

SIKA
HALF-YEAR REPORT

2019

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Income statement from January 1 to June 30, 2019 (January 1 to June 30, 2018).
Balance sheet data as of June 30, 2019 (December 31, 2018).

1. NET SALES CHF 3,732.4 MN (CHF 3,470.1 MN)

Sales of goods account for nearly all net sales. Year-on-year net sales increased by 7.6%, in local currencies by 9.6%, including a growth from acquisitions of 6.5%. Details to segments can be found in note 2.

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 6.

The acquired companies were allocated as follows: Belineco LLC, Belarus, Arcon Membrane Srl, Romania, as well as part GmbH, Germany, to segment EMEA, King Packaged Materials Company, Canada and USA, to segment Americas, and the Parex group companies were allocated according to the geographical location of their subsidiaries to the segments EMEA, Americas and Asia/Pacific.

“Other segments and activities” includes expenses for the Group headquarters and income from services provided to Group companies.

NET SALES FROM JANUARY 1 TO JUNE 30

in CHF mn	2018			2019		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	1,558.1	114.7	1,672.8	1,617.0	113.3	1,730.3
Americas	889.2	0.9	890.1	995.7	2.3	998.0
Asia/Pacific	559.1	9.9	569.0	641.8	9.1	650.9
Global business	463.7	9.2	472.9	477.9	8.3	486.2
Eliminations	-	-134.7	-134.7	-	-133.0	-133.0
Net sales	3,470.1	-	3,470.1	3,732.4	-	3,732.4
Products for construction industry	2,651.2			2,888.9		
Products for industrial manufacturing	818.9			843.5		

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	1/1/2018- 6/30/2018	1/1/2019- 6/30/2019	Change compared to prior period (+/- in %)		
			In Swiss francs	In local currencies	Currency impact
EMEA	1,558.1	1,617.0	3.8	7.7	-3.9
Americas	889.2	995.7	12.0	11.4	0.6
Asia/Pacific	559.1	641.8	14.8	15.6	-0.8
Global business	463.7	477.9	3.1	4.9	-1.8
Net sales	3,470.1	3,732.4	7.6	9.6	-2.0
Products for construction industry	2,651.2	2,888.9	9.0	10.9	-1.9
Products for industrial manufacturing	818.9	843.5	3.0	5.3	-2.3

OPERATING PROFIT

in CHF mn	1/1/2018- 6/30/2018	1/1/2019- 6/30/2019	Change compared to prior period	
			(+/-)	(+/- in %)
EMEA	207.8	226.1	18.3	8.8
Americas	149.3	168.2	18.9	12.7
Asia/Pacific	89.2	101.6	12.4	13.9
Global business	69.9	65.6	-4.3	-6.2
Other segments and activities	-71.6	-79.8	-8.2	n.a.
Operating profit	444.6	481.7	37.1	8.3

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	1/1/2018- 6/30/2018	1/1/2019 - 6/30/2019
Operating profit	444.6	481.7
Interest income	1.2	1.1
Interest expenses	-10.5	-27.1
Other financial income	3.4	3.8
Other financial expenses	-16.4	-21.9
Income from associated companies	0.4	0.4
Profit before taxes	422.7	438.0
Income taxes	-104.5	-107.3
Net profit	318.2	330.7

3. MATERIAL EXPENSES CHF 1,723.5 MN (CHF 1,608.9 MN)

Material expenses decreased as a percentage of net sales by 0.2 percentage points. The stabilization of raw material costs and higher selling prices improved the gross margin, while one-off effects related to the acquisition of Parex in the amount of CHF 4.1 million had a negative impact on the gross result.

4. PERSONNEL EXPENSES CHF 730.3 MN (CHF 675.0 MN)

Personnel expenses increased in relation to sales from 19.4% to 19.6%. The cost growth is mainly attributable to the acquisitions.

Personnel expenses include a portion of salaries paid to senior managers and Group Management in the form of Sika AG stock. Related personnel expenses in the first half of 2019 amounted to CHF 15.0 million (CHF 14.0 million). Provided employees are entitled to the option of drawing shares of Sika AG, this portion will be recognized as liabilities as at balance sheet date. In the event that shares are drawn, this portion will be taken to equity in the subsequent year.

5. OTHER OPERATING EXPENSES CHF 654.8 MN (CHF 641.4 MN)

Other operating expenses decreased from 18.5% to 17.5% as a result of disciplined cost management. In addition, the first-time adoption of the new standard "Leases" had a positive impact of CHF 38.6 million on operating expenses (see pages 12 and 13 for details). Non-recurring effects of CHF 20.0 million related to the acquisition of Parex had a negative impact on costs. In the previous year, one-off costs of approximately CHF 23 million were included in connection with the resolution of the takeover battle with Saint-Gobain.

Expenses for research and development are included in other operating expenses because they do not meet the recognition criteria.

6. INTEREST EXPENSE/OTHER FINANCIAL EXPENSE CHF 49.0 MN (CHF 26.9 MN)

Year-on-year interest expenses increased due to the additional bonds (see note 13) and the negative interest on fixed-term deposits in connection with the acquisition of Parex amounting to CHF 2.1 million. In addition, interest on lease liabilities of CHF 5.0 million is included in interest expenses compared to previous year. Other financial expenses include one-time costs of CHF 4.6 million related to the acquisition of Parex.

7. CASH AND CASH EQUIVALENTS CHF 627.8 MN (CHF 914.0 MN)

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. The change in this position can be seen in detail in the statement of cash flows.

8. ACCOUNTS RECEIVABLE CHF 1,720.4 MN (CHF 1,322.7 MN)

Accounts receivables are higher at mid-year than at the end of 2018 as a result of seasonal influences and acquisition impacts.

