

# SIKA BUSINESS YEAR 2019

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# FINANCIAL REPORT

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

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

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

## CONSOLIDATED BALANCE SHEET

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock	Capital surplus	Treasury shares	Currency translation differences	Retained earnings	Equity attributable to Sika shareholders	Non-con- trolling interests	Total equity
in CHF mn								
<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		-12.4	-2,099.8		-2,099.8
Destruction of treasury shares <sup>2</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>4</sup>					40.7	40.7		40.7
Inflation adjustment <sup>5</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>2,066.5</b>	<b>1,645.7</b>	<b>29.5</b>	<b>1,675.2</b>
<b>January 1, 2019</b>	<b>1.4</b>	<b>203.1</b>	<b>-11.1</b>	<b>-614.2</b>	<b>2,066.5</b>	<b>1,645.7</b>	<b>29.5</b>	<b>1,675.2</b>
Impact of initial application of IFRS 16 Leases <sup>6</sup>					-8.6	-8.6	-0.1	-8.7
<b>January 1, 2019 (adjusted)</b>	<b>1.4</b>	<b>203.1</b>	<b>-11.1</b>	<b>-614.2</b>	<b>2,057.9</b>	<b>1,637.1</b>	<b>29.4</b>	<b>1,666.5</b>
Net profit					751.9	751.9	6.6	758.5
Other comprehensive income				-133.6	4.2	-129.4	-0.9	-130.3
<b>Comprehensive income</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-133.6</b>	<b>756.1</b>	<b>622.5</b>	<b>5.7</b>	<b>628.2</b>
Transactions with treasury shares <sup>1</sup>			3.8		-7.6	-3.8		-3.8
Share-based payments					7.9	7.9		7.9
Dividends <sup>7</sup>					-290.6	-290.6	-2.8	-293.4
Issue of convertible bond <sup>4</sup>					1,137.5	1,137.5		1,137.5
Tax impact <sup>8</sup>					-0.9	-0.9		-0.9
Non-controlling interests from acquisitions <sup>9</sup>						0.0	10.8	10.8
Purchase of non-controlling interests <sup>10</sup>					-3.9	-3.9	-6.0	-9.9
Inflation adjustment <sup>5</sup>					18.3	18.3		18.3
<b>December 31, 2019</b>	<b>1.4</b>	<b>203.1</b>	<b>-7.3</b>	<b>-747.8</b>	<b>3,674.7</b>	<b>3,124.1</b>	<b>37.1</b>	<b>3,161.2</b>

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

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

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

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

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

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

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

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

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

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

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

# APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

## PRINCIPLES OF CONSOLIDATION AND VALUATION

### CORPORATE INFORMATION

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

### ACCOUNTING POLICIES

#### BASIS OF PREPARATION

The financial statements of Sika have been prepared in conformity with the provisions of the International Accounting Standards Board (IASB). All standards (IAS/IFRS) and interpretations (IFRIC/SIC) applicable as of December 31, 2019, were taken into account. The financial statements have been prepared according to the going-concern principle. The consolidated financial statements have been prepared under the historical cost principle with the exception of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

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

##### – IFRS 16 – Leases

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

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



in CHF mn

Reconciliation

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

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

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

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

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

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

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

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

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

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

## **CONSOLIDATION METHOD**

### **BASIS**

The consolidated financial statements are based on the balance sheets and income statements of Sika AG, Baar, Switzerland, and its subsidiaries as of December 31, 2019, prepared in accordance with uniform standards.

### **SUBSIDIARIES**

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

### **ASSOCIATED COMPANIES**

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

### **INTRA-GROUP TRANSACTIONS**

Transactions within the Group are eliminated as follows:

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

### **BUSINESS COMBINATIONS AND GOODWILL**

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

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

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

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

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

## CONVERSION OF FOREIGN CURRENCIES

Foreign currency transactions are translated into the functional (local) currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency on every balance sheet date by applying exchange rates valid on the balance sheet date. The resulting exchange rate differences are recognized in the income statement.

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

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

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

The rates listed below were applied:

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

1 Year-end rates.

2 Annual average rates.

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

## **SIGNIFICANT ACCOUNTING ESTIMATES**

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

### **IMPAIRMENT OF GOODWILL**

The Group tests for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units or groups of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates such as expected future cash flows and discount rates. The carrying value of goodwill as of December 31, 2019, was CHF 3,139.7 million (CHF 1,223.3 million). Further details are presented in note 16.

### **FAIR VALUE OF ACQUISITION**

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

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

Trademarks with indefinite useful lives are tested annually for impairment. The impairment test is performed on the cash-generating unit or group of cash-generating units to which the trademark is allocated. This group can comprise several operating segments. The calculations of the recoverable amount require the use of estimates such as expected future cash flows and discount rates. The carrying value of trademarks with indefinite useful lives as of December 31, 2019, was CHF 72.4 million (CHF 72.4 million). Further details are presented in note 16.

### **CUSTOMER RELATIONS**

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

### **DEFERRED TAX ASSETS**

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

### **EMPLOYEE BENEFIT OBLIGATIONS**

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

### **PROVISIONS**

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

## SCOPE OF CONSOLIDATION AND ACQUISITIONS

The consolidated financial statements of the Group comprise the financial statements of Sika AG, Zugerstrasse 50, 6340 Baar, Switzerland, as well as its subsidiaries (see list starting on page 145 et seq. of 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 acquired companies (see the next pages) and the following newly founded companies:

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

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

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

## ACQUISITIONS 2018

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

### ACQUIRED NET ASSETS AT FAIR VALUE

in CHF mn	Index	Faist ChemTec Group	Other acquisitions <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	-7.5
<b>Total purchase consideration</b>	<b>243.2</b>	<b>281.1</b>	<b>21.8</b>
Cash in acquired assets	-57.7	-12.8	-5.8
Payment reclaim (per December 31, 2018)	0.0	0.0	1.4
<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.

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

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

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

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

## ACQUISITIONS 2019

In 2019, Sika acquired various companies.

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

### PAREX GROUP

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

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

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

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

### OTHER ACQUISITIONS

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

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

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

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

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

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

### ACQUIRED NET ASSETS AT FAIR VALUES

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

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



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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **1. NET SALES** CHF 8,109.2 MN (CHF 7,085.4 MN)

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

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

Extended warranty contracts are sold for certain products on installed roofing systems. Revenue for separately priced extended warranties is deferred and recognized on a straight-line basis over the extended warranty period. The average warranty period is nine years (nine years). In 2019, revenues of CHF 4.4 million (CHF 4.4 million) were recognized. The deferred revenue positions are included in accrued expenses and deferred income (see note 19) as well as in other liabilities (see note 23).

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

### **2. SEGMENT REPORTING**

Sika conducts its worldwide activities according to geographical regions and the global segment Global Business. Heads of the segments are members of Group Management. Group Management is the highest executive body that measures the success of the operating segments and allocates resources. The key figure of profit by which the segments are directed is operating profit, which is consistent with the consolidated financial statements. Financing (including financial expenses and income) and income taxes are managed on a Group-wide basis and are not allocated to the individual segments. The composition of the segments is shown on page 47 of the download version of this report.

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

The globally active Parex Group, which was acquired in 2019, has been allocated to the EMEA, Americas and Asia/Pacific geographical segments according to the respective country headquarters of the companies. Part GmbH, Germany, Belinco LLC, Belarus, as well as Arcon Membrane Srl, Romania, were allocated to the EMEA segment. King Packaged Materials Company, Canada and USA, were allocated to the Americas segment. Crevo-Hengxin, China, was allocated to the Asia/Pacific segment.

## NET SALES

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

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

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

## CHANGES IN NET SALES/CURRENCY IMPACT

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

## OPERATING PROFIT

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

## RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

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

in CHF mn	2018		2019	
	Depreciation/ Amortization	Capital expenditures	Depreciation/ Amortization	Capital expenditures
EMEA	88.8	112.8	137.5	87.2
Americas	43.8	45.4	77.1	40.7
Asia/Pacific	24.5	29.0	58.9	34.7
Global Business	22.1	20.8	29.4	19.0
Other segments and activities	24.8	6.1	29.6	10.7
<b>Total</b>	<b>204.0</b>	<b>214.1</b>	<b>332.5</b>	<b>192.3</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>			
	2018	%	2019	%	2018	%	2019	%
USA	1,315.6	18.5	1,518.6	18.7	612.4	21.0	957.0	15.6
Germany	793.2	11.2	777.2	9.6	388.9	13.3	396.9	6.5
China	374.6	5.3	654.6	8.1	83.4	2.9	1,214.9	19.8
France	339.4	4.8	530.0	6.5	75.0	2.6	771.6	12.5
Switzerland	383.1	5.4	398.1	4.9	552.6	19.0	589.8	9.6
All other	3,879.5	54.8	4,230.7	52.2	1,202.0	41.2	2,212.8	36.0
<b>Total</b>	<b>7,085.4</b>	<b>100.0</b>	<b>8,109.2</b>	<b>100.0</b>	<b>2,914.3</b>	<b>100.0</b>	<b>6,143.0</b>	<b>100.0</b>

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

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

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

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

in CHF mn	2018	2019
Wages and salaries	1,095.1	1,257.5
Social charges	250.3	286.8
<b>Personnel expenses</b>	<b>1,345.4</b>	<b>1,544.3</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 costs remained constant at 19.0% in relation to net sales.

#### EMPLOYEE BENEFIT COSTS

in CHF mn	2018	2019
Employee benefit plans with defined benefits <sup>1</sup>	29.9	29.4
Other employee benefit plans	41.6	47.9
<b>Employee benefit costs</b>	<b>71.5</b>	<b>77.3</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 cost of these compensation systems is recognized in personnel expenses over the period in which services are rendered by the employees.

#### PERFORMANCE BONUS (SHORT-TERM INCENTIVE)

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

SIKA SENIOR MANAGEMENT. Part of the performance bonus of Sika Senior Management (by definition, Sika Senior Management includes the management level reporting into Group Management, managing directors of subsidiaries and heads of central and regional functions; 188 participants) is paid in Sika AG shares. The allocated shares are subject to a four-year blocking period. Sika Senior Managers can choose to receive 0%, 20% or 40% of their performance bonus in Sika AG shares plus one bonus share for every two shares chosen. The market value of the grant was CHF 4.4 million. In the prior year the market value of the grant amounted to CHF 3.8 million.

#### LONG-TERM INCENTIVE (LTI-PLAN)

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

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

The LTI plans 2018–2020 and 2017–2019 contained only one performance target, the return on capital employed (ROCE) target. The market value of the PSUs was determined once at the respective grant date.

SIKA SENIOR MANAGEMENT. Sika Senior Managers participate in a long-term incentive plan 2019–2021, which is structured in the same way as that for top management (see above), except that it is settled in cash.

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

The LTI plans 2018–2020 as well as 2017–2019 included only one performance target, the return on capital employed (ROCE). The market value of the PSUs is redetermined at the time of allocation and on each balance sheet date.

