

SIKA
HALF-YEAR REPORT

2020

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HALF-YEAR RESULTS AT A GLANCE

**SALES GROWTH
OF 2.9%
IN LOCAL
CURRENCIES -
SALES OF
CHF 3,614.6
MILLION**

**MAINTAINED
HIGH EBITDA
MARGIN OF
OVER 16%**

1 ACQUISITION

**INCREASED
OPERATING FREE
CASH FLOW
AMOUNTING TO
CHF 254.7 MILLION**

**EBIT AT
CHF 410.2
MILLION**

PORTRAIT

Sika is a specialty chemicals company with a leading position in the development and production of systems and products for bonding, sealing, damping, reinforcing, and protecting in the building sector and motor vehicle industry. Sika has subsidiaries in 100 countries around the world and manufactures in over 300 factories. Sika employs 25,000 people and generated sales of CHF 8.1 billion in fiscal 2019. At the end of 2019, Sika won the Swiss Technology Award for a groundbreaking new adhesive technology.

KEY FIGURES

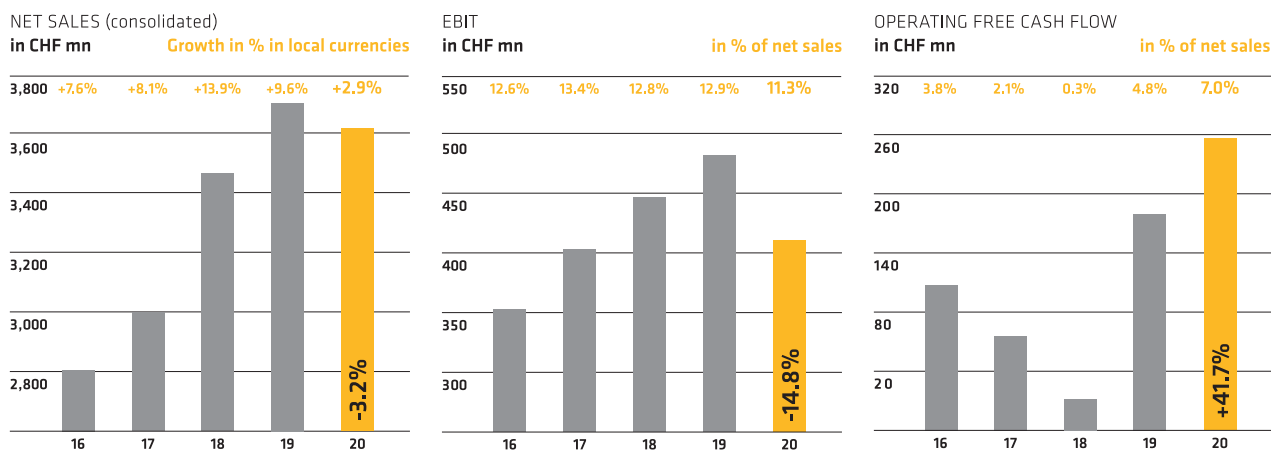
SIKA GROUP

in CHF mn	1/1/2019 - 6/30/2019	as % of net sales	1/1/2020 - 6/30/2020	as % of net sales
Net sales	3,732.4		3,614.6	
Gross result	2,008.9	53.8	1,973.2	54.6
Operating profit before depreciation (EBITDA)	623.8	16.7	593.6	16.4
Operating profit (EBIT)	481.7	12.9	410.2	11.3
Net profit	330.7	8.9	275.6	7.6
Operating free cash flow	179.7	4.8	254.7	7.0
Capital expenditures	86.0	2.3	70.6	2.0
Balance sheet total ¹	9,959.7		9,437.1	
Shareholders' equity ¹	3,161.2		2,848.3	
Equity ratio in % ^{1,2}	31.7		30.2	
Return on capital employed (ROCE) in % ³	17.0		13.5	
Basic earnings per share (EPS) in CHF	2.31		1.94	
Diluted earnings per share (EPS) in CHF	2.11		1.76	
Number of employees ¹	25,141		24,800	

1 As of December 31, 2019/June 30, 2020.

2 Shareholders' equity divided by balance sheet total.

3 Capital employed = current assets, PPE, intangible assets less cash and cash equivalents, current securities, current liabilities (excluding bank loans and bonds).



INVESTOR INFORMATION

	6/30/2019	6/30/2020
Number of registered shares with a nominal value of CHF 0.01	141,781,160	141,781,160
Registered share price as of June 30 (CHF)	166.60	182.35
Market capitalization as of June 30 (CHF mn)	23,621	25,854

DEAR SHAREHOLDERS

Despite the total lockdown lasting from several weeks up to three months in around 35 of 100 countries that Sika is present in, the company was able to continue its growth trajectory, reporting a sales growth of 2.9% in local currencies to CHF 3,614.6 million for the first half of 2020. A high negative currency effect of -6.1% led to a decline in sales of -3.2% in Swiss francs (which corresponds to around CHF 225 million). Acquisition effect contributed 13.4% to growth. At -10.5%, organic growth was negative in the first half of the year. In March, April, and May, the business was impacted by the ongoing coronavirus pandemic in almost all subsidiaries. In June, Sika recorded a positive organic sales growth for the first time since February, as lockdown measures ended or were significantly relaxed in many countries. Business activities started to normalize, and the dynamics in the construction sector picked up.

INCREASED MATERIAL MARGIN – STRONG FOCUS ON CASH FLOW AND LIQUIDITY

The reduced sales volumes in the months March, April, and May had a negative impact on profitability. Nevertheless, the material margin increased to 54.6% (previous year: 53.8%) in the first half of the year. Operating profit before depreciation and amortization (EBITDA) was maintained on a high level with the EBITDA margin reaching 16.4% (previous year: 16.7%). On a currency adjusted basis, absolute EBITDA was flat.

Operating profit (EBIT) amounted to CHF 410.2 million (previous year: CHF 481.7 million) a decline of -14.8%. EBIT was impacted by a negative operating leverage (March to May), initial expenses in connection with structural adjustments and efficiency measures, as well as integration costs in connection with the acquisition of Parex. The negative currency effect of -6.1% further reduced the EBIT by CHF 29 million.

