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THE ATTACHED DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE BONDS (THE "BONDS") REFERENCED IN THE ATTACHED DOCUMENT MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" TO PERSONS OUTSIDE THE UNITED STATES, AND AS PERMITTED BY, THE US SECURITIES ACT OF 1933 (THE "SECURITIES ACT"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF BONDS FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE BONDS MAY NOT BE OFFERED OR SOLD EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your Representation: In order to be eligible to view the attached document or make an investment decision with respect to the Bonds, investors must comply with the following provisions. You have been sent the following document on the basis that you have confirmed to Sika Capital B.V. (the "**Issuer**"), Sika AG (the "**Guarantor**"), Citigroup Global Markets Limited (the "**Sole Global Coordinator**" and a "**Joint Lead Manager**"), Credit Suisse Securities (Europe) Limited and UBS AG London Branch (together with Citigroup Global Markets Limited, the "**Joint Lead Managers**" and each a "**Joint Lead Manager**"), being the senders of the attached document that you are a person that is outside the United States (within the meaning of Regulation S under the Securities Act) and that you are (a) a "**relevant person**" (as defined below) if in the United Kingdom; or are (b) outside the United Kingdom (and the electronic mail address that you gave us and to which this e-mail has been delivered are not located in such jurisdictions). By accepting this e-mail and accessing the attached document, you shall be deemed to have made the above representation and that you consent to delivery of such document by electronic transmission.

In addition, in the United Kingdom, the attached document is being distributed only to and is directed only at persons: (a) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); or (b) who are high net worth entities falling within Article 49 of the Order, and other persons to whom it may otherwise lawfully be communicated under the Order, (all such person together referred to as "**relevant persons**"). Any investment or investment activity to which the document relates is available only in the United Kingdom to relevant persons and will be engaged in only with such persons.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU, as amended ("**MiFID II**") (except for in Switzerland where the Bonds are subject of a public offering, which may include offerings to non-professional investors); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect

of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Prohibition of sales to EEA retail investors – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

This document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

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SIKA CAPITAL B.V.

(incorporated with limited liability in the Netherlands and having its corporate seat in Utrecht, the Netherlands)

€500,000,000 0.875 per cent. Series 1 Bonds due 2027

€500,000,000 1.500 per cent. Series 2 Bonds due 2031

guaranteed by

SIKA AG

(incorporated as a corporation in Switzerland)

Issue Price: 99.716 per cent. in respect of the Series 1 Bonds

99.782 per cent. in respect of the Series 2 Bonds

The €500,000,000 0.875 per cent. Bonds due 2027 (the "**Series 1 Bonds**") and the €500,000,000 1.500 per cent. Bonds due 2031 (the "**Series 2 Bonds**") and, together with the Series 1 Bonds, the "**Bonds**" and each, a "**Series**") will be issued by Sika Capital B.V. (the "**Issuer**") and guaranteed (in accordance with the terms of Article 111 of the Swiss Code of Obligations) by Sika AG (the "**Guarantor**") (each a "**Guarantee**" and together, the "**Guarantees**"). Interest on the Bonds will be payable annually in arrear on 29 April in each year. Payments on the Bonds will be made without deduction for or on account of taxes any Relevant Jurisdiction (as defined herein) to the extent described under "*Terms and Conditions of the Series 1 Bonds – Taxation*".

The Series 1 Bonds mature on 29 April 2027 and the Series 2 Bonds mature on 29 April 2031 (each, a "**Maturity Date**"). The Bonds are subject to redemption in whole, but not in part (i) at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxation in any Relevant Jurisdiction, (ii) at the higher of (a) their principal amount or (b) the sum of the then present values of the remaining scheduled payments of principal and interest discounted to the Make Whole Redemption Date (as defined herein) on an annual basis, in each case together with accrued interest at any time and (iii) during the Acquisition Event Call Period (as defined herein) at 101 per cent. of their principal amount together with accrued interest. See "*Terms and Conditions of the Series 1 Bonds – Redemption and Purchase*".

The Bonds will constitute direct, unconditional and, subject to Condition 4, unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. See "*Terms and Conditions of the Series 1 Bonds— Guarantee and Status*" or "*Terms and Conditions of the Series 1 Bonds – Guarantee and Status*", as applicable.

This Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC as amended or superseded, (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU, as amended ("**MiFID II**") or which are to be offered to the public in any Member State of the European Economic Area ("**EEA**").

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Bonds to be admitted to the official list of Euronext Dublin (the "**Official List**") and to trading on its regulated market. This Prospectus constitutes a Prospectus for the purposes of article 5.4 of the Prospectus Directive. References in this Prospectus to Bonds being 'listed' (and all related references) shall mean that such Bonds have been admitted to the Official List and to trading on the regulated market of Euronext Dublin. The regulated market of Euronext Dublin is a regulated market for the purposes of MiFID II.

The denomination of the Bonds of each Series shall be €100,000 and integral multiples of €1,000 in excess thereof.

The Bonds will be issued in registered form, initially represented by a global certificate (the "**Global Certificate**") registered in the name of a nominee of, and deposited with, a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") on or about the issue date. Individual Certificates ("**Certificates**") evidencing holding of Bonds will be available only in certain limited circumstances described under "*Summary of Provisions relating to the Bonds while in Global Form*".

The Bonds are expected to be rated A- by S&P Global Ratings Europe Limited ("**S&P**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. S&P is established in the EU and registered under Regulation (EC) No 1060/2009 (the "**CRA Regulation**").

Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus.

Sole Global Coordinator and Joint Lead Manager

Citigroup

Joint Lead Managers

Citigroup

Credit Suisse

UBS Investment Bank

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to (i) the Issuer; (ii) the Guarantor and its consolidated subsidiaries (together, the "**Sika Group**" or the "**Group**"); (iii) the Guarantor in its capacity as guarantor; and (iv) the Bonds, in each case, which according to the particular nature of the Issuer, the Sika Group, the Guarantor and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor. The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers (as defined in "*Subscription and Sale*" below) to subscribe or purchase, any of the Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Bonds and distribution of this Prospectus, see "*Subscription and Sale*" below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Guarantor or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer, the Guarantor or the Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Bonds. Each Joint Lead Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in MiFID II (except for in Switzerland where the Bonds are subject of a public offering, which may include offerings to non-professional investors); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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The Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**"). Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States.

Unless otherwise specified or the context requires, references to "**euro**", "**EUR**" and "**€**" mean the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community, as amended and "**cents**" and "**cent**" shall be construed accordingly and references to "**CHF**" are to the lawful currency of Switzerland. References herein to the "**Bonds**" are to the Series 1 Bonds and the Series 2 Bonds together, except where otherwise indicated. For the avoidance of doubt, the defined term "**Bonds**" in the terms and conditions in respect of each Series refers to the Bonds of that Series only. Where used in this Prospectus, "**EBITDA**" refers to the "Operating profit before depreciation" line item in the Group's consolidated income statement for the relevant period(s).

