

# SIKA BUSINESS YEAR 2018

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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](http://www.sika.com/annualreport).



#### WEBSITE

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



#### MAGAZINE

- ▶ Key content in brief
- ▶ Strategy and implementation

# LETTER TO SHAREHOLDERS

SUCCESS STORY CONTINUES



Dr. Paul Hälg, Chairman of the Board

Paul Schuler, Chief Executive Officer

Dear Shareholders

The Sika success story continued in 2018. Sales in local currencies rose by 13.6% year-on-year to CHF 7,085 million, while operating profit increased by 5.5% to CHF 945.9 million. Net profit also exceeded the previous year's value by 5.9%, totaling CHF 687.1 million.

2018 was a historic year for Sika, during which the course was set for further growth and sustainable success. The three-and-a-half-year takeover dispute between the Burkard family, Saint-Gobain, and Sika ended in May with a solution that is fair to all parties. The end of the legal dispute brought independence for Sika and its employees. The difficult feat of balancing a battle to fend off a takeover attempt by a competitor, against driving the continued business success and safeguarding employees' welfare, has been consigned to the past. With sales reaching a record CHF 7,085 million, and our operating result coming in at over CHF 946 million, we look back at a successful year 2018, where we proved our strength and growth capabilities after the takeover dispute ended.

EBIT was affected by one-off expenses, as well as higher raw material costs, which had a greater impact in 2018 than expected, even though prices were adjusted continuously. We achieved local currency growth of 13.6% in an economic environment that was at times challenging. We would like to sincerely congratulate our 20,060 employees and thank them for their hard work and tremendous dedication.

#### **GROWTH TRAJECTORY IN ALL REGIONS**

All regions contributed to Sika's growth, with EMEA achieving the highest rate of 14.1% growth in local currencies. We took successful advantage of business opportunities in the regions' emerging economies with high double-digit growth in Eastern Europe (27.3%) and Africa (23.9%).

In the Americas region, North America achieved a growth in local currencies of 12.9% and significantly exceeded the one billion sales mark posting excellent EBIT. Latin America also achieved very good growth in local currencies at 9.6%.

Asia/Pacific put in a solid performance, growing both sales by 5.5% in local currencies and EBIT. The result in China was particularly pleasing, with growth of close on 10%.

Growth in local currencies in the new Global Business segment amounted to 29.2%, while the acquired Faist ChemTec, a leading provider of acoustic systems for the automotive industry, contributed 23.1% of sales. The integration of Faist ChemTec and the synergies that it should unleash will have a positive impact on the 2019 result.

#### **NEXT GROWTH ACCELERATOR**

We are particularly pleased that the planned takeover of Parex, which we announced at the start of this year, will enable us to create a first-class growth platform. The acquisition marks a very important strategic step forward in efforts to secure our long-term market position, and is also the biggest acquisition in Sika's history.

With sales of CHF 1.2 billion and an EBITDA margin of 16.3%, Parex is a leading mortar producer with a first-class market position, especially in facade mortars, tile adhesives, and water-proofing systems.

Parex is particularly strong in the distribution business, and combines reputable brands with innovative technical solutions. The company operates in 23 countries and holds a key position in eight of these. In total, Parex operates 74 production plants worldwide and employs 4,600 people.

By using Parex's technologies as a growth platform in the 101 countries in which Sika operates, and by cross-selling Sika products through Parex's established distribution channels, we will be able to generate sustainable, profitable growth and substantial synergies. Our goal is to combine two "growth engines" that have highly complementary product portfolios and distribution channels. By doing so, we will be setting our future course and gearing the organization up for the next level of growth.

One key task this year is to prepare the Strategy 2023 and roll it out throughout the company. The Board of Directors and Group Management initiated the process last September, and will complete the strategy in the first half of 2019.

#### **DIVIDEND INCREASE AND OUTLOOK**

The Board of Directors will be proposing a 10.8% increase in gross dividend to CHF 2.05 per share at the Annual General Meeting of April 9, 2019.

By investing in eleven new factories, one additional national subsidiary, and four acquisitions, Sika has laid the foundations for continued growth. These 16 key investments, the well-filled product pipeline, and the strong sales organization give us reason to look ahead with optimism.

Sika expects sales to increase by 6-8% in 2019, in accordance with the Group's 2020 growth strategy, and anticipates an over-proportional rise in profits. Depending on when the Parex transaction is completed, sales are expected to exceed CHF 8 billion. Implementation of the growth strategy will continue in 2019 with the opening of seven to nine new factories and further acquisitions.

We are committed to continuing the Sika success story, to generating sustainable growth in value, and to enhancing Sika's excellent reputation among customers, shareholders, and business partners.

We are looking forward to tackling the business challenges that await us this year, and would like to assure you, our shareholders, that we will do so with dedication, enthusiasm, and tenacity so that 2019 becomes another successful year for all of us.

Sincerely



DR. PAUL HÄLG  
Chairman



PAUL SCHULER  
CEO

AT A GLANCE

# FACTS & FIGURES 2018

## NEW RECORD FIGURES

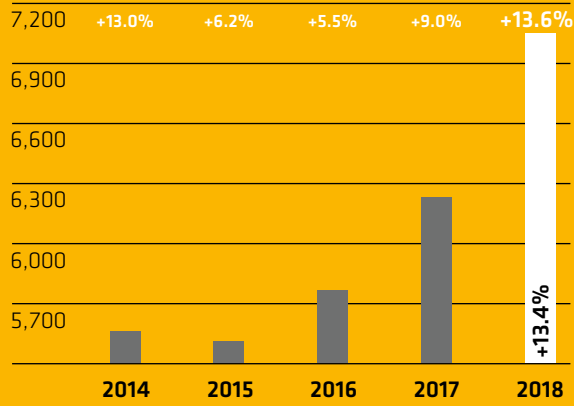
Sika continued its strong track record of growth in 2018. Positive business performance in all regions, further investments, and a deliberate strategic focus on large cities all contributed to the excellent result.

in CHF mn	Changes in %
7,085.4 Net sales	<b>+13.4%</b>
945.9 Operating profit (EBIT)	<b>+5.5%</b>
687.1 Net profit	<b>+5.9%</b>
513.2 Operating free cash flow	<b>+3.3%</b>
26.2% ROCE	
11 New factories	
1 New national subsidiary	
4 Acquisitions	
85 New patents, 133 Inventions	
20,060 Employees	
16.8 Hours of training per employee	
952 Employees in R&D	
20 Global Technology Centers	

**NET SALES (consolidated)**

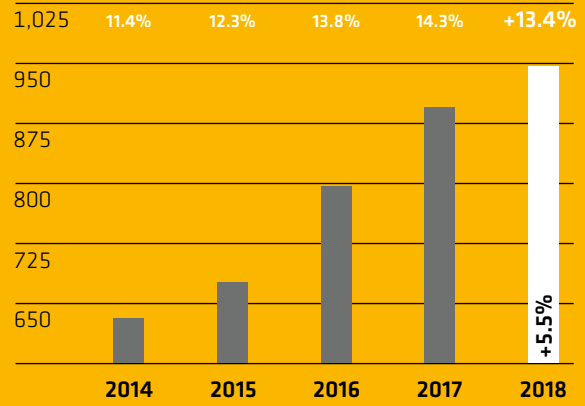
in CHF mn

Growth in % in local currencies

**OPERATING PROFIT (EBIT)**

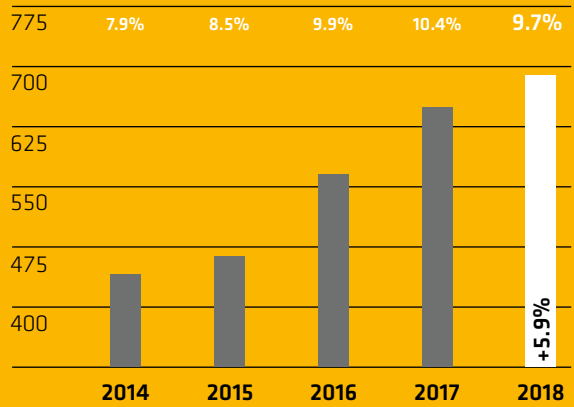
in CHF mn

in % of net sales

**NET PROFIT**

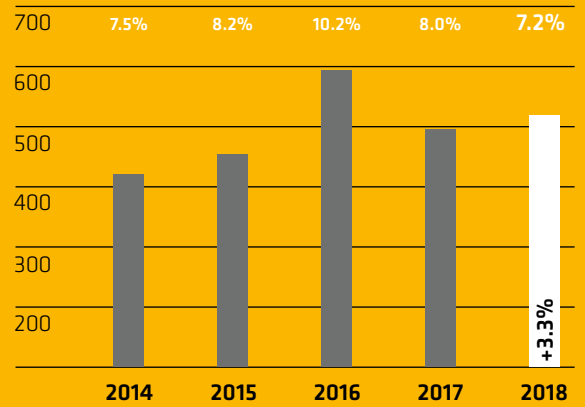
in CHF mn

in % of net sales

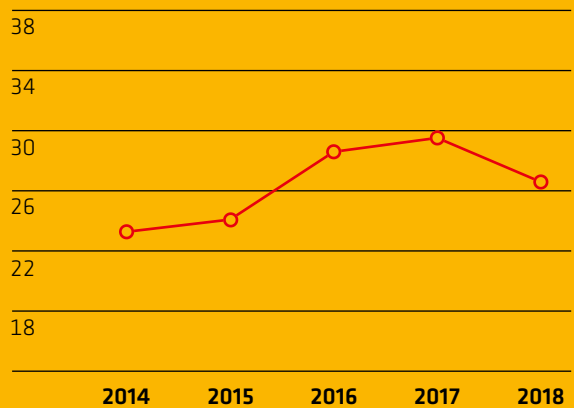
**OPERATING FREE CASH FLOW**

in CHF mn

in % of net sales

**ROCE**

in %





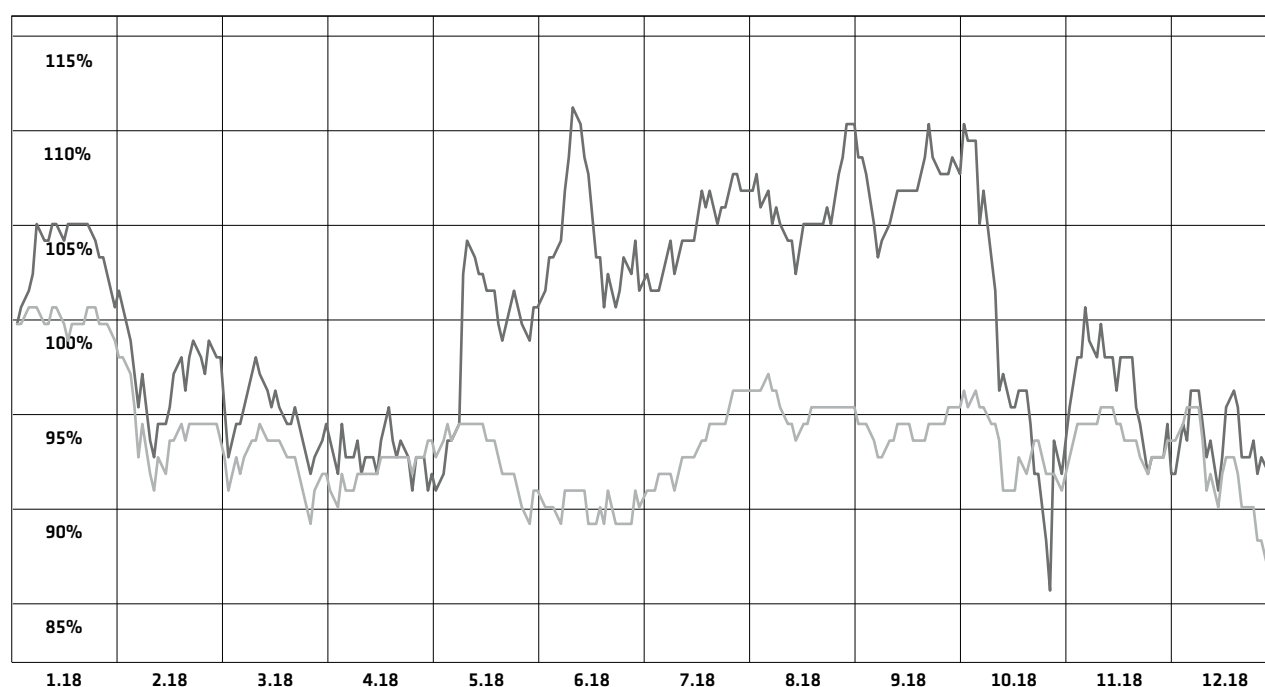
# THE SIKA SHARE

SIKA HOLDS GROUND BETTER THAN SMI

At the Extraordinary General Meeting on June 11, 2018, Sika shareholders approved the introduction of unitary shares with a par value of CHF 0.01. The Sika share weakened slightly in the course of a very mixed year on the stock markets, with a 3.4% drop in value, but still fell less sharply than the SMI Swiss blue chip index (-10.2%).

SIKA VERSUS SMI  
1.1.2018 – 31.12.2018

Sika Share  
SMI



## OVERVIEW

With a decline of 3.4%, the Sika share price performed better than the SMI Index.

Closing price of the Sika share in 2017: CHF 129.00

Closing price of the Sika share in 2018: CHF 124.60

The key global share indices performed as follows in 2018:

- SMI -10.2%
- DAX -18.3%
- Dow Jones -5.6%
- Nikkei -12.0%

Sika shareholders benefit additionally from the company's good result: dividend increase of 10.8% proposed

## STOCK EXCHANGE RATIOS SIKA

in CHF

2018

Market capitalization as at 31.12.2018 in CHF mn	17,666.00
Yearly high	149.00
Yearly low	112.70
Year end	124.60
Dividend 2017 <sup>1</sup>	1.85
Dividend 2018 <sup>2</sup>	2.05
Earnings per Share (EPS) <sup>3</sup>	4.69

1) Due to the share split, the dividend per share of the previous year has been adjusted by the factor 60 to ensure comparability

2) Pursuant to proposal to Annual General Meeting

3) Undiluted

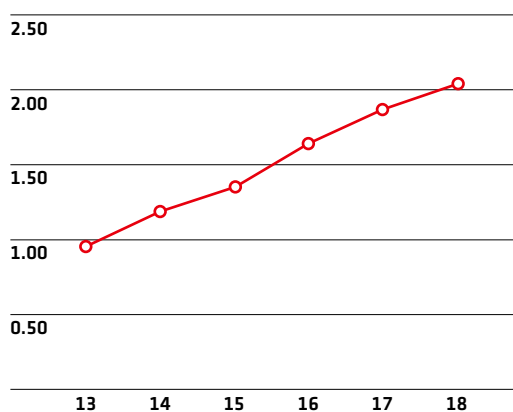
# DIVIDEND PAYOUT

DIVIDEND INCREASE BY 10.8%

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 10.8% increase in gross dividend to CHF 2.05 per share (2018: CHF 1.85) to shareholders at the Annual General Meeting of April 9, 2019.

## DIVIDEND

CHF / share



2018: Pursuant to proposal to Annual General Meeting CHF 2.05.  
Due to the share split, the dividend per share of previous years have 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

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As a company active 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 seven target markets: concrete, waterproofing, sealing & bonding, roofing, flooring, refurbishment, and industry. In 2018, 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 2020. 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. The combined market share of the ten largest internationally active companies in the construction chemicals sector is just 40%. Sika's global market share currently amounts to just under 10%. 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

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Sika's acquisition strategy should also be viewed against this background. External growth, in the form of corporate takeovers, is pursued 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 for Sika on which acquisitions are evaluated. For both Sika and the acquired company, new growth platforms are established which allow the acquired company to fully utilize production capacity and improve its access to the global market – thanks to Sika's worldwide presence. In other words, a win-win situation arises for both parties.

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

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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 buildings of a higher quality. The products sought after in this context are those that offer greater safety, higher energy efficiency, and better environmental compatibility, as well as rapidly applied – and therefore more efficient – system solutions.

In mature markets, the refurbishment of building facilities and renovation projects take 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 the above-mentioned 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. In the early phases of development, market growth is frequently achieved via distributors. Only when Sika's products and the Sika brand are established in a country, and the market exhibits healthy growth potential, will Sika invest in its own national subsidiary and start building up its local supply chain – including local production – step by step.

### STRUCTURAL GROWTH THANKS TO MEGATRENDS

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Megatrends determine the future and bring about social transformation. Urbanization, sustainability as well as lightweight construction and e-mobility are three of the megatrends on which Sika's business model is based and which facilitate dynamic growth and a high level of competitiveness.

## URBANIZATION AND MEGACITIES

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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 2030 some two-thirds of the global population is expected to live in an urban environment, thereby providing a further boost to economic growth. From a statistical perspective, this is due to the city being 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 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 the foundation to the roof. Large numbers of people living in small areas also pose significant 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 such elements.

## SUSTAINABILITY

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The earth's climate is changing at a more rapid rate than ever before. By signing up to the Paris Climate Agreement, signatory nations have committed themselves to alleviating the problem of climate change by limiting global warming to below 2 °C. 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. With its "More Value - Less Impact" strategy, Sika is committed to making a contribution to the reduction of CO<sub>2</sub> emissions. One means of achieving this is by increasing energy efficiency at its 240 production sites around the world through lowering consumption of fossil fuels and electricity per ton of product sold by 3% each year. Another is by using low-carbon fossil fuels, such as natural gas. Innovation also places a strong emphasis on sustainable product development. One way to do this is with solutions that make it possible for customers to save or reduce CO<sub>2</sub> emissions, directly or indirectly. Another way is with products that help customers construct and operate buildings that are more sustainable and CO<sub>2</sub> efficient, as well as complying with sustainability standards, which are becoming increasingly important around the world.

## LIGHTWEIGHT CONSTRUCTION AND E-MOBILITY

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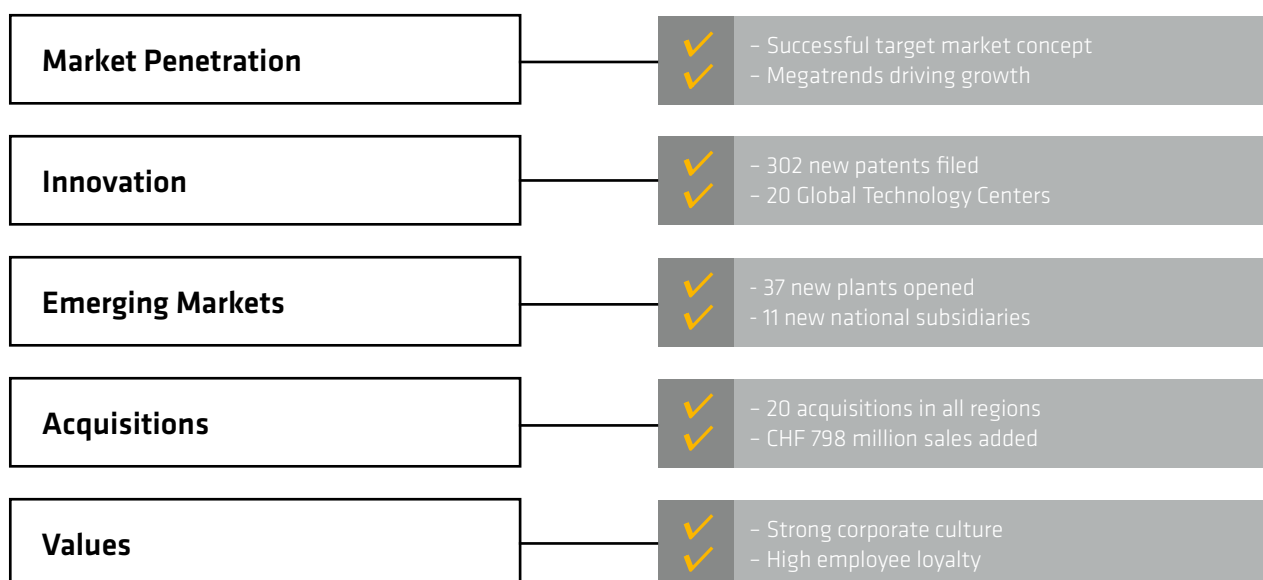
The year under review continued to be marked by the paradigm shift in the automotive sector. Diesel engines are accounting for a dwindling share of new vehicle registrations and are being replaced by electric drive systems. Alongside enhanced comfort, themes such as electromobility, lightweight construction, environmental compatibility, and safety will dominate the future of mobility. Numerous car manufacturers are responding to this phenomenon by making large-scale investments in the development of electric drive systems in response to changes to the regulatory framework in various countries, and in readiness for the future of automotive manufacturing. Sika is set to benefit substantially from the megatrend toward electromobility and aims to increase its percentage of components per vehicle by 20%. Lightweight construction, acoustic solutions, and technologies for electric cars are the three strategic areas in which the company aims to position itself with strong product technologies.

# STRATEGY

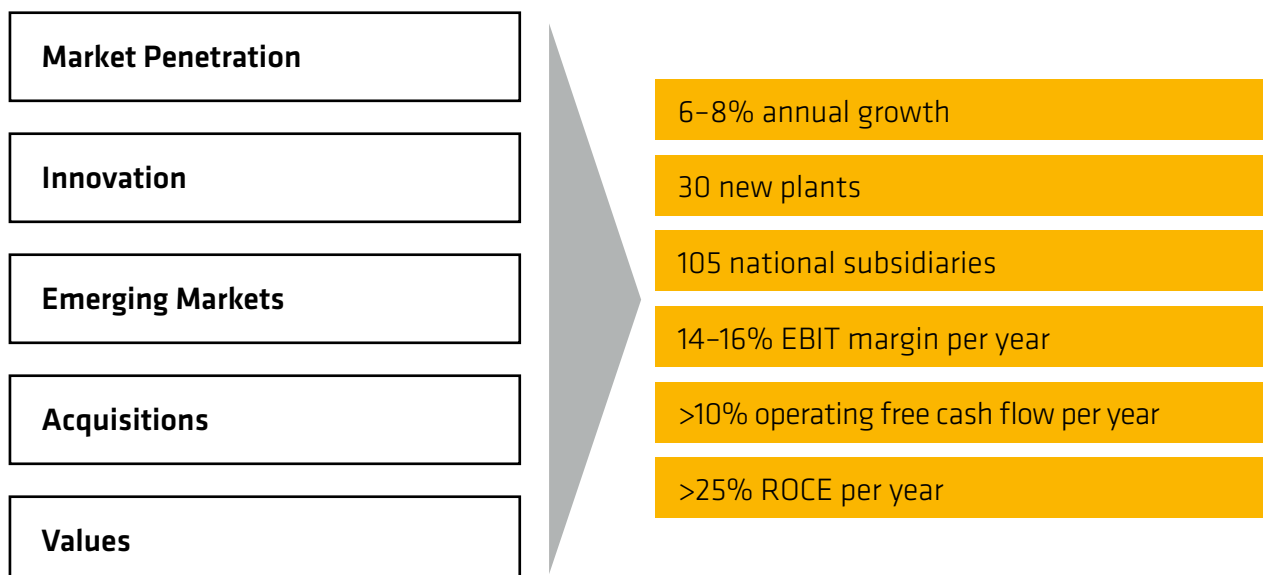
## GROWTH TRAJECTORY

The Sika growth model is synonymous with long-term success and profitable growth. By focusing on market penetration, innovation, expanding emerging markets, and acquisitions – and driven by its strong corporate values – Sika is growing successfully. With the positive development of business, the establishment of one further national subsidiary, and the commissioning of eleven new factories and four acquisitions, Sika took a further major step forward in the implementation of its strategic targets for 2020.

### SUCCESSFUL STRATEGY IMPLEMENTATION SINCE 2015



### STRATEGIC TARGETS 2020



# SUSTAINABILITY STRATEGY

HONORING THE RESPONSIBILITIES

With its sustainability strategy, Sika's aim is to maximize long-term benefits and added value for all stakeholders and, at the same time, reduce resource consumption and the environmental impacts associated with production.

<b>EBIT MARGIN</b> <b>13.4%</b> 2018 -	<b>LOCAL KEY PROJECTS</b> ALL IMPLEMENTED 2018 ✓	<b>PROJECTS</b> <b>+9%</b> 2018 ✓
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## MORE VALUE

<b>ECONOMIC PERFORMANCE</b> <p>Our success directly benefits all stakeholders.</p> <p><b>TARGET</b>  <b>Operating profit (EBIT)</b>  <b>14-16% of net sales.</b></p>	<b>SUSTAINABLE SOLUTIONS</b> <p>We are leading the industry by pioneering a portfolio of sustainable products, systems, and services.</p> <p><b>TARGET</b>  <b>All new projects are assessed in accordance with Sika's Product Development Process. All local key projects are implemented.</b></p>	<b>LOCAL COMMUNITIES / SOCIETY</b> <p>We build trust and create value - with customers, communities, and with society.</p> <p><b>TARGET</b>  <b>5% more projects per year.</b></p>
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## LESS IMPACT

<b>ENERGY</b> <p>We manage resources and costs carefully.</p> <p><b>TARGET</b>  <b>3% less energy consumption per ton and year.</b></p>	<b>WATER / WASTE</b> <p>We increase water and material efficiency.</p> <p><b>TARGET</b>  <b>3% less water consumption and waste per ton and year.</b></p>	<b>OCCUPATIONAL SAFETY</b> <p>Sika employees leave the workplace healthy.</p> <p><b>TARGET</b>  <b>5% less accidents per year.</b></p>
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<b>ENERGY CONSUMPTION</b> <b>-5.8%</b> 2018 ✓ <b>-22%</b> 2014 - 2018 ✓	<b>WATER</b> <b>+23%</b> 2018 ✓ <b>-42%</b> 2014 - 2018 ✓ <b>WASTE</b> <b>-1.6%</b> 2018 - <b>±0%</b> 2014 - 2018 -	<b>WORKPLACE ACCIDENTS</b> <b>+19.5%</b> 2018 - <b>-13%</b> 2014 - 2018 -
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# URBANIZATION DRIVES SUCCESS

## SOLVING CUSTOMER CHALLENGES

All around the world, Sika's solutions are helping raise building standards in fast-growing urban areas. More importantly: they make living together in increasingly dense areas in numerous different ways possible. Top-quality products for construction, civil engineering, infrastructure projects, and vehicle manufacturing are only one part of the Sika solution. Innovations, technical advice, and training both before and during the construction phase as well as the focus on people-, environment-, and budget-friendly applications – that is what stands out about Sika. Finally, it's all down to Sika's dedicated employees who work with customers to seek the best possible solutions each and every day. Let them tell you how.



### **SIKA CHILE – TEAM CONSTRUCTION**

Sika opened its first office in Chile in 1942. Since then Sika has been involved in numerous construction projects which have helped shape the development of Chile. By understanding the needs and demands of our society and by listening to our customers, we will continue to develop technologies and solutions to meet rising requirements and future challenges.





**THE SIKA TEAMS IN DENMARK WORK ON URBAN TRANSPORT OF THE FUTURE**

**SIKA DENMARK - TEAM INDUSTRY**

With our knowledge and solutions we support and collaborate with our customers on a long-term basis. Not only do we supply the rail vehicle manufacturer in the production phase of the driverless trains, we are also active in the maintenance work by supporting the replacement of the glass windows when needed.

**SIKA DENMARK - TEAM CONCRETE AND WATERPROOFING**

We are proud to offer our expertise and solutions to a project that supports urban development and population growth in Copenhagen. The driverless metro system, which will be extended in 2019, gets you to the airport in less than 15 minutes. We help make this a reality by supporting the construction of the stations.



**SIKA INDONESIA - TEAM LOGISTICS**

As a growing economy, Indonesia is seeing an increasing amount of high-rise developments and a growing need for infrastructure. With our local supply chain and technical expertise we work together with our customers to realize such large projects.



**SIKA CAMBODIA - TEAM SALES, QUALITY CONTROL, AND CONCRETE LABORATORY**

As a pioneer in the Cambodian market, Sika supplies the full range of products to meet the requirements posed by urbanization. With the expansion of our production capacity, we intend to meet the increasing demand of more than 3,000 ongoing projects.



**SIKA ARGENTINA - TEAM WATERPROOFING**

Our team is focused on participating in every stage of major infrastructure projects. Starting with strong specification selling, designing solutions that meet waterproofing requirements, as well as extending the durability of the structures. One of the most prominent projects supplied by us is Paseo del Bajo, a 7 km underground highway that will connect the north with the south of Buenos Aires.



**SIKA CHINA - TEAM INDUSTRY**

The demand for public transportation in China has increased significantly in the past few years. With high-performance sealing, bonding, damping, and fire-proofing solutions, we gain the trust of our customers and successfully supply 50% of the China railway market.



**SIKA CHINA - PROJECT TEAM SUZHOU CENTER**

Suzhou Central Plaza is the largest urban complex in China with two metro lines, several buildings, a total construction area of 1.82 million m<sup>2</sup>, and total investment of around CHF 4.4 billion. We are working closely with our customers to provide concrete admixtures, car park flooring systems, and liquid waterproofing membranes for this project.



**SIKA CORPORATE TEAMS WITH INNOVATION FOR BELOW-GROUND WATERPROOFING**

**SIKA TEAM CORPORATE R&D AND OPERATIONS**

We have combined different technologies and developed a new, fully bonded, membrane system for basements: SikaProof® A+. Since space is limited in urban areas, more and more living environments are moving underground. Such environments are becoming areas where people work, live, and spend their leisure time. Thanks to SikaProof® A+, there is now a new solution for these new challenges.

**SIKA TEAM CORPORATE WATERPROOFING**

In 2018, SikaProof® A+ was successfully tested for launch in 2019. Against the background of increased urbanization, quality requirements for dry basements and below-ground structures are rising. The SikaProof® A+ system protects any concrete structure against gas, water, and chemical ingress, and therefore significantly increases its durability. The robustness of the membrane enables simple, flexible installation in all climates and long-lasting quality.



**SIKA POLAND - DEPUTY OF TARGET MARKET MANAGER CONCRETE WITH CUSTOMER**

For more than two decades we have been working successfully with the leading pre-cast producer "Pekabex". The cooperation is based on long-term experience and understanding of customer needs. Our newest and innovative solutions accelerate the implementation of the most complex projects, making collaboration with our customer a real pleasure. That's what we call building trust!

**SIKA PERU - TEAM OPERATIONS**

In 2018 we opened a new plant for the production of concrete admixtures, mortar products, and acrylic liquid applied membranes in Peru, tripling our production capacity. We are now ready and fully committed to meet the rising demands of the city of Lima, with its population of 10 million.





**SIKA GERMANY - TEAM SALES**

Berlin is the largest city in Germany. The Berlin sales representatives of all construction target markets meet regularly to increase collaboration. One of our goals is to improve the knowledge of specifiers when it comes to our huge range of solutions. To reach that goal Sika Germany has organized an event with the theme “Berlin baut” - Berlin is building. During the event 200 planners were trained on the different solutions Sika has to offer for renovations and new constructions.



**SIKA ECUADOR - GENERAL MANAGER WITH TEAM**

Urban development and migration from rural areas to large cities have increased the demand for developments such as housing, roads, tunnels, recreational areas, etc. This in turn increases the demand for our products in the market. Sika is a benchmark in the construction sector in our country; it has grown hand in hand with the big cities and their development.

**SIKA HUNGARY - TEAM KAM, TECHNICAL SUPPORT, SALES, MARKETING**

The real power lies in cross-functional teams. Here in Hungary employees from different departments such as Key Account Management, Technical Support, Sales, and Marketing work together on an increasing amount of urbanization projects. We can grow our business when we speak the same “Sika language”.



**SIKA EGYPT - TEAM CONCRETE AND WATERPROOFING**

The construction of Rod-Al-Farag Bridge, considered to be one of the widest bridges in the world, is challenging as it is located in one of the most crowded and densely populated areas of Cairo. With our new technologies and solutions we successfully contributed to the realization of the project.



**SIKA PORTUGAL – TEAM HR, KAM, HELP DESK, FLOORING, BUSINESS DEVELOPMENT, FINANCE**

In a world where building standards and quality requirements are constantly rising, we strive for innovative solutions for growing cities and support our customers on a daily basis in order to exceed their expectations.



**SIKA PAKISTAN – GENERAL MANAGER WITH TEAM SALES, MARKETING, AND FINANCE**

Lahore is the second-largest urban center in Pakistan with an estimated population of 10 million. Due to continuous population growth the Orange Line Metro Rapid Transit (MRT) was developed to meet the predicted passenger demand across the city. We have played an integral part in this large project by fulfilling needs with a wide range of Sika products.



**SIKA HONG KONG – TEAM REFURBISHMENT**

We, as sales and technical service professionals, are proud to help our customers face the challenges of external facade refurbishments with strong product knowledge and site support.

**SIKA AUSTRIA – PROJECT TEAM**

Buildings and infrastructure in cities are in continuous need of repair and refurbishment. We are currently developing a special pump that transports mortars at a rate of five tons per hour, compared to one ton per hour with the traditional method, and to a height of 80 m. We are helping our customers to increase the efficiency of their refurbishment projects.





**SIKA RUSSIA - TEAM FLOORING, RE-FURBISHMENT, CONCRETE**

We are proud to work for a company that emphasizes employee development in accordance with professional qualifications and personal capacities. Each employee knows that success is a question of solid teamwork and having the right strategy in order to benefit from important megatrends such as urbanization.



