

SIKA BUSINESS YEAR 2019

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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.



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- ▶ Excel tables



MAGAZINE

- ▶ Key content in brief
- ▶ Strategy and implementation

LETTER TO SHAREHOLDERS

SUCCESS STORY CONTINUES



Dr. Paul Hälgl, Chairman

Paul Schuler, Chief Executive Officer

Dear Shareholders

Sika once again delivered record results in 2019. Sales in Swiss francs rose by 14.4% year-on-year to CHF 8,109 million, which equates to an increase of 16.3% in local currencies. Operating profit increased by 11.5% to CHF 1,055 million, thereby surpassing the billion-franc threshold for the first time. Net profit was recorded at CHF 759 million, representing a year-on-year growth of 10.4%. Operating free cash flow increased significantly, amounting to CHF 1,026 million.

Sika can look back on a highly successful 2019. It was a year in which numerous projects were realized to set the course for an even stronger performance, in particular the acquisition of Parex, the largest in Sika's history. With sales of CHF 1.2 billion on an annualized basis and more than 4,500 employees, this takeover makes a significant contribution in bringing Sika to the next level of growth. The integration of Parex forged ahead in the year under review. Fully integrated management structures are now established in 20 countries in which Parex has a presence. The first integration successes were quickly achieved, with around CHF 100 million of synergy potential identified. An additional sales volume of CHF 230 million is being targeted purely through cross-selling activities and the marketing of the expanded product portfolio.

NEW GROWTH STRATEGY

The new 2023 growth strategy was launched and publicly unveiled in October 2019. The strategic targets include annual growth in local currencies of 6–8% and an increased EBIT margin target of 15–18%, which is to be achieved from 2021 onward. In addition to these ambitious financial targets, the most important elements of the company's new strategic direction include the introduction of an eighth Target Market, "Building Finishing", a focus on operational efficiency, and the targeted orientation of the Group toward sustainability.

RECORDS FOR PROFIT AND CASH FLOW

With sales having already exceeded the CHF 7 billion mark in 2018, Sika was able to build on this success in 2019 and pass the CHF 8 billion level, recording sales of CHF 8,109.2 million. This equates to growth of 14.4% in Swiss francs and 16.3% in local currencies. Organic growth reached 3.3% (previous year: 6.8%) The material margin recorded a year-on-year increase from 53.0% to 53.6%. With a record EBIT level of CHF 1,055.1 million, Sika exceeded the billion-franc mark for the first time in its history. This was achieved thanks to a year-on-year EBIT improvement of 11.5%. The operating result includes one-time costs incurred in connection with the takeover of Parex. Excluding one-off and acquisition effects in 2019, EBIT would have recorded an over-proportional increase. The tax rate was brought down further and amounted to 21.5% in the year under review (previous year: 23.0%), which meant that net profit also set a new record of CHF 758.5 million, equivalent to a rise of 10.4%.

Operating free cash flow, which amounted to CHF 1,026.1 million (previous year: CHF 513.2 million), also posted a new record figure. Return on capital employed (ROCE) reached 19.2% (previous year: 26.2%).

GROWTH IN ALL REGIONS

In a challenging market environment, Sika has grown more strongly than the market in all regions.

The EMEA region (Europe, Middle East, Africa) reported a sales increase in local currency of 11.6% in 2019 (previous year: 14.1%), seeing a strong development with double-digit growth rates in Africa and high single-digit growth in Eastern Europe. In Belarus, Sika acquired Belineco, a specialist manufacturer of polyurethane foam systems. In Romania, the company agreed to acquire Adeplast, a leading manufacturer of mortar products and thermal insulation solutions. This deal is expected to close in the first quarter of 2020. Production capacity was expanded in Egypt, Qatar, Serbia, Senegal, Cameroon, and Ethiopia, with new factories opened for concrete admixtures and mortars.

The Americas region continued to focus its business activities on the largest metropolitan areas and generated impressive sales growth of 19.2% in 2019 (previous year: 11.7%). Growth momentum was particularly pronounced in North America. In Latin America, political tensions in countries such as Mexico, Chile, and Ecuador, are leaving their mark on local construction industries. Brazil, Colombia, and Peru all posted strong growth rates. In Canada, the acquisition of King Packaged Materials in the reporting period brought a market leader in concrete repair systems into the Group.

Growth in the Asia/Pacific region amounted to 35.1% (previous year: 5.5%). This figure includes a significant acquisition effect of 30.3%. The highest organic growth rates were recorded in China, India, and the Philippines. In China, Sika acquired Crevo-Hengxin, a manufacturer of silicon-based sealants and adhesives. The newly acquired range of products opens up cross-selling opportunities in the extended distribution channels. Furthermore, a new factory in the Bekasi district on the outskirts of Jakarta commenced operations in Indonesia in the reporting period. Sika now produces concrete admixtures and mortar products for the local construction market in three factories.

The Global Business segment recorded a growth rate of 3.0% (previous year: 29.2%). Sika gained further market share in the Automotive area in 2019, despite the sharp decline in global production figures in this sector. The megatrends in modern automotive construction, which are dominated by electro-mobility and lightweight construction, are opening up new avenues with significant long-term growth potential for Sika, thanks to multi-material designs and new adhesive technologies, as well as heat management in modern battery technologies for electric vehicles.

INNOVATIONS FOR THE FUTURE

At the end of 2019, Sika won the Swiss Technology Award in the "Innovation Leaders" category for its ground-breaking new adhesive technology, SikaForce® Powerflex, which combines the properties of elastic and high-strength structural adhesives in a single product, enables manufacturers of cars, rail vehicles, buses, and trucks to implement new, lighter, more ecological vehicle concepts while maintaining body stiffness, good elasticity – and thus ideal mechanical properties. The new adhesive features the extremely fastworking curing technology "Curing-by-Design", which can be triggered virtually at the touch of a button and dramatically reduces assembly time. This means that customers can greatly accelerate their production processes, while at the same time making them much more efficient.

Sika also confirmed its innovation leadership with an array of new products for the construction industry. For example, new, sustainable solutions with improved performance have been developed in the areas of low-emission epoxy resin floor coatings and hemp-based mortars. Sika has also been making progress with new concepts for future building, such as modular construction and 3-D concrete printing.

DIVIDEND INCREASE AND OUTLOOK

In keeping with the double-digit increase in net profit and the strong development of operating free cash flow, the Board of Directors will be proposing a 12.2% increase in the gross dividend to CHF 2.30 at the Annual General Meeting of April 21, 2020.

The prerequisites for further dynamic growth have been put in place with the launch of the new 2023 growth strategy and investments in seven new factories and five acquisitions. Thanks to these twelve key investments, pronounced innovative strength, and a clear sales focus, Sika is in an outstanding position for the future.

For the 2020 financial year, due to the higher acquisition impact, we are expecting a sales increase of more than 10% in local currencies, as well as an over-proportional increase in profitability.

In 2020, we will continue to commit ourselves to a successful strategy implementation, generate sustainable growth in value, and enhance Sika's excellent reputation among customers, investors, shareholders, and business partners alike.

We look forward to tackling further entrepreneurial challenges and seizing opportunities, and would like to assure you, our shareholders, that we will do so with dedication and determination. Our heartfelt thanks to you for your trust, your loyalty, and your sustained commitment.

Sincerely



DR. PAUL HÄLG
Chairman



PAUL SCHULER
CEO

AT A GLANCE

FACTS & FIGURES 2019

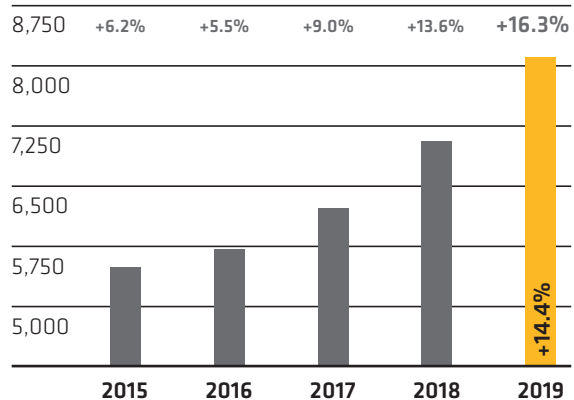
NEW RECORD RESULTS

Sika once again delivered record numbers in 2019. Sales, EBIT, net profit, and operating free cash flow were all at the highest levels ever recorded.

in CHF mn	Changes in %
8,109.2 Net sales	+14.4%
1,055.1 Operating profit (EBIT)	+11.5%
758.5 Net profit	+10.4%
1,026.1 Operating free cash flow	+99.9%
19.2% ROCE	-7.0%-points
25,141 Employees	+25.3%
-14.4% Energy consumption per ton sold	
-22.0% Waste per ton sold	
7 New factories	
5 Acquisitions	
93 New patents, 122 Inventions	
1,141 Employees in R&D	
21 Global Technology Centers	

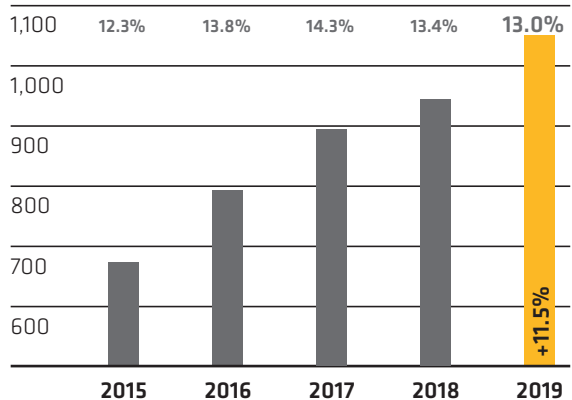
NET SALES (consolidated)

in CHF mn Growth in % local currencies



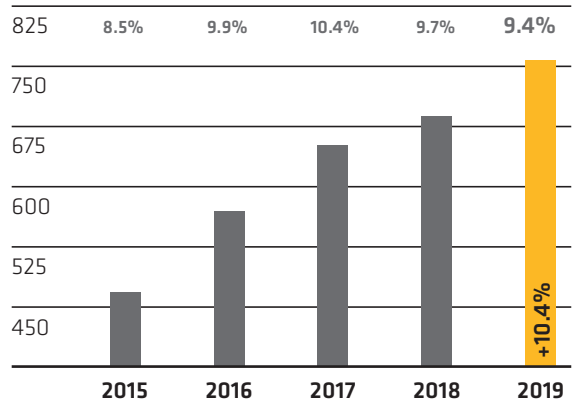
OPERATING PROFIT (EBIT)

in CHF mn in % of net sales



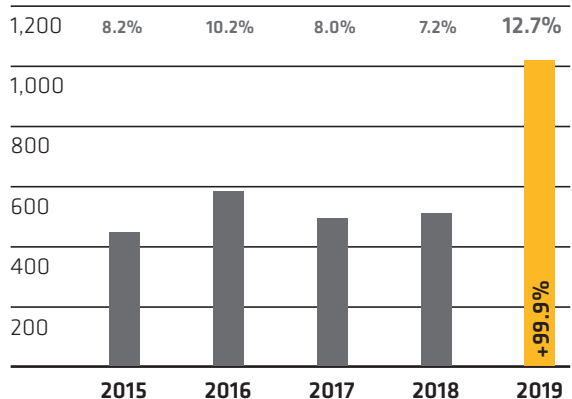
NET PROFIT

in CHF mn in % of net sales



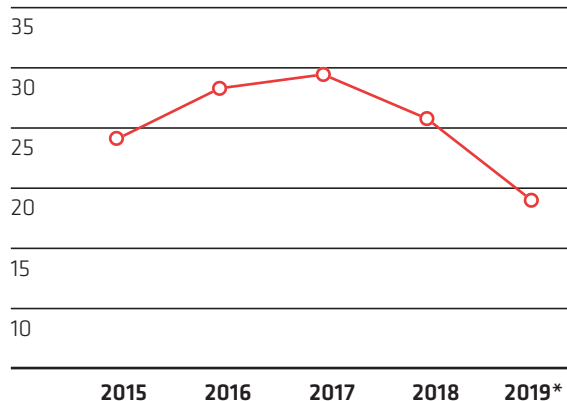
OPERATING FREE CASH FLOW

in CHF mn in % of net sales



ROCE

in %



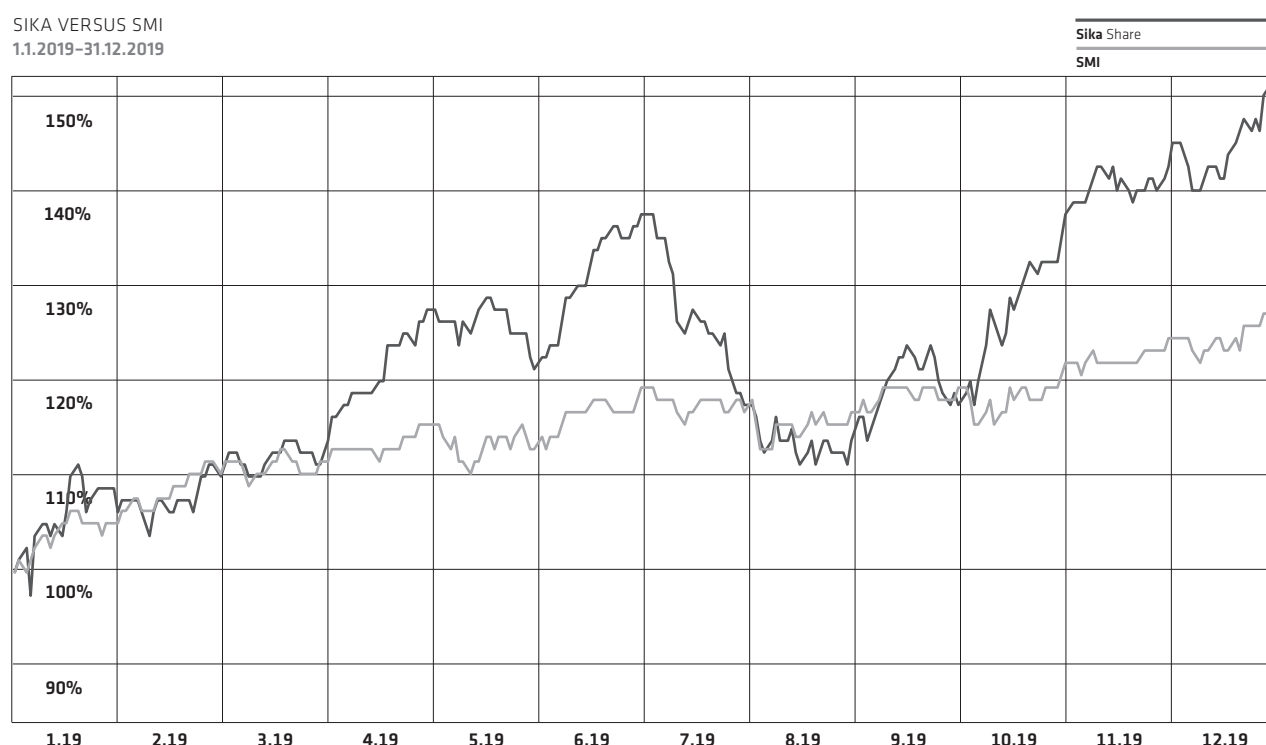
* Without the impact of the Parex acquisition ROCE for 2019 would be 25.2%.

THE SIKA SHARE

SIKA SHARE CLEARLY OUTPERFORMED SMI

In a positive stock market environment, which saw the key global share indices – as well as Switzerland’s blue chip index, the SMI – post substantial gains, the Sika share performed above-average, gaining 48.8%. This increase is due to the successful integration of Parex and the new, well-received 2023 growth strategy.

SIKA VERSUS SMI
1.1.2019–31.12.2019



SUMMARY

With a share price increase of 48.8%, the Sika stock performed better than the SMI Index.

Closing price of the Sika share in 2018: CHF 124.60

Closing price of the Sika share in 2019: CHF 181.85

The key global share indices performed as follows in 2019:

- SMI +25.4%
- DAX +25.2%
- Dow Jones +22.2%
- Nikkei +20.0%

Sika shareholders benefit additionally from the company’s good result: dividend increase of 12.2% proposed

STOCK EXCHANGE RATIOS SIKA

in CHF	2019
Market capitalization as at 31.12.2019 in CHF mn	25,782.90
Yearly high	184.50
Yearly low	120.40
Year end	181.85
Dividend 2017	2.05
Dividend 2018 ¹	2.30
Earnings per Share (EPS) ²	5.30

1) Pursuant to proposal to Annual General Meeting

2) Undiluted

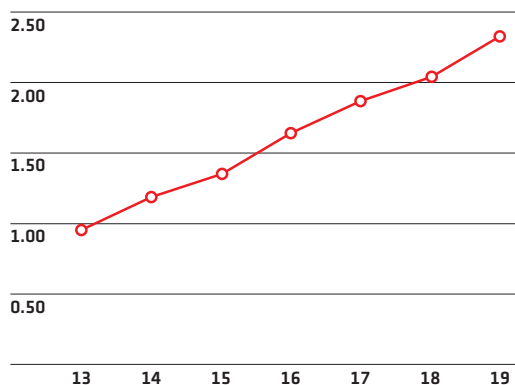
DIVIDEND PAYOUT

DIVIDEND INCREASE BY 12.2%

Sika's growth strategy is sustainable and guarantees good results. Sales and 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 12.2% increase in gross dividend to CHF 2.30 per share (2019: CHF 2.05) to shareholders at the Annual General Meeting of April 21, 2020.

DIVIDEND

CHF / share



2019: Pursuant to proposal to Annual General Meeting CHF 2.30.
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

DYNAMIC GROWTH THROUGH FRAGMENTED MARKETS, MEGATRENDS, AND AN ATTRACTIVE BUSINESS MODEL

A company is typically part of a complex economic network and is embedded in an economic environment. This presents both risks and opportunities. For many years, Sika has been active in a market that is shaped by future trends, facilitates structural growth, and offers business potential.

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. In 2019, these markets were estimated to have a combined volume of more than CHF 70 billion, a figure that is predicted to rise to around CHF 80 billion by 2025. In other words, Sika is active in substantial markets with solid 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 is currently 9%. In many cases, numerous small companies with a very small market share and a modest market position are active in individual markets and countries. Sika uses its reputation and its strong distribution organization to extend its market position on an ongoing basis.

EXTERNAL GROWTH THROUGH ACQUISITIONS IN FRAGMENTED MARKETS

Sika's acquisition strategy should also be viewed against this background. External growth in the form of corporate takeovers is achieved if a company possesses a complementary product portfolio and its customers can therefore be offered added value, or if the Group's distribution channels and its market access can be expanded. Expanding market leadership in strategically important business areas is a further criterion used by Sika to evaluate acquisitions. The acquisition of Parex in the past financial year should be seen in the light of this. This acquisition has extended Sika's offering in the building finishing market and strengthened its global leadership in construction chemicals. For both Sika and the acquired company, new growth platforms are established which, in particular, allow the acquired company to fully utilize production capacity and improve its access to the global market thanks to Sika's worldwide presence. Therefore, a win-win situation arises for both parties.

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

The current economic phase of a country's development will also be reflected in the focus of the local construction sector. 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 at a later stage of maturity tend to attract investment in better standards of building and high-quality solutions. In this context, the products sought after are those that offer greater safety, fire protection, higher energy efficiency, or better environmental compatibility, as well as rapidly applied and more efficient system solutions.

In mature markets, the refurbishment of building facilities and renovation projects takes center stage. For example, renovation projects encompass the waterproofing and reinforcement of bridges, as well as commercial and private residential buildings.

Sika offers solutions for all phases of a construction facility's life cycle, and is well positioned in both emerging and mature markets thanks to its global network of national subsidiaries and specific product families. This enables the company to market technologies for all stages of a construction object's life cycle - from new buildings through to refurbishment work.

STRUCTURAL GROWTH THANKS TO MEGATRENDS

Megatrends are shaping the future and play a defining role in societies and economies. For Sika, five megatrends in particular promise to deliver additional growth potential that will then be unlocked in coming years. The Group is embracing technological progress in the form of digitalization by remodeling its business processes and taking a targeted approach to innovation management. For example, in 2019 funds were invested in a Digital Lab in Zurich, as well as in the further development of 3D concrete printing. In light of the strong economic development of emerging markets, Sika is responding with targeted geographical expansion and the extension of its business activities in up-and-coming markets. The reality of increasing demographic shifts with ageing populations is spurring Sika on to ensure an innovative supply chain and, in particular, user- and consumer-friendly products that - against the backdrop of a future skills shortage, for example - are easier and quicker to apply. Faced with the pronounced trend toward urbanization accompanied by urban densification, the construction of high-rises, and an increased need for urban infrastructure, Sika has already been active for decades, developing innovative high-performance

products and complete systems solutions. Already today, Sika is regarded by its customers as a solutions provider with an extensive portfolio of products for demanding urban construction projects.

Climate change is behind Sika's determination to develop environmentally friendly, high-performance, and resource-efficient products. In its Strategy 2023, the company announced that it intends to give sustainability a strong base in the organization in the future. Alongside a product portfolio that is more sustainable and at the same time more efficient, the target for 2023 is to reduce CO₂ by 12% per ton of products sold.

URBANIZATION AND MEGACITIES

For the first time in history, more than a half of the world's population lives in an urban environment, with a global trend of people being drawn to the city from the countryside. The urbanization dynamic is particularly pronounced in emerging markets and developing countries.

By 2050 nearly 70% of the global population is expected to live in an urban environment, thereby providing a further boost to economic growth. In statistical terms, cities are more productive: over the next ten years, up to 85% of economic growth is expected to be generated in urban areas.

This development has a major impact on the construction industry and the mobility of populations, and it also stimulates demand for Sika's technologies, solutions, and products. Dense population clusters and heavily limited space on which to build are factors conducive to the construction of high-rise buildings that use high-performance, safe, and environmentally friendly building materials from foundations to roof. Large numbers of people living in small areas also pose challenges in terms of infrastructure, transportation, and energy supplies, as well as cultural and leisure offerings. Likewise, rising population densities go hand in hand with the expansion of properties that solve these challenges.

SUSTAINABILITY

The earth's climate is changing at a more rapid rate than ever before. By signing the Paris Climate Agreement, signatory nations have committed themselves to alleviating the problem of climate change by limiting global warming to below 2° Celsius. The agreement requires stakeholders along the entire value chain to take concrete steps to reduce greenhouse gas emissions in line with the responsibility they bear and the options open to them. In its Strategy 2023, Sika has set itself the target of reducing CO₂ emissions, especially by increasing energy efficiency at its 300 plus production sites around the world. The aim is to reduce consumption of fossil fuels and electricity per ton of products sold by 12% a year up to 2023 and to replace them with power from environmentally friendly renewable energy sources.

In addition, the company is increasingly using fossil fuels that produce lower CO₂ emissions, such as natural gas. Innovation also places strong emphasis on sustainable product development. One way to achieve this is through solutions that enable customers to avoid or reduce direct or indirect carbon emissions. Another is through products that meet the sharply rising importance of sustainable building standards around the world and help customers build and operate buildings in a more sustainable manner with enhanced carbon efficiency.

LIGHTWEIGHT CONSTRUCTION AND E-MOBILITY

2019 was marked by stagnation in the automotive sector, with a sharp decline in output. The megatrends in modern automotive construction, which are dominated by electromobility and lightweight construction, are opening up long-term growth potential for Sika thanks to new, lighter platforms with multi-material designs and new adhesive technologies, as well as heat management in modern battery technologies for electric vehicles. Moreover, future mobility will be dominated by greener vehicle designs combining improved safety with enhanced comfort. Many car manufacturers are investing heavily in developing these concepts in order to drive forward the paradigm shift – with Sika as a reliable partner at their side. In November 2019, Sika was presented with the prestigious Swiss Technology Award for SikaForce® Powerflex, a new adhesive technology used in the transportation sector.

MEGATRENDS

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.

RAPID URBANIZATION

The expansion of megacities is proceeding apace, with infrastructure in all areas needing to be extended and modernized. To accommodate growing populations, high-rise living is a concept that is being taken to the next levels. As a comprehensive solutions provider, Sika is making such developments possible.

DYNAMIC ECONOMY

Asia and Africa are gaining in significance thanks to the momentum of their economies and the growth in their populations. Sika is expanding its position in these emerging markets in a targeted manner and harnessing the opportunities that are opening up in these regions.

DEMOGRAPHIC CHANGE

Labor shortages are growing as populations get older, all against a backdrop of shifts in consumer behavior. For this reason, Sika is increasing automation, breaking new ground in logistics, and focusing on easy-to-apply solutions.

CLIMATE CHANGE

Faced with climate change and the scarcity of resources, what is needed are new ideas and sustainable energy sources, products, and processes that are both low emission and resource efficient. Sika is accelerating this development with innovative solutions.

TECHNOLOGICAL PROGRESS

Digitalization is accelerating the pace of networking and inter-linkage, bringing about radical change in how people work. Sika is leveraging innovative technologies and initiatives to drive this transformation in its industries.

STRATEGY 2023

SUSTAINABLE AND PROFITABLE GROWTH

The new corporate strategy was developed and launched in the past financial year. 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 the new Strategy 2023 is an increase in market penetration. In addition to the establishment of the eighth Target Market – “Building Finishing” – the focus will be above all on the intensification of key project management, the further development of distribution channels, and an expansion of the product portfolio and its distribution 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.

ACQUISITIONS

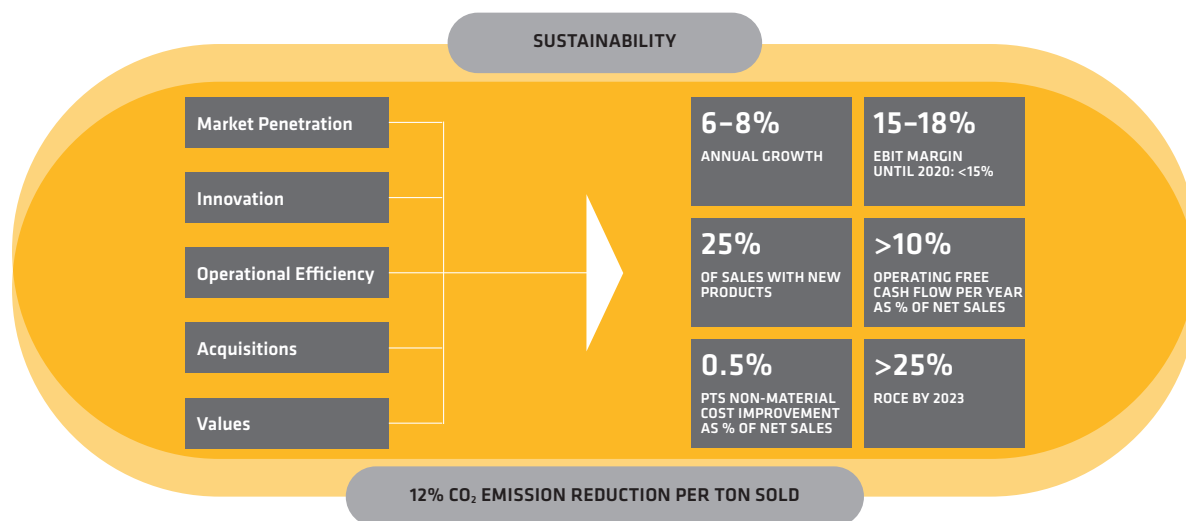
Acquisitions are an important element of Sika's growth strategy, enabling the company to enhance its core business with complementary technologies, improved market access, or expanded distribution channels. The focused approach allows Sika to establish the acquired businesses as platforms for additional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

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.

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

- All new product developments with “Sustainable Solutions” until 2023



CLIMATE PERFORMANCE

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

TARGET

- 12% reduction of CO₂-emissions per ton sold until 2023



COMMUNITY ENGAGEMENT

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

TARGETS

- 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.

TARGETS

- 15% less energy consumption per ton sold
- 50% renewable electricity rate



WASTE / WATER

We increase material and water efficiency.

TARGETS

- 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.

TARGETS

- 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.

HELPING PEOPLE HELP THEMSELVES

The world population is rising by 165 people per minute. At the end of 2019, there were 7.75 billion people in the world, with young people accounting for 1.8 billion. In the countries in which Sika is active, its strategic focus is on helping people help themselves. Projects aimed at increasing the scope for autonomy and self-determination in the lives of individuals or communities are a key element of such projects.

BUILDING SUSTAINABLY

Through its infrastructure projects in the social area, Sika helps disadvantaged communities across the globe create a healthy and positive living environment that allows people to develop their full potential. Among the projects that Sika has supported for many years are renovation and construction projects for orphanages, children’s homes, and youth centers.

SUPPORTING EDUCATION

Attending school is far more difficult for children and young people facing poverty and deprivation. UNICEF estimates that 300 million children do not go to school at all. Sika contributes towards equal opportunities and supports a variety of training and education initiatives, including the establishment of school libraries in China, “ProjeKt Inspire” in Tanzania which opens up career opportunities for the younger generation, and the focus on helping reintegrate people with disabilities into the workforce in France.

SAFEGUARDING LIVING ENVIRONMENTS

Worldwide, three out of ten people live in homes with no access to clean drinking water. However, shaping your own future, is only possible if safe drinking water, adequate sanitation and hygiene, and a sound environment are available. Sika’s commitment in this area is structured primarily around water and renewable energy projects. The company has supported the Global Nature Fund (GNF) and its Living Lakes environmental program since 2004.

FACTOR FOR SUCCESS: SIKA'S VALUES

STRONG CORPORATE CULTURE

Sika's values are at the heart of its corporate culture. Customer First and Sustainability & Integrity form part of these values, as do Empowerment and Respect. They are a cornerstone of Strategy 2023. That these values are lived out each and every day can be seen in the high level of employee engagement and team cooperation. The unique Sika Spirit allows staff from the firms that have been acquired to integrate rapidly into the Group. And Sika's values are similarly reflected in the voluntary work carried out by its staff, which serves to strengthen ties at the local level, reinforce trust, and promote sustainability around the globe. This commitment is continuing to grow. As part of the community engagement program, Sika aims to increase the voluntary work done by its employees to 10,000 working days per year, thereby reaching 50% more people by 2023.



COMMUNITY ENGAGEMENT TEAM – SIKA BRAZIL

Employees of Sika Brazil, together with the NGO “Teto”, constructed transitional housing in various communities across São Paulo. The construction of modular homes saw Sika volunteers and people in need all working together to improve living conditions and overcome poverty. This process is conducted with a community approach, which promotes the engagement of employees and the participation of the community.



CORPORATE SUSTAINABILITY TEAM

A passionate and dedicated team of experts plans, facilitates, and manages the development and implementation of the Sika Sustainability Strategy across the company. Sustainability experts from the acquired company Parex are fully integrated into the team, which further strengthens the engagement and collaboration with global, regional, and local functions.



SIKA CHINA – TEAM INDUSTRY AND ADVANCED RESIN

In China, the Industry team is responsible for sales and technical service, whilst the Advanced Resin team is responsible for production, as well as R&D of wind blade bonding products. Thanks to the good cooperation between the two teams, the overall sales volume increased. Not only did one of the top wind blade manufacturers in China order our products, but Sika products received high praise from customers in general.

SIKA EGYPT – PROJECT TEAM NEW ADMINISTRATIVE MEGACITY

The new administrative megacity, a large-scale project east of Cairo, has been under construction since 2015. This will be the new administrative and financial capital of Egypt with a population of 6.5 million people, housing the main government departments and ministries, as well as foreign embassies. Sika’s expert teams are involved in almost all the major sub-projects of this huge development, from various parliament and ministry buildings, infrastructure projects, and central bank building, to Africa’s tallest buildings – the Iconic Towers.





TEAM SIKA ECUADOR

Sika Ecuador was established in 1986 and was involved in its first large-scale project in 1992. Since then it has continued to grow and expand. Our people, their passion for their job, and great teamwork, are integral to the growing success of Sika in Ecuador.



COMMUNITY ENGAGEMENT TEAM – SIKA THAILAND

Sika Thailand supports Operation Smile to provide free medical treatment for children with facial deformities. In 2019, 135 patients received surgery and 30 Sika employees dedicated more than 300 hours of volunteering work. Sika Vietnam have also supported Operation Smile Vietnam with 125 days of volunteering over the last five years.



SIKA WEB TEAM

Continuing to adapt to new digital trends is key in today's fast-changing world. In 2019, we started the global rollout of our new website that meets both current and future digital challenges. Sika marketing experts from all over the world came together to be trained on the new system, trends, and requirements, to ensure a successful local implementation.



SIKA ARGENTINA – TEAM SALES MANAGEMENT BUILDING SYSTEMS / CONCRETE

Sika employees share a strong team spirit. Managers and sales representatives work together to increase sales and market penetration. Moving forward, we are tackling the new goals of Strategy 2023 and continue to work on realizing synergies of the Parex acquisition.