In connection with the issue of each Series, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements and information relating to the Group, including statements of future financial and operational developments and results as well as other projections and statements that are based on the subjective expectations, assessments, estimates and projections of its management and information currently available to the Sika Group. These forward-looking statements include the statements under the captions "*Risk Factors*", "*The Issuer*", "*The Sika Group*", and elsewhere in this Prospectus that are not historical facts or which may not otherwise be provable by reference to past events. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, financial condition or achievements of the Sika Group to be materially different from those expressed or implied by such forward-looking statements contained in this Prospectus. Terms and phrases such as "will", "believe", "expect", "anticipate", "intend", "plan", "predict", "estimate", "project", "may" and "could", and variations of these words and similar expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These statements reflect current views of the Group's management with respect to future events and are not a guarantee of future performance. Various factors could cause the actual results, performance, financial condition or achievements to differ materially from the expectations reflected in the forward-looking statements in this Prospectus. These factors include, but are not limited to, risks and others described under "*Risk Factors*".

Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Prospective investors should refer to the section "*Risk Factors*" for a discussion of important factors that may cause the Sika Group's actual results to differ materially from those expressed or implied by the Sika Group's forward-looking statements in this Prospectus will prove to be accurate. Therefore, no undue reliance should be placed on forward-looking statements. None of the Issuer or the Guarantor undertake any obligation to update any forward-looking statement, even if new information, future events or other circumstances have made them incorrect or misleading. All subsequent written and oral forward-looking statements attributable to the Issuer, the Guarantor or any other entity of the Sika Group are qualified in their entirety by the foregoing factors.

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OVERVIEW

The overview below describes the principal terms of the Bonds and is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein and not otherwise defined have the respective meanings given to them in the sections titled "*Terms and Conditions of the Series 1 Bonds*" and the "*Terms and Conditions of the Series 2 Bonds*" (as applicable, the "**Conditions**").

Issuer:	Sika Capital B.V. (being a private limited liability company incorporated under the laws of the Netherlands and registered with the Dutch Trade Register of the Chamber of Commerce under number 74254545) (the " Issuer ").
Guarantor:	Sika AG, a corporation (<i>Aktiengesellschaft</i>) incorporated under the laws of Switzerland and registered with the commercial register of the Canton of Zug under number CHE-106.919.184 (the " Guarantor ").
Form and Denomination:	Each Series of Bonds will be issued in registered form in denominations of €100,000 and integral multiples of €1,000.
Status of the Bonds and Guarantees:	<p>The Bonds constitute direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall (subject to Condition 4) at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer, except for such preferences as are provided for by any mandatorily applicable provision of law.</p> <p>The Guarantor has unconditionally and irrevocably guaranteed, in accordance with the terms of Article 111 of the Swiss Code of Obligations, the due payment of all sums expressed to be payable by the Issuer under the Bonds (the "Guarantees").</p> <p>The payment obligations of the Guarantor under the Guarantees shall, subject to Condition 4, at all times rank at least equally with its other present and future unsecured and unsubordinated obligations, except for such preferences as are provided for by any mandatorily applicable provision of law.</p>
Currency:	Euro ("€")
Principal Amount:	<i>Series 1 Bonds:</i> €500,000,000 <i>Series 2 Bonds:</i> €500,000,000
Interest Rate:	<i>Series 1 Bonds:</i> 0.875 per cent. per annum <i>Series 2 Bonds:</i> 1.500 per cent. per annum
Interest Payment Dates:	Interest in respect of the Bonds will be payable annually in arrear on 29 April in each year commencing on 29 April 2020 (the " First Interest Payment Date ") and ending on the Maturity Date (unless the Bonds are previously redeemed or purchased and cancelled).
Issue Price:	<i>Series 1 Bonds:</i> 99.716 per cent. <i>Series 2 Bonds:</i> 99.782 per cent.
Issue Date:	29 April 2019

Maturity Date:	<i>Series 1 Bonds: 29 April 2027</i>
	<i>Series 2 Bonds: 29 April 2031</i>
Redemption:	Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the relevant Maturity Date.
Early Redemption for Taxation Reasons:	The Bonds are subject to redemption at the option of the Issuer, in whole but not in part, at any time at their principal amount, together with accrued interest, in the event of certain changes affecting taxation in the Netherlands, Switzerland or any political subdivision or authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it on the Bonds (a " Relevant Jurisdiction "), as described under " <i>Terms and Conditions of the Series 1 Bonds — Redemption and Purchase</i> ".
Redemption at the Option of the Issuer (Make-Whole Redemption):	The Bonds are subject to redemption at the option of the Issuer, in whole but not in part at any time, at the higher of (a) their principal amount or (b) the sum of the then present values of the remaining scheduled payments of principal and interest discounted to the Make Whole Redemption Date on an annual basis, in each case together with accrued interest, as described under " <i>Terms and Conditions of the Series 1 Bonds — Redemption and Purchase</i> ".
Redemption at the Option of the Issuer (Acquisition Event):	The Bonds are subject to redemption at the option of the Issuer in whole, but not in part, during the Acquisition Event Call Period at 101 per cent. of their principal amount together with accrued interest, as described under " <i>Terms and Conditions of the Series 1 Bonds — Redemption and Purchase</i> ".
Redemption at the Option of the Issuer (Pre-Maturity Call):	The Bonds are subject to redemption at the option of the Issuer in whole, but not in part, at their principal amount, together with accrued interest, at any time from (and including) 29 January 2027 (in the case of the Series 1 Bonds) to (but excluding) the Maturity Date, as described under " <i>Terms and Conditions of the Series 1 Bonds — Redemption and Purchase</i> ". The corresponding redemption period under the Series 2 Bonds will begin on 29 January 2031.
Redemption at the Option of the Bondholders following Change of Control:	The Bonds are subject to redemption at the option of holders of the Bonds (" Bondholders "), at their principal amount, together with accrued interest, if a Change of Control Put Event has occurred, as described under " <i>Terms and Conditions of the Series 1 Bonds — Redemption and Purchase</i> ".
Events of Default:	The events of default under the Bonds are as specified under " <i>Terms and Conditions of the Series 1 Bonds – Events of Default</i> " and include a cross-default provision in relation to the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries.
Negative Pledge:	The Conditions include a negative pledge in relation to the Issuer, the Guarantor and the Guarantor's Material Subsidiaries, as described under " <i>Terms and Conditions of the Series 1 Bonds – Negative Pledge</i> ".
Issuer Substitution:	The Conditions include provisions for substitution of the Issuer, as described under " <i>Terms and Conditions of the Series 1 Bonds – Meetings of Bondholders, Modification and Substitution</i> ".

