145.0		97.0	
Other financial liabilities		33.5		33.0	
Financial liabilities measured at amortized cost		5,242.6		5,023.7	
Derivatives (at fair value through profit and loss)	2	7.6	7.6	9.2	9.2
Financial liabilities at December 31		5,250.2		5,032.9	

The book value of cash and cash equivalents, accounts receivable, loans, bank loans, accounts payable, lease liabilities, the liability component of the mandatory convertible bond as well as other financial liabilities almost equal the fair value.

MANAGEMENT OF FINANCIAL RISKS

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

The corporate finance department identifies, evaluates, and hedges financial risks in close cooperation with the Group's operating units. Accounts receivable of CHF 1.9 million (none in the previous years) as well as property, plant, and equipment of CHF 4.3 million (CHF 4.3 million) are pledged as security for own liabilities.

FOREIGN EXCHANGE RISKS. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar. Foreign exchange risks arise when commercial transactions as well as recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

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

OPEN DERIVATIVES

in CHF mn	Contractual value upon maturity				
	Replacement value (+)	Replacement value (-)	Contract value	Up to 3 months	3 to 12 months
Forward contracts (foreign exchange)	0.4	-2.8	186.6	57.2	129.4
Swaps (foreign exchange)	14.6	-4.8	2,064.3	813.3	1,251.0
Open derivatives 2019	15.0	-7.6	2,250.9	870.5	1,380.4
Forward contracts (foreign exchange)	0.4	-2.6	163.6	58.1	105.5
Swaps (foreign exchange)	6.6	-6.6	1,005.3	299.3	706.0
Open derivatives 2020	7.0	-9.2	1,168.9	357.4	811.5

Losses from currency differences recognized in the income statement amounted to CHF 63.5 million (loss CHF 53.8 million). They were recognized in the corresponding expense items. The currency differences arise from purchases and sales as well as financing activities in foreign currencies. In addition, a net gain of CHF 38.3 million (net gain of CHF 22.8 million) was generated from currency hedging transactions, which is included in other financial expenses.

Sika carries out a sensitivity analysis for the dominant foreign currencies' Euro and US Dollar. The assumption is that the Euro and US Dollar respectively change against all other currencies by +/- 10%. The other currencies remain constant. The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments, Group-internal financing, and foreign currency hedge transactions in the corresponding currencies. The following table demonstrates the sensitivity of consolidated net profit before tax to a reasonably possible shift in exchange rates related to financial instruments held in the balance sheet. All other variables are held constant. The impact on shareholders' equity is insignificant.

SENSITIVITY ANALYSIS ON EXCHANGE RATES

Impact on profit before tax in CHF mn	2019	2020
EUR: +10%	0.2	13.5
EUR: -10%	-0.2	-13.5
USD: +10%	-3.6	-7.9
USD: -10%	3.6	7.9

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

INTEREST RATE RISK. Interest rate risks result from changes in interest rates, which could have a negative impact on the Group's financial position, cash flow, and earnings situation. Interest rate risk is limited through the issue of fixed-interest long-term bonds (see note 20). A change in the rate of interest would therefore alter neither annual financial expenses nor shareholders' equity materially. Local bank loans and mortgages are insignificant. Interest rate developments are closely monitored by management.

CREDIT RISK. Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge its obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and banks. In addition, accounts receivable are monitored on an ongoing basis via internal reporting procedures. Potential concentrations of risks are reduced by the large number of customers and their geographic dispersion. No individual customer represents more than 2% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2019 nor at year-end 2020. The largest possible risk represented by these items is the carrying amount of the accounts receivable and any warranties granted.

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

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

MATURITY PROFILE OF FINANCIAL LIABILITIES

in CHF mn	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Bank loans	15.3	2.6	0.0	17.9
Accounts payable	837.2	0.0	0.0	837.2
Lease liabilities	88.8	189.3	101.0	379.1
Bonds	186.2	865.3	3,089.6	4,141.1
Mandatory convertible bond (liability component)	48.8	97.5	0.0	146.3
Other financial liabilities	29.6	3.9	0.0	33.5
Financial liabilities measured at amortized cost	1,205.9	1,158.6	3,190.6	5,555.1
Financial liabilities at fair value through profit and loss	7.6	0.0	0.0	7.6
December 31, 2019	1,213.5	1,158.6	3,190.6	5,562.7
Bank loans	0.6	2.0	0.0	2.6
Accounts payable	846.3	0.0	0.0	846.3
Lease liabilities	82.4	162.6	120.6	365.6
Bonds	195.8	2,335.2	1,413.5	3,944.5
Mandatory convertible bond (liability component)	48.8	48.8	0.0	97.6
Other financial liabilities	30.2	1.8	1.0	33.0
Financial liabilities measured at amortized cost	1,204.1	2,550.4	1,535.1	5,289.6
Financial liabilities at fair value through profit and loss	9.2	0.0	0.0	9.2
December 31, 2020	1,213.3	2,550.4	1,535.1	5,298.8

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 adjusts it in light of changes in economic conditions. No changes were made in the objectives, policies, or processes during the years ended December 31, 2020, and December 31, 2019. The Group monitors its equity using the equity ratio, which is shareholders' equity divided by total capital.

OTHER INFORMATION

SIGNIFICANT SHAREHOLDERS

As at the balance sheet date December 31, 2020, Sika had received notification of four significant shareholders whose voting rights exceed 3%: (1) BlackRock Inc., which owned 7.7% of all voting rights. (2) William H. Gates and Melinda French Gates, who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (3) The Capital Group Companies, who held 5% of all voting rights via Capital Research and Management Company, Capital Bank and Trust Company, Capital International Limited, Capital International, Inc., and Capital International Sarl. (4) Massachusetts Financial Services Company, which held 3.03% of all voting rights.

A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

As at the balance sheet date December 31, 2019, Sika had received notification of six significant shareholders whose voting rights exceed 3%: (1) Compagnie de Saint-Gobain which held 10.75% of all voting rights via Schenker-Winkler Holding AG. (2) BlackRock, Inc. which held 7.7% of all voting rights. (3) William H. Gates III and Melinda French Gates who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (4) Capital Group Companies, Inc. which held 3.37% of all voting rights. (5) Norges Bank (The Central Bank of Norway) with a holding of 3.08% of all voting rights. (6) Massachusetts Financial Services Company which held 3.03% of all voting rights.

RELATED PARTIES

ASSOCIATED COMPANIES. In the year under review, goods and services totaling CHF 2.0 million (CHF 6.1 million) were delivered to associated companies. These transactions occurred on the usual conditions between wholesale partners.

EMPLOYEE BENEFIT PLANS. In Switzerland, employee benefit plans are handled through independent foundations, to which a total of CHF 26.5 million (CHF 28.5 million) was paid in the year under review. As of the balance sheet date, no material receivables or payables were due from these foundations. Sika offices are located in a building leased from the pension fund foundation. Rent for 2020 amounted to CHF 0.7 million (CHF 0.7 million).

All transactions were conducted at market conditions.

REMUNERATION OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

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

in CHF mn	2019	2020
Current benefits	13.8	14.1
Share-based payments ¹	3.7	4.3
Pension benefits	1.2	1.3
Total	18.7	19.7

1 Refer to note 4, employee participation plan – share-based payments.

Information regarding participations of the Board of Directors and Group Management of Sika AG can be found in the Sika AG's financial statements (on page 172 of this report).