**SIKA SOUTH AFRICA - TEAM TECHNICAL SALES, R&D WITH CUSTOMER**

Our team has been aiding the refurbishment of the South Waste Water Treatment Works in Durban by providing technical advice and adapting solutions to solve the challenges that arise. We strive to create close partnerships with responsible engineers and our experienced employees.



**SIKA SRI LANKA - TEAM PRODUCTION**

With our local production and expertise, we support our customers with many large-scale projects in Sri Lanka. Whether it be a more than 200-meter high mixed development in Colombo where we provide continuously pumped concrete or solutions for several highways connecting different parts of Sri Lanka.

**SIKA SLOVENIA - TEAM WATER-PROOFING AND ROOFING**

Building trust starts within the team. With the knowledge of our technical sales teams and high-level solutions, we can support our customers in challenging projects on a daily basis. We are convinced that trust and our philosophy to provide solutions from the basement to the roof make us invincible.





**SIKA SWITZERLAND - DESIGN AND BUILDING CONSULTANTS**

Urbanization is creating new challenges in architecture and fueling demand for state-of-the-art construction materials and integral technical solutions. As design and building consultants, we are often called in as early as at the planning phase so that we can work together with architects and planners to formulate tailored system solutions. With regard to “The Circle” in particular – Switzerland’s biggest-ever building construction project – we have been involved as consultants for a number of years and are supporting the project with waterproofing, corrosion protection, facade, concrete, and mortar systems.



**SIKA BOLIVIA - TEAM R&D, OPERATIONS, AND SALES**

At Sika Bolivia we understand that teamwork is a key pillar of success. R&D, operations, and commercial staff collaborate to create new ideas and solutions for our customers. Therefore, we are the most important supplier of admixtures and other products for road integration projects in Bolivia. These projects are rising in demand as urbanization continues.



**SIKA TANZANIA - GENERAL MANAGER WITH TEAM**

Sika opened the first concrete admixtures plant in Dar es Salaam, Tanzania, in 2017. This enables us to efficiently supply top-level admixtures to the main infrastructure projects in the country, including the new terminal at the Julius Nyerere International Airport, the Tazara flyover, and the SGR project, the new railway line that will connect Dar es Salaam with Kampala, Uganda. Our global footprint, combined with our know-how and support on a local level, is contributing to the urbanization of the major cities in Tanzania.



**SIKA ALGERIA - SALES TEAM WITH CUSTOMERS**

Together as a team we listen to our customers to understand their needs and provide them with solutions to increase efficiency that not only meet but exceed their expectations. This was also the case at the construction of the new hotel complex close to Algier Airport, which connects the vibrant city with the world.

# THE SIKA BRAND

THE SIKA BRAND STANDS FOR QUALITY,  
INNOVATION, AND SERVICE

Sika is a strong brand. It allows the Group to present a uniform identity in all target markets and with all products.

## 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. It has been successfully launched 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 930 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 11,383 trademark registrations in 165 countries at the end of 2018. 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 clearcut positioning of the brand based on uniform corporate design guidelines. Additional elements of these guidelines were rolled out in 2018, focusing primarily on the digital development of the brand, as well as on several appendixes to existing guidelines.

### 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. Three attributes form the backbone of this personality are pioneering, team-oriented, and committed. Today they shape the awareness of Sika employees worldwide. To ensure that internal collaboration remains strong in the digital age, Sika's already well established social intranet was further developed, and mobile device access introduced. 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 pledge 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

## FOCUS ON THE TOP POSITION



### CONCRETE

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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 the fresh or hardened concrete, such as workability, watertightness, durability, load-bearing capacity, or early and final strength. The demand for admixtures and additives is currently on the rise, particularly 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 cementitious materials in cement, mortar, and therefore also in concrete, leads to a growth in the need for admixtures.



### ROOFING

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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. 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 CO<sub>2</sub> emissions. While refurbishment projects continue to gain significance in the mature markets, the emerging markets are moving towards higher-quality roof solutions for new build structures.



### WATERPROOFING

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Sika's system solutions for waterproofing cover the full range of technologies used for below and above-ground waterproofing: flexible membrane systems, liquid-applied membranes, waterproofing admixtures for mortars, joint sealants, waterproofing mortars, injection grouts, and coatings. Key market segments include basements, underground parking garages, tunnels, and all types of water-retaining structures (for example reservoirs, storage basins, and storage tanks). Waterproofing systems face increasingly stringent requirements regarding sustainability, ease of application, and total cost management. Therefore the selection of appropriate waterproofing systems to suit the needs and requirements of owners, as well as the treatment of specific project-related details, is key for long-lasting and watertight structures.



### FLOORING

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Sika's flooring solutions are based on synthetic resin and cementitious systems for industrial and commercial buildings, for example 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

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Sika offers a wide range of high-performance and durable sealants, tapes, spray foams, and elastic adhesives for the building envelope, for interior finishing and for infrastructure construction. Typical applications include the sealing of movement joints between facade elements to make buildings weatherproof, the bonding of wood floors to reduce noise, or 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 sealants for the overall durability and energy efficiency of buildings, the 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

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This segment features concrete protection and repair solutions, for example repair mortars, protective coatings, grouts, and structural strengthening systems. It also includes products for interior finishing, such as leveling compounds, tile adhesives, and tile grouts as well as facade mortars for external use. Sika provides technologies for the entire life cycle of commercial buildings, residential properties, and infrastructure constructions. Especially in developed markets, many structures are decades old and need to be refurbished. The present uptrend in demand is attributable to a rising volume of infrastructure rehabilitation projects in the transport, water management, and energy sectors. The global urbanization trend and the increasing need for renovation in developed markets are also fueling demand.



## INDUSTRY

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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), 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 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.

# 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

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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

The objective for Sika staff is to meet all of 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 2018, 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 900 employees at 20 global technology centers. 44 local and 20 regional research and development facilities are globally aligned to Sika Technology AG. Sika Technology targets the development of proprietary technology that provides key performance benefits and 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, or lighter and safer 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. The Sika Technology team developed more than 50 noteworthy new products in 2018. In collaboration with Technical Operations, Sika engineers and researchers also aspire to tighten the comprehensive product assortment, to invest in new component technologies and to simplify processes in production, marketing, and distribution.

#### KNOW-HOW AND CHALLENGE-DRIVEN INNOVATIONS

While customer and market-focused product development is essential for short and mid-term growth and margin protection, it is not enough for the long-term, sustainable protection of bottom line growth. To improve long-term market impact and influence, a set of investigations of future challenges and customer requirements was initiated in 2018. The objective is to use Sika's broad knowledge for breakthrough innovations. Research in this context encompasses the identification of innovation potentials, independent of core technology and target markets. Within defined "Innovation Platforms", such as new foams for insulation, new construction materials and high-performing water-based systems, feasibility studies were initiated.

### DEVELOPMENT FOCUS IN INDIVIDUAL TARGET MARKETS

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#### CONCRETE

Raw material quality of cement, sand, and aggregates continued to worsen, which posed 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 develop 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 very short time frames. This allows 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.

**WATERPROOFING**

Sika produces a range of resin injection systems designed to stop water ingress through leaks. In 2018, Sika introduced Sika® Injection-310, an innovative one-component powdery acrylic-based waterproofing injection material, enabling easy application. Instead of dosing and mixing three components, the new material can be mixed on site by merely adding water.

SikaProof® A+, a fully bonded membrane system for basements, was field-tested in 2018 and presented to the public. The new system offers improved adhesion to fresh concrete and therefore prevents lateral water underflow.

In 2018, SikaBit® S-520 SPMX, a bituminous membrane for waterproofing, was developed. It forms a resistant barrier against physical damage and migration of water. SikaBit® S-520 SPMX has a sand finish that will serve as an anchor to fresh concrete, forming a single piece between the structure and the membrane when the concrete solidifies.

**ROOFING**

Sika's newest single-ply roofing system combines the benefits in performance and application of other known systems. The first field test of Sarnafil® AT started in selected EMEA countries. The worldwide rollout is planned for 2019. Sika has further expanded its bituminous product range with the help of two acquisitions in Italy and Romania.

The portfolio of environmentally friendly and low emission products was further increased in 2018. The basis has been set for continued technology advances in this area, with several releases planned in 2019 and subsequent years. This pays into Sika's sustainability strategy "More Value – Less Impact", with further reductions in VOC (volatile organic compounds). The protection of Sika's polyurethane range against future changes under REACH has been intensified. Prototypes of ultra-low monomer products were field-tested in 2018. Two-component technologies also remain a focus area with two new product launches planned in 2019.

Pushing the boundaries of water-based technology remains a key focus. Following the introduction of the early rain-resistant acrylic coating, research in 2018 focused on performance and durability improvements.

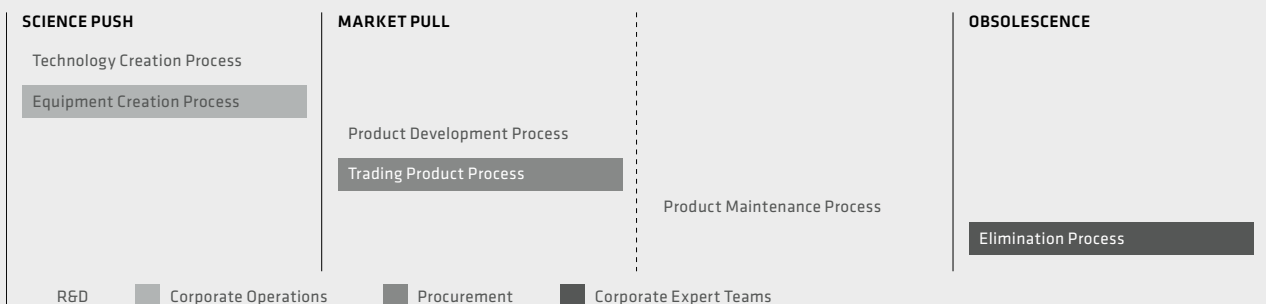
**FLOORING**

Resin flooring developments continue to focus on low emission, high-performance products that meet sustainable building requirements. This includes the development of novel epoxy coatings based on Sika-patented amine hardeners that offer significant advantages over traditional products. Water-based systems continue to be a focus, which has resulted in the development of an epoxy based product with excellent reaction to fire classification for use in a range of industrial applications. To compliment the balcony range, a water-based sealer has been developed which gives the option to apply a low odor, low emission system. Durability, aesthetic attractiveness, and sustainable solutions remain key for ongoing developments.

**SEALING & BONDING**

In 2018, the global rollout of new, best-in-class sealants for construction with unique durability performance was one of the main achievements. Fire, chemical or weather resistance hereby define performance criteria and pay into the latest demands of the industry. Therefore, production of new technologies such as silane terminated polymers has been a key activity in Germany, Japan, Brazil, and the USA. Efficiency improvement is a major trend in the construction market. Sika developed new and innovative products, saving contractor's time with products offering fast curing, reduced surface preparation, or instant fixation. In addition, Sika provided bonding solutions for construction markets with highly automated processes as used in the industrial housing market.

**PRODUCT CREATION PROCESS**



## REFURBISHMENT

Sika's innovative building and engineering mortars provide a complete range of sustainable solutions (new Sika MonoTop® ECO range and SikaCeram® Multiflow range) for every step of refurbishment projects in a wide variety of construction applications. Specific design and manufacturing of dry mix compositions with manufacturing footprint and technical requirements, provide a longer life span of structures and high safety levels. The recently developed Sika mortars use the latest technologies to provide easy, fast, and smart refurbishment combined with the least impact on the environment and maximum performance – also suitable for special applications in which specific properties such as fatigue resistance or extreme crack resistance are required.

With the new generation of Sikadur®, Sika launched the first product of a new structural strengthening product range offering excellent workability and performance, as well as improved product safety aspects and classifications.

## INDUSTRY

Sika successfully launched new, highly innovative products to offer efficiency improvements for customers, with fast and smart-curing adhesives and highly durable bonding solutions based on Sika® SmartCore or Sika® Powerflex technology. To expand the existing scientific paradigm by applying the newest UV stability knowledge was an objective which was achieved. Sika's new technologies enable lightweight concepts with new materials. They offer new possibilities to build and design industrial products with alternative, high-performing joining methods compared to rivets, screws, and welding. In 2018, new adhesion mechanisms led to new bonding solutions and further expanded the application fields of adhesives within the industry.

## AUTOMOTIVE

For its innovative range of automotive body shop adhesives, Sika Automotive received the Frost & Sullivan Product leadership award 2018 in North America and in Europe for its best in class range of automotive adhesives. Sika was further honored as Automotive Lightweighting Innovator with the 2018 Altair Enlighten Award. Sika Automotive's winning entry was an ultra lightweight constrained layer material system for structure-borne noise damping which reduces weight by up to 80% compared to standard systems.

New elastic bonding products were developed to meet the demands of the automotive OEM and their tier 1 suppliers – from new long open time primers for direct glazing applications, to heat conductive adhesives for battery bonding in e-vehicles or structural bonding solutions for composite-, paint- or plastics-bonding.

## PRODUCT CREATION PROCESS RESEARCH STRATEGY

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Sika's research activities are carried out at its 20 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, or lighter and safer vehicles. Key projects focus on high-performance molecules with tailored features, smart refining techniques for polymers and surfaces, 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 run under the HORIZON 2020 program of the European Union and center on durable, environmental-friendly reinforced concrete for energy infrastructure, industrial, and offshore applications.

## INVESTMENT

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Total expenditures on research and development for the Group in the year under review totaled CHF 189.5 million (previous year: CHF 184.6 million), equivalent to 2.7% of sales.

## INTELLECTUAL PROPERTY

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Innovation has a long-standing tradition within Sika, 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. 133 new inventions were reported in 2018 (previous year: 112) and 85 new patent applications were filed (previous year: 81). By the end of 2018, Sika’s patent portfolio included more than 800 unique patent families with more than 3,400 single national patents.

## NEW PRODUCTS IN 2018

Sika launched a number of important new products in 2018, including the following:

### CONCRETE

- **Sika Control®-200 P:** New generation of air-entraining agent for highest performance of freezing and thawing resistance with the most critical and contaminated raw materials.
- **Sika® Sigunit® L-5602 AF:** High-performance suspension type of shotcrete accelerator with best-in-class high early-strength and substantially improved product stability.

### MORTARS

- **Sika MonoTop®-160 Migrating:** 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®-210 Easy:** Creamier and finer consistency with the best adhesive properties. Similar to a mousse texture where tile adhesive could be used similar to a pastry-bag, which facilitates easier application of tile adhesives.
- **Sikafloor®-110 Level:** High fluidity, self-levelling compound with excellent application properties and optimized balance of all components for perfect finish and performance.

### COATINGS

- **Sikafloor®-425:** A low odor, low emission, and cleaner labelled waterproof coating for balconies.
- **Sikalastic®-495 T:** A clear protective sealer for tiled balconies.
- **Sikafloor®-221 W Conductive:** High-resistance conductive primer for ESD systems with personal protection according to VDE 0100.
- **Sikafloor®-236 ESD:** Carbon fiber free ESD floor.
- **Sikafloor®-3240 ECF:** Moisture-tolerant, tough-elastic conductive PU floor with low VOC emissions.
- **Sikafloor®-2560 W:** Waterborne epoxy carpark floor with highest demands regarding VOC (Emicode EC 1 Plus certified).

### THERMOPLASTICS

- **SikaBit® A-520 SG MX:** A bituminous pre-applied waterproofing membrane with a sand finish that will serve as an anchor to fresh concrete.
- **Sika® Injection-310:** All-powder-based one-component acrylic injection for robust and reliable injection work.

### ADHESIVES AND SEALANTS

- **SikaForce®-840 and -803 L45:** Adhesive for structural bonding applications in transportation with high stiffness and flexibility over the whole service temperature range of use (-35 °C to +85 °C) offering long open time and fast-curing at the same time.
- **Sikaflex®-111 to -118:** New construction adhesive range for interior fixing and mounting applications.
- **Sikadur®-31+:** New generation two-component epoxy adhesive for patch repair and concrete bonding for the refurbishment business.
- **SikaPower®-1280:** High thixotropic two-component epoxy adhesive to bond the two shells of a wind blade offering excellent durability performance.
- **Sikaflex®-404 Inliner:** A solution to help reduce lost energy and increased bills by sealing and insulating ducts and leaking ventilation channels. This innovative new method has been developed in collaboration with Linervent, Sweden, and launched in Scandinavia.

### AUTOMOTIVE

- **SikaPower®-494:** Represents a new generation of automotive body shop adhesives. This cold-applied and crash resistant adhesive shows a unique combination of adhesion on all new steel and aluminum substrates, combined with extraordinary corrosion resistance, which makes it the product of choice for new lightweight concepts.
- **SikaTherm®-290:** This solution was developed as a new low-VOC dispersion for headliner lamination. The product is able to fulfil the most demanding Automotive OEM requirements for VOC and shows improved technical performance in terms of initial strength.
- **SikaDamp®-760:** Ultra lightweight constrained layer material system for structure-borne noise damping. Typically, the area weights of 5 kg/sqm can be reduced to 1.1 kg/sqm with higher acoustic performance. In a midsize sedan the average weight saving potential per vehicle is greater than 7 kg when using Sika's new ultra lightweight material system, which is used for example in the BMW i3.

# 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.

### 2018 ACQUISITIONS

In January 2018, Sika acquired a majority stake in Index Construction Systems and Products, a leading manufacturer of roofing and waterproofing systems headquartered close to Verona, Italy. The company generates annual sales of CHF 115 million. By acquiring Index, Sika will extend its product range and significantly strengthen its position in the Italian market.

In February 2018, Sika acquired Faist ChemTec Group, a leading manufacturer of high-performance engineered, structure-borne acoustic solutions for the automotive industry headquartered in Worms, Germany. With six production sites in Europe, North America and Asia, and a pan-European distribution network, it supplies its customers with successful and innovative products. The acquisition brings technology and know-how that will accelerate Sika's growth and drive market penetration via the strong synergies between the two companies. The company generates annual sales of CHF 190 million and employs 840 people worldwide.

In July 2018, Sika acquired Polypag Group, a leading Swiss-based manufacturer and developer of polyurethane foam systems. This acquisition will enhance Sika's expertise in the area of polyurethane foam development, expand its product portfolio and production capacity, and drive forward the specialist trade business. Last year Polypag Group recorded annual sales of some CHF 40 million with a workforce of 120 employees.

In November 2018, Sika acquired the global Concrete Fibers business from Propex Holding, LLC, which includes a US plant manufacturing synthetic fibers for use in concrete reinforcement, sales operations in Sika's three geographical regions, and a strong brand. The acquired business is a perfect addition to Sika's concrete systems for high value-added solutions required in the construction of high-rise buildings and demanding infrastructure projects. The acquired business generates annual sales of CHF 30 million.

In December 2018, Sika agreed to acquire Arcon Membrane Srl, a leading manufacturer of roofing and waterproofing systems in Romania. By acquiring Arcon, Sika will significantly strengthen its position in the Romanian market and extend its product portfolio to meet the increasing demand for complete solutions in the roofing and waterproofing markets. The acquired business generates annual sales of CHF 23 million. The closing is expected in the first half of 2019.



## 2018 INVESTMENTS

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Sika's unchanged investment strategy is geared to consolidating the global presence it has built up during the last few years, and unlocking new markets or expanding its activities to this end. To encourage focused growth, selected markets, customers, technologies, and products are prioritized. Sika continues to invest in production and logistics capacities at its sites in order to strengthen local supply chains, and its decentralized market development policy brings the company very close to its customers.

In the year under review, Sika invested CHF 238.6 million (2017: CHF 163.4 million), which is equivalent to 3.4% of net sales. CHF 71.5 million were related to the buybacks of the R&D building in Zurich and the Kapaflex building in Düringen, Switzerland, which were formerly leased. The breakdown of the remaining investments are as follows: Key focus on expansion of production capacity at 45% (2017: 52%), 33% (2017: 28%) was needed to replace existing facilities, 16% (2017: 16%) was used for rationalization, and 6% (2017: 4%) was spent on environmental protection, health and safety, and quality control. The share of investment in the emerging markets was 42% (2017: 39%), underscoring Sika's growth strategy.

Sika will continue to invest in those regions where the Group can tap into new markets and generate growth.

# 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

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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

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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 of, or 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

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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 the company, they are required to sign the Supplier Code of Conduct, which covers all principles of sustainability.

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

Raw materials are systematically evaluated within Sika to identify potential risks and to determine relevant measures, such as maintaining safety stocks and/or securing long-term supply contracts. 2018 saw significant efforts invested into strengthening Sika's risk management process, with clear enhancements made to enable early identification of potential risks and reinforcement of well-structured risk mitigation strategies. Such strategies are actively developed in collaboration with R&D and Operations to ensure optimal solutions are in place. In 2018 several incidents occurred, all of which were managed with determined implementation of the above processes and measures to ensure any impact on Sika and its customers were mitigated and all disruptions were avoided.

## PRODUCTION AND LOGISTICS

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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, for example, processes and guidelines in the areas of purchasing, quality, environment, health, and safety. The "Sika Corporate Management System" is now accessible to employees all around the world. Together with the statutory regulations, the standards are also documented in the management systems of 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 OHSAS 18001 (safety and health). A growing number of larger facilities are also certified to ISO 50001 (energy management). The current certification status of individual Group companies is shown on page 136 et seq. of the download version 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. The audits and inspections ensure the effectiveness of processes and related controls. Quality, environment, health, safety, loss prevention and business interruption, product development and technology, legal matters, application risks, IT security, suppliers and products are all subject to audit. In 2018, Sika conducted 182 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 being increased. In 2018, 52 supplier audits have been executed and supplier audit trainings for more than 20 purchasing and quality assurance employees were conducted.

Sika also regularly audits production and logistics at local companies. This includes recording any risks that may result in production downtime, personal injury, 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 accident prevention and, since 2015, has also operated a global, web-based emergency notification and crisis management service solution.

## PRODUCT DEVELOPMENT AND MARKETING

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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

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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

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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.

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

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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, 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 129 et seq. of the download version of this report.

# GROUP REVIEW

# GROUP REPORT

## STRONG GROWTH GENERATES RECORD SALES IN EXCESS OF CHF 7 BILLION

Sika continued its success story in the 2018 financial year with record figures. Sales in local currencies increased by 13.6% to CHF 7,085.4 million. Operating profit rose by 5.5% to CHF 945.9 million (previous year: CHF 896.3 million), while net profit grew by 5.9% to CHF 687.1 million (previous year: CHF 649.0 million). 16 key investments were made during the year to drive future growth. The strategic goals for 2020 were confirmed.

### GROWTH IN ALL REGIONS

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In 2018, Sika generated sales of CHF 3,167.3 million in the EMEA (Europe, Middle East, Africa) region (previous year: CHF 2,735.7 million). This translates into growth of 14.1% in local currencies. The core markets of Spain and the UK recorded high single-digit growth, while double-digit rates were achieved in Eastern Europe. In particular, the recently founded national subsidiaries contributed to double-digit growth in Africa. All of Sika's target markets contributed to the good overall result with a high single-digit rate of organic growth.

Sales in the recently created Americas region grew by 11.7% in local currencies to CHF 1,820.5 million (previous year: CHF 1,684.0 million). Investment in the country's rapidly growing metropolitan areas was the driving force behind double-digit growth in the United States. Business performance in Brazil and Colombia was higher than average. The organizational amalgamation of the two formerly separate North America and Latin America regions to form the Americas region led to improvements through various new initiatives in procurement, innovation, talent development, and operations.

Sales in the Asia/Pacific region increased by 5.5% in local currencies to CHF 1,177.2 million (previous year: CHF 1,121.4 million). The region's organic growth during the fourth quarter of 2018 reached 7.5%, the highest quarterly figure for the past three years. India, Indonesia, and China recorded the strongest growth rates. The national subsidiary established by Sika in Bangladesh in 2017 has already made a name for itself as a leading supplier of high-performance system solutions in major infrastructure projects, such as expressways, railway lines, and energy supply facilities.

In the new Global Business segment, Sika achieved growth in local currencies of 29.2%. Total sales amounted to CHF 920.4 million (previous year: CHF 707.2 million), of which 23.1% was attributable to the acquisition of Faist ChemTec. This segment comprises the globally managed automotive business, as well as Advanced Resins (formerly Axson Technologies) and Faist

ChemTec, both established suppliers of components and solutions to the automotive sector and other industries. Overall, Sika gained additional market share in the automotive sector in 2018, while projects in hand for 2019 reached new record levels. The company's product technologies for lightweight construction and electromobility are among those that harbor strong growth potential, alongside its comprehensive acoustic solutions for modern vehicle construction. Sika is set to benefit substantially from the megatrend toward electromobility and aims to increase its percentage of components per vehicle by 20%.

### PROFIT GROWTH – HIGHER DIVIDEND PROPOSED

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Despite disciplined cost management, profit margins declined as a result of higher raw material prices and one-off costs. Nevertheless, operating profit (EBIT) rose by 5.5% to CHF 945.9 million (previous year: 896.3 million). Net profit came in 5.9% higher at CHF 687.1 million (previous year: CHF 649.0 million). The tax rate decreased to 23.0% (previous year: 24.7%).

At the Annual General Meeting on April 9, 2019, the Board of Directors will be proposing a 10.8% increase in gross dividend to CHF 2.05 per registered share (2018: CHF 1.85).

### KEY BALANCE SHEET FIGURES

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The ratio of net working capital to net sales rose slightly in 2018 to 19.6% (previous year: 19.0%). This was due to a rise in the valuation of inventories caused by increased raw material prices, as well as acquisitions. At the end of 2018, cash and cash equivalents amounted to CHF 914.0 million (previous year: CHF 1,037.9 million), while operating free cash flow grew slightly to CHF 513.2 million (previous year: CHF 496.8 million). Due to the need to finance the buy-back of treasury shares following the resolution of the takeover dispute with Saint-Gobain, net debt climbed to CHF 2,114.1 million (previous year: net credit balance of CHF 290.2 million). As a result, gearing increased to 126.2% (previous year: -8.5%). Return on capital employed (ROCE) reached 26.2% (previous year: 29.8%).

At the end of 2018, the equity ratio stood at 26.3% (previous year: 58.9%).

# GROUP REPORT REGIONS

## GROWTH IN ALL REGIONS

All regions contributed to the growth, driving local strategy implementation with strong initiatives. In the new Americas region, Honduras became the 101st national subsidiary to be founded by Sika.

### EMEA

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Construction markets in the eurozone countries continued their solid performance on the back of growth in gross domestic product of around 2%, while persistently low interest rates and associated high levels of investment in residential and infrastructure projects had a positive impact. A further rise in raw material prices made for a challenging market environment. Of the five biggest European construction markets – Germany, France, the UK, Italy, and Spain – the UK was as yet the only one to equal pre-2007 levels of construction.

In 2018, Sika's sales in the EMEA region (Europe, Middle East, Africa) were up by 14.1% in local currencies (previous year: 7.5%). The core markets of Spain and the UK recorded high single-digit growth, while double-digit rates were achieved in Eastern Europe. In particular, the recently founded national subsidiary contributed to double-digit growth in Africa. All Sika's target markets contributed high single-digit rates of organic growth to the good result.

Sika's acquisition of Italian company Index Construction Systems and Products brought a leading manufacturer of roofing and waterproofing systems into the Group. During the year, Sika also acquired Polypag Group, the Swiss market leader in the development and production of polyurethane foam systems, and, in Romania, Arcon Membrane, a leading manufacturer of roofing and waterproofing systems. New concrete admixture and mortar plants were constructed in Senegal, Saudi Arabia, Azerbaijan, Kazakhstan, and Russia.

### AMERICAS

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The North American construction markets grew by 3% in 2018. There were high levels of investment in repair and refurbishment projects, as well as in commercial construction projects. Spending on infrastructure projects was low. High inflation and currency fluctuations impacted the markets in Latin America. Furthermore, presidential elections in Brazil, Mexico, and Colombia unsettled the markets. Raw material prices rose sharply throughout the region during the year. Moreover, the higher wage costs resulting from labor shortages and the uncertainty stemming from the trade dispute with China had an adverse impact on the North American economy.

In 2018, sales growth in the newly set up Americas region amounted to 11.7% (previous year: 12.6%). Investment in the country's rapidly growing metropolitan areas was the driving force behind double-digit growth in the United States. Business performance in Brazil and Colombia was higher than average. The organizational amalgamation of the formerly separate North America and Latin America regions to form the larger Americas region resulted in improvements through various new initiatives in procurement, innovation, talent development, and operations.

The foundation for further growth in Central America was laid with the establishment of a new national subsidiary in Honduras. The acquisition of Propex Holding LLC's worldwide concrete reinforcing fiber business marks a further investment by Sika in this fast-growing market. Concrete admixture and mortar factories were opened in Peru and Guatemala.

### ASIA/PACIFIC

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Large-scale infrastructure projects continue to stimulate the construction industry in most countries in the region. In China in particular, persistently low interest rates and a solid level of investment in construction led to the implementation of a large number of infrastructure projects. China's trade dispute with the United States and intensified checks on capital good production by the environmental authorities had a dampening effect on the country's gross domestic product. Most Southeast Asian countries with the exception of Singapore and Thailand saw gross domestic product grow by more than 5%. Consequently, a large number of infrastructure upgrade projects were initiated.

Sika's sales in the Asia/Pacific region rose by 5.5% (previous year: 5.4%). The region's organic growth during the fourth quarter of 2018 reached 7.5%, the highest quarterly figure for the past three years. India, Indonesia, and China recorded the strongest growth rates. The national subsidiary established by Sika in Bangladesh in 2017 has already made a name for itself as a leading supplier of high-performance system solutions in major infrastructure projects such as expressways, railway lines, and energy supply facilities.

Alongside the existing production of concrete admixtures, an ultramodern mortar product manufacturing facility came on stream at the Vietnamese factory in Bac Ninh. This has enabled Sika to expand its supply chain in Vietnam's large construction market.

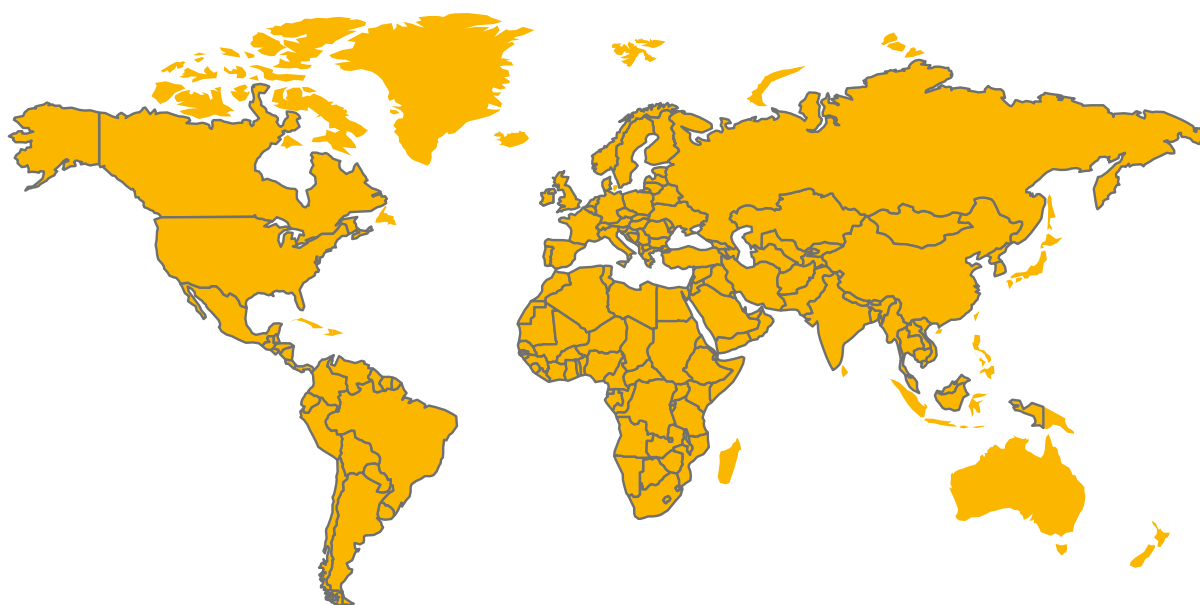
## GLOBAL BUSINESS

Compared with 2017, there was a slight decline of 0.5% in the number of new vehicles sold in 2018. Automotive sales in the major markets of Europe, the United States, China, and Brazil all fell more sharply than forecast, particularly in the second half of the year, owing to factors such as economic uncertainty, new drive systems, and changes in test procedures. Electromobility is gaining ground, and the technology was the main source of impetus behind drive systems once again in 2018. Virtually all automotive manufacturers are investing heavily in developing electric vehicles and expect to bring new platforms to market over the next few years. Unsettled by announcements of bans on diesel vehicles in European large cities and erroneous fuel consumption estimates for new cars, many consumers have postponed the purchase of a new vehicle for the time being.

Sika's growth in the new Global Business segment was 29.2% (previous year: 11.5%), of which 23.1% is attributable to the acquisition of Faist ChemTec. The segment comprises the globally managed Automotive business plus Advanced Resins (formerly Axson Technologies) and Faist ChemTec, both established suppliers of components and solutions to the automotive sector and other industries. Overall, Sika continued to gain market share in the automotive sector in 2018, while projects in hand for 2019 reached new record levels. Sika's product technologies for lightweight construction and electromobility are among those that harbor strong growth potential, alongside its comprehensive acoustic solutions for modern vehicle construction. Sika is set to benefit substantially from the megatrend toward electromobility and aims to increase its sales per vehicle by 20% compared to the content in conventionally powered cars.