Taxation:	Payments in respect of the Bonds will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges imposed by a Relevant Jurisdiction or, if such withholding or deduction is required by law, will be increased to the extent necessary in order that the net amount received by the relevant Bondholder, after such withholding or deduction, equals the amount of the payment that would have been received in the absence of such withholding or deduction, subject to certain exceptions set out in Condition 8.
Governing Law:	The Bonds, and any non-contractual obligations arising out of or in connection with them, will be governed by, and construed in accordance with, English law. The Guarantees, and any non-contractual obligations arising out of or in connection with them, will be governed by, and construed in accordance with, Swiss law.
Clearing and Settlement:	Euroclear Bank SA/NV and Clearstream Banking, S.A.
Sole Global Coordinator and Joint Lead Manager:	Citigroup Global Markets Limited
Joint Lead Managers:	Citigroup Global Markets Limited Credit Suisse Securities (Europe) Limited UBS AG London Branch
Fiscal Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Europe AG
Listing and Admission to Trading:	Application has been made for the Bonds to be admitted to the Official List and to trading on the regulated market of Euronext Dublin.
Selling Restrictions:	There are restrictions on offers of the Bonds to EEA retail investors and into, or to persons resident in, the United States, the United Kingdom, the Netherlands and elsewhere. See " <i>Subscription and Sale</i> ". Category 1 selling restrictions will apply to the Bonds for the purposes of Regulation S under the Securities Act.
Risk Factors:	For a discussion of certain risk factors relating to the Issuer, the Guarantor and the Bonds that prospective investors should carefully consider prior to making an investment in the Bonds, see " <i>Risk Factors</i> ".
Securities Identifiers for the Series 1 Bonds:	ISIN: XS1986416268 Common Code: 198641626 FISN: See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN CFI Code: See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN
Securities Identifiers for the Series 2 Bonds:	ISIN: XS1986416698 Common Code: 198641669

FISN: See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN

CFI Code: See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN

RISK FACTORS

An investment in the Bonds is subject to a number of risks. Accordingly, prospective Bondholders should carefully read and consider the risks and uncertainties described below together with all other information in this Prospectus.

The following is a disclosure of risk factors that may affect the Issuer's and Guarantor's ability to fulfil their respective obligations under the Bonds and the Guarantees. Prospective Bondholders should consider these risk factors and consult with their own professional advisors before deciding to purchase Bonds. The risk warnings set out below cannot serve as a substitute for individual advice and information which is tailored to the individual requirements, objectives, experience, knowledge and circumstances of each prospective Bondholder. In addition, prospective Bondholders should be aware that the risks described may combine and thus intensify. In any such case, the market price of the Bonds may be materially adversely affected and an investor could lose all or part of its original investment. Investment decisions should not be made solely on the basis of the risk warnings set out below, since such risk information does not purport to be an extensive and comprehensive list of all possible risks associated with an investment in the Bonds. Accordingly, the risks described below are not the only ones the Sika Group faces. The inability of the Issuer and the Guarantor to pay interest, principal or other amounts in connection with any Bonds may occur for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding any Bonds are exhaustive.

The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their economic consequences or importance. Additional investment considerations not currently known or which are currently deemed immaterial may also impair the Sika Group's business operations. The business, results of operations, financial condition or prospects of the Sika Group could be materially adversely affected by any of these risks.

Risks Relating to the Issuer

Factors that may affect the ability of the Issuer to fulfil its obligations under the Bonds

The Issuer is a finance company, the primary business of which is the raising of monies from time to time for the purpose of on-lending to the Guarantor or other Group companies. Accordingly, substantially all the assets of the Issuer are expected to be loans and advances made by the Issuer. The Issuer's ability to satisfy its obligations under the Bonds will depend upon payments to the Issuer in respect of loans and advances made by it and/or any financial support it may obtain from the Guarantor or other Group companies. Therefore, if the Issuer neither receives payments from nor receives financial support from the Guarantor or other Group companies, it may be unable to satisfy its obligations under the Bonds.

By virtue of its dependence on the Guarantor and/or other subsidiaries in the Group, each of the risks below that may affect the Guarantor and/or the Group as a whole may also affect the Issuer.

Risks Relating to the Sika Group

The Group is subject to macroeconomic and industry risks

A significant portion of revenues depends on the level of investment in the construction market, which generally follows a certain cyclical nature of economic activity. Consequently, the Group's earnings are sensitive to the economic conditions of the geographic zones, both at regional and local levels, in which the Group operates. A deterioration in the global economic environment and in financial market conditions could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is subject to risks associated with its international operations

The Group is active worldwide, including in regions outside Western Europe and North America. More specifically, it is active in Latin America, Asia, the Middle East, Eastern Europe and Africa, including in a number of emerging countries. In certain countries located in these regions, there is greater economic and political instability, as well as greater exposure to social disruption and infrastructure malfunctions than in the more mature markets. Thus, the direct and indirect consequences of political instability, or of an unstable economic or regulatory environment in which the Group operates, in a country in which the Group is active or markets its products, could have a material adverse impact on investment levels in that country's

construction and other industrial sectors, and consequently on the Group's businesses, results of operations, financial position or prospects.

Moreover, legal or regulatory changes (involving, among other things, taxation, restrictions on capital transfers, customs duties, intellectual property and import and export licenses, the employment system or health, safety or the environment) could significantly increase the Group's costs in the various countries in which it is active, or limit its ability to freely transfer its capital, and consequently have a material adverse impact on its business, results of operations, financial condition, and prospects.

The Group is exposed to the risk of changes in foreign exchange rates

Due to the international nature of the Group's business, movements in foreign exchange rates may impact the consolidated statements of operations. With a significant part of the Group's sales located in regions outside Switzerland, the Group's consolidated net sales could be impacted negatively by the strengthening or positively by the weakening of the Swiss franc. Additionally, movements in certain foreign exchange rates may unfavorably or favorably impact the Group's results of operations, financial condition and liquidity as a significant number of the Group's manufacturing and distribution operations are located outside of Switzerland. Changes in exchange rates may have a negative effect on the Group's customers' access to credit as well as on the underlying strength of particular economies and target markets. Although the Group may use certain financial instruments to attempt to mitigate market fluctuations in foreign exchange rates, there can be no assurance that such measures will be effective or that they will not create additional financial obligations on the Group. Volatility in foreign currencies compared to the Swiss franc could have a negative effect on the Group's business, financial condition and results of operations.

Legal and regulatory changes in the jurisdictions in which the Group operates and trades may have an adverse effect on the Group

Due to the international nature of its business, the Group must comply with, and is affected by, a large number of different legal and regulatory frameworks, including tax laws. There is a risk that changes in these frameworks may materially adversely affect the Group's legal and regulatory environment. The risks faced by the Group include, but are not limited to:

- foreign currency control regulations and other regulations related to exchange rates and foreign currencies (such as the abandonment of exchange rate pegs, caps or floors);
- difficulties finding qualified managers and employees;
- taxes;
- increasingly protectionist sentiment in many countries leading to embargoes, trade restrictions, tariffs and other trade barriers; and
- the imposition of withholding taxes and transfer pricing regulations.

Changes in the regulatory environment may prevent the Group from advertising certain products or may negatively affect demand for its products, which could in turn have material adverse effects on its business, results of operations, financial condition and prospects. In addition, to the extent laws and regulations applicable to the Group are uncertain and evolving, it may be difficult for the Group to determine the exact requirements applicable to it, or to structure its transactions in such a way that the results it expects to achieve are legally enforceable in all cases.