## LONG-TERM INCENTIVE

	Number of PSUs granted	Fair value per PSU in CHF	Fair value of grant in CHF million
<b>2018</b>			
Group Management LTI 2018–2020	26,700	125.81	3.4
Sika Senior Managers LTI 2018–2020	28,500	125.81	3.6
<b>Total</b>			<b>7.0</b>
<b>2019</b>			
Group Management LTI 2019–2021	27,237	114.63	3.1
Sika Senior Managers LTI 2019–2021	31,040	114.63	3.6
<b>Total</b>			<b>6.7</b>

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

The share-based payments are made by means of transfer of treasury stock of Sika AG. Recognized personnel expenses for share-based compensation for the fiscal year 2019 totaled CHF 27.4 million (CHF 32.1 million), CHF 7.9 million (CHF 12.9 million) of which was recorded in equity and CHF 19.5 million (CHF 19.2 million) in liabilities. At year-end, liabilities from share-based compensation plans amounted to CHF 23.7 million (CHF 24.3 million).

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

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

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

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

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

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

Research and development expenses are not capitalized if the recognition criteria have not been met. Expenditures on research and development in the Group during the year under review totaled CHF 200.2 million (CHF 189.5 million), roughly equivalent to 2.5% (2.7%) of sales. Research and development expenses are included in personnel expenses, other operating expenses, as well as in depreciation and amortization expenses.

## 6. INTEREST EXPENSES/OTHER FINANCIAL EXPENSES CHF 98.6 MN (CHF 61.3 MN)

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

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

Other financial expenses include foreign exchange gains and losses from the management of foreign currency as well as net gains and losses from hedging and revaluation of loans to Group companies denominated in foreign currencies. Other financial expenses increased to CHF 40.1 million (CHF 35.2 million).

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

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

## 8. INCOME TAXES

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

### RECONCILIATION BETWEEN EXPECTED AND EFFECTIVE TAX EXPENSE

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

Income tax expenses include income taxes based on current taxable income and deferred taxes. The tax rate decreased to 21.5% (23.0%). The 'Effect of changes in tax rates' 2019 includes CHF -12.1 million from the revaluation of net deferred tax assets at slightly higher tax rates due to the tax reform in Switzerland.

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

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

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

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



## RECONCILIATION OF NET DEFERRED TAX ASSETS

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

## ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

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

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

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

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

## 9. EARNINGS PER SHARE CHF 5.30 (CHF 4.69)

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

1 Excluding treasury shares held in the Group.

Undiluted earnings per share (EPS) amount to CHF 5.30 (CHF 4.69) and are calculated on the basis of net profit after non-controlling interests and the number of shares entitled to dividend, weighted over the course of the year. The share capital reduction of September 7, 2018 (see note 24), is also taken into account (weighted) in the prior year.

The convertible bonds issued (see note 20) have a dilutive effect. For the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted. It is assumed that all conversion rights were already exercised at the time of issue. In addition, the profit attributable to Sika shareholders will be increased by the interest costs for the convertible bonds in the amount of CHF 11.5 million (CHF 6.0 million) after consideration of the tax effect. Diluted earnings per share amount to CHF 4.81 (CHF 4.58).

## 10. CASH AND CASH EQUIVALENTS CHF 995.1 MN (CHF 914.0 MN)

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

## 11. ACCOUNTS RECEIVABLE CHF 1,441.9 MN (CHF 1,322.7 MN)

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

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

### AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE

in CHF mn	2018	2019
<b>Net accounts receivable</b>	<b>1,322.7</b>	<b>1,441.9</b>
Of which		
Not overdue	1,010.1	1,106.1
Past due < 31 days	182.0	194.0
Past due 31-60 days	56.9	63.1
Past due 61-180 days	51.1	53.6
Past due 181-360 days	6.6	8.5
Past due > 365 days	16.0	16.6

## MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS

in CHF mn	2018	2019
January 1	68.5	68.2
Additions to or increase in allowances	15.3	19.8
Reversal of allowances	-4.5	-0.7
Utilization of allowances	-7.7	-8.3
Exchange differences	-3.4	-3.1
<b>December 31</b>	<b>68.2</b>	<b>75.9</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 866.5 MN (CHF 800.7 MN)

in CHF mn	2018	2019
Raw materials and supplies	257.3	296.0
Semi-finished goods	57.4	62.8
Finished goods	408.2	418.9
Merchandise	77.8	88.8
<b>Total</b>	<b>800.7</b>	<b>866.5</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 139.9 MN (CHF 112.0 MN)

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

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

##### OTHER CURRENT ASSETS

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

##### OTHER NON-CURRENT ASSETS

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

1 Includes the excess of assets for employee benefit plans with defined benefits, see note 22.

Other current assets consist of assets with maturities of less than twelve months. Non-current other assets have a term of more than one year. The classification and valuation principles for financial assets are described in note 26.

#### 15. PROPERTY, PLANT, AND EQUIPMENT CHF 1,795.8 MN (CHF 1,214.2 MN)

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

## OWN PROPERTY, PLANT, AND EQUIPMENT

	Property	Plant	Equipment and motor vehicles	Plants and buildings under construction	Total
in CHF mn					
<b>At 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>1</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>2</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>
<b>As January 1, 2019</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 January 1, 2019</b>	<b>158.3</b>	<b>374.1</b>	<b>588.8</b>	<b>93.0</b>	<b>1,214.2</b>
Additions <sup>1</sup>	10.4	10.9	56.0	102.4	179.7
Acquired on acquisition	29.8	80.5	148.6	20.9	279.8
Exchange differences	-3.8	-7.8	-16.3	-3.4	-31.3
Disposals	0.0	-2.9	-4.2	0.0	-7.1
Reclassifications <sup>2</sup>	0.8	28.2	88.2	-117.6	-0.4
Depreciation charge for the year	-0.3	-29.3	-131.1	0.0	-160.7
<b>At December 31, 2019</b>	<b>195.2</b>	<b>453.7</b>	<b>730.0</b>	<b>95.3</b>	<b>1,474.2</b>
Acquisition cost	197.3	927.3	2,067.7	95.4	3,287.7
Cumulative depreciation and impairment	-2.1	-473.6	-1,337.7	-0.1	-1,813.5
<b>Net values at December 31, 2019</b>	<b>195.2</b>	<b>453.7</b>	<b>730.0</b>	<b>95.3</b>	<b>1,474.2</b>

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

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

Property, plant, and equipment are carried at historical cost less accumulated depreciation required for business purposes. The capitalization is made based on components. Value-enhancing expenses are capitalized and depreciated over their useful lives. Repair, maintenance, and replacement costs are charged directly to the income statement. Depreciation is calculated using the straight-line method and is based on the anticipated useful life of the asset, including its operational usefulness and age-related technical viability. The acquisition costs include borrowing costs for long-term construction projects if the recognition criteria are met. Plant and equipment includes machinery, vehicles, equipment, furnishings, and hardware.

### DEPRECIATION SCHEDULE

Buildings	25 years
Infrastructure	15 years
Plants and machinery	5-15 years
Furnishings	6 years
Vehicles	4 years
Laboratory equipment and tools	4 years
IT hardware	3-4 years

The recoverability of property, plant, and equipment is reviewed if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount exceeds the recoverable amount, a special depreciation allowance is recorded on the higher of fair value less cost to sell and the value in use of an asset which corresponds to the discounted, anticipated future cash flows. For the purpose of impairment tests, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

CAPITAL COMMITMENTS. Significant capital expenditure for property, plant, and equipment contracted for as at December 31, 2019, but not recognized as liabilities is CHF 19.5 million (CHF 28.7 million).

## RIGHT-OF-USE ASSETS

in CHF mn	Right-of-use production sites	Right-of-use offices and warehouses	Right-of-use equipment and motor vehicles	Total
<b>As January 1, 2019</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Impact of initial application of IFRS 16 Leases	52.5	131.2	58.6	242.3
Additions	2.9	18.4	35.8	57.1
Acquired on acquisition	72.2	23.0	11.2	106.4
Exchange differences	-5.0	-3.0	-1.5	-9.5
Remeasurements	1.8	0.3	1.7	3.8
Disposals	0.0	-0.6	-2.0	-2.6
Reclassifications <sup>1</sup>	0.7	0.1	0.1	0.9
Depreciation charge for the year	-14.0	-30.6	-32.2	-76.8
<b>At December 31, 2019</b>	<b>111.1</b>	<b>138.8</b>	<b>71.7</b>	<b>321.6</b>
Acquisition cost	124.8	166.1	97.2	388.1
Cumulative depreciation and impairment	-13.7	-27.3	-25.5	-66.5
<b>Net values at December 31, 2019</b>	<b>111.1</b>	<b>138.8</b>	<b>71.7</b>	<b>321.6</b>

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

After the inception of a contract, Sika assesses whether the contract is or contains a lease. Sika recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date, except for short-term leases of twelve month or less, low-value asset leases of CHF 5,000 or less and variable lease payments, which are expensed in the income statement over the lease term. The following expenses were recorded in other operating expenses:

in CHF mn	2019
Expenses relating to leases of low-value assets	7.5
Expenses relating to short-term leases	22.2
Expenses relating to variable leases payments not included in lease liabilities	4.2

For the asset class 'motor vehicles' the non-leasing components (e.g. services included in the lease payments) are accounted for separately and are directly expensed in the income statement. For all other asset classes Sika does not account for the non-lease components separately.

At commencement date of the lease, the lease liability, measured at the present value of the lease payments to be made over the lease term, is recognized. The lease payments include fixed payments, variable payments that depend on an index or rate, extension options and exercise price of a purchase options reasonably certain to be exercised as well as payments of penalties for terminating a lease. The lease liability is subsequently measured at amortized cost using the effective interest rate method and remeasured (with a corresponding adjustment to the related ROU asset) when there is a change in future lease payments. Lease liabilities are recognized under financial liabilities (current and non-current).

The lease payments are discounted using the incremental borrowing rate. For the Group, the rate implicit in the lease cannot be readily determined. To determine the incremental borrowing rate, the Group where possible uses recent intra-Group-financing rates. Otherwise a build-up approach is used per country and currency.

At commencement date of the lease, the ROU asset comprises the initial lease liability and initial direct costs. ROU assets are depreciated on a straight-line basis over the lease term. If Sika is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over their estimated useful life. If there is a change in future lease payments, the liability is revalued (with corresponding adjustment of the ROU asset).

## 16. INTANGIBLE ASSETS CHF 4,340.5 MN (CHF 1,693.9 MN)

in CHF mn	Goodwill	Software	Trademarks	Customer relations	Other intangibles	Total
<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>
<b>At January 1, 2019</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 January 1, 2019</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>
Additions	0.0	12.6	0.0	0.0	0.0	12.6
Acquired on acquisition	2,023.6	11.2	237.8	540.7	65.1	2,878.4
Exchange differences	-106.2	-0.8	-9.6	-26.8	-2.4	-145.8
Disposals	-1.0	-0.1	0.0	0.0	-2.0	-3.1
Reclassifications (net)	0.0	-2.1	-0.4	-0.3	2.3	-0.5
Amortization for the year	0.0	-9.6	-17.4	-46.7	-21.3	-95.0
<b>At December 31, 2019</b>	<b>3,139.7</b>	<b>38.9</b>	<b>325.0</b>	<b>729.1</b>	<b>107.8</b>	<b>4,340.5</b>
Acquisition costs	3,145.6	171.6	365.5	957.7	186.5	4,826.9
Cumulative amortization and impairment	-5.9	-132.7	-40.5	-228.6	-78.7	-486.4
<b>Net values at December 31, 2019</b>	<b>3,139.7</b>	<b>38.9</b>	<b>325.0</b>	<b>729.1</b>	<b>107.8</b>	<b>4,340.5</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.