In order to derive even greater benefit from the fast-growing Mexican automotive market, Sika opened a new acoustic system and body reinforcement factory in Querétaro.

## THE REGIONS IN BRIEF



	EMEA	AMERICAS	ASIA/PACIFIC	GLOBAL BUSINESS
Net sales in CHF mn (previous year)	3,167.3 (2,735.7)	1,820.5 (1,684.0)	1,177.2 (1,121.4)	920.4 (707.2)
<b>Growth in local currencies</b>	<b>14.1%</b>	<b>11.7%</b>	<b>5.5%</b>	<b>29.2%</b>
Currency impact	1.7%	-3.6%	-0.5%	0.9%
Acquisitions effect	6.7%	4.7%	0.0%	23.1%
Organic growth	7.4%	7.0%	5.5%	6.1%
Employees	8,816	4,147	3,931	2,472



# GROUP REPORT OUTLOOK

## CONTINUATION OF SUCCESSFUL GROWTH STRATEGY

By investing in eleven new factories, one additional national subsidiary, and four acquisitions, Sika has laid the foundations for continued growth. These 16 key investments, the well-filled product pipeline, and the strong sales organization give the Group reason to look ahead with optimism.

Sika expects sales to increase by 6-8% in 2019, in accordance with the Group's 2020 growth strategy, and anticipates an over-proportional rise in profits. Sales should exceed CHF 8 billion, depending on when the Parex transaction is completed. Implementation of the growth strategy will continue in 2019 with the opening of seven to nine new factories and further acquisitions. The new Strategy 2023 will be presented at the Sika Capital Markets Day on October 3, 2019.

# 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 economical vehicles. It also implements numerous projects and measures aimed at boosting the Group's business, social, and ecological sustainability.

## SIKA'S SUSTAINABILITY STRATEGY

Sika continued to implement its 2014-2018 sustainability strategy during the year under review. With the aim of "enhancing utility and reducing impacts", the company continued to pursue its six strategic target areas, focusing on economic performance, sustainable solutions, local communities/society, energy, waste/water, and occupational safety. Through its products, systems, and solutions, Sika strives to create long-term benefits and added value for all its stakeholders, and to significantly reduce resource consumption and the impacts associated with production processes.

Included among the tactics employed to globally implement the sustainability strategy were the "More Value – Less Impact" campaign, and the introduction at a local level of the target and reporting system in line with the Global Reporting Initiative (GRI) standards. A summary of the key results and findings is presented on the following pages. Full details are available online at [www.sika.com/gri](http://www.sika.com/gri).

## MATERIALITY ASSESSMENT

Sika has taken 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.

The goal of sustainable development requires the involvement of all participants along the entire value chain and the identification of shared topic areas of significance to all those involved. Sika considers the materiality analysis, which assesses the importance of sustainability issues for the company and its exter-

nal stakeholders, to be an important tool for identifying the most relevant economic, environmental, and social aspects that are consistent with its business strategy, and to define the contents of the sustainability strategy according to the GRI-Standards. In terms of sustainability reporting, the aspects deemed as material (or relevant) are those that have a significant impact on the economic, social, and environmental performance of the company, or that may substantially influence stakeholders' perceptions and decisions. Accordingly, the materiality analysis is two-fold, as it takes into account the standpoint of the company and its stakeholders.

Sika originally developed its sustainability materiality matrix in 2013 to identify and prioritize strategic target areas based on extensive consultation with all stakeholders, through surveys and interviews with employees, customers, suppliers, investors and analysts, and NGOs, and additional desk research. This shaped the six strategic target areas for the sustainability strategy.

Sika regularly reviews the materiality matrix to ensure the sustainability agenda remains relevant, as the business and the external context may be subject to changes. In 2018, Sika reviewed the materiality analysis which was last conducted in 2015. A stakeholder online survey was sent to 1,000 internal and external stakeholders. Based upon the insights of this survey, and on some additional desk research, Sika has reviewed the materiality matrix of 2015 and updated the identification and prioritization of topics and strategic target areas for the time beyond 2018.

The survey largely confirmed the results of the 2015 materiality analysis. Product-related topics, such as sustainable solutions, quality, reliability, safety, and innovation are leading the field in terms of stakeholder perception. Sika Group Management and employees tend to be more demanding with regards to topics considered to be material, particularly in relation to social and economic topics. Customers are prone to put emphasis on product-related topics. Especially the automotive industry tends to prioritize environmental issues. The megatrends in vehicle manufacturing and the sustainability demand to reduce emissions lead to a requirement for high-strength bonding systems that produce lighter, stronger, safer, quieter, and greener vehicles, all of which can be achieved with the aid of Sika products.

More detailed information about the materiality analysis can be found in the GRI report at [www.sika.com/gri](http://www.sika.com/gri).

The materiality assessment has been shaping the strategic target areas for the sustainability strategy beyond 2018. The revised strategy will deliver the reference values for sustainability-related action in the period 2019 to 2024.

## SUSTAINABILITY: TARGETS AND IMPLEMENTATION

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### **MORE VALUE – LESS IMPACT TARGETS AND PERFORMANCE: VALUES FOR 2018 AND 2014–2018**

As part of its “More Value – Less Impact” sustainability strategy, Sika has been measuring six parameters for the last five years. In 2018, the targets for sustainable solutions, local communities/society, and energy were met, while in terms of waste utilization, water consumption, and occupational safety, the goals were not achieved. The higher number of accidents in the year under review has negatively impacted the 5-year result, whereas between 2014 and 2017 there was a significant decrease of 27%. Overall Sika was able to reduce the amount of waste per ton sold in 2018 by 1.6%. Considering all acquisitions since 2013, Sika could keep the waste rate per ton sold at the same level. The increase in water consumption is mainly caused by acquisitions processed in 2017 which were taken into account in 2018. In the period of 2014 to 2018, the water consumption was reduced by 42%. For a visual representation please see page 15 of the download version of this report.

### **MORE VALUE OR ENHANCING UTILITY**

Sika takes a long-term perspective on the development of its business, and acts with respect and responsibility towards all internal and external stakeholders. The company maintains a strong focus on safety, quality, environment, fair treatment, social involvement, responsible growth, and value creation during all business activities.

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 initiated, managed, and coordinated local sustainability activities and projects which were planned in the 2016 and 2017 regional Sustainability Academy programs. The Sustainability Academy will be repeated in the future and is set to be an integral part of the Sika Business School’s training program. The goal is to initiate even more activities in the area of sustainability and achieve further progress.

### **MANAGEMENT AND ORGANIZATION**

In the year under review, the further development and the implementation of the sustainability strategy has been assigned to the newly defined department “Sustainability and Operations Technology” (S&OT). This department encompasses Product Sustainability, Environment, Health and Safety, 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. Through the “More Value – Less Impact” program, Sika regularly informed all internal stakeholders about sustainability activities.

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 2018, the SAB met four times, in March, June, August, and November. The focus topics concentrated on the target areas “Local Communities/Society” (March), “Compliance” (June), “Sustainable Solutions” (August), and “Less Impact” (November). In November, the SAB met in Cerano (Italy), where Sika Polyurethane Manufacturing S.R.L organized a factory tour, highlighting in particular work place safety.

## ECONOMICAL: PERFORMANCE

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### STANDARDS AND COMPLIANCE

Sika is pursuing a holistic approach to compliance, and its compliance management system involves the whole organization throughout hierarchies, functions, and geographical areas. The Sika compliance management system aims to ensure that governance, risk management, and other structures and processes within the Group are not only compliant with regulatory requirements, but are also as effective as possible within the organization to mitigate risks and prevent financial losses.

**STRENGTHENING OF THE SIKA COMPLIANCE ORGANIZATION:** During 2018, Sika further strengthened the Compliance organization, and the Compliance Officer held the annual Compliance Circle at Sika's headquarters in August. The purpose of this meeting was to align the team, exchange experiences and develop shared knowledge, with the aim to implement a consistent program throughout the Group.

As of January 1, 2019, a new Head of Legal & Compliance for Global Business & Industry was appointed and joined the Compliance team. Complementary to the regional and area level, Local Compliance Officers support compliance initiatives and give guidance to business in compliance-related matters on local level. The Compliance Team provides guidance to the Group on compliance matters, develops new tools and procedures, addresses compliance cases with the support of other corporate functions having compliance responsibilities (HR, Controlling, EHS, Quality, Procurement, etc.), always in close cooperation with line management. Regional Compliance Officers and Local Compliance Ambassadors operate in close cooperation with the Regional Managers, Area Managers and General Managers.

**GLOBAL AWARENESS-RAISING CAMPAIGN ON COMPLIANCE:** In 2018, as part of the internal Global Awareness Raising Campaign on Compliance, Sika continued the rollout of the internal Global Awareness Raising Campaign on Compliance, covering an additional 24 countries, and training more than 7,000 employees in different regions. The Global Awareness Campaign focuses on a Code of Conduct e-learning program, and the Sika Trust Line, an internal web-based platform for reporting serious misconducts.

**AWARDS FOR BEST COMPLIANCE TRAINING:** In 2018, the Code of Conduct e-learning program won the "Silver" Brandon Hall Award in the "Best Compliance Training" category. It was a great way to benchmark the effectiveness of Sika's compliance training against peers through an independent jury. The award confirms Sika is right to be focusing investment on its employees through high quality compliance training, in order to preserve Sika's strong ethical culture.

**COMPLIANCE CASES:** For the first time, Sika has consolidated an overview of all compliance cases addressed in 2018, at any level, throughout the organization. The total number of compliance cases in 2018 totaled 30 (3 are still under investigation), which is a very low number considering the size of the Group. Our employees are the most effective channel to detect violations, which proves that transparency is a key value at Sika and

needs to be preserved. Dismissals (and two resignations) confirm a zero tolerance culture and consistency in remediation. Conflict of interest and internal fraud are the most recurrent types, and (local) management being the most exposed group. Out of five alleged misconduct cases submitted through the Sika Trust Line in 2018, two were not substantiated. There has been no case of abuse or misuse of the new reporting platform.

**CODE OF CONDUCT:** In the year under review, Sika has increased the number of languages in which the Code of Conduct is available from 32 to 36. All 36 official translations of the Code of Conduct are available and accessible internally on the Corporate Policies and Manuals page on SikaConnect (internal collaboration platform) and SikaWorld (intranet).

**COMPLIANCE CONFIRMATION, COMMITMENT, AND CHECKLIST 2018 (COMPLIANCE AUDITS):** Each fiscal year General Managers of all Sika companies confirm compliance of the corresponding Sika company with the Code of Conduct, including informing and training all staff. This annual confirmation allows Sika to receive assurance that business throughout the organization has been conducted in compliance with the principles of the Code of Conduct, with particular focus on the following specific topics: environment, anti-corruption, anti-trust, and human rights assessments. New General Managers and new Sika Senior Managers have confirmed their pledge to lead with integrity by signing the "Compliance Commitment 2019". All General Managers and Sika Senior Managers have to renew their Compliance Commitment every two years.

**TRAINING:** More than 300 managers have been trained by the Group Compliance Officer. With regard to compliance training, Sika continues to align the content of the Sika Business School to enhance ethical leadership. In 2018, several regional and local cross-functional training initiatives provided information on the importance of the Code of Conduct, an introduction into the new compliance organization, and the main tools available to support management in mitigating risks. To enhance the post-acquisition integration on Compliance of two large acquisitions closed in 2018, approximately 1,000 employees of the FAIST Group and Index in Italy were aligned with Sika's compliance policy framework, and were trained in compliance risks and available tools.

**COMPLIANCE AUDIT PROGRAM:** A proposal to introduce a Compliance Audit Program covering anti-corruption, antitrust, third parties screening and ethical leadership is under review. In 2019, the Compliance function will define the most effective plan, tailored to the organization's needs, in close cooperation with Group Management and subject to the approval of the Audit Committee.

## 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 182 audits, including local supplier audits, and implemented associated improvements 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, and 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 being 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 new 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 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. Through its tax principles, internal policies, and actions, Sika is committed to being 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.

## SUSTAINABLE SOLUTIONS

Sika aims to be an industry leader with a portfolio of sustainable products, systems, and services. 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 important component of the company's capacity for innovation and an important driver of product development. Sika strives to extend the service life of buildings and industrial applications 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 CO<sub>2</sub> emissions along the value chain, both internally and for partners and customers who place their trust in Sika products and solutions. The Group goals are:

**TARGET 1:** All new product developments are reviewed against sustainability criteria using a standardized methodology, including a documented sustainability profile and an appropriate improvement plan where necessary. In 2018, this target was achieved.

**PERFORMANCE:** A uniform sustainability assessment process (including guidelines and tools) addresses relevant sustainability indicators and forms part of the official Sika product development process. The objective of the sustainability assessment process, which is established throughout the company, is to evaluate relevant sustainability aspects of a new development over its entire life cycle, compared to the company's own or competitive solutions. Economic, environmental, and social aspects are assessed and serve as the basis for understanding risks and opportunities and thus deciding what measures are feasible to improve the sustainability profile of a development. If a new solution fails to provide an improvement over the existing product, it may not be worthwhile to further pursue a particular development. On the other hand, if a significant improvement over the existing product is achieved, the relevant projects must be prioritized for special attention.

In the year under review, the sustainability assessment process was used to evaluate 108 new local and global product developments. Of these, 15% were identified to offer an improvement over the existing product and are therefore of importance to the company's sustainability.

#### Example 1: New process for high-quality recycling concrete

One example of sustainable innovation is a new process for recycling 100% of concrete/mortar demolition waste, which significantly reduces the embodied footprint of buildings and structures. Sika has developed a new patented recycling process which allows the extraction of secondary raw material from old concrete at the quality level of primary material. This enables the production of high quality recycling concrete by using 100% secondary aggregates, which saves limited natural resources such as sand and gravel. Sika's new recycling technology exploits the synergy from a chemo-mechanical treatment of concrete demolition waste. The process focuses on sequestering approximately 50 kilograms of CO<sub>2</sub> per ton of crushed concrete demolition waste. It involves a superficial carbonation of the cementitious matrix that is softened and removed upon attrition. The freshly exposed surfaces are able to further carbonate until aggregates which are free from cementitious material are obtained. In this way, concrete/mortar demolition waste can be separated into "secondary aggregates" for recycling at a quality level of primary material, and a powdery by-product that can be used as secondary raw materials in a broad application spectrum, such as partly replacing primary cement raw meal for cement clinker production, or as an inert filler for cement plants and building materials in general. Once implemented at an industrial scale, this new process can also significantly help decarbonize the cementitious sector as well.

#### Example 2: New i-Cure-technology-based polyurethane waterproof coating system for balcony range

Resin flooring developments continue to focus on high-performance products that meet sustainable building requirements. To complement the existing balcony range, a new moisture triggered polyurethane waterproof coating system was developed, consisting of Sika® Concrete Primer LO, Sikafloor®-425 (waterproofing layer) and Sikafloor®-420 (protection layer). All system components are i-Cure-technology-based, a novel latent hardener that prevents gassing in the finished film, which can often be seen in conventional polyurethanes when applied in harsh environments. The new technology allows the final products to be formulated with higher solid content, reduced VOC's (volatile organic compounds), lower odor, lower hazard, and most importantly, reduced emissions. The system is protected by the water-based polyurethane Sikafloor®-418 W top sealer, which allows the design of a new generation of best-in-class highly durable and aesthetically attractive balcony system buildups.

#### Example 3: Innovative injection material that sets a new standard in post applied waterproofing applications

Conventional acrylic injections are supplied as three part systems, including liquid resin, accelerator, and hardener, which have to be packed and kept separately to prevent preliminary curing. The hardener requires special handling as it is classified as dangerous good. On construction sites the components have

to be applied according to a comparatively complex procedure that includes dosing of the accelerator, mixing with water, preparing premixes, and finally their homogenization. Sika® Injection-310 is based on Sika proprietary technology, which is regarded as a game changing material as it overcomes the aforementioned limitations. It combines all components in only one powder which is simply mixed with water in order to obtain the injection solution. As the product comprises all components of a reliable cure in one part, the risk of injecting wrongly mixed and unreactive chemicals into soil and ground is eliminated, which contributes to an efficient consumption of waterproofing material, and reduces the release of chemicals into the environment. Due to its product design, Sika® Injection-310 also allows for improvements in the supply chain and environmental footprint. As the material is not labelled as dangerous goods, no precautionary measures have to be taken for shipping, and no limitations concerning transportation apply. In contrast to the conventional acrylic injections, Sika® Injection-310 is provided as bagged goods that results in a reduction of plastic packaging material of 80% and packaging waste reduction on site to the same extent.

#### Example 4: New solution for sealing ventilation ducts

Buildings equipped with tight and well-functioning ventilation systems save energy, help avoid spreading disturbing odors, and ensure a good indoor climate, which is important for the occupant's health. Sikaflex®-404 Inliner, an innovative new solution, has been developed in collaboration with an external partner to help reduce energy losses, by sealing and insulating ducts and leaking ventilation channels. A flexible, fire-protected, and airtight composite-inliner is cured on-site in the existing ventilation, adjusting to all surface irregularities, offsets, and narrowings. The on-site curing allows the inliner to follow the shape of the channels and seal leaking ventilations, regardless of shape, diameter, and ventilation material, and without the inhabitant having to leave the residence. Sealed, air-tight channels allow for significant energy savings, safety improvements, and cost savings, ensuring installation costs are paid back in less than ten years.

**TARGET 2:** The major Sika national subsidiaries prepare a sustainability action plan and implement all key projects planned in this context. The plan is aligned with local trends and with market requirements, and encompasses the key projects and topics that are geared towards the global initiative. In 2018, this target was achieved.

**PERFORMANCE:** All of the larger countries in North America, Southern Europe, Northern Europe, Central Europe, and Eastern Europe further developed product sustainability road maps in the year under review. As a result of the regional Sustainability Academy programs in 2017 for Asia/Pacific and Latin America, a priority in the year under review was to extend the scope of the road map activities into the Asia/Pacific and Latin America regions. In this regard, the Sustainability Academy programs played an important role in involving additional national subsidiaries, and increasing the future number of projects and activities to currently 39 countries.

Customers, as well as building and construction standards, increasingly demand that companies declare the environmental performance or environmental impact of its products in a transparent manner. This calls for sound data and knowledge about the impacts of product manufacturing and application, and the added value of finished products in their application and use phase. In 2018, Sika expanded the existing reference database for Environmental Product Declarations (EPD) for its products and systems in accordance with the international ISO and EN standards, which increases the customer's choice when it comes to product selection and decision making by providing information on the environmental performance of Sika solutions. Examples include the preparation of EPD for Pulastic® multifunctional sportsfloor and Sikafloor® product range under the German IBU standard, whereby Sika has published EPDs for all of its major European flooring products and technologies. Furthermore, Sika has been developing third-party certified EPDs for the North American construction market, covering sealing and flooring products and liquid applied membranes for roof waterproofing solutions, utilizing local US standards. In 2019, EPD activities in European and North American markets, and active involvement in association work, will continue to be key activities.

Customer interest in EDPs has grown significantly alongside the increase in green building projects. Green building schemes, such as the US Green Building Council's (USGBC) LEED, the UK's British Research Establishment Environmental Assessment Method (BREEAM) and the German Sustainable Building Council's (DGNB), amongst others, award credits for buildings incorporating products with EPD, which provide added value and comprehensive information for assessing buildings and building structures/elements. In the year under review, the existing LEED product portfolio was expanded to include a large number of adhesives and sealants, as well as flooring products, with a particular focus on Europe and North America (USA, Canada). With the increasing number of green building projects in commercial and public construction, and having a product portfolio that contributes to multiple green building requirements, Sika is in a good position to be able to benefit. With know-how built up over the years in local companies, and with the comprehensive product portfolio, a number of LEED and BREEAM projects were successfully acquired in several European countries, such as Greece, Serbia, Slovakia, or Poland.

With buildings having extensive direct and indirect impacts on the environment, embodied and operational energy and CO<sub>2</sub> efficiency is an essential aspect for building design. In the reporting year, Sika has introduced an "energy-saving calculator" for its roofing business, which enables the user to quantify the contribution of the roof design on energy and cost savings during a building's use phase. Possible energy savings can be achieved through improved thermal insulation characteristics and/or reflectivity of roofing membranes. Dedicated trainings were held in countries including Spain, Portugal, Netherlands, and the UK, amongst others. In Spain, for example, the acquisition of first projects was successfully supported by quantifying the benefits of reflectivity of highly reflective roofing membranes in warm climates. In 2019 the focus will be to further introduce the energy saving concept in other key countries in EMEA, Latin America, and Asia/Pacific in order to support sales of insulation and cool roof solutions.

Another initiative in Refurbishment is the development and introduction of a complete range of sustainable cementitious mortars for repairing, waterproofing, levelling, tiling, and flooring. The main characteristic of these products is the significant reduction of portland cement by replacing part of it with supplementary cementitious materials, which may otherwise be disposed of in a landfill. In direct comparison with a cement based mortar of equivalent performance, reducing the amount of portland cement results in a significant reduction in the embodied energy and carbon footprint. As an example, the existing concrete repair product range will be extended with Sika MonoTop®-910 Eco, a new high-performing one-component ready mix, bonding and corrosion inhibitor primer, which was developed in 2018.

Sika innovates to increase the efficiency of products and solutions along the entire value chain, and therefore responds to the market demand for sustainable solutions. Sika is transitioning into a supplier of innovative solutions which enhance the efficiency, durability, and the aesthetic appeal of buildings, infrastructure, and installations. The integrated concepts and solutions address the entire life cycle of a built structure, from initial construction and maintenance, through to refurbishment, expansion, or ultimately demolition.

More detailed information on how Sika solutions support sustainable construction and help to save energy, raw materials, and water, and reduce CO<sub>2</sub> emissions, while meeting sustainable building standards, can be found at [www.sika.com/sustainability](http://www.sika.com/sustainability).

## SOCIAL: PEOPLE

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### SOCIAL RESPONSIBILITY

Social, economic, and environmental issues are closely intertwined, and social responsibility is a necessary component of success. Mindful of its obligations, Sika actively engages in sustainable and humanitarian development projects, either as a member of international organizations, or directly on the spot. Sika's social involvement also embraces the sponsorship of organizations and initiatives in the fields of science, culture, and sport.

Sika aims to build trust and create value with customers, local communities, and society as a whole. The Group goal is:

**TARGET:** 5% more social projects per year. Social projects benefit all non-commercial stakeholder groups of local companies and their neighborhoods. They encompass monetary benefits or material donations, local projects and community engagement programs, dialog with stakeholder groups, communal consultation procedures, social activities and programs, training, environmental projects, or recovery programs. In 2018, this target was achieved.

**PERFORMANCE:** Sika sponsored 128 projects during the year under review (previous year: 118 projects). This equates to a year-on-year increase of 9%. The projects can be classed as "social" (including donations), "ecological", "scientific", and "sports and cultural".

### SOCIAL SPONSORSHIPS AND DONATIONS

The main goals, among others, are to support communities in infrastructure development for social projects, to promote training in construction professions and trades, and to provide emergency aid to disaster-stricken regions. Sika also seeks to promote on-the-ground self-help. Local Sika countries therefore put forward specific aid applications and, working with local partners, supervise projects from site to completion. 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 like the continued support of 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 operations for some 230,000 children and youths with cleft lips and palates or similar facial disfigurements. Likewise, in 2018 Sika continued the support of children's homes throughout the world, including in Lurín (Peru), Brasov (Romania), Langbos (South Africa) and in Querétaro (Mexico). The project in South Africa, for example, is to build a shelter for orphans and vulnerable children in the settlement of Langbos. Langbos represents the poorest among rural communities in greater South Africa.

**Education and schooling:** Another focus was to support schools. In China, Sika supports the Library Project, a nationwide initiative to sponsor libraries in public schools. Between 2015 and 2018 the Sika team helped to create reading rooms and corners in 73 schools, donating more than 67,000 books and providing comfortable and safer learning environments for more than 18,000 children. In 2018, Sika also continued its support of a new school for girls and young women in Madagascar. The school prepares young women for careers in education and is located in Tulear, a city of 150,000 inhabitants over 900 kilometers southwest of Antananarivo.

Sika Tanzania is supporting "ProjeKt Inspire", a youth based and youth led initiative, aimed at opening career options to younger generations. The program helps students choose the best courses in universities, as well as providing extra curricular activities that prepare them with knowledge and skills needed in the global market. ProjeKt Inspire aims to improve the quality of education through organizing fairs that enhance the learning environment.

**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 2018, for example, the team from Sika Spain, in collaboration with the Gil Gayarre Foundation, organized a volunteering program, "Sika Solidaria", which focuses on improving the living conditions of people with intellectual disabilities. A group of thirty volunteers from Sika Spain worked side by side with disabled people, and professionals from the Gil Gayarre Foundation, in the reform and energy adaptation of the original buildings of the San José Farm facilities in San Sebastián de los Reyes. Thanks to this activity, it was possible to renovate old buildings and to reduce energy costs for the organization. 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.

**Volunteering:** Sika aims to vigorously support volunteering work in relation to social activities and personal development. In the year under review, Sika teams in Switzerland continued to provide a group of refugees with an enjoyable and productive outing and brought help and assistance to mentally impaired working individuals. Volunteering work was carried out by Sika teams in all regions: Sika employees in the USA, for example, participated in a community service event at the Howell Nature Centre in Michigan in May 2018. It was a joy and a highlight for employees to know they were helping an organization that gives back to the community by rescuing and rehabilitating wildlife, and providing day and overnight summer camps for kids. Members of the Sika team in the USA, along with other supplier and Home Depot volunteers, gathered for a community building event in support of US veterans. The Home Depot Foundation is dedicated to serving homeless, senior and combat-wounded veterans, as well as those affected by natural disasters such as Hurricane Harvey and Maria, the wildfires in California, and the recent earthquake in Mexico.



## ECOLOGICAL SPONSORSHIPS

The focus of Sika's ecological sponsorship 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. The initiative uses concrete projects to demonstrate how, with the involvement of the local population, positive social and economic developments can be achieved in different regions and societies, without any threat to nature and the environment. In 2018, Sika sponsored projects to ensure drinking water in Africa, focusing on initiatives in Tanzania, South Africa, Burundi, and Ivory Coast. Furthermore, community development projects were planned and implemented in Colombia and India. In Colombia, the objective has been to empower and strengthen ASO-MUCARE, the Association of Women from Bocas del Carare. 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 the rural areas of Colombia. In India the focus of the project was to enable traditional tribal farmers to establish organic horticulture.

## SCIENTIFIC SPONSORSHIPS

As project sponsor, Sika engages in a lively dialog with ETH Zurich (Swiss Federal Institute of Technology in Zurich), the University of Fribourg, EPFL (Swiss Federal Institute of Technology in Lausanne), the ESPCI ParisTech (School of Industrial Physics and Chemistry of the City of Paris), the University of Burgundy, Princeton University, the Beijing University of Chemical Technology, the University of Tokyo, and similar institutions across the globe. Sika's local subsidiaries co-operate with research institutes and provide mutual support.

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 thermally deformable at room temperature, such as gels, molten polymers, and rubber and their boundary surfaces. Research into composites made of soft materials, as well as colloid systems and bacteria, are further areas of focus.

2018 was the ninth year in which the Sika Master Award was presented to two authors of an outstanding master's 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 Sustainable Construction. This interdisciplinary forum promotes dialog on current research topics, supports resources, and knowledge transfer, and encourages the launch of joint research projects in the field of sustainable construction.

In 2014, a research group on management in emerging markets was established at the Faculty of Economics and Social Sciences of the Fribourg University, Switzerland. Since then, the University of Fribourg and Sika have carried out work to address the growing significance of emerging markets for the strategies of Western companies. Professor Dr. Dirk Morschett is an active member of Sika's newly formed Sustainability Advisory Board.

In the year under review, Sika supported the Lancashire Science Festival, a three-day extravaganza with hands on displays, lectures and demonstrations. The aim of the festival is for young visitors to leave filled with wonder and aware of the opportunities that are open to them through Science, Technology, Mathematics & Engineering (STEM). With the current STEM skills gap, Sika UK were involved in the festival, helping to engage, and inspire future generations, whilst explaining some of the science behind construction materials.

Sika Automotive sponsored the Rinspeed AG concept vehicle in 2018 for the sixth consecutive year. The Snap, Rinspeed's 2018 concept vehicle, is a self-driving car, packed with electronic components and cutting-edge features for an elaborate and unparalleled mobility ecosystem. As part of its sponsorship, Sika has provided technologies to support the design and construction of this concept vehicle, which is in line with the automotive industry megatrends e-mobility, lightweighting, and sustainability.

In the year under review, Sika supported NEST, an initiative of Swiss Federal Laboratories for Materials Science and Technology (Empa). Empa is an interdisciplinary research institute of the ETH Domain and conducts cutting-edge materials and technology research. NEST accelerates the process of innovation in the building sector. New technologies, materials and systems are tested, researched, honed, and validated in realistic conditions.

## SPORTS AND CULTURAL SPONSORSHIPS

Sika supports sports and cultural projects throughout the world. In the year under review, the focus of sponsorship in Switzerland has been on the Lucerne Symphony Orchestra, the EV Zug ice hockey club, the Oberwil Rebels, and the Swiss Sliding sports association. Furthermore, Sika was a sponsorship partner of the Zug Sports Festival for the second time, where athletes and sports clubs have the opportunity to inspire the people of Zug, Switzerland. Throughout the weekend of August 18-19, 2018, the Zug Sports Festival offered a variety of activities for visitors to participate in or watch. In 2018, Sika began to support the organization of the Federal Swiss Wrestling & Alpine Festival in Zug, Switzerland. In August 2019, around 200 wrestlers from all over Switzerland and surrounding countries will battle it out for the crown and wreath.

## OCCUPATIONAL SAFETY

Health, safety, and well-being of all Sika employees are essential to the success of the company, and are core concerns throughout the organization. This requires focus and a systematic approach: occupational standards, management commitment, employee involvement, work site and risk analysis, hazard recognition and resolution, training and education are all key components in the daily business.

Sika's goal is to ensure every employee feels comfortable and protected in the workplace. The Group goal is:

**TARGET:** 5% less accidents per year. This refers to the number of work-related accidents leading to injuries, and covers all Sika employees. This includes temporary and subcontracted staff. In 2018, this target was not achieved.

**PERFORMANCE:** The number of occupational accidents (lost working days >1) increased by 19.5% in 2018 compared to 2017. In the year under review, 10.4 occupational accidents per 1,000 employees were recorded (previous year: 8.7). In 2018, injuries caused absences, on average, of 18.4 days (previous year: 22).

Due to this unexpected result, Sika will process safety programs in 2019, covering all regions and countries, with the objective being to place greater emphasis on employee participation and to avoid small accidents due to lack of attention.

## ECOLOGICAL: PLANET

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### LESS IMPACT: REDUCING THE ENVIRONMENTAL FOOTPRINT

The following details relate to all business operations of the Sika Group, including the activities of newly acquired companies, and focus on the core themes of energy, water/waste, occupational safety, and CO<sub>2</sub> emissions at the more than 200 Sika production sites.

Sika is continuously improving its environmental protection and safety performance, through its routine investment planning and maintenance activities. During the year under review, Sika spent CHF 14.3 million on technical equipment (previous year: 6.5 million). This corresponds to roughly 6% of total investments of CHF 238.6 million. In addition, Sika invested CHF 30 million (previous year: CHF 26 million) in environment, health, and safety measures, including waste treatment and protecting devices.

### ENERGY

Availability and efficient use of energy and resources are crucial to sustainable development. Therefore, Sika sees it as a global and local responsibility to minimize the impact on climate change by reducing energy consumption, with the positive effect of lowering costs and increasing competitiveness. The Group goal is:

**TARGET:** 3% less energy consumption per ton and year. This includes the total energy produced and consumed by all Sika companies. In 2018, this target was achieved.

**PERFORMANCE:** Energy consumption per ton sold was 424 megajoules (previous year: 450 megajoules), which leads to a reduction of 5.8% compared to the previous year. Overall energy consumption was reduced by 22% (target 15%) from 2013 to 2018, from 541 MJ/t to 424 MJ/t.

The decrease in energy consumption is a consequence of a global strategy: 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 on 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 in 2018 also resulted in fuel reduction. Energy audits and participation at energy networks promoted energy awareness throughout the company.

## CO<sub>2</sub> EMISSIONS

CO<sub>2</sub> emissions are mostly a consequence of fossil fuel energy consumption, and can only be limited within Sika by increasing energy efficiency. This is why Sika controls its CO<sub>2</sub> emissions via its energy target and has not set a specific reduction target at Group level. In particular, in 2018 the total emission remained at the same level as in 2017, despite the decrease in energy consumption per ton sold. In fact, Sika's total CO<sub>2</sub> emissions were 191,000 tons compared to 193,000 tons in 2017, due to the increase in the overall produced volume.

**CO<sub>2</sub> EMISSIONS (DIRECT):** CO<sub>2</sub> emissions from burning fossil fuels by all Sika companies, and by its own vehicles, are calculated based on the reported fuel quantities. In 2018, CO<sub>2</sub> emissions from the use of primary energy sources amounted to approximately 48,000 tons (previous year: 53,000).