Tax legislation initiatives or challenges to the Group's tax positions could adversely affect its business, results of operations, financial condition and prospects

The Group has operations in multiple of jurisdictions worldwide. As such, it will be subject to the tax laws and regulations of a wide variety of government entities in numerous jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect the Group's tax position. New accounting guidance that may become applicable to the Group from time to time, or changes in the interpretations of existing guidance, including variations to existing tax rulings, could have a significant effect on the Group's reported results for the affected periods. The Group often relies on generally available interpretations of tax laws and regulations in the jurisdictions in which it operates. The Group cannot be sure that these interpretations are accurate or that the tax authorities are or will remain in agreement with

its views. Owing to and following the changes of international tax regulations and current international initiatives, such as the Organization for Economic Co-operation and Development's ("OECD") as well as the Base Erosion and Profit Shifting Action Plan tax authorities are likely to be more focused on areas such as transfer pricing and, as a result of the increasing exchange of information between tax authorities, more challenges may arise. Increased substance requirements may lead to certain countries' tax authorities challenging the tax-residency of or claim taxation rights over some of the Group's entities. These new developments could result in material additional taxes.

In particular, transfer pricing for intercompany transactions may be challenged by local tax authorities, which may result in additional taxes payable and interest or penalties. Most jurisdictions in which the Group operates have transfer pricing regulations that require transactions involving associated companies to be made at arm's length terms. Tax authorities in any relevant jurisdiction may not regard such intercompany transactions of the Group as being made at an arm's length basis or being properly documented. If they successfully challenge those arrangements, the amount of tax payable, in respect of both current and previous years, may increase materially and penalties or interest may be payable.

Changes in tax laws, tax rates or tax rulings may have a significant adverse impact on its effective tax rate. Among other things, the Group's tax liabilities are affected by the mix of pre-tax income or loss among the tax jurisdictions in which it operates and the repatriation of foreign earnings to Switzerland, which could be subject to withholding taxes. Notwithstanding the large tax treaty networks, which are intended to reduce or eliminate double taxation, there might be cases where the withholding taxes paid in the foreign jurisdictions, e.g., on dividends, industrial franchise, royalties or services, are not refundable, either in part or in full. The Group must exercise judgment in determining its worldwide provision for income taxes, interest and penalties; accordingly, future events of tax rules or changes in the application thereof could change management's assessment of these amounts. In addition, from time to time, the Group may become subject to tax audits in the jurisdictions in which it operates.

In addition, the Group's products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions in which it operates. Increases in indirect taxes could affect its products' affordability and therefore reduce its sales. The same applies when regulations on indirect taxes, in particular exemptions or reduced instead of ordinary rates, have not been accurately applied and are assessed upon a tax audit.

Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

The Group's growth depends in part on the timely development and commercialisation, and customer acceptance, of new and improved products based on technological innovation

The Group generally sells its products in industries that are characterised by technological changes, new product introductions and changing industry standards. If the Group does not develop innovative new and improved products on a timely basis, its offerings will become obsolete over time and its competitive position, results of operations and financial condition will suffer. The Group's success will depend on several factors, including its ability to:

- correctly identify customer needs and preferences and predict future needs and preferences;
- allocate R&D funding to products with higher growth prospects;
- anticipate and respond to the development of new products and technological innovations by competitors;
- differentiate its offerings from offerings of competitors;
- innovate and develop new technologies and applications, and acquire or obtain rights to third-party technologies that may have valuable applications in the Group's target markets;
- obtain adequate intellectual property rights with respect to key technologies before competitors do; and

- successfully commercialise new technologies in a timely manner, price them competitively and cost-effectively manufacture and deliver sufficient volumes of new products of appropriate quality on time.

If the Group fails to accurately predict future customer needs and preferences or fail to produce viable technologies, it may invest in R&D of products that do not lead to significant revenue, which would adversely affect its profitability. Even if the Group successfully innovates and develops new and improved products, it may incur substantial costs in doing so, and its profitability may suffer. In addition, promising new offerings may fail to reach the market or realise only limited commercial success because of real or perceived efficacy or safety concerns.

The Group may not be able to protect its intellectual property, including its proprietary technology, which could harm the Group's business and competitive position

The Group's success depends on the Group's ability to protect its intellectual property, which currently includes over 800 unique patent families in various jurisdictions with more than 3,400 single national patents. The process of seeking patent protection is time-consuming and expensive and requires the publication of the relevant invention. The Group cannot be certain that patents will be issued as a result of its pending or future applications nor can the Group be certain that any issued patents would be sufficient in scope or strength to provide it with meaningful protection or commercial advantage, particularly in foreign countries where applicable laws may not sufficiently protect proprietary rights. Existing and future patents may be circumvented or challenged and declared invalid or unenforceable and may therefore not prevent unauthorised use, misappropriation or disclosure. Monitoring such unauthorised use, misappropriation or disclosure is difficult and despite the Group's efforts, unauthorised parties may or may attempt to copy or otherwise obtain and use the Group's proprietary technology, trade secrets, know-how or other proprietary information.

The Group relies on a combination of patent, copyright, trademark and trade secrecy laws as well as contractual restrictions on disclosure (such as confidentiality agreements or licenses) with its employees, members of the board of directors and the group management, customers, consultants, suppliers and business partners. The Group controls access to and distribution of our documentation and other proprietary information to protect its intellectual property against unauthorised use, misappropriation or disclosure. However, the Group cannot be certain that its trade secrets, know-how or other proprietary information will not otherwise become known or that the Group's competitors will not independently develop our proprietary technology or effective competing technologies. Consequently, disputes may arise concerning the ownership of intellectual property, the use of proprietary technology, trade secrets, know-how or other proprietary information or the applicability of confidentiality agreements and the Group may be forced to initiate legal proceedings to enforce its intellectual property rights or its ability to exploit its proprietary technology which may be costly and divert efforts and attention of the Group's management.

Any failure to protect, maintain and enforce the Group's intellectual property and other proprietary information could impair the Group's competitiveness and severely harm its business, results of operations, financial position and prospects.

Assertions by third parties of infringement of their intellectual property rights may result in damage claims and litigation costs, may force the Group to modify its products or processes or prevent the Group from selling its products

The Group cannot rule out that competitors or other companies may assert claims that the Group's products infringe on their intellectual property rights. Such litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue. As the Group seeks to develop and implement new products, technologies and processes it may not always be in the position to adequately identify such third-party rights or assess the scope and validity of these third-party rights due to the large and complex international intellectual property landscape. In addition, there is also a "black-out period" between the priority date of a patent and the subsequent publication and during this "black-out period", the Group may not be aware of any infringement of intellectual property.

Any action to determine the validity of claims alleging infringement of patents and other intellectual property rights, whether or not with merit, determined in the Group's favor or settled by the Group, may subject the Group to protracted and expensive litigation which could divert attention and resources of the Group's management and technical personnel from operating its business. If these claims are successfully

asserted against us, the Group could be required to pay substantial damages and could be prevented from selling some or all of its products. Furthermore, the Group may need to obtain licenses from third parties alleging infringement or substantially reengineer or rename its products in order to avoid infringement, which the Group may not be capable of doing on commercially acceptable terms or at all. If the Group is prevented from selling some or all of its products, it may be subject to a loss of revenue and customers, as well as reputational damage and could negatively affect the Group's business, financial condition and results of operations. Furthermore, in the course of such infringement claim trade secrets, know-how or other proprietary information could be compromised.