RELEASE OF FINANCIAL STATEMENTS FOR PUBLICATION

The Board of Directors of Sika AG approved the consolidated financial statements for publication on February 15, 2021. The financial statements will be submitted for approval to the Annual General Meeting on April 20, 2021.

EVENTS AFTER THE BALANCE SHEET DATE

The following event occurred between December 31, 2020, and the release of these consolidated financial statements:

ACQUISITION. On February 8, Sika announced the acquisition of Kreps LLC, a leading mortar manufacturer in Russia. The company offers a wide range of mortar products for interior and exterior finishing, complementing the existing portfolio and geographical footprint. The acquired business generates annual sales of CHF 15 million. The transaction is subject to clearance by the local antitrust authorities.

LIST OF GROUP COMPANIES

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
EMEA (Europe, Middle East, Africa)					
Albania	❖ Sika Albania SHPK, Tirana	ALL	96,831	100	
Algeria	☐ Sika El Djazair SpA, Les Eucalyptus	DZD	313,400	100*	◆★★
	○ Mortero Spa, Béjaia	DZD	60,000	71.5*	
Austria	○ Sika Österreich GmbH, Bludenz	EUR	2,500	100	◆★
Azerbaijan	○ Sika Limited Liability Comp., Baku	AZN	5,311	100	◆
Bahrain	○ Sika Gulf B.S.C., Adliya	BHD	1,000	100*	◆★★
	▲ Sika Arabia Holding Company WLL, Manama	BHD	6,000	100	
Belarus	○ S I K A Bel LLC, Minsk	USD	14,175	100	
	○ BellNECO LLC, Brest	BYN	10,509	100*	◆
Belgium	○ Sika Belgium NV, Nazareth	EUR	10,264	100	◆★
	❖ Sika Automotive Belgium S.A., Saintes	EUR	1,649	100	◆★
Bosnia-Herzegovina	❖ Sika BH d.o.o., Sarajevo	BAM	795	100	
Bulgaria	○ Sika Bulgaria EOOD, Sofia	BGN	340	100	◆★
Cameroon	○ Sika Cameroon SARL, Douala	XAF mn	1,058	100	
Croatia	❖ Sika Croatia d.o.o., Zagreb	HRK	4,000	100	◆★
Czech Republic	○ Sika CZ, s.r.o., Brno	CZK	30,983	100	◆★
	○ KVK PARABIT, a.s., Svoboda nad Upou	CZK	97,232	100*	◆★
	○ Krkonošské vápenky Kunčice, a.s., Kunčice nad Labem	CZK	25,000	100*	◆★
Denmark	○ Sika Danmark A/S, Farum	DKK	6,000	100	◆★
Djibouti	❖ Sika Djibouti FZE, Djibouti City	USD	300	100	
Egypt	○ Sika Egypt for Construction Chemicals S.A.E., Cairo	EGP	246,025	100	◆★★
	○ Sika Manufacturing for Construction S.A.E., Cairo	EGP	2,000	100	◆★★
	○ Modern Waterproofing Company S.A.E., Cairo	EGP	119,000	98.89	◆★★
Estonia	❖ Sika Estonia Oü, Tallinn	EUR	3	100	
Ethiopia	○ Sika Abyssinia Chemicals Manufacturing PLC., Addis Ababa	ETB	130,480	100	
Finland	○ Oy Sika Finland Ab, Espoo	EUR	850	100	◆★
France	○ Sika France SAS, Paris	EUR	468,018	100	◆★★
	○ Sika Automotive France SAS, Cergy-Pontoise Cedex	EUR	1,343	100*	◆★★
	▲ Financière Dry Mix Solutions SAS, Issy-Les-Moulineaux	EUR	26,761	100*	
	○ ParexGroup S.A., Issy-Les-Moulineaux	EUR	4,097	100*	◆★★
Germany	▲ Sika Holding CH AG & Co KG, Stuttgart	EUR	26,000	100*	
	○ Sika Deutschland GmbH, Stuttgart	EUR	75	100*	◆★
	○ Sika Automotive Hamburg GmbH, Hamburg	EUR	5,300	100*	◆★
	○ Sika Trocal GmbH, Troisdorf	EUR	4,000	100*	◆★
	■ Sika Bauabdichtungs-GmbH, Stuttgart	EUR	50	100*	
	○ Sika Automotive Frankfurt-Worms GmbH, Worms	EUR	1,000	100*	◆★★
	▲ Sika Frankfurt Grundstücksgesellschaft mbH, Worms	EUR	25	100*	
	▲ Sika Worms Grundstücksgesellschaft mbH, Worms	EUR	25	100*	
○ Hago PU GmbH, Munich	EUR	1,000	100	◆	
Greece	○ Sika Hellas ABEE, Kryoneri	EUR	9,000	100	◆★★
Hungary	○ Sika Hungária Kft., Biatorbágy	HUF	483,000	100	◆★
Iran	○ Sika Parsian P.J.S. Co., Tehran	IRR mn	293,229	100	

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
Iraq	○ Sika for General Trading LLC, Erbil	IQD	1,000	100	
Ireland	❖ Sika Ireland Ltd., Dublin	EUR	635	100	◆
Italy	○ Sika Italia S.p.A., Peschiera Borromeo	EUR	5,000	100	◆★★
	○ Sika Engineering Silicones S.r.l., Peschiera Borromeo	EUR	1,600	100*	◆★
	○ Sika Polyurethane Manufacturing S.r.l., Cerano	EUR	1,600	100	◆★★
	❖ Axson Italia S.r.l., Saronno	EUR	50	100*	
	Index Construction Systems and Products S.P.A., Castel D'Azzano	EUR	7,740	100*	◆★
Ivory Coast	○ Sika Côte d'Ivoire SARL, Abidjan	XOF mn	1,674	100	◆
Kazakhstan	○ Sika Kazakhstan LLP, Almaty	KZT mn	1,413	100	◆★
Kenya	○ Sika Kenya Limited, Nairobi	KES	50,000	100	◆
Kuwait	❖ Sika Kuwait for Construction Materials & Paints Co WLL, Shuwaikh Industrial Area	KWD	55	100*	
Latvia	○ Sika Baltic SIA, Riga	EUR	1,237	100	
Lebanon	○ Sika Near East SAL, Beirut	LBP mn	1,340	100	
Mauritius	○ Sika (Mauritius) Ltd., Plaine Lauzun	MUR	2,600	100*	◆
Morocco	○ Sika Maroc, Casablanca	MAD	264,000	100	◆★★
Mozambique	○ Sika Moçambique Limitada, Maputo Province	MZN	308,800	100	
Netherlands	○ Sika Nederland B.V., Utrecht	EUR	1,589	100	◆★★
	▲ Sika Capital B.V., Utrecht	EUR	10,000	100	
Nigeria	○ Sika Manufacturing Nigeria Limited, Lagos	NGN mn	1,788	100	
Norway	○ Sika Norge AS, Skjetten	NOK	42,900	100	◆★
Oman	❖ Sika LLC, Muscat	OMR	150	100*	
Pakistan	○ Sika Pakistan (Pvt.) Ltd., Lahore	PKR	665,239	100	◆★★
Poland	○ Sika Poland Sp. z.o.o., Warsaw	PLZ	12,188	100	◆★★
	○ Sika Automotive Zlotoryja Sp. z o.o., Zlotoryja	PLZ	6,000	100	◆★★
Portugal	○ Sika Portugal – Produtos Construção Indústria SA, Vila Nova de Gaia	EUR	1,500	100	◆★
Qatar	○ Sika Qatar LLC, Doha	QAR	200	100*	◆
	○ Parex Group WLL (Qatar), Doha	QAR	200	97*	
Romania	○ Sika Romania s.r.l., Brasov	RON	665,138	100	◆★★
	○ Adeplast S.R.L., Ploiești city	RON	30,000	100*	◆★★
Russia	○ Sika LLC, Lobnya	RUB	535,340	100	◆★
Saudi Arabia	○ Sika Saudi Arabia Co Ltd., Riyadh	SAR	41,750	100	◆★
Senegal	○ Sika Sénégal S.U.A.R.L, Dakar	XOF mn	1,764	100	
Serbia	○ Sika Srbija d.o.o., Simanovci	EUR	373	100	◆★
Slovakia	❖ Sika Slovensko, spol. s.r.o., Bratislava	EUR	1,131	100	◆★
	○ Sika Automotive Slovakia, s.r.o., Zlaté Moravce	EUR	7	100	◆★★
Slovenia	❖ Sika Slovenija d.o.o., Trzin	EUR	1,029	100	◆★
South Africa	○ Sika South Africa (Pty) Ltd., Pinetown	ZAR	25,000	100	◆★★
Spain	○ Sika S.A.U., Alcobendas	EUR	19,867	100	◆★★
	❖ Axson Technologies Spain S.L., Les Franqueses del Vallès	EUR	80	100*	
	○ Sika Automotive Terrassa S.A., Terrassa	EUR	2,965	100	◆★★
	▲ Parexgroup Iberica, S.A.U., Les Franqueses del Vallès	EUR	10,631	100	
Sweden	○ Sika Sverige AB, Spånga	SEK	10,000	100	◆★