**CO<sub>2</sub> EMISSIONS (INDIRECT):** CO<sub>2</sub> emissions from electricity consumption and leased vehicles, as well as business travel, are derived from the reported energy quantities. CO<sub>2</sub> emissions caused by purchased electricity are calculated using current emission factors from the Greenhouse Gas protocol (GHG), applying average values for electric power production in each particular country. In 2018, CO<sub>2</sub> emissions caused by electricity consumption were calculated at 109,000 tons (previous year: 102,000 tons), i.e. more than twice as high as direct CO<sub>2</sub> emissions. Leased vehicles and business travel caused additional CO<sub>2</sub> emissions of 20,000 and 14,000 tons respectively (previous year: 22,000 and 16,000 tons).

## WATER

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 use lower-grade water qualities, 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. The Group goal is:

**TARGET:** 3% less water consumption per ton and year. This includes water consumed by all Sika companies, whether from public utilities, or from ground or surface water sources. In 2018, this target was not achieved.

**PERFORMANCE:** In 2018, Sika used approximately 1.8 million cubic meters of water (previous year: 1.4 million cubic meters). The water consumption per ton sold was around 0.39 cubic meters (previous year: 0.32 cubic meters). This increase is mainly caused by acquisitions processed in 2017, which were taken into account in 2018.

Without considering acquisitions, the water consumption would remain at the same level as in the previous year. However, overall the water consumption was significantly reduced by 42% (target 15%) from 2013 to 2018 from 0.67 m<sup>3</sup>/t to 0.39 m<sup>3</sup>/t.

## WASTE

Efficient use of entry goods is crucial to all Sika companies, as production processes are material intensive and use high volumes of non-renewable resources. Efficient production in this context means reducing and reusing production scrap and packaging materials. The Group goal is:

**TARGET:** 3% less waste per ton and year. This includes all waste material sent to external contractors for disposal – except materials returned to suppliers – and covers all Sika companies. In 2018, this target was not achieved.

**PERFORMANCE:** With an increased production volume, the company generated some 84,000 tons of waste (previous year: 80,000 tons). This corresponds to 18.1 kilograms of waste per ton sold (previous year: 18.4 kilograms per ton sold), or a decrease of 1.6%.

Overall, Sika could reduce the amount of waste per ton sold by putting in place activities such as 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 amount of expired products.

In conclusion, taking into account all acquisitions since 2013, Sika was able to keep the waste rate per ton sold at the same level.

# 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

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Sika conducts its worldwide activities according to countries that have been classed into regions with area-wide managerial functions. The heads of the regions are members of Group Management and are responsible for EMEA, Asia/Pacific, Americas, and Global Business. Based on the decision of the Board of Directors, the regions North and Latin America that were previously managed separately, were merged into one region in the beginning of March 2018. The new structure aims to create a more efficient supply chain, and benefit from larger purchasing volumes in the closely intertwined regions of North and Latin America.

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 2018 financial year can be found on page 39 of the download version 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 seven target markets: Concrete, Waterproofing, Roofing, Flooring, Sealing & Bonding, Refurbishment, and Industry. 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 Hälg**, Chairman

**Frits van Dijk**  
Justin Marshall Howell

**Monika Ribar**  
Daniel J. Sauter

**Ulrich W. Suter**  
Christoph Tobler

**CEO**  
Paul Schuler

LEGAL  
Stefan Mösli

PROCUREMENT  
Marcos Vazquez

COMMUNICATION  
Dominik Slappnig

HR  
Philippe Jost

**ASIA/PACIFIC**  
Mike Campion

**EMEA**  
Ivo Schädler

**AMERICAS**  
Christoph Ganz

**GLOBAL BUSINESS**  
Thomas Hasler

**CFO**  
Adrian Widmer

**CONSTRUCTION**  
Yumi Kan

**TECHNOLOGY (CTO)**  
Frank Höfflin

**INDUSTRY**  
Thomas Hasler

# GROUP MANAGEMENT

The eight members of Sika's Group Management. In the background is "The Circle" – currently Switzerland's largest construction project and a commercial extension of Zurich Airport. Sika has been helping make the architecturally challenging, 180,000 m<sup>2</sup> building complex a reality by contributing comprehensive expertise as well as system solutions and products right from the start of planning. The company's waterproofing systems, concrete admixtures, mortars, corrosion protection systems, and coatings are being used in the project. "The Circle" is due to open in fall 2020..



**FRANK HÖFFLIN**  
Technology (CTO)  
With Sika for 16 years in  
Switzerland and the USA

**ADRIAN WIDMER**  
CFO  
With Sika for 12 years in  
Switzerland

**YUMI KAN**  
Construction  
With Sika for  
27 years in  
Switzerland and Asia

**PAUL SCHULER**  
CEO  
With Sika for 31 years in  
Switzerland, Germany, and the USA

**MIKE CAMPION**  
Asia/Pacific  
With Sika for 21 years in  
Asia and the USA

**THOMAS HASLER**  
Global Business and Industry  
With Sika for 30 years in  
Switzerland and the USA

**IVO SCHÄDLER**  
EMEA  
With Sika for 22 years in  
Switzerland and the UK

**CHRISTOPH GANZ**  
Americas  
With Sika for 23 years in  
Switzerland, France, and the USA

**PAUL SCHULER**, MBA  
CEO

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

Further commitments: Member of the Board Swisspearl Group AG.

**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  
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.

**YUMI KAN**  
Head Construction

Nationality: Vietnamese, Taiwanese; Year of birth: 1970  
Head Construction since 2017; Member of Group Management since 2016; 2016–2017: Head Building Systems & Industry; 2015–2016: Head Target Market Concrete Asia/Pacific; 2011–2016: Area Manager Southeast Asia; 1995–2014: General Manager Sika Vietnam; 2001–2005: Area Manager Indochina; 1994: Deputy General Director Sika Vietnam; 1992–1993: Sales and Marketing Manager Sika Vietnam.

**IVO SCHÄDLER**, MSc ETH Materials Eng., 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.

# BOARD OF DIRECTORS

**PAUL HÄLG**, Dr. sc. techn., ETH Zurich  
Chairman

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; Chairman 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; Chairman: Welfare Foundation Sika, Baar; Member of the Foundation Council: ETH Foundation, Zurich; Swisscontact, Zurich; REGA, Zurich.

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

Nationality: Dutch; Year of birth: 1947  
Member since: 2012; Committees: Chairman 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. HSG

Nationality: Swiss; Year of birth: 1959  
Member since: 2011; Committees: Chairman 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; Chairman of the Board: SBB AG (Swiss Federal Railways), Bern; Member of the Board: Lufthansa Group, Frankfurt am Main; Chain IQ Group, Zurich. Member of the Swiss Innovation Agency's Innovation Council, "Innosuisse", Bern (until May 18, 2018).

**DANIEL J. SAUTER**, Financial Expert

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; Chairman of the Board: Julius Bär Gruppe AG, Zurich; 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.

**ULRICH W. SUTER**, Dr. sc. techn., Professor emeritus

Nationality: Swiss, US; Year of birth: 1944  
Member since: 2003; 2001–2005: Vice President Research, ETH Zurich; 1988–2008: Professor, ETH Zurich, Department of Materials; 1982–1989: Professor, MIT, Department of Chemical Engineering, Cambridge, USA; Member of the Board: Rainbow Photonics AG, Zurich; Co-owner of Ceruda d.o.o., Serbia.

**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; Chairman of the Board: AG Cilander, Herisau; Member of the Board: Sefar Holding AG, Thal SG; économie-suisse, Zurich; Member of Regional Advisory Board: Swiss National Bank.

# CORPORATE CULTURE

## SIKA SPIRIT MAKES THE DIFFERENCE

“Dear friends” – that’s how most e-mails at Sika begin. Many employees describe the work atmosphere as informal and uncomplicated. The Sika corporate culture, combined with the skills and expertise of our workforce, is what defines the Sika Spirit and consistently produces new record results. To ensure this remains the case in the future, employees are assured the best possible conditions.

### SHARED VALUES AS A STRONG FOUNDATION AND BASIS OF THE GROWTH STRATEGY

Customer First, Courage for Innovation, Sustainability & Integrity, Empowerment & Respect, and Manage for Results are the defining elements of our company. These values and principles serve as a compass for all Sika national subsidiaries around the world, and are applied by our employees. Thus the Group’s culture of trust, transparency, and openness has a firm global foundation that is lived out in practice. Sika’s 2020 growth targets describe what is being done, the corporate values how this is being achieved.

### 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, the establishment of new national subsidiaries, and fast-growing business activities in challenging markets. Accompanied by a large-scale international compliance campaign designed to promote integrity awareness, a Code of Conduct digital training program continued to be introduced throughout the company, as was the misconduct reporting system, the Sika TrustLine. Over 7,000 employees worldwide underwent compliance training and education in 2018. Leaders, including Senior Managers, General Managers, and Executive Management members in over 100 countries, reinforced their role model status by signing a compliance commitment.

### 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 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 in respect of discrimination in any form. Sika actively promotes a recruitment policy aimed at achieving a diversified workforce. Chapter nine of Sika’s Code of Conduct contains a zero tolerance guideline on harassment and discrimination in the workplace. In the reporting year, the compliance system was again strengthened in order to further promote the Sika Group’s culture of trust, transparency, and openness.

Every year around 20 internal audits are conducted, corresponding to some 20% of all Sika national subsidiaries. Among other things, these audits ensure compliance with the applicable labor and social standards.

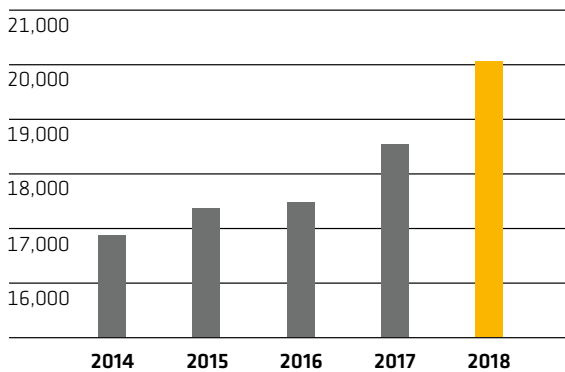
### EMPLOYEES – THE KEY TO SUCCESS

The number of employees rose 8.5% during the year under review to 20,060 (previous year: 18,484). Regional distribution is as follows: EMEA: 8,816 (previous year: 8,368), Americas: 4,147 (previous year: 4,048), Asia/Pacific: 3,931 (previous year: 3,858), Global Business: 2,472 (previous year: 1,522), and Corporate Services: 694 (previous year: 688).

In 2018, 1,190 new employees joined Sika as a result of acquisitions. Organic growth also added a further 386 employees to the company headcount.

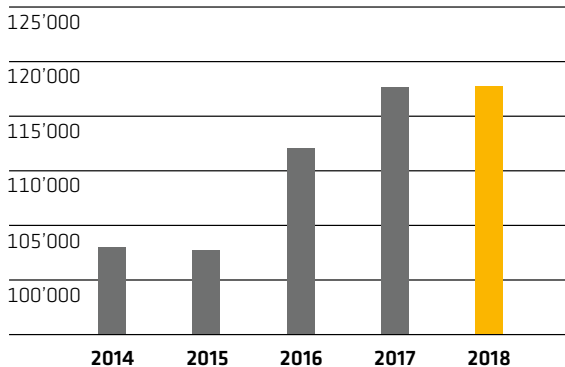
The age structure at Sika is broadly balanced: 15% of employees are under 30 years of age and 25% over 50. Sika wants to offer its staff long-term prospects with the company. Over 95% of employees have permanent employment contracts.

## EMPLOYEES



Together, the workforce generated a net added value of CHF 2,264 million in 2018 (previous year: CHF 2,092 million). This corresponds to net added value per employee of CHF 117,000 (previous year: CHF 117,000).

## NET ADDED VALUE PER EMPLOYEE in CHF



## DIVERSITY

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 of its success, especially at Senior Management level. 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 22.3% of the total headcount (previous year: 22.6%). While Sika is constantly working to increase this percentage, in 2018 this figure was affected by the acquisitions where the percentage of women was 19% lower than Sika's figures. On management level women accounted for 19.4% of managers (previous year: 18.4%).

## INTERESTING PROSPECTS ACROSS THE GLOBE

Sika has a local presence in over 100 countries and its products are available worldwide. The company is growing rapidly, 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 recent years, for instance, some 300 employees were promoted to new positions, and 100% of Sika 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 fluctuation rate of 6.9% (2017: 6.2%). 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

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Sika is growing rapidly and posting record results. As a multinational, the company is still able to act as fast 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 CHF 11.5 million (previous year: CHF 10.7 million) on employee development. The aim is to provide at least ten hours of training per year for each employee. In 2018, this figure stood at 16.8 hours (previous year: 12.9 hours). The focus is on external, as well as in-house training opportunities. In addition, Sika is expanding the e-learning platform, with now more than 320 internal trainings available.

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. The more than 100 courses on offer in the year under review were attended by 1,600 participants. The 29 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.

To promote the development of sales skills within the company, sales and marketing training was expanded to include new courses on negotiating tactics and key project management. Approximately half of all Sika Business School courses are sales-oriented. Furthermore, many training courses on Sika products and their applications take place at local and regional level. The company's expertise in advising customers is thus fostered further.

The range of online courses available also increased significantly. Over 200 new programs were implemented, and more than 2,000 training hours completed online.

## DIGITAL COMMUNICATION PLATFORM

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Driven by the internet, 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.

Sika pressed ahead with the worldwide launch of its state-of-the-art intranet platform SikaWorld, designed to promote the global transfer of knowledge. Every country where Sika is present has access to the platform, and around 60 national subsidiaries publish their own regional content. SikaConnect was also transferred to the cloud, the global tool for worldwide internal collaboration. Thanks to these two digital workplaces, the global transfer of know-how is faster and more straightforward.

In the process of implementing a sophisticated online communication strategy, a social media management tool was introduced and made available to all countries. In 2018, the Sika social media channels numbered around 140,000 followers. LinkedIn remained the most popular channel, with some 89,000 followers.

# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

## COMMITMENT TO OPENNESS AND TRANSPARENCY

Creating transparency is the highest objective of good corporate governance. This provides information on structures and processes, areas of responsibility and decision procedures, as well as rights and obligations of various stakeholders. Reporting at Sika follows the SIX Swiss Exchange guidelines.

### GROUP STRUCTURE AND SHAREHOLDERS

Sika AG, headquartered in Baar, is the only listed company of the Sika Group. Sika AG's shares are listed on SIX Swiss Exchange under Swiss security no. 41879292. Information on Sika AG's market capitalization can be found on page 9 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)). In the year under review, the Sika Group encompassed unlisted subsidiaries in 101 countries. 175 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; Part GmbH in Germany; 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 136 et seqq. of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.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 seven 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 53 to 58 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)).

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 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) Massachusetts Financial Services Company which held 3.03% of all voting rights. A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

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

### CAPITAL STRUCTURE

As of December 31, 2018, 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. One share represents one vote in 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, 2018), 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/group/investors/corporate-governance/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 posted on page 144 et seqq. of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)).

The purchase of Sika registered shares is open to all legal persons and individuals. Nominees, i.e. shareholders who acquire shares in their own name but on the account of third parties, are registered as shareholders without voting rights.

## CONVERTIBLE BONDS

As of December 31, 2018, Sika AG had a convertible bond listed on the SIX Swiss Exchange (security no.: 41'399'024, ISIN: CH0413990240, ticker: SIK185) outstanding with a total outstanding nominal amount of CHF 1,650,000,000.

Principal Amount	Current Conversion Ratio	Current Conversion Price	Maturity Date	Interest
Nominal value of CHF 20'000 each	105.06525 registered shares with a nominal value of CHF 0.01	CHF 190.3579	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 6.11% of the outstanding registered shares as of December 31, 2018. As of December 31, 2018, 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.

Further information on the convertible bond can be found on page 119 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.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
- 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. Upon reaching the age of 70, directors make their mandate available. The Board of Directors may decide on exemptions. Detailed information on individual members of the Board of Directors is listed on page 58 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.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 seven members. 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. None of the members 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 2018, the Board of Directors met fifteen times. The meetings lasted between four and six hours.

## ATTENDANCE OF INDIVIDUAL BOARD MEMBERS

Board Member	Number of meetings attended
Paul Hälgl	15 of 15
Daniel J. Sauter	15 of 15
Frits van Dijk	14 of 15
Monika Ribar	14 of 15
Ulrich W. Suter	14 of 15
Christoph Tobler	14 of 15
Justin M. Howell (as of June 11, 2018)	7 of 15
Jürgen Tinggren (until May 10, 2018)	5 of 15
Willi K. Leimer (until May 10, 2018)	5 of 15
Urs F. Burkard (until May 10, 2018)	5 of 15

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. 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.

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/group/investors/corporate-governance/articles-of-association.html>).



## BOARD COMMITTEES

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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 58 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.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 four times, with all members present at all meetings. More detailed information regarding the competences and activities of the Audit Committee can be found in the 5th chapter of the Organizational Rules of Sika AG and the Sika Group (available at <https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html>).

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 bi-monthly basis, lasting between one and a half and two and a half hours. In the year under review, the Nomination and Compensation Committee held five ordinary meetings, as well as one extraordinary conference call related to the review of the compensation system applicable to Group Management, with all members present at all 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/group/investors/corporate-governance/articles-of-association.html>), the 6th chapter of the Organizational Rules of Sika AG and the Sika Group (available at <https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html>) as well as on page 70 et seqq. of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)).

## INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS GROUP MANAGEMENT

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Within the framework of its nontransferable 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 the Sika Group (available at <https://www.sika.com/en/group/investors/corporate-governance/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 34 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.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

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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 63 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)). During the year under review, José Luis Vázquez, former Regional Manager Latin America, resigned as per the end of February 2018. Latin America and North America were merged into one region Americas as of March 1, 2018, under the leadership of Christoph Ganz. As per April 1, 2018, Thomas Hasler was named Head of Global Business & Industry. The members of Group Management and their functions as per the balance sheet date are listed on pages 54 to 57 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)). Detailed information on their backgrounds and activities can be found on pages 56 and 57 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.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/group/investors/corporate-governance/articles-of-association.html>). Sika had no management contracts with third parties in the year under review.

## REGULATION OF RESPONSIBILITIES

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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 the Sika Group (available at <https://www.sika.com/en/group/investors/corporate-governance/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/group/investors/corporate-governance/articles-of-association.html>).

## COMPENSATION, SHAREHOLDINGS AND LOANS

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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 68 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)).

## SHAREHOLDER PARTICIPATION RIGHTS

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Each shareholder can have his shares be 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 the chapter Capital Structure and art. 7.3 of the Sika Articles of Association (available at <https://www.sika.com/en/group/investors/corporate-governance/articles-of-association.html>).

Information on the legal quora can be found in Article 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. 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/group/investors/corporate-governance/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

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The Articles of Association of Sika AG 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

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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 2018, the auditor participated in three 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 5th chapter of Organizational Rules of Sika AG and the Sika Group (available at <https://www.sika.com/en/group/investors/corporate-governance/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 the 5th chapter of the Organizational Rules of Sika AG and the Sika Group (available at <https://www.sika.com/en/group/investors/corporate-governance/organizational-rules.html>), the Audit Committee reviews any potential conflicts between the audit and non-audit services of the auditor.

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

The budget for the audit fees is proposed by the CFO and approved by the Audit Committee. During the year under review, Ernst & Young AG invoiced in total CHF 6.4 million for its services. Thereof, CHF 5.6 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 0.8 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](http://www.sika.com) as well as media releases regarding important developments (<https://www.sika.com/en/group/Media/Mediareleases.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/group/Media/registration-media-release-en.html>. In addition, Sika maintains a dialog with investors and the media through special events and road shows. Official publications of the company are made in the Swiss Official Gazette of Commerce. In the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.html)), the financial calendar, with important publication dates in 2019, can be found on page 163 and the contact details of the company (address of head office, telephone, e-mail etc.) on page 164.

## SIGNIFICANT CHANGES SINCE BALANCE SHEET DATE

In January 2019, Sika AG has issued a subordinated mandatory convertible note listed on the SIX Swiss Exchange (security no.: 45'929'742, 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	Interest
Nominal value of CHF 200,000 each	Minimum 1,367.5214	Maximum CHF 130.00	30.1.2022	3.75% payable annually on January 30
	Maximum 1,538.4615	Minimum CHF 146.25		

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 7.05% of the outstanding registered shares (based on the minimum conversion price of CHF 130.00). 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.

Additional material changes having occurred between the balance sheet date (December 31, 2018) and the editorial deadline for the Annual Report are referenced on page 135 of the download version of this report (available at [https://www.sika.com/en/group/Publications/annual\\_reports01.html](https://www.sika.com/en/group/Publications/annual_reports01.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 Group Management of Sika. The report also provides details regarding the compensation programs and the payment made to members of the Board of Directors and of Group Management in the 2018 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:

Introduction by the Chairman of the Nomination and Compensation Committee	70
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Architecture of compensation of Group Management	76
Compensation awarded to the Board of Directors in 2018 (audited)	81
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Shareholdings of the members of the Board of Directors and Group Management in 2018	85
Outlook on compensation architecture for 2019	86
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## INTRODUCTION BY THE CHAIRMAN OF THE NOMINATION AND COMPENSATION COMMITTEE

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DEAR SHAREHOLDERS,

In the name of the Board of Directors and the Nomination and Compensation Committee, I am pleased to introduce the 2018 Compensation Report.

2018 has again been a successful year with net sales growth of 13.4% in Swiss francs (13.6% in local currencies), the company reached a double-digit growth. EBIT has been increased by 5.5% despite increasing material cost and one-off cost. The positive development of the business in all regions, together with investments in new factories, the founding of an additional national subsidiary, the market launch of new products and the acquisition activities all contributed to Sika's strong growth. With regard to relative performance, Sika outperformed its peers in terms of sales growth and matched the industry average in terms of 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.

During the reporting 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 the Committee decided to make the following changes, applicable as of business year 2019:

- Board compensation: the board fees, which have been unchanged since 2012, will be adjusted and the proportion paid in blocked shares will be increased.
- Compensation of Group Management:
  - Benchmarking peer group: the peer group for benchmarking levels of compensation has been extended to 18 industrial companies with an international footprint and which are listed on the SIX Swiss Exchange.
  - Performance bonus: the voluntary deferral in blocked shares (including matching shares) will be discontinued.
  - Long-term incentive: the long-term incentive will include relative total shareholder return (TSR) as performance condition, in addition to the return on capital employed (ROCE). Furthermore, the maximum payout potential will be increased from 100% to 150%, in line with our pay-for-performance philosophy and with market practice.
  - Clawback and malus provisions will be added to the performance bonus and long-term incentive plans.

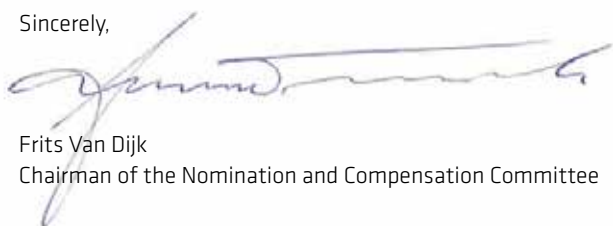
Further details on those changes are provided in this Compensation Report.

In addition, the 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 Group Management, as well as the preparation of the Compensation Report and of the say-on-pay vote at the Annual General Meeting.

At the 2018 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 Group Management with a result of 99.6%, however the compensation amount for the Board of Directors (binding vote) and the Compensation Report (consultative vote) were again rejected, mainly because of the majority voting rights of the former main shareholder. Following the resolution of the dispute with the former main shareholder, an Extraordinary General Meeting was held on June 11, 2018, during which shareholders approved the proposed compensation of the Board of Directors for the terms of office from the Annual General Meeting 2015 to the Annual General Meeting 2019.

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  
Chairman of the Nomination and Compensation Committee

## COMPENSATION GOVERNANCE

### NOMINATION AND COMPENSATION COMMITTEE

In accordance with the Articles of Association and the organizational regulations of Sika AG, the Nomination and Compensation Committee is composed of three members of the Board of Directors that are elected individually by the Annual General Meeting for a period of one year. At the Annual General Meeting 2018, Mr. Frits van Dijk (Chairman), Mr. Urs Burkard and Mr. Daniel Sauter were re-elected members of the Nomination and Compensation Committee. At the Extraordinary General Meeting, Mr. Justin Howell was elected as a new member of the Board of Directors and of the Nomination and Compensation Committee, while Mr. Urs Burkard stepped down.

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.

### LEVELS OF AUTHORITY

	CEO	BoD Chairman	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 Chairman			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 2018, the Nomination and Compensation Committee held five ordinary meetings according to the following predetermined annual agenda, as well as one extraordinary conference call related to the review of the compensation system applicable to Group Management:

	Feb	Apr	Mai	Oct	Dec
<b>Review of overall compensation policy and compensation governance</b>					
Review of overall compensation strategy			■	■	■
Review of external stakeholder feedback on compensation disclosure			■		
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	■				
Approve meeting schedule of NCC	■				
Self-assessment NCC	■				
<b>Compensation of Board of Directors</b>					
Determination of compensation for following compensation period (AGM to AGM)		■			
Benchmark of compensation of the Board of Directors (every 3–4 years)					■
<b>Compensation of Group Management</b>					
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					■
<b>Nomination items</b>					
Review of Board of Directors constitution			■		
Appraisal and management development plan for members of Group Management			■	■	
Succession planning for Group Management positions				■	

In 2018, all members attended all Committee meetings (Mr. Urs Burkard attended the Committee meetings until the Extraordinary General Meeting in June and Mr. Justin Howell attended the Committee meetings thereafter). The meetings' duration extended from one and a half to three hours.

The Chairman 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 Chairman 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 2018, Agnès Blust Consulting continued to provide services related to executive compensation matters. In addition, Willis Towers Watson was mandated to conduct a benchmarking analysis of the compensation levels of Group Management. These companies do 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 in 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/group/investors/corporate-governance/articles-of-association.html> for the full version of the articles of association):

- 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 possibly partially in shares (share purchase plan) 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) does not exceed 300% of the fixed compensation. For the other members of Group Management in total, the variable compensation will not exceed 200% of the fixed compensation.
- BINDING VOTE BY THE ANNUAL GENERAL MEETING (Article 11.2): The Annual General Meeting annually approves the total fixed compensation amount for the Board of Directors for the period until the next ordinary Annual General Meeting and the maximum total fixed and variable compensation amount for Group Management for the next business year.
- ADDITIONAL AMOUNT FOR NEW MEMBERS OF GROUP MANAGEMENT (Article 11.7): The total additional compensation for each new member of Group Management may not exceed the average total compensation of Group Management in the previous business year by more than 200%, or 400% for a new CEO. Proven disadvantages from a change of position may be compensated within this additional amount.
- CREDIT FACILITIES, LOANS, AND POST-EMPLOYMENT BENEFITS (Article 12): The company does not offer any loans, credit facilities, guarantees, or other securities to members of the Board of Directors and Group Management. Pension benefits are offered only in accordance with the occupational pension plans, which are specified in the respective regulations.

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

## METHOD FOR DETERMINING COMPENSATION

### PERIODIC BENCHMARKING

The compensation of the Board of Directors is regularly reviewed against prevalent market practice of other multinational industrial companies. In 2018, a thorough review was conducted to determine the competitiveness of the Board compensation in terms of structure and quantum. For this purpose, a peer group of Swiss multinational companies of the industry sector listed on the SIX Swiss Exchange were 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 the compensation system is broadly in line with prevalent market practice, however compensation levels are slightly below market. Consequently, the decision was made to increase the overall fee levels of the Board of Directors and to deliver a higher portion of compensation 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 analysis was performed in 2018, again on the basis of the same peer group of companies as for the review of compensation of the Board of Directors, excluding EMS Chemie (no data available). Willis Towers Watson gathered 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. Sika's policy is to target market median compensation for solid performance and to provide for compensation above the median in case of strong performance.

### PEER GROUP FOR BENCHMARKING PURPOSES

In CHF thousands	Market capitalization (12/31/2017)	Revenue (12/31/2017)	Headcount (12/31/2017)
Sika	20,941	6,248	18,484
1st quartile	11,859	3,803	11,387
Median	18,709	6,594	19,231
3rd quartile	23,183	14,366	64,412

## PERFORMANCE MANAGEMENT

The actual compensation paid to the individual members of Group Management in a given year depends on the company's and on the 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 Chairman 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 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.

**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
- ⊕ 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 annual compensation only, consisting of a retainer for services to the Board and an additional fee for assignments to committees of the Board. The retainer is paid partially in cash and partially in blocked shares, while the committee fees are paid in cash. The shares are blocked from trading for a period of four 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. 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
<b>Retainer (gross p.a.)</b>		
Chairman of the Board of Directors	individually determined	individually determined
Members of the Board of Directors	150,000	50,000*
<b>Committee fees (gross p.a.)</b>		
Committee Chairman	50,000	
Committee members	30,000	

\* 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.

The compensation of the Chairman of the Board of Directors is defined individually, based on the person's skills and experience, and includes the following components: an annual retainer, paid partially in cash (monthly) and partially in shares (after the Annual General Meeting for the previous year of office), and a representation allowance paid in cash (monthly). The Chairman of the Board of Directors 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
<b>Annual base salary</b>	Monthly cash salary	Attract and retain	Position, market practice, skills, and experience	
<b>Performance bonus (STI)</b>	Annual bonus in cash and restricted shares	Pay for performance	Annual performance	Group EBIT Group net sales Individual goals
<b>Long-term incentive (LTI)</b>	PSU with a 3-year performance vesting	Reward long-term performance Align to shareholders	Business performance over 3 years	Return on capital employed
<b>Benefits</b>	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 affordability, 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 ("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 expressed as a percentage of base salary and amounts to 100% for the CEO and ranges from 44% to 73% 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 performance are proposed by the Nomination and Compensation Committee and approved by the Board of Directors. For 2018, 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 amongst 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)

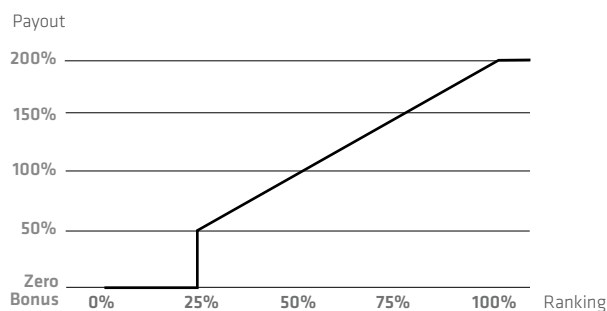
3M – Industrial & Transportations	EMS Chemie Holding AG	Owens Corning
Armstrong World Industries Inc.	Forbo – Flooring Systems	Pidilite Industries Limited
Ashland – Performance Materials	Fuller HB Company	RPM
BASF – Construction Chemicals	Geberit	Saint-Gobain – Construction Products
Beacon Roofing Supply,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

There was no change in the peer group in 2018.

The intention is to reward 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



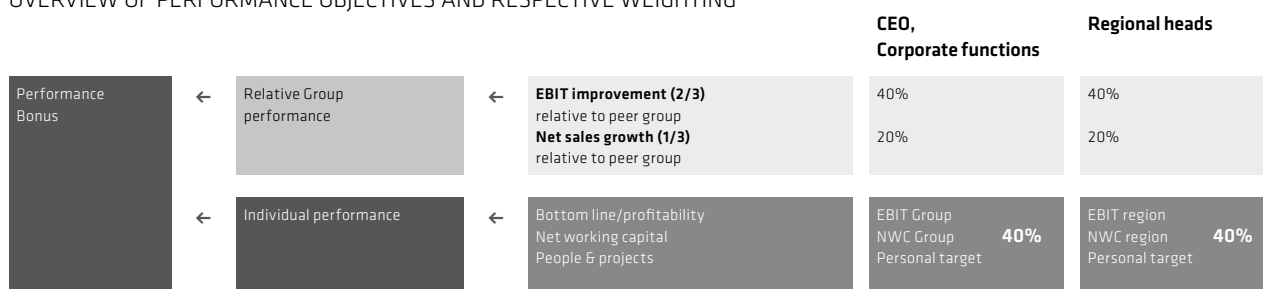
#### INDIVIDUAL PERFORMANCE

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 target expressed as an improvement versus previous year);
- return on invested capital: net working capital of the business under responsibility (NWC target expressed as an improvement versus previous year);
- people and projects management: includes strategic objectives, such as for example entry into new markets, introduction of new products, improvement of processes and operational efficiency, and leadership objectives.

At the end of the financial year, the actual achievement is compared with the targets that were set at the beginning of the year. The level of achievement for each objective corresponds to a payout percentage for that target, which is always between 0% and 200%. The overall bonus payout under the short-term incentive is capped and cannot exceed 150% of the performance bonus target. The bonus is paid out in April of the following year.