9. INVENTORIES CHF 959.5 MN (CHF 800.7 MN)

The rise in inventories is due to seasonal distribution of sales as well as acquisition impacts.

10. PROPERTY, PLANT, AND EQUIPMENT CHF 1,821.6 MN (CHF 1,214.2 MN)

Since 2019, property, plant, and equipment includes not only the Group's own property, plant, and equipment but also the right-of-use assets of leases (see page 12 and 13 for details).

in CHF mn	12/31/2018	6/30/2019
Own property, plant, and equipment	1,214.2	1,493.8
Right-of-use assets	0.0	327.8
Property, plant, and equipment	1,214.2	1,821.6

The increase in own property, plant, and equipment is mainly due to the acquisitions.

11. INTANGIBLE ASSETS CHF 4,456.9 MN (CHF 1,693.9 MN)

The increase in intangible assets is mainly due to the acquisitions. The acquisitions resulted in an increase in goodwill of CHF 1,984.6 million. In addition, trademarks, customer relationships, and technologies of CHF 875.1 million were capitalized and are being amortized over their useful lives.

12. ACCOUNTS PAYABLE CHF 947.7 MN (CHF 733.8 MN)

Accounts payable are higher at mid-year than at the end of 2018 as a result of seasonal influences and acquisition impacts. Accounts payable do not bear interest and will usually become due within 30 to 60 days.

13. FINANCIAL LIABILITIES CHF 4,841.1 MN (CHF 3,032.5 MN)

in CHF mn	12/31/2018			6/30/2019		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives	2.3	0.0	2.3	33.8	-	33.8
Bank loans	13.8	0.0	13.8	192.5	3.1	195.6
Lease liabilities	0.1	0.2	0.3	79.1	256.3	335.4
Bonds	199.9	2,792.9	2,992.8	360.2	3,739.9	4,100.1
Mandatory convertible bond (liability component)	0.0	0.0	0.0	48.5	95.9	144.4
Other financial liabilities	21.4	1.9	23.3	27.3	4.5	31.8
Total	237.5	2,795.0	3,032.5	741.4	4,099.7	4,841.1

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

In addition, since April 1, 2019, Sika has a revolving credit facility of CHF 750.0 million with a term of five years plus option for two further years each, which can be drawn in CHF, EUR, USD or GBP. As of June 30, 2019, Sika had utilized CHF 177.7 million of this credit limit.

As of June 30, 2019, Sika has the following bonds outstanding:

in CHF mn	Coupon	Term	12/31/2018		6/30/2019	
			Nominal	Book value	Nominal	Book value
Straight bond	1.125%	2013-11/14/2019	200.0	199.9	200.0	200.0
Straight bond	0.000%-0.050%	2018-03/27/2020	160.0	160.4	160.0	160.2
Straight bond	0.125%	2018-07/12/2021	170.0	170.1	170.0	170.1
Straight bond	1.750%	2012-07/12/2022	150.0	149.9	150.0	150.0
Straight bond	1.875%	2013-11/14/2023	200.0	199.4	200.0	199.5
Straight bond	0.625%	2018-07/12/2024	250.0	250.6	250.0	250.5
Convertible bond	0.150%	2018-06/05/2025	1,650.0	1,591.5	1,650.0	1,596.0
Straight bond	0.600%	2018-03/27/2026	140.0	140.0	140.0	140.0
Straight bond	1.125%	2018-07/12/2028	130.0	131.0	130.0	130.9
Total			3,050.0	2,992.8	3,050.0	2,997.2

Furthermore, as of June 30, 2019, Sika Capital B.V., Netherlands, (a 100% subsidiary of Sika AG) has the following Euro bonds outstanding:

in CHF mn	Coupon	Term	12/31/2018		6/30/2019	
			Nominal	Book value	Nominal	Book value
Straight bond EUR	0.875%	2019-4/29/2027	-	-	EUR 500.0	551.7
Straight bond EUR	1.500%	2019-4/29/2031	-	-	EUR 500.0	551.2
Total			EUR 0.0	0.0	EUR 1,000.0	1,102.9

In May, 2018, Sika placed a convertible bond in the amount of CHF 1,650.0 million due in 2025. The convertible bond has a coupon of 0.15% p.a. The shares to be delivered upon conversion will be made available by existing shares or by the issue of new shares from the conditional capital. 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 CHF130.00 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	-17.6
Deferred taxes	1.5
Net equity component upon issue	1,137.5

No rights were converted in the reporting period.

On April 15, 2019, Sika Capital B.V., Netherlands (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%.

14. PROVISIONS CHF 103.7 MN (CHF 70.2 MN)

Provisions for guarantees reflect all known or anticipated claims in the near future. The provision amounts are determined on the basis of experience and are therefore subject to a degree of uncertainty. The outflow of funds depends on the timing of the filing and conclusion of warranty claims. Provisions for sundry risks include loan guarantees as well as open and anticipated legal cases with a probability of above 50% as well as contingent liabilities from acquisitions. For provisions of CHF 26.3 million (CHF 22.1 million) an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

OTHER INFORMATION

SIGNIFICANT SHAREHOLDERS

As of the balance sheet date of June 30, 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 owned 7.7% of all voting rights. (3) William H. Gates and Melinda French Gates, who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (4) The Capital Group Companies, who held 3.37% of all voting rights via Capital Research and Management Company. (5) Norges Bank, which held 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>. There are no cross-shareholdings exceeding 3%, either in terms of capital or votes.

EVENTS AFTER THE BALANCE SHEET DATE

No events occurred between June 30, 2019, and the release of these consolidated financial statements:

SIKA AG
Zugerstrasse 50
6341 Baar
Switzerland

Contact
Phone +41 58 436 68 00
Fax +41 58 436 68 50
www.sika.com

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