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
Switzerland	○ Sika Schweiz AG, Zurich	CHF	1,000	100	◆★★
	▲ Sika Services AG, Zurich	CHF	300	100	◆★★
	▲ Sika Technology AG, Baar	CHF	300	100	◆★★
	▲ Sika Informationssysteme AG, Zurich	CHF	400	100	
	■ SikaBau AG, Schlieren	CHF	5,300	100	◆
	▲ Sika Finanz AG, Baar	CHF	2,400	100	
	○ Sika Manufacturing AG, Sarnen	CHF	14,000	100	◆★★
	▲ Sika Supply Center AG, Sarnen	CHF	1,000	100	◆★
	○ Sika Automotive AG, Romanshorn	CHF	3,000	100	◆★★
	▲ Sika Europe Management AG, Zurich	CHF	100	100	
	▲ Sika Americas Management AG, Baar	CHF	100	100	
	▲ Sika Germany Management AG, Baar	CHF	50	100	
	▲ Sika Global Business Management AG, Widen	CHF	100	100	
	○ Klebag AG, Ennetbürgen	CHF	100	100*	
	○ Polypag AG, Altstätten	CHF	700	100	◆
Tanzania	○ Sika Tanzania Construction Chemicals Limited, Dar es Salaam	TZS mn	4,261	100	◆★
Tunisia	□ Sika Tunisienne Sàrl, Douar Hicher	TND	150	100*	◆★
Turkey	○ Sika Yapi Kimyasallari A.S., Tuzla	TRY	48,700	100	◆★★
	○ ABC Kimya Sanayi ve Dış Ticaret Anonim Şirketi, Istanbul	TRY	5,200	100*	◆
	❖ Sika Turkey Otomotiv Sanayi ve Tic. Ltd. Şti., Istanbul	TRY	5,900	100	
UAE	○ ParexGroup Yapi Kimyasallari Sanayi Ve Ticaret AŞ., Istanbul	TRY	57,301	100*	
	○ Sika UAE LLC, Dubai	AED	1,000	100*	◆★★
	❖ Sika International Chemicals LLC, Abu Dhabi	AED	300	100*	◆★★
Ukraine	○ LLC Sika Ukraina, Kiev	UAH	2,933	100	◆
United Kingdom	○ Sika Limited, Welwyn Garden City	GBP	10,000	100	◆★★
	○ Everbuild Building Products Limited, Leeds	GBP	21	100*	◆★★
	○ Incorez Limited, Preston	GBP	1	100	◆★★
	❖ Axson UK Ltd., Suffolk	GBP	1	100*	
	❖ Sika Fibers Limited, Chesterfield	GBP	1	100	
	❖ Sika Fibers (Australia) Limited, Chesterfield	GBP	1	100*	
	▲ Dry Mix Solutions UK Ltd., Welwyn Garden City	GBP	1	100*	
	▲ Enevis Group Ltd., Lanarkshire	GBP	1	100*	
	○ Enewall Ltd., North Lanarkshire	GBP	947	100*	
○ Parex Ltd. (UK), Welwyn Garden City	GBP	345	100*		
Americas					
Argentina	○ Sika Argentina SAIC, Caseros	ARS	7,600	100	◆★★
	○ ParexKlaukol S.A. (Argentina), San Justo	ARS	1,001	100*	◆★
	▲ Spinna Argentina SRL, San Justo	ARS	790	100	
	▲ VDP Logistica SA, Ciudad de Buenos Aires	ARS	100	100*	
Bolivia	○ Sika Bolivia SA, Santa Cruz de la Sierra	BOB	1,800	100	◆