## AMORTIZATION SCHEDULE

Software	3–8 years
Patents	5–10 years
Customer relations	1–23 years
Trademarks	3–20 years

The intangible assets (except for goodwill and trademarks with indefinite useful lives) each have finite useful lives over which the assets are amortized.

Acquired trademarks are amortized insofar as a useful life can be determined. Otherwise trademarks are not amortized. The indefinite useful life assessment is reviewed annually. Trademarks may have an indefinite useful life because they are influenced by internal and external factors such as strategic decisions, competitive and customer behavior, technical development, and changing market requirements. The carrying value of trademarks with indefinite useful lives amounts to CHF 72.4 million (CHF 72.4 million) and is subject to an annual impairment test.

GOODWILL ITEMS TESTED FOR IMPAIRMENT. Impairment tests were performed on all goodwill items (including the still provisionally allocated goodwill items from the purchase price allocations of the acquired companies). The carrying amounts of trademarks with indefinite useful lives are allocated to the carrying amounts of the cash-generating units in accordance with the proportionate share of sales. The impairment tests are based on the discounted cash flow method. The calculation of the value in use is based on the target figures and cash flow forecasts. The forecasting horizon is three years as approved by the Board of Directors. The growth rates upon which the forecast is set correspond to the market expectations of the cash-generating units and range between 4.9% and 7.6% (6.4% and 9.9%) per year. The sensitivity analysis carried out shows that a realistic change in the key assumptions (-1% in growth rates or +0.5% of the discount rate) would not result in the realizable value falling below the book value. The discount rates are determined on the basis of the weighted average cost of capital of the Group, with country- and currency-specific risks within the context of cash flows taken into consideration. The segments constitute the cash-generating units.

## GOODWILL ASSIGNED TO CASH-GENERATING UNITS

in CHF mn	Growth rates beyond the planning period (%)	Discount rates pre-tax (%)	Trademarks with indefinite useful lives	Goodwill
<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>
<b>December 31, 2019</b>				
EMEA	2.2	7.9	26.0	1,200.2
Americas	3.2	10.7	46.4	580.4
Asia/Pacific	2.4	9.6		1,068.0
Global Business	1.7	8.3		291.1
<b>Total</b>			<b>72.4</b>	<b>3,139.7</b>



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

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

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

**ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%)**

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

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

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

**19. ACCRUED EXPENSES AND DEFERRED INCOME** CHF 407.9 MN (CHF 265.5 MN)

Accrued expenses and deferred income relate to outstanding invoices and liabilities for the past financial year, including performance-based compensation payable to employees and social security expenses in the following year. In addition, deferred revenues for warranty extensions in the amount of CHF 4.2 million (CHF 4.2 million) are included (see note 1).

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

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

The following bonds are outstanding:

in CHF mn						2018	2019
Issuer	Bond	Nominal	Coupon	Term	Book value	Book value	
Sika AG, Baar, Switzerland	Straight bond	CHF 200.0	1.125%	2013-11/14/2019	199.9	0.0	
	Straight bond	CHF 160.0	0.000%–0.050%	2018-03/27/2020	160.4	160.1	
	Straight bond	CHF 170.0	0.125%	2018-07/12/2021	170.1	170.1	
	Straight bond	CHF 150.0	1.750%	2012-07/12/2022	149.9	150.0	
	Straight bond	CHF 200.0	1.875%	2013-11/14/2023	199.4	199.5	
	Straight bond	CHF 250.0	0.625%	2018-07/12/2024	250.6	250.5	
	Convertible bond	CHF 1,650.0	0.150%	2018-06/05/2025	1,591.5	1,600.4	
	Straight bond	CHF 140.0	0.600%	2018-03/27/2026	140.0	140.0	
	Straight bond	CHF 130.0	1.125%	2018-07/12/2028	131.0	130.9	
Sika Capital B.V., Utrecht, Netherlands	Straight bond	EUR 500.0	0.875%	2019-04/29/2027	0.0	539.4	
	Straight bond	EUR 500.0	1.500%	2019-04/29/2031	0.0	538.9	
<b>Total</b>					<b>2,992.8</b>	<b>3,879.8</b>	

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

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

In May, 2018, Sika placed a convertible bond in the amount of CHF 1,650.0 million due in 2025 with payment date June 5, 2018. The convertible bond has a coupon of 0.15% p.a. The shares to be delivered upon conversion will be made available by existing shares or by the issue of new shares from the conditional capital. The conversion price per share is CHF 190.09. No rights were converted in the reporting period.

On January 22, 2019, Sika also placed a mandatory convertible bond in the amount of CHF 1,300.0 million due in 2022 with payment date on January 30, 2019. The issue price was set at 100%. The convertible bond has a coupon of 3.75% p.a. The bond will be mandatorily converted into registered shares of Sika at maturity, subject to the early conversion rights of Sika and bondholders in accordance with the terms and conditions of the bond. The shares to be delivered upon conversion will be either existing shares or new shares created from conditional capital. The bond has an initial minimum conversion price of CHF 130.00 and an initial maximum conversion price of CHF 146.25 representing a premium of 12.5% above the reference share price. The convertible bond is split into a liability and an equity component for accounting purposes. The liability component corresponds to the market value of an identical bond, but without conversion rights, and is carried at amortized cost. The equity component is calculated as the difference between the issue proceeds. The equity component is no longer revalued. The issue costs were allocated in proportion to the allocation of proceeds to the liability and equity components.

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

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

In summary, financial liabilities changed as follows:

in CHF mn	Bank loans	Bonds	Lease liabilities	Other financial liabilities	Total financial liabilities
<b>At January 1, 2018</b>	<b>23.5</b>	<b>699.0</b>	<b>0.5</b>	<b>32.6</b>	<b>755.6</b>
Proceeds	2,103.9	2,483.0	0.0	2.8	4,589.7
Repayments	-2,183.4	-150.0	-0.2	-22.7	-2,356.3
<b>Cash flow</b>	<b>-79.5</b>	<b>2,333.0</b>	<b>-0.2</b>	<b>-19.9</b>	<b>2,233.4</b>
Acquired on acquisition	71.0	0.0	0.0	16.2	87.2
Exchange differences	-1.2	0.0	0.0	-0.4	-1.6
Net equity component on convertible bond (see above)	0.0	-40.7	0.0	0.0	-40.7
New leases	0.0	0.0	0.0	0.0	0.0
Other changes	0.0	1.5	0.0	-2.9	-1.4
<b>Non-cash movements</b>	<b>69.8</b>	<b>-39.2</b>	<b>0.0</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>0.3</b>	<b>25.6</b>	<b>3,032.5</b>
<b>As January 1, 2019</b>	<b>13.8</b>	<b>2,992.8</b>	<b>0.3</b>	<b>25.6</b>	<b>3,032.5</b>
Proceeds	306.1	2,410.1	0.0	2.8	2,719.0
Repayments	-1,290.9	-200.0	-85.0	-8.6	-1,584.5
<b>Cash flow</b>	<b>-984.8</b>	<b>2,210.1</b>	<b>-85.0</b>	<b>-5.8</b>	<b>1,134.5</b>
Impact of initial application of IFRS 16 Leases	0.0	0.0	252.1	0.0	252.1
Acquired on acquisition	997.9	0.0	100.6	5.0	1,103.5
Exchange differences	-9.0	-52.1	-9.8	-0.9	-71.8
Net equity component on convertible bond (see above)	0.0	-1,136.1	0.0	0.0	-1,136.1
New leases	0.0	0.0	56.1	0.0	56.1
Other changes	0.0	10.1	14.9	17.1	42.1
<b>Non-cash movements</b>	<b>988.9</b>	<b>-1,178.1</b>	<b>413.9</b>	<b>21.2</b>	<b>245.9</b>
<b>At December 31, 2019</b>	<b>17.9</b>	<b>4,024.8</b>	<b>329.2</b>	<b>41.0</b>	<b>4,412.9</b>

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

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

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

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

## 21. PROVISIONS CHF 109.1 MN (CHF 70.2 MN)

Provisions required for liabilities arising from guarantees, warranties, and environmental risks as well as restructuring costs are recognized as liabilities. Provisions are only recognized if Sika has a third-party liability that is based on a past event and can be reliably measured. Contingent liabilities are not recognized in the balance sheet but only for acquisitions. Potential losses due to future incidents are not recognized in the balance sheet.

in CHF mn	Provisions		
	Warranties	Sundry risks	Total
Current provisions	13.2	9.4	22.6
Non-current provisions	22.3	64.2	86.5
<b>Provisions</b>	<b>35.5</b>	<b>73.6</b>	<b>109.1</b>
<b>Reconciliation</b>			
<b>At January 1, 2019</b>	<b>33.4</b>	<b>36.8</b>	<b>70.2</b>
Additions	14.6	10.6	25.2
Assumed on acquisition	5.4	52.8	58.2
Exchange differences	-0.7	-2.5	-3.2
Utilization	-9.9	-5.3	-15.2
Reversal <sup>1</sup>	-7.3	-18.8	-26.1
<b>At December 31, 2019</b>	<b>35.5</b>	<b>73.6</b>	<b>109.1</b>

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

Provisions for guarantees reflect all known claims anticipated in the near future. The amounts of the provision are determined on the basis of experience and are therefore subject to a degree of uncertainty. The outflow of funds depends on the timing of the filing and conclusion of warranty claims. Provisions for sundry risks include loan guarantees as well as open and anticipated legal and tax cases with a probability of occurrence above 50%.

From the sum of provisions, CHF 86.5 million (CHF 48.1 million) are shown as non-current liabilities, since an outflow of funds is not expected within the next twelve months. For provisions of CHF 22.6 million (CHF 22.1 million), an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

CONTINGENT LIABILITIES. In ongoing business activity the Group may be involved in legal proceedings such as lawsuits, claims, investigations, and negotiations due to product liability, mercantile law, environmental protection, health, and safety, etc. There are no current proceedings of this nature pending which could have significant influence on business operations, or on the Group's financial position or income. The Group is active in countries in which political, economic, social, and legal developments could impair business activity. The effects of such risks which can occur in the normal course of business is unforeseeable. In addition, their probability of occurrence lies below 50%.

## 22. EMPLOYEE BENEFIT OBLIGATIONS

in CHF mn	2018			2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Employee benefit plans with defined benefits	16.7	190.5	173.8	42.0	218.5	176.5
Other employee commitments	-	78.2	78.2	-	100.7	100.7
<b>Total</b>	<b>16.7</b>	<b>268.7</b>	<b>252.0</b>	<b>42.0</b>	<b>319.2</b>	<b>277.2</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 46 Group companies. The biggest plans are in Switzerland, accounting for 78.0% (79.0%) of Sika's entire defined benefit pension obligations and 96.2% (96.1%) of plan assets.