Strong focus on liquidity and cash management resulted in a high operating free cash flow of CHF 254.7 million which exceeded previous year by CHF 75 million. Key drivers of this were an optimized inventory management, a focus on accounts receivables, and reduced capital expenditures.

GROWTH IN LOCAL CURRENCIES DESPITE NUMEROUS LOCKDOWNS

Sales in the first half year includes a substantial acquisition effect of Parex, with the total acquisition effect amounting to 13.4%.

The EMEA region grew by 3.2% in local currencies in the first half of the year. In June, the region achieved single-digit organic growth after already exhibiting a considerable improvement in May compared to April. The impact of the pandemic was limited in most Central European countries, such as Germany, Austria, Switzerland, Eastern European countries, and Nordic countries. The UK and the Middle East, which still show a very diverse picture, slightly improved in June. In May, Southern Europe showed the biggest improvement versus the previous month, with most lockdown restrictions being eased in Italy, Spain, Portugal, and France, with the latter returning to growth in June. Across the entire EMEA region, direct sales activities can again be supported with customer visits. Digital sales support measures, such as webinars, continue to be used to maintain close contact with customers.

In the first half of the year, the Americas region recorded growth in local currency of 2.6%. Despite higher COVID-19 infection rates in the USA, Mexico, and Brazil, Sika saw an improvement in the Americas region in June. Canada in particular recorded a strong performance with positive organic growth. In the USA, operating profit remained unchanged in June compared to the previous year. The distribution business even recorded double-digit growth in sales. The business in the Americas region was most heavily impacted by the pandemic in May. During this month, many major cities in North America were affected by stringent restrictions and several Latin American countries were in a complete lockdown. In Latin America, the development continues to be uncertain, as most countries are still in a partial or total lockdown, with repeated transitioning between reopening and more restrictive measures.

The Asia/Pacific region reported a growth of 21.8% in local currencies in the first half of the year. Despite numerous extended lockdowns, several key countries were back to growth in June. China in particular recorded double-digit growth and most Target Markets are also back to growth. The Parex business, with its granular distribution channels, has proven to be quite resilient throughout the crisis. The operating business in Japan is slowly recovering. In parts of Southeast Asia, many countries remained in lockdown for a longer period of time, whereas the situation in Vietnam and Thailand improved more quickly. Australia recorded organic growth in the first half of the year.

Global Business: In the first half of the year, the automotive industry reported a decline of -35% in car build rates. While some signs of improvement are visible in June, it is expected to take some time until the numbers climb back to 2019 levels again. Sika has therefore focused the business on lower capacity requirements and invested in process improvements. Most car manufacturers in China, Europe, and North America halted production for a longer period of time during the first six months of the year, with Chinese manufacturers being the first to restart their operations. From May onwards, car production in China is back on the growth trajectory and incentives are boosting customer demand. For the first half of the year, Global Business posted negative growth in local currencies of -23.1%, therefore developing more favorably than the global automotive sector.

Despite the coronavirus-related forecasted decline in automotive sales, Sika is confident that the megatrends in modern auto manufacturing, such as electromobility and lightweight construction, will help Sika to continue to gain market share and generate profitable, long-term growth.

OUTLOOK

Despite the coronavirus crisis and its impact on business operations, Sika confirms its strategic targets 2023. The organization will continue to be aligned for sustainable, long-term success and profitable growth. By targeting six strategic pillars – market penetration, innovation, operational efficiency, acquisitions, strong corporate values, and sustainability –, Sika is seeking to grow by 6%–8% a year in local currencies until 2023. It is aiming for a higher EBIT margin of 15%–18% from 2021 onwards. Projects in the areas of operations, logistics, procurement, and product formulation should result in an annual improvement in operating costs equivalent to 0.5% of sales.

In June, Sika has seen a further improving trend in construction markets and sales volumes are steadily returning to normal levels. Global construction activity is gaining momentum thanks to the gradual reopening of construction sites around the world.

For the remaining part of the year, Sika is expecting more favorable market conditions. With the anticipated improvement in sales volumes, the company expects an over-proportional EBIT increase for the second half of the year.

SPECIAL THANKS

We would like to thank all of our employees worldwide for their great efforts and never losing focus during this challenging time.

Sincerely,



DR. PAUL HÄLG
Chairman of the Board



PAUL SCHULER
Chief Executive Officer

SUBSTANTIAL IMPACT OF THE CORONAVIRUS PANDEMIC

Despite the substantial impact of the coronavirus pandemic on business, Sika managed to increase sales in local currencies in the EMEA, Americas, and Asia/Pacific regions in the first half of 2020.

REGION EMEA

The coronavirus pandemic has had far-reaching effects on Europe's economic output. The International Monetary Fund expects economic growth to be down by more than 7% in 2020. Downward trends are also expected in the construction sector, which is set to contract by 11.5% in the current financial year. A trend reversal is expected in 2021. The decline in the construction sectors in Eastern Europe and Germany is predicted to be less steep, at 2.4%, with falls of 10%-20% becoming apparent for the French, Italian, Spanish, and UK construction markets.

Within the Sika Group, the distribution business proved more resistant during the coronavirus crisis than project business, a trend that was driven by building materials trade and e-commerce channels. Parex, in particular, posted a strong increase in distribution business in June. In project business, Sika supplied – inter alia – the airport extension in Doha, Qatar, with waterproofing solutions, and the major construction project “The Circle” at Zurich Airport with products from its comprehensive portfolio from several target markets. In addition, two important OEM customers selected Sika's flooring solutions for use in their new plants.

The acquisition of Adeplast (Romania) was completed in the reporting period, and Sika also acquired the Modern Waterproofing Group in Egypt, a leading producer of roofing and waterproofing systems. The acquisition extends Sika Egypt's product portfolio, opening up further growth opportunities.

Sika invested in the expansion of the Sarnen site in Switzerland, bringing into operation a new production line for the manufacture of the SikaProof® structural waterproofing membrane.

REGION AMERICAS

North America, and in particular the countries of Latin America, were hit hard by the coronavirus crisis. Mexico, Brazil, and the USA are among the countries with the highest infection rates in the world. Even though the USA refrained from imposing a full lockdown, unlike Canada, economic output slowed and the unemployment rate shot up. The crisis also had a negative

impact on the construction sector, although business with builders' merchants and projects in the food and beverage segment posted above-average results. Ten countries in Latin America went into lockdown, with the states of emergency declared by governments affecting Colombia, Argentina, Ecuador, Bolivia, and Peru, some of which are Sika's largest markets in the area. In some countries, the closure of building sites brought construction activity to a complete standstill.

