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Report on the first half of 2005 of Sika AG in Baar, Switzerland

Sales and earnings rise

Sika sales and earnings moved higher in the first half of 2005. Sales, expressed in local currencies, were up 11.2%, denominated in Swiss francs 10.7%, and totaled CHF 1,370.2 mil. (prior year: CHF 1,238.1 mil.). Despite massive raw material cost increases, operating profit before depreciation (EBITDA) of CHF 165.3 mil. could be maintained at the previous year's levels (CHF 163.6 mil.). Consolidated net profit rose by 24.7% and amounted to CHF 75.3 mil. (prior year: CHF 60.4 mil.).

Due to margin squeeze, deferred impact of price increases, increased sourcing of finished products from third parties and the above-mentioned increase in raw material prices, gross profit fell from the previous year's level of 60.3% to 57.1%.

Nevertheless, at the level of EBITDA, the significant increase in volume as well as a below proportionate rise in costs managed to compensate for the negative development of gross profit. This despite the fact that EBITDA as a percentage of net profit decreased from 13.2% to 12.1%. The new IFRS standards without amortization on goodwill resulted in an increase of the EBIT of 14.5% to CHF 119.8 mil.

The lower cost of capital, due to favorable financing and a lower tax burden in percent of profit before taxes caused the consolidated net profit to rise by 24.7% to CHF 75.3 mil.

Bad weather and less working days had impacted the result of the first quarter. This could be compensated for in the second quarter. As a result of the strong growth in turnover during the second quarter, net working capital by the end of the second quarter rose by CHF 157.8 mil. This in turn lead to a cash drain of CHF –24.6 mil.

Development of divisions and regional sales

Denominated in local currencies, Construction Division sales were 10.3% higher, the Industry Division's 13.6%. Against the respective year-ago periods all regions registered higher sales both in the first as well as the second quarter. The advance was led by Asia/Pacific; expressed in local currencies, the region registered a notable 29.9% increase. Duplicating last year's pattern Latin America scored a gratifying 19.5% growth. Hard on its heels was North America with a respectable 15.1% sales increase. The saturated markets of Southern and Northern Europe are more difficult to serve, although we still managed to come up with gains – 8.2% in the South, 5.6% in the North.

The decline in sales due to divestments and acquisitions amounted to –0.8%.



Outlook

We continue to reckon with annual growth rates of 8 – 10%. An assessment of the effects of the still continuously strong increase in raw materials prices on the results of 2005 is not yet fully possible. We maintain our expectation of an increase in EBIT and net profit in line or slightly above the annual growth rates.

Sika reevaluates corporate strategy

Having reexamined its corporate strategy, Group Management and the Board of Directors of Sika, has made a number of adjustments for the next five-year period. As the business environment becomes increasingly global, stronger penetration of existing markets especially in Asia and in Eastern Europe continues to be a foremost goal as a means of further expand our strong market position.

Sika's striving for further growth is to be achieved by focusing even more sharply on target markets and customers. Sika's regional organizations and Key Account Management are to be reinforced. In the area of construction three Business Units are being organized globally as well as locally to serve customer groups in "Concrete", "Contractors" and "Distribution".

In addition cost leadership in target markets is to be supported by efficiency improvements, especially in logistics.

The following financial goals are being pursued within the next two to three years:

Net sales:	8 to 10% annual growth, denominated in local currencies
EBITDA:	12 to 14 % of net sales
Net profit:	> 6 % of net sales
Operating free cash flow:	4 – 6 % of net sales
(average over the five-year period)	
ROE (based on net profit):	> 15%

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For details on Sika's performance during the first half of this year, please check the half-year report. The report can be downloaded from www.sika.com as of today. For a printed version please contact the address shown above.

Sika AG, based in Baar, Switzerland, is a leading global supplier of specialty chemicals. Sika offers process materials for sealing, bonding, damping, reinforcing and protecting of load-bearing structures in construction (buildings and infrastructure) and in industry (transportation, automotive, marine and appliances & building components).

Sika's product line includes concrete admixtures, specialty mortars, sealants, adhesives, specialty acoustic and reinforcing materials, structural strengthening systems, industrial flooring and membranes.

Locally based operations in 68 countries with over 9'200 employees connect customers directly with Sika and guarantee for the success of all our partners. With this concept Sika achieves annual sales of approximately CHF 2.6 billion.

Visit the Sika website at www.sika.com.