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

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

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

In the current year, as in the prior year, the Swiss pension plans are showing a surplus under BVG and it is not expected that additional contributions will be necessary for the next year.

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

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
<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 (+)/ 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
Actuarial gains (+)/losses (-) from change in financial assumptions	10.8			10.8
Actuarial gains (+)/losses (-) from change in demographic assumptions	-1.7			-1.7
Experience gains (+)/losses (-)	-2.7			-2.7
Change in asset ceiling			-0.3	-0.3
<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

## 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, 2019</b>	<b>-917.9</b>	<b>746.0</b>	<b>-1.9</b>	<b>-173.8</b>
Current service cost	-29.9			-29.9
Interest expense (-)/interest income (+)	-9.9	6.5		-3.4
Past service cost (-) and gains (+)/ losses (-) on settlements and curtailments	0.5			0.5
<b>Total expense recognized in income statement</b>	<b>-39.3</b>	<b>6.5</b>		<b>-32.8</b>
thereof Switzerland	-27.4	5.7		-21.7
thereof others	-11.9	0.8		-11.1
Return on plan assets, excluding amounts included in interest income	-	93.7		93.7
Actuarial gains (+)/losses (-) from change in financial assumptions	-80.5			-80.5
Actuarial gains (+)/losses (-) from change in demographic assumptions	5.2			5.2
Experience gains (+)/losses (-)	-16.6			-16.6
Change in asset ceiling			-0.5	-0.5
<b>Total remeasurement recognized in other comprehensive income</b>	<b>-91.9</b>	<b>93.7</b>	<b>-0.5</b>	<b>1.3</b>
thereof Switzerland	-60.7	90.4	-0.5	29.2
thereof others	-31.2	3.3	0.0	-27.9
Exchange differences	7.3	-1.1		6.2
Contributions by employers		21.4		21.4
Contributions by plan participants	-15.6	15.6		0.0
Benefits paid	32.3	-24.5		7.8
Settlements paid	1.8	-1.8		0.0
Acquired in a business combination and others	-8.9	2.3		-6.6
<b>At December 31, 2019</b>	<b>-1,032.2</b>	<b>858.1</b>	<b>-2.4</b>	<b>-176.5</b>
thereof Switzerland	-805.5	825.2	-2.4	17.3
thereof others	-226.7	32.9	0.0	-193.8

The contributions that are expected to be paid into the defined benefit pension plans for 2020 amount to CHF 20.4 million.

The Group's total expenses for employee benefits are included in the consolidated financial statements under "Personnel expenses".

The stated deficit results mainly from the defined benefit obligation of the unfunded benefit plans of CHF 164.1 million (CHF 145.0 million). Schemes in Germany, in particular, do not have segregated assets. For the Swiss pension plans the result is a surplus of CHF 17.3 million (deficit of CHF 9.7 million).

## MAJOR CATEGORIES OF TOTAL PLAN ASSETS

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

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

## AMOUNTS INCLUDED IN PLAN ASSETS

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

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

## ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

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

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

in CHF mn	Change in assumptions	Impact on defined benefit obligation	
		Switzerland	Others
Discount rate	+0.25%	-33.0	-9.4
Discount rate	-0.25%	32.2	8.6

## NUMBER OF PLANS

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



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

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

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

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

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

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

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

The capital stock is equal to the par value of all issued registered shares and is structured as follows:

**CAPITAL STOCK**

in CHF mn	Number	2018	2019
Registered shares, nominal value CHF 0.01	141,781,160	1.4	1.4
<b>Capital stock</b>		<b>1.4</b>	<b>1.4</b>

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

	Bearer shares		Registered shares <sup>1</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>
<b>At December 31, 2019</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 41,859 registered shares (2018: 90,730 registered shares) held as treasury shares, that do not carry voting and dividend rights.

CAPITAL SURPLUS. This item consists of the value of paid-in capital in excess of par value (less transaction costs).

TREASURY SHARES. Treasury shares are valued at acquisition cost and deducted from shareholders' equity. Differences between the purchase price and sales proceeds of treasury shares are shown as a change in retained earnings.

CURRENCY TRANSLATION DIFFERENCES. This item consists of the differential amount that arises from the translation into Swiss francs of assets, liabilities, income, and expenses of Group companies that do not use Swiss francs as their functional currency.

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

The Board of Directors proposes to the Annual General Meeting payment of a dividend of CHF 2.30 per registered share, in the total amount of CHF 326.1 million, to the shareholders of Sika AG.

NON-CONTROLLING INTERESTS. Non-controlling interests are accounted for at the corresponding share of the respective company. There are no material companies with non-controlling interests. The capital shares of all companies are disclosed in the list of group companies (see page 145 et seq.).

## 25. CASH FLOW STATEMENT

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

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

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

### FREE CASH FLOW AND OPERATING FREE CASH FLOW

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

OTHER ADJUSTMENTS. Included in "Other adjustments" are:

in CHF mn	2018	2019
Non-liquidity-related interest expenses (-)/income (+)	3.1	8.2
Profit (-)/loss (+) from disposals of non-financial assets	-4.6	4.7
Bargain purchase	-7.7	0.0
Personnel expenses settled through treasury shares	12.6	7.9
Others	3.5	2.8
<b>Total</b>	<b>6.9</b>	<b>23.6</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	1,011.9	1.8
Past due < 31 days	184.5	2.5
Past due 31-60 days	59.7	2.8
Past due 61-180 days	60.2	9.1
Past due 181-360 days	19.7	13.1
Past due > 360 days	54.9	38.9
<b>December 31, 2018</b>	<b>1,390.9</b>	<b>68.2</b>
Not overdue	1,107.8	1.7
Past due < 31 days	196.3	2.3
Past due 31-60 days	65.8	2.7
Past due 61-180 days	62.0	8.4
Past due 181-360 days	22.0	13.5
Past due > 360 days	63.9	47.3
<b>December 31, 2019</b>	<b>1,517.8</b>	<b>75.9</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	2018		2019	
		Book value	Fair value	Book value	Fair value
<b>Financial assets</b>					
Cash and cash equivalents		914.0		995.1	
Accounts receivable		1,322.7		1,441.9	
Loans (at amortized cost)		8.9		10.6	
Securities (at fair value through profit and loss)	1	52.0	52.0	61.7	61.7
Derivatives (at fair value through profit and loss)	2	17.7	17.7	15.0	15.0
<b>Total</b>		<b>2,315.3</b>		<b>2,524.3</b>	
<b>Financial liabilities</b>					
Bank loans		13.8		17.9	
Bonds	2	2,992.8	3,115.2	4,024.8	4,524.4
Accounts payable		733.8		837.2	
Lease liabilities		0.3		329.2	
Other financial liabilities		23.3		33.4	
<b>Financial liabilities measured at amortized cost</b>		<b>3,764.0</b>		<b>5,242.5</b>	
Derivatives (at fair value through profit and loss)	2	2.3	2.3	7.6	7.6
<b>Total</b>		<b>3,766.3</b>		<b>5,250.1</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 4.3 million (CHF 0.8 million) are pledged as security for own liabilities.

**FOREIGN EXCHANGE RISKS.** The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and the US Dollar. Foreign exchange risks arise when commercial transactions as well as recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group makes every effort to offset the impact of exchange rate movements as far as possible by utilizing natural hedges. Foreign exchange forward contracts/swaps are used to hedge foreign exchange risks. Gains and losses on foreign exchange hedges and assets or liabilities carried at fair value are recognized through profit or loss. The Group does not apply hedge accounting.

## OPEN DERIVATIVES

in CHF mn	Replacement value		Contractual value upon maturity		
	(+)	(-)	Contract value	Up to 3 months	3 to 12 months
<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>
<b>Open derivatives 2019</b>					
Forward contracts (foreign exchange)	0.4	-2.8	186.6	57.2	129.4
Swaps (foreign exchange)	14.6	-4.8	2,064.3	813.3	1,251.0
<b>Total derivatives</b>	<b>15.0</b>	<b>-7.6</b>	<b>2,250.9</b>	<b>870.5</b>	<b>1,380.4</b>

Losses from currency differences recognized in the income statement amounted to CHF 53.8 million (loss CHF 49.6 million). They were recognized in the corresponding expense items. The currency differences arise from purchases and sales as well as financing activities in foreign currencies. In addition, a net gain of CHF 22.8 million (net gain of CHF 12.0 million) was generated from currency hedging transactions, which is included in other financial expenses.

Sika carries out a sensitivity analysis for the dominant foreign currencies Euro and US Dollar. The assumption is that the Euro and US Dollar respectively change against all other currencies by +/- 10%. The other currencies remain constant. The assumed possible currency fluctuations are based on historical observations and future prognoses. Incorporated into calculations are the financial instruments, Group-internal financing, and foreign currency hedge transactions in the corresponding currencies. The following table demonstrates the sensitivity of consolidated net profit before tax to a reasonably possible shift in exchange rates related to financial instruments held in the balance sheet. All other variables are held constant. The impact on shareholders' equity is insignificant.

## SENSITIVITY ANALYSIS ON EXCHANGE RATES

Impact on profit before tax in CHF mn	2018	2019
EUR: +10%	0.5	0.2
EUR: -10%	-0.5	-0.2
USD: +10%	-8.8	-3.6
USD: -10%	8.8	3.6

**PRICE RISKS.** The Group is exposed to purchasing price risks because the cost of materials represents one of the Group's largest cost factors. Purchasing prices are influenced far more by the interplay between supply and demand, the general economic environment, and intermittent disruptions of processing and logistics chains, ranging from crude oil to purchased merchandise, than by crude oil prices themselves. Short-term crude oil price increases have only limited impact on raw material prices. Sika limits market price risks for important products by means of maintaining corresponding inventories and Group contracts (lead buying). The most important raw materials are polymers such as polyurethane, epoxy resins, polyvinyl chloride and cementitious basic materials. Other measures such as hedging are not practical because there is no corresponding market for these semi-finished products.

**INTEREST RATE RISK.** Interest rate risks result from changes in interest rates, which could have a negative impact on the Group's financial position, cash flow, and earnings situation. Interest rate risk is limited through the issue of fixed-interest long-term bonds (see note 20). A change in the rate of interest would therefore alter neither annual financial expenses nor shareholders' equity materially. Local bank loans and mortgages are insignificant. Interest rate developments are closely monitored by management.

**CREDIT RISK.** Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge its obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and banks. In addition, accounts receivable are monitored on an ongoing basis via internal reporting procedures. Potential concentrations of risks are reduced by the large number of customers and their geographic dispersion. No individual customer represents more than 3.0% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2018 nor at year-end 2019. The largest possible risk represented by these items is the carrying amount of the accounts receivable and any warranties granted.