Huge state support and investment programs have been initiated to stimulate economic activity in both North and Latin America. The USA alone plans to invest CHF 1.4 trillion in infrastructure. With its comprehensive product portfolio, Sika is exceptionally well positioned to benefit from these major investments.

In the reporting period, Sika invested in the production of concrete admixtures, acrylic-based liquid-applied membranes, and mortars in Barranquilla, the fourth largest city in Colombia. Activities at an existing facility were transferred to the new state-of-the-art site and expanded.

REGION ASIA/PACIFIC

The first cases of the COVID-19 virus were reported in China in December 2019. After falling by some 7% in the first quarter, gross national product in the People's Republic posted a return to growth of 2.5% in the second quarter. Once the virus had been contained, the economy rebounded, stimulated by major investments in infrastructure in particular. Japan's gross national product contracted by 3.4% in the first half of 2020. The pandemic affected exports first and foremost, and investment by private households fell significantly. In Southeast Asia, infrastructure investments due to strong urbanization trends led the area to post economic growth of around 7% until the outbreak of the pandemic, but this then weakened under its impact. The crisis also reduced economic output in the Pacific region. Australia posted negative economic growth in June 2020, and New Zealand is also forecast to see a decline in gross national product this year.

REGIONS

Infrastructure investments that will particularly benefit the construction sector are planned throughout the region. Sika has positioned itself successfully primarily in China in readiness for the implementation of infrastructure investment projects in connection with 5G mobile networks, in major data centers, and in intercity high-speed rail projects. Wind turbine manufacturers and wind farm operators are also focusing increasingly on high-performance solutions from Sika.

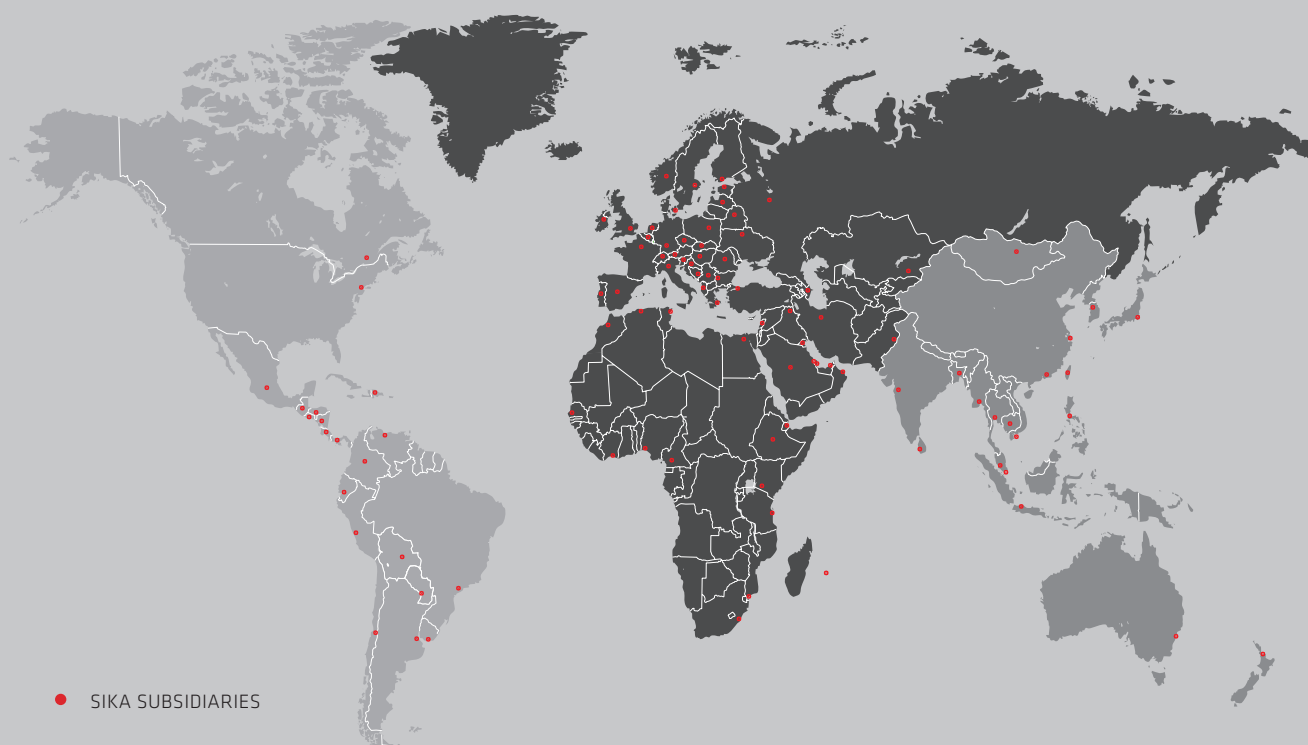
GLOBAL BUSINESS SEGMENT

The coronavirus pandemic has had especially grave effects on international automotive markets. All regions were significantly impacted by COVID-19 lockdowns and the associated repercussions on supply chains, manufacturing processes, and vehicle demand. Most auto manufacturers in China, Europe, and North America halted production completely for an

extended period, and in the first six months of 2020 the global automotive industry posted a decline in production figures of 35%. While some signs of improvement are visible in June, it is expected to take some time until the numbers climb back to 2019 levels again.

New vehicle registrations in Europe collapsed by up to 80% in April alone, and the average age of vehicles on Europe's roads is currently around ten years. In North America too, production of new vehicles fell by nearly 41% in the reporting period to 5 million, and it was not until June that it reached 70% of the previous year's level. China's automotive sector is expected to post the fastest upturn following the coronavirus crisis; aided by state support programs, the 2019 production level may well be reached as early as the second half of 2020.