The Group depends on third-party suppliers for the procurement of raw materials for its manufacturing processes

The Group relies on a number of third-party suppliers for a wide range of raw materials, including fossil fuel based materials, renewable materials and recycled raw materials, and the Group's success depends on its ability to secure such manufacturing inputs in sufficient quantity, quality, and on commercially acceptable terms. Moreover, for some materials and components the Group relies on a single source of supply, which increases its dependence and may subject the Group to pricing pressures. The Group does not have a guaranteed level of production capacity with all of its third-party suppliers, and such third-party suppliers may be unable to meet the Group's required demand for any reason, including supply shortages, delivery delays, transportation disruptions or manufacturing problems. Furthermore, third-party suppliers may afford preferential capacity allocation to other customers which are larger or better financed or to the production of their own products or may decide to cease supplying the Group with products due to strategic, economic, competitive or other considerations.

Further, the Group may be unable to identify alternative sources of supply for certain raw materials in sufficient quantity, quality and on commercial acceptable terms should the need arise. Any inability on the Group's part to secure the supplies necessary for the manufacture of its products in sufficient quantity, quality, or on commercially acceptable terms could prevent the Group from delivering products to its customers in a timely manner or at all and could therefore lead to customer dissatisfaction, loss of revenue and customers, as well as reputational damage.

The Group is exposed to fluctuating raw material prices

The Group is exposed to changes in the price of the raw materials used in its activities. The Group uses significant amounts of raw materials in manufacturing a wide variety of products. In particular, a significant amount of the materials used by the Group in the production (e.g., polyols, epoxy resins, acrylic dispersions, and polycarboxylates) are based on fossil fuels or their derivatives. Purchase prices vary according to the supply and demand situation for each raw material and fluctuations in the price of oil.

To reduce its dependency on crude oil, the Group is increasingly relying on renewable raw materials such as sugar derivatives, bioethanol derivatives, and natural oils as well as recycled raw materials. However, the Group may be unable to identify such alternative raw materials in sufficient quantity, quality and on commercial acceptable terms.

Any of the above risks could adversely affect the Group's business, results of operations, financial position and prospects.

A downgrade by a rating agency could lead to increased borrowing costs and credit stress

If any debt instrument or other security issued or guaranteed by a member of the Sika Group is downgraded, raising capital will become more difficult for the Group, borrowing costs may increase and the market price for its securities may decrease. Any of the foregoing may have material adverse effects on the Group's business, results of operations, financial condition and prospects.

The Group is dependent on a limited number of key members of its management and its ability to attract and retain qualified employees

The Group's success depends to a large extent on the continued involvement of the current members of the Board of Directors and Group Management. See "*The Sika Group—Board of Directors, Group Management and Employees*". If the Group is unable to retain the key members of its management, this could result in a significant loss of expertise and could have a material adverse effect on the business, results of operations, financial position, and prospects of the Group.

In order to achieve the Group's strategy, the Group will also be required to attract and retain a sufficient number of qualified employees. If the Group is not successful in retaining its current staff and hiring additional qualified personnel, this could negatively affect the Group's business development, and therefore may have material adverse effects on the business, results of operations, financial position, and prospects of the Group.

The Group is subject to risks arising from legal disputes, including contractual claims and product liability claims relating to product defects

The Group's business may be adversely affected by the detrimental outcome of legal disputes and investigations by government agencies, the outcomes of which are not certain. Litigation risks include, among others, risks in the areas of competition and antitrust law, health regulations, tax law, and environmental protection.

In addition, the Group is subject to the risk of lawsuits, including class actions, alleging negligence, product liability and other contractual or statutory claims relating to product defects. Such lawsuits may include claims based on personal injury or death alleged to be caused by a product of the Group. These lawsuits often involve claims for substantial amounts of damages, including compensation for consequential damage and substantial costs for legal representation. In addition, products may be the subject of recalls. For this reason, there can be no assurance that extensive claims will not be asserted against the Group in the future or that large scale product recall measures will not be necessary. The Group may not have sufficient insurance to mitigate for such a contingency. Accordingly, the Group cannot assure that the risks inherent to any potential product liability claim or product recall will be mitigated in all circumstances.

Any of the above may result in actions being brought against the Group and may have a material adverse effect on its business, results of operations, financial condition and prospects. In addition, such event could adversely affect the Group's reputation and therefore reduce market acceptance of its products and services.

The Group's operations and products expose it to the risk of environmental, health and safety liabilities, costs and violations that could adversely affect its business, results of operation, reputation and financial condition

The Group's operations and products are subject to environmental laws and regulations, which impose limitations on the discharge of pollutants into the environment, establish standards for the use, generation, treatment, storage and disposal of hazardous and nonhazardous wastes and impose end-of-life disposal and take-back programs. The Group must also comply with various health and safety regulations in a number of jurisdictions worldwide in connection with our operations. The Group cannot assure that its environmental, health and safety compliance program (or the compliance programs of businesses that the Group has acquired in the past) have been or will at all times be effective. Failure to comply with any of these laws could result in civil and criminal, monetary and nonmonetary penalties and damage to the Group's reputation. In addition, the Group cannot provide assurance that its costs of complying with current or future environmental protection and health and safety laws will not exceed its estimates or adversely affect its results of operations and financial conditions.

In addition, the Group may incur costs related to remedial efforts or alleged environmental damage associated with past or current waste disposal practices or other hazardous materials handling practices. The Group is also from time to time party to personal injury, property damage or other claims brought by private parties alleging injury or damage due to the presence of or exposure to hazardous substances. The Group may also become subject to additional remedial, compliance or personal injury costs due to future events such as changes in existing laws or regulations, changes in agency direction or enforcement policies, developments in remediation technologies, changes in the conduct of our operations and changes in accounting rules.

The Group has engaged in acquisitions of businesses, real estate, companies and equity interests in companies in the past, and the Group may engage in acquisitions or divestitures in the future, and there can be no assurance that such acquisitions or divestitures will yield the desired results

In the past, the Group has engaged in acquisitions of businesses, real estate and equity interests in companies, and the Group may engage in acquisition activities in the future. See "*The Sika Group—Business Activities—Acquisitions*". Corporate acquisitions typically involve significant investments and risks, including but not limited to tax liabilities and legal claims, such as third-party liability claims and tort

claims, the failure to secure the necessary financing on reasonable terms or at all, regulatory compliance issues for past violations of legal requirements, claims for breach of contract, employment-related claims, environmental liabilities, conditions or damage or other liability, or claims relating to potential illegal activity by the acquired company. There is a possibility that the acquired companies, or future acquisitions will not be successfully integrated, that key customers will be lost, that acquired companies have lower quality standards than the rest of the Group, that goodwill emerging from the acquisition will need to be impaired or that anticipated cost savings, synergies or other benefits will not be realised. Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

Furthermore, the Group may not identify all of the risks related to a transaction in advance or may not be able to adequately protect itself against such risks through indemnities, representations and warranties, or otherwise. Target companies may also be located in countries where the underlying legal, economic, political or cultural conditions are different from those customary in its existing markets. In addition, preparing for the acquisition and integration of companies may result in the diversion of management attention and resources.