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

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

#### MATURITY PROFILE OF FINANCIAL LIABILITIES

in CHF mn	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
<b>December 31, 2018</b>				
Bank loans	13.8	0.0	0.0	13.8
Accounts payable	733.8	0.0	0.0	733.8
Bonds	215.2	728.7	2,186.3	3,130.2
Other financial liabilities	21.5	1.4	0.7	23.6
<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>
<b>December 31, 2019</b>				
Bank loans	15.3	2.6	0.0	17.9
Accounts payable	837.2	0.0	0.0	837.2
Lease liabilities	88.8	189.3	101.0	379.1
Bonds	235.0	962.8	3,089.6	4,287.4
Other financial liabilities	29.5	3.9	0.0	33.4
<b>Financial liabilities measured at amortized cost</b>	<b>1,205.8</b>	<b>1,158.6</b>	<b>3,190.6</b>	<b>5,555.0</b>
Financial liabilities at fair value through profit and loss	7.6	0.0	0.0	7.6
<b>Total</b>	<b>1,213.4</b>	<b>1,158.6</b>	<b>3,190.6</b>	<b>5,562.6</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, 2019, and December 31, 2018. The Group monitors its equity using the equity ratio, which is shareholders' equity divided by total capital.



## OTHER INFORMATION

### SIGNIFICANT SHAREHOLDERS

As of the balance sheet date of December 31, 2019, Sika had received notification of six significant shareholders whose voting rights exceed 3%: (1) Compagnie de Saint-Gobain which held 10.75% of all voting rights via Schenker-Winkler Holding AG. (2) BlackRock, Inc. which held 7.7% of all voting rights. (3) William H. Gates III and Melinda French Gates who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (4) Capital Group Companies, Inc. which held 3.37% of all voting rights. (5) Norges Bank (The Central Bank of Norway) with a holding of 3.08% of all voting rights. (6) Massachusetts Financial Services Company which held 3.03% of all voting rights.

A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

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

As of the balance sheet date of December 31, 2018, Sika had received notification of four significant shareholders whose voting rights exceed 3%: (1) Compagnie de Saint-Gobain which held 10.75% of all voting rights via Schenker-Winkler Holding AG. (2) BlackRock, Inc., which owned 7.7% of all voting shares. (3) William H. Gates III and Melinda French Gates who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (4) Massachusetts Financial Services Company which owned 3.03% of all voting shares.

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

A list of changes in significant shareholdings reported to the Disclosure Office of SIX Swiss Exchange during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>.

### RELATED PARTIES

**ASSOCIATED COMPANIES.** In the year under review, goods and services totaling CHF 6.1 million (CHF 9.3 million) were delivered to associated companies. These transactions occurred on the usual conditions between wholesale partners.

**EMPLOYEE BENEFIT PLANS.** In Switzerland, employee benefit plans are handled through independent foundations, to which a total of CHF 28.5 million (CHF 27.5 million) was paid in the year under review. As of the balance sheet date, no material receivables or payables were due from these foundations. Sika offices are located in a building leased from the pension fund foundation. Rent for 2019 amounted to CHF 0.7 million (CHF 0.6 million).

All transactions were conducted at market conditions.

## REMUNERATION OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

The Board of Directors and Group Management are entitled to the following remuneration:

in CHF mn	2018	2019
Current benefits	15.5	13.8
Share-based payments <sup>1</sup>	12.1	3.7
Pension benefits	1.2	1.2
<b>Total</b>	<b>28.8</b>	<b>18.7</b>

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

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

## EVENTS AFTER THE BALANCE SHEET DATE

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

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

## LIST OF GROUP COMPANIES

Country	Company <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*	◆★★
	○ Mortero Spa, Béjaïa	DZD	60,000	50.5*	
Austria	○ Sika Österreich GmbH, Bludenz	EUR	8,000	100	◆★
Azerbaijan	○ Sika Limited Liability Comp., Baku	AZN	5,311	100	◆
Bahrain	○ Sika Gulf B.S.C., Adliya	BHD	1,000	51*	◆★★
	▲ Sika Arabia Holding Company WLL, Manama	BHD	6,000	51	
Belarus	○ S I K A Bel LLC, Minsk	USD	29,468	100	
	○ BellNECO LLC, Brest	BYN	9	100*	◆
Belgium	○ Sika Belgium NV, Nazareth	EUR	10,264	100	◆★
	❖ Sika Automotive Belgium S.A., Saintes	EUR	1,649	100	◆★★
	○ ParexGroup NV, Drogen	EUR	156	100*	
	▲ ParexGroup Belgium BVBA, Drogen	EUR	19	100*	
Bosnia-Herzegovina	❖ Sika BH d.o.o., Sarajevo	BAM	795	100	
Bulgaria	○ Sika Bulgaria EOOD, Sofia	BGN	340	100	◆★
Cameroon	○ Sika Cameroon SARL, Douala	XAF	856,500	100	
Croatia	❖ Sika Croatia d.o.o., Zagreb	HRK	4,000	100	◆★
Czech Republic	○ Sika CZ, s.r.o., Brno	CZK	30,983	100	◆★
	○ KVK PARABIT, a.s., Svoboda nad Upou	CZK	97,232	100*	◆★
	○ Krkonošské vápenky Kunčice, a.s., Kunčice nad Labem	CZK	25,000	100*	◆★
Denmark	○ Sika Danmark A/S, Farum	DKK	6,000	100	◆★
	▲ Dry Mix Solutions Aps, Viborg	DKK	100	100*	
Djibouti	❖ Sika Djibouti FZE, Djibouti City	USD	300	100	
Egypt	○ Sika Egypt for Construction Chemicals S.A.E., Cairo	EGP	10,000	100	◆★★
	○ Sika Manufacturing for Construction S.A.E., Cairo	EGP	2,000	100	◆★★
Estonia	❖ Sika Estonia Oü, Tallinn	EUR	3	100	
Ethiopia	○ Sika Abyssinia Chemicals Manufacturing PLC., Addis Ababa	ETB	107,160	100	
Finland	○ Oy Sika Finland Ab, Espoo	EUR	850	100	◆★
France	○ Sika France SAS, Paris	EUR	468,018	100	◆★★
	○ Sika Automotive France SAS, Cergy-Pontoise Cedex	EUR	1,343	100*	◆★★
	▲ Dry Mix Solutions Investissements SAS, Issy Les Moulineaux	EUR	26,761	100*	
	▲ Financière Dry Mix Solutions SAS, Issy Les Moulineaux	EUR	312,180	100*	
	▲ ParexGroup Participations SAS, Issy Les Moulineaux	EUR	38,814	100*	
	○ ParexGroup S.A., Issy Les Moulineaux	EUR	4,097	99.87*	◆★★
Germany	▲ Sika Holding CH AG & Co KG, Stuttgart	EUR	26,000	100*	
	○ Sika Deutschland GmbH, Stuttgart	EUR	75	100*	◆★
	○ Sika Automotive Hamburg GmbH, Hamburg	EUR	5,300	100*	◆★
	○ Sika Trocal GmbH, Troisdorf	EUR	4,000	100*	◆★
	■ Sika Bauabdichtungs-GmbH, Stuttgart	EUR	50	100*	
	○ Sika Automotive Frankfurt-Worms GmbH, Worms	EUR	1,000	100*	◆★
	▲ Sika Frankfurt Grundstücksgesellschaft mbH, Worms	EUR	25	100*	

Country	Company <sup>1</sup>		Capital stock in thousands	Voting and capital share in %	Certifi- cation
	▲ Sika Worms Grundstücksgesellschaft mbH, Worms	EUR	25	100*	
	○ Hago PU GmbH, Munich	EUR	1,000	100	◆
Greece	○ Sika Hellas ABEE, Kryoneri	EUR	9,000	100	◆★★
Hungary	❖ Sika Hungária Kft., Budapest	HUF	483,000	100	◆★
Iran	○ Sika Parsian P.J.S. Co., Tehran	IRR mn	293,229	100	
Iraq	○ Sika for General Trading LLC, Erbil	IQD	1,000	100	
Ireland	❖ Sika Ireland Ltd., Dublin	EUR	1,270	100	◆
Italy	○ Sika Italia S.p.A., Peschiera Borromeo	EUR	5,000	100	◆★★
	○ Sika Engineering Silicones S.r.l., Peschiera Borromeo	EUR	1,600	100*	◆★
	○ Sika Polyurethane Manufacturing S.r.l., Cerano	EUR	1,600	100	◆★★
	❖ Axson Italia S.r.l., Saronno	EUR	50	100*	
	Index Construction Systems and Products S.P.A., Castel D'Azzano	EUR	7,740	100*	◆★
Ivory Coast	○ Sika Côte d'Ivoire SARL, Abidjan	XOF mn	1,346	100	
Kazakhstan	○ Sika Kazakhstan LLP, Almaty	KZT	690,394	100	◆★
Kenya	○ Sika Kenya Limited, Nairobi	KES	50,000	100	◆
Kuwait	❖ Sika Kuwait for Construction Materials & Paints Co WLL, Shuwaikh Industrial Area	KWD	55	51*	
Latvia	○ Sika Baltic SIA, Riga	EUR	1,237	100	
Lebanon	○ Sika Near East SAL, Beirut	LBP	400	100	
Mauritius	○ Sika (Mauritius) Ltd., Plaine Lauzun	MUR	2,600	100*	◆
Morocco	○ Sika Maroc, Casablanca	MAD	178,000	100	◆★★
	○ Sodap Maroc, Gzenaya	MAD	5,000	100*	◆★★
Mozambique	○ Sika Moçambique Limitada, Maputo Province	MZN	308,800	100	
Netherlands	○ Sika Nederland B.V., Utrecht	EUR	1,589	100	◆★★
	▲ Sika Capital B.V., Utrecht	EUR	10,000	100	
Nigeria	○ Sika Manufacturing Nigeria Limited, Lagos	NGN mn	1,866	100	
Norway	○ Sika Norge AS, Skjetten	NOK	42,900	100	◆★
Oman	❖ Sika LLC, Muscat	OMR	150	51*	
Pakistan	○ Sika Pakistan (Pvt.) Ltd., Lahore	PKR	499,969	100	
Poland	○ Sika Poland Sp. z o.o., Warsaw	PLZ	12,188	100	◆★★
	○ Sika Automotive Zlotoryja Sp. z o.o., Zlotoryja	PLZ	6,000	100	◆★★
Portugal	○ Sika Portugal - Produtos Construção Indústria SA, Vila Nova de Gaia	EUR	1,500	100	◆★
Qatar	○ Sika Qatar LLC, Doha	QAR	200	51*	◆
	○ Parex Group WLL (Qatar), Doha	QAR	200	97*	◆★★
Romania	○ Sika Romania s.r.l., Brasov	RON	103,176	100	◆★★
	○ Arcon Membrane Srl, Sfantu Gheorghe	RON	1,000	100*	◆
Russia	○ Sika LLC, Lobnya	RUB	535,340	100	◆★
Saudi Arabia	○ Sika Saudi Arabia Co Ltd., Riyadh	SAR	41,750	51	◆★
Senegal	○ Sika Sénégal S.U.A.R.L, Dakar	XOF mn	1,764	100	
Serbia	○ Sika Srbija d.o.o., Simanovci	EUR	373	100	◆★
Slovakia	❖ Sika Slovensko, spol. s.r.o., Bratislava	EUR	1,131	100	◆★
	○ Sika Automotive Slovakia, s.r.o., Zlaté Moravce	EUR	7	100	◆★★
	❖ KVK Slovakia, s.r.o., Bratislava	EUR	7	100*	
Slovenia	❖ Sika Slovenija d.o.o., Trzin	EUR	1,029	100	◆★