WORLDWIDE MARKET PRESENCE



THE REGIONS IN BRIEF

	EMEA	Americas	Asia/Pacific	Global Business
Net sales in CHF mn (previous year)	1,584.2 (1,626.0)	942.0 (986.7)	746.7 (641.8)	341.7 (477.9)
Growth in local currencies	3.2%	2.6%	21.8%	-23.1%
Currency impact	-5.8%	-7.1%	-5.5%	-5.4%
Acquisition effect	11.7%	11.4%	30.8%	0.0%

Generally speaking, Sika cannot escape the impact from weak demand in automotive manufacturing. This said, during the crisis Sika was able to increase the share of its components used in each new vehicle produced by nearly 8%. In the USA especially, manufacturers such as Tesla, Ford, and Toyota have brought to market new vehicle platforms featuring an increasing level of high-performance technologies from Sika. New orders were also obtained from further manufacturers of electric vehicles in the United States. Thanks to its local presence in China and intact supply chain, Sika captured market share from competitors during the crisis. Growth in demand for fire protection coatings and battery management solutions for electric vehicles was particularly positive.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO JUNE 30

in CHF mn	Notes	%	2019	%	2020	Change in %
Net sales	1, 2	100.0	3,732.4	100.0	3,614.6	-3.2
Material expenses	3	-46.2	-1,723.5	-45.4	-1,641.4	
Gross result		53.8	2,008.9	54.6	1,973.2	-1.8
Personnel expenses	4	-19.6	-730.3	-20.7	-748.5	
Other operating expenses	5	-17.5	-654.8	-17.5	-631.1	
Operating profit before depreciation		16.7	623.8	16.4	593.6	-4.8
Depreciation and amortization expenses		-3.8	-142.1	-5.1	-183.4	
Operating profit	2	12.9	481.7	11.3	410.2	-14.8
Interest income		0.0	1.1	0.1	3.3	
Interest expenses	6	-0.7	-27.1	-0.7	-28.3	
Other financial income		0.1	3.8	0.1	3.5	
Other financial expenses	6	-0.6	-21.9	-0.5	-18.0	
Income from associated companies		0.0	0.4	0.0	0.5	
Profit before taxes		11.7	438.0	10.3	371.2	-15.3
Income taxes		-2.8	-107.3	-2.7	-95.6	
Net profit		8.9	330.7	7.6	275.6	-16.7
Profit attributable to Sika shareholders		8.8	327.5	7.6	275.1	
Profit attributable to non-controlling interests		0.1	3.2	0.0	0.5	
Undiluted earnings per share (in CHF)			2.31		1.94	-16.0
Diluted earnings per share (in CHF) ¹			2.11		1.76	-16.6

1 Dilutive effect due to convertible bonds issued (for details on the convertible bonds see note 13).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF mn	%	1/1/2019 - 6/30/2019	%	1/1/2020 - 6/30/2020	Change in %
Net profit	8.9	330.7	7.6	275.6	-16.7
Actuarial gains (+)/losses (-) on employee benefit obligation	0.5	21.3	-0.5	-17.2	
Income tax effect	-0.1	-3.7	0.1	2.9	
Items that will not be reclassified to profit or loss	0.4	17.6	-0.4	-14.3	
Exchange differences taken to equity	-1.3	-49.1	-4.8	-174.6	
Items that may be reclassified subsequently to profit or loss	-1.3	-49.1	-4.8	-174.6	
Other comprehensive income	-0.9	-31.5	-5.2	-188.9	
Comprehensive income	8.0	299.2	2.4	86.7	-71.0
Attributable to Sika shareholders	7.9	296.4	2.4	86.4	
Attributable to non-controlling interests	0.1	2.8	0.0	0.3	

CONSOLIDATED BALANCE SHEET

in CHF mn	Notes	12/31/2019	6/30/2020
Cash and cash equivalents	7	995.1	557.6
Accounts receivable	8	1,441.9	1,483.0
Inventories	9	866.5	870.9
Prepaid expenses and accrued income		139.9	134.7
Other assets		26.5	44.9
Current assets		3,469.9	3,091.1
Property, plant, and equipment	10	1,795.8	1,749.9
Intangible assets	11	4,351.0	4,265.8
Investments in associated companies		5.6	2.7
Deferred tax assets		233.5	221.8
Other assets		103.9	105.8
Non-current assets		6,489.8	6,346.0
ASSETS		9,959.7	9,437.1
Accounts payable	12	837.2	798.1
Accrued expenses and deferred income		414.0	384.5
Financial liabilities	13	342.9	344.5
Income tax liabilities		195.8	144.6
Provisions	14	23.1	21.3
Current liabilities		1,813.0	1,693.0
Financial liabilities	13	4,070.1	3,988.4
Provisions	14	95.7	102.9
Deferred tax liabilities		466.1	433.5
Employee benefit obligation		319.2	337.1
Other liabilities		34.4	33.9
Non-current liabilities		4,985.5	4,895.8
LIABILITIES		6,798.5	6,588.8
Capital stock		1.4	1.4
Treasury shares		-7.3	-7.4
Reserves		3,130.0	2,848.1
Equity attributable to Sika shareholders		3,124.1	2,842.1
Non-controlling interests		37.1	6.2
SHAREHOLDERS' EQUITY		3,161.2	2,848.3
LIABILITIES AND SHAREHOLDERS' EQUITY		9,959.7	9,437.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock	Capital surplus	Treasury shares	Currency translation differences	Retained earnings	Total Sika shareholders' equity	Non-controlling interests	Total equity
in CHF mn								
January 1, 2019	1.4	203.1	-11.1	-614.2	2,066.5	1,645.7	29.5	1,675.2
Impact of initial application of IFRS 16 Leases ¹					-7.9	-7.9		-7.9
January 1, 2019 (adjusted)	1.4	203.1	-11.1	-614.2	2,058.6	1,637.8	29.5	1,667.3
Profit for the period					327.5	327.5	3.2	330.7
Other comprehensive income				-22.1	4.8	-17.3	0.4	-16.9
Comprehensive income	-	-	-	-22.1	332.3	310.2	3.6	313.8
Transactions with treasury shares ²			9.1		-8.4	0.7		0.7
Share-based payments					6.2	6.2		6.2
Issue of convertible bond ³					1,137.5	1,137.5		1,137.5
Dividends ⁴					-290.6	-290.6	-2.6	-293.2
Inflation adjustment ⁵					7.8	7.8		7.8
Non-controlling interests from acquisitions ⁶						-	9.9	9.9
June 30, 2019	1.4	203.1	-2.0	-636.3	3,243.4	2,809.6	40.4	2,850.0
January 1, 2020	1.4	203.1	-7.3	-747.8	3,674.7	3,124.1	37.1	3,161.2
Profit for the period					275.1	275.1	0.5	275.6
Other comprehensive income				-174.4	-14.3	-188.7	-0.2	-188.9
Comprehensive income	-	-	-	-174.4	260.8	86.4	0.3	86.7
Transactions with treasury shares ²			-0.1		-9.1	-9.2		-9.2
Share-based payments					5.4	5.4		5.4
Dividends ⁷					-326.0	-326.0		-326.0
Inflation adjustment ⁵					7.9	7.9		7.9
Buyout of existing non-controlling interests ⁸				1.0	-47.5	-46.5	-31.3	-77.8
Non-controlling interests from acquisitions ⁹						-	0.1	0.1
June 30, 2020	1.4	203.1	-7.4	-921.2	3,566.2	2,842.1	6.2	2,848.3