## OVERVIEW OF PERFORMANCE OBJECTIVES AND RESPECTIVE WEIGHTING



### SIKA SHARE PURCHASE PLAN

Under the Sika Share Purchase Plan (SSPP), the members of Group Management may convert part of the performance bonus into Sika shares that are subject to a blocking period of four years. The objective of this program is to encourage members of Group Management to directly participate in the long-term success of the company and to strengthen the link between their compensation and company performance, as the portion of the bonus invested in shares is exposed to the change in share value during the four-year blocking period. In return, Sika provides one matching share for every five shares purchased under the SSPP. The SSPP allows participants to defer either 0%, 20% or 40% of the bonus in shares. The shares are allocated at their fair market value, shortly after the Annual General Meeting in the month of April of the following year. Fair market value is defined as the average closing share price during the five first trading days of the month of April of the payout year. The calculation of the share grant is made as follows:

#### CALCULATION OF THE NUMBER OF SHARES GRANTED

$$\begin{array}{|c|} \hline \text{Deferred percentage} \\ \text{of bonus} \\ \text{(0\%, 20\% or 40\%)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Bonus amount} \\ \hline \end{array} \times \begin{array}{|c|} \hline 1.2 \text{ (matching share one} \\ \text{for five)} \\ \hline \end{array} : \begin{array}{|c|} \hline \text{Average closing share} \\ \text{price of five first trading} \\ \text{days in April} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Number of shares} \\ \text{granted} \\ \hline \end{array}$$

In case of a change of control or liquidation or of termination of employment due to retirement, death or disability, the blocking period of the shares lapses. The shares remain blocked in all other instances.

### LONG-TERM INCENTIVE

Sika's compensation policy is 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 equity incentive. The long-term incentive target amounts to 104% of annual base salary for the CEO, and ranges from 42% to 74% for the other members of Group Management.

The long-term incentive plan is a performance share unit plan. At the beginning of the vesting period, a number of Performance Share Units (PSU) is granted to each member of Group Management. The PSU vest after a period of three years, conditionally upon fulfilling a performance condition, the return on capital employed (ROCE). The ROCE target 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.

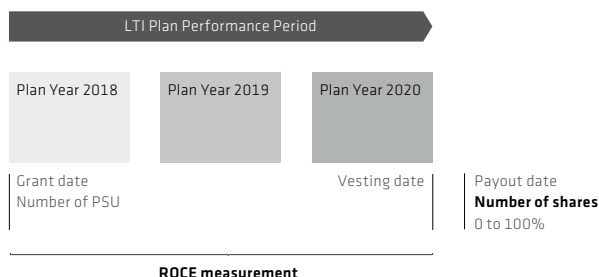
The final share allocation is determined after the three-year performance period, based on the following vesting rules:

- ROCE at or above target: 100% of the PSU vest into shares
- ROCE at threshold level: 50% of the PSU vest into shares and 50% of the PSU forfeit
- ROCE between threshold and target levels: linear interpolation
- ROCE below the threshold level: 0% of PSU vest into shares (100% forfeiture).

There is no overachievement in the long-term incentive, meaning the maximum payout is 100%.

For the grant made in 2018 (performance period 2018–2020), the ROCE target was set at 30%, excluding acquisitions, and the threshold was set at 25%. 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 an 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 75%. In case of termination for any other cause, such as resignation or involuntary termination, the unvested PSU forfeit.

## SHAREHOLDING 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 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 is, as 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 contract. 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 2018

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

At the Extraordinary General Meeting of June 11, 2018, shareholders approved the compensation to be paid to the Board of Directors for the compensation periods from the 2015 Annual General Meeting until the 2019 Annual General Meeting. The compensation for the periods between the 2015 Annual General Meeting and the 2018 Annual General Meeting has been paid out in 2018 and had already been disclosed in the compensation reports of the respective years 2015, 2016, and 2017.

In 2018, members of the Board of Directors received a total compensation of CHF 2.6 million (2017: CHF 2.8 million) in the form of a retainer of CHF 1.5 million (2017: CHF 1.7 million), committee fees of CHF 0.2 million (2017: CHF 0.2 million), social security contributions of CHF 0.2 million (2017: CHF 0.2 million), and shares of CHF 0.7 million (2017: CHF 0.7 million). The decrease in compensation compared to the previous year is due to the fact that three members of the Board of Directors stepped down with immediate effect at the Extraordinary General Meeting of June 11, 2018 and were replaced by one new member of the Board of Directors.

in CHF	Retainer (cash) <sup>1</sup>	Commit- tee fees (cash)	Value of shares <sup>2</sup>	Social security	<b>Total 2018</b>	Retainer (cash) <sup>1</sup>	Commit- tee fees (cash)	Value of shares <sup>2</sup>	Social security	<b>Total 2017</b>
Paul Hälgi, Chairman	510,000	0	302,970	58,117	<b>871,087</b>	510,000	0	303,409	60,067	<b>873,476</b>
Urs F. Burkard, NCC Member	62,500	12,500	22,530	7,271	<b>104,801</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Justin M. Howell, NCC Member	87,500	27,500	30,135	0	<b>145,135</b>	0	0	0	0	<b>0</b>
Willi K. Leimer, AC Member	62,500	12,500	22,530	7,271	<b>104,801</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Monika Ribar, AC Chairwoman	150,000	50,000	52,665	18,817	<b>271,482</b>	150,000	50,000	53,055	19,212	<b>272,267</b>
Christoph Tobler, AC Member	150,000	30,000	52,665	17,345	<b>250,010</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Daniel J. Sauter, NCC Member	150,000	30,000	52,665	17,345	<b>250,010</b>	150,000	30,000	53,055	17,759	<b>250,814</b>
Ulrich W. Suter	150,000	0	52,665	13,551	<b>216,216</b>	150,000	0	53,055	12,570	<b>215,625</b>
Jürgen Tinggren	62,500	0	22,530	6,350	<b>91,380</b>	150,000	0	53,055	15,580	<b>218,635</b>
Frits van Dijk, NCC Chairman	150,000	50,000	52,665	16,963	<b>269,628</b>	150,000	50,000	53,055	15,973	<b>269,028</b>
<b>TOTAL</b>	<b>1,535,000</b>	<b>212,500</b>	<b>664,020</b>	<b>163,030</b>	<b>2,574,550</b>	<b>1,710,000</b>	<b>220,000</b>	<b>727,849</b>	<b>194,438</b>	<b>2,852,287</b>

1) Includes the representation allowance for the Chairman of the Board of Directors.

2) 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.

The compensation disclosed in the compensation reports 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. The amounts for the retainer in cash, the committee fees and the allocation of blocked shares have remained unchanged since 2012.

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 effectively paid for the portion of this term of office included in this Compensation Report (May 1, 2018, until December 31, 2018) is within the limit approved by the shareholders. A conclusive assessment for the entire period will be included in the Compensation Report 2019.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,900,000 for the Board of Directors for the term of office from the 2017 Annual General Meeting until the 2018 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,864,340 and is therefore within the approved limits.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,870,000 for the Board of Directors for the term of office from the 2016 Annual General Meeting until the 2017 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,823,755 and is therefore within the approved limits.

At the Extraordinary General Meeting of June 11, 2018, shareholders approved an aggregate maximum compensation amount of CHF 2,870,000 for the Board of Directors for the term of office from the 2015 Annual General Meeting until the 2016 Annual General Meeting. The compensation paid to the Board of Directors for this term was CHF 2,849,185 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, 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 2018

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

In 2018, the members of Group Management received a total compensation of CHF 16.5 million (2017: CHF 18.7 million). This amount comprises fixed salaries of CHF 4.9 million (2017: CHF 5.5 million), short-term bonus of CHF 4.3 million (2017: CHF 5.1 million), long-term incentives of CHF 3.9 million (2017: CHF 4.1 million), other expenses of CHF 1.5 million (2017: 1.6 million) and contributions to social security and post-employment benefits of CHF 1.9 million (2017: CHF 2.4 million).

The highest paid individual in 2018 was Paul Schuler, Group CEO.

In CHF thousands	CEO 2018	CEO 2017	Total 2018 <sup>1</sup>	Total 2017 <sup>2</sup>
Fixed base salary <sup>3</sup>	960	790	4,914	5,469
Performance bonus (STI) cash <sup>4</sup>	710	601	2,987	3,865
Performance bonus (STI) shares <sup>4</sup>	568	476	1,279	1,263
Long-term incentive (LTI) <sup>5</sup>	1,004	1,009	3,858	4,103
Other payments <sup>6</sup>	115	44	1,507	1,610
Social security and pension contributions <sup>7</sup>	513	451	1,928	2,354
<b>TOTAL</b>	<b>3,870</b>	<b>3,371</b>	<b>16,473</b>	<b>18,664</b>

1) Includes nine members of Group Management on a full-year basis.

2) Includes eleven members, six of whom served during the full year 2017.

3) Includes annual base salary and children/family allowances. All compensation amounts are gross payments.

4) Estimated performance bonus (STI) for the reporting year that will be paid in April of the following year, split between immediate cash and deferred shares (including matching shares). Allocation at fair market value.

5) Grant value of the LTI in the reporting year (for newly promoted members, includes pro-rata participation in previous LTI that were still in the vesting period).

6) 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.

7) Includes social security contributions, as well as contributions to company provided pension plans, including the service cost to the pre-retirement plan.

Explanatory comments to the compensation table:

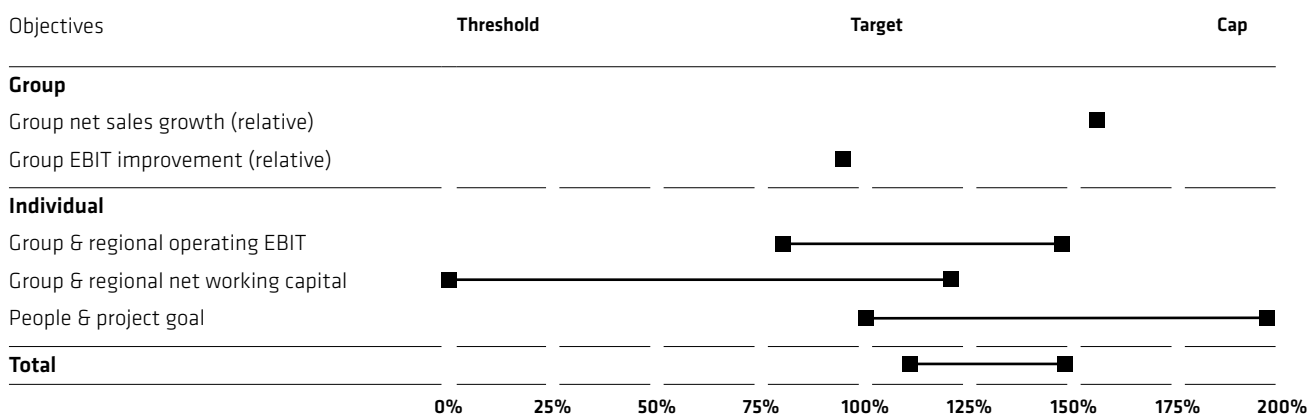
- The fixed compensation has decreased by 10% compared to the previous year. This is mainly due to the different composition of Group Management (nine members during the full year in 2018, versus eleven members in 2017, from which six were employed during the entire year). For the CEO, the fixed remuneration increased by 22% compared to previous year due to the full-year CEO position in 2018, while he was CEO for the half year in previous year (head of EMEA the other half year).
- The “other” payments have decreased by 6% in line with the above.
- The social security and pension contributions have decreased by 18% in line with the overall decrease in compensation mentioned above.
- The performance achievement under the performance bonus was lower in 2018 than in 2017. Further details are provided below.
- The grant value of the long-term incentive has decreased compared to the previous year by 6% in line with the above.

The total amount of compensation of CHF 16.5 million awarded to Group Management in 2018 is below the maximum aggregate amount of compensation of CHF 19 million approved by the shareholders at the 2017 Annual General Meeting for business year 2018.

### PERFORMANCE IN 2018 (NOT AUDITED)

The business year 2018 has been a strong year for Sika, with a 13.4% revenue growth (in local currencies 13.6%) and 5.5% profitability increase (earnings before interest and tax). In the performance bonus, Sika has outperformed the peer companies in terms of net sales growth (ranked 6th, payout of 157.5%) and matched the industry average in terms of EBIT improvement year on year (ranked 12th, payout of 99.4%). The group performance achievement is estimated at 119% (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 2019. This compares to a strong year 2017, where Sika outperformed its peers (6th rank on net sales growth and 7th rank on EBIT improvement), with a pay-out of 148.5%.

Individual performance, which is mainly measured by EBIT and net working capital improvement versus previous year, at Group and regional level, ranges from 105% to 200% for members of Group Management and amounts to 130% for the CEO. Consequently, the overall bonus payout percentage ranges from 111% to 150% (cap) for Group Management and amounts to 123% for the CEO. This compares to a payout range of 103% to 168% for Group Management and to a payout of 118% for the CEO in 2017 (average of target achievement as CEO and as Head EMEA).



In the Long-Term Incentive that has been granted in 2018 (LTI 2018–2020), 22,620 performance share units have been granted to the members of Group Management. Those PSU had an overall grant value of CHF 2.8 million and will vest on December 31, 2020, based on the average ROCE performance during 2018–2020 and upon the continuous employment of the participant.

In the long-term incentive that vested in 2018 (LTI 2016–2018), the performance condition of 28% average ROCE over the vesting period has been overachieved: The average three-year ROCE, excluding acquisitions, amounts to 30.6%, leading to a payout of 100% (cap). Therefore, the 24,000 units granted to the current members of Group Management (including the new CEO) have vested with a vesting value of CHF 3 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 (2016–2018).

OVERVIEW OF THE OUTSTANDING PSU GRANTS (INCLUDES MEMBERS OF GROUP MANAGEMENT AS OF DECEMBER 31, 2018)

Plan		Grant date (PSU)*	Performance period	Vesting date (PSU)	Number of PSU granted**	Total value at grant (CHF)	Vesting level in % of grant	Number of shares (vesting)	Total value at vesting (CHF)
LTI 2016	Group Mgt. (incl. CEO)	01.01.2016	2016–2018	31.12.2018	24,000	1,648,918	100%	24,000	2,999,400
	CEO	01.01.2016	2016–2018	31.12.2018	8,460	596,704	100%	8,460	1,054,116
LTI 2017	Group Mgt. (incl. CEO)	01.01.2017	2017–2019	31.12.2019	23,520	2,226,721	To be determined	To be determined	To be determined
	CEO	01.01.2017	2017–2019	31.12.2019	8,460	842,838	To be determined	To be determined	To be determined
LTI 2018	Group Mgt. (incl. CEO)	01.01.2018	2018–2020	31.12.2020	22,620	2,845,973	To be determined	To be determined	To be determined
	CEO	01.01.2018	2018–2020	31.12.2020	7,980	1,004,017	To be determined	To be determined	To be determined

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

\*\* 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.

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 2018

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At the end of 2018, members of the Board of Directors held a total of 206,240 bearer shares of Sika AG (2017: 197,520). At the end of 2018, members of Group Management held a total of 160,680 bearer shares of Sika AG (2017: 178,920). This figure includes both privately acquired shares and those allocated under the Group's compensation schemes.

At the end of 2018, 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 157 of the download version of this report).

### **EQUITY OVERHANG AND DILUTION AS OF DECEMBER 31, 2018**

In total as of December 31, 2018, 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 534,690 units, 0.38%.

The company's "burn rate," defined as the number of equities (shares and share units) granted in 2018 (165,060 units) divided by the total number of common shares outstanding is 0.12%.

## OUTLOOK ON COMPENSATION ARCHITECTURE FOR 2019

### COMPENSATION OF THE BOARD OF DIRECTORS

Considering that the compensation of the Board of Directors has remained unchanged since 2012, the decision was made to conduct a benchmark analysis and to align compensation structure and levels to evolving market practice. Consequently, the compensation of the Board of Directors will be adjusted as follows, effective for the compensation period starting at the 2019 Annual General Meeting:

#### STRUCTURE OF BOARD COMPENSATION

in CHF	in cash	in shares
<b>Retainer (gross p.a.)</b>		
Chairman of the Board of Directors	450,000 + 30,000 allowances (currently 480,000 + 30,000)	450,000* (currently 300,000)
Members of the Board of Directors	125,000 (currently 150,000)	125,000* (currently 50,000)
<b>Committee fees (gross p.a.)</b>		
Committee Chairman	60,000 (currently 50,000)	
Committee members	40,000 (currently 30,000)	

\* Converted into shares based on 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.

The shares will be subject to a three-year blocking period (currently a four-year blocking period).

### COMPENSATION OF GROUP MANAGEMENT

Following the thorough review of the compensation system applicable to Group Management, the Nomination and Compensation Committee proposed several changes that were approved by the Board of Directors and that will be implemented as of business year 2019.

#### Performance bonus

The performance bonus will be fully paid out in cash. The voluntary deferral plan that allowed members of Group Management to invest either 20% or 40% of the performance bonus in blocked shares and to receive free matching shares, will be discontinued. This decision was made with the intention to simplify the overall compensation structure for members of Group Management with a clear distinction between short-term cash compensation (base salary and performance bonus) and long-term equity compensation (long-term incentive).

The performance measurement will continue to be based on relative Group performance (Obermatt benchmark) accounting for 60%, and on individual performance accounting for 40% of the total bonus opportunity. Individual performance will continue to include profitability (EBIT target of unit under responsibility) and individual objectives (People & Projects). The net working capital target will be applied selectively only considering that the company overall and all regions made substantial progress on working capital management over the last several years.

#### Long-term incentive

The long-term incentive plan has been enhanced with the introduction of relative total shareholder return (TSR) as a performance condition. Therefore, the vesting of the performance share units will be subject to the relative TSR performance with a weight of 50% and to the ROCE performance with a weight of 50%. ROCE will be measured as it was in the past (average of the three years of the vesting period). Relative TSR will be measured in relation to the peer group, following the same methodology as in the performance bonus, which means that the same peer group and the same payout curve will apply. For both performance conditions, the maximum achievement level will be capped at 200%, however the overall vesting level for the plan will be capped at 150% (currently: 100%). This is in line with the pay-for-performance philosophy of the company and prevalent market practice.

The relative TSR measure has been introduced to further strengthen the link between the compensation of Group Management and the interests of shareholders.

**Clawback and malus provisions**

Clawback and malus provisions are introduced in 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 forfeit (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.

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

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### **REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT**

We have audited pages 81 to 83 of the Compensation Report of Sika AG for the year ended December 31, 2018.

#### 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, 2018, of Sika AG complies with Swiss law and articles 14–16 of the Ordinance.

Zurich, 20 February, 2019

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	%	2017	%	2018	Change in %
<b>Net sales</b>	1, 2	<b>100.0</b>	<b>6,248.3</b>	<b>100.0</b>	<b>7,085.4</b>	<b>13.4</b>
Material expenses	3	-45.6	-2,849.2	-47.0	-3,333.7	
<b>Gross result</b>		<b>54.4</b>	<b>3,399.1</b>	<b>53.0</b>	<b>3,751.7</b>	<b>10.4</b>
Personnel expenses	4	-19.4	-1,212.1	-19.0	-1,345.4	
Other operating expenses	5	-17.9	-1,118.5	-17.7	-1,256.4	
<b>Operating profit before depreciation</b>		<b>17.1</b>	<b>1,068.5</b>	<b>16.3</b>	<b>1,149.9</b>	<b>7.6</b>
Depreciation and amortization expenses	2, 15, 16	-2.8	-172.2	-2.9	-204.0	
<b>Operating profit</b>	2	<b>14.3</b>	<b>896.3</b>	<b>13.4</b>	<b>945.9</b>	<b>5.5</b>
Interest income	7	0.0	1.9	0.0	1.9	
Interest expenses	6	-0.3	-18.3	-0.4	-26.1	
Other financial income	7	0.2	5.9	0.1	5.8	
Other financial expenses	6	-0.4	-24.0	-0.5	-35.2	
Income from associated companies	7	0.0	0.3	0.0	0.6	
<b>Profit before taxes</b>		<b>13.8</b>	<b>862.1</b>	<b>12.6</b>	<b>892.9</b>	<b>3.6</b>
Income taxes	8	-3.4	-213.1	-2.9	-205.8	
<b>Net profit</b>		<b>10.4</b>	<b>649.0</b>	<b>9.7</b>	<b>687.1</b>	<b>5.9</b>
Profit attributable to Sika shareholders		10.3	643.5	9.6	682.9	
Profit attributable to non-controlling interests	24	0.1	5.5	0.1	4.2	
Undiluted earnings per share (in CHF) <sup>1</sup>	9		4.23		4.69	10.9
Diluted earnings per share (in CHF) <sup>1, 2</sup>	9		4.23		4.58	8.3

1 Due to the share split, the earnings per share as of December 31, 2017, were adjusted for comparability. Our calculation took this into account with 1/60 of the earnings per share as of December 31, 2017. For details see note 24.

2 Dilutive effect due to the convertible bond issued (see note 20).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF mn	Notes	%	2017	%	2018	Change in %
<b>Net profit</b>		<b>10.4</b>	<b>649.0</b>	<b>9.7</b>	<b>687.1</b>	<b>5.9</b>
Actuarial gains (+)/losses (-) on employee benefit obligations	22	1.0	63.9	-0.4	-30.0	
Income tax effect	8	-0.2	-11.6	0.1	5.3	
<b>Items that will not be reclassified to profit or loss</b>		<b>0.8</b>	<b>52.3</b>	<b>-0.3</b>	<b>-24.7</b>	
Exchange differences taken to equity		0.1	5.8	-1.1	-76.6	
<b>Items that may be reclassified subsequently to profit or loss</b>		<b>0.1</b>	<b>5.8</b>	<b>-1.1</b>	<b>-76.6</b>	
<b>Other comprehensive income</b>		<b>0.9</b>	<b>58.1</b>	<b>-1.4</b>	<b>-101.3</b>	
<b>Comprehensive income</b>		<b>11.3</b>	<b>707.1</b>	<b>8.3</b>	<b>585.8</b>	<b>-17.2</b>
Attributable to Sika shareholders		11.2	702.1	8.2	581.4	
Attributable to non-controlling interests	24	0.1	5.0	0.1	4.4	

## CONSOLIDATED BALANCE SHEET

in CHF mn	Notes	12/31/2017	12/31/2018
Cash and cash equivalents	10, 26	1,037.9	914.0
Accounts receivable	11, 26	1,188.8	1,322.9
Inventories	12	729.5	800.7
Prepaid expenses and accrued income	13	116.2	112.0
Other assets	14, 26	12.7	27.1
<b>Current assets</b>		<b>3,085.1</b>	<b>3,176.7</b>
Property, plant, and equipment	15	1,065.2	1,214.2
Intangible assets	16	1,317.1	1,693.9
Investments in associated companies	17	6.2	6.2
Deferred tax assets	8	228.1	223.0
Other assets	14, 22, 26	94.1	68.2
<b>Non-current assets</b>		<b>2,710.7</b>	<b>3,205.5</b>
<b>ASSETS</b>		<b>5,795.8</b>	<b>6,382.2</b>
Accounts payable	18, 26	730.9	733.8
Accrued expenses and deferred income	19	253.4	265.5
Financial liabilities	20, 26	202.3	237.5
Income tax liabilities		147.0	147.9
Provisions	21	20.0	22.1
<b>Current liabilities</b>		<b>1,353.6</b>	<b>1,406.8</b>
Financial liabilities	20, 26	553.3	2,795.0
Provisions	21	56.4	48.1
Deferred tax liabilities	8	129.3	154.0
Employee benefit obligations	22	260.0	268.7
Other liabilities	23	32.1	34.2
<b>Non-current liabilities</b>		<b>1,031.1</b>	<b>3,300.0</b>
<b>LIABILITIES</b>		<b>2,384.7</b>	<b>4,706.8</b>
Capital stock		1.5	1.4
Treasury shares		-6.6	-11.1
Reserves		3,389.8	1,655.6
<b>Equity attributable to Sika shareholders</b>		<b>3,384.7</b>	<b>1,645.9</b>
Non-controlling interests		26.4	29.5
<b>SHAREHOLDERS' EQUITY</b>	24	<b>3,411.1</b>	<b>1,675.4</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>5,795.8</b>	<b>6,382.2</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock	Capital surplus	Treasury shares	Currency translation differences	Retained earnings	Equity attributable to Sika shareholders	Non-controlling interests	Total equity
in CHF mn								
<b>January 1, 2017</b>	<b>1.5</b>	<b>203.1</b>	<b>-11.0</b>	<b>-543.7</b>	<b>3,274.4</b>	<b>2,924.3</b>	<b>23.4</b>	<b>2,947.7</b>
Net profit					643.5	643.5	5.5	649.0
Other comprehensive income				6.3	52.3	58.6	-0.5	58.1
<b>Comprehensive income</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>6.3</b>	<b>695.8</b>	<b>702.1</b>	<b>5.0</b>	<b>707.1</b>
Transactions with treasury shares <sup>1</sup>			4.4		-8.7	-4.3		-4.3
Share-based payments					5.4	5.4		5.4
Dividends <sup>2</sup>					-243.7	-243.7	-2.0	-245.7
Inflation adjustment <sup>4</sup>					0.9	0.9		0.9
<b>December 31, 2017</b>	<b>1.5</b>	<b>203.1</b>	<b>-6.6</b>	<b>-537.4</b>	<b>3,724.1</b>	<b>3,384.7</b>	<b>26.4</b>	<b>3,411.1</b>
<b>January 1, 2018</b>	<b>1.5</b>	<b>203.1</b>	<b>-6.6</b>	<b>-537.4</b>	<b>3,724.1</b>	<b>3,384.7</b>	<b>26.4</b>	<b>3,411.1</b>
Net profit					682.9	682.9	4.2	687.1
Other comprehensive income				-76.8	-24.7	-101.5	0.2	-101.3
<b>Comprehensive income</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-76.8</b>	<b>658.2</b>	<b>581.4</b>	<b>4.4</b>	<b>585.8</b>
Transactions with treasury shares <sup>1</sup>			-2,087.4		-12.2	-2,099.6		-2,099.6
Destruction of treasury shares <sup>6</sup>	-0.1		2,082.9		-2,082.8	0.0		0.0
Share-based payments					12.6	12.6		12.6
Dividends <sup>3</sup>					-281.8	-281.8	-1.3	-283.1
Issue of convertible bond <sup>5</sup>					40.7	40.7		40.7
Inflation adjustment <sup>4</sup>					7.9	7.9		7.9
<b>December 31, 2018</b>	<b>1.4</b>	<b>203.1</b>	<b>-11.1</b>	<b>-614.2</b>	<b>2,066.7</b>	<b>1,645.9</b>	<b>29.5</b>	<b>1,675.4</b>

1 Including income tax of CHF 0.1 million (CHF 0.4 million) in retained earnings.

2 Dividend per bearer share: CHF 96.00, dividend per registered share: CHF 16.00. The share split (see note 24) results in a theoretical dividend of CHF 1.60 per registered share (par value CHF 0.01).

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

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

6 Details of the transaction can be found in the information on significant shareholders.

## CONSOLIDATED STATEMENT OF CASH FLOWS

in CHF mn	Notes	2017	2018
<b>Operating activities</b>			
Profit before taxes		862.1	892.9
Depreciation and amortization expenses	15, 16	172.2	204.0
Increase (+)/decrease (-) in provisions/ employee benefit obligations and assets		-9.6	-2.2
Increase (-)/decrease (+) in net working capital		-86.5	-161.6
Non-liquidity-related other financial expenses (+)/income (-) as well as cash flow from hedging transactions		-38.2	35.6
Other adjustments	25	5.9	6.9
Income taxes paid		-254.0	-231.6
<b>Cash flow from operating activities</b>		<b>651.9</b>	<b>744.0</b>
<b>Investing activities</b>			
Property, plant, and equipment: capital expenditures	15	-158.5	-233.4
Property, plant, and equipment: disposals	15, 25	8.3	7.8
Intangible assets: capital expenditures	16	-4.9	-5.2
Acquisitions less cash and cash equivalents		-320.4	-471.2
Acquisitions (-)/disposals (+) of financial assets		-2.7	-3.2
<b>Cash flow from investing activities</b>		<b>-478.2</b>	<b>-705.2</b>
<b>Financing activities</b>			
Increase in financial liabilities	20	17.0	2,106.7
Repayment of financial liabilities	20	-55.4	-2,206.3
Repayment of a bond	20	0.0	-150.0
Issue of bonds	20	0.0	852.4
Issue of a convertible bond	20	0.0	1,630.6
Purchase of treasury shares		-31.4	-2,162.2
Sale of treasury shares		26.3	62.3
Dividend payment to shareholders of Sika AG		-243.7	-281.8
Dividends related to non-controlling interests		-2.0	-1.3
<b>Cash flow from financing activities</b>		<b>-289.2</b>	<b>-149.6</b>
<b>Exchange differences on cash and cash equivalents</b>		<b>-1.6</b>	<b>-13.1</b>
<b>Net change in cash and cash equivalents</b>		<b>-117.1</b>	<b>-123.9</b>
Cash and cash equivalents at the beginning of the year	10	1,155.0	1,037.9
Cash and cash equivalents at the end of the year	10	1,037.9	914.0
<b>Cash flow from operating activities contains:</b>			
Dividends from associated companies		0.5	0.5
Interest received		1.8	2.0
Interest paid		-14.4	-14.9

# 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, 2018, 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 99 of the download version 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, 2018. The application of these standards does not have any material impact on the consolidated financial statements of the Group.

##### - IFRS 9 – Financial instruments

The new standard replaces the provisions of IAS 39 that relate to the recognition, classification, and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets, and hedge accounting. The new provisions did not result in reclassifications in Sika's classification of financial instruments, but the valuation methodology for financial assets has been adjusted. From January 1, 2018, Sika assesses the expected losses on financial assets incorporating forward-looking information. Sika applies the simplified approach to accounts receivable. The valuation allowance is recognized upon initial recognition and at each subsequent reporting periods for the expected credit losses over the entire lifetime. The probability of default is based on empirical values, supplemented with currently observable data. The application of this revised impairment policy did not lead to a material change in the allowance. Accordingly, there is no adjustment to the previous year's figures or the opening balances due to the first-time application.

##### - IFRS 15 – Revenue from contracts with customers

Entities need to apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Sika's customer contracts primarily include the delivery of goods with no separate performance obligations. The first-time application of IFRS 15 did not result in any adjustment of the previous year's figures or the opening balances.

##### - Amendments to IFRS 2 – Share based payments' classification and measurement of share-based payment transactions

##### - Amendments to IAS 7, IFRS 9 and IAS 39 – Hedge accounting

##### - IFRIC 22 – Foreign currency transactions and advance consideration

##### - Annual improvements (2014–2016 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 2019 and later, and have not been applied in preparing these consolidated financial statements. If they had been applied in 2018 they would have had no significant effect on the consolidated financial statements of the Group, except for IFRS 16:

- IFRIC 23 – Uncertainty over Income Tax Treatments (applicable as of January 1, 2019)

- IFRS 16 – Leases (applicable as of January 1, 2019):

The new leases standard will substantially change the financial statements. The differentiation between finance and operating lease arrangements which was required until now under IAS 17 is dropped in future for the lessee. The standard provides a single lessee accounting model, requiring lessees to recognize liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. In addition, a right to use the underlying asset needs to be recognized and depreciated over the term of the lease agreement.

The non-cancellable operating lease obligations of CHF 318.8 million (see note 15) have the following expected impact on the consolidated balance sheet according to IFRS 16:

- CHF 262.5 million of expected lease obligations under IFRS 16. The reduction is mainly due to short-term lease obligations and the discounting effect.

- The expected right of use assets according to IFRS 16 amount to CHF 254.9 million. The already recognized depreciation on the right of use assets results in a lower asset value compared to the leasing obligation.

In the income statement, there will be shifts between other operating expenses and depreciation, as the majority of lease and rental payments will be eliminated in operating expenses, while depreciation will increase. The interest component of the lease liability of around CHF 10.5 million will be part of the interest expense, resulting in an operating profit increase in the same amount. The operating cash flow will increase and the financing cash flow will decrease, as the repayment of the leasing obligation will be classified as cash flow from financing activities. The Group's activities as a lessor are not material.

Sika will apply the standard with the simplified transitional approach from the date of its mandatory application on January 1, 2019. The comparative figures will not be restated.

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, 2018, 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 intragroup 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	2017 Balance sheet <sup>1</sup> CHF	2017 Income statement <sup>2</sup> CHF	2018 Balance sheet <sup>1</sup> CHF	2018 Income statement <sup>2</sup> CHF
Egypt	EGP	100	5.49	5.52	5.49	5.49
Australia	AUD	1	0.76	0.75	0.69	0.73
Brazil	BRL	100	29.45	30.87	25.36	26.81
Chile	CLP	10,000	15.87	15.16	14.19	15.27
China	CNY	100	14.99	14.56	14.31	14.79
Euro zone	EUR	1	1.17	1.11	1.13	1.16
Great Britain	GBP	1	1.32	1.27	1.26	1.31
India	INR	100	1.53	1.51	1.41	1.43
Indonesia	IDR	100,000	7.21	7.36	6.83	6.87
Japan	JPY	100	0.87	0.88	0.90	0.89
Canada	CAD	1	0.78	0.76	0.72	0.76
Colombia	COP	10,000	3.27	3.33	3.03	3.32
Mexico	MXN	100	4.95	5.21	5.01	5.09
Poland	PLN	100	28.02	26.05	26.20	27.11
Russia	RUB	1,000	16.86	16.86	14.14	15.62
Sweden	SEK	100	11.89	11.52	10.99	11.26
Thailand	THB	100	2.99	2.90	3.04	3.03
Czech Republic	CZK	100	45.83	42.11	43.81	45.04
Turkey	TRY	100	25.74	27.00	18.60	20.22
USA	USD	1	0.98	0.98	0.98	0.98
Vietnam	VND	100,000	4.30	4.33	4.25	4.25

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**

The key assumptions concerning the future, as well as details of other key sources of estimation uncertainty on the balance sheet date, that entail a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### **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, 2018, was CHF 1,223.3 million (CHF 892.2 million). Further details are presented in note 16.