Technology or other acquired or licensed assets may not be legally valid or may be less valuable than initially thought. The Group may therefore be unable to use them as planned or at all. In addition, the Group may not succeed in retaining, maintaining and integrating the key employees and business relationships of newly acquired companies, businesses or divisions. Further, corporate actions after an acquisition may expose the Group to monetary claims, and this exposure may continue for a long time.

As a result of acquisition-related risks, the Group may not achieve the strategic goals it seeks from any such acquisition, or may be able to do so only to a limited extent due to timing or budgetary constraints. In addition, the Group's growth prospects depend, to a certain extent, on its ability to identify suitable acquisition opportunities and to successfully integrate the businesses it acquires. The success of corporate acquisitions is associated with many uncertainties. For instance, anticipated synergies may not materialise, the purchase price may later prove to have been too high, the acquired company or participation may not perform to the Group's expectations or may fail, it may prove difficult to control operating costs, or unforeseen restructuring expenses and impairment charges may become necessary. Moreover, in many countries and regions, planned acquisitions are subject to review by competition authorities, which may impede or delay a planned transaction or require changes to be made to the acquired or combined business that could reduce its profitability or that may limit the Group's ability to grow.

The occurrence of any of these risks, the incorrect assessment of risks by the Group, or any other failure in relation to acquisitions and investments by the Group may have material adverse effects on its business, results of operations, financial condition and prospects.

The Group's insurance coverage may be insufficient or unavailable

It is the policy of the Group to take out and maintain insurance covering the main insurable risks of the Group to the extent such insurance coverage is available for reasonable premiums. However, there can be no assurance that the existing insurance coverage is sufficient or available to cover potential damages. In addition there is no guarantee that the Group will be able to enter into new insurance agreements on commercially acceptable terms and conditions in the future. Insurance coverage might be cancelled or expire should the realisation of the insured risk be caused by non-compliance with the applicable law.

The Group may face customer credit risk

While the Group believes that its exposure to individual customer credit risk is limited due to the Group's wide range of businesses, global presence and large customer base, changes in the economic situation may lead to an increase in customer credit risk in the Group's target markets which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to risks associated with goodwill and impairment of property, plant and equipment and intangible assets

In line with Group accounting policies, goodwill and certain other intangible assets with indefinite useful lives are tested for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Goodwill and other identified intangible assets may

become impaired as a result of worse-than-expected performance by the Group, unfavorable market conditions, unfavorable legal or regulatory changes or many other factors. The recognition of impairment losses on goodwill could have an adverse effect on the Group's consolidated net income.

The Group relies on the proper functioning of its computer and data processing systems, and a large-scale malfunction or potential unauthorised access to critical and sensitive information could result in disruptions to the Group's business

The Group's ability to keep its businesses operating depends on the functional and efficient operation of its computer and data processing and telecommunications systems around the world. Computer and data processing systems are susceptible to malfunctions and interruptions (including due to equipment damage, power outages, fire, natural disasters, breakdowns, malicious attacks, computer viruses, and a range of other hardware, software and network problems), and the Group may be unable to prevent malfunctions or interruptions. A significant or large scale malfunction or interruption of its computer or data processing systems could disrupt the Group's operations, for example by causing impeding the manufacture or shipment of products, the processing of transactions and the reporting of financial results, or could damage the Group's reputation.

In addition, the Group faces the risk of potential unauthorised access to, and the loss of, critical and sensitive information, for example as a result of industrial espionage activities or hacking attacks. A leak of confidential information or the loss of critical and sensitive information could reveal trade secrets or know-how of the Group or its customers to competitors and harm the Group's business, competitive position and reputation. The Group's insurance may not adequately compensate it for all losses or failures that may occur. Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

Risks Relating to the Parex Acquisition

As described in "Use of Proceeds", the Issuer intends to use the proceeds of the Bonds, among other things, for the partial financing of the recently announced acquisition by the Guarantor of the Parex Group (such acquisition, the "Parex Acquisition"). The following is a disclosure of specific risks related to the Parex Acquisition and which may affect the Issuer's or the Guarantor's ability to fulfil its obligations under the Bonds.

There can be no assurance that the Acquisition will yield the desired results

On 8 January 2019, Sika announced that it made a binding offer for the acquisition of the Parex Group and it is currently anticipated that the Parex Acquisition will be closed in the course of the second or third quarter of 2019. Any of the risks described above under "*Risks Relating to the Sika Group—The Group has engaged in acquisitions of businesses, real estate, companies and equity interests in companies in the past, and the Group may engage in acquisitions or divestitures in the future, and there can be no assurance that such acquisitions or divestitures will yield the desired results*" may materialise in connection with the Parex Acquisition. In particular, there is a possibility that that key customers and distributors of the Parex Group will be lost as a result of the Acquisition, that goodwill emerging from the Parex Acquisition will need to be impaired or that anticipated cost savings and synergies will not be realised. Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

Furthermore, the Group may not have identified all of the risks related to the Parex Acquisition in advance or may not have been able to adequately protect itself against such risks through indemnities, representations and warranties, or otherwise. In addition, preparing for the Parex Acquisition and integration of to be acquired companies may result in the diversion of management attention and resources.

In the context of the Parex Acquisition, technology or other acquired or licensed assets may not be legally valid or may be less valuable than initially thought. The Group may therefore be unable to use them as planned or at all. In addition, the Group may not succeed in retaining, maintaining and integrating the key employees and business relationships of the Parex Group.

The occurrence of any of these risks, the incorrect assessment of risks by the Group, or any other failure in relation to the Acquisition may have material adverse effects on the Group's business, results of operations, financial condition and prospects.

Further, the Parex Group is active in similar areas as the Sika Group. In particular, the Parex Group is active in the field of construction chemicals and specialty solutions for the building and construction industry. As a result, any of the risks described in "*Risks Relating to the Sika Group*" may also materialise with respect to Parex Group's business, results of operations, financial condition and prospects.

The Group may not be able to complete the Parex Acquisition on a timely basis or at all, and regulatory authorities may impose conditions on the Group or the Parex Group that could prevent the Group from achieving some of the expected benefits and realising the anticipated synergies of the Acquisition

Certain regulatory authorities may have jurisdiction enabling them to initiate merger control proceedings even where the Group, according to the Group's assessment, is not subject to pre-merger notification requirements. As a result of any such proceedings, regulatory authorities could block the Parex Acquisition or impose conditions on the Group, and any such conditions could prevent the Group from achieving some or all of the expected benefits and from realising the anticipated synergies of the Parex Acquisition.