Country	Company <sup>1</sup>		Capital stock in thousands	Voting and capital share in %	Certifi- cation
South Africa	○ Sika South Africa (Pty) Ltd., Pinetown	ZAR	25,000	100	◆★★
Spain	○ Sika S.A.U., Alcobendas	EUR	19,867	100	◆★★
	❖ Axson Technologies Spain S.L., Les Franqueses del Valles	EUR	80	100*	
	○ Sika Automotive Terrassa S.A., Terrassa	EUR	2,965	100	◆★★
	▲ Parexgroup Iberica, S.A.U., Les Franqueses del Valles	EUR	10,631	100	
	○ Parexgroup Morteros, S.A.U., Les Franqueses del Valles	EUR	1,923	100*	◆★
Sweden	○ Sika Sverige AB, Spånga	SEK	10,000	100	◆★
Switzerland	○ Sika Schweiz AG, Zurich	CHF	1,000	100	◆★★
	▲ Sika Services AG, Zurich	CHF	300	100	◆★
	▲ Sika Technology AG, Baar	CHF	300	100	◆★★
	▲ Sika Informationssysteme AG, Zurich	CHF	400	100	
	■ SikaBau AG, Schlieren	CHF	5,300	100	◆
	▲ Sika Finanz AG, Baar	CHF	2,400	100	
	○ Sika Manufacturing AG, Sarnen	CHF	14,000	100	◆★★
	▲ Sika Supply Center AG, Sarnen	CHF	1,000	100	◆★
	○ Sika Automotive AG, Romanshorn	CHF	3,000	100	◆★★
	▲ Sika Europe Management AG, Zurich	CHF	100	100	
	▲ Sika Americas Management AG, Baar	CHF	100	100	
	▲ Sika Germany Management AG, Baar	CHF	50	100	
	▲ Sika Global Business Management AG, Widen	CHF	100	100	
	○ Klebag AG, Ennetbürgen	CHF	100	100*	
	○ Polypag AG, Altstätten	CHF	700	100	◆
	Tanzania	○ Sika Tanzania Construction Chemicals Limited, Dar es Salaam	TZS mn	3,459	100
Tunisia	□ Sika Tunisienne Sàrl, Douar Hicher	TND	150	100*	◆★
Turkey	○ Sika Yapi Kimyasallari A.S., Tuzla	TRY	48,700	100	◆★★
	○ ABC Kimya Sanayi ve Dış Ticaret Anonim Şirketi, Istanbul	TRY	5,200	100*	◆
	❖ Sika Turkey Otomotiv Sanayi ve Tic. Ltd. Şti., Istanbul	TRY	5,900	100	
	○ ParexGroup Yapi Kimyasallari Sanayi Ve Ticaret AŞ., Istanbul	TRY	57,301	100*	
UAE	○ Sika UAE LLC, Dubai	AED	1,000	51*	◆★★
	❖ Sika International Chemicals LLC, Abu Dhabi	AED	300	51*	◆★★
Ukraine	○ LLC «Sika Ukraina», Kiev	UAH	2,933	100	◆
United Kingdom	○ Sika Limited, Welwyn Garden City	GBP	10,000	100	◆★★
	○ Everbuild Building Products Limited, Leeds	GBP	21	100*	◆★★
	○ Incorez Limited, Preston	GBP	1	100	◆★★
	❖ Axson UK Ltd., Suffolk	GBP	1	100*	
	❖ Sika Fibers Limited, Chesterfield	GBP	1	100	
	❖ Sika Fibers (Australia) Limited, Chesterfield	GBP	1	100*	
	▲ Dry Mix Solutions UK Ltd., Warwickshire	GBP	11,542	100*	
	▲ Enevis Group Ltd., Lanarkshire	GBP	1	100*	
	○ Enewall Ltd., North Lanarkshire	GBP	947	100*	
	○ Parex Ltd. (UK), Atherstone	GBP	345	100*	◆★★

Country	Company <sup>1</sup>		Capital stock in thousands	Voting and capital share in %	Certifi- cation
<b>Americas</b>					
Argentina	○ Sika Argentina SAIC, Caseros	ARS	7,600	100	◆★★
	○ ParexKlaukol S.A. (Argentina), San Justo	ARS	1,001	100*	◆★
	▲ Spinna Argentina SRL, San Justo	ARS	790	100*	
	▲ VDP Logística SA, Ciudad de Buenos Aires	ARS	100	100*	
Bolivia	○ Sika Bolivia SA, Santa Cruz de la Sierra	BOB	1,800	100	◆
Brazil	○ Sika S/A, Osasco	BRL	280,981	100	◆★★
	○ ParexGroup Industria E Comercio De Argamassas Ltda, Jundiaí	BRL	111,427	100	◆★★
	○ Quimicryl S/A, Cotia	BRL	301	100*	◆
Canada	○ Sika Canada Inc., Pointe Claire/QC	CAD	81,900	100	◆★
	○ Parex Construction Chemical Canada Inc., Anjou/QC	CAD	18,000	100*	
	○ KPM Industries Ltd., Oakville/ON	CAD	93,082	100*	◆
Chile	○ Sika S.A. Chile, Santiago de Chile	CLP mn	4,430	100	◆★
	○ Parex Chile Ltda, Santiago de Chile	CLP mn	2,817	100*	
Colombia	○ Sika Colombia S.A.S, Tocancipá	COP mn	14,500	100	◆★
Costa Rica	○ Sika productos para la construcción S.A., Heredia	CRC	825,005	100	
Dom. Republic	○ Sika Dominicana SRL, Santo Domingo Oeste	DOP	137,848	100	
Ecuador	○ Sika Ecuatoriana S.A., Durán	USD	1,982	100	◆★
El Salvador	❖ Sika El Salvador S.A. de C.V., Antiguo Cuscatlán	USD	2	100	
Guatemala	○ Sika Guatemala SA, Ciudad de Guatemala	GTQ	2,440	100	
Honduras	❖ Sika Honduras, S.A. de C.V., Ciudad de San Pedro Sula	HNL	236	100	
Mexico	○ Sika Mexicana SA de CV, Corregidora	MXN	270,053	100	◆★
	○ Sikalkoat de México, S.A. de C.V., Corregidora	MXN	15,050	100*	
	○ Sika Automotive Mexico S.A. de C.V., Mexico City	MXN	700	100*	◆
Nicaragua	❖ Sika Nicaragua Sociedad Anonima, Managua	NIO	20,000	100	
Panama	○ Sika Panamá SA, Ciudad de Panamá	USD	200	100	
	▲ Sika Latin America Mgt. Inc, Ciudad de Panamá	USD	10	100	
Paraguay	○ Sika Paraguay S.A., Asunción	PYG mn	40	100	
	○ Parex Group S.A. (Paraguay), Limpio	PYG mn	5,867	67*	
Peru	○ Sika Perú S.A.C., Lima	PEN	3,500	100	◆★
Uruguay	○ Sika Uruguay SA, Montevideo	UYP	22,800	100	◆★
	○ Parex Group SA (Uruguay), Canelones	UYP	18,551	100*	
USA	○ Sika Corporation, Lyndhurst/NJ	USD	72,710	100	◆★
	▲ Sarnafil Services Inc., Canton/MA	USD	1	100*	★
	○ Sika Automotive Eaton Rapids, Inc., Eaton Rapids/MI	USD	4,602	100*	◆★
	○ Butterfield Color, Inc., Aurora/IL	USD	1	100*	
	○ Emseal Joint Systems Ltd., Westborough/MA	USD	1,040	100*	
	○ Emseal LLC, Westborough/MA	USD	1	100*	
	○ Sika Automotive Gastonia Inc., Gastonia/NC	USD	1	100*	◆★
	○ Parex USA, Inc., Anaheim/CA	USD	7,176	100*	
Venezuela	❖ King Shotcrete Equipment Inc., Allentown/PA	USD	1	100*	
Venezuela	○ Sika Venezuela SA, Valencia	VEF	29,441	100	

Country	Company <sup>1</sup>		Capital stock in thousands	Voting and capital share in %	Certifi- cation
<b>Asia/Pacific</b>					
Australia	○ Sika Australia Pty. Ltd., Wetherill Park	AUD	49,200	100	◆★★
	▲ Dry Mix Solutions Australia Pty, Sydney	AUD	22,137	100*	
	○ ParexGroup Pty Ltd (Australia), Sydney	AUD	9,000	100*	
Bangladesh	❖ Sika Bangladesh Limited, Dhaka	BDT	79,416	100	
Cambodia	○ Sika (Cambodia) Ltd., Phnom Penh	KHR	422,000	100	
China	○ Sika (China) Ltd., Suzhou	USD	35,000	100	◆★★
	○ Sika Sarnafil Waterproofing Systems (Shanghai) Ltd., Shanghai	USD	22,800	100	◆★★
	○ Sika Guangzhou Ltd., Guangzhou	CNY	80,731	100	◆★
	❖ Sika Ltd. Dalian, Dalian	CNY	45,317	100	
	❖ Sika (Guangzhou) Trading Company Ltd., Guangzhou	CNY	3,723	100*	
	○ Sika (Sichuan) Building Material Ltd., Chengdu	CNY	60,010	100*	◆★★
	○ Sika (Jiangsu) Building Material Ltd., Zhengjiang	CNY	60,010	100*	◆★★
	○ Sika Automotive Shanghai Co. Ltd., Shanghai	CNY	2,666	100	◆★
	○ Sika Automotive (Tianjin) Co. Ltd., Tianjin	CNY	44,344	100	
	○ Ronacrete (Guangzhou) Construction Products Limited, Guangzhou	CNY	17,056	100*	
	❖ Home of Heart (Shanghai) E-Commerce Co Ltd, Guangzhou	CNY	10,000	100*	
	▲ ParexGroup China (Shanghai) Management Co Ltd, Shanghai	CNY	12,353	100*	
	▲ Parex China (Guangzhou) Management Co Ltd, Guangzhou	CNY	13,333	100*	
	❖ ParexDavco (Guangzhou) Co. Ltd, Guangzhou	CNY	31,201	100*	
	○ ParexDavco (Guangdong) New Materials Co Ltd, Conghua	CNY	30,000	100*	◆*
	○ ParexDavco (Changsha) Co Ltd, Changsha	CNY	10,000	100*	
	○ ParexDavco (Chengdu) Co Ltd, Chengdu	CNY	10,000	100*	
	○ ParexDavco (Dongguan) Co Ltd, Dongguan	CNY	10,000	100*	
	○ ParexDavco (Nanjing) Co Ltd, Nanjing	CNY	10,000	100*	
	○ ParexDavco (Quanzhou) Co Ltd, Quanzhou	CNY	10,000	100*	
	○ ParexDavco (Shanghai) Co Ltd, Shanghai	CNY	25,000	100*	
	○ ParexDavco (Shijiazhuang) Co Ltd, Shanghai	CNY	10,000	100*	
	○ ParexDavco (Wuhan) Co Ltd, Ezhou	CNY	10,000	100*	
	○ Suzuka International (Shanghai) Co Ltd, Schanghai	CNY	35,000	100*	
	○ Suzuka International Shijiazuang Co Ltd, Schanghai	CNY	10,000	100*	
	❖ Jiangsu Crevo Science & Technology Co., Ltd., Jiangsu	CNY	59,312	100*	
Hong Kong	○ Sika Hong Kong Ltd., Shatin	HKD	30,000	100	◆★
	❖ Ronacrete (Far East) Ltd., Shatin	HKD	450	100*	
	▲ Parex (China) Ltd, Kowloon	HKD	35,950	100*	
	▲ Suzuka International Ltd, Kowloon	HKD	10	100*	
India	○ Sika India Private Ltd., Mumbai	INR	45,000	100	◆★
	❖ Axson India Private Limited, Pune	INR	3,000	100*	
	○ Apurva India Pvt Ltd., Mumbai	INR	53,011	100*	
Indonesia	○ Sika Indonesia P.T., Bogor	IDR mn	3,282	100	◆★
Japan	○ Sika Ltd., Minato-ku	JPY	490,000	100	◆★
	❖ Dic Proofing Co. Ltd., Tokyo	JPY	90,000	100*	
	○ Dyflex Co. Ltd., Tokyo	JPY	315,175	100	◆★
	■ DCS Co. Ltd., Toda-shi	JPY	30,000	100*	