1 Including deferred taxes of CHF 0.9 mn.

2 Including income tax of CHF 0.0 mn (CHF 0.1 mn).

3 For details on the convertible bond see note 13.

4 Dividend per share: CHF 2.05.

5 Hyperinflation accounting concerns the subsidiaries in Venezuela and Argentina.

6 Non-controlling interests from the acquisition of Parex.

7 Dividend per share: CHF 2.30.

8 Complete buyout of Sika Arabia Holding Company WLL, Bahrain, including the Arabian subsidiaries.

9 Non-controlling interests from the acquisition of Modern Waterproofing Company S.A.E., Egypt.

CONSOLIDATED STATEMENT OF CASH FLOWS

in CHF mn	Notes	1/1/2019 – 6/30/2019	1/1/2020 – 6/30/2020
Operating activities			
Profit before taxes		438.0	371.2
Depreciation and amortization expenses		142.1	183.4
Increase (+)/decrease (-) provisions/employee benefit assets and obligations		3.5	11.6
Increase (-)/decrease (+) net working capital and accruals		-181.3	-171.5
Non-liquidity-related financial expenses (+)/income (-) as well as cash flow from hedging transactions		11.9	67.4
Other adjustments		14.8	2.1
Income taxes paid		-165.4	-142.8
Cash flow from operating activities		263.6	321.4
Investing activities			
Property, plant, and equipment: capital expenditures		-82.2	-64.7
Property, plant, and equipment: disposals		2.1	1.0
Intangible assets: capital expenditures		-3.8	-5.9
Acquisitions less cash and cash equivalents		-1,726.6	-133.2
Disposal of associated companies		-	2.9
Acquisitions (-)/disposals (+) of financial assets		4.3	0.6
Cash flow from investing activities		-1,806.2	-199.3
Financing activities			
Increase in financial liabilities		180.7	251.7
Repayment of financial liabilities		-994.4	-124.4
Issue of bonds	13	1,121.8	-
Repayment of a bond	13	-	-160.0
Repayment liability component of mandatory convertible bond (interest)	13	-	-48.8
Issue of convertible bonds	13	1,280.1	-
Repayment of lease liabilities	13	-35.8	-48.1
Acquisitions of treasury shares		-40.3	-76.4
Disposals of treasury shares		41.4	66.0
Dividend payment to shareholders of Sika AG		-290.6	-326.0
Dividend payments to non-controlling interests		-2.6	-
Purchase of non-controlling interests		-	-77.8
Cash flow from financing activities		1,260.3	-543.8
Exchange differences on cash and cash equivalents		-3.9	-15.8
Net change in cash and cash equivalents		-286.2	-437.5
Cash and cash equivalents at the beginning of the period	7	914.0	995.1
Cash and cash equivalents at the end of the period	7	627.8	557.6
Cash flow from operating activities contains:			
Dividends from associated companies		0.5	0.5
Interest received		1.1	3.4
Interest paid		-8.5	-18.0

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES OF CONSOLIDATION AND VALUATION

The unaudited **Interim Consolidated Financial Statements** for the first half of 2020 have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The condensed interim financial statements do not include all information and disclosures as would be required in the annual financial statements and should therefore be read in conjunction with Sika's annual Consolidated Financial Statements for the year ended December 31, 2019.

The financial statements of the Sika Group are prepared in conformity with the provisions of the International Accounting Standards Board (IASB). All standards (IAS/IFRS) and interpretations (IFRIC/SIC) applicable as of June 30, 2020, were considered. The financial statements are 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 accounting standards applied conform to those standards that were valid in the previous year. Exceptions are the following revised and new standards, which Sika applied since January 1, 2020. They have had no significant effect on the Consolidated Financial Statements of the Group:

- Amendment to IFRS 3 - Definition of a business
- Amendment to IAS 1 and IAS 8 - Definition of "material"
- Amendments to the conceptual framework
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform

ACQUISITION OF PAREX 2019

On May 23, 2019, Sika acquired the Parex group. The purchase price allocation for this acquisition still entailed some uncertainty. In the current reporting period, the provisional values were finalized and the following adjustments made:

- Accrued expenses and deferred income (+CHF 6.1 million): the adjustments relate mainly to the employee-related accruals.
- Provisions including contingent liabilities (+CHF 9.7 million): the potential risks were reviewed and the final assessment led to an increase in a provision, in particular for a legal dispute. The legal case is still pending and will continue to be monitored. The provision will be adjusted in line with ongoing developments.
- Deferred tax assets (+CHF 4.0 million) and deferred tax liabilities (-CHF 1.4 million): deferred tax assets were reviewed and adjusted accordingly. The increase is based on tax-deductible temporary differences. The reduction in deferred tax liabilities results from value adjustments in the purchase price allocation.
- Goodwill (+CHF 10.5 million): the increase in goodwill results from the various adjustments to the purchase price allocation explained above.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn	Parex group – provisional 2019	Adjustment of provisional values	Parex group – final 2020
Cash and cash equivalents	127.3		127.3
Accounts receivable	220.2		220.2
Inventories	108.5		108.5
Prepaid expenses and accrued income	15.5		15.5
Property, plant, and equipment	230.0		230.0
Right-of-use leased assets	97.7		97.7
Intangible assets	819.3		819.3
Deferred tax assets	14.4	4.0	18.4
Other assets	10.2		10.2
Total assets	1,643.1	4.0	1,647.1
Financial liabilities	1,087.6	0.1	1,087.7
Accounts payable	165.1		165.1
Accrued expenses and deferred income	109.6	6.1	115.7
Income tax liabilities	48.3		48.3
Provisions	57.3	9.7	67.0
Employee benefit obligation	17.3		17.3
Deferred tax liabilities	364.4	-1.4	363.0
Total liabilities	1,849.6	14.5	1,864.1
Net assets	-206.5	-10.5	-217.0
Non-controlling interests	-10.8		-10.8
Acquired net assets	-217.3	-10.5	-227.8
Goodwill	1,915.8	10.5	1,926.3
Total purchase price	1,698.5	-	1,698.5
Cash in acquired assets	-127.3		-127.3
Net cash outflow	1,571.2	-	1,571.2