**SIKA PHILIPPINES -
TECHNICAL SUPPORT TEAM**

Our newly combined Sika and Parex teams are making use of synergies to secure more application areas in building projects. Through joint technical activities that exhibit Sika's strength in engineered solutions and Parex's expertise in building finishing, we are extending our services and winning additional business.



TEAM SIKA URUGUAY

Over the past two years, Uruguay made large investments in the construction of national roads. After extensive specification work and advice by our Sika experts, the responsible Ministry began to consider concrete solutions which not only included traditional concrete, but also white-topping solutions with similar costs to asphalt roads. This gave us the opportunity to supply concrete fibers and sealing solutions, as well as admixtures.



**SIKA FRANCE - TEAM ADVANCED RESINS, AUTOMOTIVE,
AND INDUSTRY**

We combine the strengths of Sika Advanced Resin, Industry, Automotive R&D, and Sales, to tackle the new challenges faced by e-mobility in the field of battery thermal management. We leverage our technical expertise to develop innovative solutions and to use our global production footprint, as well as strong market access to serve customers globally. The target is to support a sustainable move towards New Energy Vehicles.

SIKA UAE - TEAM WAREHOUSE/LOGISTICS

The UAE continues to impress with large and challenging high-rise and infrastructure developments. As a team we work together with our local production and make sure that our customers receive the right products at the right time, supporting them to meet the demands of these projects.





TEAM SIKA TUNISIA WITH CUSTOMER

In all interactions with our customers, we focus on supporting them and understanding their needs. The Palm Lake Resort – a large-scale project on eight hectares with accommodation, shopping, leisure, and gastronomy – was no exception. Through the close collaboration with our customer, Folla Properties, we were able to specify various products, including concrete and waterproofing solutions that save both time and costs.



COMMUNITY ENGAGEMENT TEAM – SIKA SPAIN

In 2019, 30 volunteers helped to renovate the buildings of “Fundación Gil Gayarre”, a foundation which is committed to securing equal opportunities for people with intellectual disabilities. Floors were fixed, interiors and exteriors painted, and the facades received a thermal insulation system. In addition, Sika volunteers provided product application training to increase future employability of people with disabilities.



SIKA QATAR – TEAM SALES AND MANAGEMENT

At Sika Qatar we work together towards a common vision and support individual accomplishments to ensure company objectives are met. That’s our secret to building success together.

SIKA USA – TEAM MARINE

We believe in a synergistic approach and working together to achieve our goals. By bringing Sika Industry and Advanced Resins under one Sika Marine team, we can now supply the marine market with a full product range beyond what any other company can offer.





SIKA USA - TEAM ROOFING AND EHS

A diverse team environment means we can provide our customers with a fresh, new outlook by always trying our best to encompass different perspectives, be it cultural, experiences, gender or age. We encourage thinking outside the norm and beyond the “this is how we have always done it” mentality.



SIKA ALGERIA - TEAM SUPPLY CHAIN

By sharing know-how, collaborating and communicating, a mixed team can exploit its full potential. We support each other to better understand requests and find the best possible solutions. Transparency, innovation, and engagement are an integral part of our daily behavior.

SIKA CANADA - INTEGRATED TEAM SIKA AND FORMER KING PACKAGED MATERIALS COMPANY

Thanks to Sika’s acquisition of King Packaged Materials Company, a large independent manufacturer of dry shotcrete and mortars for concrete repair, we are able to offer a wider range of products to our customers and expand our geographical footprint in Canada. The combination of skills and knowledge of both Sika and King employees have helped tremendously in making this integration a success and in realizing synergies.



TEAM SIKA PAKISTAN

With urban development on the rise, there is a constant need for innovation, especially sustainable construction solutions, to meet diverse consumer demands. Sika is a benchmark in the construction sector in Pakistan and has grown hand in hand with the development of large cities. Our Sales, Production, and Marketing teams combat any challenges together, supporting our customers and meeting their expectations.



SIKA CORPORATE - TEAM INTEGRATION MANAGEMENT OFFICE

We pay close attention to the corporate culture of acquired companies and take care to accommodate the needs of our new team members. Through discussions, exchanges, and sharing best practices, we ensure everyone is heard and that we develop the best solutions. This ensures a smooth integration process and sustainable growth.



TEAM SIKA SOUTH AFRICA WITH CUSTOMER

With a growing focus on the craftsman, it is essential to empower building material store owners and staff with the knowledge and expertise of Sika products and technologies. Additional support is offered directly to the craftsman through on-site training to ensure the correct application of our products.



COMMUNITY ENGAGEMENT TEAM - SIKA CHINA

In 2019, Sika China supported the national Library Project for the fifth year by renovating school reading rooms in many areas of the country and donating 13,900 new books to 13 schools. Over the past five years, Sika volunteers have supported 86 elementary schools and offered close to 20,000 students an inspiring learning environment.

SIKA CHILE - TEAM OPERATIONS

Mastering challenges is what brings us together, and the sum of our capabilities is what makes us stronger. In every team there is opportunity to develop the capabilities and strengths of each employee in order to achieve goals. We also make sure that each team member can make the most of personal opportunities, no matter how long they have been with Sika.





SIKA RUSSIA - PROJECT TEAM RESIDENTIAL COMPLEX RENAISSANCE

The Residential Complex “Renaissance”, an excellent example of an integrated sales approach, was supplied with various Sika materials. The 21,000 m² underground parking was seamlessly applied with Sika’s flooring system. The Sika Construction Systems sales department, and contracting partner Teko-Flor LLC, worked closely together to ensure this project was a success.

SIKA THAILAND - TEAM LOGISTIC, CUSTOMER SERVICE, AND SALES

At Sika Thailand, we understand that working together as a team is key to the success of our business. We listen to our customers, understand their needs, and provide them with solutions that meet their expectations. With the collaboration of the Logistic, Customer Service and Sales teams, we deliver orders with a focus on high customer satisfaction.



SIKA MEXICO - TEAM SPECIFICATIONS AND CONTRACTORS SALES

The recent acquisition of Al-Koat, now known as Sikalkoat, has further expanded Sika’s portfolio. This, in turn, has ensured our involvement in a large-scale project in Guadalajara, Mexico. Using both Sika and Sikalkoat systems, we achieved very good synergies, and supported the project by advising the planner, constructor, and contractor in the specification and application of the systems.



SIKA CAMBODIA - TEAM SALES, SUPPLY CHAIN, AND IT

“Customer First” is one of Sika’s main values, and we are continuously finding ways to improve our services. With additional support from our Finance, Supply Chain, and Customer Service departments, we have seen an increase in customer satisfaction.

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 service. The combined word/picture trademark has proved 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 980 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 12,296 trademark registrations in 167 countries at the end of 2019. 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, additional elements of these guidelines were rolled out in 2019, focusing primarily on the digital development of the brand. The main initiative was the launch of Sika's new website.

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 back-bone 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

BUILDING FINISHING

Sika provides one of the most comprehensive sets of solutions dedicated to tile setting, facade protection and decoration, as well as interior wall finishing, for both residential and commercial buildings. The offering comprises tile adhesives and tile grouts, as well as systems for under-tile waterproofing and sound reduction. Furthermore, it includes products for exterior and interior walls, such as wall-levelling products, decorative finish renders, and facade External Insulation Finish Systems (EIFS). The global urbanization trend, and the increasing need for home improvement, further fuel the market. Through a solid presence in rapidly evolving distribution channels, servicing fragmented contractors, and its comprehensive portfolio of complementary technologies for the building envelope from basement to roof, Sika addresses the increasing demand for quality, comfort, aesthetics, and environmentally friendly solutions.

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, the increasing use of alternative materials, such as processed aggregates (sand) and alternative materials with cementitious properties in cement, mortar, and therefore also in concrete, leads to a growth in the need for admixtures.

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 watertight structures.

ROOFING

Sika provides a full range of single-ply and built-up flat roofing systems, incorporating both flexible sheet and liquid-applied membranes, as well as thermal insulation and various roofing accessories. In recent years, Sika has acquired bituminous sheet membrane technologies in markets where bitumen technology dominates. 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 new-build structures.

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 efficient solutions for the refurbishment of existing flooring systems.

SEALING & BONDING

Sika offers a wide range of high-performance and durable sealants, tapes, spray foams, and elastic adhesives for the building envelope, for both 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, and the sealing of joints in airport aprons. The growing demand in this market is fueled by an increasing awareness of the importance of high-performance adhesives and sealants for the overall durability and energy efficiency of buildings, the growing use of different materials, increasing urbanization including the larger volumes of high-rise projects, and the continued replacement of mechanical fastening systems by adhesives due to better performance.

REFURBISHMENT

This segment features repair, strengthening and protective solutions for concrete structures, such as repair mortars, non-shrinking 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 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.

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 efficient vehicles, while fast-processing materials and compatibility with automation optimize productivity.

NEW TARGET MARKET

BUILDING FINISHING: THREE SYSTEMS

Sika introduced its eighth Target Market – “Building Finishing” – in 2019, which will allow it to focus more intensively on a fast-growing, attractive market.

TILE SETTING MATERIALS

Sika offers a comprehensive set of installation solutions for ceramic, porcelain tiles, and natural stones. These product systems combine tile adhesives and grouts as well as floor preparation compounds, under-tile waterproofing and acoustic insulation both for new buildings as well as repair and refurbishment projects. Sika is focusing on providing contractors and home owners with easy-to-apply, robust solutions with comfort, durability, and aesthetic features.

FACADE SOLUTIONS

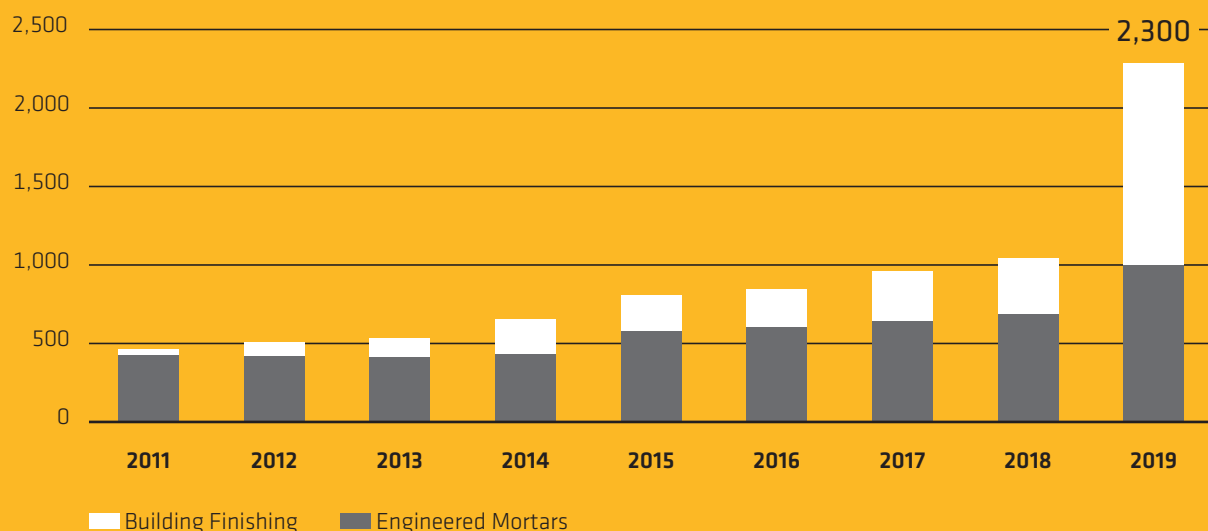
Sika provides a wide range of solutions and technologies for facade protection and decoration, thermal and sound insulation as well as facade refurbishment. Sika's product portfolio includes architectural finish coatings and stuccos, facade External Insulation Finish Systems (EIFS), insulation mortars based on bio-sourced aggregates, and systems for heritage building restoration. The offering comprises mineral renders and organic coatings with a wide selection of thickness, texture, aspect, and colors.

INTERIOR WALL FINISHING

Sika offers a wide selection of wall preparation and finishing solutions for all types of interior walls (masonry, concrete, drywall) in housing and commercial buildings. Sika's product range focuses on interior mortars, plasters, crack fillers, and joint fillers. The interior wall systems perfectly complement the exterior wall solutions.

WITH THE IMPORTANT GLOBAL ACQUISITION OF PAREX AND THE ACQUISITION OF KING PACKAGED MATERIALS, SIKA BECAME MARKET LEADER IN THE TECHNICAL MORTAR AND BUILDING FINISHING SEGMENTS IN 2019.

Net sales in CHF mn



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.

INNOVATION AND GROWTH

Creativity, innovation, customer connections, and research are dynamic 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.

CUSTOMER-FOCUSED DEVELOPMENT

Climate change and a growing population require cleaner energy 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. One challenge is to bring 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 and trialed by Sika's experts.

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 2019, 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 more than 1,100 employees across 21 global technology centers. 49 local and 21 regional research and development facilities are globally aligned to Sika Technology AG. Sika Technology AG targets the development of proprietary technology that provides key performance benefits and allows Sika's product platforms to provide answers to global trends, such as resource-saving building methods, energy-efficient and low-emission construction materials, high-speed manufacturing methods, and lighter, safer, and more environmentally friendly vehicles. Key projects focus on high-performance molecules with unique features, smart refining techniques for polymers and surfaces, and tailored laboratory equipment allowing quick scale-up to full size production.

INCREASED PERFORMANCE AND MORE SUSTAINABILITY BENEFITS

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

INNOVATION - STRONGER FOCUS ON PRODUCT SUSTAINABILITY



friendly product technologies, including 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. Furthermore, Sika has set itself ambitious goals to reduce its annual energy and water consumption, as well as its waste output. With its newly defined sustainability targets, Sika will minimize resource consumption and the environmental impact of its production process. Sika's overriding goal is to reduce CO₂ emissions per ton manufactured by 12% until 2023.

KNOW-HOW AND CHALLENGE-DRIVEN INNOVATIONS

In order to create value for customers and other stakeholders, Sika established an interdisciplinary innovation team in 2019 which creates ideas around future scenarios. This practice was coined by the concept of speculative design as a way to speculate and imagine how current and future solutions have to be in order to drive value for customers.

Engineers, chemists, researchers and marketing specialists across all core technologies and target markets promote and develop strategies and tactics aimed at transforming business as usual. This special team works to identify a range of innovation and future approaches, ensuring that research and development at Sika remains agile while cultivating an anticipatory mindset to meet the needs of future societies.

The team collaborates with customers, academics, and development partners to not only amend existing solutions and create new patterns and solutions, but to also bring to life frameworks, processes, and projects that use the future as a resource to start creating change today. Megatrends, such as digitalization in construction, sustainability, and the environment, and new means of mobility, provide guidance to identify future developments. The objective is to give more room for new types of cooperation and tools, such as speculative design, scrum, horizon scanning, trend and emerging issues analysis, and agile project management.

The overall objective and motivation is to create value, to question the status quo, and to challenge ideas and notions of what is possible.

One of the first projects the team focused on is a new recycling process for concrete which retrieves aggregates and powdery mineral material from demolition waste. Once implemented on an industrial scale, this new process can significantly help decarbonize the cementitious sector. Other focus areas include new system solutions for insulation, as well as high-performing water-based systems.

GLOBAL EFFICIENCY CONCRETE SYSTEMS

The new function "Global Efficiency Concrete Systems" is targeting the efficiency of the entire workflow and activities of the concrete systems. The objective is to increase profitability and reduce the complexity of the development and rollout of new products.

In the year under review, different types of activities were initiated. Some of the initiatives have been the development of higher margin product solutions, the auditing of local R&D departments with a special focus on the structure of laboratories, testing capacity and workflows, as well as the streamlining of the admixture portfolio by further reducing complexity and the number of commercial products. Furthermore, Sika optimized the coordination between R&D and sales departments in terms of product launches and the processing of best-demonstrated-practice examples for worldwide use.

DEVELOPMENT FOCUS IN INDIVIDUAL TARGET MARKETS

CONCRETE

Raw material quality of cement, sand, and aggregates continued to worsen, which poses a big challenge for construction solutions. New Sika® ViscoCrete® admixture formulations overcame these performance issues. New types of so-called "high-performance molecules" were developed to address contaminations and to block the negative impact of concrete quality. As part of its basic research activities, Sika chemists developed new substances that permit the time-dependent control of concrete consistency, high workability time, and high-strength concrete. In addition, easy handling at the construction site is achieved.

A new type of accelerator for road repair was developed to fix roads in a very short time frame, allowing city and highway authorities to minimize the impact on traffic and to avoid traffic jams. Sika also strengthened its technology leadership with the suspension type Sika® Sigunit® shotcrete accelerator for the tunnel business. Early strength, as well as stability and therefore user-friendliness, are the main advantages. A new shrinkage reducing and compensating admixture, SikaControl® SRA, has the potential to generate a non-shrink concrete.

WATERPROOFING

Sika is committed to providing reliable, watertight solutions for even the most challenging requirements. The vision was to develop an innovative product that promotes adhesion to fresh concrete without the need for a fleece backing. In the year under review, Sika field tested a new, fully bonded sheet membrane system. Further development and the combination of technologies proved to be technically viable, resulting in positive customer feedback. This innovative system is not only very robust in its performance, but also allows for faster application. Due to the rapid market acceptance, Sika has prepared a new production line which will be ready in 2020. The new sheet membrane system is suitable for damp- and waterproofing in basements and below ground structures. Its highly flexible polyolefin membrane, with a special sealant grid and nonwoven fleece, provides a unique, mechanical bond effect to the concrete structure and prevent any lateral water underflow between the membrane and the concrete. In 2019, the integration of various bituminous products from acquired companies into the product portfolio has shown further positive synergies.

ROOFING

A new product line has been launched: SikaBit® PRO bituminous membranes are designed to provide safer and secure roof waterproofing solutions. The system includes flame-free installation for compliance with the "Safe2torch" guideline.

The new hybrid technology, SikaRoof®-AT, has been brought to the market. This development represents a milestone in the evolution of new generations of roof membrane solutions, as it combines advantages from all existing membrane technologies. It features high durability and the freedom of design to flexibly adapt to different project demands. The new membranes are easy to apply and allow fast installation, with overall time saving on site.

For ease of installation, Sika developed a self-adhered Parapet version of SikaRoof®-AT. This material convinces during application by demonstrating a pliability never before seen with a TPO product. All field test applications were very positive in every region.

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 top-coat to give enhanced durability. The focus continues to be on low-odor, sustainable products with excellent durability.

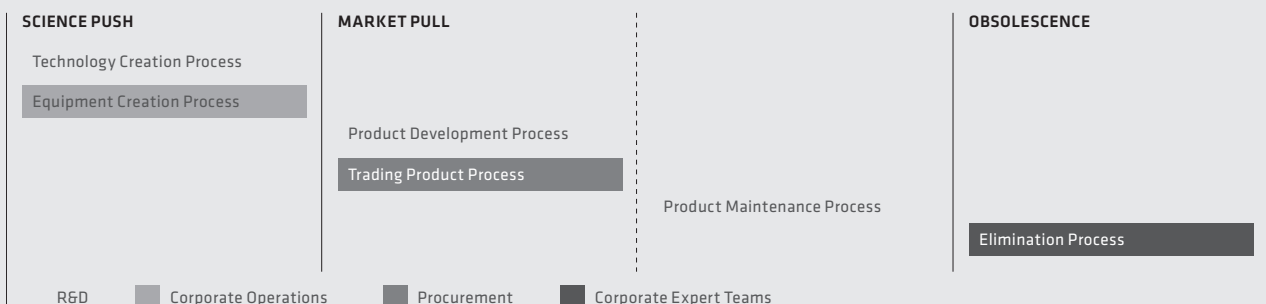
FLOORING

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 even the most stringent indoor emissions regulations and has a fast-curing time which 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

Durable high-performance adhesives and sealants, for use in construction and fast-curing systems for enhancing efficiency, are more in demand than ever. In the year under review, Sika launched a number of new adhesives that set new standards in terms of performance and environmental impact: SikaSeal®-106 Construction, and Sikaflex®-111 through Sikaflex®-118. With its elastic floor joint sealant, Sikaflex®-406 Pavement, Sika developed an accelerated, elastic high-performance sealant for joints in road construction that makes early trafficability possible. Extending the construction season thanks to joint sealants such as Sikaflex®-1C Arctic – which cures quickly even at low temperatures – is another way Sika is creating substantial added value for customers.

PRODUCT CREATION PROCESS



REFURBISHMENT AND BUILDING FINISHING

Sika's innovative building and engineered mortars result in a comprehensive range of sustainable mortar solutions for refurbishment and new-build projects. Dry-mix compositions enhance both the performance and the sustainability impact of constructions in terms of durability, comfort, safety, and aesthetic requirements.

Recently developed Sika mortars use the latest technologies to provide easy, fast, and smart solutions for refurbishment and new construction. They are suitable for special applications which require specific properties such as fatigue resistance or extreme crack resistance.

With the Parex integration, the leadership position of Sika in the market is extended by innovative solutions for the building envelope of facades. Main areas of application are thermal and phonic insulation and aesthetic finishing solutions for renovation and new constructions. External thermal insulation systems (EIFS) improve the energy efficiency and comfort of buildings.

Sika is continuously improving the environmental footprint of its solutions by further developing formulation designs, production processes, services, and real-time communication. With a focus on the circular economy and finding ways of preventing climate change, projects that involve the use of recycled or bio-sourced raw materials were given priority. In the year under review, the R&D facilities of Parex were integrated into the worldwide Sika network of Technology Centers with more than 20 unique patents.

INDUSTRY

Sika won the Swiss Technology Award 2019 in the "Innovation Leaders" category. The company received the award for its new, high-performance adhesive technology used in lightweight construction in the field of transportation. Sika was recognized by the jury for its innovative strength and was awarded the prize for its latest innovation: SikaForce® Powerflex, a new adhesive technology that combines the characteristics of elastic and high-strength structural adhesives in a single product. Two inventions in the field of structural bonding were combined: "Sika Powerflex" and "Curing by Design". With the Powerflex technology, Sika provides adhesives that offer high strength with high elasticity and show very constant properties at cold and warm temperatures, which is of high importance in the design of lightweight vehicles. "Curing by Design" technology combines the advantages of slow-curing adhesives, such as long processability, with those of very fast systems, such as fast curing. This paradigm shift allows customers to substantially increase the efficiency of their bonding processes. The first products based on this technology have successfully been launched on the market: SikaForce®-803 and SikaForce®-840. In addition, thanks to new adhesive mechanisms, Sika was able to develop new adhesive systems in 2019, which allow hard-to-bond paint systems and plastics to be reliably bonded.

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.

Sika received the Automotive Engineering Innovation Star Award 2019 for its innovative new SikaPower® SmartFlow body shop adhesive technology. The adhesive allows new bonding solutions. This means that push-in connectors, such as those found in electric vehicles or lightweight designs, can be reliably bonded. The same adhesive can also be used to bond structural parts over the entire surface, resulting in higher stiffness and strength. SikaPower® SmartFlow enables bonding within closed sections, for example bonding of profiles into castings being injected into the cavity. In comparison to other injectable adhesives, cavities do not need to be sealed before injecting the adhesive, since it only flows in the injected gap and seals the cavity itself.

The range of structural and crash-resistant body shop adhesives was extended with SikaPower®-550, an extraordinarily durable adhesive, as well as with SikaPower®-510 MBX, an adhesive for mixed-material bonding. Both products were developed in the USA and have initially been introduced in this market.

PRODUCT CREATION PROCESS RESEARCH STRATEGY

Sika's research 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.

Sika complements its internal research efforts by working with major universities and scientific institutes on fundamental technologies. One example is the "Mesh Mould" project, in partnership with the Swiss Federal Institute of Technology (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 "Lorcenis" and the "EnDurCrete" projects. These grant-supported consortium projects operate under the HORIZON 2020 program of the European Union and center on durable, environmentally friendly reinforced concrete for energy infrastructure, industrial, and offshore applications.

Furthermore, Sika is cooperating with the National Institute for Standards and Technology (NIST), USA, and with the University of Sherbrooke, Canada, in the domain of concrete research. In the year under review, Sika announced its support of 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 ensuring a sustainable future.

In the year under review, Sika continued to support the chair in Soft Materials at the ETH Zurich. Research interests focus on soft materials, i.e. materials that are easily deformable at room temperature, such as gels, thermally deformable polymers, or rubber and their microstructure and flow properties. Research into composites made of soft materials, as well as colloid systems and bacteria, are further areas of focus. Sika's local subsidiaries co-operate with research institutes and provide mutual support.

INVESTMENT

Total expenditure on research and development for the Group in the year under review totaled CHF 200.2 million (previous year: CHF 189.5 million), equivalent to 2.5% of net sales. In the year under review, Sika commissioned a Digital Lab at its Zurich site as a sign of its continuing investment in 3D technology. This state-of-the-art laboratory houses the latest 3D printers, 3D scanners, and various cooperative robots. The aim is to digitize and automate both simple and complex processes, enabling Sika to progress towards Industry 4.0 and make the company even more future-proof. The laboratory focuses mainly on producing CAD solutions before visualizing them in virtual reality. As a result, Sika will be able to present architects, planners, and other customers with three-dimensional designs that can be implemented with Sika technologies.

INTELLECTUAL PROPERTY

Innovation is a key element of Sika's growth strategy, and "courage for innovation" is one of the corporate values. Sika maintains exclusivity over its innovative products through the systematic registration of its intellectual property rights. 122 new inventions were reported in 2019 (previous year: 133) and 93 new patent applications were filed (previous year: 86). By the end of 2019, Sika's patent portfolio included more than 850 unique patent families with more than 3,700 single national patents.

NEW PRODUCTS IN 2019

Sika launched a number of important new products in 2019, including the following:

CONCRETE

- **SikaFiber® Force-50:** the new 50 mm long polyolefin macro fibers are used in ground-bearing concrete slabs to replace or partially replace steel reinforcement. SikaFiber® Force-50 are packaged in soluble bags for easy dosing during the concrete production and are embedded in the cement paste matrix to improve the characteristics of the concrete.
- **WR-11-Polymer:** new concrete superplasticizer polymer for Sika® ViscoCrete® and SikaPlast® technologies. It is based on PAE technology and performs robustly at different temperatures. Better cost performance than existing water reducers. Provides further advantages in key countries in Eastern Europe.
- **SR-42-Polymer:** new PCE based superplasticizer polymer for Sika® ViscoCrete® and SikaPlast® with medium water reduction capability. It provides excellent workability retention and meets typical requirements needed for all ready-mix concretes. Compared to existing PCE, this new type performs much more consistently even at different temperatures, especially lower ones.
- **WR-10-Polymer:** new water-reducing polymer for Sika® ViscoCrete® and SikaPlast® in precast applications where high early-strength development is the key to efficient production. A strong water reduction, combined with high early-strength development, even at low temperatures, makes this polymer a powerful tool for optimizing process cycle times.
- **SikaFoam® TBM-110 FB:** a foaming agent in liquid form used for the excavation of tunnels with TBM machines in granular soils, such as sand and gravel, where an underground water table may create challenging excavation conditions. These types of soils are common in cities where extensive metro systems are under development to manage the fast population growth. SikaFoam® TBM 110 FB allows the contractor to dig tunnels with fast rates of excavation, and its high biodegradability allows an easy management of the excavated soils from an environmental viewpoint.

MORTARS

BUILDING FINISHING

- **SikaCeram® Easy:** high-performance waterproofing mortar blocking porosity in the substrate by means of unique crystal formation densifying cement matrix and providing efficient waterproofing by migration into substrate cracks and pores.
- **SikaCeram® Silent-550** with recycled rubber formulation for acoustic insulation under tiles.
- Introduction of Slag in 80% of plants in China (>35 kt CO₂ savings at maturity), full implementation of slag in 2019 in all categories in France, 18 kt of CO₂ savings are expected.
- **Parnatur®:** launch of a hemp-based mortar. Sustainable phonic and thermal insulation render for facade, first mortar as a real sustainable alternative to current exterior insulation and finish systems (EIFS solutions).
- **Unité:** 3 to 1 mortar for exterior insulation and finish launched in France. The product is the first high-end finish that can be used as adhesive for insulation boards and as a base coat.
- **Sika Murl Pearl:** render with lasting waterproofing properties. A cost-optimized solution for top waterproofing of facades.

TECHNICAL MORTARS

- **Sika MonoTop®-4100/4200** for repair and waterproofing applications: multi-functional mortars with added value and unique formulation in the market.
- **SikaGrout®-340** high-strength grout and HP wind grouts, **SikaGrout®-3350** as high-precision grouting solutions for different infrastructure projects.
- **Sika MonoTop®-4120/910/412/726 ECO** cement-reduced mortars with sustainable features and longer durability.
- **Sikacrete®-314 F:** new solution for passive fire protection (PFP).
- **Sikafloor® 200 level:** very low-emission cement-based self-levelling compound, suitable for interior and exterior areas, extremely low-shrinkage.

COATINGS

- **Sikafloor®-2640:** a low odor, low emission, and cleaner labelled waterproof coating for balconies.
- **Sikafloor®-150/151:** low-odor, low-viscosity, multipurpose epoxy resins that can be used as primers, levelling mortars, or mortar screeds.
- **Sika® Unitherm® Platinum-120:** two-part modified epoxy fire protection coating for structural steel. For interior or exterior use.
- **Sikalastic®-701:** high-performance top-coat for use over polyurethane roof membranes.
- **Sikafloor®-260 ESD:** high-build electrostatic control epoxy coating.
- **Sikafloor®-377:** a two-part colored, crack-bridging, low-viscosity, low-moisture sensitive flooring resin.

THERMOPLASTICS

- **SikaProof® A+ 12:** a polyolefin(FPO)-based sheet membrane for below-ground waterproofing of reinforced concrete structures. A special hybrid bonding layer on the membrane forms a permanent bond with the fresh concrete.
- **SikaRoof® AT:** with this patented hybrid technology, Sika offers a membrane that is easy-to-apply, allowing smooth detailing, fast installation, and a long-lasting performance for sustainably designed roofs.

ADHESIVES AND SEALANTS

- **Sikaflex®-406 Pavement:** accelerated sealant with good chemical and thermal resistance for floor joints.
- **Sikaflex®-255 Ultra:** solvent-free auto glass repair adhesive from Japan for the Southeast Asian market.
- **Sikaflex®-1C Arctic:** sealant for low-temperature applications in the North American market.
- **SikaForce®-840 und -803 L45:** elastic structural adhesive for vehicle construction, with high stiffness and flexibility over the whole service temperature range of use (-35°C to +85°C) offering both long open time and fast curing.
- **Sikadur®-31+:** new generation of two-component epoxy adhesive for patch repair and concrete bonding for the refurbishment business.
- **Sika® Primer-219:** synthetic primer for OEM suppliers, with long open time.
- **SikaFast®-555:** low-odor, acrylic-based, elastic structural adhesive with very broad adhesion spectrum and fast curing.
- **Sikaflex®-950:** two-component, STP assembly adhesive for industrial applications. Offers particularly good pumpability and adhesive properties.
- **Sikasil® WT-66 PowerCure:** an accelerated 1-component silicone adhesive for structural bonding of insulating glass units into window frames with high burglary protection class (RC3) and for back-bedding applications. Sikasil® WT-66 PowerCure is applied using the PowerCure Dispenser and cures largely independent from atmospheric conditions.

AUTOMOTIVE

- **SikaPower®-550:** structural and crash-resistant adhesive with excellent durability and corrosion performance, combined with excellent adhesion and application properties, especially suited for bonding aluminum structures. Introduced for aluminum car bodies with a US customer.
- **SikaPower®-510 MBX:** first application in the USA realized with this high-toughened and highly flexible newest member of the MBX body shop adhesive. Suitable for bonding mixed substrates, such as CFRP, aluminum and steel in the Automotive body shop, which enabled a more than 30% weight saving over the previous concept.
- **SikaForce®-820:** a 2C-PUR adhesive especially developed for bonding Polycarbonate and other plastic roofs to steel car bodies. This unique solution does not need any pretreatment and does not create any environmental stress cracking or marking on sensitive plastic substrates. In addition, it shows a prolonged shelf life of nine months.
- **Sikaflex®-282 eLS:** low viscosity, boosted adhesive with low compressive force for elastic bonding of battery boxes and battery covers. The adhesive's rapid setting makes waterproof testing of the boxes possible within three hours of joining.

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.

2019 ACQUISITIONS

In March 2019, Sika announced the acquisition of King Packaged Materials Company, a large independent Canadian manufacturer of dry shotcrete and mortars for concrete repair. The acquisition allows Sika to further expand its local presence in Canada and increases its growth potential in the home improvement, construction, mining, and tunneling markets. The acquired business generates annual sales of CHF 61 million and has a workforce of 180 employees.