### **FAIR VALUE OF ACQUISITION**

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

### **TRADEMARKS WITH INDEFINITE USEFUL LIVES**

Trademarks with indefinite useful lives are tested annually for impairment. The impairment test is performed on the cash-generating unit or group of cash-generating units to which the trademark is allocated. This group can comprise several operating segments. The calculations of the recoverable amount require the use of estimates such as expected future cash flows and discount rates. The carrying value of trademarks with indefinite useful lives as of December 31, 2018, 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 136 et seq. of the download version of this report) and associated companies (see note 17). In the year under review the scope of consolidation was expanded to include the newly acquired companies (see the next pages) and the following companies:

- Sika Honduras, S.A. de C.V., Ciudad de San Pedro Sula, Honduras

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

- LCS Optiroc Pte. Ltd., Singapore, Singapore, was merged with Sika Singapore Pte. Ltd., Singapore, Singapore.
- L.M. Scofield, Commerce, USA, was merged with Sika Corporation, Lyndhurst, USA.

## ACQUISITIONS 2017

In 2017, Sika acquired various companies or parts of companies. The purchase prices and their allocation (PPA) only changed insignificantly for Emseal, Butterfield as well as for Bitbau Dörr. This resulted in adjustments in the consolidated balance sheet as of December 31, 2017. The other purchase price allocations did not change and are now final.

### ACQUIRED NET ASSETS AT FAIR VALUE

	Rmax	KVK	Emseal	Other acquisitions <sup>1</sup>
in CHF mn				
Cash and cash equivalents	0.0	0.9	0.3	5.2
Accounts receivable	7.7	10.0	3.9	9.8
Inventories	5.6	8.6	2.4	12.2
Other current assets	0.7	1.9	0.7	0.8
Property, plant, and equipment	5.1	22.1	1.9	11.2
Intangible assets	45.9	12.6	38.4	23.4
<b>Total assets</b>	<b>65.0</b>	<b>56.1</b>	<b>47.6</b>	<b>62.6</b>
Current financial liabilities	1.2	6.9	0.0	4.2
Accounts payable	3.0	5.2	2.2	6.8
Other current liabilities	1.1	3.2	1.5	2.5
Long-term loans and non-current financial liabilities	0.0	20.0	9.4	0.5
Provisions	0.9	1.2	0.5	0.0
Employee benefit liabilities	0.0	0.3	0.0	1.9
Deferred tax liabilities	0.1	4.0	13.8	1.8
Other non-current liabilities	0.1	0.0	0.0	0.0
<b>Total liabilities</b>	<b>6.4</b>	<b>40.8</b>	<b>27.4</b>	<b>17.7</b>
<b>Acquired net assets</b>	<b>58.6</b>	<b>15.3</b>	<b>20.2</b>	<b>44.9</b>
Goodwill	53.1	25.0	66.4	47.7
<b>Total purchase consideration</b>	<b>111.7</b>	<b>40.3</b>	<b>86.6</b>	<b>92.6</b>
Cash in acquired assets	0.0	-0.9	-0.3	-5.2
Payments still due (per December 31, 2017)	0.0	0.0	-0.3	-4.1
<b>Net cash outflow</b>	<b>111.7</b>	<b>39.4</b>	<b>86.0</b>	<b>83.3</b>

<sup>1</sup> Bitbau Dörr, ABC Sealants, Butterfield, and Grupo Industrial Alce; individually not material.

Since the purchase, Rmax has contributed sales of CHF 66.6 million and net profit of CHF 5.7 million in 2017. 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 5.4 million. Consolidated net profit would have been CHF 0.8 million higher.

Since the purchase, KVK has contributed sales of CHF 11.9 million and net loss of CHF 1.2 million in 2017. 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 38.0 million. Consolidated net profit would have been CHF 3.2 million higher.

As the acquisition was completed shortly before the end of the year 2017, Emseal has not yet contributed any share of sales. Due to the tax rate reduction in the USA, however, there has been a profit since the purchase of CHF 5.0 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 39.7 million. Consolidated net profit would have been CHF 4.1 million higher.

Since the purchase, the other acquisitions have contributed sales of CHF 58.8 million and net profit of CHF 1.9 million in 2017. If the acquisitions had taken place on the first day of the accounting period, their additional contribution to consolidated net sales would have been CHF 42.8 million. Consolidated net profit would have been CHF 3.5 million higher.

The directly attributable transaction costs of all acquisitions amounted to CHF 3.9 million and were charged to other operating expenses.

## ACQUISITIONS 2018

In 2018, Sika acquired various companies or parts of companies.

Company	Type of transaction	Stake in %	Closing date
Index S.p.A. Construction Systems and Products, Italy	Share deal	100.0	1/15/2018
Faist ChemTec Group, Germany, Spain, Poland, Turkey, USA, Mexico, China	Share deal	100.0	2/16/2018
Polypag Group, Switzerland and Germany	Share deal/Asset deal	100.0	9/28/2018
Concrete fibers business from Propex, USA and UK	Share deal/Asset deal	100.0	11/5/2018

### INDEX S.P.A. CONSTRUCTION SYSTEMS AND PRODUCTS

On January 15, 2018, Sika acquired a 75% majority stake in Index S.p.A. Construction Systems and Products, Italy, a leading manufacturer of roofing and waterproofing systems. By acquiring Index, Sika extends its products range and significantly strengthens its position in the Italian market. Its product portfolio consists of technologically advanced bituminous membranes for roofing and waterproofing, products for thermal and acoustic insulation, as well as waterproofing and repair mortars.

A put-and-call agreement has been concluded with the seller for the remaining 25% shares in the company. The owner of the minority interests exercised its put option for the remaining 25% minority stake in November 2018 and Sika is now the sole shareholder of Index.

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. Accounts receivable of Index had a gross value of CHF 44.4 million and were adjusted since CHF 3.6 million were classified as non-recoverable.

### FAIST CHEMTEC GROUP

In February 2018, Sika acquired Faist ChemTec Group, a leading manufacturer of high-performance engineered, structure-borne acoustic solutions for the automotive industry. Faist ChemTec has strong technology and process know-how in modified bituminous and rubber-based extruded products for the structure-borne noise management in the automotive industry. Sika's strength in airborne noise treatment and reinforcing parts is complemented by these acquired technologies. In addition, Sika will gain knowledge in acoustics technology for the white goods market and the construction industry.

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. Accounts receivable of Faist ChemTec had a gross value of CHF 28.0 million and were adjusted, since CHF 0.8 million were classified as non-recoverable.

### OTHER ACQUISITIONS

Furthermore, in September 2018, Sika acquired Polypag Group, Switzerland and Germany, a leading manufacturer and developer of polyurethane foam systems. The acquisition will enhance Sika's expertise in the area of polyurethane foam development, expand its product portfolio and production capacity, and drive forward the specialist trade business. The acquisition of the Polypag Group resulted in a profit of CHF 5.6 million which is included in other operating expenses. The financial difficulties of the Polypag Group resulted in bargain purchase.

At the beginning of November 2018, Sika further acquired the global concrete fibers business of Propex. The acquisition brings Sika the well-established Fibermesh brand and industry-leading technical expertise. The production facility in the USA creates significant additional production capacity for both micro- and macro synthetic fibers to support Sika's growth going forward, particularly in the region Americas. The acquisition of the global concrete fibers of Propex resulted in a profit of CHF 2.1 million which is included in other operating expenses. The concrete fiber business was not part of Propex's core business, had been up for sale for some time and was therefore no longer the focus of management. This resulted in bargain purchase.

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 is 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.

Accounts receivable have a gross value of CHF 8.9 million and were adjusted since CHF 1.3 million were classified as non-recoverable.

#### ACQUIRED NET ASSETS AT FAIR VALUE

in CHF mn	Index	Faist ChemTec Group	Other acquisitions <sup>1</sup>
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
<b>Total assets</b>	<b>174.7</b>	<b>196.5</b>	<b>48.3</b>
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
<b>Total liabilities</b>	<b>56.6</b>	<b>146.3</b>	<b>19.0</b>
<b>Acquired net assets</b>	<b>118.1</b>	<b>50.2</b>	<b>29.3</b>
Goodwill	125.1	230.9	0.0
Bargain purchase	0.0	0.0	-7.7
<b>Total purchase consideration</b>	<b>243.2</b>	<b>281.1</b>	<b>21.6</b>
Cash in acquired assets	-57.7	-12.8	-5.8
Payment reclaim (per December 31, 2018)	0.0	0.0	1.6
<b>Net cash outflow</b>	<b>185.5</b>	<b>268.3</b>	<b>17.4</b>

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

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 3.5 million and were charged to other operating expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. NET SALES CHF 7,085.4 MN (CHF 6,248.3 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.

Year-on-year net sales increased by 13.4%, in local currencies by 13.6%, including a growth from acquisitions of 6.8%.

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 2018, revenues of CHF 4.4 million (CHF 4.2 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 40 of the download version of this report.

The segments were adjusted this year. The former North America and Latin America segments are combined in the Americas segment. The aim is to achieve a more efficient supply chain and higher purchasing volumes in the economically closely interlinked segments of North America and Latin America. In addition, the globally managed Automotive business, previously not segmented, and the centrally managed Advanced Resins business (formerly Axson Technologies), previously allocated to the EMEA segment, were combined in the new Global Business segment. Further, minor structural adjustments led to insignificant shifts between the geographical segments and Global Business. The previous year's figures were adjusted accordingly.

Other segments and activities includes expenses for Group headquarter and income from services provided to Group companies. Research and development costs previously allocated to "Other segments and activities" have been reallocated to the segments and the prior year figures have been restated accordingly.

The centrally managed Faist ChemTec Group, a supplier of components and solutions for the automotive industry acquired in 2018, is assigned to Global Business. The newly acquired global concrete fibers business of Propex has been allocated to Americas. The acquired company Index S.p.A. Construction Systems and Products, Italy, and the Polypag group were allocated to the EMEA segment.



## NET SALES

in CHF mn	2017			2018		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	2,735.7	199.5	2,935.2	3,167.3	212.4	3,379.7
Americas	1,684.0	2.7	1,686.7	1,820.5	2.2	1,822.7
Asia/Pacific	1,121.4	13.8	1,135.2	1,177.2	18.7	1,195.9
Global Business	707.2	13.1	720.3	920.4	18.0	938.4
Eliminations		-229.1	-229.1		-251.3	-251.3
<b>Net sales</b>	<b>6,248.3</b>	<b>-</b>	<b>6,248.3</b>	<b>7,085.4</b>	<b>-</b>	<b>7,085.4</b>
Products for construction industry			4,905.4			5,472.8
Products for industrial manufacturing			1,342.9			1,612.6

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	2017	2018	Change compared to prior year (+/- in %)		
			In Swiss francs	In local currencies	Currency impact
<b>By region</b>					
EMEA	2,735.7	3,167.3	15.8	14.1	1.7
Americas	1,684.0	1,820.5	8.1	11.7	-3.6
Asia/Pacific	1,121.4	1,177.2	5.0	5.5	-0.5
Global Business	707.2	920.4	30.1	29.2	0.9
<b>Net sales</b>	<b>6,248.3</b>	<b>7,085.4</b>	<b>13.4</b>	<b>13.6</b>	<b>-0.2</b>
Products for construction industry	4,905.4	5,472.8	11.6	12.0	-0.4
Products for industrial manufacturing	1,342.9	1,612.6	20.1	19.9	0.2

## OPERATING PROFIT

in CHF mn	2017	2018	Change compared to prior year (+/- in %)	
<b>By region</b>				
EMEA	379.0	435.3	56.3	14.9
Americas	287.9	300.3	12.4	4.3
Asia/Pacific	206.4	216.7	10.3	5.0
Global Business	119.9	132.3	12.4	10.3
Other segments and activities	-96.9	-138.7	-41.8	n.a.
<b>Operating profit</b>	<b>896.3</b>	<b>945.9</b>	<b>49.6</b>	<b>5.5</b>

## RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	2017	2018
<b>Operating profit</b>	<b>896.3</b>	<b>945.9</b>
Interest income	1.9	1.9
Interest expenses	-18.3	-26.1
Other financial income	5.9	5.8
Other financial expenses	-24.0	-35.2
Income from associated companies	0.3	0.6
<b>Profit before taxes</b>	<b>862.1</b>	<b>892.9</b>
Income taxes	-213.1	-205.8
<b>Net profit</b>	<b>649.0</b>	<b>687.1</b>

in CHF mn	2017 Depreciation/ Amortization	2017 Capital expenditures	2018 Depreciation/ Amortization	2018 Capital expenditures
EMEA	82.9	83.5	88.8	112.8
Americas	36.3	57.2	43.8	45.4
Asia/Pacific	24.8	24.8	24.5	29.0
Global Business	11.6	16.9	22.1	20.8
Other segments and activities	16.6	5.5	24.8	6.1
<b>Total</b>	<b>172.2</b>	<b>187.9</b>	<b>204.0</b>	<b>214.1</b>

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 <sup>1</sup>			
	2017	%	2018	%	2017	%	2018	%
Switzerland	363.4	5.8	383.1	5.4	474.8	19.9	552.6	19.0
USA	1,131.0	18.1	1,315.6	18.6	499.3	20.9	612.4	21.0
Germany	668.0	10.7	793.2	11.2	252.9	10.6	388.9	13.3
All other	4,085.9	65.4	4,593.5	64.8	1,161.5	48.6	1,360.4	46.7
<b>Total</b>	<b>6,248.3</b>	<b>100.0</b>	<b>7,085.4</b>	<b>100.0</b>	<b>2,388.5</b>	<b>100.0</b>	<b>2,914.3</b>	<b>100.0</b>

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

### 3. MATERIAL EXPENSES CHF 3,333.7 MN (CHF 2,849.2 MN)

Material expenses increased as a percentage of net sales by 1.4 percentage points mainly due to higher raw material costs. The gross result decreased from 54.4% to 53.0%. Material expenses include the value adjustment expenses for unsaleable goods and depreciation and amortization due to inventory differences in the amount of CHF 28.4 million (CHF 25.5 million).

#### 4. PERSONNEL EXPENSES CHF 1,345.4 MN (CHF 1,212.1 MN)

in CHF mn	2017	2018
Wages and salaries	990.9	1,095.1
Social charges	221.2	250.3
<b>Personnel expenses</b>	<b>1,212.1</b>	<b>1,345.4</b>

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 expenses decreased in relation to sales from 19.4% to 19.0%, mainly due to further efficiency improvements and selective structural adjustments in some countries.

#### EMPLOYEE BENEFIT COSTS

in CHF mn	2017	2018
Employee benefit plans with defined benefits <sup>1</sup>	18.8	29.9
Other employee benefit plans	41.3	41.6
<b>Employee benefit costs</b>	<b>60.1</b>	<b>71.5</b>

<sup>1</sup> 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 total amount to be recognized in profit and loss is determined by reference to the fair value at grant date of the equity instrument. The expenses are recognized in personnel expenses over the vesting period. The number and the share price of the shares granted in the previous year were adjusted by a factor of 60 to ensure comparability due to the share split in 2018 (see note 24 for details).

**PERFORMANCE BONUS (SHORT-TERM INCENTIVE).** 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; 187 participants) and Group Management receive shares of Sika AG as a component of their variable compensation. The shares are granted at the average market price of the first five trading days in April of the subsequent business year. The allocated shares are subject to a blocking period of four years. The following different share plans are in place:

Sika Senior Managers may draw optionally 0%, 20% or 40% of the performance bonus in the form of shares of Sika AG. As remuneration for the services rendered by them in 2017, they drew 26,220 shares at a fair value of CHF 3.2 million in 2018 (CHF 123.25 per share). In 2017, the fair value of the compensation for 2016 amounted to CHF 3.6 million (35,460 shares at CHF 101.25).

Members of Group Management may draw optionally 0%, 20% or 40% of the performance bonus in the form of shares of Sika AG. As compensation for the services rendered by them in 2017, in 2018, they drew 10,560 shares at a fair value of CHF 1.3 million (CHF 123.25 per share). In 2017, the fair value of the compensation for 2016 amounted to CHF 0.6 million (6,180 shares at CHF 101.25).

LONG-TERM INCENTIVE (LTI-PLAN). The long-term incentive plan for members of the top management (extended Group Management) is granted in performance share units (PSU) that will be paid out in shares of Sika AG after a three-year vesting period. In 2018, 38,990 shares at a fair value of CHF 4.8 million (CHF 123.25 per share) were allocated to the members of the top management as part of the LTI. In 2017, the fair value of the allocated shares amounted to CHF 7.5 million (74,520 shares at CHF 101.25).

The long-term variable remuneration for Sika Senior Managers is granted in performance share units (PSU). The PSUs are paid out in cash after a three-year vesting period. For Senior Managers who are transferred to another country during the vesting period, a pro-rata payout is made immediately in form of shares for the time of the vesting period that has elapsed until the transfer. The shares are granted at the fair value of the grant date and are blocked until the end of the vesting period. In 2018, 3,710 shares at a fair value of CHF 0.5 million were allocated. In 2017, the fair value of the allocated shares amounted to CHF 0.5 million (3,780 shares).

COMPENSATION OF MEMBERS OF THE BOARD OF DIRECTORS. Part of the compensation for members of the Board of Directors is paid in the form of Sika AG shares. The shares are subject to a blocking period of four years. Due to the takeover battle with Saint-Gobain, the Board of Directors was denied compensation for the years 2015 - 2017. At the Extraordinary General Meeting of Sika AG on June 11, 2018, all outstanding remuneration was approved. For the term of office April 2015 to April 2016 the members of the Board of Directors received 12,300 shares. For the period of office April 2016 to April 2017 10,980 shares were allocated and for the period of office April 2017 to April 2018 7'320 shares were allocated. The fair value of all shares allocated is CHF 4.4 million (CHF 143.60 per share). The expense of these share plans was fully recognized in other operating expenses in the year under review. The fair value of the shares allocated was CHF 0.7 million each at the beginning of the respective terms of office.

Share-based remuneration is made by means of the transfer of treasury shares of Sika AG. The personnel expenses recognized for services received in the year under review totaled CHF 32.1 million (CHF 30.1 million) of which CHF 12.9 million (CHF 5.4 million) was taken to equity and CHF 19.2 million (CHF 24.7 million) was recognized under liabilities.

No dilution effect has resulted because no additional shares have been issued.

## 5. OTHER OPERATING EXPENSES CHF 1,256.4 MN (CHF 1,118.5 MN)

in CHF mn	2017	2018
Production and operation <sup>1</sup>	398.8	449.9
Logistics and distribution	295.1	326.9
Sales, marketing, and travel costs	218.5	240.0
Administration and other costs <sup>2</sup>	206.1	239.6
<b>Total</b>	<b>1,118.5</b>	<b>1,256.4</b>

1 This position includes primarily rental and lease expenses as well as costs for maintenance, repairs, and energy.

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

Other operating expenses were relatively constant compared to volume growth, despite one-off costs related to the resolution of the takeover battle with Saint-Gobain, with the cost ratio improving slightly from 17.9% to 17.7%.

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 189.5 million (CHF 184.6 million), roughly equivalent to 2.7% (3.0%) 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 61.3 MN (CHF 42.3 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 bond issues outstanding in the amount of CHF 18.0 million (CHF 10.4 million). Other financial expenses include foreign exchange gains and losses from the management of foreign currency as well as net gains and losses from hedging and revaluation of loans to Group companies denominated in foreign currencies. Other financial expenses increased to CHF 35.2 million (CHF 24.0 million).

## 7. INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES CHF 8.3 MN (CHF 8.1 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 1.9 million (CHF 1.9 million). Income from associated companies is CHF 0.6 million (CHF 0.3 million).

## 8. INCOME TAXES

in CHF mn	2017	2018
Income tax during the year under review	291.9	220.4
Deferred income tax	-81.0	-12.5
Income tax from prior years	2.2	-2.1
<b>Total</b>	<b>213.1</b>	<b>205.8</b>

## RECONCILIATION BETWEEN EXPECTED AND EFFECTIVE TAX EXPENSE

in CHF mn	%	2017	%	2018
Profit before taxes		862.1		892.9
<b>Expected tax expense</b>	<b>23.4</b>	<b>201.7</b>	<b>20.8</b>	<b>185.8</b>
Non-taxable income/non-tax-deductible expenses	0.6	5.6	0.5	4.7
Change in expected tax rate	-0.1	-1.0	0.2	1.6
Adjusted tax expense from earlier periods	0.2	2.2	-0.2	-2.1
Valuation adjustment on deferred tax assets	0.2	1.7	-0.4	-3.1
Withholding tax on dividends, licenses, and interests	2.5	21.4	1.9	17.3
Other <sup>1</sup>	-2.1	-18.5	0.2	1.6
<b>Tax expense as per consolidated income statement</b>	<b>24.7</b>	<b>213.1</b>	<b>23.0</b>	<b>205.8</b>

<sup>1</sup> In 2017, this included a net tax effect of CHF -16.3 million (income taxes of CHF 78.3 million and deferred tax income of CHF 94.6 million), resulting from the sale of intangible assets for CHF 1,000.0 million from Sika AG to Sika Technology AG.

Income tax expenses include income taxes based on current taxable income and deferred taxes. The tax rate decreased to 23.0% (24.7%).

The anticipated average Group income tax rate of 20.8% (23.4%) 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. 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	2017	2018
<b>January 1</b>	<b>49.5</b>	<b>98.8</b>
Credited (+)/debited (-) to income statement	81.0	12.5
Credited (+)/debited (-) to other comprehensive income	-11.6	5.3
Credited (+)/debited (-) to equity	0.0	-3.4
Exchange differences	-0.4	-2.6
Acquisitions/divestments	-19.7	-41.6
<b>December 31</b>	<b>98.8</b>	<b>69.0</b>

#### ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF mn	2017			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax losses brought forward	13.6		13.6	10.0		10.0
Current assets	22.1	-13.3	8.8	25.6	-14.2	11.4
Property, plant, and equipment	8.1	-28.8	-20.7	14.0	-42.8	-28.8
Other non-current assets	115.9	-70.3	45.6	103.7	-74.9	28.8
Liabilities	68.4	-7.7	60.7	69.7	-12.4	57.3
Withholding taxes on dividends	0.0	-9.2	-9.2	0.0	-9.7	-9.7
<b>Total</b>	<b>228.1</b>	<b>-129.3</b>	<b>98.8</b>	<b>223.0</b>	<b>-154.0</b>	<b>69.0</b>

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

in CHF mn	2017	2018
1 year or less	0.0	0.3
1-5 years	7.8	7.8
Over 5 years or non-expiring	6.0	15.7
<b>Total</b>	<b>13.8</b>	<b>23.8</b>

The underlying average tax rate is 30.6% (27.1%).

In the year under review, deferred tax assets from carried forward tax losses of CHF 2.5 million (CHF 5.6 million) were offset and deferred carried forward tax losses of CHF 2.0 million (CHF 0.7 million) were generated.

## 9. EARNINGS PER SHARE CHF 4.69 (CHF 4.23)

	2017	2018
Net profit attributable to Sika shareholders (in CHF mn)	643.5	682.9
Weighted average number of shares outstanding for calculation of basic earnings per share <sup>1, 2</sup>	152,296,410	145,486,609
Additional weighted number of shares upon exercise of all conversion rights	0	4,987,001
Weighted average number of shares used to calculate diluted earnings per share <sup>2</sup>	152,296,410	150,473,610
Undiluted earnings per share (in CHF) <sup>2</sup>	4.23	4.69
Diluted earnings per share (in CHF) <sup>2</sup>	4.23	4.58

1 Excluding treasury shares held in the Group.

2 Due to the share split, the earnings per share as of December 31, 2017, were adjusted for comparability. Our calculation takes into account the previous bearer shares with a factor of 60 and the previous registered shares with a factor of 10.

Undiluted earnings per share (EPS) amount to CHF 4.69 (CHF 4.23) 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).

The convertible bond issued (see note 20) has 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 bond in the amount of CHF 6.0 million after consideration of the tax effect. Diluted earnings per share amount to CHF 4.58 (no dilution effect in prior year).

**10. CASH AND CASH EQUIVALENTS** CHF 914.0 MN (CHF 1,037.9 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 1,322.9 MN (CHF 1,188.8 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	2017 <sup>1</sup>	2018
<b>Net accounts receivable</b>	<b>1,188.8</b>	<b>1,322.9</b>
Of which		
Not overdue	907.3	1,010.3
Past due < 31 days	172.0	182.0
Past due 31-60 days	47.9	56.9
Past due 61-180 days	44.7	51.1
Past due > 181 days	16.9	22.6

<sup>1</sup> The age structure of trade receivables in the previous year was adjusted with the introduction of the new standard IFRS 9 - Financial Instruments to ensure comparability. The application of this revised allowance policy has no impact on the total amount of the allowance for doubtful accounts.

**MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS**

in CHF mn	2017	2018
January 1	65.9	68.5
Additions to or increase in allowances	18.2	15.3
Reversal of allowances	-7.0	-4.5
Utilization of allowances	-9.4	-7.7
Exchange differences	0.8	-3.4
<b>December 31</b>	<b>68.5</b>	<b>68.2</b>

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 800.7 MN (CHF 729.5 MN)

in CHF mn	2017	2018
Raw materials and supplies	227.6	257.3
Semi-finished goods	52.7	57.4
Finished goods	378.5	408.2
Merchandise	70.7	77.8
<b>Total</b>	<b>729.5</b>	<b>800.7</b>

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 112.0 MN (CHF 116.2 MN)

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

## 14. OTHER ASSETS CHF 95.3 MN (CHF 106.8 MN)

### OTHER CURRENT ASSETS

in CHF mn	2017	2018
Derivatives (at fair value through profit and loss)	5.1	17.7
Loans (at amortized cost)	5.3	7.3
Securities (at fair value through profit and loss)	2.2	2.1
<b>Other financial assets</b>	<b>12.6</b>	<b>27.1</b>
Other non-financial assets	0.1	0.0
<b>Other current assets</b>	<b>12.7</b>	<b>27.1</b>

### OTHER NON-CURRENT ASSETS

in CHF mn	2017	2018
Securities (at fair value through profit and loss)	45.3	49.9
Loans (at amortized cost)	1.5	1.6
<b>Other financial assets</b>	<b>46.8</b>	<b>51.5</b>
Employee benefit assets <sup>1</sup>	47.3	16.7
<b>Other non-current assets</b>	<b>94.1</b>	<b>68.2</b>

<sup>1</sup> 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 1,214.2 MN (CHF 1,065.2 MN)

	Property	Plant	Equipment	Plants and buildings under construction	Total
in CHF mn					
<b>At January 1, 2017</b>					
Acquisition cost	125.3	692.5	1,582.6	53.4	2,453.8
Cumulative depreciation and impairment	-1.5	-409.3	-1,083.8	0.0	-1,494.6
<b>Net values at January 1, 2017</b>	<b>123.8</b>	<b>283.2</b>	<b>498.8</b>	<b>53.4</b>	<b>959.2</b>
Additions <sup>2</sup>	7.7	31.9	41.3	102.1	183.0
Acquired on acquisition	6.3	6.6	25.0	2.4	40.3
Exchange differences	1.7	4.8	6.6	0.1	13.2
Disposals	-2.6	-0.9	-2.7	0.0	-6.2
Reclassifications <sup>1</sup>	0.1	7.3	60.4	-67.8	0.0
Depreciation charge for the year	0.0	-21.2	-103.1	0.0	-124.3
<b>At December 31, 2017</b>	<b>137.0</b>	<b>311.7</b>	<b>526.3</b>	<b>90.2</b>	<b>1,065.2</b>
<b>As January 1, 2018</b>					
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
<b>Net values at January 1, 2018</b>	<b>137.0</b>	<b>311.7</b>	<b>526.3</b>	<b>90.2</b>	<b>1,065.2</b>
Additions <sup>2</sup>	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 <sup>1</sup>	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
<b>At December 31, 2018</b>	<b>158.3</b>	<b>374.1</b>	<b>588.8</b>	<b>93.0</b>	<b>1,214.2</b>
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
<b>Net values at December 31, 2018</b>	<b>158.3</b>	<b>374.1</b>	<b>588.8</b>	<b>93.0</b>	<b>1,214.2</b>

1 Plants and buildings under construction are reclassified after completion within property, plant, and equipment as well as intangible assets.

2 The cash outflows from investments amounted in 2018 to CHF 233.4 million (CHF 158.5 million).

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).

LEASING. Payments for operating leases are recorded as operating expenses and are charged accordingly to the income statement. Rent and operating lease expenses in the amount of CHF 108.6 million (CHF 112.4 million) were recognized. In principle all plants are owned by subsidiaries. Some smaller plants as well as a Swiss logistics center are financed by operating leases. Operating leases also relate to forklifts, cars used by the sales force as well as data processing equipment and copiers. Leasehold contracts are insignificant.

in CHF mn	Operating leases	
	2017	2018
	Minimum payments	Minimum payments
Within 1 year	88.8	82.1
1-5 years	151.2	157.3
Over 5 years	67.8	79.4
<b>Total</b>	<b>307.8</b>	<b>318.8</b>

Fixed assets acquired under lease agreements whereby the Group assumes substantively all risks and rewards, are classified as finance leases. However, Sika has not concluded any significant finance lease agreements.

CAPITAL COMMITMENTS. Significant capital expenditure for property, plant, and equipment contracted for as at December 31, 2018, but not recognized as liabilities is CHF 28.7 million (CHF 61.8 million).

## 16. INTANGIBLE ASSETS CHF 1,693.9 MN (CHF 1,317.1 MN)

in CHF mn	Goodwill	Software	Trademarks	Customer relations	Other intangibles	Total
<b>At January 1, 2017</b>						
Acquisition costs	685.7	148.4	108.5	310.4	103.2	1,356.2
Cumulative amortization and impairment	-7.0	-114.3	-9.0	-140.3	-64.4	-335.0
<b>Net values at January 1, 2017</b>	<b>678.7</b>	<b>34.1</b>	<b>99.5</b>	<b>170.1</b>	<b>38.8</b>	<b>1,021.2</b>
Additions	0.0	4.4	0.3	0.0	0.2	4.9
Acquired on acquisition	192.2	0.1	19.0	87.7	13.5	312.5
Exchange differences	21.3	0.8	0.0	4.1	0.2	26.4
Amortization for the year	0.0	-9.2	-6.4	-24.7	-7.6	-47.9
<b>At December 31, 2017</b>	<b>892.2</b>	<b>30.2</b>	<b>112.4</b>	<b>237.2</b>	<b>45.1</b>	<b>1,317.1</b>
<b>At January 1, 2018</b>						
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
<b>Net values at January 1, 2018</b>	<b>892.2</b>	<b>30.2</b>	<b>112.4</b>	<b>237.2</b>	<b>45.1</b>	<b>1,317.1</b>
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
<b>At December 31, 2018</b>	<b>1,223.3</b>	<b>27.7</b>	<b>114.6</b>	<b>262.2</b>	<b>66.1</b>	<b>1,693.9</b>
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
<b>Net values at December 31, 2018</b>	<b>1,223.3</b>	<b>27.7</b>	<b>114.6</b>	<b>262.2</b>	<b>66.1</b>	<b>1,693.9</b>

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. Sika has created an SAP platform with standard processes that a number of companies have been using since 2010. The further rollout will take several years to complete. The capitalized costs are transferred to the companies in the year of first use.

### AMORTIZATION SCHEDULE

Software	3–5 years <sup>1</sup>
Patents	5–10 years
Customer relations	1–20 years
Trademarks	3–10 years

<sup>1</sup> Software is usually written off over three years with the exception of the SAP platform.

The intangible assets (except for goodwill and trademarks with indefinite useful lives) each have finite useful lives over which the assets are amortized. The internally developed SAP platform used since 2010 will be amortized on the basis of its effective use within the Group. The carrying value was CHF 17.4 million (CHF 20.4 million) as of December 31, 2018. The remaining useful life is estimated to be between three and six years.

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. 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 6.4% and 9.9% (4.5% and 9.8%) 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.

The segments were adjusted in the year under review (for details see note 2). The former North America and Latin America segments have been combined into a new Americas segment. Global Business now includes the globally managed Automotive business and the two centrally managed businesses Advanced Resins (formerly Axson Technologies) and Faist. Industrial manufacturing now accounts for only a small proportion of the geographical segments and is not monitored separately. However, this aggregation has no impact on the impairment test. The goodwill items for industrial manufacturing EMEA arose from the acquisition of Axson Technologies in 2015 and are now allocated to the Global Business segment.