ACQUISITIONS 2020

In 2020, Sika acquired the following companies:

Company	Type of transaction	Stake in %	Closing date
Adeplast S.R.L., Romania	Share deal	100.0	3/31/2020
Modern Waterproofing Company S.A.E., Egypt	Share deal	98.9	6/8/2020

On March 31, 2020, Sika acquired Adeplast S.R.L., a major manufacturer of mortars and thermal insulation solutions in Romania. The acquisition will significantly strengthen Sika's position in the local construction chemicals market and extend its manufacturing footprint. Adeplast operates four state-of-the-art production plants. The strategically located facilities will enable Sika to realize efficiency gains in logistics and warehousing as well as to further enhance its ability to serve customers with fast supply and excellent product availability. With the acquisition, Sika Romania will strengthen its product portfolio for the Target Market Building Finishing and gain access to Adeplast's large, well-established network of distributors.

On June 8, 2020, Sika acquired Modern Waterproofing Company S.A.E., a leading manufacturer of roofing and waterproofing systems in Egypt. The acquisition extends and completes Sika Egypt's offering of roofing, waterproofing, and building envelope systems. The production site will strengthen the local supply chain and the technical know-how as well as offering the possibility to efficiently serve other African countries.

Since the purchases, the acquisitions have contributed sales of CHF 28.5 million and a net profit of CHF 2.2 million. Accounts receivable of the two acquisitions had a gross value of CHF 26.8 million and were recognized at fair value of CHF 22.4 million.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn	Acquisitions ¹
Cash and cash equivalents	12.0
Accounts receivable	22.4
Inventories	13.8
Prepaid expenses and accrued income	1.0
Property, plant, and equipment	54.2
Right-of-use leased assets	1.8
Intangible assets	23.1
Deferred tax assets	0.6
Other assets	3.4
Total assets	132.3
Financial liabilities	32.8
Accounts payable	11.7
Accrued expenses and deferred income	2.2
Income tax liabilities	0.4
Provisions	0.9
Deferred tax liabilities	11.1
Total liabilities	59.1
Net assets	73.2
Non-controlling interests	-0.1
Acquired net assets	73.1
Goodwill	81.4
Total purchase price	154.5
Cash in acquired assets	-12.0
Payments still due (per June 30, 2020)	-9.3
Net cash outflow	133.2

1 Adeplast S.R.L. and Modern Waterproofing Company S.A.E.

If the acquisitions had occurred on January 1, 2020, consolidated pro forma net sales would have been CHF 3,646.9 million (+CHF 32.3 million). The additional profit share would have been insignificant.

Since the purchase prices and the purchase price allocations for both acquisitions still entail some uncertainty, all positions are provisional. Market access and combined distribution channels and supplementary product portfolios justify the goodwill posted. Goodwill is not tax-deductible.

The directly attributable transaction costs of the acquisitions amounted to CHF 1.0 million and were charged to other operating expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Income statement from January 1 to June 30, 2020 (January 1 to June 30, 2019).
Balance sheet data as of June 30, 2020 (December 31, 2019).

1. NET SALES CHF 3,614.6 MN (CHF 3,732.4 MN)

Sales of goods account for nearly all net sales. Year-on-year net sales in local currency increased by 2.9%. Taking into account the currency effect of -6.1%, sales in Swiss francs declined by -3.2%, including a growth from acquisitions of 13.4%. Details to segments can be found in note 2.

2. SEGMENT REPORTING

Sika conducts its worldwide activities according to geographical regions and the global segment Global Business. Heads of the segments are members of Group Management. Group Management is the highest executive body that measures the success of the operating segments and allocates resources. The key figure of profit by which the segments are directed is operating profit, which is consistent with the consolidated financial statements. Financing (including financial expenses and income) and income taxes are managed on a Group-wide basis and are not allocated to the individual segments. The composition of the segments is shown on page 7.

The two acquired companies Adeplast S.R.L., Romania, and Modern Waterproofing Company S.A.E., Egypt, were allocated to the segment EMEA.

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

NET SALES FROM JANUARY 1 TO JUNE 30

in CHF mn	2019			2020		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	1,626.0	113.3	1,739.3	1,584.2	101.5	1,685.7
Americas	986.7	2.3	989.0	942.0	2.4	944.4
Asia/Pacific	641.8	9.1	650.9	746.7	8.9	755.6
Global business	477.9	8.3	486.2	341.7	6.8	348.5
Eliminations	-	-133.0	-133.0	-	-119.6	-119.6
Net sales	3,732.4	-	3,732.4	3,614.6	-	3,614.6
Products for construction industry	2,888.9			2,956.6		
Products for industrial manufacturing	843.5			658.0		

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, waterbars, assembly foams and elastic adhesives for facade construction, interior and infrastructure construction, as well as concrete protection and repair solutions.