In March 2019 Sika also announced the acquisition of Belineco LLC, a Belorussian manufacturer of polyurethane foam systems. Besides expanding the Group's know-how in the production and development of PU foams, the merger will also give both companies better access to Eastern European specialist trade distribution channels. Belineco generates annual sales of CHF 23 million.

On May 23, 2019, Sika concluded the takeover of Parex. The transaction had been announced on January 8, 2019. A leading manufacturer of mortars, Parex boasts an offering that includes above all, facade and technical mortars, tile adhesives, and waterproofing systems. In 2018, the company achieved sales equivalent to CHF 1.2 billion. With its expertise in renovation and new builds, Parex participates in all phases of the construction life cycle. Parex enjoys a particularly strong presence in the distribution business, and combines reputable brands with innovative technical solutions. The company has a local presence in 23 countries, with key positions in eight countries. Parex operates a total of 74 production plants. Thanks to this acquisition, Sika is expanding its portfolio for the building finishing market and further strengthening its global leadership position in construction chemicals.

In September 2019, Sika took over Crevo-Hengxin, a Chinese manufacturer of silicone sealants and adhesives used in both industry and construction applications. The takeover allows Sika to expand its presence in the target markets of Industry and Sealing & Bonding in China and the Asia/Pacific region. The Group is also gaining additional silicone technology plus a larger production footprint. Crevo-Hengxin generates annual sales of CHF 50 million with a 140-strong workforce.

Towards the end of November, Sika agreed to acquire Adeplast SA, 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 CHF 120 million with a workforce of 460 employees. The closing of the transaction is subject to clearance by anti-trust authorities, which is expected in the first quarter of 2020.

2019 INVESTMENTS

Sika's investment strategy is geared to consolidate the global presence it 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 new 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 192.3 million (2018: CHF 238.6 million), which is equivalent to 2.4% of net sales. CHF 8.7 million were related to the buyback of the Logistic Center in Birr, Switzerland, which was formerly leased. The breakdown of the remaining investments are as follows: key focus on expansion of production capacity at 44% (2018: 45%), 25% (2018: 33%) was needed to replace existing facilities, 22% (2018: 16%) was used for rationalization, and 9% (2018: 6%) was spent on environmental protection, health and safety, and quality control. The share of investment in the emerging markets was 36% (2018: 42%), underscoring Sika's growth strategy.

RISK MANAGEMENT

EARLY IDENTIFICATION OF POSSIBLE RISKS

As a global player, Sika is exposed to a variety of risks. Ensuring the Group's freedom of action at all times, safeguarding its image, and protecting the capital invested in Sika, 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 reacted years ago by introducing a comprehensive risk management system at Group level and for all its subsidiaries. Risks should be identified at an early stage and integrated into strategic decision-making processes. Risk management may 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.

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. Before working with Sika, suppliers are required to sign the Supplier Code of Conduct, which includes the Sustainability, Ethics, and Fair Competition principles.

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 supplier 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. 2019 saw the successful execution of an improved 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) and ISO 14001:2015 (environmental protection), and many also to 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 145 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, 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 2019, Sika conducted 181 centrally documented audits throughout the organization.

Supplier audits are carried out by the purchasing and quality assurance departments on the basis of the risk assessment, and the number of reviews is steadily increasing. In 2019, 69 supplier audits were executed, and supplier audit trainings for more than 20 purchasing and quality assurance employees were conducted.

Sika also 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 also insured against production losses.

Over recent years, Sika has succeeded in significantly reducing the number of accidents and is constantly working on further improvements. The company is focusing more closely on systematic accident and incident prevention.

PRODUCT DEVELOPMENT AND MARKETING

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

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

CUSTOMERS AND MARKETS

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

FINANCIAL RISKS

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

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 for Group companies in the areas of sales, accounts receivable and accounts payable management, product development, purchasing, production, quality control, inventory management, financial and operational reporting, payroll processes, and IT management. In addition to the global audit of sales and production companies, regular in-depth audits are carried out in the area of headquarter functions and Group-wide support processes. Internal Audit is an instrument of the Board of Directors and reports to the Audit Committee.

Financial risk management is described in greater detail on page 138 et seq. of this report.

GROUP REVIEW

GROUP REPORT

STRONG GROWTH GENERATES RECORD SALES IN EXCESS OF CHF 8 BILLION

Sika once again delivered record results in 2019. Sales in Swiss francs rose by 14.4% year-on-year to CHF 8,109 million, which equates to an increase of 16.3% in local currencies. Operating profit increased by 11.5% to CHF 1,055 million, thereby surpassing the billion-franc threshold for the first time. Net profit was recorded at CHF 759 million, representing a year-on-year growth of 10.4%. Operating free cash flow increased significantly, amounting to CHF 1,026 million.

Sika can look back on a highly successful 2019. It was a year in which numerous projects were realized to set the course for an even stronger performance, in particular the acquisition of Par-ex, the largest in Sika's history. With sales of CHF 1.2 billion on an annualized basis and more than 4,500 employees, this takeover makes a significant contribution in bringing Sika to the next level of growth.

The new 2023 growth strategy was launched and publicly unveiled in October 2019. The strategic targets include annual growth in local currencies of 6–8% and an increased EBIT margin target of 15–18%, which is to be achieved from 2021 onward. In addition to these ambitious financial targets, the most important elements of the new strategic direction include the introduction of an eighth Target Market, "Building Finishing", a focus on operational efficiency, and the targeted orientation of the Group toward sustainability.

At the end of 2019, Sika won the Swiss Technology Award in the "Innovation Leaders" category for its ground-breaking new adhesive technology. SikaForce® Powerflex, which combines the properties of elastic and high-strength structural adhesives in a single product, enables manufacturers of cars, rail vehicles, buses, and trucks to implement new, lighter, more ecological vehicle concepts while maintaining body stiffness, good elasticity – and thus ideal mechanical properties. The new adhesive features the extremely fastworking curing technology "Curing-by-Design", which can be triggered virtually at the touch of a button and dramatically reduces assembly time. This means that customers can greatly accelerate their production processes, while at the same time making them much more efficient.

GROWTH IN ALL REGIONS

In a challenging market environment, Sika has grown more strongly than the market in all regions.

The EMEA region (Europe, Middle East, Africa) reported a sales increase in local currency of 11.6% in 2019 (previous year: 14.1%), seeing a strong development with double-digit growth rates in Africa and high single-digit growth in Eastern Europe. In Belarus, Sika acquired Belineco, a specialist manufacturer of polyurethane foam systems. In Romania, the company agreed to acquire Adeplast, a leading manufacturer of mortar products and thermal insulation solutions. This deal is expected to close in the first quarter of 2020. Production capacity was expanded in Egypt, Qatar, Serbia, Senegal, Cameroon, and Ethiopia, with new factories opened for concrete admixtures and mortars.

The Americas region continued to focus its business activities on the largest metropolitan areas and generated impressive sales growth of 19.2% in 2019 (previous year: 11.7%). Growth momentum was particularly pronounced in North America. In Latin America, political tensions in countries such as Mexico, Chile, and Ecuador, are leaving their mark on local construction industries. Brazil, Colombia, and Peru all posted strong growth rates. In Canada, the acquisition of King Packaged Materials in the reporting period brought a market leader in concrete repair systems into the Group.

Growth in the Asia/Pacific region amounted to 35.1% (previous year: 5.5%). This figure includes a significant acquisition effect of 30.3%. The highest organic growth rates were recorded in China, India, and the Philippines. In China, Sika acquired Crevo-Hengxin, a manufacturer of silicon-based sealants and adhesives. The newly acquired range of products opens up cross-selling opportunities in the extended distribution channels. Furthermore, a new factory in the Bekasi district on the outskirts of Jakarta commenced operations in Indonesia in the reporting period. Sika now produces concrete admixtures and mortar products for the local construction market in three factories.

The Global Business segment recorded a growth rate of 3.0% (previous year: 29.2%). Sika gained further market share in the Automotive area in 2019, despite the sharp decline in global production figures in this sector. The megatrends in modern automotive construction, which are dominated by electro-mobility and lightweight construction, are opening up new avenues with significant long-term growth potential for Sika, thanks to multi-material designs and new adhesive technologies, as well as heat management in modern battery technologies for electric vehicles.

RECORD PROFIT – HIGHER DIVIDEND TO BE PROPOSED

With sales of CHF 8,109.2 million in 2019, Sika was able to surpass the sales mark of CHF 8 billion for the first time. This equates to growth of 14.4% in Swiss francs and 16.3% in local currencies. Organic growth reached 3.3% (previous year: 6.8%). The material margin recorded a year-on-year increase from 53.0% to 53.6%. Operating profit (EBIT) improved by 11.5% to CHF 1,055.1 million (previous year: CHF 945.9 million). The operating result includes one-time costs incurred in connection with the takeover of Parex. Excluding one-off and acquisition effects in 2019, EBIT would have recorded an over-proportional increase. The tax rate was brought down further and amounted to 21.5% in the year under review (previous year: 23.0%), which meant that net profit also set a new record of CHF 758.5 million, equivalent to a rise of 10.4%. In keeping with the double-digit increase in net profit and the strong development of operating free cash flow, the Board of Directors will be proposing a 12.2% increase in the gross dividend to CHF 2.30 at the Annual General Meeting of April 21, 2020.

KEY BALANCE SHEET FIGURES

The ratio of net working capital to net sales improved substantially in 2019 to 18.1% (previous year: 19.6%). This reduction was achieved through optimized inventory management and a modified sales mix due to acquired companies. At the end of 2019, cash and cash equivalents amounted to CHF 995.1 million (previous year: CHF 914.0 million). Yet another record was set by operating free cash flow, which amounted to CHF 1,026.1 million (previous year: CHF 513.2 million). In order to finance the acquisition of Parex, net debt was increased to CHF 3,407.7 million (previous year: CHF 2,114.1 million), while gearing was reduced thanks to the higher equity ratio and now stands at 107.8% (previous year: 126.2%). At the end of 2019, the equity ratio stood at 31.8% (previous year: 26.2%). Return on capital employed (ROCE) reached 19.2% (previous year: 26.2%).

GROUP REPORT REGIONS

GROWTH IN ALL REGIONS

In a challenging market environment, Sika has grown more strongly than the market in all regions and was able to further expand its business activities.

EMEA (EUROPE, MIDDLE EAST, AFRICA)

EU countries posted their seventh year of successive growth in 2019. Gross domestic product increased by 1.4% in the EU and by 1.1% in the Eurozone. European labor markets proved robust, with the unemployment rate hovering at a persistently low level.

In Europe, the level of construction industry investment rose again in 2019, albeit not as strongly as the previous year, recording growth of 1.4%. For the current fiscal year, forecasts suggest the construction industry will grow by 1.6%. In Eastern Europe, strong investment momentum was evident in the year under review in the area of construction infrastructure projects, with growth amounting to 4.5%. A similarly high level of construction activity was evident in the Middle East and Africa, where there is an extremely pressing need for infrastructure projects. Waning investment appetite in the construction sector is particularly apparent in Italy, the UK, Sweden, Finland, and Spain. For example, construction market volumes in Spain remain at only a quarter of the level recorded back in 2007, despite a four-year growth phase.

Within the Sika Group, the EMEA region recorded a sales increase in local currency of 11.6% in 2019 (previous year: 14.1%). Double-digit growth rates were recorded in Africa, while high single-digit growth was achieved in Eastern Europe. Sika's product solutions were particularly in demand from the Target Markets of Concrete, Refurbishment, and Industry. Target Market Concrete benefited from a strong construction economy in Eastern Europe and the Middle East. Furthermore, the dynamic business activities of global key account customers, such as on roofing projects in the area of data centers, made an additional contribution to healthy business development in Europe.

In Belarus, Sika acquired Belineco, a specialist manufacturer of polyurethane foam systems. In Romania, the company agreed to acquire Adeplast, a leading manufacturer of mortar products and thermal insulation solutions. This deal is expected to close in the first quarter of 2020. Production capacity was expanded in Egypt, Qatar, Serbia, Senegal, Cameroon, and Ethiopia, with new factories opened for concrete admixtures and mortars.

AMERICAS

The North American construction market exhibited very healthy growth momentum in the year under review. In the region's largest market, the US, investments in commercial buildings remained at a persistently high level. In Canada, the economy benefited from a high demand for mineral resources.

Following robust economic development in the first half of the year, Latin America's economy was characterized by stagnation from September onward due to protest movements. Political uncertainties and uprisings in the key economic regions, combined with a weakening of global trade, had a negative impact on this region's economic output.

By clearly focusing its business activities on the largest metropolitan areas, Sika successfully outperformed the competition in the Americas region, generating strong sales growth of 19.2% (previous year: 11.7%). Growth momentum was particularly pronounced in North America and above all Canada, which recorded a double-digit increase in organic growth in the year under review. In Latin America, Brazil, Colombia, Argentina, Peru, Uruguay, and Paraguay all recorded good growth rates. Brazil's construction economy is now back on a growth trajectory after years of stagnation. Sika managed to deliver double-digit growth (10%) in Latin America's largest country. A strong distribution business contributed to the positive business result of the region as a whole.

All Target Markets in the Americas region recorded further growth. The strongest momentum was apparent in Concrete, Refurbishment, Roofing, Sealing & Bonding, and the distribution business. A further expansion of the company's strong market position can be expected as a result of the integration of Parex, which completes Sika's product portfolio and opens up new business potential in the areas of interior finishing and facade systems. Moreover, unleashing the synergy potential between North and Latin America will positively impact the business going forward.

In Canada, the acquisition of King Packaged Materials in the reporting period brought a market leader in concrete repair systems into the Group.

ASIA/PACIFIC

The ongoing trade conflict between the USA and China dominated – and negatively impacted – Asian economies last year. In China, the world's second-largest economy, growth slowed further to around 6%. The economy was stimulated by several state measures, such as investment in the commercial construction sector and in infrastructure. A stimulus package which supported economic growth was also introduced in Japan, despite a shortage of labor. In India, the government announced various measures to support the economy, including tax cuts. Australia's economic growth rate slowed further, and at 1.7% was some way behind the growth figure of 2.6% reported the previous year. The repercussions of drought, declining real estate prices in the major cities, high levels of private debt, and reluctant consumers all slowed economic growth.

Sika's growth in the Asia/Pacific region amounted to 35.1% (previous year: 5.5%), a figure that includes a significant acquisition effect of 30.3%. The highest growth rates were recorded in China, India, and the Philippines. In China in particular, Sika was able to benefit from market developments in commercial construction and infrastructure, recording organic growth. The company generated double-digit growth rates in the Flooring Target Market. The largest contributory factor to the impressive growth in China was the takeover of Parex. Due to the persistent shortage of labor in Japan, easy-to-apply products and solutions enjoyed an increase in demand. A number of sports facilities, and the associated infrastructure for the 2020 Olympic Games in Tokyo, are being realized with Sika solutions.

Particularly healthy business development in the Asia/Pacific region was recorded by New Zealand, with strong growth in almost all Target Markets, and Bangladesh. Thanks to a huge need for infrastructure, the latter's construction market is recording solid growth rates. Major projects being implemented include several railroad and highway projects, such as the Dhaka Metro Railway.

Good growth rates were recorded by the Philippines, Cambodia, and Myanmar. In the Asia/Pacific region, the Concrete, Flooring, and Refurbishment Target Markets showed particularly good development.

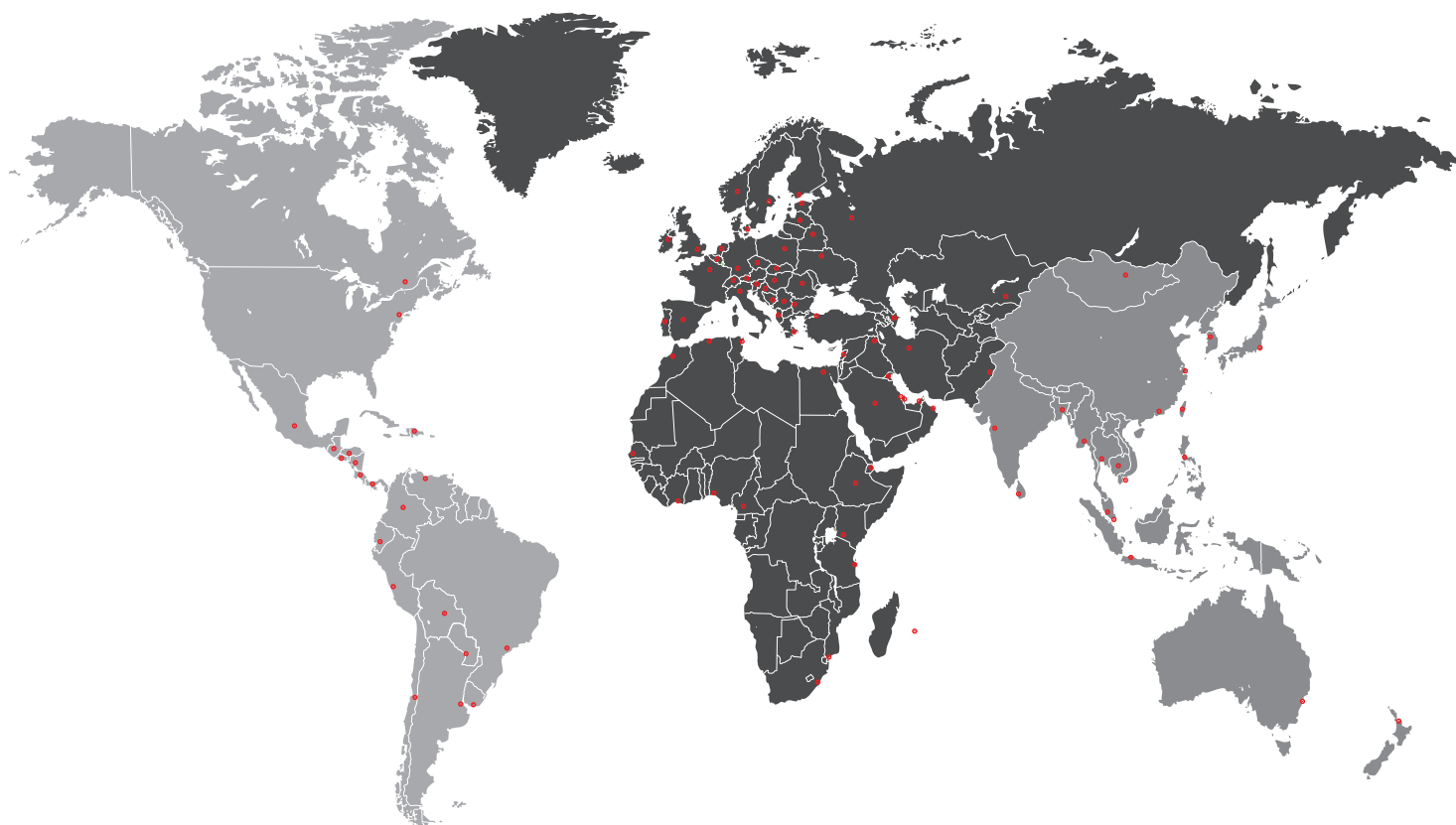
In China, Sika acquired Crevo-Hengxin, a manufacturer of silicon-based sealants and adhesives. The newly acquired range of products opens up cross-selling opportunities in the extended distribution channels. Furthermore, a new factory in the Bekasi district on the outskirts of Jakarta commenced operations in Indonesia in the reporting period. Sika now produces concrete admixtures and mortar products for the local construction market in three factories.

GLOBAL BUSINESS

The automotive sector failed to bounce back in the year under review, as global production figures dropped, and the number of manufactured vehicles declined by just under 6%. At a global level, less than 90 million vehicles were produced, with China and Europe in particular exhibiting negative trends. This situation was compounded by the ongoing uncertainty among consumers against the backdrop of the diesel crisis, and the paradigm shift taking place in the automotive and transport industry toward drive concept alternatives to the combustion engine.

The Global Business segment recorded growth of 3.0% (previous year: 29.2%). Programs to increase operational efficiency were ramped up in the year under review. Despite the global decline in production figures, Sika managed to win market share in the automotive sector in 2019. Megatrends in modern automotive construction, which are dominated by electro-mobility and lightweight construction, are opening up new avenues with long-term growth potential for Sika, thanks to multi-material designs and new adhesive technologies, as well as heat management in modern battery technologies for electric vehicles. E-mobility remains a key driver of innovation and new development projects. Sika was able to win numerous new clients in the reporting year, as well as opening up further areas of application for its products. At the end of 2019, Sika received the coveted Swiss Technology Award for an innovative new adhesive technology used in the automotive and transport sector.

THE REGIONS IN BRIEF



	EMEA	AMERICAS	ASIA/PACIFIC	GLOBAL BUSINESS
Net sales in CHF mn (previous year)	3,432 (3,167)	2,162 (1,821)	1,585 (1,177)	930 (920)
Growth in local currencies	11.6%	19.2%	35.1%	3.0%
Currency impact	-3.3%	-0.4%	-0.4%	-1.9%
Acquisitions effect	9.4%	13.3%	30.3%	2.6%
Organic growth	2.2%	5.9%	4.8%	0.4%
Employees	10,146	5,450	6,316	2,547

GROUP REPORT OUTLOOK

CONTINUATION OF SUCCESSFUL GROWTH STRATEGY

Strategy 2023, which was unveiled in October, is designed to expand the company's growth model and align the organization for continued long-term success and profitable growth. By targeting 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 by 2023. It is aiming for a higher EBIT margin of 15–18% from 2021 onward. Projects in the areas of operations, logistics, procurement, and product formulation should result in an annual reduction in operating costs equivalent to 0.5% of sales.

The prerequisites for further dynamic growth have been put in place with the launch of the new 2023 growth strategy and investments in seven new factories and five acquisitions. Thanks to these twelve key investments, pronounced innovative strength, and a clear sales focus, Sika is in an outstanding position for the future.

For the 2020 financial year, due to the higher acquisition impact, Sika is expecting a sales increase of more than 10% in local currencies, as well as an over-proportional increase in profitability.

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. It also implements numerous projects and measures aimed at boosting the Group's economic, social, and ecological sustainability.

SIKA'S SUSTAINABILITY STRATEGY

The revision and further development of the 2014–2018 Sustainability Strategy has been the priority during the year under review. Taking into account the results of the materiality analysis conducted in 2018 and the development of the Sika Growth Strategy 2023, the Sustainability Strategy now includes the new focus area "Climate Performance" with specific targets on the reduction of CO₂ emissions, the use of electricity from renewable sources and recycling of waste. In addition, community engagement now encompasses targets referring to volunteering activities and number of beneficiaries.

With its newly defined sustainability targets, Sika's priority will be to minimize resource consumption and the environmental impact of its production process. In particular, Sika's overriding goal is to reduce CO₂ emissions per ton sold by 12.0% until 2023. The sustainability related performance of the year 2019 is going to be the baseline for the Sustainability Strategy 2023. More details are available on <https://www.sika.com/en/about-us/sustainability/sika-sustainability-strategy.html>

MANAGEMENT AND ORGANIZATION

The further development and the implementation of the Sustainability Strategy has been assigned to the department "Sustainability and Operations Technology" (S&OT). This department encompasses 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.

Sika established a Sustainability Advisory Board (SAB) in 2016. An independent expert opinion aims to provide Sika management with additional guidance regarding the direction and implementation of Sika's Sustainability Strategy. In 2019, the SAB met twice, in June and in November. The focus topics concentrated on the target areas "climate change" and "occupational health and safety" (June), and on "process optimization" (November). In June, Prof. Dr. David N. Bresch, Professor for Weather and Climate Risks at ETH Zurich (Swiss Federal Institute of Technology) presented the new Swiss climate scenarios. In November, the SAB met at the department of materials at the ETH. Jan Vermant, Professor for Soft Materials, presented ideas about process intensification in industrial manufacturing, potentially applicable within Sika's production processes. By the end of 2019, Sika also set up an internal Sustainability Committee to steer and coordinate initiatives to achieve sustainability targets and monitor proper implementation of the Sustainability Strategy throughout the Group.

ECONOMICAL: PERFORMANCE

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURE

The Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) has developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The task force structured its recommendations around four themes that represent key aspects of how organizations operate: governance, strategy, risk management, and metrics and targets. In the year under review, Sika started to address the recommendations, and to integrate them into the reporting structure.

GOVERNANCE

The Corporate Governance Report as part of the Annual Report describes how the Group Management and the Board of Directors manage sustainability and climate-related aspects. Both 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 task of the internal Sika Sustainability Committee is to prepare the decision-making of the Group Management. Climate-related risks are identified via the Sustainability and Operations Technology Manager, and the Compliance and Risk Management divisions. Information on specific climate-related risks is collected on regional level and consolidated on corporate level aligned with the overall strategy. Here, the external Sustainability Advisory Board gives recommendations for the agenda setting on global level. Locally, climate-related risks are assessed and evaluated by EHS and Operations Managers in collaboration with General Managers who are reporting to Area

Managers. An Area Manager reports to the Regional Manager. The Regional Manager is part of the Sika Group Management.

STRATEGY

The Sika Strategy 2023 is closely aligned with the Sustainability Strategy. The overall goal is to reduce the CO₂ emissions by 12.0% by 2023. Climate Performance is one of the target areas of this strategy. In the year under review, the Sustainability and Operations Technology team started to assure that climate transition risks in future will be part of the Sika Risk Management. The focus in 2019 was the further development of the Sika Sustainability Strategy, the definition of "Climate Performance" as target area, and the development of a greenhouse gas emissions reduction plan; climate risks and opportunities will be defined in 2020. In this context, it's the ambition of Sika to increase the coverage of scope 3 emissions. Furthermore, the company will start to identify the climate-relevant risks at operation level, and will then consider transition and physical risks along its value chain.

Furthermore, in the year under review as part of the Sustainability Strategy 2023, Sika has started the development of a Sustainable Portfolio Management (SPM) methodology. This methodology will be used to assess sustainability-related risks and opportunities of product-technology combinations in defined market segments in which Sika is active, with a focus on the long term. This will lead to a deeper understanding of the sustainability performance of Sika products and solutions portfolio, focusing on new developments.

RISK MANAGEMENT

The risk management process, the main risks, and the process used to rank them are described in the "Risk Management" chapter. Climate-related risks, being long-term financial risks, in future will be embedded into the Group risk management. This implies that climate-related risks are considered in the analysis process when setting up a new factor.

METRICS AND TARGETS

The target areas of the new Sika Sustainability Strategy are Sustainable Solutions, Climate Performance, Community Engagement, Water/Waste, Energy and Occupational Health and Safety. The strategic objectives used to drive sustainable value creation are described in the Sika Sustainability Strategy "More Value – Less Impact".

With the Sustainability Strategy 2023 Sika has set the target to reduce CO₂ emissions per ton sold by 12.0% by 2023 by improving its energy efficiency and energy mix and by investing in clean technologies. Greenhouse gas Scope 1 and Scope 2 emissions are fully reported. The scope of emissions reporting is consistent with financial reporting. Scope 3 emissions related to upstream activities are disclosed only partly, currently covering business travel and leased vehicles. Other scope 3 emissions that occur in the value chain, related to purchased goods, transportation and distribution, waste disposal, employee commuting, processing and use of sold products are quantitatively assessed on product level and potential meaningful impacts have

been identified but not fully quantified on company level, and are therefore not disclosed. Sika aims to increase the coverage of indirect upstream and downstream emissions that occur in the value chain (scope 3 emissions).

Sika solutions are designed to enable customers to reduce emissions in the respective applications and during the lifetime of the building or vehicle.

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 and engages the whole organization throughout hierarchies, functions, and geographical areas. In 2019, Sika's focus has been on the following CMS initiatives:

STRENGTHENING OF THE SIKA COMPLIANCE ORGANIZATION

In June 2019, the Group Compliance Officer – while remaining Head of the Group Compliance Organization – was also appointed Head of Corporate Human Resources (HR). Merging the two positions of Head HR and Head Compliance into one allows the HR and Compliance functions to cooperate very closely, which in turn helps promote strong ethical leadership and a culture of integrity across the Group. A Senior Compliance Manager joined the Group in September 2019, assuming the role of Sika's Deputy Group Compliance Officer. Two additional positions fully assigned to the Corporate Compliance team were created in October.

GLOBAL AWARENESS-RAISING CAMPAIGN

The rollout of the Global Awareness-Raising Campaign on Compliance, which started in 2016, was completed in 2019. Overall, a total of more than 21,000 Sika employees in more than 100 countries were trained on the Sika Code of Conduct (CoC) and on how to use the Sika Trust Line, the internal digital platform allowing Sika employees to report suspected CoC violations and other serious misconduct. More than 4,000 Parex employees were also trained after merging with the Sika Group in 2019.

COMPLIANCE CULTURE

In 2019, Sika launched the first global Sika Employee Survey, with the objective to measure the engagement level of employees, to identify strengths and improvement potential. More than 14,600 colleagues from all over the world participated in the survey, with an overall response rate of 78.0%. The survey confirmed that Sika's strong corporate values represent the foundation of the unique corporate culture. It underscored that these values are broadly practiced in the Group, with managers setting the right "tone from the top" and being role models. One question of the survey asked employees whether they feel comfortable speaking up and reporting compliance or ethical concerns to their line manager. Sika's excellent score of 80 index points out of 100 (0 meaning "I don't feel comfortable", 100 meaning "I feel very comfortable") shows that a strong majority of employees have a positive attitude towards internal reporting of misconduct.

COMPLIANCE CASES

In 2019, allegations of misconduct could be substantiated in 19 instances. The analysis of the 2019 compliance cases shows the following:

- Considering the size of the Group, Sika has a very low number of compliance cases.
- Sika's employees continue to be the most effective channel to detect violations.
- Cases primarily resulted in dismissals, confirming Sika's zero tolerance culture and consistency in remediation.

CODE OF CONDUCT

In the year under review, Sika has released an up-to-date version of the CoC and increased the number of CoC translations from 36 to 42, all of which are available on the internal collaboration platform and the Sika intranet.

GRI CONFIRMATION, COMPLIANCE COMMITMENT

Each fiscal year, Sika General Managers (GMs) – by signing the “GRI Confirmation” – confirm their compliance with the CoC and other Corporate Policies and Manuals, and that they have offered adequate information and training to their staff. The annual “GRI Confirmation” campaign gives Sika the assurance that each GM has conducted the business in compliance with applicable laws and internal prescriptions concerning fundamental environmental, anti-corruption, antitrust, and labor laws. Furthermore, by signing the “Compliance Commitment 2020–2021”, all General Managers and Sika Senior Managers renewed their pledge to be compliance role models, leading their staff and conducting business with highest integrity and in accordance with the CoC.

COMPLIANCE AUDIT PROGRAM: The draft design of a Compliance Audit Program covering ethical leadership, anti-corruption, antitrust and due diligence of third parties has been finalized and the approval process has been initiated. In 2020, Corporate Compliance will assess the overall implementation of Sika's defined minimum requirements in the identified risk areas and propose a defined audit plan, to be aligned with other Sika assurance functions.

SIKA SUSTAINABILITY ACADEMY

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

In the year under review, regional Sika organizations managed and coordinated local sustainability activities and projects which were planned in the 2016 and 2017 regional Sustainability Academy programs. In 2019, the Sustainability Academy took place from October 14 to October 17 in Madrid, Spain. It was Sika's first climate-neutral event, certified by the climate protection partnership “MyClimate”.

The training provided the necessary skills, methods, and practical examples to the responsible people in the countries to develop, coordinate, and implement local activities and projects in

the “More Value – Less Impact” focus areas. 20 participants from 15 different countries in the regions EMEA and Americas were producing roadmaps for implementing the new, revised Sika Sustainability Strategy, targets, principles, and tools. Participant projects in the “More Value – Less Impact” focus areas give insights into local initiatives. The participants visited an NGO and learned how to plan and run Community Engagement projects which included volunteering activities together with the Fundación Gil Gayarre which is committed to the integration of equal opportunities for people with intellectual disabilities. Furthermore, the interaction with a customer and insights into the sustainability journey of Sika Spain rounded off the interdisciplinary academy.

After having concluded the seminar, participants were certified as local Sustainability Champions. Those experts now rely on methods and ways to initiate, manage and drive sustainability projects and engage people in their organizations. The Sika Sustainability Academy 2019 was designed as climate-neutral training. The entire carbon foot printing of the Academy involved calculating and reporting all relevant greenhouse gas emissions. This included mainly the emissions of the flights of the participants to the event, catering and lodging for the participants, and event-specific materials and waste. The total 24.8 tons of CO₂ emissions were compensated (offsetting) in cooperation with “MyClimate”. Sika supports a high-quality and gold standard certified project by the installation of photovoltaic cells on the roofs of Ethiopian and Kenyan houses for electricity production. This gives families access to lighting and improves the quality of life within the communities in rural regions of Ethiopia and Kenya.