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
Brazil	○ Sika S/A, Osasco	BRL	280,981	100	◆★★
	○ ParexGroup Industria E Comercio De Argamassas Ltda, Jundiá	BRL	111,427	100	◆★★
	○ Quimicryl S/A, Cotia	BRL	301	100*	◆
Canada	○ Sika Canada Inc., Pointe Claire/QC	CAD	82,096	100	◆★
	○ Parex Construction Chemical Canada Inc., Anjou/QC	CAD	18,000	100*	
	○ KPM Industries Ltd., Oakville/ON	CAD	93,082	100*	◆
Chile	○ Sika S.A. Chile, Santiago de Chile	CLP mn	4,430	100	◆★
Colombia	○ Sika Colombia S.A.S, Tocancipá	COP mn	14,500	100	◆★★
Costa Rica	○ Sika productos para la construcción S.A., Heredia	CRC	825,005	100	
Dom. Republic	○ Sika Dominicana SRL, Santo Domingo Oeste	DOP	37,848	100	
Ecuador	○ Sika Ecuatoriana S.A., Durán	USD	1,982	100	◆★
El Salvador	❖ Sika El Salvador S.A. de C.V., San Salvador	USD	2	100	
Guatemala	○ Sika Guatemala SA, Ciudad de Guatemala	GTQ	2,440	100	
Honduras	❖ Sika Honduras, S.A. de C.V., Ciudad de San Pedro Sula	HNL	236	100	
Mexico	○ Sika Mexicana SA de CV, Corregidora	MXN	270,053	100	◆★
	○ Sikalkoat de México, S.A. de C.V., Corregidora	MXN	15,050	100*	
	○ Sika Automotive Mexico S.A. de C.V., Mexico City	MXN	700	100*	◆
Nicaragua	❖ Sika Nicaragua Sociedad Anonima, Managua	NIO	20,000	100	
Panama	○ Sika Panamá SA, Ciudad de Panamá	USD	200	100	
Paraguay	○ Sika Paraguay S.A., Asunción	PYG mn	40	100	
	○ Parex Group S.A. (Paraguay), Limpio	PYG mn	5,867	67*	
Peru	○ Sika Perú S.A.C., Lima	PEN	3,500	100	◆★
Uruguay	○ Sika Uruguay SA, Montevideo	UYP	22,800	100	◆★
	○ Parex Group SA (Uruguay), Montevideo	UYP	18,551	100*	
USA	○ Sika Corporation, Lyndhurst/NJ	USD	72,710	100	◆★
	▲ Sarnafil Services Inc., Canton/MA	USD	1	100*	★
	○ Emseal Joint Systems Ltd., Westborough/MA	USD	1,040	100*	
	○ Emseal LLC, Westborough/MA	USD	1	100*	
	○ Sika Automotive Gastonia Inc., Gastonia/NC	USD	1	100*	◆★
	○ Parex USA, Inc., Anaheim/CA	USD	7,176	100*	
Venezuela	○ Sika Venezuela SA, Valencia	VES	294	100	
Asia/Pacific					
Australia	○ Sika Australia Pty. Ltd., Wetherill Park	AUD	49,200	100	◆★★
Bangladesh	❖ Sika Bangladesh Limited, Dhaka	BDT	79,416	100	
Cambodia	○ Sika (Cambodia) Ltd., Phnom Penh	KHR	422,000	100	
China	○ Sika (China) Ltd., Suzhou	USD	35,000	100	◆★★
	○ Sika Sarnafil Waterproofing Systems (Shanghai) Ltd., Shanghai	USD	22,800	100	◆★★
	○ Sika Guangzhou Ltd., Guangzhou	CNY	80,731	100	◆★
	❖ Sika Ltd. Dalian, Dalian	CNY	45,317	100	
	❖ Sika (Guangzhou) Trading Company Ltd., Guangzhou	CNY	3,723	100*	
	○ Sika (Sichuan) Building Material Ltd., Chengdu	CNY	60,010	100*	◆★★
○ Sika (Jiangsu) Building Material Ltd., Zhengjiang	CNY	60,010	100*	◆★★	

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
	○ Sika Automotive Shanghai Co. Ltd., Shanghai	CNY	2,666	100	◆★★
	○ Sika Automotive (Tianjin) Co. Ltd., Tianjin	CNY	44,344	100	
	Ronacrete (Guangzhou) Construction Products Limited, ○ Guangzhou	CNY	17,056	100*	◆★★
	❖ Home of Heart (Shanghai) E-Commerce Co Ltd, Shanghai	CNY	10,000	100*	
	▲ Sika (Shanghai) Management Co Ltd, Shanghai	USD	2,000	100*	
	▲ SikaDavco (Guangzhou) Management Co Ltd, Guangzhou	USD	2,000	100*	
	❖ SikaDavco (Guangzhou) Co. Ltd, Guangzhou	USD	4,000	100*	◆★★
	○ SikaDavco (Guangdong) New Materials Co Ltd, Conghua	CNY	30,000	100*	◆★★
	○ Changsha SikaDavco New Materials Co Ltd, Changsha	CNY	10,000	100*	
	○ SikaDavco (Chengdu) Co Ltd, Chengdu	CNY	10,000	100*	◆★★
	○ SikaDavco (Dongguan) Co Ltd, Dongguan	CNY	10,000	100*	◆★★
	○ SikaDavco (Nanjing) Co Ltd, Nanjing	CNY	10,000	100*	◆★★
	○ SikaDavco (Quanzhou) Co Ltd, Quanzhou	CNY	10,000	100*	◆★★
	○ SikaDavco (Shanghai) Co Ltd, Shanghai	CNY	25,000	100*	◆★★
	○ Davco (Shijiazhuang) Co Ltd, Shanghai	CNY	10,000	100*	◆★★
	○ SikaDavco (Hubei) Co Ltd, Ezhou	CNY	10,000	100*	◆★★
	○ Suzuka International (Shanghai) Co Ltd, Shanghai	CNY	35,000	100*	◆★★
	○ Suzuka International Shijiazhuang Co Ltd, Shanghai	CNY	10,000	100*	
	❖ Jiangsu Crevo Science & Technology Co., Ltd., Jiangsu	CNY	59,312	100*	◆
	○ Sika Davco (Zhejiang) New Materials Co., Ltd., Zhejiang	CNY	32,760	100*	
Hong Kong	○ Sika Hong Kong Ltd., Shatin	HKD	30,000	100	◆★★
	❖ Ronacrete (Far East) Ltd., Shatin	HKD	450	100*	
	▲ Parex (China) Ltd, Kowloon	HKD	35,950	100*	
	▲ Suzuka International Ltd, Kowloon	HKD	10	100*	
India	○ Sika India Private Ltd., Mumbai	INR	45,000	100	◆★★
	❖ Axson India Private Limited, Pune	INR	3,000	100*	
	○ Apurva India Pvt Ltd., Mumbai	INR	76,100	100*	
Indonesia	○ Sika Indonesia P.T., Bogor	IDR mn	3,282	100	◆★★
Japan	○ Sika Ltd., Minato-ku	JPY	490,000	100	◆★★
	❖ Dic Proofing Co. Ltd., Tokyo	JPY	90,000	100*	
	○ Dyflex Co. Ltd., Tokyo	JPY	315,175	100	◆★★
	■ DCS Co. Ltd., Toda-shi	JPY	30,000	100*	
Korea	○ Sika Korea Ltd., Seoul	KRW mn	5,596	100	◆★★
Malaysia	○ Sika Kimia Sdn. Bhd., Nilai	MYR	44,000	100	◆★★
	▲ Sika Harta Sdn. Bhd. (in liquidation), Nilai	MYR	10,000	100	
	○ LCS Optiroc Sdn. Bhd., Johor Bahru	MYR	100	100	◆★★
	○ ParexGroup Sdn Bhd (in liquidation), Port Klang	MYR	10,000	100*	◆★★
Mongolia	○ Sika Mongolia LLC, Ulaanbaatar	MNT mn	7,091	100	
Myanmar	○ Sika Myanmar Limited, Dagon Myothit (South) Township	MMK mn	1,700	100	◆★★
New Zealand	○ Sika (NZ) Ltd., Auckland	NZD	1,100	100	◆★★
Philippines	○ Sika Philippines Inc., Las Pinas City	PHP	55,610	100	◆★★
	▲ ParexGroup Inc (in liquidation), Taguig City	PHP	10,000	100*	

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
Singapore	○ Sika (Singapore) Pte. Ltd., Singapore	SGD	6,250	100	◆ ★ *
	▲ Sika Asia Pacific Mgt. Pte. Ltd., Singapore	SGD	100	100	
Sri Lanka	○ Sika Lanka (Private) Limited, Ekala	LKR	129,100	100	◆ ★
Taiwan	○ Sika Taiwan Ltd., Taoyuan County	TWD	40,000	100	◆ ★
Thailand	○ Sika (Thailand) Ltd., Chonburi	THB	302,100	100	◆ ★ *
Vietnam	○ Sika Limited (Vietnam), Dong Nai Province	VND mn	44,190	100	◆ ★
	○ A&P Construction Chemicals Joint Stock Company, Hanoi	VND mn	30,000	80*	

□ Production, sales, construction contracting

○ Production and sales

✚ Sales

▲ Real estate and service companies

■ Construction contracting

◆ ISO 9001 (Quality Management)

★ ISO 14001 (Environmental Management)

* OHSAS 18001/45001 (Occupational Health and Safety)

¹ For associated companies see note 17.