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

CHANGES IN NET SALES/CURRENCY IMPACT

in CHF mn	1/1/2019	1/1/2020	Change compared to prior period		
	- 6/30/2019	- 6/30/2020	In Swiss francs	In local currencies	(+/- in %) Currency impact
EMEA	1,626.0	1,584.2	-2.6	3.2	-5.8
Americas	986.7	942.0	-4.5	2.6	-7.1
Asia/Pacific	641.8	746.7	16.3	21.8	-5.5
Global business	477.9	341.7	-28.5	-23.1	-5.4
Net sales	3,732.4	3,614.6	-3.2	2.9	-6.1
Products for construction industry	2,888.9	2,956.6	2.3	8.4	-6.1
Products for industrial manufacturing	843.5	658.0	-22.0	-16.0	-6.0

OPERATING PROFIT

in CHF mn	1/1/2019	1/1/2020	Change compared to prior period	
	- 6/30/2019	- 6/30/2020	(+/-)	(+/- in %)
EMEA	226.1	226.9	0.8	0.4
Americas	168.2	142.0	-26.2	-15.6
Asia/Pacific	101.6	98.0	-3.6	-3.5
Global business	65.6	9.1	-56.5	-86.1
Other segments and activities	-79.8	-65.8	14.0	n.a.
Operating profit	481.7	410.2	-71.5	-14.8

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	1/1/2019 - 6/30/2019	1/1/2020 - 6/30/2020
Operating profit	481.7	410.2
Interest income	1.1	3.3
Interest expenses	-27.1	-28.3
Other financial income	3.8	3.5
Other financial expenses	-21.9	-18.0
Income from associated companies	0.4	0.5
Profit before taxes	438.0	371.2
Income taxes	-107.3	-95.6
Net profit	330.7	275.6

3. MATERIAL EXPENSES CHF 1,641.4 MN (CHF 1,723.5 MN)

Material expenses as a percentage of net sales improved by 0.8 percentage points. Lower raw material costs as well as slightly higher selling prices improved the gross margin. In addition, one-off effects (CHF 4.1 million) related to the acquisition of Parex had a negative impact on gross profit in the previous year.

4. PERSONNEL EXPENSES CHF 748.5 MN (CHF 730.3 MN)

Personnel costs increased in relation to net sales from 19.6% to 20.7%, mainly due to the negative impact of the coronavirus pandemic on Sika's sales markets. Personnel expenses include government support of CHF 16.0 million received worldwide in connection with the coronavirus pandemic.

Personnel expenses include a portion of salaries paid to senior managers and Group Management in the form of Sika AG stocks. Related personnel expenses in the first half of 2020 amounted to CHF 12.5 million (CHF 15.0 million). Provided employees are entitled to the option of drawing shares of Sika AG, this portion will be recognized as liabilities as at balance sheet date. In the event that shares are drawn, this portion will be taken to equity in the subsequent year.

5. OTHER OPERATING EXPENSES CHF 631.1 MN (CHF 654.8 MN)

Other operating expenses remained constant at 17.5% of net sales, as a result of specific efficiency programs as well as disciplined cost management. Other operating expenses include government support of CHF 1.9 million received in connection with the coronavirus pandemic. In the prior year, non-recurring effects relating to the acquisition of Parex (CHF 20 million) had a negative impact on costs.

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

6. INTEREST EXPENSES/OTHER FINANCIAL EXPENSES CHF 46.3 MN (CHF 49.0 MN)

Interest expenses of CHF 28.3 million (CHF 27.1 million) consist mainly of interest expenses for outstanding bond issues as well as interests on lease liabilities. Other financial expenses of CHF 18.0 million (CHF 21.9 million) 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.

7. CASH AND CASH EQUIVALENTS CHF 557.6 MN (CHF 995.1 MN)

The item "Cash and cash equivalents" includes cash and cash equivalents with a maturity of less than three months, bearing interest at a respectively valid rate. The change in this position can be seen in detail in the statement of cash flows.

8. ACCOUNTS RECEIVABLE CHF 1,483.0 MN (CHF 1,441.9 MN)

Accounts receivable are higher at mid-year than at the end of 2019 as a result of seasonal influences. However, exchange rate developments have significantly reduced this effect. The allowance for expected credit losses for the entire lifetime were slightly increased due to the current economic development and the existing uncertainties related to the coronavirus pandemic.

9. INVENTORIES CHF 870.9 MN (CHF 866.5 MN)

The slight rise in inventories is due to seasonal distribution of sales. However, actions in connection with the coronavirus pandemic, as well as exchange rate developments, have significantly reduced this effect.

10. PROPERTY, PLANT, AND EQUIPMENT CHF 1,749.9 MN (CHF 1,795.8 MN)

in CHF mn	12/31/2019	6/30/2020
Own property, plant, and equipment	1,474.2	1,445.8
Right-of-use assets	321.6	304.1
Property, plant, and equipment	1,795.8	1,749.9

11. INTANGIBLE ASSETS CHF 4,265.8 MN (CHF 4,351.0 MN)

Intangible assets include goodwill of CHF 3,126.3 million (CHF 3,150.2 million). The coronavirus pandemic, with the negative impact on Sika's sales markets, requires an additional review of the recoverability of goodwill positions as of half-year. Therefore, an assessment was made outside the annual cycle to determine whether a potential impairment on the goodwill positions could exist. The operating segments constitute the cash-generating units.

The impairment tests are based on the discounted cash flow method. The calculation of the value in use is based on target figures and cash flow forecasts. The forecasting horizon is three years. The target figures, forecasts, and other assumptions used to determine the recoverable amount were revised to reflect the potential impact of the coronavirus pandemic and the economic conditions at the balance sheet date, in particular to consider the increased planning uncertainty.

Outside the annual budgeting process, the target figures were prepared in cooperation with the regional management and approved by Group Management. The first planning year is based on detailed country-specific forecasts, which reflect the different regional developments. The two subsequent years are based on the expectation that the severe slump in the second quarter (especially during the lockdown mode in the different countries) will be followed by a gradual recovery. It is expected that the construction sector, and thus the regional segments, will recover relatively well. A slower recovery is expected in Global Business. Accordingly, growth expectations for this cash-generating unit were dampened. The sales growth rates used in the impairment tests were adjusted to the current volatile environment and correspond to conservative market expectations of the segments.

The growth rates used outside the three-year planning period (terminal growth rates) correspond to weighted expected inflation rates of the segments. The discount rates are determined on the basis of the weighted average cost of capital of the Group, considering country- and currency-specific risks within the context of cash flows taken into consideration. The sensitivity analyses performed on the growth rate outside the planning period and the discount rates indicate that a realistic change in assumptions would not result in the realizable value falling below the carrying amount.

Since precise forecasts are difficult in the current environment, further scenarios with even more negative effects on the expected cash flows were calculated. None of these changes in the assumptions resulted in a need for impairment.