SUSTAINABLE DEVELOPMENT GOALS

Sika is making a contribution to the UN 2030 Agenda for Sustainable Development, focusing on eight of the 17 goals. Sika's contribution to both the construction and the vehicle industry 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.

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 181 audits, including 22 internal audits, 69 supplier audits, and 14 quality audits in the year under review. 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. Sika also performs supplier audits when required. 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 improvements 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

Through its tax principles, internal policies, and actions, Sika is committed to be a "good corporate fiscal citizen" in pursuit of a long-term sustainable tax strategy, while fully and efficiently complying with national and international tax laws and regulations. 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 where a fair amount of taxes is paid in each jurisdiction in which the company operates. The outcome of the business-oriented approach is always checked for its compliance with all applicable laws. Such an approach results in an effective Group tax rate which reflects Sika's global footprint, the decentralized nature of the business, and the Group's successful local operations.

Starting in the 2016 business year, Sika was one of the first companies to submit an annual Country-by-country Report to the Swiss Federal Tax Administration on a voluntary basis. This OECD/G20 standard comprises pertinent information such as profit, taxes paid, and other factors of relevance to taxation per country in which companies are active.

In line with the OECD's intention, the Swiss Federal Tax Administration passes this report on to the tax authorities in the other countries in which Sika is subject to taxation. This demonstrates to these countries that Sika is duly complying with its tax obligations and paying its fair share of tax.

MORE VALUE – LESS IMPACT RESULTS 2019 (OVERVIEW)

Sika takes a long-term perspective on the development of its business. Through its products, systems, and solutions, Sika seeks to generate benefits for stakeholders that outweigh the negative consequences of the production process and resource consumption. An effective strategy, trust in the company, and the dedication of all employees are the pillars of Sika's success. 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.

2019 has been a year of transition: The new Sustainability Strategy 2023 was developed and communicated together with the Sika Growth Strategy 2023 on October 3, 2019 in connection with the Capital Markets Day in Zurich. In the year under review, Sika continued to report according to the "More Value – Less Impact" KPI's of the recent years.

Due to the size of the acquired company Parex, the integration had a substantial impact on the monitored KPI's. The 2019 figures include the acquired Parex activities as from June 1 (seven months). The sustainability related performance of the year 2019 is going to be the baseline for the Sustainability Strategy 2023.

The following details relate to all business operations of the Sika Group, including the activities of newly acquired companies, focusing on the core themes of sustainable solutions, community engagement, energy, water/waste, occupational safety, and CO₂ emissions at the more than 300 Sika production sites.

PRODUCT SUSTAINABILITY

In the year under review, the focus was to work on the development of the new Sustainability Strategy 2023, which builds upon the previous strategy and sets new enhanced targets for sustainable solutions. Sika started the ongoing process of developing a Sustainable Portfolio Management (SPM) methodology, a new sustainability assessment methodology which addresses relevant sustainability indicators and which forms part of the official Sika product development process, replacing the existing framework. The methodology will be used to assess sustainability-related risks and opportunities and performance categories of product-technology combinations in the defined market segments where Sika is active, combining both performance and sustainability into a single concept. This will lead to a deeper understanding of the sustainability performance of Sika's product and solutions portfolio, with a focus on new developments. Over the coming years, Sika plans to apply the concept across its product portfolios, to evaluate new product innovations and identify mitigation actions for existing products by reference to innovation priorities, and portfolio actions, and to disclose the progress qualitatively.

On local level, the larger countries in EMEA, Americas and Asia/Pacific further developed and implemented product sustainability roadmap activities in the year under review. As a result of the regional Sustainability Academy programs in the past, the scope of the roadmap activities in the year under review could be extended. The Sustainability Academy programs play an important role in involving additional national subsidiaries and increasing the future number of projects and activities. Examples of local projects can be found at www.sika.com/sustainability.

Customers, as well as stricter building and construction standards, increasingly demand that companies declare the environmental performance or environmental impact of their products in a transparent manner. This calls for sound data and knowledge about the impacts of product manufacturing and application, and of the added value of finished products in their application and use. In 2019, as in the years before, Environmental Product Declaration (EPD) activities in European markets as well as active involvement in association work in Europe have been key activities for Sika. Sika's existing EPD reference database for its products and systems has been expanded, focusing on locally produced products such as cementitious mortars and floors. Providing information on the environmental performance of Sika solutions improves the customers' basis for decision-making when it comes to product selection.

With the comprehensive product portfolio and the know-how built up over the years, more and more local Sika companies are involved in projects according to international green building schemes. Such schemes include the US Green Building Council's LEED program, the British Research Establishment's BREEAM scheme and the German Sustainable Building Council's DGNB program. These programs award credits for buildings incorporating products with EPDs, low VOC and odor levels, recycled content and material disclosure, amongst other criteria. In the year under review, the existing LEED product portfolio was broadened and the DGNB guidelines and associated training

documents were developed to support countries in the acquisition of projects. With the increasing number of green building projects in commercial and public construction, the fact that Sika has a product portfolio that contributes to multiple green building requirements means that it is well prepared to assist customers in selecting the best solutions.

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

SOCIAL: PEOPLE

COMMUNITY ENGAGEMENT

In 2019, Sika sponsored 148 projects (previous year: 128 projects). This equates to a year-on-year increase of 15.6%. The projects are classified as "social", "ecological", "scientific", and "sports and cultural". They relate to Community Engagement with the purpose to support local neighborhoods.

SOCIAL

The main goals are to support communities in infrastructure development for social projects, to promote education and training for children and young adults, and to run water related and environmental projects to respond to the climate change. Sika also seeks to promote on-the-ground self-help. Sika 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.

Support of children and young people: Projects sponsored by Sika in the year under review include initiatives such as the continued collaboration with the non-profit organization Operation Smile in Vietnam and Thailand. Sika has supported the activities of Operation Smile in Vietnam since 2010, and in Thailand since 2014. Thanks to the assistance of committed volunteers, the organization has, since 1989, arranged surgery for some 240,000 children and youths with cleft lips and palates or similar facial disfigurements. Likewise, in 2019 Sika continued the support of children's homes throughout the world.

Education and schooling: Another focus is to support schools. In China, Sika supports the Library Project, a nationwide initiative to sponsor libraries in public schools. Between 2015 and 2019 the Sika team helped to create reading rooms and corners in 86 schools, donating more than 70,000 books and providing comfortable and safer learning environments for more than 18,000 children. In 2019, Sika also continued its support of a new school for girls and young women in Madagascar. Sika Tanzania is supporting "ProjEkt Inspire", a youth-related initiative, aimed at opening career options to younger generations.

Improving the lives of people with disabilities: In the year under review, Sika increased its engagement for improving the lives of people with physical or intellectual disabilities. In 2019, for example, the team from Sika Spain organized a volunteering program which focuses on improving the living conditions of people with intellectual disabilities and on unemployment aid. Furthermore, at Sika's facility in Gournay-en-Bray, France, a partnership with the local governmental initiative "ESAT" ("Centre d'Aide par le Travail") supports the professional reinsertion of disabled people.

Sika aims to vigorously support volunteering work in relation to social activities and personal development. In the year under review, 75 Sika employees in Switzerland were participating at two community projects in Zurich covering biodiversity and waste management. Volunteering work was carried out by Sika teams in all regions.

ENVIRONMENT

The focus of Sika's environmental engagement is on water, building, infrastructure, and renewable energy projects. The main sponsorship partner in this field is the Global Nature Fund (GNF). Sika has supported the GNF and its international Living Lakes environmental program since 2004. 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 2019, Sika sponsored projects to ensure drinking water in Africa. Furthermore, community development projects were planned and implemented in Colombia and India. The construction of a social center for women is an example of a communitarian participation process and serves as a catalyst for the empowerment of women in rural areas of Colombia. In India the focus of the project was to enable farmers to establish organic horticulture.

SCIENTIFIC SPONSORSHIPS

As project sponsor, 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. Further cooperations are described in the chapter, "Products & Innovations", pp. 30.

2019 was the tenth year in which the Sika Master Award was presented to the authors of three outstanding master thesis in the field of civil engineering, based on the recommendation of ETH's Department of Civil, Environmental, and Geomatic Engineering. Sika also participates in ETH Zurich's Partnership Council of Sustainable Construction. This interdisciplinary forum promotes dialog on current research topics, provides resources, supports knowledge transfer, and encourages the launch of joint research projects in the field of sustainable construction.

SPORTS AND CULTURE

Sika supports sports and cultural projects throughout the world. In the year under review, the focus of sponsorship in Switzerland has been on the EV Zug ice hockey club and on the support of the organization of the Federal Swiss Wrestling & Alpine Festival in Zug, Switzerland. During three days in August, an audience of 420,000 watched around 200 wrestlers from all over Switzerland battling it out for the crown and wreath.

OCCUPATIONAL SAFETY

Sika's goal is to ensure every employee feels comfortable and protected in the workplace. The number of occupational accidents (lost working days >1) decreased by 8.2% in 2019 compared to 2018. In the year under review, 9.55 occupational accidents per 1,000 employees were recorded (previous year: 10.4). In 2019, injuries caused absences, on average, of 21.5 days (previous year: 18.4 days). There has been one fatality on the premises of an acquired Sika company. The increase in total number of lost days due to injuries mainly can be explained by the figures from acquisitions.

In 2019, Sika has established and strengthened the regional and area EHS structure by identifying reference Sika EHS Managers. A further measure has been the planning of a worldwide occupational safety program that will be launched in 2020.

ECOLOGICAL: PLANET

ENERGY

Due to the lower energy intensity of the acquired Parex company, energy consumption per ton sold has further decreased in the year under review. Energy consumption per ton sold was 363 megajoules (previous year: 424 megajoules), which leads to a reduction of 14.4% compared to the previous year.

Sika continued to replace lighting solutions with the latest LED technology. This technology has led to substantial energy savings of up to 70% of total lighting electricity consumption in those locations where the technology was implemented. Furthermore, shorter batch time in production led to a higher output of existing production lines, resulting in increased energy efficiency. The replacement of technical equipment focuses on new energy-efficient installations, such as motors, air conditioning, heating/cooling, and pressurized air systems. Further activities encompass energy-efficient operation of electric motors with frequency converter, leakage detection and fixation of air losses in pressurized air systems, and energy-efficient cooling of process water with use of cooling tower and optimized logistics. The modernization of the vehicle fleet also resulted in fuel reduction. Energy audits and participation at energy networks promoted energy awareness throughout the company. A particular focus has been set on sand drying. A process optimization guideline was set up in 2019, which will be used on a global scale starting in 2020, this will lead up to 30% energy savings.

CO₂ EMISSIONS

According to the latest conversion factors published by the International Energy Agency (IEA), total CO₂ emissions caused by purchased electricity in 2019 summed up to 243,000 tons (Scope 1, 2 and 3). Compared to 2018 (191,000 tons) this result is significantly higher due to the size of the acquired Parex company and other acquisitions which were integrated in the reporting for the first time (Index, King Packaged Materials, Faist). The integration had a substantial positive impact on CO₂ emissions per ton sold, which decreased from 31 kg CO₂ per ton sold (2018) to 27 kg CO₂ per ton sold in 2019.

CO₂ EMISSIONS (DIRECT): CO₂ emissions from burning fossil fuels by all Sika companies, and by its own vehicles, are calculated based on the reported fuel quantities. In 2019, CO₂ emissions from the use of primary energy sources amounted to approximately 88,000 tons (previous year: 48,000).

CO₂ EMISSIONS (INDIRECT): CO₂ emissions from electricity consumption and leased vehicles, as well as business travel, are derived from the reported energy quantities. In 2019, CO₂ emissions caused by electricity consumption amounted to 124,000 tons (previous year: 109,000 tons). Leased vehicles and business travel caused additional CO₂ emissions of 16,000 tons and 15,000 tons respectively (previous year: 20,000 tons and 14,000 tons).

WATER AND WASTE

WATER

In 2019, Sika used approximately 2.7 million cubic meters of water (previous year: 1.8 million cubic meters). The water consumption per ton sold was around 0.34 cubic meters (previous year: 0.39 cubic meters). This decrease is mainly caused by acquisitions processed in 2018 and 2019, which were taken into account in 2019.

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

WASTE

With an increased production volume, the company generated some 112,000 tons of waste (previous year: 84,000 tons). This corresponds to 14.1 kilograms of waste per ton sold (previous year: 18.1 kilograms per ton sold), or a decrease of 22.0%.

Overall, Sika could reduce the amount of waste per ton sold by putting in place activities such as the optimization of the production planning, streamlining the production process layout, and the reuse of production waste. In addition, water from cleaning processes (tanks, bulk delivery trucks, and gas scrubbers) was reused. Furthermore, filter dust from dosing and bagging stations was recycled into similar products in mortar production. Innovative warehouse management was also put in place to reduce the quantity of expired products.

With regards to circular economy initiatives, Sika has been working on a project to recycle waste from polyurethane adhesive to be used as raw material in membrane production.

SIKA SUSTAINABILITY STRATEGY 2023

In 2019, Sika further developed and published the Sustainability Strategy "More Value – Less Impact". With this framework the company is pursuing the goal of creating values for people and of respecting the environment, while at the same time using resources in a moderate and sustainable manner. This is how the future can be shaped sustainably.

The company makes an essential contribution to customers in construction and other industries to meet their sustainability targets, such as energy- and material-efficient vehicles and buildings. Sustainability is an integral part of the innovation process and development of new products

Sika strives to extend the service life of buildings and infrastructure constructions in order to reduce maintenance effort, to improve energy and material efficiency, and to further enhance user friendliness and health and safety profiles. One of the company's main objectives is to reduce resource consumption, energy consumption, and the associated CO₂ emissions along the value chain, both internally and for partners and customers who place their trust in Sika products and solutions. The following graph explains the strategy, the targets and the KPI's. The strategy will be effective by January 2020.

SUSTAINABLE SOLUTIONS

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

TARGET

- All new product developments with "Sustainable Solutions" until 2023



CLIMATE PERFORMANCE

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

TARGET

- 12% reduction of CO₂-emissions per ton sold until 2023



COMMUNITY ENGAGEMENT

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

TARGETS

- 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.

TARGETS

- 15% less energy consumption per ton sold
- 50% renewable electricity rate

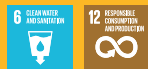


WASTE / WATER

We increase material and water efficiency.

TARGETS

- 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.

TARGETS

- 50% less accidents
- 0 fatalities



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. The company is customer-focused and is characterized by its traditional flat leadership structures.

ORGANIZATIONAL STRUCTURE

Sika conducts its worldwide activities according to countries that have been classed into regions with areawide 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 national management teams bear full profit and loss responsibility, and, based on the Group strategy, set country-specific growth and sustainability targets, and allocate resources. An overview of the organization by regions for the 2019 financial year can be found on page 45 of this report.

Sika's regional breakdown is based on unified economic areas and supply chain structures. Overarching leadership responsibility ensures integrated management, from production to the customer. Sika's sales organization is geared to eight target markets: Concrete, Waterproofing, Roofing, Flooring, Sealing & Bonding, Refurbishment, Industry, and Building Finishing. The Building Finishing division was newly established in 2019. Within the division, Sika bundles its service offering and competence in the area of mortar technology, and focuses on the specific market potential. This market-oriented distribution enables Sika to sharpen its customer focus, optimize its technical market support activities, and concentrate its R&D operations on market needs.

ORGANIZATIONAL CHART

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

BOARD OF DIRECTORS

Paul Hälgi,
Chair of the Board

Viktor W. Balli
Frits van Dijk

Justin M. Howell
Monika Ribar

Daniel J. Sauter
Christoph Tobler

Thierry F.J. Vanlancker

CEO
Paul Schuler

LEGAL
Stefan Mösli

PROCUREMENT
Marcos Vazquez

COMMUNICATION & IR
Dominik Slappnig

HR & COMPLIANCE
Raffaella Marzi

ASIA/PACIFIC
Mike Champion

EMEA
Ivo Schädler

AMERICAS
Christoph Ganz

GLOBAL BUSINESS
Thomas Hasler

CFO
Adrian Widmer

CONSTRUCTION
Philippe Jost

TECHNOLOGY (CTO)
Frank Höfflin

INDUSTRY
Thomas Hasler

GROUP MANAGEMENT

A sporting backdrop for the eight members of Group Management. With an investment volume of CHF 65 million, the new “La Tuilière” stadium in Lausanne will have capacity for 12,000 spectators and is due to open in summer 2020. For this architecturally sophisticated project, Sika supplied sealing systems for the below-ground stories, anticorrosion protection for the steel structures, insulation solutions, and roofing membranes.



CHRISTOPH GANZ

Americas
With Sika for 24 years in
Switzerland, France, and the USA

FRANK HÖFFLIN

Technology (CTO)
With Sika for 17 years in
Switzerland and the USA

ADRIAN WIDMER

CFO
With Sika for 13 years
in Switzerland

PAUL SCHULER

CEO
With Sika for 32 years in
Switzerland, Germany, and the USA

MIKE CAMPION

Asia/Pacific
With Sika for 22 years in
Asia and the USA

IVO SCHÄDLER

EMEA
With Sika for 23 years in
Switzerland and the UK

PHILIPPE JOST

Construction
With Sika for 23 years in
USA and Switzerland

THOMAS HASLER

Global Business and Industry
With Sika for 31 years in
Switzerland 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 since 2019; 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: Member of the Board Peikko Group, Finland.

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 Schmolz + Bickenbach AG, Switzerland (Chair of the Audit Committee).

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; Chair of the Board: Dätwyler Holding AG (and therefore also of PEMA AG and Dätwyler Führungs AG), Altdorf; Member of the Board: Dätwyler Cabling Solutions AG, Altdorf; Sonceboz Automotive SA, Sonceboz; Chair of the Board: Welfare Foundation Sika, Baar; Member of the Foundation Council: ETH Foundation, Zurich; Swisscontact, Zurich; REGA, 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, Milan, Italy.

Member of the Board: Givaudan, Vernier (Compensation and Audit Committee); Swiss Federal Audit Oversight Authority (RAB), Bern; Hemro AG, Bachenbülach; Ceva Logistics AG, Baar (until April 2019), (Chair of the Audit Committee); Medacta International SA, Castel San Pietro (Chair of the Audit Committee). Member of the Supervisory Board: KWS Saat SE, Einbeck, Germany (Chair of the Audit Committee); Louis Dreyfus Holding BV, Amsterdam, Netherlands (Chair of the Audit Committee).

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

Nationality: Dutch; Year of birth: 1947

Member since: 2012; Committees: Chair Nomination and Compensation Committee; 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; Member of the Board: Nestlé Malaysia Berhad; Member of Advisory Board: Al Muhaidib Group, Saudi Arabia.

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

Nationality: Canadian; Year of birth: 1971

Member since: 2018; Committees: 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; 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; Chair of the Board: SBB AG (Swiss Federal Railways), Bern; Member of the Board: Lufthansa Group, Frankfurt am Main; 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; Chair of the Board: Julius Bär Gruppe AG, Zurich (until April 2019); Trinsic AG, Zug; Tabulum AG, Zug; Hadimec AG, Mägenwil; Member of the Board: ARAS Holding AG, Lenzburg; AS Print AG, Villmergen; Richnerstutz AG, Villmergen; Member of the Foundation Board: Avenir Suisse, Zurich.

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; Member of the Board: AG Cilander, Herisau; Sefar Holding AG, Thal SG; economiesuisse, Zurich; Member of Regional Advisory Board: Swiss National Bank.

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

Nationality: Belgium; Year of birth: 1964

Member since: 2019; 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, Wilmington, USA; 1989–2016: Various functions within DuPont: Vice President DuPont Performance Coatings EMEA, Cologne, Germany; Global Business & Marketing Director Fluorochemicals, DuPont, Wilmington, USA.

CORPORATE CULTURE

ENGAGEMENT AND STRONG VALUES AS BASIS FOR COMPANY SUCCESS

Sika firmly believes that its success as a company is only possible with committed employees who have the necessary specialist knowledge and all pull in the same direction. Each and every day, more than 25,000 employees worldwide are hard at work for the company. Their exceptional degree of commitment and high level of identification with the company's values are confirmed by the first Group-wide survey, which was conducted in 2019.

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 at all 101 Sika national subsidiaries and are adhered to by employees around the globe. Thus the Group's culture of trust, transparency, and openness has a firm global foundation that is put into practice. Last year a leadership commitment was established based on the four pillars Drive Change, Unlock Potential, Win Together, and Inspire. This leadership commitment will help to preserve Sika's corporate culture. Together with the Values and Principles, it provides managers with clear and tangible guidelines.

Conducted in the 2019 business year, Sika's first-ever Group-wide survey confirmed that the workforce identifies very strongly with the corporate values.

MAXIMUM PERFORMANCE THROUGH STRONG COMMITMENT

More than 14,600 Sika employees around the globe took part in the survey, representing a response rate of 78%. In comparison with other global companies, this is an excellent result and demonstrates that employees are highly loyal to Sika.

The objective of the survey was to collect data on employee engagement, as well as identify strengths and areas with potential for improvement. Sika's index score of 86 points out of 100 for Group-wide workforce engagement is an outstanding rating. The teams are proud to work for Sika (90 points) and are extremely committed in terms of their work (94 points) and the future success of the company (92 points). At the global level, Sika achieved its best grades for the immediate working environment, including collaboration within the team and with line managers.

The reasons given for the strong level of engagement are a job role with a high degree of responsibility, teamwork within a trust-based work environment, as well as a pronounced customer-first mindset. The survey thus also confirmed that corporate values are keenly embraced and practiced in the organization and form the basis of Sika's unique corporate culture.

Work-life balance, cross-team collaboration, and the establishment of teams with greater diversity were the areas identified as having potential for improvement. The survey findings were broken down in detail to the individual country and sector levels and discussed in the teams. Everyone in a leadership role is called on to work closely with their teams to further strengthen the positively rated factors, to identify opportunities for improvement, and to implement effective measures.

ETHICAL CONDUCT AS A CORNERSTONE OF REPUTATION

The company is actively committed to ethical conduct and integrity as the strategic cornerstones on which Sika's excellent reputation is founded. Numerous compliance initiatives were conducted in the year under review, owing to the strong growth experienced by Sika as a result of the takeover of large companies such as Parex and the fast-growing business activities in challenging markets. The global compliance campaign, which pursues the aim of increasing integrity awareness, was completed last year with a digital training program on the Code of Conduct, and the misconduct reporting system, the Sika Trust Line. Once again, more than 10,000 employees worldwide received training on the issue of compliance, the Code of Conduct, and the misconduct reporting system in 2019. Leaders, including Senior Managers, General Managers, and Executive Management members in all countries, reinforced their role model status by signing a compliance commitment in 2019.

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 Sika Code of Conduct is binding, even in cases where local laws are less stringent. In addition, as a signatory of the UN Global Compact, Sika prepares its reporting in accordance with the GRI standards. To ensure that the interests of all stakeholders are represented and to reaffirm our commitment, Sika is also a member of the World Business Council for Sustainable Development.

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

Sika tolerates neither child labor nor any type of slavery, and observes all laws and guidelines to combat discrimination in any form. Sika actively promotes a recruitment policy aimed at achieving a diversified workforce. Chapter 9 of Sika's Code of Conduct contains a zero tolerance guideline with regards to inappropriate behavior of any kind, including human rights violations and discrimination in the workplace. In the reporting year, Sika's compliance management system was again strengthened in order to promote the Sika Group's culture of trust, transparency, and openness.

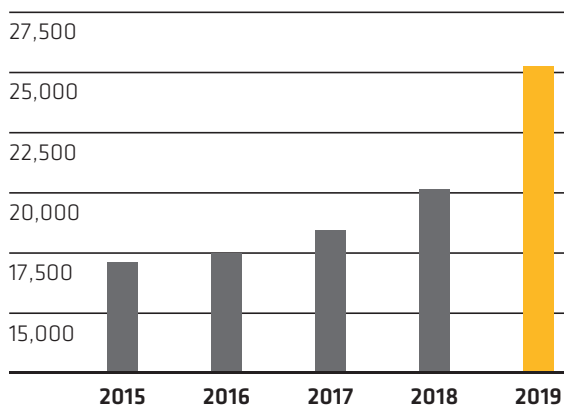
EMPLOYEES – THE KEY TO SUCCESS

The number of employees rose 25.3% during the year under review to 25,141 (previous year: 20,060) which is mainly attributable to the Parex acquisition. Regional distribution is as follows: EMEA: 10,146 (previous year: 8,772), Americas: 5,450 (previous year: 4,130), Asia/Pacific: 6,316 (previous year: 3,931), Global Business: 2,547 (previous year: 2,585), and Corporate Services: 682 (previous year: 642).

In 2019, 4,806 new employees joined Sika as a result of acquisitions (4,510 of which due to the Parex acquisition). Organic growth also added a further 275 employees to the company headcount.

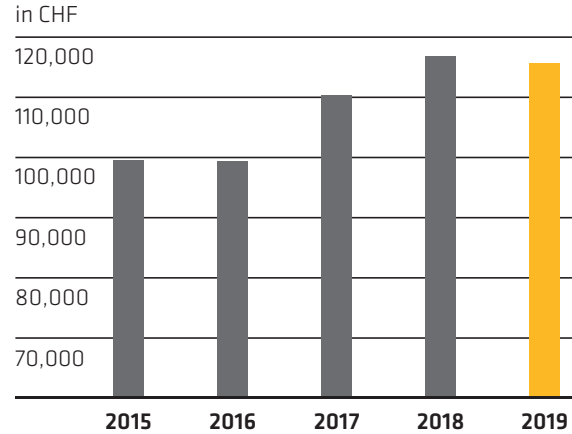
The age structure at Sika is broadly balanced: 15% of employees are under 30 years of age and 25% over 50. Sika wants to offer its staff long-term prospects with the company. More than 88% of employees have permanent employment contracts.

EMPLOYEES



Together, the workforce generated a net added value of CHF 2,613 million in 2019 (previous year: CHF 2,264 million). This corresponds to net added value per employee of CHF 116,000 (previous year: CHF 117,000).

NET ADDED VALUE PER EMPLOYEE



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

Sika's global presence and associated proximity to customers make it extremely important to integrate different cultures and share experience and know-how across national boundaries. The company firmly believes that the diversity experienced by employees on a daily basis is one of the factors in its success, and it supports an open and integrative culture. At courses and seminars, Sika managers are encouraged to give high priority to diversity in team and project planning. 49 nationalities are represented among Sika's Senior Managers. Women account for 23% of the Group's total headcount (previous year: 22.3%). Sika is constantly working to increase this percentage at all hierarchical levels and conducted initiatives during the period under review to improve the quota of female employees in the company. The declared goal is to recruit and promote more women, particularly in sales. Recruitment campaigns in various channels are increasingly targeting women.

To find out what female employees think about Sika, the first global "Women of Sika" forum was organized in May 2019. Female participants from various departments, cultures, and age groups were invited to spend two days attending workshops and discussions on how programs for women can contribute to Sika's success. The "Women of Sika" core team has subsequently been working closely with top management to develop an action plan that focuses on the following three pillars: recruiting, retaining, and promoting more women at Sika. The "Women of Sika" campaign was officially launched during a global leadership meeting in September with the prime objective to sharpen Sika leaders' awareness. Toolkits are to be used to support local campaign rollouts.

INTERESTING PROSPECTS ACROSS THE GLOBE

Sika has a local presence in over 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 and increasingly champions international mobility. Internal candidates are given preference. In 2019, for instance, 100% of Senior Management roles were filled in-house or with managers joining from acquisitions. The long-term employee prospects and the corporate culture are among the reasons behind Sika's low employee turnover rate of 6.0% (2018: 6.9%). Sika is proud to have employees who remain with the company 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, increasing the quota of female employees, and attracting more candidates from emerging economies.

LEARNING FOR LONG-TERM SUCCESS

As a multinational, 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 12.3 million (previous year: CHF 11.5 million) on employee development. The aim is to provide at least ten hours of training per year for each employee. In 2019, this figure stood at 11.4 hours (previous year: 16.8 hours). The focus is on external as well as in-house training opportunities.

In addition, Sika is continually expanding its e-learning platform, with now more than 360 internal training options on offer. The range of online courses available also increased significantly. Over 50 new programs were implemented, and more than 5,500 training hours were completed online. To broaden the training reach, Sika will launch a new e-learning platform for customers in 2020.

Geared towards a strategy of sustainable growth, the programs offered by the Sika Business School comprise leadership and talent development, sales training, digital learning, and special academies. More than 100 courses were offered in the year under review and attended by 1,700 participants. The 15 training programs conducted for existing and upcoming managers were designed to further foster management and leadership know-how and, among other objectives, prepare them for assignments abroad. For continuing education of its over 200 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."

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 With Confidence, and Customer Acquisition (Industry). Sika also delivers several additional ad hoc trainings in specific areas such as compliance, legal, and procurement.

Many training courses on Sika products and their applications take place at the local and/or regional levels. The company's expertise in advising customers is thus fostered further.

DIGITAL COMMUNICATION PLATFORM

The omnipresence of the Web 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. This not only applies to innovation management, recruitment, and training, but also extends to everyday communication, whether at the workplace or off-site.

In 2019, Sika began the global rollout of its new website. The project, which is scheduled to complete worldwide by the end of 2020, is part of Sika's global strategy to focus on customer centrality. 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, also requires an innovative and state-of-the-art IT environment in order to be able to offer Sika's digital workplace soon to every employee worldwide. In 2019, therefore, Sika took an important step in its digitalization journey, with the approval and preparation to migrate technology systems from IBM Notes to Office 365. With Office 365, Sika will move further into a seamless user experience in internal communications and collaboration. This new, secure, and fully integrated solution will contribute to Sika's success in today's digital world.

In 2019, Sika's corporate social media channels totaled over 195,000 followers. LinkedIn remained the most popular channel, with approximately 135,000 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 25,782.90 million. In the year under review, the Sika Group encompassed unlisted subsidiaries in 100 countries. 229 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, Sarna Granol AG, Switzerland, as well as Hayashi-Sika Automotive Ltd., Chemical Sangyo Ltd., and Seven Tech Co. Ltd. in Japan. Detailed information on the Group companies can be found on page 145 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 and Research and Development departments are likewise members of Group Management, which consists of eight 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 58 to 64 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, 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) The Capital Group Companies, Inc. which held 3.37% of all voting rights via Capital Research and Management Company. (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. 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/de/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, 2019, 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, 2019), 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 <https://www.sika.com/en/investors/corporate-governance-risk-management/articles-of-association.html>). 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 post-

ed on page 154 et seq. 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 2019, the Board of Directors has not registered any Nominees with voting rights exceeding 3%.

CONVERTIBLE BONDS

As of December 31, 2019, 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	105.21332 registered shares with a nominal value of CHF 0.01	CHF 190.09	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 number of registered shares of the company to be delivered upon conversion correspond to 6.12% of the outstanding registered shares as of December 31, 2019. As of December 31, 2019, 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 1,387.15495	Minimum CHF 128.16	30.1.2022	3.75% payable annually on January 30
	Maximum 1,560.54931	Maximum CHF 144.18		

The notes will be mandatorily converted into new or existing registered shares of Sika AG at maturity. The respective number of registered shares of the company to be delivered upon mandatory conversion of the notes correspond to 7.15% of the outstanding registered shares (based on the minimum conversion price of CHF 128.16). 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 128 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, 2019, is listed on page 63 and 64 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 2018 on page 58, in the Annual Report 2017 on pages 42 and 43, in the Annual Report 2016 on pages 19 and 20, in the Annual Report 2015 on pages 28 and

29, and in the Annual Report 2014 on pages 27 and 28 (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. At the Annual General Meeting on April 9, 2019, Ulrich W. Suter stepped down from the Board of Directors. At the same Annual General Meeting, Thierry Vanlancker and Viktor Balli were elected as new members of the Board. 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 Chairman's request as often as business demands. Meetings are generally held every one to two months. In the business year 2019, the Board of Directors met eight times. The meetings lasted between four and six hours.

ATTENDANCE OF INDIVIDUAL BOARD MEMBERS

Board Member	Member since	Number of meetings attended
Paul Hälgi	2009	8 of 8
Viktor W. Balli (as of April 9, 2019)	2019	6 of 8
Frits van Dijk	2012	6 of 8
Justin M. Howell	2018	8 of 8
Monika Ribar	2011	8 of 8
Daniel J. Sauter	2000	8 of 8
Ulrich W. Suter (until April 9, 2019)	2003	3 of 8
Christoph Tobler	2005	8 of 8
Thierry Vanlancker (as of April 9, 2019)	2019	6 of 8

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, but at least three times per year, also in an advisory capacity. In 2019, the CEO participated in all and the other members of Group Management in three to eight of the eight meetings. Company officers report regularly and comprehensively to the Chairman concerning 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 Chairman 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 Chairman of the Board of Directors, as well as the Audit Committee, within the scope of the review schedule. In 2019, 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 elected by the Board of Directors. Otherwise, the committees organize themselves. Information on the members of the committees can be found on page 63 and 64 of the download version of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>).