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
<b>December 31, 2017</b>				
Construction business EMEA	2.1	7.2	27.7	465.8
Industrial manufacturing EMEA	2.2	7.4		20.9
Construction business North America	2.3	9.8	44.7	241.9
Construction business Latin America	3.9	17.7		22.3
Construction business Asia/Pacific	2.5	9.8		90.1
Automotive	2.0	8.7		51.2
<b>Total</b>			<b>72.4</b>	<b>892.2</b>
<b>December 31, 2018</b>				
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
<b>Total</b>			<b>72.4</b>	<b>1,223.3</b>

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

The following associated companies are included in the consolidated Financial Statements as of December 31, 2018: Condensil SARL, France (Sika stake 40%), Part GmbH, Germany (50%), Sarna Granol AG, Switzerland (50%), Hayashi-Sika Automotive Ltd., Japan (50%), Chemical Sangyo Ltd., Japan (50%), and Seven Tech Co. Ltd., Japan (50%). The 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	2017	2018
Sales	21.7	19.4
Profit	0.3	0.4

**18. ACCOUNTS PAYABLE** CHF 733.8 MN (CHF 730.9 MN)

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

**19. ACCRUED EXPENSES AND DEFERRED INCOME** CHF 265.5 MN (CHF 253.4 MN)

Accrued expenses and deferred income relate to outstanding invoices and liabilities for the past financial year, including performance-based compensation payables 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 4.0 million) are included (see note 1).

**20. FINANCIAL LIABILITIES** CHF 3,032.5 MN (CHF 755.6 MN)

in CHF mn	2017			2018		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives	5.7	0.0	5.7	2.3	0.0	2.3
Bank loans	22.6	0.9	23.5	13.8	0.0	13.8
Bonds	150.0	549.0	699.0	199.9	2,792.9	2,992.8
Other financial liabilities	24.0	3.4	27.4	21.5	2.1	23.6
<b>Total</b>	<b>202.3</b>	<b>553.3</b>	<b>755.6</b>	<b>237.5</b>	<b>2,795.0</b>	<b>3,032.5</b>

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.

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.

Sika AG has the following bonds outstanding:

in CHF mn	Coupon	Term	Nominal	2017	Nominal	2018
				Book value		Book value
Straight bond	1.000%	2012-07/12/2018	150.0	150.0		
Straight bond	1.125%	2013-11/14/2019	200.0	199.8	200.0	199.9
Straight bond	0.000%-0.050%	2018-03/27/2020			160.0	160.4
Straight bond	0.125%	2018-07/12/2021			170.0	170.1
Straight bond	1.750%	2012-07/12/2022	150.0	149.9	150.0	149.9
Straight bond	1.875%	2013-11/14/2023	200.0	199.3	200.0	199.4
Straight bond	0.625%	2018-07/12/2024			250.0	250.6
Convertible bond	0.150%	2018-06/05/2025			1,650.0	1,591.5
Straight bond	0.600%	2018-03/27/2026			140.0	140.0
Straight bond	1.125%	2018-07/12/2028			130.0	131.0
<b>Total</b>			<b>700.0</b>	<b>699.0</b>	<b>3,050.0</b>	<b>2,992.8</b>

On March 5, 2018, Sika AG placed a bond with a total amount of CHF 300.0 million through a double tranche with payment date on March 27, 2018:

- CHF 140.0-million-bond 2018–2026 with a fixed coupon of 0.60% p.a. The bond was issued at 100.351%.
- CHF 160.0-million-bond 2018–2020 with a floating interest rate based on 3-month LIBOR. The bond was issued at 100.602%. There is a minimum interest rate of 0.00%, and a maximum interest rate of 0.05%.

On May 15, 2018, Sika also placed an unsecured convertible bond in the amount of CHF 1,650.0 million due in 2025 with payment date on June 5, 2018. The issue price and the redemption prices are set at 100%. 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 190.3579. This corresponds to a conversion premium of 40.0% over the share price when the bond was placed.

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	<b>0.15% convertible bond 2018-2025</b>
Liability component upon issue at fair value	1,605.4
Proportional issue costs	-18.9
<b>Net liability component upon issue</b>	<b>1,586.5</b>
Interest expense recognized in the year under review (amortized cost)	5.0
<b>Net liability component as of December 31, 2018</b>	<b>1,591.5</b>
Open par value	1,650.0
Carrying amount of equity component	44.6
Proportional issue costs	-0.5
Deferred taxes	-3.4
<b>Net equity component upon issue</b>	<b>40.7</b>

No rights were converted in the reporting period.

Furthermore, Sika AG placed a bond with a total amount of CHF 550.0 million through a triple tranche with payment date on July 12, 2018:

- CHF 170.0-million-bond 2018–2021 with a fixed coupon of 0.125% p.a. The bond was issued at 100.285%.
- CHF 250.0-million-bond 2018–2024 with a fixed coupon of 0.625% p.a. The bond was issued at 100.515%.
- CHF 130.0-million-bond 2018–2028 with a fixed coupon of 1.125% p.a. The bond was issued at 101.112%.

In summary, financial liabilities changed as follows:

in CHF mn	Bank loans	Bonds	Other financial liabilities	Total financial liabilities
<b>At January 1, 2017</b>	<b>19.8</b>	<b>698.7</b>	<b>33.2</b>	<b>751.7</b>
Proceeds	14.4	0.0	2.6	17.0
Repayments	-46.9	0.0	-8.5	-55.4
<b>Cash flow</b>	<b>-32.5</b>	<b>0.0</b>	<b>-5.9</b>	<b>-38.4</b>
Acquired on acquisition	37.2	0.0	5.0	42.2
Exchange differences	-1.0	0.0	0.4	-0.6
Other changes	0.0	0.3	0.4	0.7
<b>Non-cash movements</b>	<b>36.2</b>	<b>0.3</b>	<b>5.8</b>	<b>42.3</b>
<b>At December 31, 2017</b>	<b>23.5</b>	<b>699.0</b>	<b>33.1</b>	<b>755.6</b>
<b>As January 1, 2018</b>	<b>23.5</b>	<b>699.0</b>	<b>33.1</b>	<b>755.6</b>
Proceeds	2,103.9	2,483.0	2.8	4,589.7
Repayments	-2,183.4	-150.0	-22.9	-2,356.3
<b>Cash flow</b>	<b>-79.5</b>	<b>2,333.0</b>	<b>-20.1</b>	<b>2,233.4</b>
Acquired on acquisition	71.0	0.0	16.2	87.2
Exchange differences	-1.2	0.0	-0.4	-1.6
Net equity component on convertible bond (see above)	0.0	-40.7	0.0	-40.7
Other changes	0.0	1.5	-2.9	-1.4
<b>Non-cash movements</b>	<b>69.8</b>	<b>-39.2</b>	<b>12.9</b>	<b>43.5</b>
<b>At December 31, 2018</b>	<b>13.8</b>	<b>2,992.8</b>	<b>25.9</b>	<b>3,032.5</b>

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 70.2 MN (CHF 76.4 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	Warranties	Sundry risks	Provisions Total
Current provisions	13.7	8.4	22.1
Non-current provisions	19.7	28.4	48.1
<b>Provisions</b>	<b>33.4</b>	<b>36.8</b>	<b>70.2</b>
<b>Reconciliation</b>			
<b>At January 1, 2018</b>	<b>42.3</b>	<b>34.1</b>	<b>76.4</b>
Additions	11.9	10.3	22.2
Assumed on acquisition	1.8	6.5	8.3
Exchange differences	-0.5	-0.8	-1.3
Utilization	-17.3	-5.2	-22.5
Reversal	-4.8	-8.1	-12.9
<b>At December 31, 2018</b>	<b>33.4</b>	<b>36.8</b>	<b>70.2</b>

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 48.1 million (CHF 56.4 million) are shown as non-current liabilities, since an outflow of funds is not expected within the next twelve months.

For provisions of CHF 22.1 million (CHF 20.0 million), an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

CONTINGENT LIABILITIES. Given the Group's international operations, there are inherent tax risks which cannot be conclusively estimated. In ongoing business activity the Group may be involved in legal proceedings such as lawsuits, claims, investigations, and negotiations due to product liability, mercantile law, environmental protection, health, and safety, etc. There are no current proceedings of this nature pending which could have significant influence on business operations, 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	2017			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Employee benefit plans with defined benefits	47.3	184.5	137.2	16.7	190.5	173.8
Other employee commitments	-	75.5	75.5	-	78.2	78.2
<b>Total</b>	<b>47.3</b>	<b>260.0</b>	<b>212.7</b>	<b>16.7</b>	<b>268.7</b>	<b>252.0</b>

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 41 Group companies. The biggest plans are in Switzerland, accounting for 79.0% (78.5%) of Sika's entire defined benefit pension obligations and 96.1% (96.2%) of plan assets.

**SWISS PENSION PLANS.** Sika companies in Switzerland have legally independent foundations, thereby segregating their pension obligation liabilities. The Federal Law on Occupational Retirement, Survivors', and Disability Pensions (BVG) regulates occupational benefits in Switzerland. In the event of a significant deficit, employees and employers must jointly bear any restructuring measures, for example through additional contributions. The Swiss pension plans therefore qualify as defined benefit plans and the actuarially determined surplus or deficit is recognized in the consolidated balance sheet. In accordance with local statutory requirements, Sika has no further obligations towards the pension plans beyond the regulatory contribution payments.

The Sika pension fund insures employees in Switzerland against the risks of old age, death and disability. In addition, there is a management pension plan and a welfare foundation which provide for further regulatory benefits. Together with the statutory requirements, the retirement regulations form the basis for occupational pension benefits. The retirement pension is calculated by multiplying the retirement assets available at the time of retirement by the conversion rates stipulated in the regulations. The employee has the option of drawing the retirement benefit as a lump sum. The employee also has the right to early retirement.

The administration of the Sika pension fund is the responsibility of the board of trustees as the supreme body, which is composed of the same number of employee and employer representatives. It is responsible for the enactment and implementation of the pension fund regulations, the financing of benefits and the investment of assets. The investment strategy is defined in such a way that the benefits can be paid when they fall due. The Sika pension fund as well as the welfare foundation bear the investment risks and the longevity risk themselves. The pension fund has taken out congruent reinsurance for the risks of death and disability. The insurance-related and investment risks of the management pension scheme are fully reinsured.

In the current year, as in the prior year, the Swiss pension plans are showing a surplus under BVG and it is not expected that additional contributions will be necessary for the next year. Last year the benefits of the insurance plan were adjusted by reducing the conversion rate and increasing the savings contributions. This led to an adjustment in the pension plan and is therefore recognized in the income statement as a gain on a plan curtailment (CHF 9.9 million).

**OTHER LONG-TERM LIABILITIES.** Other long-term liabilities arise from long-service bonuses and similar benefits that Sika grants to its employees.

## MOVEMENT IN THE NET DEFINED BENEFIT OBLIGATION

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
<b>At January 1, 2017</b>	<b>-888.6</b>	<b>694.4</b>	<b>0.0</b>	<b>-194.2</b>
Current service cost	-28.7			-28.7
Interest expense/interest income	-8.4	5.3		-3.1
Past service cost and gains and losses on settlements and curtailments	9.9			9.9
<b>Total expense recognized in income statement</b>	<b>-27.2</b>	<b>5.3</b>		<b>-21.9</b>
thereof Switzerland	-16.8	4.7		-12.1
thereof others	-10.4	0.6		-9.8
Return on plan assets, excluding amounts included in interest income		61.1		61.1
Gains (+)/losses (-) from change in financial assumptions	4.2			4.2
Gains (+)/losses (-) from change in demographic assumptions	-0.1			-0.1
Experience gains (+)/losses (-)	0.3			0.3
Change in asset ceiling			-1.6	-1.6
<b>Total remeasurement recognized in other comprehensive income</b>	<b>4.4</b>	<b>61.1</b>	<b>-1.6</b>	<b>63.9</b>
thereof Switzerland	0.3	62.3	-1.6	61.0
thereof others	4.1	-1.2	0.0	2.9
Exchange differences	-12.9	1.7		-11.2
Contributions by employers		19.1		19.1
Contributions by plan participants	-13.2	13.2		0.0
Benefits paid	40.7	-32.0		8.7
Settlements paid	0.1	0.0		0.1
Acquired in a business combination and others	-1.7	0.0		-1.7
<b>At December 31, 2017</b>	<b>-898.4</b>	<b>762.8</b>	<b>-1.6</b>	<b>-137.2</b>
thereof Switzerland	-705.6	734.0	-1.6	26.8
thereof others	-192.8	28.8	0.0	-164.0

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
<b>At January 1, 2018</b>	<b>-898.4</b>	<b>762.8</b>	<b>-1.6</b>	<b>-137.2</b>
Current service cost	-29.7			-29.7
Interest expense/interest income	-8.8	5.8		-3.0
Past service cost and gains and losses on settlements and curtailments	-0.2			-0.2
<b>Total expense recognized in income statement</b>	<b>-38.7</b>	<b>5.8</b>		<b>-32.9</b>
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
Gains (+)/losses (-) from change in financial assumptions	10.8			10.8
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
<b>Total remeasurement recognized in other comprehensive income</b>	<b>6.4</b>	<b>-36.1</b>	<b>-0.3</b>	<b>-30.0</b>
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
<b>At December 31, 2018</b>	<b>-917.9</b>	<b>746.0</b>	<b>-1.9</b>	<b>-173.8</b>
thereof Switzerland	-725.0	717.2	-1.9	-9.7
thereof others	-192.9	28.8	0.0	-164.1

The contributions that are expected to be paid into the defined benefit pension plans for 2019 amount to CHF 19.5 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 145.0 million (CHF 146.9 million). Schemes in Germany, in particular, do not have segregated assets. For the Swiss pension plans the result is a deficit of CHF 9.7 million (surplus of CHF 26.8 million).

## MAJOR CATEGORIES OF TOTAL PLAN ASSETS

in CHF mn	2017			2018		
	Switzerland	Others	Total	Switzerland	Others	Total
Cash and cash equivalents	45.7	6.4	52.1	38.0	5.9	43.9
Equity instruments	308.1	2.5	310.6	302.6	2.5	305.1
Debt instruments	230.7	1.9	232.6	215.7	2.3	218.0
Real estate investments	126.7	10.2	136.9	130.2	0.0	130.2
Other assets	22.8	7.8	30.6	30.7	18.1	48.8
<b>Total</b>	<b>734.0</b>	<b>28.8</b>	<b>762.8</b>	<b>717.2</b>	<b>28.8</b>	<b>746.0</b>

Most of the plan assets of the pension schemes are invested in assets with quoted market prices. In the year under review, 11.1% (10.6%) of the investments in real estate and 26.6% (8.5%) of the other assets did not have a quoted market price.

## AMOUNTS INCLUDED IN PLAN ASSETS

in CHF mn	2017		2018	
	Switzerland	Others	Switzerland	Others
Shares Sika AG <sup>1</sup>	31.7	0.0	30.6	0.0
Own property occupied by Sika	11.0	0.0	11.1	0.0
<b>Total</b>	<b>42.7</b>	<b>0.0</b>	<b>41.7</b>	<b>0.0</b>

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

## ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

	2017		2018	
	Switzerland	Others	Switzerland	Others
Discount rate in the year under review (%)	0.7	2.1	0.8	2.0

## THE SENSITIVITY OF THE DEFINED BENEFIT OBLIGATION TO CHANGES IN THE PRINCIPAL ASSUMPTIONS

in CHF mn	Change in assumption	Impact on defined benefit obligation	
		Switzerland	Others
Discount rate	+0.25%	-27.1	-6.9
Discount rate	-0.25%	29.3	7.3

## NUMBER OF PLANS

	2017		2018	
	Switzerland	Others	Switzerland	Others
Total number of defined benefit plans	5	38	6	37
thereof number of defined benefit plans funded	4	10	5	10
thereof number of defined benefit plans unfunded	1	28	1	27
Average weighted duration in years	15.9	16.2	15.6	16.0

**23. OTHER LIABILITIES** CHF 34.2 MN (CHF 32.1 MN)

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

**24. SHAREHOLDERS' EQUITY** CHF 1,675.4 MN (CHF 3,411.1 MN)

in CHF mn	2017	2018
Capital stock	1.5	1.4
Capital surplus	203.1	203.1
Treasury shares	-6.6	-11.1
Currency translation differences	-537.4	-614.2
Retained earnings	3,724.1	2,066.7
<b>Equity attributable to Sika shareholders</b>	<b>3,384.7</b>	<b>1,645.9</b>
Non-controlling interests	26.4	29.5
<b>Shareholders' equity</b>	<b>3,411.1</b>	<b>1,675.4</b>

Equity accounts for 26.3% (58.9%) of the balance sheet total. The reduction is attributable to the transaction with Schenker-Winkler Holding AG (SWH) in May 2018 (see further information on significant shareholders). The financing of this transaction is shown in note 20.

**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 SWH (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	2017	2018
Registered shares, nominal value CHF 0.10	2,333,874	0.2	-
Bearer shares, nominal value CHF 0.60	2,151,199	1.3	-
Registered shares, nominal value CHF 0.01	141,781,160	-	1.4
<b>Capital stock</b>		<b>1.5</b>	<b>1.4</b>

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

	Bearer shares <sup>1</sup>		Registered shares <sup>2</sup>		Total	
	Units	Par value in CHF	Units	Par value in CHF	Units	Par value in CHF
<b>At January 1, 2018</b>	<b>2,151,199</b>	<b>1,290,720</b>	<b>2,333,874</b>	<b>233,387</b>	<b>4,485,073</b>	<b>1,524,107</b>
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
<b>At December 31, 2018</b>	<b>-</b>	<b>-</b>	<b>141,781,160</b>	<b>1,417,812</b>	<b>141,781,160</b>	<b>1,417,812</b>

1 Includes treasury shares, 1,098 bearer shares as of December 31, 2017, which do not carry voting and dividend rights.

2 Includes treasury shares, 270 registered shares as of December 31, 2017 and 90,730 registered shares as of December 31, 2018, which do not carry voting and dividend rights. The increase is due to the share split.

**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 2.05 per registered share, in the total amount of CHF 290.6 million, to the shareholders of Sika AG.

**NON-CONTROLLING INTERESTS.** Non-controlling interests are accounted for at the corresponding share of the respective company. The most important companies with non-controlling interests are:

- Sika Arabia Holding Co. WLL, Bahrain (49%)
- Sika UAE LLC, UAE (49%)
- Sika Saudi Arabia Co. Ltd., Saudi Arabia (49%)
- Sika Gulf B.S.C., Bahrain (49%)
- Sika Qatar LLC, Qatar (49%)

## 25. CASH FLOW STATEMENT

DETAILS TO THE CASH FLOW STATEMENT. Compared to previous year, cash flow was influenced by:

- a higher net profit before taxes (CHF 30.8 million)
- an increase in net working capital (CHF -75.1 million)
- a change of non-cash financial income as well as cash flows from hedging transactions (CHF 73.8 million)
- lower tax payments (CHF 22.4 million)
- an increased investment activity mainly due to the buyback of leased assets (CHF -74.9 million) and an increased acquisition activity (CHF -150.8 million)
- a net borrowing of CHF 2,333.0 million through the issue and repayment of bonds
- the purchase of treasury shares with subsequent cancellation of CHF -2,082.9 million
- a higher dividend payment (CHF -38.1 million)

in CHF mn	2017	2018
Cash flow from operating activities	651.9	744.0
Cash flow from investing activities	-478.2	-705.2
Cash flow from financing activities	-289.2	-149.6
Exchange differences	-1.6	-13.1
<b>Net change in cash and cash equivalents</b>	<b>-117.1</b>	<b>-123.9</b>

### FREE CASH FLOW AND OPERATING FREE CASH FLOW

in CHF mn	2017	2018
Cash flow from operating activities	651.9	744.0
Net investment in		
Property, plant, and equipment	-150.2	-225.6
Intangible assets	-4.9	-5.2
Acquisitions less cash and cash equivalents	-320.4	-471.2
Acquisitions (-)/disposals (+) of financial assets	-2.7	-3.2
<b>Free cash flow</b>	<b>173.7</b>	<b>38.8</b>
Acquisitions/disposals less cash and cash equivalents	320.4	471.2
Acquisitions (+)/disposals (-) of financial assets	2.7	3.2
<b>Operating free cash flow</b>	<b>496.8</b>	<b>513.2</b>

OTHER ADJUSTMENTS. Included in "Other adjustments" are:

in CHF mn	2017	2018
Non-liquidity-related interest expenses (-)/income (+)	0.0	3.1
Profit (-)/loss (+) from disposals of non-financial assets	-2.1	-4.6
Bargain purchase	0.0	-7.7
Personnel expenses settled through treasury shares	5.4	12.6
Others	2.6	3.5
<b>Total</b>	<b>5.9</b>	<b>6.9</b>



## 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	909.1	1.8
Past due < 31 days	174.7	2.7
Past due 31-60 days	50.5	2.6
Past due 61-180 days	53.8	9.1
Past due > 181 days	69.2	52.3
<b>December 31, 2017</b>	<b>1,257.3</b>	<b>68.5</b>
Not overdue	1,012.1	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 days	74.6	52.0
<b>December 31, 2018</b>	<b>1,391.1</b>	<b>68.2</b>

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	2017		2018	
		Book value	Fair value	Book value	Fair value
<b>Financial assets</b>					
Cash and cash equivalents		1,037.9		914.0	
Accounts receivable		1,188.8		1,322.9	
Loans (at amortized cost)		6.8		8.9	
Securities (at fair value through profit and loss)	1	47.5	47.5	52.0	52.0
Derivatives (at fair value through profit and loss)	2	5.1	5.1	17.7	17.7
<b>Total</b>		<b>2,286.1</b>		<b>2,315.5</b>	
<b>Financial liabilities</b>					
Bank loans		23.5		13.8	
Bonds	2	699.0	736.6	2,992.8	3,115.2
Accounts payable		730.9		733.8	
Other financial liabilities		27.4		23.6	
<b>Financial liabilities measured at amortized cost</b>		<b>1,480.8</b>		<b>3,764.0</b>	
Derivatives (at fair value through profit and loss)	2	5.7	5.7	2.3	2.3
<b>Total</b>		<b>1,486.5</b>		<b>3,766.3</b>	

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 0.8 million (CHF 1.1 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
<b>Open derivatives 2017</b>					
Forward contracts (foreign exchange)	0.3	-1.7	166.9	90.8	76.1
Swaps (foreign exchange)	4.8	-4.0	1,013.0	335.8	677.2
<b>Total derivatives</b>	<b>5.1</b>	<b>-5.7</b>	<b>1,179.9</b>	<b>426.6</b>	<b>753.3</b>
<b>Open derivatives 2018</b>					
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
<b>Total derivatives</b>	<b>17.7</b>	<b>-2.3</b>	<b>1,550.9</b>	<b>346.4</b>	<b>1,204.5</b>

Losses from currency differences recognized in the income statement amounted to CHF 49.6 million (gain CHF 24.4 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 12.0 million (net loss of CHF 56.0 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	2017	2018
EUR: +10%	-6.0	0.5
EUR: -10%	6.0	-0.5
USD: +10%	-12.1	-8.8
USD: -10%	12.1	8.8

**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 (nominal CHF 3,050.0 million). 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 2017 nor at year-end 2018. 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
<b>December 31, 2017</b>				
Bank loans	22.6	0.9	0.0	23.5
Bonds	160.1	377.8	203.7	741.6
Accounts payable	730.9	0.0	0.0	730.9
Other financial liabilities	24.0	2.7	0.7	27.4
<b>Financial liabilities measured at amortized cost</b>	<b>937.6</b>	<b>381.4</b>	<b>204.4</b>	<b>1,523.4</b>
Financial liabilities at fair value through profit and loss	5.7	0.0	0.0	5.7
<b>Total</b>	<b>943.3</b>	<b>381.4</b>	<b>204.4</b>	<b>1,529.1</b>
<b>December 31, 2018</b>				
Bank loans	13.8	0.0	0.0	13.8
Bonds	215.2	728.7	2,186.3	3,130.2
Accounts payable	733.8	0.0	0.0	733.8
Other financial liabilities	21.5	1.4	0.7	23.6
<b>Financial liabilities measured at amortized cost</b>	<b>984.3</b>	<b>730.1</b>	<b>2,187.0</b>	<b>3,901.4</b>
Financial liabilities at fair value through profit and loss	2.3	0.0	0.0	2.3
<b>Total</b>	<b>986.6</b>	<b>730.1</b>	<b>2,187.0</b>	<b>3,903.7</b>

**CAPITAL MANAGEMENT.** The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy equity ratios in order to support its business. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies, or processes during the years ended December 31, 2018, and December 31, 2017. The Group monitors its equity using the equity ratio, which is shareholders' equity divided by total capital.

## OTHER INFORMATION

### SIGNIFICANT SHAREHOLDERS

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>.

As of the balance sheet date of December 31, 2017, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting rights via Schenker-Winkler Holding AG (SWH) as of December 31, 2017. (2) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III and Melinda French Gates as well as Bill & Melinda Gates Foundation Trust, which owned 4.77% of all voting rights on the balance sheet date. (3) BlackRock, Inc., which owned 3.41% of all voting shares on the balance sheet date.

### RELATED PARTIES

**ASSOCIATED COMPANIES.** In the year under review, goods and services totaling CHF 9.3 million (CHF 10.4 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 27.5 million (CHF 24.0 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 2018 amounted to CHF 0.6 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	2017	2018
Current benefits	8.1	15.5
Share-based payments <sup>1</sup>	6.4	12.1
Pension benefits	1.2	1.2
<b>Total</b>	<b>15.7</b>	<b>28.8</b>

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

In the year under review 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 is 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. In the previous year, the Board of Directors did not receive any compensation. Detailed information regarding remuneration of the Board of Directors and Group Management are included in the compensation report (as of page 68 of the download version of this report). 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 157 of the download version 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 20, 2019. The financial statements will be submitted for approval to the Annual General Meeting on April 9, 2019.

## EVENTS AFTER THE BALANCE SHEET DATE

The following events occurred between December 31, 2018, and the release of these consolidated financial statements:

**ACQUISITIONS.** In December 2018, Sika agreed to acquire 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. The transaction is subject to approval by the antitrust authorities. The exact amount and distribution of the assets are not yet known. The amounts are also immaterial from the Group's perspective. Arcon generated annual sales of approximately CHF 23 million in 2018.

**PLANNED ACQUISITION.** On January 8, 2019, Sika made a binding offer to acquire Parex. Parex is a leading mortar manufacturer, including facade mortars, tile adhesives, waterproofing, and technical mortars with annual sales of approximately CHF 1.2 billion. Parex has a particularly strong presence in the distribution channels, combining recognized brands with R&D expertise and technical excellence. The transaction is subject to regulatory approval. The transaction is expected to be completed in the second or third quarter of 2019.

**FINANCING.** On January 22, 2019, Sika placed a mandatory convertible bond in the amount of CHF 1,300.0 million with maturity in 2022 and payment date January 30, 2019. The issue price is 100%. The convertible bond has a coupon of 3.75% p.a. The shares to be delivered upon conversion will be provided by existing shares or by the issue of new shares from conditional capital. The initial minimum conversion price was set at CHF 130.00 and the initial maximum conversion price at CHF 146.25. The maximum conversion premium corresponds to a premium of 12.5% in relation to the lower minimum conversion price. Sika intends to use the proceeds of the mandatory convertible bond to finance the recently announced acquisition of Parex and for general corporate purposes.

## LIST OF GROUP COMPANIES

Country	Company <sup>1</sup>		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
<b>EMEA (Europe, Middle East, Africa)</b>					
Albania	❖ Sika Albania SHPK, Tirana	ALL	40,471	100	
Algeria	☐ Sika El Djazaïr SpA, Les Eucalyptus	DZD	313,400	100	◆★★
Austria	○ Sika Österreich GmbH, Bludenz	EUR	2,500	100	◆★★
	○ Bitbau Dörr GmbH, Innsbruck	EUR	37	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	300	100	
Belgium	○ Sika Belgium NV, Nazareth	EUR	10,264	100	◆★★
	❖ Sika Automotive Belgium S.A., Saintes	EUR	1,649	100	◆★★
Bosnia-Herzegovina	❖ Sika BH d.o.o., Sarajevo	BAM	795	100	
Bulgaria	❖ Sika Bulgaria EOOD, Sofia	BGN	340	100	◆★★
Cameroon	○ Sika Cameroon SARL, Douala	XAF	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 Holding, a.s., Prague	CZK	2,058	100*	◆★★
	○ KVK PARABIT, a.s., Svoboda nad Upou	CZK	97,232	100*	◆★★
	○ Krkonošské vápenky Kunčice, a.s., Kunčice nad Labem	CZK	25,000	100*	◆★★
Denmark	○ Sika Danmark A/S, Farum	DKK	6,000	100	◆★★
Djibouti	❖ Sika Djibouti FZE, Djibouti City	USD	300	100	
Egypt	○ Sika Egypt for Construction Chemicals S.A.E., Cairo	EGP	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	78,240	100	
Finland	○ Oy Sika Finland Ab, Espoo	EUR	850	100	◆★★
France	○ Sika France SAS, Paris	EUR	18,018	100	◆★★
	○ Sika Automotive France SAS, Cergy-Pontoise Cedex	EUR	1,343	100*	◆★★
Germany	▲ Sika Holding GmbH, Stuttgart	EUR	26,000	100*	
	○ Sika Deutschland GmbH, Stuttgart	EUR	75	100*	◆★★
	○ Sika Automotive Hamburg GmbH, Hamburg	EUR	5,300	100*	◆★★
	○ Sika Trocal GmbH, Troisdorf	EUR	4,000	100*	◆★★
	■ Sika Bauabdichtungs-GmbH, Stuttgart	EUR	50	100*	
	○ Sika Automotive Frankfurt-Worms GmbH, Worms	EUR	1,000	100*	◆★★
	▲ Sika Frankfurt Grundstücksgesellschaft mbH, Worms	EUR	25	100*	
	▲ Sika Worms Grundstücksgesellschaft mbH, Worms	EUR	25	100*	
○ Hago PU GmbH, Munich	EUR	1,000	100		
Greece	○ Sika Hellas ABEE, Kryoneri	EUR	9,000	100	◆★★
Hungary	❖ Sika Hungária Kft., 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	◆



Country	Company <sup>1</sup>		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
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	
Jordan	❖ The Swiss Construction Chemicals Co. Ltd., Amman	JOD	50	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	55,000	100	◆★★
Mozambique	○ Sika Moçambique Limitada, Maputo Province	MZN	286,454	100	
Netherlands	○ Sika Nederland B.V., Utrecht	EUR	1,589	100	◆★★
Nigeria	○ Sika Manufacturing Nigeria Limited, Lagos	NGN mn	1,350	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*	◆
Romania	○ Sika Romania s.r.l., Brasov	RON	1,285	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	1,300	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	◆★★
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*	◆★★
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	◆

Country	Company <sup>1</sup>		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
	▲ 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	
	○ 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*	
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*	
	❖ Propex Concrete Systems, Ltd., Alfreton	GBP	1	100	
<b>Americas</b>					
Argentina	○ Sika Argentina SAIC, Caseros	ARS	7,600	100	◆★★
Bolivia	○ Sika Bolivia SA, Santa Cruz de la Sierra	BOB	1,800	100	◆
Brazil	○ Sika S/A, Osasco	BRL	280,981	100	◆★★
Canada	○ Sika Canada Inc., Pointe Claire/QC	CAD	5,600	100	◆★★
Chile	○ Sika S.A. Chile, Santiago de Chile	CLP mn	4,430	100	◆★★
Colombia	○ Sika Colombia S.A.S, Tocancipá	COP mn	14,500	100	◆★★
Costa Rica	○ Sika productos para la construcción S.A., Heredia	CRC	825,005	100	
Dom. Republic	○ Sika Dominicana SRL, Santo Domingo Oeste	DOP	137,848	100	
Ecuador	○ Sika Ecuatoriana S.A., Guayaquil	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	

Country	Company <sup>1</sup>		Capital stock in thousands	Voting- and capital share in %	Certifi- cation	
Paraguay	○ Sika Paraguay S.A., Asunción	PYG mn	40	100		
Peru	○ Sika Perú S.A.C., Lima	PEN	3,500	100	◆ ★	
Uruguay	○ Sika Uruguay SA, Montevideo	UYP	22,800	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*	◆ ★	
	○ Rmax Operating LLC, Dallas/TX	USD	11,220	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*	◆ ★	
	○ Sika Fibers, LLC, Wilmington/DE	USD	1	100*		
Venezuela	○ Sika Venezuela SA, Valencia	VEF	29,441	100		
<b>Asia/Pacific</b>						
Australia	○ Sika Australia Pty. Ltd., Wetherill Park	AUD	4,000	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., Shang- hai	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 (Hebei) Building Material Ltd., Zhengding County	CNY	30,000	85*	◆ ★ *	
	○ 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*		
	Hong Kong	○ Sika Hong Kong Ltd., Shatin	HKD	30,000	100	◆ ★
		❖ Ronacrete (Far East) Ltd., Shatin	HKD	450	100*	
India	○ Sika India Private Ltd., Mumbai	INR	45,000	100	◆ ★	
	❖ Axson India Private Limited, Pune	INR	3,000	100*		
Indonesia	○ Sika Indonesia P.T., Bogor	IDR mn	3,282	100	◆ ★	
Japan	○ Sika Ltd., Shinagawa	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*		
	○ Axson Japan K.K., Okazaki-shi	JPY	10,000	100*		
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	◆ ★ *	

Country	Company <sup>1</sup>		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Mongolia	○ Sika Mongolia LLC, Ulaanbaatar	MNT mn	7,091	100	
Myanmar	○ Sika Myanmar Limited, Dagon Myothit (South) Township	MMK	541,363	100	
New Zealand	○ Sika (NZ) Ltd., Auckland	NZD	1,100	100	◆ ★
Philippines	○ Sika Philippines Inc., Las Pinas City	PHP	55,610	100	◆ ★
Singapore	○ Sika Singapore Pte. Ltd., Singapore	SGD	1,000	100	◆ ★ *
	▲ Sika Asia Pacific Mgt. Pte. Ltd., Singapore	SGD	100	100	
Sri Lanka	○ Sika Lanka (Private) Limited, Ekala	LKR	129,100	100	◆ ★
Taiwan	○ Sika Taiwan Ltd., Taoyuan County	TWD	40,000	100	◆ ★
Thailand	○ Sika (Thailand) Ltd., Chonburi	THB	200,000	100	◆ ★ *
Vietnam	○ Sika Limited (Vietnam), Dong Nai Province	VND mn	44,190	100	◆ ★

- Production, sales, construction contracting
- Production and sales
- ✦ Sales
- ▲ Real estate and service companies
- Construction contracting

- ◆ ISO 9001 (Quality Management)
- ★ ISO 14001 (Environmental Management)
- \* OHSAS 18001 (Occupational Health and Safety)

<sup>1</sup> For associated companies see note 7.