GOODWILL ASSIGNED TO CASH-GENERATING UNITS

in CHF mn	Terminal growth rates (%)	Discount rates pre-tax (%)	Trademarks with indefinite useful lives	Goodwill
December 31, 2019				
EMEA	2.2	7.9	26.0	1,204.4
Americas	3.2	10.7	46.4	586.7
Asia/Pacific	2.4	9.6		1,068.0
Global Business	1.7	8.3		291.1
Total			72.4	3,150.2
June 30, 2020				
EMEA	1.9	8.1	26.0	1,247.7
Americas	2.9	10.9	46.4	562.2
Asia/Pacific	2.2	9.6		1,034.1
Global Business	1.8	8.3		282.3
Total			72.4	3,126.3

12. ACCOUNTS PAYABLE CHF 798.1 MN (CHF 837.2 MN)

In general, accounts payable are higher at mid-year than at the end of 2019 as a result of seasonal influences. However, exchange rate developments and the impact of the coronavirus pandemic led to the opposite effect in the current period. Accounts payable do not bear interest and will usually become due within 30 to 60 days.

13. FINANCIAL LIABILITIES CHF 4,332.9 MN (CHF 4,413.0 MN)

in CHF mn	12/31/2019			6/30/2020		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives	7.6	-	7.6	7.0	-	7.0
Bank loans	15.3	2.6	17.9	177.9	2.3	180.2
Lease liabilities	81.6	247.6	329.2	79.3	228.5	307.8
Bonds	160.1	3,719.7	3,879.8	0.0	3,704.3	3,704.3
Mandatory convertible bond (liability component)	48.7	96.3	145.0	48.5	48.2	96.7
Other financial liabilities	29.6	3.9	33.5	31.8	5.1	36.9
Total	342.9	4,070.1	4,413.0	344.5	3,988.4	4,332.9

As of June 30, 2020, Sika has the following bonds outstanding:

in CHF mn						12/31/2019	6/30/2020
Issuer	Bond	Nominal	Coupon	Term	Book value	Book value	
Sika AG, Baar, Switzerland	Straight bond	CHF 160.0	0.000%-0.050%	2018-03/27/2020	160.1	-	
	Straight bond	CHF 170.0	0.125%	2018-07/12/2021	170.1	170.0	
	Straight bond	CHF 150.0	1.750%	2012-07/12/2022	150.0	150.0	
	Straight bond	CHF 200.0	1.875%	2013-11/14/2023	199.5	199.6	
	Straight bond	CHF 250.0	0.625%	2018-07/12/2024	250.5	250.4	
	Convertible bond	CHF 1,650.0	0.150%	2018-06/05/2025	1,600.4	1,604.9	
	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	130.9	130.8	
Sika Capital B.V., Utrecht, Netherlands	Straight bond	EUR 500.0	0.875%	2019-04/29/2027	539.4	529.6	
	Straight bond	EUR 500.0	1.500%	2019-04/29/2031	538.9	529.0	
Total					3,879.8	3,704.3	

Furthermore, Sika has the following credit facilities:

- Revolving credit facility of CHF 750.0 million, drawable in CHF, EUR, USD, or GBP. The term ends on April 1, 2024 with the option of two one-year extensions. As of June 30, 2020, Sika utilized CHF 150.0 million of this credit limit.
- Revolving credit facility of CHF 500.0 million with a term until beginning of April 2021, drawable in CHF, EUR, USD, or GBP. This credit facility was closed on April 9, 2020, due to the existing uncertainties in connection with the coronavirus pandemic. As of June 30, 2020, Sika has not utilized this credit line.

In May 2018, Sika placed a convertible bond in the amount of CHF 1,650.0 million due in 2025. The convertible bond has a coupon of 0.15% p.a. The shares to be delivered upon conversion will be made available by existing shares or by the issue of new shares from the conditional capital. At the end of June 2020, the conversion price per share is CHF 189.56. No rights were converted in the reporting period.

On January 22, 2019, Sika placed a mandatory convertible bond in the amount of CHF 1,300.0 million due in 2022. 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 made available by either existing shares or by the issue of new shares from the conditional capital. At the end of June 2020, the bond has a minimum conversion price of CHF 126.34 and a maximum conversion price of CHF 142.13. No rights were converted in the reporting period.

14. PROVISIONS CHF 124.2 MN (CHF 118.8 MN)

Provisions for guarantees reflect all known or anticipated claims in the near future. The provision amounts are determined on the basis of experience and are therefore subject to a degree of uncertainty. The outflow of funds depends on the timing of the filing and conclusion of warranty claims. Provisions for sundry risks include loan guarantees as well as open and anticipated legal cases with a probability of above 50% as well as contingent liabilities from acquisitions. For provisions of CHF 21.3 million (CHF 23.1 million) an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

OTHER INFORMATION

SIGNIFICANT SHAREHOLDERS

As of the balance sheet date of June 30, 2020, Sika had received notification of four significant shareholders whose voting rights exceed 3%: (1) BlackRock Inc., which owned 7.7% of all voting rights. (2) William H. Gates and Melinda French Gates, who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (3) The Capital Group Companies, who held 5.0% of all voting rights via Capital Research and Management Company, Capital Bank and Trust Company, Capital International Limited, Capital International, Inc., and Capital International Sarl. (4) Massachusetts Financial Services Company, which held 3.03% of all voting rights.

A list of changes in significant shareholdings reported to the disclosure office of SIX Swiss Exchange during the year under review can be found at <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>. There are no cross-shareholdings exceeding 3%, either in terms of capital or votes.

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.

EVENTS AFTER THE BALANCE SHEET DATE

No events to report occurred between June 30, 2020, and the release of these consolidated financial statements.

FINANCIAL CALENDAR

RESULTS FIRST NINE MONTHS 2020

Thursday, October 22, 2020

NET SALES 2020

Tuesday, January 12, 2021

**MEDIA CONFERENCE / ANALYST PRESENTATION
ON FULL-YEAR RESULTS 2020**

Friday, February 19, 2021

NET SALES FIRST QUARTER 2021

Tuesday, April 20, 2021

53RD ANNUAL GENERAL MEETING

Tuesday, April 20, 2021

HALF-YEAR REPORT 2021

Thursday, July 22, 2021

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