Risks Relating to the Bonds generally

The specific risks of investing in the Bonds can only be assessed on the basis of a thorough and detailed analysis of the Conditions of the relevant Series of Bonds and the individual situation of the prospective Bondholder. To understand the risks associated with an investment in the Bonds, each prospective Bondholder has to thoroughly and in detail assess and analyse the Conditions of the relevant Series of Bonds and the implications of the various features of the Bonds have for the prospective Bondholders in its individual situation.

Set out below is a brief description of certain risks relating to the Bonds generally:

Suitability of the Bonds as financial instruments

The Bonds are financial instruments that may not be suitable for all investors. Each prospective investor should (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of the investor's particular financial situation, an investment in the Bonds and the impact the Bonds will have on the investor's overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds and (iv) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect the investor's investment and the investor's ability to bear the applicable risks.

Before investing in the Bonds, each prospective investor should have understood the Conditions of the relevant Series of Bonds and be familiar with them and the other content of this Prospectus.

The Group may incur substantial additional indebtedness in the future

The Group may incur substantial additional indebtedness, including in connection with capital expenditure programmes and future acquisitions. The terms of the Bonds will not limit the amount of indebtedness the Group may incur. Any such incurrence of additional indebtedness could exacerbate the related risks that the Group now faces or pose new risks not described in this Prospectus.

Modification and waivers

The Conditions of each Series of Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Conditions of each Series of Bonds also provide that the Issuer or the Guarantor, as the case may be, may, without the consent of Bondholders, agree to (i) any modification of the relevant Fiscal Agency Agreement that is of a formal, minor or technical nature or which is made to correct a manifest error; or (ii) any other modification, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the relevant Fiscal Agency Agreement (including, without limitation, the regulations concerning transfers of Bonds scheduled thereto) that could not reasonably be expected to be prejudicial to the interests of the Bondholders.

Proposed Amendment of Swiss Federal Withholding Tax Act

On 4 November 2015, the Swiss Federal Council announced a mandate to the Swiss Federal Finance Department to institute a group of experts tasked with the preparation of a new proposal for a reform of the Swiss withholding tax system. The new proposal is expected to include in respect of interest payments the replacement of the existing debtor-based regime by a paying agent-based regime for Swiss withholding tax similar to the one published on 17 December 2014 by the Swiss Federal Council and repealed on 24 June 2015 following the negative outcome of the legislative consultation with Swiss official and private bodies. Under such a new paying agent-based regime, if enacted, a paying agent in Switzerland may be required to deduct Swiss withholding tax on any payments or any securing of payments of interest in respect of a Bond for the benefit of the beneficial owner of the payment unless certain procedures are complied with to establish that the owner of the Bond is not an individual resident in Switzerland.

Risks in relation to Dutch Taxation

On 10 October 2017, the new Dutch government released its coalition agreement (*Regeerakkoord*) 2017-2021, which includes, among others, certain policy intentions for tax reform. On 23 February 2018, the Dutch State Secretary for Finance published a letter with an annex containing further details on the government's policy intentions against tax avoidance and tax evasion. The Dutch government released its Tax Plan 2019 as part of Budget Day 2018 on 18 September 2018 and made certain amendments to the Tax Plan 2019 in memoranda of amendments published on 26 October 2018, which include, among others, certain legislative proposals based on the policy intentions as mentioned in the coalition agreement and letter on tax avoidance and tax evasion. Two policy intentions in particular may become relevant in the context of the Dutch tax treatment of the Issuer, the Bonds, and/or payments under the Bonds issued by the Issuer.

The first policy intention relates to the introduction of a withholding tax on interest paid to creditors in low tax jurisdictions or non-cooperative jurisdictions as of 2021. A legislative proposal introducing a similar conditional withholding tax on dividends and the supporting parliamentary documents thereto mention that, like the conditional dividend withholding tax, this interest withholding tax would apply to certain payments made by a Dutch entity directly or indirectly to a group or related entity (as defined in the legislative proposal on the conditional dividend withholding tax) in a low tax or non-cooperative jurisdiction. However, although unlikely, it cannot be ruled out completely that it will have a wider application and, as such, it could potentially be applicable to payments under the Bonds issued by the Issuer.

On 26 October 2018, the Dutch government published certain memoranda of amendments in which it is announced that, among others, the introduction of the conditional withholding tax on dividends will be postponed (and the current Dutch dividend withholding tax will not be abolished). The introduction of the conditional withholding tax on interest and royalties will not be postponed. A legislative proposal is still expected to be published in 2019.

The second policy intention relates to the introduction of a thin capitalisation rule for banks and insurers to take effect from 1 January 2020, for which a draft legislative proposal has been published subject to public consultation. Based on the draft legislative proposal, the thin capitalisation rule would limit the deduction of interest payments on debt instruments if, in broad terms, the leverage ratio of a bank, or the own funds ratio of an insurer, is less than 8 per cent. The draft legislative proposal suggests that this thin capitalisation rule will apply solely to banks and insurers with a license or notification from the Dutch Central Bank to operate as such in the Netherlands.

Many aspects of this policy intention still remain unclear. However, if the conditional interest withholding tax would be implemented, and the Issuer has or will become obliged to pay additional amounts under these Bonds, the Issuer may redeem these Bonds pursuant to its option under Condition 6(b) (*Redemption for Taxation Reasons*) of each Series of Bonds, subject to the conditions described therein.

Anti-Tax Avoidance Directive

As part of its anti-tax avoidance package the EU Council adopted the Anti-Tax Avoidance Directive on 12 July 2016 in Council Directive (EU) 2016/1164 ("**ATAD 1**"). ATAD 1 must be implemented by each EU Member State as of 1 January 2019. On 29 May 2017 additional measures were introduced in Council Directive (EU) 2017/952 to neutralise the effects of hybrid mismatches with third countries ("**ATAD 2**").

The measures introduced in ATAD 2 must be implemented ultimately by 1 January 2020 and 1 January 2022 (to the extent relating to reverse hybrid mismatches).

The exact scope of these two measures, and impact on the Issuer's tax position, will depend on the implementation of the measures in the relevant EU Member State, but such measures could have a material adverse effect on the Issuer. The measures in ATAD 1 and ATAD 2 are minimum standards and, therefore, it is at the discretion of each EU Member State to implement measures in domestic law that go beyond the measures proposed in ATAD 1 and ATAD 2.

In relation to ATAD 1, the Dutch government has currently implemented this rule into Dutch laws as a result of which as of 1 January 2019 ATAD 1 came into force in the Netherlands. Given that the Issuer's business principally consists of acting as a financing company for the Group and under ATAD 1 the deduction of net borrowing costs will be limited to 30 per cent. of a taxpayer's adjusted EBITDA (to which a €1.0 million threshold applies), we do not expect that ATAD 1 may have an adverse effect on the Issuer and its financial position in the Netherlands.

In relation to ATAD 2, on 29 October 2018 the Dutch government published a draft legislative proposal as part of a public consultation ended on 10 December 2018. A legislative proposal implementing ATAD 2 is expected in 2019. However, in the absence of final implementing legislation (other than this draft legislative proposal which was subject to public consultation), the actual scope and implications of ATAD 2 are presently unascertainable.