\* 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, 2018.

In our opinion the consolidated financial statements (pages 90 to 140 of the download version of this report) give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, 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 20% of the Group's total assets and 77% of the Group's total shareholders' equity as at December 31, 2018. 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 2018 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 assessed 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 inflation rates and the model used. We assessed sensitivities in the available headroom of CGUs and whether a possible change in assumptions such as forecasted EBITDAs, growth rate in the first year, long-term growth rate, and WACC could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of the Group's estimates and long-term business plans. Finally, we assessed 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.

#### **TRANSACTIONS RELATED TO THE OVERALL AGREEMENT BETWEEN SIKA, SCHENKER-WINKLER HOLDING AND SAINT-GOBAIN**

AREA OF FOCUS. We focused on the following significant one-off transactions related to the overall agreement between Sika, Schenker-Winkler Holding AG ("SWH") and Saint-Gobain which occurred during the year:

- acquisition of 1,062,952 registered shares in Sika AG with a par value of CHF 0.10 (representing 6.97% of the capital and 23.70% of the voting rights on 10 May 2018) from SWH for a total consideration of CHF 2.08 billion,
- cancellation of the Sika AG registered shares purchased from SWH by way of a capital reduction in the amount of CHF 106,295.20 to CHF 1,417,811.60, and
- financing of the transactions (including the placement of a convertible bond in the amount of CHF 1,650.0 million).

Due to the significance and the non-routine nature of these transactions, these are considered a key audit matter.

OUR AUDIT RESPONSE. With respect to the acquisition of the registered shares in Sika AG our procedures included the following:

- evaluated the calculation of the freely available equity with respect to article 659 of the Swiss Code of Obligations (CO), and
- assessed whether the acquisition of the registered shares in Sika AG is accounted and presented in accordance with requirements of International Financial Reporting Standards.

With respect to the cancellation of the Sika AG registered shares and the capital reduction our procedures included the following:

- evaluated in accordance with article 732 para. 2 Swiss Code of Obligations (CO) whether the claims of the creditors of Sika AG are fully covered despite the proposed reduction of the share capital, and
- assessed whether the capital reduction is accounted and presented in accordance with requirements of International Financial Reporting Standards.

With respect to the financing of the transactions our procedures included the following:

- reviewed the key terms of the finance agreements and assessed the accounting and presentation of the financing transactions in the Group financial statements of Sika AG in accordance with requirements of International Financial Reporting Standards,
- assessed the accounting as a compound financial instrument in accordance with International Financial Reporting Standards based on the legal terms of the convertible bond,
- assessed the liability and equity split in accordance with International Financial Reporting Standards, and
- assessed whether the convertible bond is accounted and presented in accordance with requirements of International Financial Reporting Standards.

Our audit procedures did not lead to any reservations regarding the accounting and presentation of these transactions.

## **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 20, 2019

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	2014	2015	2016	2017	2018
<b>Net sales</b>	<b>5,571.3</b>	<b>5,489.2</b>	<b>5,747.7</b>	<b>6,248.3</b>	<b>7,085.4</b>
Material expenses	-2,620.0	-2,518.4	-2,566.6	-2,849.2	-3,333.7
<b>Gross result</b>	<b>2,951.3</b>	<b>2,970.8</b>	<b>3,181.1</b>	<b>3,399.1</b>	<b>3,751.7</b>
Personnel expenses	-1,093.7	-1,106.5	-1,159.1	-1,212.1	-1,345.4
Other operating expenses	-1,059.3	-1,027.0	-1,056.3	-1,118.5	-1,256.4
<b>Operating profit before depreciation</b>	<b>798.3</b>	<b>837.3</b>	<b>965.7</b>	<b>1,068.5</b>	<b>1,149.9</b>
Depreciation/amortization/impairment	-165.1	-164.0	-170.4	-172.2	-204.0
<b>Operating profit</b>	<b>633.2</b>	<b>673.3</b>	<b>795.3</b>	<b>896.3</b>	<b>945.9</b>
Interest income/interest expense	-27.8	-22.0	-17.8	-16.4	-24.2
Financial income/financial expense/income from associated companies	-14.8	-29.4	-21.7	-17.8	-28.8
<b>Profit before taxes</b>	<b>590.6</b>	<b>621.9</b>	<b>755.8</b>	<b>862.1</b>	<b>892.9</b>
Income taxes	-149.4	-156.8	-189.2	-213.1	-205.8
<b>Net profit</b>	<b>441.2</b>	<b>465.1</b>	<b>566.6</b>	<b>649.0</b>	<b>687.1</b>
Free cash flow	349.8	379.5	563.0	173.7	38.8
Gross result as % of net sales	53.0	54.1	55.3	54.4	53.0
Operating profit as % of net sales	11.4	12.3	13.8	14.3	13.4
Net profit as % of net sales (ROS)	7.9	8.5	9.9	10.4	9.7
Net profit as % of shareholders' equity (ROE)	18.5	18.2	19.2	19.0	41.0



## SEGMENT INFORMATION

in CHF mn	EMEA					Americas				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Net sales	2,734	2,486	2,561	2,736	3,167	1,385	1,439	1,487	1,684	1,821
Operating profit	332	327	349	379	435	203	230	258	288	300
in % of net sales	12.1	13.2	13.6	13.9	13.7	14.7	16.0	17.4	17.1	16.5
Depreciation/amortization	84	79	83	83	89	32	31	32	37	44
Capital expenditures	71	65	74	84	113	37	32	38	57	45

in CHF mn	Asia/Pacific					Global Business				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Net sales	1,033	1,009	1,070	1,121	1,177	419	555	630	707	920
Operating profit	140	165	190	206	217	45	60	102	120	132
in % of net sales	13.6	16.4	17.8	18.4	18.4	10.7	10.8	16.2	17.0	14.3
Depreciation/amortization	23	24	25	25	25	7	11	10	12	22
Capital expenditures	27	25	23	25	29	11	15	15	17	21

in CHF mn	Other segments and activities					Total				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Net sales	0	0	0	0	0	5,571	5,489	5,748	6,248	7,085
Operating profit	-87	-109	-104	-97	-138	633	673	795	896	946
in % of net sales						11.4	12.3	13.8	14.3	13.4
Depreciation/amortization	19	19	20	17	25	165	164	170	172	204
Capital expenditures	7	6	5	5	6	153	143	155	188	214

1 Restated.

The segments were adjusted as of January 1, 2018. The former North America and Latin America segments are combined in a new Americas segment and the globally managed, previously unsegmented Automotive business in the new segment Global Business, together with the also centrally managed business Advanced Resins (formerly Axson Technologies) and the Faist ChemTec Group. Research and development costs previously allocated to other segments and activities are now allocated to the segments. In line with internal reporting, the segment reporting presented here has been adjusted. Previous years have been restated accordingly to ensure comparability.

## CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31

in CHF mn		2014	2015	2016	2017	2018
Cash and cash equivalents		898.8	1,074.4	1,155.0	1,037.9	914.0
Accounts receivable	a	1,006.0	1,014.5	1,043.1	1,188.8	1,322.9
Inventories	b	591.3	584.9	600.8	729.5	800.7
Other assets <sup>1</sup>		100.0	104.3	98.1	128.9	139.1
<b>Current assets</b>		<b>2,596.1</b>	<b>2,778.1</b>	<b>2,897.0</b>	<b>3,085.1</b>	<b>3,176.7</b>
Property, plant, and equipment		958.3	924.3	959.2	1,065.2	1,214.2
Intangible assets		1,074.6	1,037.9	1,021.2	1,317.1	1,693.9
Other assets <sup>2</sup>		188.9	183.5	221.8	328.4	297.4
<b>Non-current assets</b>		<b>2,221.8</b>	<b>2,145.7</b>	<b>2,202.2</b>	<b>2,710.7</b>	<b>3,205.5</b>
<b>ASSETS</b>		<b>4,817.9</b>	<b>4,923.8</b>	<b>5,099.2</b>	<b>5,795.8</b>	<b>6,382.2</b>
Accounts payable	c	605.4	581.1	587.0	730.9	733.8
Financial liabilities		34.8	278.1	44.3	202.3	237.5
Other liabilities <sup>3</sup>		310.9	303.9	336.7	420.4	435.5
<b>Current liabilities</b>		<b>951.1</b>	<b>1,163.1</b>	<b>968.0</b>	<b>1,353.6</b>	<b>1,406.8</b>
Financial liabilities		964.2	708.8	707.5	553.3	2,795.0
Non-current provisions, employee benefit obligations		373.3	360.8	332.1	316.4	316.8
Other liabilities <sup>4</sup>		146.0	139.0	143.9	161.4	188.2
<b>Non-current liabilities</b>		<b>1,483.5</b>	<b>1,208.6</b>	<b>1,183.5</b>	<b>1,031.1</b>	<b>3,300.0</b>
<b>LIABILITIES</b>		<b>2,434.6</b>	<b>2,371.7</b>	<b>2,151.5</b>	<b>2,384.7</b>	<b>4,706.8</b>
Capital stock		1.5	1.5	1.5	1.5	1.4
Treasury shares		-10.8	-0.9	-11.0	-6.6	-11.1
Reserves		2,376.4	2,530.2	2,933.8	3,389.8	1,655.6
<b>Equity attributable to Sika shareholders</b>		<b>2,367.1</b>	<b>2,530.8</b>	<b>2,924.3</b>	<b>3,384.7</b>	<b>1,645.9</b>
Non-controlling interests		16.2	21.3	23.4	26.4	29.5
<b>SHAREHOLDERS' EQUITY</b>	d	<b>2,383.3</b>	<b>2,552.1</b>	<b>2,947.7</b>	<b>3,411.1</b>	<b>1,675.4</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	e	<b>4,817.9</b>	<b>4,923.8</b>	<b>5,099.2</b>	<b>5,795.8</b>	<b>6,382.2</b>

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	2014	2015	2016	2017	2018
Net working capital	(a+b-c)	991.9	1,018.3	1,056.9	1,187.4	1,389.8
Net working capital as % of net sales		17.8	18.6	18.4	19.0	19.6
Net debt <sup>1</sup>	f	82.5	-94.0	-415.6	-290.2	2,114.1
Gearing in %	(f : d)	3.5	-3.7	-14.1	-8.5	126.2
Equity ratio in %	(d : e)	49.5	51.8	57.8	58.9	26.3

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	2014	2015	2016	2017	2018
Capital employed <sup>1</sup>		2,782.0	2,760.2	2,772.4	3,246.3	3,975.6
Annual average of capital employed	g	2,722.3	2,771.1	2,766.3	3,009.4	3,611.0
Operating profit	h	633.2	673.3	795.3	896.3	945.9
Return on capital employed (ROCE) in %	(h : g)	23.3	24.3	28.7	29.8	26.2

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

## EMPLOYEES

	2014	2015	2016	2017	2018
<b>Employees by geographical location (at December 31)<sup>1</sup></b>					
<b>EMEA (Europe, Middle East, Africa)</b>	<b>8,708</b>	<b>9,079</b>	<b>9,083</b>	<b>9,822</b>	<b>10,983</b>
Switzerland	2,029	2,022	2,001	1,970	2,024
Germany	1,777	1,832	1,778	1,808	2,354
United Kingdom	728	772	817	837	864
France	637	754	727	701	685
<b>America</b>	<b>4,097</b>	<b>4,090</b>	<b>4,167</b>	<b>4,621</b>	<b>4,867</b>
Brazil	755	617	577	574	589
USA	1,275	1,432	1,580	1,911	2,164
<b>Asia/Pacific</b>	<b>4,090</b>	<b>4,112</b>	<b>4,169</b>	<b>4,041</b>	<b>4,210</b>
China	1,220	1,083	1,099	1,066	1,181
Japan	629	670	673	661	673
<b>Total</b>	<b>16,895</b>	<b>17,281</b>	<b>17,419</b>	<b>18,484</b>	<b>20,060</b>
<b>Personnel expenses (in CHF mn)</b>					
Wages and salaries	894	900	941	991	1,095
Social charges, other	200	207	218	221	250
<b>Personnel expenses</b>	<b>1,094</b>	<b>1,107</b>	<b>1,159</b>	<b>1,212</b>	<b>1,345</b>
Personnel expenses as % of net sales	20	20	20	19	19
<b>Key data per employee (in CHF 1,000)</b>					
Net sales	326	321	331	348	368
Net value-added <sup>2</sup>	103	103	112	117	117

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	2014	2015	2016	2017	2018
<b>Source of value-added</b>					
Corporate performance (net sales)	5,571	5,489	5,748	6,248	7,085
Intermediate inputs	-3,691	-3,572	-3,631	-3,994	-4,622
<b>Gross value-added</b>	<b>1,880</b>	<b>1,917</b>	<b>2,117</b>	<b>2,254</b>	<b>2,463</b>
Non-liquidity related expenses					
Depreciation and amortization	-165	-164	-170	-172	-204
Change in provisions	0	2	-12	10	2
<b>Net value-added</b>	<b>1,715</b>	<b>1,755</b>	<b>1,935</b>	<b>2,092</b>	<b>2,261</b>
<b>Distribution of value-added</b>					
To employees					
Wages and salaries	894	900	941	991	1,095
Social charges	205	212	222	224	253
To governments (income taxes)	149	157	189	213	206
To lenders (interest expenses)	26	21	16	15	23
To shareholders (dividend payout, incl. non-controlling interests)	146	183	200	246	283
To the company					
Net profit for the year	441	465	567	649	687
Less dividend payout	-146	-183	-200	-246	-283
<b>Net value-added</b>	<b>1,715</b>	<b>1,755</b>	<b>1,935</b>	<b>2,092</b>	<b>2,264</b>
<b>Number of employees</b>					
End of year	16,895	17,281	17,419	18,484	20,060
Annual average	16,594	17,088	17,350	17,952	19,272
<b>Net value-added per employee (in CHF 1,000)</b>	<b>103</b>	<b>103</b>	<b>112</b>	<b>117</b>	<b>117</b>

# SIKA AG, BAAR FINANCIAL STATEMENTS

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

in CHF mn	Notes	2017	2018
Dividend income	1	391.9	326.6
Financial income	2	37.5	56.5
Trademark licenses income	3	48.6	0.0
Other income	4	22.5	38.4
<b>Income</b>		<b>500.5</b>	<b>421.5</b>
Financial expenses	5	-24.5	-44.1
Personnel expenses		-16.5	-16.9
Other operating expenses	6	-20.8	-57.4
<b>Operating profit before depreciation</b>		<b>438.7</b>	<b>303.1</b>
Impairment losses (-)/reversal of an impairment loss (+) on investments		-1.8	20.3
Depreciation and amortization expenses		-0.1	-0.1
Extraordinary, non-recurring or prior-period income	7	1,000.0	0.0
<b>Net profit before taxes</b>		<b>1,436.8</b>	<b>323.3</b>
Direct taxes	8	-88.4	-4.1
<b>Net profit for the year</b>		<b>1,348.4</b>	<b>319.2</b>

## SIKA AG BALANCE SHEET AS OF DECEMBER 31

in CHF mn	Notes	2017	2018
Cash and cash equivalents	9	362.8	497.1
Securities		0.1	0.1
Other current receivables from subsidiaries	10	2,560.9	2,781.5
Other current receivables from third parties	10	2.1	3.9
Prepaid expenses and accrued income		4.4	4.5
<b>Current assets</b>		<b>2,930.3</b>	<b>3,287.1</b>
Investments	11	1,612.7	1,935.3
Property, plant, and equipment		0.2	0.1
Intangible assets		0.0	0.2
Other non-current assets	12	5.8	24.8
<b>Non-current assets</b>		<b>1,618.7</b>	<b>1,960.4</b>
<b>ASSETS</b>		<b>4,549.0</b>	<b>5,247.5</b>
Accounts payable to subsidiaries	13	1.7	3.6
Accounts payable to third parties	13	0.8	1.8
Current interest-bearing liabilities to subsidiaries	14	228.7	637.0
Current interest-bearing liabilities to third parties	14	150.0	200.0
Other current liabilities to subsidiaries		2.0	3.0
Accrued expenses and deferred income	15	90.7	75.0
Current provisions	16	2.4	0.4
<b>Current liabilities</b>		<b>476.3</b>	<b>920.8</b>
Non-current interest-bearing liabilities	14	550.0	2,850.0
Other non-current liabilities	17	2.1	5.7
Non-current provisions	16	1.9	2.3
<b>Non-current liabilities</b>		<b>554.0</b>	<b>2,858.0</b>
<b>LIABILITIES</b>		<b>1,030.3</b>	<b>3,778.8</b>
Share capital		1.5	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		3,341.6	1,296.2
Treasury shares	18	-6.6	-11.1
<b>Shareholders' equity</b>	19	<b>3,518.7</b>	<b>1,468.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,549.0</b>	<b>5,247.5</b>

# NOTES TO THE SIKA AG FINANCIAL STATEMENT

## **PRINCIPLES**

### **GENERAL**

The 2018 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.

### **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 326.6 MN (CHF 391.9 MN)

Dividends from subsidiaries are recognized in this position.

### 2. FINANCIAL INCOME CHF 56.5 MN (CHF 37.5 MN)

Financial income includes interest income and gains from foreign exchange transactions. The increase in financial income is mainly due to higher interest income and realized gains on hedges.

### 3. TRADEMARK LICENSES INCOME CHF 0.0 MN (CHF 48.6 MN)

In the previous year, license fees were received for the use of the umbrella brand. No license fees were received in the year under review, since after the transfer of the umbrella brand in 2017 all license fees were received by Sika Technology AG.

### 4. OTHER INCOME CHF 38.4 MN (CHF 22.5 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.

### 5. FINANCIAL EXPENSES CHF 44.1 MN (CHF 24.5 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 14) and realized losses on hedging transactions.

### 6. OTHER OPERATING EXPENSES CHF 57.4 MN (CHF 20.8 MN)

This position includes the holding company's general expenses. Other operating expenses mainly include legal and consulting fees, costs related to management training as well as marketing expenses. In addition, a provision in the amount of CHF 8.1 million was released in the previous year in connection with trademark rights. In the year under review 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 is 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. In the previous year, the Board of Directors did not receive any compensation.

### 7. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD INCOME CHF 0.0 MN (CHF 1,000.0 MN)

Extraordinary income in the prior year includes the gain from the sale of the umbrella brand to Sika Technology AG, a wholly-owned subsidiary of Sika AG, in the amount of CHF 1,000.0 million.

### 8. DIRECT TAXES CHF 4.1 MN (CHF 88.4 MN)

The decrease in direct taxes is based on the non-recurring profit made from the sale of the umbrella brand to Sika Technology AG last year.

### 9. CASH AND CASH EQUIVALENTS CHF 497.1 MN (CHF 362.8 MN)

All bank deposits are held in interest-bearing accounts, whereof CHF 468.8 million (CHF 330.3 million) are invested in Swiss francs and CHF 28.3 million (CHF 32.5 million) in foreign currencies.

### 10. OTHER CURRENT RECEIVABLES FROM SUBSIDIARIES AND THIRD PARTIES CHF 2,785.4 MN (CHF 2,563.0 MN)

Receivables consist of short-term loans to subsidiaries in the amount of CHF 2,756.1 million (CHF 2,548.9 million). In addition, Sika AG has receivables of CHF 25.4 million (CHF 12.0 million) from Sika subsidiaries and receivables from third parties in the amount of CHF 3.9 million (CHF 2.1 million).

### 11. INVESTMENTS CHF 1,935.3 MN (CHF 1,612.7 MN)

The change in investments is mainly due to the acquisition of Index Construction Systems and Products, the Faist Group and capital increases at subsidiaries.

Major participations are indicated on the list of Group companies beginning on page 136 of the download version of this report.

### 12. OTHER NON-CURRENT ASSETS CHF 24.8 MN (CHF 5.8 MN)

The other non-current assets contain the discounts and issue costs for bonds as well as non-current receivables from subsidiaries.



**13. ACCOUNTS PAYABLE TO SUBSIDIARIES AND THIRD PARTIES** CHF 5.4 MN (CHF 2.5 MN)

The total includes liabilities to subsidiaries in the amount of CHF 3.6 million (CHF 1.7 million) and liabilities to third parties in the amount of CHF 1.8 million (CHF 0.8 million).

**14. INTEREST-BEARING LIABILITIES** CHF 837.0 MN CURRENT/CHF 2,850.0 MN NON-CURRENT  
(CHF 378.7 MN/CHF 550.0 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:

1.125%	fixed-interest bond	2013 to 11/14/2019	CHF 200.0 million
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The following bonds are disclosed in the non-current interest-bearing liabilities:

0.00% - 0.05%	variable-interest bond	2018 to 3/27/2020	CHF 160.0 million
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
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 transaction with Schenker-Winkler Holding AG in May 2018. Details on this transaction are shown in the information on significant shareholders on page 134.

**15. ACCRUED EXPENSES AND DEFERRED INCOME** CHF 75.0 MN (CHF 90.7 MN)

Accrued expenses and deferred income include pro-rata interest, employee-related accruals as well as other accrued expenses. Furthermore, accrued taxes in the amount of CHF 59.1 million (CHF 82.1 million) are included, resulting from the sale of the umbrella brand to Sika Technology AG.

**16. PROVISIONS** CHF 0.4 MN CURRENT/CHF 2.3 MN NON-CURRENT (CHF 2.4 MN/CHF 1.9 MN)

The current provisions in the previous year included commitments of CHF 2.0 million to the Sika pension fund. At the end of 2018 there was no such obligation. This category also includes obligations from forward contracts.

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

**17. OTHER NON-CURRENT LIABILITIES** CHF 5.7 MN (CHF 2.1 MN)

The other non-current liabilities contain the premium, less issue costs of the bonds in the amount of CHF 5.1 million (CHF 1.5 million).

**18. TREASURY SHARES** CHF 11.1 MN (CHF 6.6 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 134) were cancelled by means of a capital reduction on September 7, 2018.

in CHF mn	Units	Share value
<b>At January 1, 2017</b>	<b>2,666</b>	<b>11.0</b>
Reductions	-6,114	-33.7
Additions	5,153	31.3
Acquisition Scofield	-337	-2.0
<b>At December 31, 2017</b>	<b>1,368</b>	<b>6.6</b>
<b>At January 1, 2018</b>	<b>1,368</b>	<b>6.6</b>
Reductions	-3,384	-24.1
Additions	3,460	26.8
Share purchase for capital reduction	1,062,952	2,083.0
<b>At June 14, 2018</b>	<b>1,064,396</b>	<b>2,092.3</b>
<b>At June 14, 2018 (after transformation into single-class registered shares)</b>	<b>10,702,660</b>	<b>2,092.3</b>
Capital reduction	-10,629,520	-2,083.0
Reductions	-387,462	-50.7
Additions	405,052	52.5
<b>At December 31, 2018</b>	<b>90,730</b>	<b>11.1</b>

In the year under review, the average share price was CHF 131.85 (CHF 107.50; previous year's share price adjusted for comparability).

## 19. SHAREHOLDERS' EQUITY CHF 1,468.7 MN (CHF 3,518.7 MN)

The ratio of shareholders' equity to balance sheet total decreased from 77.4% to 28.0%. This reduction is attributable to the transaction with Schenker-Winkler Holding AG in May 2018 and the subsequent capital reduction in the amount of CHF 106,295.20 in September 2018, which was resolved at the Extraordinary General Meeting on June 11, 2018. Details of the transaction can be found in the information on significant shareholders on page 134.

in CHF mn	Capital stock	Legal capital reserves <sup>1</sup>	Retained earnings <sup>2</sup>	Treasury shares	Shareholders' equity
<b>January 1, 2017</b>	<b>1.5</b>	<b>56.5</b>	<b>2,362.6</b>	<b>-11.0</b>	<b>2,409.6</b>
Dividend payment			-243.7		-243.7
Transactions with treasury shares				4.4	4.4
Net profit for the year			1,348.4		1,348.4
<b>December 31, 2017</b>	<b>1.5</b>	<b>56.5</b>	<b>3,467.3</b>	<b>-6.6</b>	<b>3,518.7</b>
<b>January 1, 2018</b>	<b>1.5</b>	<b>56.5</b>	<b>3,467.3</b>	<b>-6.6</b>	<b>3,518.7</b>
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
<b>December 31, 2018</b>	<b>1.4</b>	<b>56.5</b>	<b>1,421.9</b>	<b>-11.1</b>	<b>1,468.7</b>

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 for the year in 2018 is mainly due to the one-time sale of trademark rights to Sika Technology AG in 2017. In April 2018 the dividend of CHF 281.8 million from the profit carried forward for 2017 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:

	<b>Bearer shares<sup>1</sup> par value CHF 0.60</b>	<b>Registered shares par value CHF 0.10</b>	<b>Total<sup>1</sup></b>
12/31/2017 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107

	<b>Registered shares par value CHF 0.01</b>	<b>Total<sup>1</sup></b>
12/31/2018 (units)	141,781,160	141,781,160
Nominal value (CHF)	1,417,812	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 47 (46) 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.

in CHF mn	2017	2018
<b>Letters of guarantee</b>		
Issued	84.9	8.6
Used	0.0	0.0
<b>Letters of comfort</b>		
Issued	8.7	9.4
Used	0.5	0.2
<b>Credit lines to subsidiaries</b>		
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, 2018, the company had 13,655 (51) registered shareholders. Information regarding major shareholders can be found on page 134 of the download version 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	
	2017 <sup>1</sup>	2018
<b>Board of Directors</b>		
Paul Hälgi, Chairman	34,620	47,460
Urs F. Burkard	4,020	n.a.
Frits van Dijk	5,520	7,740
Justin Marshall Howell	n.a.	0
Willi K. Leimer	4,020	n.a.
Monika Ribar	5,340	7,560
Daniel J. Sauter	124,020	126,240
Ulrich W. Suter	4,020	6,240
Jürgen Tinggren	5,940	n.a.
Christoph Tobler	10,020	11,000
<b>Group Management</b>		
Paul Schuler, CEO	56,520	67,320
Mike Champion	7,020	7,020
Christoph Ganz	25,860	25,860
Thomas Hasler	15,540	20,940
Frank Höfflin	6,180	6,960
Yumi Kan	5,940	8,040
Ivo Schädler	5,520	6,480
José Luis Vásquez	40,680	n.a.
Adrian Widmer	15,660	18,060
<b>Total</b>	<b>376,440</b>	<b>366,920</b>

1 The number of shares granted in the previous year was adjusted by a factor of 60 to ensure comparability due to the share split in 2018 (for details see page 126 in note 24).

Sika AG has allocated the following number of shares as part of employee participation programs. The shares are granted at the average market price of the first five trading days of April of the subsequent business year. In the year under review, the average market price amounted to CHF 123.00 for Group Management and employees and CHF 143.60 for the Board of Directors (CHF 104.85, average market price adjusted for comparability).

in CHF thousands	2017		2018	
	Units <sup>1</sup>	Nominal	Units	Nominal
Board of Directors	0	0.0	30,600	4,394.2
Group Management	24,360	2,553.7	17,520	2,155.0
Employees	8,340	874.3	4,800	590.4
<b>Total</b>	<b>32,700</b>	<b>3,428.0</b>	<b>52,920</b>	<b>7,139.6</b>

1 Number of shares in 2017 adjusted for comparability.

## 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	2017	2018
<b>Composition of the profit brought forward</b>		
Net profit for the year	1,348.4	319.2
Results carried forward from prior year	1,993.2	3,059.8
Reduction through cancellation of own shares	0.0	-2,082.8
<b>Profit brought forward</b>	<b>3,341.6</b>	<b>1,296.2</b>
<b>Dividend payment</b>		
Dividend payment out of the profit brought forward <sup>1</sup>	281.8	290.6
<b>Results carried forward</b>	<b>3,059.8</b>	<b>1,005.6</b>

<sup>1</sup> Dividend payment for shares entitled to dividends (without treasury shares as per December 31, 2018).

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	2017	2018
<b>Bearer share<sup>1</sup> par value CHF 0.60</b>		
Gross dividend	111.00	n.a.
35% withholding tax on gross dividend	38.85	n.a.
<b>Net dividend</b>	<b>72.15</b>	<b>n.a.</b>
<b>Registered share<sup>1</sup> par value CHF 0.10</b>		
Gross dividend	18.50	n.a.
35% withholding tax on gross dividend	6.48	n.a.
<b>Net dividend</b>	<b>12.03</b>	<b>n.a.</b>
<b>Registered share<sup>1</sup> par value CHF 0.01</b>		
Gross dividend	n.a.	2.05
35% withholding tax on gross dividend	n.a.	0.72
<b>Net dividend</b>	<b>n.a.</b>	<b>1.33</b>

<sup>1</sup> Bearer shares and 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 2.05 per single-class registered share be distributed to shareholders. The dividend for 2017 adjusted for comparability purposes amounts to CHF 1.85 per single-class registered share.

Payment of the dividend is tentatively scheduled for Monday, April 15, 2019. 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 9, 2019.

Baar, February 20, 2019

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 149 to 159 of the download version of this report), for the year ended December 31, 2018.

## **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, 2018, 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 37% 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.

## TRANSACTIONS RELATED TO THE OVERALL AGREEMENT BETWEEN SIKA, SCHENKER-WINKLER HOLDING AND SAINT-GOBAIN

**AREA OF FOCUS.** We focused on the following significant one-off transactions related to the overall agreement between Sika, Schenker-Winkler Holding AG ("SWH") and Saint-Gobain which occurred during the year:

- acquisition of 1,062,952 registered shares in Sika AG with a par value of CHF 0.10 (representing 6.97% of the capital and 23.70% of the voting rights on May 10, 2018) from SWH for a total consideration of CHF 2.08 billion,
- cancellation of the Sika AG registered shares purchased from SWH by way of a capital reduction in the amount of CHF 106,295.20 to CHF 1,417,811.60, and
- financing of the transactions (including the placement of a convertible bond in the amount of CHF 1,650.0 million).

Due to the significance and the non-routine nature of these transactions, these are considered a key audit matter.

**OUR AUDIT RESPONSE.** With respect to the acquisition of the registered shares in Sika AG our procedures included the following:

- evaluated the calculation of the freely available equity with respect to article 659 of the Swiss Code of Obligations (CO), and
- assessed whether the acquisition of the registered shares in Sika AG is accounted and presented in accordance with requirements of Swiss Code of Obligations (CO).

With respect to the cancellation of the Sika AG registered shares and the capital reduction our procedures included the following:

- evaluated in accordance with article 732 para. 2 Swiss Code of Obligations (CO) whether the claims of the creditors of Sika AG are fully covered despite the proposed reduction of the share capital, and
- assessed whether the capital reduction is accounted and presented in the standalone financial statements of Sika AG in accordance with requirements of Swiss Code of Obligations (CO).

With respect to the financing of the transactions our procedures included the following:

- reviewed the key terms of the finance agreements and assessed the accounting and presentation of the financing transactions in the standalone financial statements of Sika AG in accordance with requirements of Swiss Code of Obligations (CO),
- assessed whether the convertible bond is accounted and presented in the standalone financial statements of Sika AG in accordance with requirements of Swiss Code of Obligations (CO).

Our audit procedures did not lead to any reservations regarding the accounting and presentation of these transactions.

## **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 20, 2019

ERNST & YOUNG LTD

Christoph Michel  
Licensed audit expert  
(Auditor in charge)

Marc Rügsegger  
Licensed audit expert

# FINANCIAL CALENDAR

<b>SALES FIRST QUARTER 2019</b>	Tuesday, April 9, 2019
<b>51TH ANNUAL GENERAL MEETING</b>	Tuesday, April 9, 2019
<b>DIVIDEND PAYMENT</b>	Monday, April 15, 2019
<b>HALF-YEAR REPORT 2019</b>	Thursday, July 25, 2019
<b>RESULT FIRST NINE MONTHS 2019</b>	Thursday, October 24, 2019
<b>NET SALES 2019</b>	Tuesday, January 7, 2020
<b>FULL YEAR RESULT 2019</b>	Friday, February 21, 2020

# IMPRINT

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The German download version of this report is legally binding.

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