* Company indirectly held by Sika AG.

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

STATUTORY AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Sika AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, and appendix to the consolidated financial statements, including a summary of significant accounting policies, for the year ended December 31, 2020.

In our opinion the consolidated financial statements (pages 103 to 155 of this report) give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

BASIS FOR OPINION

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

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

KEY AUDIT MATTERS

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

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

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE – VALUATION

AREA OF FOCUS. Goodwill and intangible assets with indefinite useful life represent 32% of the Group's total assets and 96% of the Group's total shareholders' equity as at December 31, 2020. The intangible assets with indefinite useful life is a brand. Goodwill recorded by the Group represents the purchase price in excess of the fair value of net assets of businesses acquired. As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying amounts of goodwill and intangible assets with indefinite useful life is tested annually or more frequently if impairment indicators are present. The Group performed its annual impairment tests of goodwill and intangible assets with indefinite useful life in the third quarter of 2020 and determined that there was no impairment. Key assumptions as well as the results of the impairment tests are disclosed in note 16 of the consolidated financial statements. In determining the recoverable amount of cash-generating units ("CGU"), management must apply judgment when using assumptions in respect of future market and economic conditions such as the economic growth and expected inflation rates. Due to the significance of the carrying values of goodwill and intangible assets with indefinite useful life and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

OUR AUDIT RESPONSE. We assessed the design and implementation of the Group's internal controls over its annual impairment test and key assumptions applied as well as its authorization and approval. Further, we evaluated whether the CGU structure is aligned with the organizational structure. We included in our team a valuation expert to assist us with our assessment of the key assumptions including WACC, expected growth rates, and the overall model used. We analyzed sensitivities in the available headroom of CGUs and whether a possible change in assumptions such as forecasted EBITDAs, growth rates based on the underlying economic outlook, and WACC could cause the carrying amount to exceed its recoverable amount. We also inspected the historical accuracy of the Group's estimates and long-term business plans. Finally, we analyzed the adequacy of the Group's disclosures included in note 16 of the consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

Our audit procedures did not lead to any reservations regarding to the valuation of the goodwill and intangible assets with indefinite useful life.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Zurich, February 15, 2021

ERNST & YOUNG LTD

Christoph Michel
Licensed audit expert
(Auditor in charge)

Stefan Pieren
Licensed audit expert

FIVE-YEAR REVIEWS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31

in CHF mn	2016	2017	2018	2019	2020
Net sales	5,747.7	6,248.3	7,085.4	8,109.2	7,877.5
Material expenses	-2,566.6	-2,849.2	-3,333.7	-3,765.2	-3,562.7
Gross result	3,181.1	3,399.1	3,751.7	4,344.0	4,314.8
Personnel expenses	-1,159.1	-1,212.1	-1,345.4	-1,544.3	-1,525.9
Other operating expenses	-1,056.3	-1,118.5	-1,256.4	-1,412.1	-1,291.3
Operating profit before depreciation	965.7	1,068.5	1,149.9	1,387.6	1,497.6
Depreciation/amortization/impairment	-170.4	-172.2	-204.0	-332.5	-367.1
Operating profit	795.3	896.3	945.9	1,055.1	1,130.5
Interest income/interest expense	-17.8	-16.4	-24.2	-55.0	-51.9
Financial income/expense and income from associated companies	-21.7	-17.8	-28.8	-33.5	-18.2
Profit before taxes	755.8	862.1	892.9	966.6	1,060.4
Income taxes	-189.2	-213.1	-205.8	-208.1	-235.3
Net profit	566.6	649.0	687.1	758.5	825.1
Free cash flow	563.0	173.7	38.8	-717.0	1,120.3
Operating free cash flow	586.5	496.8	513.2	1,026.1	1,259.4
Gross result as % of net sales	55.3	54.4	53.0	53.6	54.8
Operating profit as % of net sales	13.8	14.3	13.3	13.0	14.4
Net profit as % of net sales (ROS)	9.9	10.4	9.7	9.4	10.5
Net profit as % of shareholders' equity (ROE)	19.2	19.0	41.0	24.0	25.1

SEGMENT INFORMATION

in CHF mn	EMEA					Americas				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Net sales	2,561	2,736	3,167	3,432	3,410	1,487	1,684	1,821	2,162	1,996
Operating profit	349	379	435	473	559	258	288	300	353	344
in % of net sales	13.6	13.9	13.7	13.8	16.4	17.4	17.1	16.5	16.3	17.2
Depreciation/amortization	83	83	89	138	151	32	37	44	77	82
Capital expenditures	74	84	113	87	47	38	57	45	41	36

in CHF mn	Asia/Pacific					Global Business				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Net sales	1,070	1,121	1,177	1,585	1,696	630	707	920	930	776
Operating profit	190	206	217	260	281	102	120	132	114	74
in % of net sales	17.8	18.4	18.4	16.4	16.6	16.2	17.0	14.3	12.3	9.5
Depreciation/amortization	25	25	25	59	76	10	12	22	29	29
Capital expenditures	23	25	29	35	27	15	17	21	19	12

in CHF mn	Other segments and activities					Total				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Net sales	0	0	0	0	0	5,748	6,248	7,085	8,109	7,878
Operating profit	-104	-97	-138	-144	-127	795	896	946	1,055	1,131
in % of net sales						13.8	14.3	13.4	13.0	14.4
Depreciation/amortization	20	17	25	30	30	170	174	204	333	367
Capital expenditures	5	5	6	11	10	155	188	214	192	132

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

in CHF mn		2016	2017	2018	2019	2020
Cash and cash equivalents		1,155.0	1,037.9	914.0	995.1	1,318.7
Accounts receivable	a	1,043.1	1,188.8	1,322.7	1,441.9	1,361.8
Inventories	b	600.8	729.5	800.7	866.5	814.0
Other assets ¹		98.1	128.9	139.1	166.4	140.1
Current assets		2,897.0	3,085.1	3,176.5	3,469.9	3,634.6
Property, plant, and equipment		959.2	1,065.2	1,214.2	1,795.8	1,702.6
Intangible assets		1,021.2	1,317.1	1,693.9	4,351.0	4,172.3
Other assets ²		221.8	328.4	297.4	343.0	284.5
Non-current assets		2,202.2	2,710.7	3,205.5	6,489.8	6,159.4
ASSETS		5,099.2	5,795.8	6,382.0	9,959.7	9,794.0
Accounts payable	c	587.0	730.9	733.8	837.2	846.3
Financial liabilities		44.3	202.3	237.5	342.9	334.7
Other liabilities ³		336.7	420.4	435.5	632.9	644.1
Current liabilities		968.0	1,353.6	1,406.8	1,813.0	1,825.1
Financial liabilities		707.5	553.3	2,795.0	4,070.1	3,851.9
Non-current provisions, employee benefit obligations		332.1	316.4	316.8	414.9	417.8
Other liabilities ⁴		143.9	161.4	188.2	500.5	411.2
Non-current liabilities		1,183.5	1,031.1	3,300.0	4,985.5	4,680.9
LIABILITIES		2,151.5	2,384.7	4,706.8	6,798.5	6,506.0
Capital stock		1.5	1.5	1.4	1.4	1.4
Treasury shares		-11.0	-6.6	-11.1	-7.3	-5.2
Reserves		2,933.8	3,389.8	1,655.4	3,130.0	3,289.6
Equity attributable to Sika shareholders		2,924.3	3,384.7	1,645.7	3,124.1	3,285.8
Non-controlling interests		23.4	26.4	29.5	37.1	2.2
SHAREHOLDERS' EQUITY	d	2,947.7	3,411.1	1,675.2	3,161.2	3,288.0
LIABILITIES AND SHAREHOLDERS' EQUITY	e	5,099.2	5,795.8	6,382.0	9,959.7	9,794.0