The Audit Committee mainly reviews the results of internal and external audits, as well as risk management. The committee convenes at the request of its chairperson as required. Customarily, the Chairman of the Board 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, except Viktor Balli who joined the Audit Committee after being elected at the Annual General Meeting on April 9, 2019, and attended three of five meetings. The Chairman of the Board of Directors, the CEO, and the CFO participated in five 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 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 (as of April 9, 2019)	3 of 5
Christoph Tobler	5 of 5

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 required. Usually the Chairman 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 three hours. In the year under review, the Nomination and Compensation Committee held five ordinary meetings, as well as one extraordinary conference call related to the nomination of a new member of Group Management. Two members attended all Committee meetings, while one member attended four meetings and was excused for one meeting. The Chairman of the Board of Directors and the CEO participated in all of the five meetings. 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 77 et seqq. 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
Frits van Dijk, NCC Chair	4 of 5
Justin M. Howell	5 of 5
Daniel J. Sauter	5 of 5

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 Chairman of the Board of Directors. The Chairman 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 Chairman of the Board of Directors immediately. In every meeting, the Chairman of the Board of Directors, or, at the Chairman'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 39 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 Chairman 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 in the beginning of the Corporate Governance section, on page 69 of this report (available at <https://www.sika.com/en/investors/reports-publications/financial-reports.html>). During the year under review, Yumi Kan stepped down as member of Group Management and as Head Construction effective as of June 1, 2019, to assume new responsibilities in the region Asia/Pacific. Philippe Jost succeeded Yumi Kan and was appointed member of Group Management and Head Construction as of June 1, 2019. The members of Group Management and their functions as per the balance sheet date of December 31, 2019, are listed on pages 60 to 62 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 61 and 62 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 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, in the Annual Report 2015 on pages 25 and 26, and in the Annual Report 2014 on pages 24 and 25 (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 49 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 76 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. 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 2019, 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 chairman 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 6.2 million for its services. Thereof, CHF 5.3 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 2020	Tuesday, April 21, 2020
52nd Annual General Meeting	Tuesday, April 21, 2020
Dividend payment	Monday, April 27, 2020
Half-Year Report 2020	Thursday, July 23, 2020
Results first nine months 2020	Thursday, October 22, 2020
Net sales 2020	Tuesday, January 12, 2021
Media conference / analyst presentation on full-year results 2020	Friday, February 19, 2021

SIGNIFICANT CHANGES SINCE BALANCE SHEET DATE

Material changes having occurred between the balance sheet date (December 31, 2019) and the editorial deadline for the Annual Report are referenced on page 144 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 2019 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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Compensation awarded to the Board of Directors in 2019 (audited)	89
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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 2019 Compensation Report.

Sika once again delivered record results in 2019. Sales in Swiss francs rose by 14.4% year-on-year to CHF 8,109 million, which equates to an increase of 16.3% in local currencies. Operating profit increased by 11.5% to CHF 1,055 million, thereby surpassing the billion-franc threshold for the first time. Net profit was recorded at CHF 759 million, representing a year-on-year growth of 10.4%. The positive development of the business in all regions together with investments in new factories and acquisitions plus the market launch of new products all contributed to Sika's strong growth. With regard to relative performance, Sika outperformed its peers both in terms of sales growth and profitability improvement. The Compensation Report outlines how these results impacted the variable incentive payments made to the members of Group Management under the different compensation plans.

Last year, the Nomination and Compensation Committee conducted a thorough review of the compensation programs applicable to the Board of Directors and Group Management, on the basis of which several changes have been implemented in the reporting year, as already communicated in last year's Compensation Report:

- Board compensation: the board fees, which had been unchanged since 2012, have been adjusted and the proportion paid in blocked shares increased.
- Compensation of Group Management:
 - Performance Bonus: the voluntary deferral in blocked shares (including matching shares) has been discontinued.
 - Long-term incentive: the long-term incentive now includes relative total shareholder return (TSR) as performance condition, in addition to the return on capital employed (ROCE). The maximum vesting level amounts to 150%, in line with our pay-for-performance philosophy and with market practice.
 - Clawback and malus provisions have been introduced to the Performance Bonus and long-term incentive plans.

Further details on these changes are provided in this Compensation Report.

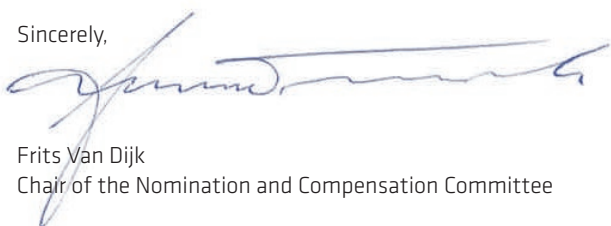
The compensation system applicable for 2019 as described in this report will also apply for 2020.

In the reporting year, the Nomination and Compensation Committee performed its regular activities throughout the year, such as the succession planning for the positions on the Board of Directors and Group Management, the performance goal setting at the beginning of the year and the performance assessment at year end of Group Management, 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.

At the 2019 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 amount for the Board of Directors and for Group Management with an approval rate exceeding 95%, however the consultative vote on the Compensation Report received a lower approval rate of 72.4%. Following this result, Sika actively reached out to investors to understand and address their concerns on the compensation policy and programs. You will find the outcomes of this dialogue in this report.

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 dialog 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,



Frits Van Dijk
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 2019, Mr. Frits van Dijk (Committee Chair), Mr. Justin Howell and Mr. Daniel Sauter were re-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 2019, the Nomination and Compensation Committee held five ordinary meetings according to the following predetermined annual agenda, as well as an ad hoc conference call:

	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 (shareholding 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				■	

In 2019, two members attended all Committee meetings, while one member attended four meetings and was excused for one meeting. This corresponds to an attendance rate of 93%. The meetings' duration extended from one and a half to two and a half hours.

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 2019, 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 Associations, which are also approved by the shareholders. The provisions of the Articles of Associations 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 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.

At the 2019 Annual General Meeting, the Compensation Report received a 72.4% approval rate. Following this result, Sika actively engaged in a dialogue with shareholders in order to understand and address their concerns on the compensation policy and programs. The two main points raised by shareholders relate to the structure of the long-term incentive plan (LTI) and are summarized below, together with Sika's explanations:

Shareholders' concerns	Sika's rationale
<p>LTI A relative total shareholder return (TSR) below median still generates a payout (payout curve for relative TSR)</p>	<p>The relative TSR target was added to the LTI as an additional performance condition to strengthen the link between executive compensation and shareholders' returns. The compensation philosophy of Sika is based on a total compensation approach with the intention to pay median compensation for expected performance (i.e. performance achievement of 100%). In case of outperformance, total compensation will exceed market median due to higher incentive payouts, in case of underperformance, total compensation will be below market median due to lower incentive payouts. In addition, Sika's compensation philosophy is to design incentive plans with reasonable leverage (no "all or nothing" plans). This means that a minimal payout is possible in case of performance below target, while there is no payout below a certain threshold performance. On the other side, a maximum overall payout of 150% applies in case of extraordinary performance. This plan design combines both the pay-for-performance philosophy of the company and its commitment to sustainable compensation programs that do not set unintended signals to management or inappropriate incentives.</p> <p>For relative TSR, the target is to reach the median of the peer group (median performance provides for median compensation). Statistically speaking, the probability to reach median performance amounts to 50%. Setting the threshold for payout at median performance would mean that the plan would not generate any payout in half of the cases. Such leverage is not aligned with Sika's compensation philosophy. Instead, the decision was made to use the same payout curve for relative TSR under the LTI plan as the payout curve used since 2010 to measure relative performance for the annual Performance Bonus. This payout schedule has worked very well over the past ten years, demonstrating a robust link between company performance and executive compensation, yet without unreasonable payouts or unintended consequences. Proxy advisors and shareholders have been supportive of this payout schedule in the annual Performance Bonus since its introduction in 2010.</p>

Shareholders' concerns	Sika's rationale
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<p>LTI</p> <p>Increase of the maximum payout from 100% to 150%</p>	<p>The increase of the maximum payout potential from 100% to 150% in the LTI plan is in line with the compensation principles of the company of paying for performance and providing for competitive compensation in line with market standards, where the maximum payout in LTI plans usually amounts to between 150% and 200% of target. It is important to note that the previous maximum potential of 100% was substantially below market standards. In addition, this change was introduced in combination with the introduction of an additional performance condition (relative TSR), as described above. The combination of two performance measures makes the plan more challenging and the higher upside potential (150% payout) balances the higher downside risk (payout below 100%, potentially down to 0%).</p>
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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 had been 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 had been 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. This 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 have been increased, effective for the compensation period starting after the 2019 Annual General Meeting, and a higher portion of the compensation is now delivered in blocked shares.

Regarding the compensation of Group Management, a benchmarking analysis is conducted every two years with the support of an independent consultant, Willis Towers Watson. The last analysis was performed in 2018. 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, excluding EMS Chemie (no data available). For the Group Management position 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 benchmark. Willis Towers Watson compiled the relevant benchmarking data and summarized them 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 2019 and 2020. 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 ¹ (12/31/2019)	Revenue ¹ (12/31/2018)	Headcount (latest available data)
Sika	25,783	7,085	25,141
upper quartile	26,471	12,750	64,486
median	19,558	6,858	19,845
lower quartile	14,420	4,631	14,500

1) latest available data

PERFORMANCE MANAGEMENT

The actual compensation paid to the individual members of Group Management in a given year depends on company 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 a 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 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 shares
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 shares on the basis of the average closing share price in the five first trading days of April before the beginning of the year of office.

Shares are allocated to the members of the Board of Directors shortly after the end of the year of office.

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 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 112% for the CEO and ranges from 50% to 69% for the other members of Group Management. Group performance accounts for 60% of the total bonus, while the achievement of individual objectives accounts for 40%.

GROUP PERFORMANCE

The performance measures for the Group are proposed by the Nomination and Compensation Committee and approved by the Board of Directors. For 2019, 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.

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

EBIT and net sales performance are measured based on an evaluation provided by an independent consulting firm, Obermatt. This benchmark compares and ranks Sika against the performance of a selected peer group of 23 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)

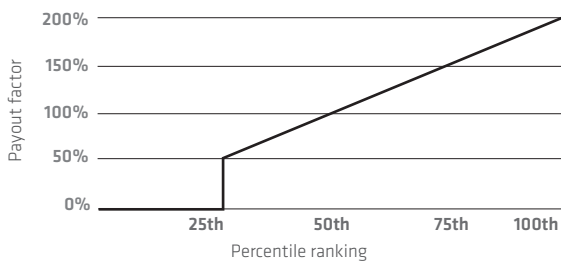
3M – Industrial & Transportations	EMS-Chemie Holding AG	Owens Corning
Armstrong World Industries Inc.	Forbo – Flooring Systems	Pidilite Industries Limited
Ashland	Fuller HB Company	RPM
BASF – Construction Chemicals	Geberit	Saint-Gobain
Beacon Roofing Supply, Inc.	GCP Applied Technologies	SK Kaken Co., Ltd.
Beiersdorf – Tesa	Henkel – Adhesive Technologies	Sto AG
Carlisle – Construction Materials	Hilti Corporation ¹	Uzin Utz AG
Cemedine Co., Ltd.	Huntsman – Performance Products	

The following change was made to the peer group in 2019: Ashland sold its Composite division; the entire company is now considered in the peer group.
 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



INDIVIDUAL PERFORMANCE

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

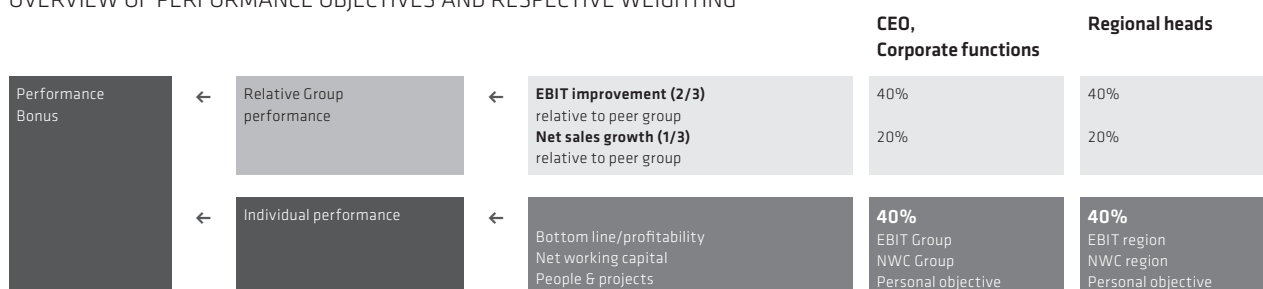
- bottom line contribution: profitability of the business under responsibility (EBIT objective expressed as an improvement versus previous year);
- working capital: net working capital of the business under responsibility (expressed as an improvement versus previous year);
- people and projects management: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

The weight of each category depends on the business priorities inherent to the respective function. In particular, although the Net Working Capital objective was mandatory for all Group Management functions in previous years, it is now applied selectively considering that the company overall and its regions made substantial progress on working capital management over the last several years.

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%.

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.

OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING



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 122% of annual base salary for the CEO, and ranges from 42% to 77% for the other members of Group Management.

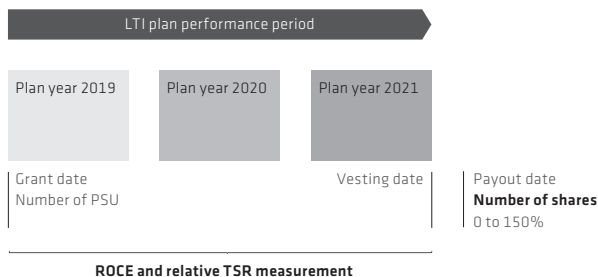
The long-term incentive plan is a performance share unit (PSU) plan. At the beginning of the vesting period, a number of PSU is granted to each member of Group Management. The PSU vest after a period of three years, conditionally upon fulfilling two equally weighted performance conditions, the return on capital employed (ROCE) and relative total shareholder return (relative TSR). 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 85. The relative TSR measure was introduced in 2019 to further strengthen the link between the compensation of Group Management and the interests of shareholders.

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 (2019–2021)	Relative TSR (2019–2021)
Weighting	50% of the PSU grant	50% of the PSU grant
Target level	ROCE of 30% 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 30% = 100% payout • Maximum: ROCE of 35% = 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 PSU 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 PSU 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 PSU 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 PSU 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 133,950 per annum are insured, as well as a supplementary plan in which base salaries in excess of this limit are insured up to the maximum amount permitted by law. Sika's pension funds exceed the legal requirements of the Swiss Federal Law on occupational Retirement, Survivors, and Disability Pension Plans (BVG). Members of Group Management under foreign employment contracts are insured commensurately with market conditions and with their position. Each plan varies in line with the local competitive and legal environment and 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. 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 2019

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

In 2019, members of the Board of Directors received a total compensation of CHF 2.9 million (2018: CHF 2.6 million) in the form of a retainer of CHF 1.4 million (2018: CHF 1.5 million), committee fees of CHF 0.2 million (2018: CHF 0.2 million), social security contributions of CHF 0.2 million (2018: CHF 0.2 million), and shares of CHF 1.1 million (2018: CHF 0.7 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.

in CHF	Retainer (cash)	Commit- tee fees (cash)	Value of shares ¹	Social security	Total 2019	Retainer (cash)	Commit- tee fees (cash)	Value of shares ¹	Social security	Total 2018
Paul Hälgi, Board chair	490,000	0	400,897	62,956	953,853	510,000	0	302,970	58,117	871,087
Viktor W. Balli ² , AC member	83,333	26,667	83,413	14,900	208,313	0	0	0	0	0
Urs F. Burkard ³ , NCC member	0	0	0	0	0	62,500	12,500	22,530	7,271	104,801
Justin M. Howell ⁴ , NCC member	133,333	36,667	100,633	0	270,633	87,500	27,500	30,135	0	145,135
Willi K. Leimer ³ , AC member	0	0	0	0	0	62,500	12,500	22,530	7,271	104,801
Monika Ribar, AC chair	133,333	56,667	100,633	22,389	313,022	150,000	50,000	52,665	18,817	271,482
Daniel J. Sauter, NCC member	133,333	36,667	100,633	20,934	291,566	150,000	30,000	52,665	17,345	250,010
Christoph Tobler, AC member	133,333	36,667	100,633	20,934	291,566	150,000	30,000	52,665	17,345	250,010
Ulrich W. Suter ⁵	50,000	0	17,220	4,212	71,432	150,000	0	52,665	13,551	216,216
Jürgen Tinggren ³	0	0	0	0	0	62,500	0	22,530	6,350	91,380
Thierry F.J. Vanlancker ²	83,333	0	83,413	0	166,746	0	0	0	0	0
Frits van Dijk, NCC chair	133,333	56,667	100,633	18,549	309,182	150,000	50,000	52,665	16,963	269,628
TOTAL	1,373,333	250,000	1,088,106	164,873	2,876,312	1,535,000	212,500	664,020	163,030	2,574,550

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) Since AGM of April 9, 2019.

3) Until EGM of June 11, 2018.

4) Since EGM of June 11, 2018.

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 2019 Annual General Meeting, 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 effectively paid for the portion of this term of office included in this Compensation Report (May 1, 2019, until December 31, 2019) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2020.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,530,000 for the Board of Directors for the term of office from the 2018 Annual General Meeting until the 2019 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,374,938 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 2019

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

For 2019, the members of Group Management received a total compensation of CHF 16.1 million (2018: CHF 16.5 million). This amount comprises fixed salaries of CHF 4.9 million (2018: CHF 4.9 million), short-term bonus of CHF 5.2 million (2018: CHF 4.3 million), long-term incentives of CHF 3.0 million (2018: CHF 3.9 million), other expenses of CHF 0.8 million (2018: 1.5 million) and contributions to social security and post-employment benefits of CHF 2.2 million (2018: CHF 1.9 million).

The highest-paid individual in 2019 was Paul Schuler, Group CEO.

In CHF thousands (gross) ¹	CEO 2019	CEO 2018	Total 2019 ²	Total 2018 ³
Fixed base salary ⁴	980	960	4,910	4,914
Performance Bonus (STI) cash ⁵	1,650	710	5,170	2,987
Performance Bonus (STI) shares ⁵	0	568	0	1,279
Long-term incentive (LTI) ⁶	1,110	1,004	2,997	3,858
Other payments ⁷	46	115	849	1,507
Social security and pension contributions ⁸	547	513	2,210	1,928
TOTAL	4,333	3,870	16,136	16,473

1) All compensation amounts are gross amounts.

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

3) On the basis of nine members, on a full-year basis.

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. For 2018, the amount was split between immediate cash and deferred shares (including matching shares) at fair market value. For 2019, the voluntary deferral plan, including matching shares, was discontinued and the entire bonus will be paid in cash.

6) Grant value of the LTI in the reporting year. For 2018, the grant value was based on the share price at grant and included a pro-rata participation in the previous LTI grants that were still in the vesting period for the newly promoted members. For 2019, the grant value is based on the Monte Carlo evaluation of the PSU (due to the interdependency of the TSR and ROCE component) and the pro-rata participation for new members of Group Management is discontinued.

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 (calculated on the awarded compensation, incl. LTI grant value), as well as contributions to company provided pension plans, including the service cost to the pre-retirement plan.

Explanatory comments to the compensation table:

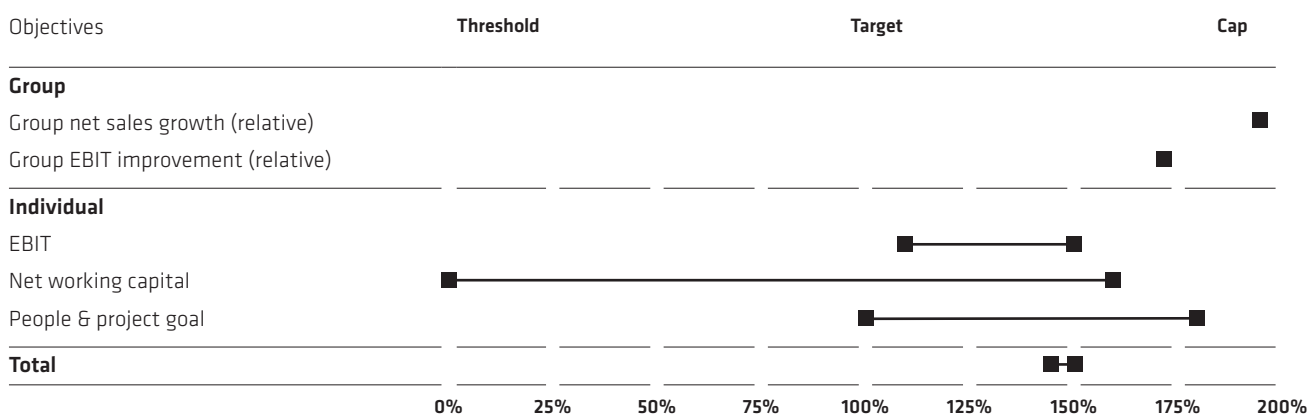
- The fixed compensation has remained stable compared to the previous year (+0.1%). Members of Group Management who have been promoted in recent years received a salary increase in line with the company's policy to set their target compensation below market median at time of promotion and subsequently increase it to market level over a reasonable period of time (two to five years).
- The "other" payments have decreased by 44% compared to the previous year, mainly due to the reduction of the international assignment cost and long-service awards.
- The performance achievement under the Performance Bonus was substantially higher in 2019 than in 2018. Further details are provided below.
- The grant value of the long-term incentive has decreased by 22% compared to the previous year. This is because the pro-rata participation in outstanding plans for newly promoted members of Group Management has been discontinued in 2019, while in 2018, three members who were promoted to Group Management in 2017 received a pro-rata participation in the outstanding plans.
- The social security and pension contributions have increased by 15% because the contribution rates are age-related and some members of Group Management moved into a different age-bracket in 2019. The contribution rates in the pension plan have not changed since several years.
- The variable compensation amounted to 282% of the annual base salary or 176% of the fixed compensation (annual base salary plus contributions to social security and pension plus other payments) for the CEO and between 83% and 174% of the annual base salary, or 60% and 109% of the fixed compensation for the other members of Group Management.

The total amount of compensation of CHF 16.1 million awarded to Group Management in 2019 is below the maximum aggregate amount of compensation of CHF 18 million approved by the shareholders at the 2018 Annual General Meeting for business year 2019.

PERFORMANCE IN 2019 (NOT AUDITED)

The business year 2019 has been a strong year for Sika, with a 14.4% revenue growth (in local currencies 16.3%) and 11.5% profitability increase (earnings before interest and tax). In the Performance Bonus, Sika has outperformed the peer companies in terms of net sales growth (ranked best, payout of 200%) and of EBIT improvement year on year (ranked 5th, payout of 164.9%). The Group performance achievement is estimated at 176.6% (best estimate at time of publication) and will be calculated by Obermatt based on the annual report publications of the peer companies before the payout date in April 2020. This compares to a strong year 2018, where Sika outperformed its peers on net sales growth (6th rank with a 157.5% payout) and matched the industry average in terms of EBIT improvement year on year (ranked 12th with a payout of 99.4%).

Individual performance, which is mainly measured by EBIT and net working capital improvement versus previous year at Group and regional level, ranges from 101.0% to 147.5% for members of Group Management and amounts to 113.5% for the CEO. Consequently, the overall bonus payout percentage ranges from 146.4% to 150% (cap) for members of Group Management and amounts to 150% for the CEO. This compares to a payout range of 111% to 150% for Group Management and to a payout of 123% for the CEO in 2018.



In the long-term incentive 2019–2021, 24,533 performance share units have been granted to the members of Group Management. Those PSU had an overall grant value of CHF 3.0 million and will vest on December 31, 2021, based on the average ROCE performance during 2019–2021, on relative TSR performance during 2019–2021 and upon the continuous employment of the participant.

In the long-term incentive that vested in 2019 (LTI 2017–2019), the performance condition of 29% average ROCE over the vesting period has been overachieved: the average three-year ROCE, excluding acquisitions, amounts to 31.3%, leading to a payout of 100% (cap). Therefore, the 21,060 units granted to the current members of Group Management (including the CEO) have vested with a vesting value of CHF 3.8 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 (2017–2019).

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 2017	Group Mgt. (incl. CEO)	01/01/2017	2017–2019	12/31/2019	21,060	2,013,591	100%	21,060	3,829,761
	CEO	01/01/2017	2017–2019	12/31/2019	8,220	812,518	100%	8,220	1,494,807
LTI 2018	Group Mgt. (incl. CEO)	01/01/2018	2018–2020	12/31/2020	21,000	2,642,150	To be determined	To be determined	To be determined
	CEO	01/01/2018	2018–2020	12/31/2020	7,980	1,004,017	To be determined	To be determined	To be determined
LTI 2019	Group Mgt. (incl. CEO)	01/01/2019	2019–2021	12/31/2021	24,553	3,040,375	To be determined	To be determined	To be determined
	CEO	01/01/2019	2019–2021	12/31/2021	9,663	1,200,014	To be determined	To be determined	To be determined

1) For new members of Group Management, the grant date for the LTI 2017 and 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 1 January.

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 2019

At the end of 2019, members of the Board of Directors held a total of 123,287 bearer shares of Sika AG (2018: 206,240). At the end of 2019, members of Group Management held a total of 180,844 bearer shares of Sika AG (2018: 160,680). This figure includes both privately acquired shares and those allocated under the Group's compensation schemes.

At the end of 2019, 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 167 of this report).

EQUITY OVERHANG AND DILUTION AS OF DECEMBER 31, 2019

In total as of December 31, 2019, 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 414,999 units, 0.29%.

The company's "burn rate," defined as the number of equities (shares and share units) granted in 2019 (132,477 units) divided by the total number of common shares outstanding, is 0.09%.

OUTLOOK ON COMPENSATION ARCHITECTURE FOR 2020

COMPENSATION OF THE BOARD OF DIRECTORS

The compensation structure and level for the Board of Directors remain unchanged.

COMPENSATION OF GROUP MANAGEMENT

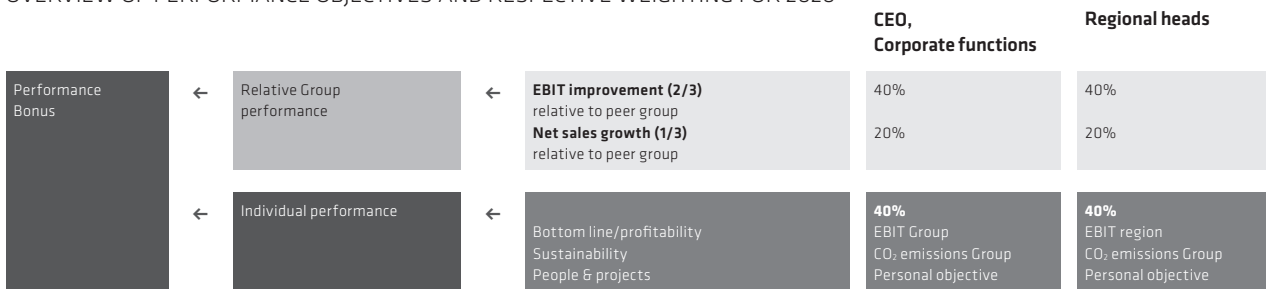
The compensation structure for Group Management was redesigned extensively in 2019. In the spirit of continuity and stability, the Nomination and Compensation Committee established that the compensation framework should remain stable in the coming few years.

The only change foreseen for 2020 relates to the performance objective setting under the annual Performance Bonus with the introduction of an objective in the area of sustainability: the reduction of the carbon footprint. 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.

The individual objectives will continue to account for 40% of the total Performance Bonus and will be set in the following categories:

- bottom line contribution: profitability of the business under responsibility (EBIT objective expressed as an improvement versus previous year) – this is unchanged;
- sustainability: reduction of CO₂ emissions per ton sold – this is new;
- people and projects management: strategic objectives such as entry into new markets, introduction of new products, improvement of processes and operational efficiency, and leadership objectives – this is unchanged.

OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING FOR 2020



The overall structure of the Performance Bonus remains otherwise unchanged. Further details around the performance objectives will be provided in the 2020 Compensation Report.

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 89 to 91 of the Compensation Report of Sika AG for the year ended December 31, 2019.

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, 2019, of Sika AG complies with Swiss law and articles 14–16 of the Ordinance.

Zurich, February 18, 2020

ERNST & YOUNG LTD

Christoph Michel
Licensed audit expert
(Auditor in charge)

Marc Rügsegger
Licensed audit expert

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	Notes	%	2018	%	2019	Change in %
Net sales	1, 2	100.0	7,085.4	100.0	8,109.2	14.4
Material expenses	3	-47.0	-3,333.7	-46.4	-3,765.2	
Gross result		53.0	3,751.7	53.6	4,344.0	15.8
Personnel expenses	4	-19.0	-1,345.4	-19.0	-1,544.3	
Other operating expenses	5	-17.7	-1,256.4	-17.5	-1,412.1	
Operating profit before depreciation		16.3	1,149.9	17.1	1,387.6	20.7
Depreciation and amortization expenses	2, 15, 16	-2.9	-204.0	-4.1	-332.5	
Operating profit	2	13.4	945.9	13.0	1,055.1	11.5
Interest income	7	0.0	1.9	0.0	3.5	
Interest expenses	6	-0.4	-26.1	-0.7	-58.5	
Other financial income	7	0.1	5.8	0.1	6.0	
Other financial expenses	6	-0.5	-35.2	-0.5	-40.1	
Income from associated companies	7	0.0	0.6	0.0	0.6	
Profit before taxes		12.6	892.9	11.9	966.6	8.3
Income taxes	8	-2.9	-205.8	-2.5	-208.1	
Net profit		9.7	687.1	9.4	758.5	10.4
Profit attributable to Sika shareholders		9.6	682.9	9.3	751.9	
Profit attributable to non-controlling interests	24	0.1	4.2	0.1	6.6	
Undiluted earnings per share (in CHF)	9		4.69		5.30	13.0
Diluted earnings per share (in CHF) ¹	9		4.58		4.81	5.0

1 Dilutive effect due to the convertible bonds issued (see note 20).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF mn	Notes	%	2018	%	2019	Change in %
Net profit		9.7	687.1	9.4	758.5	10.4
Actuarial gains (+)/losses (-) on employee benefit obligations	22	-0.4	-30.0	0.0	1.3	
Income tax effect	8	0.1	5.3	0.0	3.0	
Items that will not be reclassified to profit or loss		-0.3	-24.7	0.0	4.3	
Exchange differences taken to equity		-1.1	-76.6	-1.7	-134.6	
Items that may be reclassified subsequently to profit or loss		-1.1	-76.6	-1.7	-134.6	
Other comprehensive income		-1.4	-101.3	-1.7	-130.3	
Comprehensive income		8.3	585.8	7.7	628.2	7.2
Attributable to Sika shareholders		8.2	581.4	7.6	622.5	
Attributable to non-controlling interests	24	0.1	4.4	0.1	5.7	

CONSOLIDATED BALANCE SHEET

in CHF mn	Notes	12/31/2018	12/31/2019
Cash and cash equivalents	10, 26	914.0	995.1
Accounts receivable	11, 26	1,322.7	1,441.9
Inventories	12	800.7	866.5
Prepaid expenses and accrued income	13	112.0	139.9
Other assets	14, 26	27.1	26.5
Current assets		3,176.5	3,469.9
Property, plant, and equipment	15	1,214.2	1,795.8
Intangible assets	16	1,693.9	4,340.5
Investments in associated companies	17	6.2	5.6
Deferred tax assets	8	223.0	229.5
Other assets	14, 22, 26	68.2	103.9
Non-current assets		3,205.5	6,475.3
ASSETS		6,382.0	9,945.2
Accounts payable	18, 26	733.8	837.2
Accrued expenses and deferred income	19	265.5	407.9
Financial liabilities	20, 26	237.5	342.8
Income tax liabilities		147.9	195.8
Provisions	21	22.1	22.6
Current liabilities		1,406.8	1,806.3
Financial liabilities	20, 26	2,795.0	4,070.1
Provisions	21	48.1	86.5
Deferred tax liabilities	8	154.0	467.5
Employee benefit obligations	22	268.7	319.2
Other liabilities	23	34.2	34.4
Non-current liabilities		3,300.0	4,977.7
LIABILITIES		4,706.8	6,784.0
Capital stock		1.4	1.4
Treasury shares		-11.1	-7.3
Reserves		1,655.4	3,130.0
Equity attributable to Sika shareholders		1,645.7	3,124.1
Non-controlling interests		29.5	37.1
SHAREHOLDERS' EQUITY	24	1,675.2	3,161.2
LIABILITIES AND SHAREHOLDERS' EQUITY		6,382.0	9,945.2

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, 2018	1.5	203.1	-6.6	-537.4	3,724.1	3,384.7	26.4	3,411.1
Net profit					682.9	682.9	4.2	687.1
Other comprehensive income				-76.8	-24.7	-101.5	0.2	-101.3
Comprehensive income	0.0	0.0	0.0	-76.8	658.2	581.4	4.4	585.8
Transactions with treasury shares ¹			-2,087.4		-12.4	-2,099.8		-2,099.8
Destruction of treasury shares ²	-0.1		2,082.9		-2,082.8	0.0		0.0
Share-based payments					12.6	12.6		12.6
Dividends ³					-281.8	-281.8	-1.3	-283.1
Issue of convertible bond ⁴					40.7	40.7		40.7
Inflation adjustment ⁵					7.9	7.9		7.9
December 31, 2018	1.4	203.1	-11.1	-614.2	2,066.5	1,645.7	29.5	1,675.2
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 ⁶					-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 ¹			3.8		-7.6	-3.8		-3.8
Share-based payments					7.9	7.9		7.9
Dividends ⁷					-290.6	-290.6	-2.8	-293.4
Issue of convertible bond ⁴					1,137.5	1,137.5		1,137.5
Tax impact ⁸					-0.9	-0.9		-0.9
Non-controlling interests from acquisitions ⁹						0.0	10.8	10.8
Purchase of non-controlling interests ¹⁰					-3.9	-3.9	-6.0	-9.9
Inflation adjustment ⁵					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

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

2 Details on the transaction are shown in the information on significant shareholders (see page 143 of this report).

3 Dividend per bearer share: CHF 111.00, dividend per registered share: CHF 18.50. The share split (see note 24) results in a theoretical dividend of CHF 1.85 per registered share (par value CHF 0.01).