Country	Company <sup>1</sup>		Capital stock in thousands	Voting and capital share in %	Certifi- cation	
Korea	○ Sika Korea Ltd., Seoul		KRW mn	5,596	100	◆ ★
Malaysia	○ Sika Kimia Sdn. Bhd., Nilai		MYR	5,000	100	◆ ★ *
	▲ Sika Harta Sdn. Bhd., Nilai		MYR	10,000	100	
	○ LCS Optiroc Sdn. Bhd., Johor Bahru		MYR	100	100	◆ ★ *
	○ ParexGroup Sdn (Malaysia), Port Klang		MYR	9,938	100*	◆ ★ *
Mongolia	○ Sika Mongolia LLC, Ulaanbaatar		MNT mn	7,091	100	
Myanmar	○ Sika Myanmar Limited, Dagon Myothit (South) Township		MMK mn	2,359	100	◆ ★
New Zealand	○ Sika (NZ) Ltd., Auckland		NZD	1,100	100	◆ ★
Philippines	○ Sika Philippines Inc., Las Pinas City		PHP	55,610	100	◆ ★
	○ ParexGroup Inc, Taguig City		PHP	10,000	100*	◆ ★
Singapore	○ Sika (Singapore) Pte. Ltd., Singapore		SGD	1,000	100	◆ ★ *
	▲ Sika Asia Pacific Mgt. Pte. Ltd., Singapore		SGD	100	100	
	▲ ParexGroup Pte Ltd, Singapore		SGD	6,250	100	◆ ★ *
Sri Lanka	○ Sika Lanka (Private) Limited, Ekala		LKR	129,100	100	◆ ★
Taiwan	○ Sika Taiwan Ltd., Taoyuan County		TWD	40,000	100	◆ ★
Thailand	○ Sika (Thailand) Ltd., Chonburi		THB	200,000	100	◆ ★ *
Vietnam	○ Sika Limited (Vietnam), Dong Nai Province		VND mn	44,190	100	◆ ★
	○ A&P Construction Chemicals Joint Stock Company, Hanoi		VND mn	30,000	80*	

□ Production, sales, construction contracting

○ Production and sales

✚ Sales

▲ Real estate and service companies

■ Construction contracting

◆ ISO 9001 (Quality Management)

★ ISO 14001 (Environmental Management)

\* OHSAS 18001/45001 (Occupational Health and Safety)

<sup>1</sup> For associated companies see note 17.

\* Company indirectly held by Sika AG.



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

## STATUTORY AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### OPINION

We have audited the consolidated financial statements of Sika AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, and appendix to the consolidated financial statements, including a summary of significant accounting policies, for the year ended December 31, 2019.

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

### BASIS FOR OPINION

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

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

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

### KEY AUDIT MATTERS

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

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

### GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE – VALUATION

AREA OF FOCUS. Goodwill and intangible assets with indefinite useful life represent 32% of the Group's total assets and 102% of the Group's total shareholders' equity as at December 31, 2019. The intangible assets with indefinite useful life is a brand. Goodwill recorded by the Group represents the purchase price in excess of the fair value of net assets of businesses acquired. As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying amounts of goodwill and intangible assets with indefinite useful life is tested annually or more frequently if impairment indicators are present. The Group performed its annual impairment tests of goodwill and intangible assets with indefinite useful life in the third quarter of 2019 and determined that there was no impairment. Key assumptions as well as the results of the impairment tests are disclosed in note 16 of the consolidated financial statements. In determining the recoverable amount of cash-generating units ("CGU"), management must apply judgment when using assumptions in respect of future market and economic conditions such as the economic growth and expected inflation rates. Due to the significance of the carrying values of goodwill and intangible assets with indefinite useful life and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

**OUR AUDIT RESPONSE.** We assessed the design and implementation of the Group's internal controls over its annual impairment test and key assumptions applied as well as the proper authorization and approval. Further, we evaluated whether the CGU structure is aligned with the organizational structure. We included in our team a valuation expert to assist us with our assessment of the WACC, expected growth rates and the model used. We analyzed sensitivities in the available headroom of CGUs and whether a possible change in assumptions such as forecasted EBITDAs, growth rates, and WACC could cause the carrying amount to exceed its recoverable amount. We also inspected the historical accuracy of the Group's estimates and long-term business plans. Finally, we analyzed the adequacy of the Group's disclosures included in note 16 of the consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

Our audit procedures did not lead to any reservations regarding to the valuation of the goodwill and intangible assets with indefinite useful life.

#### **ACQUISITION PAREX GROUP**

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

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

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

#### **OTHER INFORMATION IN THE ANNUAL REPORT**

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report, and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, February 18, 2020

ERNST & YOUNG LTD

Christoph Michel  
Licensed audit expert  
(Auditor in charge)

Marc Rügsegger  
Licensed audit expert

# FIVE-YEAR REVIEWS

## CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

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

## SEGMENT INFORMATION

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

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

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

## CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31

in CHF mn		2015	2016	2017	2018	2019
Cash and cash equivalents		1,074.4	1,155.0	1,037.9	914.0	995.1
Accounts receivable	a	1,014.5	1,043.1	1,188.8	1,322.7	1,441.9
Inventories	b	584.9	600.8	729.5	800.7	866.5
Other assets <sup>1</sup>		104.3	98.1	128.9	139.1	166.4
<b>Current assets</b>		<b>2,778.1</b>	<b>2,897.0</b>	<b>3,085.1</b>	<b>3,176.5</b>	<b>3,469.9</b>
Property, plant, and equipment		924.3	959.2	1,065.2	1,214.2	1,795.8
Intangible assets		1,037.9	1,021.2	1,317.1	1,693.9	4,340.5
Other assets <sup>2</sup>		183.5	221.8	328.4	297.4	339.0
<b>Non-current assets</b>		<b>2,145.7</b>	<b>2,202.2</b>	<b>2,710.7</b>	<b>3,205.5</b>	<b>6,475.3</b>
<b>ASSETS</b>		<b>4,923.8</b>	<b>5,099.2</b>	<b>5,795.8</b>	<b>6,382.0</b>	<b>9,945.2</b>
Accounts payable	c	581.1	587.0	730.9	733.8	837.2
Financial liabilities		278.1	44.3	202.3	237.5	342.8
Other liabilities <sup>3</sup>		303.9	336.7	420.4	435.5	626.3
<b>Current liabilities</b>		<b>1,163.1</b>	<b>968.0</b>	<b>1,353.6</b>	<b>1,406.8</b>	<b>1,806.3</b>
Financial liabilities		708.8	707.5	553.3	2,795.0	4,070.1
Non-current provisions, employee benefit obligations		360.8	332.1	316.4	316.8	405.7
Other liabilities <sup>4</sup>		139.0	143.9	161.4	188.2	501.9
<b>Non-current liabilities</b>		<b>1,208.6</b>	<b>1,183.5</b>	<b>1,031.1</b>	<b>3,300.0</b>	<b>4,977.7</b>
<b>LIABILITIES</b>		<b>2,371.7</b>	<b>2,151.5</b>	<b>2,384.7</b>	<b>4,706.8</b>	<b>6,784.0</b>
Capital stock		1.5	1.5	1.5	1.4	1.4
Treasury shares		-0.9	-11.0	-6.6	-11.1	-7.3
Reserves		2,530.2	2,933.8	3,389.8	1,655.4	3,130.0
<b>Equity attributable to Sika shareholders</b>		<b>2,530.8</b>	<b>2,924.3</b>	<b>3,384.7</b>	<b>1,645.7</b>	<b>3,124.1</b>
Non-controlling interests		21.3	23.4	26.4	29.5	37.1
<b>SHAREHOLDERS' EQUITY</b>	d	<b>2,552.1</b>	<b>2,947.7</b>	<b>3,411.1</b>	<b>1,675.2</b>	<b>3,161.2</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	e	<b>4,923.8</b>	<b>5,099.2</b>	<b>5,795.8</b>	<b>6,382.0</b>	<b>9,945.2</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	2015	2016	2017	2018	2019
Net working capital	(a+b-c)	1,018.3	1,056.9	1,187.4	1,389.6	1,471.2
Net working capital as % of net sales		18.6	18.4	19.0	19.6	18.1
Net debt <sup>1</sup>	f	-94.0	-415.6	-290.2	2,114.1	3,407.7
Gearing in %	(f : d)	-3.7	-14.1	-8.5	126.2	107.8
Equity ratio in %	(d : e)	51.8	57.8	58.9	26.2	31.8

1 Net debt: Financial liabilities (less derivatives) less interest-bearing current assets (cash and cash equivalents and securities).

## VALUE-BASED KEY DATA

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

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

## EMPLOYEES

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

1 Does not correspond to the Sika segments. The employees of Global Business were assigned to the respective company locations.