1 Prepaid expenses and accrued income, other current assets.

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

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

4 Deferred tax liabilities and other non-current liabilities.

KEY BALANCE SHEET DATA

in CHF mn	Calculation	2016	2017	2018	2019	2020
Net working capital	(a+b-c)	1,056.9	1,187.4	1,389.6	1,471.2	1,329.5
Net working capital as % of net sales		18.4	19.0	19.6	18.1	16.9
Net debt ¹	f	-415.6	-290.2	2,114.1	3,407.8	2,855.8
Gearing in %	(f:d)	-14.1	-8.5	126.2	107.8	86.9
Equity ratio in %	(d:e)	57.8	58.9	26.2	31.7	33.6

1 Net debt: Financial liabilities (less derivatives) less interest-bearing current assets (cash and cash equivalents and securities).

VALUE-BASED KEY DATA

in CHF mn	Calculation	2016	2017	2018	2019	2020
Capital employed ¹		2,772.4	3,246.3	3,975.6	7,026.4	6,582.1
Annual average of capital employed	g	2,766.3	3,009.4	3,611.0	5,501.0	6,804.3
Operating profit	h	795.3	896.3	945.9	1,055.1	1,130.5
Return on capital employed (ROCE) in %	(h:g)	28.7	29.8	26.2	19.2	16.6

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

EMPLOYEES

	2016	2017	2018	2019	2020
EMEA (Europe, Middle East, Africa)¹	9,083	9,822	10,983	12,284	12,534
Germany	1,778	1,808	2,354	2,334	2,247
Switzerland	2,001	1,970	2,024	2,013	1,948
France	727	701	685	1,392	1,362
United Kingdom	817	837	864	951	890
America¹	4,167	4,621	4,867	6,271	5,936
USA ¹	1,580	1,911	2,164	2,547	2,438
Brazil	577	574	589	964	824
Asia/Pacific	4,169	4,041	4,210	6,586	6,378
China	1,099	1,066	1,181	2,753	2,806
Japan	673	661	673	682	672
Total	17,419	18,484	20,060	25,141	24,848
Personnel expenses (in CHF mn)					
Wages and salaries	941	991	1,095	1,257	1,235
Social charges, other	218	221	250	287	291
Personnel expenses	1,159	1,212	1,345	1,544	1,526
Personnel expenses as % of net sales	20.2	19.4	19.0	19.0	19.4
Key data per employee (in CHF thousands)					
Net sales	331	348	368	359	315
Net value-added ²	112	117	117	116	107

1 Does not correspond to the Sika segments. The employees of Global Business were assigned to the respective company locations.

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

VALUE-ADDED STATEMENT

in CHF mn	2016	2017	2018	2019	2020
Source of value-added					
Corporate performance (net sales)	5,748	6,248	7,085	8,109	7,878
Intermediate inputs	-3,631	-3,994	-4,619	-5,157	-4,819
Gross value-added	2,117	2,254	2,466	2,952	3,059
Non-liquidity related expenses					
Depreciation and amortization	-170	-172	-204	-333	-367
Change in provisions	-12	10	2	-6	-26
Net value-added	1,935	2,092	2,264	2,613	2,666
Distribution of value-added					
To employees					
Wages and salaries	941	991	1,095	1,257	1,235
Social charges	222	224	253	287	293
To governments	189	213	206	254	280
To lenders (interest expenses)	16	15	23	56	33
To shareholders (dividend payout, incl. non-controlling interests)	200	246	283	293	327
To the company					
Net profit for the year	567	649	687	759	825
Less dividend payout	-200	-246	-283	-293	-327
Net value-added	1,935	2,092	2,264	2,613	2,666
Number of employees					
End of year	17,419	18,484	20,060	25,141	24,848
Annual average	17,350	17,952	19,272	22,601	24,995
Net value-added per employee (in CHF thousands)	112	117	117	116	107

SIKA AG, BAAR FINANCIAL STATEMENTS

SIKA AG INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31

in CHF mn	Notes	2019	2020
Dividend income	1	274.2	342.7
Financial income	2	137.5	125.3
Other income	3	49.5	39.3
Income		461.2	507.3
Financial expenses	4	-168.4	-154.5
Personnel expenses		-20.0	-22.3
Other operating expenses	5	-56.6	-31.0
Operating profit before depreciation		216.2	299.5
Impairment losses (-)/reversal of a impairment losses (+) on investments		42.0	20.5
Depreciation and amortization expenses		-0.1	-0.1
Net profit before taxes		258.1	319.9
Direct taxes		-3.3	-10.9
Net profit for the year		254.8	309.0

SIKA AG BALANCE SHEET AS AT DECEMBER 31

in CHF mn	Notes	2019	2020
Cash and cash equivalents	6	409.5	849.9
Securities		0.2	0.3
Other current receivables from subsidiaries	7	3,586.5	2,910.0
Other current receivables from third parties	7	2.6	1.9
Prepaid expenses and accrued income		6.0	5.4
Current assets		4,004.8	3,767.5
Investments	8	3,054.9	3,339.3
Property, plant, and equipment		0.2	0.3
Intangible assets		0.2	0.0
Other non-current assets	9	39.8	28.9
Non-current assets		3,095.1	3,368.5
ASSETS		7,099.9	7,136.0
Accounts payable to subsidiaries		2.4	1.8
Accounts payable to third parties		1.2	1.3
Current interest-bearing liabilities to subsidiaries	10	333.7	545.6
Current interest-bearing liabilities to third parties	10	160.0	170.0
Other current liabilities to third parties		0.5	1.3
Accrued expenses and deferred income	11	70.5	74.7
Current liabilities		568.3	794.7
Non-current interest-bearing liabilities	10	3,990.0	3,820.0
Non-current interest-bearing liabilities from subsidiaries	12	1,095.8	1,090.6
Other non-current liabilities	13	5.9	3.6
Non-current provisions	14	3.2	5.3
Non-current liabilities		5,094.9	4,919.5
LIABILITIES		5,663.2	5,714.2
Share capital		1.4	1.4
Legal capital reserves		56.5	56.5
Legal retained earnings		4.0	4.0
Voluntary retained earnings		121.7	121.7
Profit brought forward		1,260.4	1,243.4
Treasury shares	15	-7.3	-5.2
Shareholders' equity	16	1,436.7	1,421.8
LIABILITIES AND SHAREHOLDERS' EQUITY		7,099.9	7,136.0

NOTES TO THE SIKA AG FINANCIAL STATEMENTS

PRINCIPLES

GENERAL

The 2020 financial statements were prepared according to the Swiss Law on Accounting and Financial Reporting. The significant accounting and valuation principles applied are as described below.