4 For details on the convertible bond see note 20. This takes into account a deferred tax effect of CHF 1.4 million (2018: CHF -3.4 million), see note 8.

5 Hyperinflation accounting has been applied since January 1, 2010, and concerns the subsidiary in Venezuela as well as Argentina since October, 2018.

6 Including deferred taxes of CHF 1.0 million. For details on the initial application of IFRS 16 see page 102 et seq. of this report.

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

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

9 Non-controlling interests from the acquisition of Parex (see page 109 et seq. of this report).

10 Complete buyout of Sodap Maroc SA, Morocco, as well as Apurva India Pvt. Ltd., India, see page 109 of this report.

CONSOLIDATED STATEMENT OF CASH FLOWS

in CHF mn	Notes	2018	2019
Operating activities			
Profit before taxes		892.9	966.6
Depreciation and amortization expenses	15, 16	204.0	332.5
Increase (+)/decrease (-) in provisions/ employee benefit obligations and assets		-2.2	5.6
Increase (-)/decrease (+) in net working capital		-161.6	88.1
Non-liquidity-related other financial expenses (+)/income (-) as well as cash flow from hedging transactions		35.6	60.5
Other adjustments	25	6.9	23.6
Income taxes paid		-231.6	-263.0
Cash flow from operating activities		744.0	1,213.9
Investing activities			
Property, plant, and equipment: capital expenditures	15	-233.4	-179.7
Property, plant, and equipment: disposals	15, 25	7.8	2.9
Intangible assets: capital expenditures	16	-5.2	-12.6
Intangible assets: disposals	16	0.0	1.6
Acquisitions less cash and cash equivalents		-471.2	-1,748.4
Acquisitions (-)/disposals (+) of financial assets		-3.2	5.3
Cash flow from investing activities		-705.2	-1,930.9
Financing activities			
Increase in financial liabilities	20	2,106.7	308.9
Repayment of financial liabilities	20	-2,206.3	-1,299.5
Repayment of lease liabilities	20	0.0	-85.0
Repayment of a bond	20	-150.0	-200.0
Issue of bonds	20	852.4	1,130.0
Issue of a convertible bond	20	1,630.6	1,280.1
Purchase of treasury shares		-2,162.2	-95.9
Sale of treasury shares		62.3	92.3
Dividend payment to shareholders of Sika AG		-281.8	-290.6
Dividends related to non-controlling interests		-1.3	-2.8
Purchase of non-controlling interests		0.0	-9.9
Cash flow from financing activities		-149.6	827.6
Exchange differences on cash and cash equivalents		-13.1	-29.5
Net change in cash and cash equivalents		-123.9	81.1
Cash and cash equivalents at the beginning of the year	10	1,037.9	914.0
Cash and cash equivalents at the end of the year	10	914.0	995.1
Cash flow from operating activities contains:			
Dividends from associated companies		0.5	1.0
Interest received		2.0	3.5
Interest paid		-14.9	-24.3

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, 2019, were taken into account. The financial statements have been prepared according to the going-concern principle. The consolidated financial statements have been prepared under the historical cost principle with the exception of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed on page 106 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, 2019. The application of these standards did not have any material impact on the consolidated financial statements of the Group, except for IFRS 16 – Leases.

– IFRS 16 – Leases

The new leases standard substantially changed the financial statements. The differentiation between finance and operating lease arrangements which was required until now under IAS 17 has been abolished for the lessee. The standard provides a single lessee accounting model, requiring lessees to recognize liabilities for all leases. In addition, a right to use the underlying asset needs to be recognized and depreciated over the term of the lease agreement. Sika is applying the practical expedient for lease agreements with a lease term of twelve months or less or if the underlying asset has a low value and continues to directly expense these lease payments to profit and loss.

Sika applied the standard with the modified retrospective method. Under this method, the right-of-use (ROU) asset can be measured either as if IFRS 16 had been applied from the inception of the contract, but discounted using the incremental borrowing rate at January 1, 2019, or exactly equal to the amount of the lease liability. Sika has determined this valuation method on a lease-by-lease basis. The lease obligation was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at January 1, 2019. The comparative figures were not restated and the cumulative effects from the first-time adoption were recognized in equity under retained earnings. The lease liabilities as at January 1, 2019, can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

in CHF mn

Reconciliation

Operating lease commitments as of December 31, 2018	318.8
Weighted average incremental borrowing rate as at January 1, 2019	2.74%
Discounted operating lease commitments at January 1, 2019	282.5
less commitments from short-term and low-value asset leases	-24.4
plus extension and purchase options	11.0
less other adjustments	-17.1
Lease liability as at January 1, 2019	252.0
Already recognized cumulative depreciation on right-of-use asset	-9.7
Right-of-use asset as at January 1, 2019	242.3
Deferred taxes on initial application	1.0
Effect of initial application in equity as at January 1, 2019	-8.7

Other adjustments include the separate recognition of non-lease components for motor vehicle leases.

In the consolidated income statement for 2019, the adoption of IFRS 16 resulted in the following changes. Depreciation and amortization include CHF 76.8 million from the amortization of the ROU assets. Interest on lease liabilities of CHF 12.6 million is included in interest expenses. Other operating expenses were reduced accordingly.

Since January 1, 2019, the consolidated cash flow statement includes CHF 85.0 million in repayments of lease liabilities in the cash flow from financing activities. The cash flow from operating activities was reduced accordingly.

ROU assets are recognized in the balance sheet under property, plant, and equipment. Lease liabilities are recognized under financial liabilities (current and non-current). The accounting policies for leases are described in note 15 and have been applied from the date of initial application of IFRS 16.

The following additional revised and new standards have no material impact on Sika's consolidated financial statements:

- Amendments to IAS 19 – Plan amendment, curtailment, and settlement
- IFRIC 23 – Uncertainty over income tax treatments
- Amendments to IFRS 9 – Prepayment features with negative compensation
- Amendments to IAS 28 – Long-term interests in associates and joint ventures
- Annual improvements (2015–2017 cycle) – Collective standard with amendments to various IFRS standards with the primary goal of eliminating inconsistencies and clarifying terminology

A number of new standards and amendments to standards and interpretations are effective for the financial year 2020 and later, and have not been applied in preparing these consolidated financial statements. If they had been applied in 2019 they would have had no significant effect on the consolidated financial statements of the Group:

- Amendments to IFRS 3 – Definition of a business (applicable as of January 1, 2020)
- Amendments to IAS 1 and IAS 8 – Definition of "material" (applicable as of January 1, 2020)
- Amendments to IAS 1 – Classification of liabilities as current or non-current (applicable as of January 1, 2022)
- Amendments to the conceptual framework (applicable as of January 1, 2020)

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, 2019, 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 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 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	2018	2018	2019	2019
			Balance sheet ¹ CHF	Income statement ² CHF	Balance sheet ¹ CHF	Income statement ² CHF
Argentina	ARS	100	2.61	3.52	1.61	1.61
Australia	AUD	1	0.69	0.73	0.68	0.69
Brazil	BRL	100	25.36	26.81	24.04	25.22
Canada	CAD	1	0.72	0.76	0.74	0.75
Chile	CLP	10,000	14.19	15.27	12.85	14.16
China	CNY	100	14.31	14.79	13.88	14.39
Colombia	COP	10,000	3.03	3.32	2.94	3.03
Czech Republic	CZK	100	4.38	4.50	4.27	4.33
Egypt	EGP	100	5.49	5.49	6.02	5.90
Eurozone	EUR	1	1.13	1.16	1.09	1.11
Great Britain	GBP	1	1.26	1.31	1.28	1.27
India	INR	100	1.41	1.43	1.35	1.41
Indonesia	IDR	100,000	6.83	6.87	6.96	7.03
Japan	JPY	100	0.90	0.89	0.89	0.91
Mexico	MXN	100	5.01	5.09	5.11	5.16
Poland	PLN	100	26.20	27.11	25.50	25.89
Russia	RUB	1,000	14.14	15.62	15.52	15.35
Sweden	SEK	100	10.99	11.26	10.39	10.50
Thailand	THB	100	3.04	3.03	3.25	3.20
Turkey	TRY	100	18.60	20.22	16.24	17.52
USA	USD	1	0.98	0.98	0.97	0.99
Vietnam	VND	100,000	4.25	4.25	4.17	4.28

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, 2019, was CHF 3,139.7 million (CHF 1,223.3 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, 2019, 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 145 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 companies:

- Sika Global Business Management AG, Widen, Switzerland
- Sika Capital B.V., Utrecht, Netherlands

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

- KVK Holding, a.s., Svoboda nad Upou, Czech Republic, was merged with Sika Sika CZ, s.r.o., Brno, Czech Republic.
- Rmax Operating LLC, Dallas, USA, was merged with Sika Corporation, Lyndhurst, USA.
- Axson Japan K.K., Okazaki-shi, Japan, was merged with Sika Ltd., Shinagawa, Japan.
- Sika (Hebei) Building Material Ltd., Zhengding County, China, was sold.
- Bitbau Dörr GmbH, Innsbruck, Austria, was merged with Sika Österreich GmbH, Bludenz, Austria.
- The Swiss Construction Chemicals Co. Ltd., Amman, Jordan, was liquidated.
- part GmbH, Bad Urach, Germany, was merged with Sika Deutschland GmbH, Stuttgart, Germany.
- Sika Fibers, LLC, Wilmington/DE, USA, was merged with Sika Corporation, Lyndhurst, USA.

ACQUISITIONS 2018

In 2018, Sika acquired various companies or parts of companies. The purchase prices and their allocation (PPA) are now final.

ACQUIRED NET ASSETS AT FAIR VALUE

in CHF mn	Index	Faist ChemTec Group	Other acquisitions ¹
Cash and cash equivalents	57.7	12.8	5.8
Accounts receivable	40.8	27.2	7.6
Inventories	11.0	11.3	11.2
Other current assets	0.8	2.5	1.5
Property, plant, and equipment	32.2	65.1	16.9
Intangible assets	30.2	74.4	5.0
Deferred tax asset	2.0	1.1	0.3
Other non-current assets	0.0	2.1	0.0
Total assets	174.7	196.5	48.3
Current financial liabilities	0.0	79.2	8.0
Accounts payable	36.6	11.7	3.6
Other current liabilities	0.5	20.4	3.3
Provisions	3.0	3.3	2.0
Employee benefit liabilities	2.5	1.2	1.6
Deferred tax liabilities	14.0	30.5	0.5
Total liabilities	56.6	146.3	19.0
Acquired net assets	118.1	50.2	29.3
Goodwill	125.1	230.9	0.0
Bargain purchase	0.0	0.0	-7.5
Total purchase consideration	243.2	281.1	21.8
Cash in acquired assets	-57.7	-12.8	-5.8
Payment reclaim (per December 31, 2018)	0.0	0.0	1.4
Net cash outflow	185.5	268.3	17.4

1 Polypag group and concrete fibers business of Propex; individually not material.

In 2018, since the purchase, Index has contributed sales of CHF 121.3 million and net profit of CHF 6.0 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales and the additional profit share would have been immaterial.

Since the purchase in 2018, Faist ChemTec has contributed sales of CHF 163.7 million and net profit of CHF 1.4 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 25.6 million. Consolidated net profit would have been CHF 1.0 million higher.

Since the purchase in 2018, the other acquisitions have contributed sales of CHF 10.5 million and a net profit of CHF 7.7 million. The profit resulted directly from the acquisition. The further result of these acquisitions was not material. If the acquisitions had taken place on the first day of the 2018 financial years, the additional contribution to net sales would have been CHF 52.8 million. The additional profit share would have been insignificant.

The directly attributable transaction costs of all acquisitions amounted to CHF 3.5 million in 2018 and were charged to other operating expenses.

ACQUISITIONS 2019

In 2019, Sika acquired various companies.

Company	Type of transaction	Stake in %	Closing date
part GmbH, Germany	Share deal	100.0	1/1/2019
Belineco LLC, Belarus	Share deal	100.0	4/30/2019
King Packaged Materials Company, Canada and USA	Share deal	100.0	5/1/2019
Parex Group, worldwide	Share deal	100.0	5/23/2019
Arcon Membrane Srl, Romania	Share deal	100.0	6/27/2019
Crevo-Hengxin, China	Share deal	100.0	9/30/2019

PAREX GROUP

On May 23, 2019, Sika acquired the Parex group. Parex is a leading mortar manufacturer, including facade mortars, tile adhesives, waterproofing, and technical mortars. With its expertise in mortar solutions for renovation and new builds, Parex participates in all phases of the construction life cycle. Parex has a particularly strong presence in the distribution channels, combining recognized brands with R&D expertise and technical excellence. Parex is locally present in 23 countries with key positions in eight core geographies. The eight key markets of Parex are China, USA, France, Argentina, Brazil, Singapore, UK, and Australia. Parex operates 74 plants around the world.

With this acquisition Sika will further strengthen its leading position in construction chemicals and industrial adhesives. It will deepen and widen Sika's growth platform. Its mortar business, is a key growth technology for the group and one of its important earning contributors. Parex's strong position in distribution channels will open up new business opportunities for Sika's product range. Parex will gain access to Sika's well-established direct sales channels and Parex's expertise in the facade and tile setting business will allow Sika to participate in these growing and attractive market fields.

Non-controlling interests of CHF 10.8 million were recognized at the acquisition date. The non-controlling interests in the acquired companies are measured at the proportionate share of the acquired companies' identifiable net assets. Sika applies the partial goodwill method and only Sika's share of goodwill is calculated and recognized as the difference between the purchase price paid and the share of identifiable net assets. In the meantime the non-controlling interests of Sodap Maroc SA, Morocco, as well as Apurva India Pvt. Ltd. of India were fully acquired for CHF 9.9 million.

Since the purchase, Parex has contributed sales of CHF 801.1 million and net profit of CHF 37.0 million. Accounts receivable of Parex had a gross value of CHF 238.5 million and were recognized at fair value of CHF 220.2 million. For uncertainty as to whether a tax treatment will be accepted by the tax authorities, the uncertainty is reflected in the purchase price allocation and a contingent liability is recognized. Contingent considerations are recognized in income tax liabilities as well as in accrued expenses and deferred income based on a best estimate of the expected future cash outflow.

OTHER ACQUISITIONS

Sika acquired Belineco LLC, Belarus, on April 30, 2019, a Belorussian manufacturer of polyurethane foam systems. With the acquisition Sika will further expand its know-how in the production and development of polyurethane foams and will gain better access to the trade distribution channels in Eastern Europe.

On May 1, 2019, Sika acquired King Packaged Materials Company, a large independent Canadian manufacturer of dry shotcrete and mortars for concrete repair. With the acquisition Sika will further expand its geographical footprint in Canada and improve its growth potential in the home improvement, construction as well as mining and tunneling markets. The product portfolio includes shotcrete solutions, grouts, and repair and masonry mortars.

End of June, Sika acquired Arcon Membrane Srl, a leading manufacturer of waterproofing systems for buildings and roofs in Romania. With this acquisition Sika strengthens its position in the Romanian market and significantly expands its product range to meet the increasing demand for complete solutions for roof and structural waterproofing.

In September, Sika acquired Crevo-Hengxin, a Chinese manufacturer of silicone sealants and adhesives used in both industry and construction applications. With this takeover, Sika is expanding its Target Markets Industry and Sealing & Bonding presence in China and the Asia/Pacific region, and is gaining additional silicone technology plus a production footprint.

Furthermore, on January 1, 2019, Sika acquired the remaining 50% of part GmbH from its joint venture partner and fully consolidated it for the first time as of January 1, 2019. part GmbH contributes annual sales of approximately CHF 9 million and net assets of CHF 0.4 million.

Since the purchases, the other acquisitions have contributed sales of CHF 86.5 million and a net profit of CHF 8.6 million. Accounts receivable of the other acquisitions had a gross value of CHF 29.5 million and were recognized at fair value of CHF 28.4 million.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn	Parex group	Other acquisitions ¹
Cash and cash equivalents	127.3	9.7
Accounts receivable	220.2	28.4
Inventories	108.5	14.4
Prepaid expenses and accrued income	15.5	1.2
Property, plant, and equipment	230.0	49.8
Right-of-use leased assets	97.7	8.7
Intangible assets	819.3	35.5
Deferred tax assets	14.4	0.0
Other assets	10.2	0.3
Total assets	1,643.1	148.0
Financial liabilities	1,087.6	15.9
Accounts payable	165.1	22.9
Accrued expenses and deferred income	109.6	4.1
Income taxes payable	48.3	0.7
Provisions	57.3	0.9
Employee benefit obligation	17.3	0.0
Deferred tax liabilities	364.4	10.5
Total liabilities	1,849.6	55.0
Net assets	-206.5	93.0
Non-controlling interests	-10.8	0.0
Acquired net assets	-217.3	93.0
Goodwill	1,915.8	107.8
Fair value of initial investment	0.0	-0.2
Total purchase price	1,698.5	200.6
Cash in acquired assets	-127.3	-9.7
Payments still due	0.0	-13.7
Net cash outflow	1,571.2	177.2

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

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.

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 21.0 million (whereof CHF 19.0 million from Parex) and were charged to other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NET SALES CHF 8,109.2 MN (CHF 7,085.4 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 nine years (nine years). In 2019, revenues of CHF 4.4 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 47 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 globally active Parex Group, which was acquired in 2019, has been allocated to the EMEA, Americas and Asia/Pacific geographical segments according to the respective country headquarters of the companies. Part GmbH, Germany, Belinco LLC, Belarus, as well as Arcon Membrane Srl, Romania, were allocated to the EMEA segment. King Packaged Materials Company, Canada and USA, were allocated to the Americas segment. Crevo-Hengxin, China, was allocated to the Asia/Pacific segment.

NET SALES

in CHF mn	2018			2019		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	3,167.3	212.4	3,379.7	3,431.5	216.2	3,647.7
Americas	1,820.5	2.2	1,822.7	2,162.0	11.7	2,173.7
Asia/Pacific	1,177.2	18.7	1,195.9	1,585.3	19.3	1,604.6
Global Business	920.4	18.0	938.4	930.4	16.6	947.0
Eliminations		-251.3	-251.3		-263.8	-263.8
Net sales	7,085.4	-	7,085.4	8,109.2	-	8,109.2
Products for construction industry			5,472.8			6,461.1
Products for industrial manufacturing			1,612.6			1,648.1

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 in markets such as automotive and commercial vehicle assembly, vehicle repair, ship and boat building, industrial lamination, renewable energy, and facade construction.

CHANGES IN NET SALES/CURRENCY IMPACT

in CHF mn	2018	2019	Change compared to prior year (+/- in %)		
			In Swiss francs	In local currencies	Currency impact
By region					
EMEA	3,167.3	3,431.5	8.3	11.6	-3.3
Americas	1,820.5	2,162.0	18.8	19.2	-0.4
Asia/Pacific	1,177.2	1,585.3	34.7	35.1	-0.4
Global Business	920.4	930.4	1.1	3.0	-1.9
Net sales	7,085.4	8,109.2	14.4	16.3	-1.9
Products for construction industry	5,472.8	6,461.1	18.1	19.9	-1.8
Products for industrial manufacturing	1,612.6	1,648.1	2.2	4.3	-2.1

OPERATING PROFIT

in CHF mn	2018	2019	Change compared to prior year (+/- in %)	
By region				
EMEA	435.3	472.7	37.4	8.6
Americas	300.3	352.9	52.6	17.5
Asia/Pacific	216.7	259.8	43.1	19.9
Global Business	132.3	113.8	-18.5	-14.0
Other segments and activities	-138.7	-144.1	-5.4	n.a.
Operating profit	945.9	1,055.1	109.2	11.5

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	2018	2019
Operating profit	945.9	1,055.1
Interest income	1.9	3.5
Interest expenses	-26.1	-58.5
Other financial income	5.8	6.0
Other financial expenses	-35.2	-40.1
Income from associated companies	0.6	0.6
Profit before taxes	892.9	966.6
Income taxes	-205.8	-208.1
Net profit	687.1	758.5

in CHF mn	2018		2019	
	Depreciation/ Amortization	Capital expenditures	Depreciation/ Amortization	Capital expenditures
EMEA	88.8	112.8	137.5	87.2
Americas	43.8	45.4	77.1	40.7
Asia/Pacific	24.5	29.0	58.9	34.7
Global Business	22.1	20.8	29.4	19.0
Other segments and activities	24.8	6.1	29.6	10.7
Total	204.0	214.1	332.5	192.3

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			
	2018	%	2019	%	2018	%	2019	%
USA	1,315.6	18.5	1,518.6	18.7	612.4	21.0	957.0	15.6
Germany	793.2	11.2	777.2	9.6	388.9	13.3	396.9	6.5
China	374.6	5.3	654.6	8.1	83.4	2.9	1,214.9	19.8
France	339.4	4.8	530.0	6.5	75.0	2.6	771.6	12.5
Switzerland	383.1	5.4	398.1	4.9	552.6	19.0	589.8	9.6
All other	3,879.5	54.8	4,230.7	52.2	1,202.0	41.2	2,212.8	36.0
Total	7,085.4	100.0	8,109.2	100.0	2,914.3	100.0	6,143.0	100.0

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

3. MATERIAL EXPENSES CHF 3,765.2 MN (CHF 3,333.7 MN)

Material expenses decreased as a percentage of net sales by 0.6 percentage points. The stabilization of raw material costs and higher selling prices improved the gross margin from 53.0% to 53.6%. Material expenses include the value adjustment expenses for unsaleable goods and depreciation and amortization due to inventory differences in the amount of CHF 26.5 million (CHF 28.4 million).

4. PERSONNEL EXPENSES CHF 1,544.3 MN (CHF 1,345.4 MN)

in CHF mn	2018	2019
Wages and salaries	1,095.1	1,257.5
Social charges	250.3	286.8
Personnel expenses	1,345.4	1,544.3

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.

Personnel costs remained constant at 19.0% in relation to net sales.

EMPLOYEE BENEFIT COSTS

in CHF mn	2018	2019
Employee benefit plans with defined benefits ¹	29.9	29.4
Other employee benefit plans	41.6	47.9
Employee benefit costs	71.5	77.3

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)

GROUP MANAGEMENT. The performance bonus for members of Group Management for the 2019 financial year will be paid out in cash in 2020 and is therefore no longer an employee participation plan. In the previous year members of Group Management could choose to receive 0%, 20% or 40% of the performance bonus in Sika AG shares. These were subject to a four-year blocking period. The fair value of the grant amounted to CHF 1.3 million.

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; 188 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 4.4 million. In the prior year the market value of the grant amounted to CHF 3.8 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). 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 plans 2018–2020 and 2017–2019 contained only one performance target, the return on capital employed (ROCE) target. The market value of the PSUs was determined once at the respective grant date.

SIKA SENIOR MANAGEMENT. Sika Senior Managers participate in a long-term incentive plan 2019–2021, which is structured in the same way as that for top management (see above), except that it is 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 prorata 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 plans 2018–2020 as well as 2017–2019 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
2018			
Group Management LTI 2018–2020	26,700	125.81	3.4
Sika Senior Managers LTI 2018–2020	28,500	125.81	3.6
Total			7.0
2019			
Group Management LTI 2019–2021	27,237	114.63	3.1
Sika Senior Managers LTI 2019–2021	31,040	114.63	3.6
Total			6.7

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 2019 to April 2020, entitlements to 9,230 shares were granted at a market value of CHF 1.3 million (CHF 143.65 per share). For the term of office from April 2018 to April 2019, entitlements to 6,170 shares were granted with a market value of CHF 0.8 million (CHF 123.00 per share). This includes both the resigned and the new board members. The conversion into shares took place in April 2019 and the shares are subject to a four-year blocking period, whereby the retired members of the Board of Directors did not receive any shares.

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 2019 totaled CHF 27.4 million (CHF 32.1 million), CHF 7.9 million (CHF 12.9 million) of which was recorded in equity and CHF 19.5 million (CHF 19.2 million) in liabilities. At year-end, liabilities from share-based compensation plans amounted to CHF 23.7 million (CHF 24.3 million).

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

5. OTHER OPERATING EXPENSES CHF 1,412.1 MN (CHF 1,256.4 MN)

in CHF mn	2018	2019
Production and operation ¹	449.9	419.1
Logistics and distribution	326.9	391.1
Sales, marketing, and travel costs	240.0	283.2
Administration and other costs ²	239.6	318.7
Total	1,256.4	1,412.1

1 This position includes primarily costs for maintenance, repairs, and energy as well as rental and lease expenses. Since 2019, most of the rights-of-use assets have been capitalized and amortized over the term of the contract and these lease payments are no longer included in other operating expenses.

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 17.7% to 17.5% as a result of disciplined cost management. In addition, the first-time adoption of the new standard 'Leases' (for details see page 102 et seq. of this report) had a positive impact of CHF 89.4 million on production and operation costs. Non-recurring effects of approximately CHF 32 million relating to the acquisition of Parex had a negative impact on the costs in 2019. In the prior year, one-off costs of CHF 23.3 million were included, relating to the resolution of the takeover battle with Saint-Gobain, including CHF 10.3 million of remuneration for the Board of Directors for the terms of office 2015 to 2018.

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 200.2 million (CHF 189.5 million), roughly equivalent to 2.5% (2.7%) 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 98.6 MN (CHF 61.3 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 mainly of interest expenses for outstanding bond issues in the amount of CHF 34.1 million (CHF 18.0 million), interests on lease liabilities of CHF 12.6 million (CHF 0.0 million) as well as the interest component of pension expenses of defined benefit plans of CHF 3.4 million (CHF 3.0 million). Interest expenses increased due to the additional issuance of bonds (see note 20) and the first-time application of the new standard 'Leases' (see page 102 et seq. of this report for details). In addition, negative interest of CHF 2.9 million was incurred particularly on time deposits in connection with the acquisition of Parex.

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 increased to CHF 40.1 million (CHF 35.2 million).

7. INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES CHF 10.1 MN (CHF 8.3 MN)

Interest income is recognized pro rata temporis using the effective interest method. Short-term surpluses in liquidity in various countries led to interest income of CHF 3.5 million (CHF 1.9 million). Income from associated companies is CHF 0.6 million (CHF 0.6 million).

8. INCOME TAXES

in CHF mn	2018	2019
Income tax during the year under review	220.4	247.3
Deferred income tax	-12.5	-33.1
Income tax from prior years	-2.1	-6.1
Total	205.8	208.1

RECONCILIATION BETWEEN EXPECTED AND EFFECTIVE TAX EXPENSE

in CHF mn	%	2018	%	2019
Profit before taxes		892.9		966.6
Expected tax expense	20.8	185.8	21.0	203.1
Non-taxable income/non-tax-deductible expenses	0.5	4.7	0.3	2.7
Effect of changes in tax rates	0.2	1.6	-1.2	-11.0
Adjusted tax expense from earlier periods	-0.2	-2.1	-0.6	-6.1
Valuation adjustment on deferred tax assets	-0.4	-3.1	0.2	1.9
Withholding tax on dividends, licenses, and interests	1.9	17.3	2.1	20.7
Other	0.2	1.6	-0.3	-3.2
Tax expense as per consolidated income statement	23.0	205.8	21.5	208.1

Income tax expenses include income taxes based on current taxable income and deferred taxes. The tax rate decreased to 21.5% (23.0%). The 'Effect of changes in tax rates' 2019 includes 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 anticipated average Group income tax rate of 21.0% (20.8%) corresponds with the average tax on profits of the individual Group companies in their respective fiscal jurisdictions. The change in the anticipated tax rate is attributable to changing profits of the Group companies in their respective fiscal jurisdictions and to changes in their tax rates in some cases.

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 that are expected to apply to the period when the asset is recognized or the liability is settled based on the rates (and tax laws) that have been substantively enacted.

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

RECONCILIATION OF NET DEFERRED TAX ASSETS

in CHF mn	2018	2019
January 1	98.8	69.0
Credited (+)/debited (-) to income statement	12.5	33.1
Credited (+)/debited (-) to other comprehensive income	5.3	3.0
Credited (+)/debited (-) to equity	-3.4	1.6
Exchange differences	-2.6	15.6
Acquisitions/divestments	-41.6	-360.3
December 31	69.0	-238.0

ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF mn	2018			2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax losses brought forward	10.0		10.0	14.0		14.0
Current assets	25.6	-14.2	11.4	30.0	-12.8	17.2
Property, plant, and equipment	14.0	-42.8	-28.8	7.5	-124.9	-117.4
Other non-current assets	103.7	-74.9	28.8	105.8	-247.4	-141.6
Liabilities	69.7	-12.4	57.3	174.4	-14.8	159.6
Temporary differences on investments ¹	0.0	-9.7	-9.7	0.0	-169.8	-169.8
Gross values	223.0	-154.0	69.0	331.7	-569.7	-238.0
Offsetting	0.0	0.0	0.0	-102.2	102.2	0.0
Total	223.0	-154.0	69.0	229.5	-467.5	-238.0

¹ This includes expected withholding taxes of CHF 14.1 million (CHF 9.7 million) on undistributed dividends from Group companies. Tax provisions of CHF 155.7 million relate to expected tax payments in connection with legal restructurings of the acquired Parex companies in the coming years.

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

in CHF mn	2018	2019
1 year or less	0.3	5.0
1–5 years	7.8	22.7
Over 5 years or non-expiring	15.7	14.2
Total	23.8	41.9

The underlying average tax rate is 27.3% (30.6%).

In the year under review, deferred tax assets from carried forward tax losses of CHF 1.4 million (CHF 2.5 million) were used and deferred carried forward tax losses of CHF 2.6 million (CHF 2.0 million) were capitalized. From acquisitions, carried forward tax losses of CHF 5.7 million (CHF 0.0 million) were recognized.

There are deductible temporary differences of CHF 462.8 million for which no deferred tax asset has been recognized. The underlying average tax rate is 6.8%. A realization of these theoretical tax benefits is not expected. CHF 362.0 million result from the Swiss tax reform in 2019 and a further CHF 100.8 million result from the issuance of the mandatory convertible bond (see note 20).

9. EARNINGS PER SHARE CHF 5.30 (CHF 4.69)

	2018	2019
Net profit attributable to Sika shareholders (in CHF mn)	682.9	751.9
Weighted average number of shares outstanding for calculation of basic earnings per share ¹	145,486,609	141,734,283
Additional weighted number of shares upon exercise of all conversion rights	4,987,001	16,980,224
Weighted average number of shares used to calculate diluted earnings per share	150,473,610	158,714,507
Undiluted earnings per share (in CHF)	4.69	5.30
Diluted earnings per share (in CHF)	4.58	4.81

1 Excluding treasury shares held in the Group.

Undiluted earnings per share (EPS) amount to CHF 5.30 (CHF 4.69) 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 share capital reduction of September 7, 2018 (see note 24), is also taken into account (weighted) in the prior 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 11.5 million (CHF 6.0 million) after consideration of the tax effect. Diluted earnings per share amount to CHF 4.81 (CHF 4.58).