2 See next page, five-year reviews, value-added statement.

## VALUE-ADDED STATEMENT

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



# SIKA AG, BAAR FINANCIAL STATEMENTS

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

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

## SIKA AG BALANCE SHEET AS OF DECEMBER 31

in CHF mn	Notes	2018	2019
Cash and cash equivalents	6	497.1	409.5
Securities		0.1	0.2
Other current receivables from subsidiaries	7	2,781.5	3,586.5
Other current receivables from third parties	7	3.9	2.6
Prepaid expenses and accrued income		4.5	6.0
<b>Current assets</b>		<b>3,287.1</b>	<b>4,004.8</b>
Investments	8	1,935.3	3,054.9
Property, plant, and equipment		0.1	0.2
Intangible assets		0.2	0.2
Other non-current assets	9	24.8	39.8
<b>Non-current assets</b>		<b>1,960.4</b>	<b>3,095.1</b>
<b>ASSETS</b>		<b>5,247.5</b>	<b>7,099.9</b>
Accounts payable to subsidiaries		3.6	2.4
Accounts payable to third parties		1.8	1.2
Current interest-bearing liabilities to subsidiaries	10	637.0	333.7
Current interest-bearing liabilities to third parties	10	200.0	160.0
Other current liabilities to subsidiaries		3.0	0.0
Other current liabilities to third parties		0.4	0.5
Accrued expenses and deferred income	11	75.0	70.5
<b>Current liabilities</b>		<b>920.8</b>	<b>568.3</b>
Non-current interest-bearing liabilities	10	2,850.0	3,990.0
Non-current interest-bearing liabilities from subsidiaries	12	0.0	1,095.8
Other non-current liabilities	13	5.7	5.9
Non-current provisions	14	2.3	3.2
<b>Non-current liabilities</b>		<b>2,858.0</b>	<b>5,094.9</b>
<b>LIABILITIES</b>		<b>3,778.8</b>	<b>5,663.2</b>
Share capital		1.4	1.4
Legal capital reserves		56.5	56.5
Legal retained earnings		4.0	4.0
Voluntary retained earnings		121.7	121.7
Profit brought forward		1,296.2	1,260.4
Treasury shares	15	-11.1	-7.3
<b>Shareholders' equity</b>	16	<b>1,468.7</b>	<b>1,436.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>5,247.5</b>	<b>7,099.9</b>

# NOTES TO THE SIKA AG FINANCIAL STATEMENTS

## **PRINCIPLES**

### **GENERAL**

The 2019 financial statements were prepared according to the Swiss Law on Accounting and Financial Reporting. The significant accounting and valuation principles applied are as described below.

### **SECURITIES**

Securities are valued at historical costs.

### **RECEIVABLES**

The receivables are recorded at nominal value. If necessary, an allowance for doubtful debts is made on receivables from third parties, whereas for receivables from subsidiaries no allowance for doubtful debts is considered.

### **INVESTMENTS**

Investments are initially recognized at cost. On an annual basis the investments are assessed individually and adjusted to their recoverable amount if required (individual value adjustment principle).

### **PROPERTY, PLANT, AND EQUIPMENT, AND INTANGIBLE ASSETS**

Property, plant, and equipment, and intangible assets are valued at acquisition cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method based on the useful life of the asset.

### **CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES**

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds are recognized as other non-current assets and amortized on a straight-line basis over the bond's maturity period. Premiums (less issue costs) are recognized in the other non-current liabilities and amortized on a straight-line basis over the bond's maturity period.

### **PROVISIONS**

Provisions are recognized to cover general business risks based on the most probable cash outflow, considering the principle of prudence.

### **TREASURY SHARES**

Treasury shares are recognized at acquisition cost and disclosed as a negative position within shareholders' equity. In case of a resale, the gain or loss is recognized through the income statement as financial income or financial expenses.

### **SHARE-BASED PAYMENTS**

For treasury shares used for share-based payment programs, the difference between the acquisition cost and the value at vesting date is recognized as personnel expenses.

## INFORMATION ON BALANCE SHEET AND INCOME STATEMENT ITEMS

### 1. DIVIDEND INCOME CHF 274.2 MN (CHF 326.6 MN)

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

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

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

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

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

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

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

### 5. OTHER OPERATING EXPENSES CHF 56.6 MN (CHF 57.4 MN)

This position includes the holding company's general expenses. Other operating expenses mainly include legal and consulting fees, costs related to management training, marketing expenses, as well as other operating expenses. Non-recurring effects related to the acquisition of Parex had a negative impact on costs. In the previous year the remuneration of CHF 10.3 million to the Board of Directors for the terms of office 2015 to 2018 is included.

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

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

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

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

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

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

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

### 9. OTHER NON-CURRENT ASSETS CHF 39.8 MN (CHF 24.8 MN)

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

**10. INTEREST-BEARING LIABILITIES** CHF 493.7 MN CURRENT/CHF 3,990.0 MN NON-CURRENT  
(CHF 837.0 MN/CHF 2,850.0 MN)

The current interest-bearing liabilities consist of loans to subsidiaries resulting from the worldwide cash management concept.

Furthermore, included in interest-bearing liabilities is the following bond:

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

0.125%	fixed-interest bond	2018 to 7/12/2021	CHF 170.0 million
1.750%	fixed-interest bond	2012 to 7/12/2022	CHF 150.0 million
3.75%	mandatory convertible bond	2019 to 1/30/2022	CHF 1,300.0 million
1.875%	fixed-interest bond	2013 to 11/14/2023	CHF 200.0 million
0.625%	fixed-interest bond	2018 to 7/12/2024	CHF 250.0 million
0.150%	convertible bond	2018 to 6/5/2025	CHF 1,650.0 million
0.600%	fixed-interest bond	2018 to 3/27/2026	CHF 140.0 million
1.125%	fixed-interest bond	2018 to 7/12/2028	CHF 130.0 million

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

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

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

**12. NON-CURRENT INTEREST-BEARING LIABILITIES FROM SUBSIDIARIES** CHF 1,095.8 MN (CHF 0.0 MN)

Non-current interest-bearing liabilities are a loan liability to Sika Capital B.V., Netherlands. Sika Capital B.V. transferred the funds from the placement of the Euro bonds (nominal EUR 1,000 million) to Sika AG.

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

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

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

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

## 15. TREASURY SHARES CHF 7.3 MN (CHF 11.1 MN)

In general, treasury shares are used for a Group-wide employee participation program and for liquidity investments. The shares are traded on the stock exchange at current market prices.

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

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

in CHF mn	Units	Share value
<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>
<b>At January 1, 2019</b>	<b>90,730</b>	<b>11.1</b>
Reductions	-697,801	-99.7
Additions	648,930	95.9
<b>At December 31, 2019</b>	<b>41,859</b>	<b>7.3</b>

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

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

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

in CHF mn	Capital stock	Legal capital reserves <sup>1</sup>	Retained earnings <sup>2</sup>	Treasury shares	Shareholders' equity
<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>
<b>January 1, 2019</b>	<b>1.4</b>	<b>56.5</b>	<b>1,421.9</b>	<b>-11.1</b>	<b>1,468.7</b>
Dividend payment			-290.6		-290.6
Transactions with treasury shares				3.8	3.8
Net profit for the year			254.8		254.8
<b>December 31, 2019</b>	<b>1.4</b>	<b>56.5</b>	<b>1,386.1</b>	<b>-7.3</b>	<b>1,436.7</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 in 2019 is mainly due to lower dividend income and higher net financing costs. In April 2019, the dividend of CHF 290.6 million from profit brought forward for 2018 was paid out to shareholders.

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

An unlimited conditional capital of CHF 155,893.20 exists, divided into 15,589,320 registered shares with a par value of CHF 0.01 each. These shares are reserved for the exercise of option or conversion rights.

The share capital corresponds to the nominal capital of all issued shares, is fully paid up and is structured as follows (unchanged to previous year):

	Registered shares <sup>1</sup> par value CHF 0.01
Units	141,781,160
Nominal value (CHF)	1,417,812

1 Includes treasury shares which do not carry voting and dividend rights.

## OTHER INFORMATION

### FULL-TIME EQUIVALENTS

The number of full-time equivalents for the reporting year is 48 (47) employees.

### CONTINGENT LIABILITIES

Letters of guarantee and letters of comfort are issued to finance business transactions. No guarantees are required for the established zero-balance cash pooling. Sika AG is part of Sika Schweiz AG's value-added tax group and is jointly liable to the tax authorities for the value-added tax obligations of the tax group. Sika AG guarantees for Euro bonds issued by Sika Capital B.V., Netherlands (a 100% subsidiary of Sika AG), in 2019 in the total amount of nominal EUR 1,000.0 million.

in CHF mn	2018	2019
<b>Letters of guarantee</b>		
Issued	8.6	1,086.9
Used	0.0	0.0
<b>Letters of comfort</b>		
Issued	9.4	4.9
Used	0.2	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, 2019, the company had 16,004 (13,655) registered shareholders. Information regarding major shareholders can be found on page 143 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	
	2018	2019
<b>Board of Directors</b>		
Paul Hälgi, Chairman	47,460	49,920
Viktor Waldemar Balli	n.a.	0
Frits van Dijk	7,740	8,160
Justin Marshall Howell	0	350
Monika Ribar	7,560	6,660
Daniel J. Sauter	126,240	48,917
Ulrich W. Suter	6,240	n.a.
Christoph Tobler	11,000	8,420
Thierry F.J. Vanlancker	n.a.	860
<b>Group Management</b>		
Paul Schuler, CEO	67,320	79,443
Mike Champion	4,620	5,100
Christoph Ganz	25,860	25,860
Thomas Hasler	20,940	20,940
Frank Höfflin	6,960	8,126
Philippe Jost	n.a.	4,028
Yumi Kan	8,040	n.a.
Ivo Schädler	6,480	6,527
Adrian Widmer	18,060	21,280
<b>Total</b>	<b>364,520</b>	<b>294,591</b>

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

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

## PROPOSED APPROPRIATION OF PROFIT BROUGHT FORWARD

THE BOARD OF DIRECTORS PROPOSES TO THE ANNUAL GENERAL MEETING THE FOLLOWING APPROPRIATION OF PROFIT BROUGHT FORWARD:

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

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

As the general statutory reserve currently exceeds 20% of shareholders' equity, a further allocation to the reserve was waived.

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

in CHF	2018	2019
<b>Registered share<sup>1</sup> par value CHF 0.01</b>		
Gross dividend	2.05	2.30
35% withholding tax on gross dividend	0.72	0.81
<b>Net dividend</b>	<b>1.33</b>	<b>1.49</b>

1 Registered shares, held by Sika AG, are non-voting shares and do not qualify for a dividend.

The Board of Directors proposes to the Annual General Meeting that a dividend of CHF 2.30 per single-class registered share be distributed to shareholders. The dividend for 2018 was CHF 2.05 per single-class registered share.

Payment of the dividend is tentatively scheduled for Monday, April 27, 2020. Registered shareholders will receive payment of the dividend at the address provided to the company for the purposes of dividend distribution.

The Annual General Meeting of Sika AG will be held on Tuesday, April 21, 2020.

Baar, February 18, 2020

For the Board of Directors  
The Chairman:  
Dr Paul Hälgi

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

## **REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS**

As statutory auditor, we have audited the financial statements of Sika AG, which comprise the income statement, balance sheet, and notes to the financial statements (pages 159 to 169 of the download version of this report), for the year ended December 31, 2019.

## **BOARD OF DIRECTORS' RESPONSIBILITY**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing, and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

## **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **OPINION**

In our opinion, the financial statements for the year ended December 31, 2019, comply with Swiss law and the company's articles of incorporation.

## **REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY**

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

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

## **INVESTMENTS IN SUBSIDIARIES**

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

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

Our audit procedures did not give rise to any reservations regarding the valuation of the investments in subsidiaries.

## **REPORT ON OTHER LEGAL REQUIREMENTS**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of profit brought forward complies with Swiss law and the company’s articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, February 18, 2020

ERNST & YOUNG LTD

Christoph Michel  
Licensed audit expert  
(Auditor in charge)

Marc Rügsegger  
Licensed audit expert

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