SECURITIES

Securities are valued at historical costs.

RECEIVABLES

The receivables are recorded at nominal value. If necessary, an allowance for doubtful debts is made on receivables from third parties, whereas for receivables from subsidiaries no allowance for doubtful debts is considered.

INVESTMENTS

Investments are initially recognized at cost. On an annual basis the investments are assessed individually and adjusted to their recoverable amount if required (individual value adjustment principle).

PROPERTY, PLANT, AND EQUIPMENT, AND INTANGIBLE ASSETS

Property, plant, and equipment, and intangible assets are valued at acquisition cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method based on the useful life of the asset.

CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds are recognized as other non-current assets and amortized on a straight-line basis over the bond's maturity period. Premiums (less issue costs) are recognized in the other non-current liabilities and amortized on a straight-line basis over the bond's maturity period.

PROVISIONS

Provisions are recognized to cover general business risks based on the most probable cash outflow, considering the principle of prudence.

TREASURY SHARES

Treasury shares are recognized at acquisition cost and disclosed as a negative position within shareholders' equity. In case of a resale, the gain or loss is recognized through the income statement as financial income or financial expenses.

SHARE-BASED PAYMENTS

For treasury shares used for share-based payment programs, the difference between the acquisition cost and the value at vesting date is recognized as personnel expenses.

INFORMATION ON BALANCE SHEET AND INCOME STATEMENT ITEMS

1. DIVIDEND INCOME CHF 342.7 MN (CHF 274.2 MN)

Dividends from subsidiaries are recognized in this position. In the previous year, dividend income was lower due to the legal restructuring in connection with the acquisition of Parex.

2. FINANCIAL INCOME CHF 125.3 MN (CHF 137.5 MN)

Financial income includes interest income and gains from foreign exchange transactions. The decrease in financial income is mainly due to lower exchange rate gains from the valuation of loans as well as lower realized gains from hedging transactions.

3. OTHER INCOME CHF 39.3 MN (CHF 49.5 MN)

Other income includes income from the cost allocation to subsidiaries. In the previous year, more income was recorded from the charging of costs to subsidiaries in connection with acquisitions.

4. FINANCIAL EXPENSES CHF 154.5 MN (CHF 168.4 MN)

Financial expenses include the interest costs on bonds as well as foreign currency losses on loans to subsidiaries. The decrease in financial expenses is mainly due to exchange losses from the valuation of loans as well as lower realized losses on hedging transactions.

5. OTHER OPERATING EXPENSES CHF 31.0 MN (CHF 56.6 MN)

This position includes the holding company's general expenses. Other operating expenses mainly include legal and consulting fees, costs related to management training, marketing expenses, as well as other operating expenses. Non-recurring effects related to the acquisition of Parex had a negative impact on costs in the previous year. In addition, the general expenses are lower this year due to the coronavirus pandemic.

6. CASH AND CASH EQUIVALENTS CHF 849.9 MN (CHF 409.5 MN)

Bank deposits of CHF 826.4 million (CHF 370.3 million) are invested in Swiss francs and CHF 23.5 million (CHF 39.2 million) in foreign currencies.

7. OTHER CURRENT RECEIVABLES FROM SUBSIDIARIES AND THIRD PARTIES CHF 2,911.9 MN (CHF 3,589.1 MN)

Receivables consist of short-term loans to subsidiaries in the amount of CHF 2,860.7 million (CHF 3,542.2 million). In addition, Sika AG has receivables of CHF 49.3 million (CHF 44.3 million) from Sika subsidiaries and receivables from third parties in the amount of CHF 1.9 million (CHF 2.6 million).

8. INVESTMENTS CHF 3,339.3 MN (CHF 3,054.9 MN)

The change in investments is mainly due to capital increases at subsidiaries and acquisitions.

Major participations are indicated on the list of Group companies beginning on page 150 of this report.

9. OTHER NON-CURRENT ASSETS CHF 28.9 MN (CHF 39.8 MN)

The other non-current assets contain the discounts and issue costs for bonds as well as non-current receivables from subsidiaries.

10. INTEREST-BEARING LIABILITIES CHF 715.6 MN CURRENT/CHF 3,820.0 MN NON-CURRENT
(CHF 493.7 MN/CHF 3,990.0 MN)

The current interest-bearing liabilities consist of loans to subsidiaries resulting from the worldwide cash management concept.

Furthermore, included in interest-bearing liabilities is the following bond:

0.125%	fixed-interest bond	2018 to 7/12/2021	CHF 170.0 million
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The following bonds are disclosed in the non-current interest-bearing liabilities:

3.75%	mandatory convertible bond	2019 to 1/30/2022	CHF 1,300.0 million
1.750%	fixed-interest bond	2012 to 7/12/2022	CHF 150.0 million
1.875%	fixed-interest bond	2013 to 11/14/2023	CHF 200.0 million
0.625%	fixed-interest bond	2018 to 7/12/2024	CHF 250.0 million
0.150%	convertible bond	2018 to 6/5/2025	CHF 1,650.0 million
0.600%	fixed-interest bond	2018 to 3/27/2026	CHF 140.0 million
1.125%	fixed-interest bond	2018 to 7/12/2028	CHF 130.0 million

11. ACCRUED EXPENSES AND DEFERRED INCOME CHF 74.7 MN (CHF 70.5 MN)

Accrued expenses and deferred income include in particular pro rata interest on bonds issued of CHF 49.9 million (CHF 49.9 million). Also included are employee-related accruals and other accruals.

12. NON-CURRENT INTEREST-BEARING LIABILITIES FROM SUBSIDIARIES CHF 1,090.6 MN (CHF 1,095.8 MN)

Non-current interest-bearing liabilities are a loan liability to Sika Capital B.V., Netherlands. Sika Capital B.V. transferred the funds from the placement of the Euro bonds (nominal EUR 1,000.0 million) to Sika AG.

13. OTHER NON-CURRENT LIABILITIES CHF 3.6 MN (CHF 5.9 MN)

The other non-current liabilities mainly include the premium, less issue costs of the bonds.

14. NON-CURRENT PROVISIONS CHF 5.3 MN (CHF 3.2 MN)

The non-current provisions contain accruals for long-term employee retention and bonus programs as well as jubilee payments.

15. TREASURY SHARES CHF 5.2 MN (CHF 7.3 MN)

In general, treasury shares are used for a Group-wide employee participation program and for liquidity investments. The shares are traded on the stock exchange at current market prices.

in CHF mn	Units	Share value
January 1, 2019	90,730	11.1
Reductions	-697,801	-99.7
Additions	648,930	95.9
December 31, 2019	41,859	7.3
January 1, 2020	41,859	7.3
Reductions	-701,806	-127.8
Additions	682,742	125.7
December 31, 2020	22,795	5.2

In the year under review, the average share price was CHF 195.84 (CHF 150.70).