10. CASH AND CASH EQUIVALENTS CHF 995.1 MN (CHF 914.0 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 1,441.9 MN (CHF 1,322.7 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	2018	2019
Net accounts receivable	1,322.7	1,441.9
Of which		
Not overdue	1,010.1	1,106.1
Past due < 31 days	182.0	194.0
Past due 31-60 days	56.9	63.1
Past due 61-180 days	51.1	53.6
Past due 181-360 days	6.6	8.5
Past due > 365 days	16.0	16.6

MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS

in CHF mn	2018	2019
January 1	68.5	68.2
Additions to or increase in allowances	15.3	19.8
Reversal of allowances	-4.5	-0.7
Utilization of allowances	-7.7	-8.3
Exchange differences	-3.4	-3.1
December 31	68.2	75.9

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

12. INVENTORIES CHF 866.5 MN (CHF 800.7 MN)

in CHF mn	2018	2019
Raw materials and supplies	257.3	296.0
Semi-finished goods	57.4	62.8
Finished goods	408.2	418.9
Merchandise	77.8	88.8
Total	800.7	866.5

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 139.9 MN (CHF 112.0 MN)

This includes advance payments and prepaid expenses for the accrual of expenses and income.

14. OTHER ASSETS CHF 130.4 MN (CHF 95.3 MN)

OTHER CURRENT ASSETS

in CHF mn	2018	2019
Derivatives (at fair value through profit and loss)	17.7	15.0
Loans (at amortized cost)	7.3	9.0
Securities (at fair value through profit and loss)	2.1	2.5
Other financial assets	27.1	26.5
Other current assets	27.1	26.5

OTHER NON-CURRENT ASSETS

in CHF mn	2018	2019
Securities (at fair value through profit and loss)	49.9	59.2
Loans (at amortized cost)	1.6	1.6
Other financial assets	51.5	60.8
Employee benefit assets ¹	16.7	42.0
Other	0.0	1.1
Other non-financial assets	16.7	43.1
Other non-current assets	68.2	103.9

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 1,795.8 MN (CHF 1,214.2 MN)

	2018	2,019
Own property, plant, and equipment	1,214.2	1,474.2
Right-of-use assets	0.0	321.6
Property, plant, and equipment	1,214.2	1,795.8

OWN PROPERTY, PLANT, AND EQUIPMENT

	Property	Plant	Equipment and motor vehicles	Plants and buildings under construction	Total
in CHF mn					
At January 1, 2018					
Acquisition cost	138.7	748.6	1,702.0	90.2	2,679.5
Cumulative depreciation and impairment	-1.7	-436.9	-1,175.7	0.0	-1,614.3
Net values at January 1, 2018	137.0	311.7	526.3	90.2	1,065.2
Additions ¹	0.1	43.6	61.1	104.1	208.9
Acquired on acquisition	23.8	27.7	60.6	2.1	114.2
Exchange differences	-5.0	-8.8	-16.0	-1.9	-31.7
Disposals	0.0	-2.0	-1.2	0.0	-3.2
Reclassifications ²	2.7	27.2	71.3	-101.5	-0.3
Depreciation charge for the year	-0.3	-25.3	-113.3	0.0	-138.9
At December 31, 2018	158.3	374.1	588.8	93.0	1,214.2
As January 1, 2019					
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 ¹	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 ²	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
At 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 December 31, 2019	195.2	453.7	730.0	95.3	1,474.2

1 The cash outflows from investments amounted in 2019 to CHF 179.7 million (CHF 233.4 million).

2 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, 2019, but not recognized as liabilities is CHF 19.5 million (CHF 28.7 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
As 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
At 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 December 31, 2019	111.1	138.8	71.7	321.6

¹ Right-of-use assets are reclassified to property, plant, and equipment when the purchase option is exercised. In 2019, the first-time application of IFRS 16 results in reclassifications from own property, plant, and equipment and intangible assets to right-of-use assets.

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
Expenses relating to leases of low-value assets	7.5
Expenses relating to short-term leases	22.2
Expenses relating to variable leases payments not included in lease liabilities	4.2

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 4,340.5 MN (CHF 1,693.9 MN)

in CHF mn	Goodwill	Software	Trademarks	Customer relations	Other intangibles	Total
At January 1, 2018						
Acquisition costs	899.3	154.1	127.9	403.8	117.6	1,702.7
Cumulative amortization and impairment	-7.1	-123.9	-15.5	-166.6	-72.5	-385.6
Net values at January 1, 2018	892.2	30.2	112.4	237.2	45.1	1,317.1
Additions	0.0	5.2	0.0	0.0	0.0	5.2
Acquired on acquisition	356.0	1.3	11.1	61.7	35.5	465.6
Exchange differences	-24.9	-0.7	-0.1	-3.6	0.1	-29.2
Reclassifications (net)	0.0	0.3	0.0	0.0	0.0	0.3
Amortization for the year	0.0	-8.6	-8.8	-33.1	-14.6	-65.1
At December 31, 2018	1,223.3	27.7	114.6	262.2	66.1	1,693.9
At January 1, 2019						
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	2,023.6	11.2	237.8	540.7	65.1	2,878.4
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 (net)	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
At December 31, 2019	3,139.7	38.9	325.0	729.1	107.8	4,340.5
Acquisition costs	3,145.6	171.6	365.5	957.7	186.5	4,826.9
Cumulative amortization and impairment	-5.9	-132.7	-40.5	-228.6	-78.7	-486.4
Net values at December 31, 2019	3,139.7	38.9	325.0	729.1	107.8	4,340.5

Internally generated patents, trademarks, and other rights are not capitalized. Research and development expenditures for new products are recognized in the income statement, since these do not fulfill the recognition criteria. Acquired intangible assets are 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 behavior, 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 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 growth rates upon which the forecast is set correspond to the market expectations of the cash-generating units and range between 4.9% and 7.6% (6.4% and 9.9%) per year. The sensitivity analysis carried out shows that a realistic change in the key assumptions (-1% in growth rates or +0.5% of the discount rate) would not result in the realizable value falling below the book value. The discount rates are determined on the basis of the weighted average cost of capital of the Group, with country- and currency-specific risks within the context of cash flows taken into consideration. The segments constitute the cash-generating units.

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
December 31, 2018				
EMEA	2.4	8.1	27.4	569.6
Americas	2.4	11.1	45.0	264.9
Asia/Pacific	2.4	9.9		88.5
Global Business	2.2	8.4		300.3
Total			72.4	1,223.3
December 31, 2019				
EMEA	2.2	7.9	26.0	1,200.2
Americas	3.2	10.7	46.4	580.4
Asia/Pacific	2.4	9.6		1,068.0
Global Business	1.7	8.3		291.1
Total			72.4	3,139.7

17. INVESTMENTS IN ASSOCIATED COMPANIES CHF 5.6 MN (CHF 6.2 MN)

The following associated companies are included in the consolidated financial statements as of December 31, 2019: Condensil SARL, France (Sika stake 40%), Sarna Granol AG, Switzerland (50%), Hayashi-Sika Automotive Ltd., Japan (50%), Chemical Sangyo Ltd., Japan (50%), and Seven Tech Co. Ltd., Japan (50%). The remaining 50% of part GmbH, Germany, was acquired this year and fully consolidated for the first time as of January 1, 2019. Part GmbH contributes sales of approximately CHF 9 million. The other stakes are unchanged compared to the prior year.

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

ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%)

in CHF mn	2018	2019
Sales	19.4	9.0
Profit (+)/loss (-)	0.4	-0.4

18. ACCOUNTS PAYABLE CHF 837.2 MN (CHF 733.8 MN)

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

19. ACCRUED EXPENSES AND DEFERRED INCOME CHF 407.9 MN (CHF 265.5 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 4.2 million (CHF 4.2 million) are included (see note 1).

20. FINANCIAL LIABILITIES CHF 4,412.9 MN (CHF 3,032.5 MN)

in CHF mn	2018			2019		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives	2.3	0.0	2.3	7.6	0.0	7.6
Bank loans	13.8	0.0	13.8	15.3	2.6	17.9
Lease liabilities	0.1	0.2	0.3	81.6	247.6	329.2
Bonds	199.9	2,792.9	2,992.8	160.1	3,719.7	3,879.8
Mandatory convertible bond (liability component)	0.0	0.0	0.0	48.7	96.3	145.0
Other financial liabilities	21.4	1.9	23.3	29.5	3.9	33.4
Total	237.5	2,795.0	3,032.5	342.8	4,070.1	4,412.9

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.

The following bonds are outstanding:

in CHF mn						2018	2019
Issuer	Bond	Nominal	Coupon	Term	Book value	Book value	
Sika AG, Baar, Switzerland	Straight bond	CHF 200.0	1.125%	2013-11/14/2019	199.9	0.0	
	Straight bond	CHF 160.0	0.000%–0.050%	2018-03/27/2020	160.4	160.1	
	Straight bond	CHF 170.0	0.125%	2018-07/12/2021	170.1	170.1	
	Straight bond	CHF 150.0	1.750%	2012-07/12/2022	149.9	150.0	
	Straight bond	CHF 200.0	1.875%	2013-11/14/2023	199.4	199.5	
	Straight bond	CHF 250.0	0.625%	2018-07/12/2024	250.6	250.5	
	Convertible bond	CHF 1,650.0	0.150%	2018-06/05/2025	1,591.5	1,600.4	
	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	131.0	130.9	
Sika Capital B.V., Utrecht, Netherlands	Straight bond	EUR 500.0	0.875%	2019-04/29/2027	0.0	539.4	
	Straight bond	EUR 500.0	1.500%	2019-04/29/2031	0.0	538.9	
Total					2,992.8	3,879.8	

On April 15, 2019, Sika Capital B.V., Netherlands (a 100% subsidiary of Sika AG and under guarantee of Sika AG), placed a Euro bond of EUR 1,000.0 million through a double tranche with payment date on April 29, 2019:

- EUR 500.0 million 2019–2027 with a fixed coupon of 0.875% p.a. The bond was issued at 99.716%.
- EUR 500.0 million 2018–2031 with a fixed coupon of 1.500% p.a. The bond was issued at 99.782%.

In May, 2018, Sika placed a convertible bond in the amount of CHF 1,650.0 million due in 2025 with payment date June 5, 2018. 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. The conversion price per share is CHF 190.09. No rights were converted in the reporting period.

On January 22, 2019, Sika also placed a mandatory convertible bond in the amount of CHF 1,300.0 million due in 2022 with payment date on January 30, 2019. The issue price was set at 100%. 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 either existing shares or new shares created from conditional capital. The bond has an initial minimum conversion price of CHF 130.00 and an initial maximum conversion price of CHF 146.25 representing a premium of 12.5% above the reference share price. The convertible bond is split into a liability and an equity component for accounting purposes. The liability component corresponds to the market value of an identical bond, but without conversion rights, and is carried at amortized cost. The equity component is calculated as the difference between the issue proceeds. The equity component is no longer revalued. The issue costs were allocated in proportion to the allocation of proceeds to the liability and equity components.

in CHF mn	3.75% mandatory convertible bond 2019-2022
Liability component upon issue at fair value	146.3
Proportional issue costs	-2.3
Net liability component upon issue	144.0
Carrying amount of equity component	1,153.6
Proportional issue costs	-17.5
Deferred taxes	1.4
Net equity component upon issue	1,137.5

The dividend payment resulted in an adjustment of the conversion prices. Since April 11, 2019, the minimum conversion price is CHF 128.16 and the maximum conversion price CHF 144.18. No rights were converted during the reporting period.

In summary, financial liabilities changed as follows:

in CHF mn	Bank loans	Bonds	Lease liabilities	Other financial liabilities	Total financial liabilities
At January 1, 2018	23.5	699.0	0.5	32.6	755.6
Proceeds	2,103.9	2,483.0	0.0	2.8	4,589.7
Repayments	-2,183.4	-150.0	-0.2	-22.7	-2,356.3
Cash flow	-79.5	2,333.0	-0.2	-19.9	2,233.4
Acquired on acquisition	71.0	0.0	0.0	16.2	87.2
Exchange differences	-1.2	0.0	0.0	-0.4	-1.6
Net equity component on convertible bond (see above)	0.0	-40.7	0.0	0.0	-40.7
New leases	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	1.5	0.0	-2.9	-1.4
Non-cash movements	69.8	-39.2	0.0	12.9	43.5
At December 31, 2018	13.8	2,992.8	0.3	25.6	3,032.5
As 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	5.0	1,103.5
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	21.2	245.9
At December 31, 2019	17.9	4,024.8	329.2	41.0	4,412.9

The acquisition of Parex group was financed by the issuance of a mandatory convertible bond in the amount of nominal CHF 1,300.0 million and two Euro bonds in the total amount of CHF 1,130.0 million (nominal EUR 1,000.0 million).

In addition, since April 1, 2019, Sika has a revolving credit facility of CHF 750.0 million, drawable in CHF, EUR, USD or GBP. The term is five years with the option of two one-year extensions. As of December 31, 2019, Sika had not utilized this credit limit. Furthermore, a number of Group companies have their own credit lines. The total amount is insignificant in scale. The credit lines are used in individual cases when intra-Group financing is not permitted or there are benefits from local financing.

The transaction with Schenker-Winkler Holding AG in May 2018 (see further information on significant shareholders) was funded with a bridge loan. The issue of bonds fully replaced the bridge financing.

The classification and valuation principles for financial liabilities are described in note 26.

21. PROVISIONS CHF 109.1 MN (CHF 70.2 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	13.2	9.4	22.6
Non-current provisions	22.3	64.2	86.5
Provisions	35.5	73.6	109.1
Reconciliation			
At January 1, 2019	33.4	36.8	70.2
Additions	14.6	10.6	25.2
Assumed on acquisition	5.4	52.8	58.2
Exchange differences	-0.7	-2.5	-3.2
Utilization	-9.9	-5.3	-15.2
Reversal ¹	-7.3	-18.8	-26.1
At December 31, 2019	35.5	73.6	109.1

1 Provisions for open and anticipated tax cases have been reclassified to income tax liabilities due to the first time adoption of IFRIC 23.

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 86.5 million (CHF 48.1 million) are shown as non-current liabilities, since an outflow of funds is not expected within the next twelve months. For provisions of CHF 22.6 million (CHF 22.1 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	2018			2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Employee benefit plans with defined benefits	16.7	190.5	173.8	42.0	218.5	176.5
Other employee commitments	-	78.2	78.2	-	100.7	100.7
Total	16.7	268.7	252.0	42.0	319.2	277.2

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 at 46 Group companies. The biggest plans are in Switzerland, accounting for 78.0% (79.0%) of Sika's entire defined benefit pension obligations and 96.2% (96.1%) 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.

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
At January 1, 2018	-898.4	762.8	-1.6	-137.2
Current service cost	-29.7			-29.7
Interest expense (-)/interest income (+)	-8.8	5.8		-3.0
Past service cost (-) and gains (+)/ losses (-) on settlements and curtailments	-0.2			-0.2
Total expense recognized in income statement	-38.7	5.8		-32.9
thereof Switzerland	-27.1	5.2		-21.9
thereof others	-11.6	0.6		-11.0
Return on plan assets, excluding amounts included in interest income		-36.1		-36.1
Actuarial gains (+)/losses (-) from change in financial assumptions	10.8			10.8
Actuarial gains (+)/losses (-) from change in demographic assumptions	-1.7			-1.7
Experience gains (+)/losses (-)	-2.7			-2.7
Change in asset ceiling			-0.3	-0.3
Total remeasurement recognized in other comprehensive income	6.4	-36.1	-0.3	-30.0
thereof Switzerland	4.8	-36.0	-0.3	-31.5
thereof others	1.6	-0.1	0.0	1.5
Exchange differences	6.4	-0.9		5.5
Contributions by employers		20.7		20.7
Contributions by plan participants	-14.8	14.8		0.0
Benefits paid	36.4	-29.1		7.3
Settlements paid	0.3	-0.2		0.1
Acquired in a business combination and others	-15.5	8.2		-7.3
At December 31, 2018	-917.9	746.0	-1.9	-173.8
thereof Switzerland	-725.0	717.2	-1.9	-9.7
thereof others	-192.9	28.8	0.0	-164.1

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

The contributions that are expected to be paid into the defined benefit pension plans for 2020 amount to CHF 20.4 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 164.1 million (CHF 145.0 million). Schemes in Germany, in particular, do not have segregated assets. For the Swiss pension plans the result is a surplus of CHF 17.3 million (deficit of CHF 9.7 million).

MAJOR CATEGORIES OF TOTAL PLAN ASSETS

in CHF mn	2018			2019		
	Switzerland	Others	Total	Switzerland	Others	Total
Cash and cash equivalents	38.0	5.9	43.9	36.2	5.7	41.9
Equity instruments	302.6	2.5	305.1	354.9	2.2	357.1
Debt instruments	215.7	2.3	218.0	265.0	2.3	267.3
Real estate investments	130.2	0.0	130.2	145.4	0.0	145.4
Other assets	30.7	18.1	48.8	23.7	22.7	46.4
Total	717.2	28.8	746.0	825.2	32.9	858.1

Most of the plan assets of the pension schemes are invested in assets with quoted market prices. In the year under review, 10.0% (11.1%) of the investments in real estate and 10.2% (26.6%) of the other assets did not have a quoted market price.

AMOUNTS INCLUDED IN PLAN ASSETS

in CHF mn	2018		2019	
	Switzerland	Others	Switzerland	Others
Shares Sika AG ¹	30.6	0.0	37.4	0.0
Own property occupied by Sika	11.1	0.0	10.9	0.0
Total	41.7	0.0	42.6	0.0

1 According to Swiss law, employer shareholdings may not exceed 5% of assets.

ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

	2018		2019	
	Switzerland	Others	Switzerland	Others
Discount rate in the year under review (%)	0.8	2.0	0.3	1.0

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%	-33.0	-9.4
Discount rate	-0.25%	32.2	8.6

NUMBER OF PLANS

	2018		2019	
	Switzerland	Others	Switzerland	Others
Total number of defined benefit plans	6	37	6	43
thereof number of defined benefit plans funded	5	10	5	12
thereof number of defined benefit plans unfunded	1	27	1	31
Average weighted duration in years	15.6	16.0	16.0	17.6

23. OTHER LIABILITIES CHF 34.4 MN (CHF 34.2 MN)

Other liabilities consist of deferred revenue for warranty extensions that will not be realized within the next twelve months.

24. SHAREHOLDERS' EQUITY CHF 3,161.2 MN (CHF 1,675.2 MN)

in CHF mn	2018	2019
Capital stock	1.4	1.4
Capital surplus	203.1	203.1
Treasury shares	-11.1	-7.3
Currency translation differences	-614.2	-747.8
Retained earnings	2,066.5	3,674.7
Equity attributable to Sika shareholders	1,645.7	3,124.1
Non-controlling interests	29.5	37.1
Shareholders' equity	1,675.2	3,161.2

Equity accounts for 31.8% (26.2%) of the balance sheet total.

CAPITAL STOCK. On June 11, 2018, the Extraordinary General Meeting of Sika decided to introduce a single-class registered share with a nominal value of CHF 0.01 each. All existing bearer shares with a nominal value of CHF 0.60 were converted and split and all registered shares with a nominal value of CHF 0.10 were split.

The Sika registered shares bought back by Schenker-Winkler Holding AG (10,629,520 registered shares with a nominal value of CHF 0.01) were cancelled by means of a capital reduction on September 7, 2018. The corresponding reduction of CHF 106,295.20 in share capital was approved at the Extraordinary General Meeting on June 11, 2018.

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	2018	2019
Registered shares, nominal value CHF 0.01	141,781,160	1.4	1.4
Capital stock		1.4	1.4

The share capital structure changed this the prior year as follows (no changes in the current year):

	Bearer shares		Registered shares ¹		Total	
	Units	Par value in CHF	Units	Par value in CHF	Units	Par value in CHF
At January 1, 2018	2,151,199	1,290,720	2,333,874	233,387	4,485,073	1,524,107
Share split (par value CHF 0.01)	126,920,741	-	21,004,866	-	147,925,607	-
Conversion into single-class registered share	-129,071,940	-1,290,720	129,071,940	1,290,720	-	-
Capital reduction			-10,629,520	-106,295	-10,629,520	-106,295
At December 31, 2018	-	-	141,781,160	1,417,812	141,781,160	1,417,812
At December 31, 2019	-	-	141,781,160	1,417,812	141,781,160	1,417,812

1 Includes 41,859 registered shares (2018: 90,730 registered shares) held as treasury shares, that do not carry voting and dividend rights.

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 2.30 per registered share, in the total amount of CHF 326.1 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 145 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 +73.7 million).
- higher depreciation and amortization expenses (CHF +128.5 million). Right-of-use assets are recognized in the balance sheet since 2019 and are amortized on a straight-line basis over the term of the lease. The repayment of lease liabilities in the amount of CHF 85.0 million is now included in cash flow from financing activities and cash flow from operating activities is released accordingly.
- a decrease in net working capital of CHF 88.1 million compared to an increase in net working capital of 161.6 million in the prior year. This was due to improvements in the collection process as well as in inventory management.
- an increase in taxes paid (CHF -31.4 million).
- lower investment activity in property, plant and equipment, as this had been increased in the previous year due to the buyback of leasing objects.
- a strong increase in acquisition activity (CHF -1,277.2 million) mainly due to the acquisition of Parex.
- a net repayment of bank debt of CHF 984.8 million. This is also mainly due to the acquisition of Parex. The bank debts of the Parex companies were assumed and repaid.
- a net cash inflow of CHF 2,210.1 million from the issue and repayment of bonds compared to a net cash inflow of CHF 2,333.0 million in the prior year.
- in the previous year, treasury shares were purchased (CHF -2,082.9 million), which were subsequently cancelled.

in CHF mn	2018	2019
Cash flow from operating activities	744.0	1,213.9
Cash flow from investing activities	-705.2	-1,930.9
Cash flow from financing activities	-149.6	827.6
Exchange differences	-13.1	-29.5
Net change in cash and cash equivalents	-123.9	81.1

FREE CASH FLOW AND OPERATING FREE CASH FLOW

in CHF mn	2018	2019
Cash flow from operating activities	744.0	1,213.9
Net investment in		
Property, plant, and equipment	-225.6	-176.8
Intangible assets	-5.2	-11.0
Acquisitions less cash and cash equivalents	-471.2	-1,748.4
Acquisitions (-)/disposals (+) of financial assets	-3.2	5.3
Free cash flow	38.8	-717.0
Acquisitions/disposals less cash and cash equivalents	471.2	1,748.4
Acquisitions (+)/disposals (-) of financial assets	3.2	-5.3
Operating free cash flow	513.2	1,026.1

OTHER ADJUSTMENTS. Included in "Other adjustments" are:

in CHF mn	2018	2019
Non-liquidity-related interest expenses (-)/income (+)	3.1	8.2
Profit (-)/loss (+) from disposals of non-financial assets	-4.6	4.7
Bargain purchase	-7.7	0.0
Personnel expenses settled through treasury shares	12.6	7.9
Others	3.5	2.8
Total	6.9	23.6

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	1,011.9	1.8
Past due < 31 days	184.5	2.5
Past due 31-60 days	59.7	2.8
Past due 61-180 days	60.2	9.1
Past due 181-360 days	19.7	13.1
Past due > 360 days	54.9	38.9
December 31, 2018	1,390.9	68.2
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

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 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	2018		2019	
		Book value	Fair value	Book value	Fair value
Financial assets					
Cash and cash equivalents		914.0		995.1	
Accounts receivable		1,322.7		1,441.9	
Loans (at amortized cost)		8.9		10.6	
Securities (at fair value through profit and loss)	1	52.0	52.0	61.7	61.7
Derivatives (at fair value through profit and loss)	2	17.7	17.7	15.0	15.0
Total		2,315.3		2,524.3	
Financial liabilities					
Bank loans		13.8		17.9	
Bonds	2	2,992.8	3,115.2	4,024.8	4,524.4
Accounts payable		733.8		837.2	
Lease liabilities		0.3		329.2	
Other financial liabilities		23.3		33.4	
Financial liabilities measured at amortized cost		3,764.0		5,242.5	
Derivatives (at fair value through profit and loss)	2	2.3	2.3	7.6	7.6
Total		3,766.3		5,250.1	

The book value of cash and cash equivalents, accounts receivable, loans, bank loans, accounts payable, and other financial liabilities almost equals 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. Property, plant, and equipment of CHF 4.3 million (CHF 0.8 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	Replacement value		Contractual value upon maturity		
	(+)	(-)	Contract value	Up to 3 months	3 to 12 months
Open derivatives 2018					
Forward contracts (foreign exchange)	1.3	-0.8	168.9	51.2	117.7
Swaps (foreign exchange)	16.4	-1.5	1,382.0	295.2	1,086.8
Total derivatives	17.7	-2.3	1,550.9	346.4	1,204.5
Open derivatives 2019					
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
Total derivatives	15.0	-7.6	2,250.9	870.5	1,380.4

Losses from currency differences recognized in the income statement amounted to CHF 53.8 million (loss CHF 49.6 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 22.8 million (net gain of CHF 12.0 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	2018	2019
EUR: +10%	0.5	0.2
EUR: -10%	-0.5	-0.2
USD: +10%	-8.8	-3.6
USD: -10%	8.8	3.6

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 3.0% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2018 nor at year-end 2019. The largest possible risk represented by these items is the carrying amount of the accounts receivable and any warranties granted.

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

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

MATURITY PROFILE OF FINANCIAL LIABILITIES

in CHF mn	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
December 31, 2018				
Bank loans	13.8	0.0	0.0	13.8
Accounts payable	733.8	0.0	0.0	733.8
Bonds	215.2	728.7	2,186.3	3,130.2
Other financial liabilities	21.5	1.4	0.7	23.6
Financial liabilities measured at amortized cost	984.3	730.1	2,187.0	3,901.4
Financial liabilities at fair value through profit and loss	2.3	0.0	0.0	2.3
Total	986.6	730.1	2,187.0	3,903.7
December 31, 2019				
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	235.0	962.8	3,089.6	4,287.4
Other financial liabilities	29.5	3.9	0.0	33.4
Financial liabilities measured at amortized cost	1,205.8	1,158.6	3,190.6	5,555.0
Financial liabilities at fair value through profit and loss	7.6	0.0	0.0	7.6
Total	1,213.4	1,158.6	3,190.6	5,562.6

CAPITAL MANAGEMENT. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies, or processes during the years ended December 31, 2019, and December 31, 2018. The Group monitors its equity using the equity ratio, which is shareholders' equity divided by total capital.

OTHER INFORMATION

SIGNIFICANT SHAREHOLDERS

As of the balance sheet date of 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.

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>.

On May 10, 2018, Sika, the Burkard family and Compagnie de Saint-Gobain ("Saint-Gobain") signed agreements which terminate and resolve their disputes and legal proceedings. Under these agreements, Saint-Gobain acquired from the Burkard family all shares in Schenker-Winkler Holding AG ("SWH") and Sika acquired from SWH 1,062,952 registered shares in Sika with a par value of CHF 0.10 (which represented at that time 6.97% of the capital and 23.7% of the voting rights) for a total consideration of CHF 2.08 billion. Sika and Saint-Gobain have agreed on certain lock-up and stand-still obligations with regard to SWH's remaining stake in Sika. In case of an intended sale, SWH's shares in Sika (up to 10.75%) will first be offered to Sika. On June 11, 2018, an Extraordinary General Meeting of Sika resolved, among others, to convert all shares of Sika into a single class of registered shares with a par value of CHF 0.01 and to cancel the treasury shares acquired from SWH by way of a capital reduction. The capital reduction was completed as of September 7, 2018. Upon completion of the capital reduction, Saint-Gobain (through SWH) now holds 10.75% of the votes and capital interest in Sika.

As of the balance sheet date of December 31, 2018, Sika had received notification of four 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 owned 7.7% of all voting shares. (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) Massachusetts Financial Services Company which owned 3.03% of all voting shares.

Since the introduction of the single-class registered share, the capital shares correspond to the voting rights. This led to an increase in the proportion of voting rights compared to December 31, 2017, for all previous holders of bearer shares.

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>.

RELATED PARTIES

ASSOCIATED COMPANIES. In the year under review, goods and services totaling CHF 6.1 million (CHF 9.3 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 28.5 million (CHF 27.5 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 2019 amounted to CHF 0.7 million (CHF 0.6 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	2018	2019
Current benefits	15.5	13.8
Share-based payments ¹	12.1	3.7
Pension benefits	1.2	1.2
Total	28.8	18.7

1 Refer to note 4, employee participation plan – share-based payments.

In the prior year the remuneration of CHF 10.3 million to the Board of Directors for the terms of office 2015 to 2018 is included. Part of the compensation was paid in the form of Sika AG shares. The fair value of the shares allocated was CHF 0.7 million each at the beginning of the respective term of office. Due to the increase in the share price the fair value at the time of payment increased to CHF 4.4 million. 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 167 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 18, 2020. The financial statements will be submitted for approval to the Annual General Meeting on April 21, 2020.

EVENTS AFTER THE BALANCE SHEET DATE

The following events occurred between December 31, 2019, and the release of these consolidated financial statements:

ACQUISITIONS. End of November 2019, Sika agreed to acquire Adeplast SA, a major manufacturer of mortars and thermal insulation solutions in Rumania. The acquisition will significantly strengthen Sika's position in the local construction chemicals market and extend its manufacturing footprint. The transaction is subject to approval by the antitrust authorities and is expected to be closed until the end of March 2020. The exact amount and distribution of the assets are not yet known. The amounts are also not material from the Group's perspective. Adeplast generates sales of approximately CHF 120 million in 2019.