16. SHAREHOLDERS' EQUITY CHF 1,421.8 MN (CHF 1,436.7 MN)

The ratio of shareholders' equity to balance sheet amounts to 19.9% (20.2%).

in CHF mn	Capital stock	Legal capital reserves ¹	Retained earnings ²	Treasury shares	Shareholders' equity
January 1, 2019	1.4	56.5	1,421.9	-11.1	1,468.7
Dividend payment			-290.6		-290.6
Transactions with treasury shares				3.8	3.8
Net profit for the year			254.8		254.8
December 31, 2019	1.4	56.5	1,386.1	-7.3	1,436.7
January 1, 2020	1.4	56.5	1,386.1	-7.3	1,436.7
Dividend payment			-326.0		-326.0
Transactions with treasury shares				2.1	2.1
Net profit for the year			309.0		309.0
December 31, 2020	1.4	56.5	1,369.1	-5.2	1,421.8

1 Thereof CHF 0.3 million capital contribution reserves.

2 Retained earnings: legal retained earnings, voluntary retained earnings, and profit brought forward.

The higher profit in 2020 is mainly due to higher dividend income and lower general expenses. In April 2020, the dividend of CHF 326.0 million from profit brought forward for 2019 was paid out to shareholders.

An unlimited conditional capital of CHF 155,893.20 exists, divided into 15,589,320 registered shares with a par value of CHF 0.01 each. These shares are reserved for the exercise of option or conversion rights.

The share capital corresponds to the nominal capital of all issued shares, is fully paid up and is structured as follows (unchanged to previous year):

	Registered shares ¹ par value CHF 0.01
Units	141,781,160
Nominal value (CHF)	1,417,812

1 Includes treasury shares which do not carry voting and dividend rights.

OTHER INFORMATION

FULL-TIME EQUIVALENTS

The number of full-time equivalents for the reporting year is 54 (48) employees.

CONTINGENT LIABILITIES

Letters of guarantee and letters of comfort are issued to finance business transactions. No guarantees are required for the established zero-balance cash pooling. Sika AG is part of Sika Schweiz AG's value-added tax group and is jointly liable to the tax authorities for the value-added tax obligations of the tax group. Sika AG guarantees for Euro bonds issued by Sika Capital B.V., Netherlands (a 100% subsidiary of Sika AG), in 2019 in the total amount of nominal EUR 1,000.0 million.

in CHF mn	2019	2020
Letters of guarantee		
Issued	1,086.9	1,081.6
Used	0.0	0.0
Letters of comfort		
Issued	4.9	2.0
Used	0.2	0.0

NET RELEASE OF HIDDEN RESERVES

There is a net release of hidden reserves of CHF 52.7 million (no material release in the previous year).

SIGNIFICANT SHAREHOLDERS

On December 31, 2020, the company had 21,764 (16,004) registered shareholders. Information regarding significant shareholders can be found on page 148 of this report.

PARTICIPATIONS IN SIKA AG

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

	Number of shares	
	2019	2020
Board of Directors		
Paul Hälg, Chair of the board	49,920	53,053
Viktor Waldemar Balli	0	871
Frits van Dijk	8,160	9,031
Justin Marshall Howell	350	1,221
Monika Ribar	6,660	7,531
Daniel J. Sauter	48,917	49,788
Christoph Tobler	8,420	7,291
Thierry F.J. Vanlancker	860	2,031
Group Management		
Paul Schuler, CEO	79,443	87,663
Mike Champion	5,100	6,060
Christoph Ganz	25,860	26,800
Thomas Hasler	20,940	24,000
Frank Höfflin	8,126	9,086
Philippe Jost	4,028	5,803
Raffaella Marzi	n.a.	1,496
Ivo Schädler	6,527	7,907
Adrian Widmer	21,280	24,940
Total	294,591	324,572

Sika AG granted the following number of shares as part of employee participation programs. The shares were issued in April 2020 at a market price of CHF 164.60 (CHF 145.10).

in CHF thousands	2019		2020	
	Units	Nominal	Units	Nominal
Board of Directors	5,015	727.7	9,230	1,519.3
Group Management	18,343	2,661.6	11,880	1,955.4
Employees	4,524	656.4	4,621	760.6
Total	27,882	4,045.7	25,731	4,235.3

PROPOSED APPROPRIATION OF PROFIT BROUGHT FORWARD

THE BOARD OF DIRECTORS PROPOSES TO THE ANNUAL GENERAL MEETING THE FOLLOWING APPROPRIATION OF PROFIT BROUGHT FORWARD:

in CHF mn	2019	2020
Composition of the profit brought forward		
Net profit for the year	254.8	309.0
Results carried forward from prior year	1,005.6	934.4
Profit brought forward	1,260.4	1,243.4
Dividend payment		
Dividend payment out of the profit brought forward	326.0	354.5
Results carried forward	934.4	888.9

As the general statutory reserve currently exceeds 20% of shareholders' equity, a further allocation to the reserve was waived.

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

in CHF	2019	2020
Registered share¹ par value CHF 0.01		
Gross dividend	2.30	2.50
35% withholding tax on gross dividend	0.81	0.87
Net dividend	1.49	1.63

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

The Board of Directors proposes to the Annual General Meeting that a dividend of CHF 2.50 per single-class registered share be distributed to shareholders. The dividend for 2019 was CHF 2.30 per single-class registered share.

Payment of the dividend is tentatively scheduled for Monday, April 26, 2021. Registered shareholders will receive payment of the dividend at the address provided to the company for the purposes of dividend distribution.

The Annual General Meeting of Sika AG will be held on Tuesday, April 20, 2021.

Baar, February 15, 2021

For the Board of Directors
The Chair of the board:
Dr. Paul Hälg

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

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Sika AG, which comprise the income statement, balance sheet, and notes to the financial statements (pages 164 to 174 of this report), for the year ended December 31, 2020.

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, 2020, comply with Swiss law and the company's articles of incorporation.

REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

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

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

INVESTMENTS IN SUBSIDIARIES

AREA OF FOCUS. Sika AG holds investments in subsidiaries that represent 47% of the total assets of its statutory financial statements. The various investments are disclosed in note "List of Group Companies" of the consolidated financial statements of Sika AG. Total investments are material to the entity and may be subject to changes in value. Accordingly, management performs regular impairment considerations and calculations to determine the value of each single investment. The investments in subsidiaries were considered significant to our audit as the amounts concerned are material and the assessments involve judgment in preparing the underlying key assumptions for the valuation.

OUR AUDIT RESPONSE. Our audit procedures for the valuation of the investments consisted of auditing management's valuation assessment and the underlying key assumptions. We also assessed the historical accuracy of the Company's estimates and long-term business plans. We performed our own calculations to assess the valuation of each investment.

Our audit procedures did not give rise to any reservations regarding the valuation of the investments in subsidiaries.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of profit brought forward complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, February 15, 2021

ERNST & YOUNG LTD

Christoph Michel
Licensed audit expert
(Auditor in charge)

Stefan Pieren
Licensed audit expert

FINANCIAL CALENDAR

SALES FIRST QUARTER 2021	Tuesday, April 20, 2021
53RD ANNUAL GENERAL MEETING	Tuesday, April 20, 2021
DIVIDEND PAYMENT	Monday, April 26, 2021
HALF-YEAR REPORT 2021	Thursday, July 22, 2021
RESULT FIRST NINE MONTHS 2021	Friday, October 22, 2021
NET SALES 2021	Tuesday, January 11, 2022
FULL-YEAR RESULT 2021	Friday, February 18, 2022

IMPRINT

PUBLISHED BY

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All Sika Annual Report content is available in German and English,
and can also be accessed on our website www.sika.com/annualreport.
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