LIST OF GROUP COMPANIES

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
EMEA (Europe, Middle East, Africa)					
Albania	❖ Sika Albania SHPK, Tirana	ALL	40,471	100	
Algeria	☐ Sika El Djazaïr SpA, Les Eucalyptus	DZD	313,400	100*	◆★★
	○ Mortero Spa, Béjaïa	DZD	60,000	50.5*	
Austria	○ Sika Österreich GmbH, Bludenz	EUR	8,000	100	◆★
Azerbaijan	○ Sika Limited Liability Comp., Baku	AZN	5,311	100	◆
Bahrain	○ Sika Gulf B.S.C., Adliya	BHD	1,000	51*	◆★★
	▲ Sika Arabia Holding Company WLL, Manama	BHD	6,000	51	
Belarus	○ S I K A Bel LLC, Minsk	USD	29,468	100	
	○ BellNECO LLC, Brest	BYN	9	100*	◆
Belgium	○ Sika Belgium NV, Nazareth	EUR	10,264	100	◆★
	❖ Sika Automotive Belgium S.A., Saintes	EUR	1,649	100	◆★★
	○ ParexGroup NV, Drogen	EUR	156	100*	
	▲ ParexGroup Belgium BVBA, Drogen	EUR	19	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	856,500	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	◆★
	▲ Dry Mix Solutions Aps, Viborg	DKK	100	100*	
Djibouti	❖ Sika Djibouti FZE, Djibouti City	USD	300	100	
Egypt	○ Sika Egypt for Construction Chemicals S.A.E., Cairo	EGP	10,000	100	◆★★
	○ Sika Manufacturing for Construction S.A.E., Cairo	EGP	2,000	100	◆★★
Estonia	❖ Sika Estonia Oü, Tallinn	EUR	3	100	
Ethiopia	○ Sika Abyssinia Chemicals Manufacturing PLC., Addis Ababa	ETB	107,160	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*	◆★★
	▲ Dry Mix Solutions Investissements SAS, Issy Les Moulineaux	EUR	26,761	100*	
	▲ Financière Dry Mix Solutions SAS, Issy Les Moulineaux	EUR	312,180	100*	
	▲ ParexGroup Participations SAS, Issy Les Moulineaux	EUR	38,814	100*	
	○ ParexGroup S.A., Issy Les Moulineaux	EUR	4,097	99.87*	◆★★
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*	

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
	▲ 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., Budapest	HUF	483,000	100	◆★
Iran	○ Sika Parsian P.J.S. Co., Tehran	IRR mn	293,229	100	
Iraq	○ Sika for General Trading LLC, Erbil	IQD	1,000	100	
Ireland	❖ Sika Ireland Ltd., Dublin	EUR	1,270	100	◆
Italy	○ Sika Italia S.p.A., Peschiera Borromeo	EUR	5,000	100	◆★★
	○ Sika Engineering Silicones S.r.l., Peschiera Borromeo	EUR	1,600	100*	◆★
	○ Sika Polyurethane Manufacturing S.r.l., Cerano	EUR	1,600	100	◆★★
	❖ Axson Italia S.r.l., Saronno	EUR	50	100*	
	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	1,346	100	
Kazakhstan	○ Sika Kazakhstan LLP, Almaty	KZT	690,394	100	◆★
Kenya	○ Sika Kenya Limited, Nairobi	KES	50,000	100	◆
Kuwait	❖ Sika Kuwait for Construction Materials & Paints Co WLL, Shuwaikh Industrial Area	KWD	55	51*	
Latvia	○ Sika Baltic SIA, Riga	EUR	1,237	100	
Lebanon	○ Sika Near East SAL, Beirut	LBP	400	100	
Mauritius	○ Sika (Mauritius) Ltd., Plaine Lauzun	MUR	2,600	100*	◆
Morocco	○ Sika Maroc, Casablanca	MAD	178,000	100	◆★★
	○ Sodap Maroc, Gzenaya	MAD	5,000	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	1,866	100	
Norway	○ Sika Norge AS, Skjetten	NOK	42,900	100	◆★
Oman	❖ Sika LLC, Muscat	OMR	150	51*	
Pakistan	○ Sika Pakistan (Pvt.) Ltd., Lahore	PKR	499,969	100	
Poland	○ Sika Poland Sp. z o.o., Warsaw	PLZ	12,188	100	◆★★
	○ 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	51*	◆
	○ Parex Group WLL (Qatar), Doha	QAR	200	97*	◆★★
Romania	○ Sika Romania s.r.l., Brasov	RON	103,176	100	◆★★
	○ Arcon Membrane Srl, Sfantu Gheorghe	RON	1,000	100*	◆
Russia	○ Sika LLC, Lobnya	RUB	535,340	100	◆★
Saudi Arabia	○ Sika Saudi Arabia Co Ltd., Riyadh	SAR	41,750	51	◆★
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	◆★★
	❖ KVK Slovakia, s.r.o., Bratislava	EUR	7	100*	
Slovenia	❖ Sika Slovenija d.o.o., Trzin	EUR	1,029	100	◆★

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
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 Valles	EUR	80	100*	
	○ Sika Automotive Terrassa S.A., Terrassa	EUR	2,965	100	◆★★
	▲ Parexgroup Iberica, S.A.U., Les Franqueses del Valles	EUR	10,631	100	
	○ Parexgroup Morteros, S.A.U., Les Franqueses del Valles	EUR	1,923	100*	◆★
Sweden	○ Sika Sverige AB, Spånga	SEK	10,000	100	◆★
Switzerland	○ Sika Schweiz AG, Zurich	CHF	1,000	100	◆★★
	▲ Sika Services AG, Zurich	CHF	300	100	◆★
	▲ Sika Technology AG, Baar	CHF	300	100	◆★★
	▲ Sika Informationssysteme AG, Zurich	CHF	400	100	
	■ SikaBau AG, Schlieren	CHF	5,300	100	◆
	▲ Sika Finanz AG, Baar	CHF	2,400	100	
	○ Sika Manufacturing AG, Sarnen	CHF	14,000	100	◆★★
	▲ Sika Supply Center AG, Sarnen	CHF	1,000	100	◆★
	○ Sika Automotive AG, Romanshorn	CHF	3,000	100	◆★★
	▲ Sika Europe Management AG, Zurich	CHF	100	100	
	▲ 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	3,459	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	
	○ ParexGroup Yapi Kimyasallari Sanayi Ve Ticaret AŞ., Istanbul	TRY	57,301	100*	
UAE	○ Sika UAE LLC, Dubai	AED	1,000	51*	◆★★
	❖ Sika International Chemicals LLC, Abu Dhabi	AED	300	51*	◆★★
Ukraine	○ LLC «Sika Ukraina», Kiev	UAH	2,933	100	◆
United Kingdom	○ Sika 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., Warwickshire	GBP	11,542	100*	
	▲ Enevis Group Ltd., Lanarkshire	GBP	1	100*	
	○ Enewall Ltd., North Lanarkshire	GBP	947	100*	
	○ Parex Ltd. (UK), Atherstone	GBP	345	100*	◆★★

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
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 Logística SA, Ciudad de Buenos Aires	ARS	100	100*	
Bolivia	○ Sika Bolivia SA, Santa Cruz de la Sierra	BOB	1,800	100	◆
Brazil	○ Sika S/A, Osasco	BRL	280,981	100	◆★★
	○ ParexGroup Industria E Comercio De Argamassas Ltda, Jundiaí	BRL	111,427	100	◆★★
	○ Quimicryl S/A, Cotia	BRL	301	100*	◆
Canada	○ Sika Canada Inc., Pointe Claire/QC	CAD	81,900	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	◆★
	○ Parex Chile Ltda, Santiago de Chile	CLP mn	2,817	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	137,848	100	
Ecuador	○ Sika Ecuatoriana S.A., Durán	USD	1,982	100	◆★
El Salvador	❖ Sika El Salvador S.A. de C.V., Antiguo Cuscatlán	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	
	▲ Sika Latin America Mgt. Inc, Ciudad de Panamá	USD	10	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), Canelones	UYP	18,551	100*	
USA	○ Sika Corporation, Lyndhurst/NJ	USD	72,710	100	◆★
	▲ Sarnafil Services Inc., Canton/MA	USD	1	100*	★
	○ Sika Automotive Eaton Rapids, Inc., Eaton Rapids/MI	USD	4,602	100*	◆★
	○ Butterfield Color, Inc., Aurora/IL	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	❖ King Shotcrete Equipment Inc., Allentown/PA	USD	1	100*	
Venezuela	○ Sika Venezuela SA, Valencia	VEF	29,441	100	

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation
Asia/Pacific					
Australia	○ Sika Australia Pty. Ltd., Wetherill Park	AUD	49,200	100	◆★★
	▲ Dry Mix Solutions Australia Pty, Sydney	AUD	22,137	100*	
	○ ParexGroup Pty Ltd (Australia), Sydney	AUD	9,000	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*	◆★★
	○ 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, Guangzhou	CNY	10,000	100*	
	▲ ParexGroup China (Shanghai) Management Co Ltd, Shanghai	CNY	12,353	100*	
	▲ Parex China (Guangzhou) Management Co Ltd, Guangzhou	CNY	13,333	100*	
	❖ ParexDavco (Guangzhou) Co. Ltd, Guangzhou	CNY	31,201	100*	
	○ ParexDavco (Guangdong) New Materials Co Ltd, Conghua	CNY	30,000	100*	◆*
	○ ParexDavco (Changsha) Co Ltd, Changsha	CNY	10,000	100*	
	○ ParexDavco (Chengdu) Co Ltd, Chengdu	CNY	10,000	100*	
	○ ParexDavco (Dongguan) Co Ltd, Dongguan	CNY	10,000	100*	
	○ ParexDavco (Nanjing) Co Ltd, Nanjing	CNY	10,000	100*	
	○ ParexDavco (Quanzhou) Co Ltd, Quanzhou	CNY	10,000	100*	
	○ ParexDavco (Shanghai) Co Ltd, Shanghai	CNY	25,000	100*	
	○ ParexDavco (Shijiazhuang) Co Ltd, Shanghai	CNY	10,000	100*	
	○ ParexDavco (Wuhan) Co Ltd, Ezhou	CNY	10,000	100*	
	○ Suzuka International (Shanghai) Co Ltd, Schanghai	CNY	35,000	100*	
	○ Suzuka International Shijiazuang Co Ltd, Schanghai	CNY	10,000	100*	
	❖ Jiangsu Crevo Science & Technology Co., Ltd., Jiangsu	CNY	59,312	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	53,011	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*	

Country	Company ¹		Capital stock in thousands	Voting and capital share in %	Certifi- cation	
Korea	○ Sika Korea Ltd., Seoul		KRW mn	5,596	100	◆ ★
Malaysia	○ Sika Kimia Sdn. Bhd., Nilai		MYR	5,000	100	◆ ★ *
	▲ Sika Harta Sdn. Bhd., Nilai		MYR	10,000	100	
	○ LCS Optiroc Sdn. Bhd., Johor Bahru		MYR	100	100	◆ ★ *
	○ ParexGroup Sdn (Malaysia), Port Klang		MYR	9,938	100*	◆ ★ *
Mongolia	○ Sika Mongolia LLC, Ulaanbaatar		MNT mn	7,091	100	
Myanmar	○ Sika Myanmar Limited, Dagon Myothit (South) Township		MMK mn	2,359	100	◆ ★
New Zealand	○ Sika (NZ) Ltd., Auckland		NZD	1,100	100	◆ ★
Philippines	○ Sika Philippines Inc., Las Pinas City		PHP	55,610	100	◆ ★
	○ ParexGroup Inc, Taguig City		PHP	10,000	100*	◆ ★
Singapore	○ Sika (Singapore) Pte. Ltd., Singapore		SGD	1,000	100	◆ ★ *
	▲ Sika Asia Pacific Mgt. Pte. Ltd., Singapore		SGD	100	100	
	▲ ParexGroup Pte Ltd, Singapore		SGD	6,250	100	◆ ★ *
Sri Lanka	○ Sika Lanka (Private) Limited, Ekala		LKR	129,100	100	◆ ★
Taiwan	○ Sika Taiwan Ltd., Taoyuan County		TWD	40,000	100	◆ ★
Thailand	○ Sika (Thailand) Ltd., Chonburi		THB	200,000	100	◆ ★ *
Vietnam	○ Sika Limited (Vietnam), Dong Nai Province		VND mn	44,190	100	◆ ★
	○ 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, 2019.

In our opinion the consolidated financial statements (pages 97 to 150 of this report) give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

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

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

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE - VALUATION

AREA OF FOCUS. Goodwill and intangible assets with indefinite useful life represent 32% of the Group's total assets and 102% of the Group's total shareholders' equity as at December 31, 2019. 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 2019 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 the proper 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 WACC, expected growth rates and the model used. We analyzed sensitivities in the available headroom of CGUs and whether a possible change in assumptions such as forecasted EBITDAs, growth rates, 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.

ACQUISITION PAREX GROUP

AREA OF FOCUS. On 23 May 2019, the Group acquired all shares and voting rights of Parex Group for CHF 1,698.5 million. Significant judgment and management estimates are necessary for determining the consideration transferred and for identifying and valuing acquired assets and liabilities at fair value. The main assumptions and the results of the purchase price allocation are disclosed in Note "Scope of consolidation and acquisitions" of the consolidated financial statements. Due to the size of the acquired group and the complexity of the acquisition, we consider this to be a particularly important audit area.

OUR AUDIT RESPONSE. Together with our specialists, we examined the valuation model and assessed the methods used to identify and value the acquired assets and liabilities at fair value. We also evaluated the adequacy of the judgement and management estimates applied, as well as the allocation of the established goodwill to the cash-generating units (CGUs). We also analyzed the adequacy of the notes.

Our audit procedures did not lead to any reservations relating to the purchase price allocation and the disclosure in the notes.

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 18, 2020

ERNST & YOUNG LTD

Christoph Michel
Licensed audit expert
(Auditor in charge)

Marc Rügsegger
Licensed audit expert

FIVE-YEAR REVIEWS

CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	2015	2016	2017	2018	2019
Net sales	5,489.2	5,747.7	6,248.3	7,085.4	8,109.2
Material expenses	-2,518.4	-2,566.6	-2,849.2	-3,333.7	-3,765.2
Gross result	2,970.8	3,181.1	3,399.1	3,751.7	4,344.0
Personnel expenses	-1,106.5	-1,159.1	-1,212.1	-1,345.4	-1,544.3
Other operating expenses	-1,027.0	-1,056.3	-1,118.5	-1,256.4	-1,412.1
Operating profit before depreciation	837.3	965.7	1,068.5	1,149.9	1,387.6
Depreciation/amortization/impairment	-164.0	-170.4	-172.2	-204.0	-332.5
Operating profit	673.3	795.3	896.3	945.9	1,055.1
Interest income/interest expense	-22.0	-17.8	-16.4	-24.2	-55.0
Financial income/expense and income from associated companies	-29.4	-21.7	-17.8	-28.8	-33.5
Profit before taxes	621.9	755.8	862.1	892.9	966.6
Income taxes	-156.8	-189.2	-213.1	-205.8	-208.1
Net profit	465.1	566.6	649.0	687.1	758.5
Free cash flow	379.5	563.0	173.7	38.8	-717.0
Gross result as % of net sales	54.1	55.3	54.4	53.0	53.6
Operating profit as % of net sales	12.3	13.8	14.3	13.3	13.0
Net profit as % of net sales (ROS)	8.5	9.9	10.4	9.7	9.4
Net profit as % of shareholders' equity (ROE)	18.2	19.2	19.0	41.0	24.0

SEGMENT INFORMATION

in CHF mn	EMEA					Americas				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Net sales	2,486	2,561	2,736	3,167	3,432	1,439	1,487	1,684	1,821	2,162
Operating profit	327	349	379	435	473	230	258	288	300	353
in % of net sales	13.2	13.6	13.9	13.7	13.8	16.0	17.4	17.1	16.5	16.3
Depreciation/amortization	79	83	83	89	138	31	32	37	44	77
Capital expenditures	65	74	84	113	87	32	38	57	45	41

in CHF mn	Asia/Pacific					Global Business				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Net sales	1,009	1,070	1,121	1,177	1,585	555	630	707	920	930
Operating profit	165	190	206	217	260	60	102	120	132	114
in % of net sales	16.4	17.8	18.4	18.4	16.4	10.8	16.2	17.0	14.3	12.3
Depreciation/amortization	24	25	25	25	59	11	10	12	22	29
Capital expenditures	25	23	25	29	35	15	15	17	21	19

in CHF mn	Other segments and activities					Total				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Net sales	0	0	0	0	0	5,489	5,748	6,248	7,085	8,109
Operating profit	-109	-104	-97	-138	-144	673	795	896	946	1,055
in % of net sales						12.3	13.8	14.3	13.4	13.0
Depreciation/amortization	19	20	17	25	30	164	170	174	204	333
Capital expenditures	6	5	5	6	11	143	155	188	214	192

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31

in CHF mn		2015	2016	2017	2018	2019
Cash and cash equivalents		1,074.4	1,155.0	1,037.9	914.0	995.1
Accounts receivable	a	1,014.5	1,043.1	1,188.8	1,322.7	1,441.9
Inventories	b	584.9	600.8	729.5	800.7	866.5
Other assets ¹		104.3	98.1	128.9	139.1	166.4
Current assets		2,778.1	2,897.0	3,085.1	3,176.5	3,469.9
Property, plant, and equipment		924.3	959.2	1,065.2	1,214.2	1,795.8
Intangible assets		1,037.9	1,021.2	1,317.1	1,693.9	4,340.5
Other assets ²		183.5	221.8	328.4	297.4	339.0
Non-current assets		2,145.7	2,202.2	2,710.7	3,205.5	6,475.3
ASSETS		4,923.8	5,099.2	5,795.8	6,382.0	9,945.2
Accounts payable	c	581.1	587.0	730.9	733.8	837.2
Financial liabilities		278.1	44.3	202.3	237.5	342.8
Other liabilities ³		303.9	336.7	420.4	435.5	626.3
Current liabilities		1,163.1	968.0	1,353.6	1,406.8	1,806.3
Financial liabilities		708.8	707.5	553.3	2,795.0	4,070.1
Non-current provisions, employee benefit obligations		360.8	332.1	316.4	316.8	405.7
Other liabilities ⁴		139.0	143.9	161.4	188.2	501.9
Non-current liabilities		1,208.6	1,183.5	1,031.1	3,300.0	4,977.7
LIABILITIES		2,371.7	2,151.5	2,384.7	4,706.8	6,784.0
Capital stock		1.5	1.5	1.5	1.4	1.4
Treasury shares		-0.9	-11.0	-6.6	-11.1	-7.3
Reserves		2,530.2	2,933.8	3,389.8	1,655.4	3,130.0
Equity attributable to Sika shareholders		2,530.8	2,924.3	3,384.7	1,645.7	3,124.1
Non-controlling interests		21.3	23.4	26.4	29.5	37.1
SHAREHOLDERS' EQUITY	d	2,552.1	2,947.7	3,411.1	1,675.2	3,161.2
LIABILITIES AND SHAREHOLDERS' EQUITY	e	4,923.8	5,099.2	5,795.8	6,382.0	9,945.2

1 Prepaid expenses and accrued income, other current assets.

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

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

4 Deferred tax liabilities and other non-current liabilities.

KEY BALANCE SHEET DATA

in CHF mn	Calculation	2015	2016	2017	2018	2019
Net working capital	(a+b-c)	1,018.3	1,056.9	1,187.4	1,389.6	1,471.2
Net working capital as % of net sales		18.6	18.4	19.0	19.6	18.1
Net debt ¹	f	-94.0	-415.6	-290.2	2,114.1	3,407.7
Gearing in %	(f : d)	-3.7	-14.1	-8.5	126.2	107.8
Equity ratio in %	(d : e)	51.8	57.8	58.9	26.2	31.8

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	2015	2016	2017	2018	2019
Capital employed ¹		2,760.2	2,772.4	3,246.3	3,975.6	7,026.4
Annual average of capital employed	g	2,771.1	2,766.3	3,009.4	3,611.0	5,501.0
Operating profit	h	673.3	795.3	896.3	945.9	1,055.1
Return on capital employed (ROCE) in %	(h : g)	24.3	28.7	29.8	26.2	19.2

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

EMPLOYEES

	2015	2016	2017	2018	2019
Employees by geographical location (at December 31)¹					
EMEA (Europe, Middle East, Africa)	9,079	9,083	9,822	10,983	12,284
Germany	1,832	1,778	1,808	2,354	2,334
Switzerland	2,022	2,001	1,970	2,024	2,013
France	754	727	701	685	1,392
United Kingdom	772	817	837	864	951
America	4,090	4,167	4,621	4,867	6,271
USA	1,432	1,580	1,911	2,164	2,547
Brazil	617	577	574	589	964
Asia/Pacific	4,112	4,169	4,041	4,210	6,586
China	1,083	1,099	1,066	1,181	2,753
Japan	670	673	661	673	682
Total	17,281	17,419	18,484	20,060	25,141
Personnel expenses (in CHF mn)					
Wages and salaries	900	941	991	1,095	1,257
Social charges, other	207	218	221	250	287
Personnel expenses	1,107	1,159	1,212	1,345	1,544
Personnel expenses as % of net sales	20	20	19	19	19
Key data per employee (in CHF 1,000)					
Net sales	321	331	348	368	359
Net value-added ²	103	112	117	117	116

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	2015	2016	2017	2018	2019
Source of value-added					
Corporate performance (net sales)	5,489	5,748	6,248	7,085	8,109
Intermediate inputs	-3,572	-3,631	-3,994	-4,619	-5,157
Gross value-added	1,917	2,117	2,254	2,466	2,952
Non-liquidity related expenses					
Depreciation and amortization	-164	-170	-172	-204	-333
Change in provisions	2	-12	10	2	-6
Net value-added	1,755	1,935	2,092	2,264	2,613
Distribution of value-added					
To employees					
Wages and salaries	900	941	991	1,095	1,257
Social charges	212	222	224	253	287
To governments	157	189	213	206	254
To lenders (interest expenses)	21	16	15	23	56
To shareholders (dividend payout, incl. non-controlling interests)	183	200	246	283	293
To the company					
Net profit for the year	465	567	649	687	759
Less dividend payout	-183	-200	-246	-283	-293
Net value-added	1,755	1,935	2,092	2,264	2,613
Number of employees					
End of year	17,281	17,419	18,484	20,060	25,141
Annual average	17,088	17,350	17,952	19,272	22,601
Net value-added per employee (in CHF 1,000)	103	112	117	117	116

SIKA AG, BAAR FINANCIAL STATEMENTS

SIKA AG INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	Notes	2018	2019
Dividend income	1	326.6	274.2
Financial income	2	56.5	137.5
Other income	3	38.4	49.5
Income		421.5	461.2
Financial expenses	4	-44.1	-168.4
Personnel expenses		-16.9	-20.0
Other operating expenses	5	-57.4	-56.6
Operating profit before depreciation		303.1	216.2
Impairment losses (-)/reversal of impairment losses (+) on investments		20.3	42.0
Depreciation and amortization expenses		-0.1	-0.1
Net profit before taxes		323.3	258.1
Direct taxes		-4.1	-3.3
Net profit for the year		319.2	254.8

SIKA AG BALANCE SHEET AS OF DECEMBER 31

in CHF mn	Notes	2018	2019
Cash and cash equivalents	6	497.1	409.5
Securities		0.1	0.2
Other current receivables from subsidiaries	7	2,781.5	3,586.5
Other current receivables from third parties	7	3.9	2.6
Prepaid expenses and accrued income		4.5	6.0
Current assets		3,287.1	4,004.8
Investments	8	1,935.3	3,054.9
Property, plant, and equipment		0.1	0.2
Intangible assets		0.2	0.2
Other non-current assets	9	24.8	39.8
Non-current assets		1,960.4	3,095.1
ASSETS		5,247.5	7,099.9
Accounts payable to subsidiaries		3.6	2.4
Accounts payable to third parties		1.8	1.2
Current interest-bearing liabilities to subsidiaries	10	637.0	333.7
Current interest-bearing liabilities to third parties	10	200.0	160.0
Other current liabilities to subsidiaries		3.0	0.0
Other current liabilities to third parties		0.4	0.5
Accrued expenses and deferred income	11	75.0	70.5
Current liabilities		920.8	568.3
Non-current interest-bearing liabilities	10	2,850.0	3,990.0
Non-current interest-bearing liabilities from subsidiaries	12	0.0	1,095.8
Other non-current liabilities	13	5.7	5.9
Non-current provisions	14	2.3	3.2
Non-current liabilities		2,858.0	5,094.9
LIABILITIES		3,778.8	5,663.2
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		1,296.2	1,260.4
Treasury shares	15	-11.1	-7.3
Shareholders' equity	16	1,468.7	1,436.7
LIABILITIES AND SHAREHOLDERS' EQUITY		5,247.5	7,099.9

NOTES TO THE SIKA AG FINANCIAL STATEMENTS

PRINCIPLES

GENERAL

The 2019 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 274.2 MN (CHF 326.6 MN)

Dividends from subsidiaries are recognized in this position. Dividend income was lower year-on-year due to the planned legal restructuring in connection with the acquisition of Parex.

2. FINANCIAL INCOME CHF 137.5 MN (CHF 56.5 MN)

Financial income includes interest income and gains from foreign exchange transactions. The increase in financial income is mainly due to higher interest income, exchange rate gains from the valuation of loans and realized gains from hedging transactions.

3. OTHER INCOME CHF 49.5 MN (CHF 38.4 MN)

Other income includes income from the allocation of cost to subsidiaries. The increase in other income is mainly due to additional services charged and higher management fees.

4. FINANCIAL EXPENSES CHF 168.4 MN (CHF 44.1 MN)

Financial expenses include the interest costs on bonds as well as foreign currency losses on loans to subsidiaries. The increase in financial expenses is mainly due to interest on the additional bonds (see note 10), exchange losses from the valuation of loans and realized losses on hedging transactions.

5. OTHER OPERATING EXPENSES CHF 56.6 MN (CHF 57.4 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 the remuneration of CHF 10.3 million to the Board of Directors for the terms of office 2015 to 2018 is included.

6. CASH AND CASH EQUIVALENTS CHF 409.5 MN (CHF 497.1 MN)

All bank deposits are held in interest-bearing accounts, whereof CHF 370.3 million (CHF 468.8 million) are invested in Swiss francs and CHF 39.2 million (CHF 28.3 million) in foreign currencies.

7. OTHER CURRENT RECEIVABLES FROM SUBSIDIARIES AND THIRD PARTIES CHF 3,589.1 MN (CHF 2,785.4 MN)

Receivables consist of short-term loans to subsidiaries in the amount of CHF 3,542.2 million (CHF 2,756.1 million). In addition, Sika AG has receivables of CHF 44.3 million (CHF 25.4 million) from Sika subsidiaries and receivables from third parties in the amount of CHF 2.6 million (CHF 3.9 million).

8. INVESTMENTS CHF 3,054.9 MN (CHF 1,935.3 MN)

The change in investments is mainly due to the acquisition of Parex and capital increases at subsidiaries.

Major participations are indicated on the list of Group companies beginning on page 145 of this report.

9. OTHER NON-CURRENT ASSETS CHF 39.8 MN (CHF 24.8 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 493.7 MN CURRENT/CHF 3,990.0 MN NON-CURRENT
(CHF 837.0 MN/CHF 2,850.0 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:

0.00%–0.05%	variable-interest bond	2018 to 3/27/2020	CHF 160.0 million
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The following bonds are disclosed in the non-current interest-bearing liabilities:

0.125%	fixed-interest bond	2018 to 7/12/2021	CHF 170.0 million
1.750%	fixed-interest bond	2012 to 7/12/2022	CHF 150.0 million
3.75%	mandatory convertible bond	2019 to 1/30/2022	CHF 1,300.0 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

The increase in interest-bearing liabilities is attributable to the acquisition of Parex in May 2019. Details on this transaction are shown on page 129 of this report.

11. ACCRUED EXPENSES AND DEFERRED INCOME CHF 70.5 MN (CHF 75.0 MN)

Accrued expenses and deferred income include in particular prorata interest on bonds issued of CHF 49.9 million (CHF 5.5 million). The increase in accrued interest is due to the issue of the mandatory convertible bond in January 2019. Also included are employee-related accruals and other accruals. The prior year included tax accruals of CHF 59.1 million, primarily attributable to the sale of the umbrella brand to Sika Technology AG.

12. NON-CURRENT INTEREST-BEARING LIABILITIES FROM SUBSIDIARIES CHF 1,095.8 MN (CHF 0.0 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 million) to Sika AG.

13. OTHER NON-CURRENT LIABILITIES CHF 5.9 MN (CHF 5.7 MN)

The other non-current liabilities contain the premium, less issue costs of the bonds.

14. NON-CURRENT PROVISIONS CHF 3.2 MN (CHF 2.3 MN)

The non-current provisions contain accruals for long-term employee retention and bonus programs as well as jubilee payments.

15. TREASURY SHARES CHF 7.3 MN (CHF 11.1 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.

On June 11, 2018, the Extraordinary General Meeting of Sika decided to introduce a single-class registered share with a par value of CHF 0.01 each. The previous bearer shares with a par value of CHF 0.60 each were converted and split, the registered shares with a par value of CHF 0.10 each were split.

The shares repurchased by Schenker-Winkler Holding AG (details on this transaction are shown in the information on significant shareholders on page 143 of this report) were cancelled by means of a capital reduction on September 7, 2018.

in CHF mn	Units	Share value
At January 1, 2018	1,368	6.6
Reductions	-3,384	-24.1
Additions	3,460	26.8
Share purchase for capital reduction	1,062,952	2,083.0
At June 14, 2018	1,064,396	2,092.3
At June 14, 2018 (after transformation into single-class registered shares)	10,702,660	2,092.3
Capital reduction	-10,629,520	-2,083.0
Reductions	-387,462	-50.7
Additions	405,052	52.5
At December 31, 2018	90,730	11.1
At January 1, 2019	90,730	11.1
Reductions	-697,801	-99.7
Additions	648,930	95.9
At December 31, 2019	41,859	7.3

In the year under review, the average share price was CHF 150.70 (CHF 131.85).

16. SHAREHOLDERS' EQUITY CHF 1,436.7 MN (CHF 1,468.7 MN)

The ratio of shareholders' equity to balance sheet total decreased from 28.0% to 20.2%.

in CHF mn	Capital stock	Legal capital reserves ¹	Retained earnings ²	Treasury shares	Shareholders' equity
January 1, 2018	1.5	56.5	3,467.3	-6.6	3,518.7
Dividend payment			-281.8		-281.8
Destruction of treasury shares	-0.1		-2,082.8		-2,082.9
Transactions with treasury shares				-4.5	-4.5
Net profit for the year			319.2		319.2
December 31, 2018	1.4	56.5	1,421.9	-11.1	1,468.7
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

1 Thereof CHF 0.3 million capital contribution reserves.

2 Retained earnings: legal retained earnings, voluntary retained earnings, and profit brought forward.

The lower net profit in 2019 is mainly due to lower dividend income and higher net financing costs. In April 2019, the dividend of CHF 290.6 million from profit brought forward for 2018 was paid out to shareholders.

On June 11, 2018, the Extraordinary General Meeting of Sika decided to introduce a single-class registered share with a par value of CHF 0.01 each. The previous bearer shares with a par value of CHF 0.60 each were converted and split, the registered shares with a par value of CHF 0.10 each were split.

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 48 (47) 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	2018	2019
Letters of guarantee		
Issued	8.6	1,086.9
Used	0.0	0.0
Letters of comfort		
Issued	9.4	4.9
Used	0.2	0.2
Credit lines to subsidiaries		
Issued	0.0	0.0
Used	0.0	0.0

NET RELEASE OF HIDDEN RESERVES

There is no net release of hidden reserves.

MAJOR SHAREHOLDERS

On December 31, 2019, the company had 16,004 (13,655) registered shareholders. Information regarding major shareholders can be found on page 143 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	
	2018	2019
Board of Directors		
Paul Hälg, Chairman	47,460	49,920
Viktor Waldemar Balli	n.a.	0
Frits van Dijk	7,740	8,160
Justin Marshall Howell	0	350
Monika Ribar	7,560	6,660
Daniel J. Sauter	126,240	48,917
Ulrich W. Suter	6,240	n.a.
Christoph Tobler	11,000	8,420
Thierry F.J. Vanlancker	n.a.	860
Group Management		
Paul Schuler, CEO	67,320	79,443
Mike Champion	4,620	5,100
Christoph Ganz	25,860	25,860
Thomas Hasler	20,940	20,940
Frank Höfflin	6,960	8,126
Philippe Jost	n.a.	4,028
Yumi Kan	8,040	n.a.
Ivo Schädler	6,480	6,527
Adrian Widmer	18,060	21,280
Total	364,520	294,591

Sika AG granted the following number of shares as part of employee participation programs. The shares were issued in April 2019 at a market price of CHF 145.10.

in CHF thousands	2018		2019	
	Units	Nominal	Units	Nominal
Board of Directors	30,600	4,394.2	5,015	727.7
Group Management	17,520	2,155.0	18,343	2,661.6
Employees	4,800	590.4	4,524	656.4
Total	52,920	7,139.6	27,882	4,045.7

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	2018	2019
Composition of the profit brought forward		
Net profit for the year	319.2	254.8
Results carried forward from prior year	3,059.8	1,005.6
Reduction through cancellation of own shares	-2,082.8	0.0
Profit brought forward	1,296.2	1,260.4
Dividend payment		
Dividend payment out of the profit brought forward ¹	290.6	326.1
Results carried forward	1,005.6	934.3

¹ Dividend payment for shares entitled to dividends (without treasury shares as per December 31, 2019).

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	2018	2019
Registered share¹ par value CHF 0.01		
Gross dividend	2.05	2.30
35% withholding tax on gross dividend	0.72	0.81
Net dividend	1.33	1.49

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 2.30 per single-class registered share be distributed to shareholders. The dividend for 2018 was CHF 2.05 per single-class registered share.

Payment of the dividend is tentatively scheduled for Monday, April 27, 2020. 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 21, 2020.

Baar, February 18, 2020

For the Board of Directors
The Chairman:
Dr Paul Hälgi

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 159 to 169 of this report), for the year ended December 31, 2019.

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, 2019, 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 43% of the total assets on stand-alone level. The various investments are disclosed in note “List of Group Companies” of the consolidated financial statements of Sika AG. Total investments are material to the entity and may be subject to changes in value. Accordingly, management performs regular impairment considerations and calculations to determine the value of each single investment. The investments in subsidiaries were considered significant to our audit as the amounts concerned are material and the assessments involve judgment in preparing the underlying key assumptions for the valuation.

OUR AUDIT RESPONSE. Our audit work for the valuation of the investments consisted of auditing management’s valuation assessment and the underlying key assumptions. We also assessed the historical accuracy of the Company’s estimates and long-term business plans. We performed our own calculations to assess the valuation of each investment.

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 18, 2020

ERNST & YOUNG LTD

Christoph Michel
Licensed audit expert
(Auditor in charge)

Marc Rügsegger
Licensed audit expert

FINANCIAL CALENDAR

SALES FIRST QUARTER 2020	Tuesday, April 21, 2020
52ND ANNUAL GENERAL MEETING	Tuesday, April 21, 2020
DIVIDEND PAYMENT	Monday, April 27, 2020
HALF-YEAR REPORT 2020	Thursday, July 23, 2020
RESULT FIRST NINE MONTHS 2020	Thursday, October 22, 2020
NET SALES 2020	Tuesday, January 12, 2021
FULL-YEAR RESULT 2020	Friday, February 19, 2021

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