Change of law

The Conditions of each Series of Bonds are governed by English law, and the Guarantees are governed by Swiss law, both in effect as at the date of issue of the relevant Bonds. No assurance can be given as to the impact of any possible judicial decision or change to English law or to Swiss law or administrative practice after the date of issue of the relevant Bonds.

Integral Multiples of less than €100,000

As the Bonds have denominations consisting of €100,000 and integral multiples of €1,000 in excess thereof, it is possible that the Bonds may be traded in amounts in excess of €100,000 that are not integral multiples of €100,000. In such a case, should definitive Bonds be required to be issued, a Bondholder who holds Bonds in the relevant clearing system in amounts that are less than €100,000 at the relevant time will not receive a definitive Bonds in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to at least €100,000.

If definitive Bonds are issued, Bondholders should be aware that definitive Bonds which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Bonds that are especially sensitive to interest rate, currency or market risks, and are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euros. These include the risk that exchange rates may

significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euros would decrease (1) the Investor's Currency-equivalent yield on the Bonds; (2) the Investor's Currency equivalent value of the principal payable on the Bonds; and (3) the Investor's Currency equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Credit ratings may not reflect all risks

The Bonds have been assigned a credit rating of A- by S&P. The rating assigned to the Bonds may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Bonds are legal investments for it; (2) Bonds can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE SERIES 1 BONDS

The issue of the Series 1 €500,000,000 0.875 per cent. Guaranteed Bonds due 2027 (the "**Bonds**") was authorised by a resolution of the Board of Directors of Sika Capital B.V. (the "**Issuer**") passed on 25 March 2019 and the guarantee of the Bonds was authorised by a resolution of the Board of Directors of Sika AG (the "**Guarantor**") passed on 9 April 2019. A fiscal agency agreement dated 29 April 2019 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Bonds between the Issuer, the Guarantor, Citibank, N.A., London Branch as fiscal agent and the other agents named in it. The Bonds have the benefit of a deed of covenant (the "**Deed of Covenant**") dated 29 April 2019 executed by the Issuer and the Guarantor relating to the Bonds and the benefit of a guarantee agreement (the "**Guarantee Agreement**") dated 29 April 2019 executed by the Guarantor relating to the Bonds. The fiscal agent, the registrar and any transfer agent for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**" and the "**Transfer Agents**". "**Agents**" means the Fiscal Agent, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Bonds. The Fiscal Agency Agreement include the form of the Bonds. Copies of the Fiscal Agency Agreement, the Deed of Covenant and the Guarantee Agreement are available for inspection during normal business hours at the specified offices of the Fiscal Agent, the Registrar and any Transfer Agents. The holders of the Bonds (the "**Bondholders**") are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Fiscal Agency Agreement.

1. **Form, Specified Denomination and Title**

The Bonds are issued in the specified denomination of €100,000 and higher integral multiples of €1,000.

The Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same holder (as defined below).

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Fiscal Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" and "**holder**" means the person in whose name a Bond is registered and "**euro**" and "**€**" means the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community, as amended and "**cents**" and "**cent**" shall be constructed accordingly.

2. **Transfers of Bonds**

- (a) **Transfer:** A holding of Bonds may, subject to Condition 2(e), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a Bondholder, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Fiscal Agency Agreement. The regulations may be changed by the Issuer,

with the prior written approval of the Registrar and the Fiscal Agent, subject to compliance with Condition 12(b). A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

- (b) **Exercise of Options or Partial Redemption in Respect of Bonds:** In the case of an exercise of an Issuer's or Bondholders' option in respect of, or a partial redemption of, a holding of Bonds represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.
- (c) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(a) or 2(b) shall be available for delivery within three business days of receipt of a duly completed form of transfer or Change of Control Put Exercise Notice (as defined in Condition 6(f)) and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Change of Control Put Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or Change of Control Put Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 2(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (d) **Transfer or Exercise Free of Charge:** Certificates, on transfer, exercise of an option or partial redemption, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (e) **Closed Periods:** No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) during the period of 15 days prior to (and including) any date on which Bonds may be called for redemption by the Issuer at its option pursuant to Condition 6(b), 6(c) 6(d) or 6(e), (iii) after any such Bond has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)(ii)).

3. **Guarantee and Status**

- (a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed, in accordance with the terms of Article 111 of the Swiss Code of Obligations, the due payment of all sums expressed to be payable by the Issuer under the Bonds. Its obligations in that respect (the "**Guarantee**") are set out in the Guarantee Agreement. The obligations of the Guarantor under the Guarantee shall, subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations, except for such preferences as are provided for by any mandatorily applicable provision of law.
- (b) **Status:** The Bonds constitute direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations, except for such preferences as are provided for by any mandatorily applicable provision of law.

4. **Negative Pledge**

So long as any Bond remains outstanding (as defined in the Fiscal Agency Agreement), neither the Issuer nor the Guarantor will, and the Guarantor will procure that none of its Material Subsidiaries will, create or have outstanding any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its assets or revenues, present or future, to secure any Relevant Debt or to secure any guarantee or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, the Issuer's obligations under the Bonds or the Guarantor's obligations under the Guarantee Agreement (i) are secured equally and rateably therewith by such encumbrance or security interest or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Bondholders.

In these Conditions:

"Relevant Debt" means any present or future indebtedness of the Issuer, the Guarantor or any Subsidiary of the Guarantor represented or evidenced by notes, bonds, debentures or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily traded on any stock exchange, over-the-counter-market or other securities market;

"Material Subsidiary" means any Subsidiary:

- (i) whose net profits (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total net assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than 10 per cent. of the consolidated net profits, or, as the case may be, the consolidated total net assets of the Guarantor and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated financial statements of the Guarantor; provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Guarantor relate for the purpose of applying each of the foregoing tests, the reference to the Guarantor's latest audited consolidated financial statements shall be deemed to be a reference to such financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant financial statements, adjusted as deemed appropriate by the Guarantor; or
- (ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (a) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (b) the transferee Subsidiary shall immediately become a Material Subsidiary, provided that on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above.

A report by two directors of the Guarantor that in their opinion (making such adjustments (if any) as they shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor and the Bondholders;

"Subsidiary" of any person means (i) a company more than 50 per cent. of the Voting Rights of which is owned or controlled, directly or indirectly, by such person or by one or more other subsidiaries of such person or by such person and one or more subsidiaries thereof or (ii) any other person in which such person, or one or more other subsidiaries of such person or such person and one or more other subsidiaries thereof, directly or indirectly, has at least a majority ownership and power to direct the policies, management and affairs thereof; and

"Voting Rights" means the right generally to vote at a general meeting of shareholders of an entity (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

5. **Interest**

The Bonds bear interest on their outstanding principal amount from and including 29 April 2019 (the **"Issue Date"**) at the rate of 0.875 per cent. per annum (the **"Rate of Interest"**), payable annually in arrear in equal instalments of €8.75 per Calculation Amount (as defined below) on 29 April in each year (each an **"Interest Payment Date"**). Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below), the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **"Interest Period"**.

Interest in respect of any Bond shall be calculated per €1,000 in principal amount of the Bonds (the **"Calculation Amount"**). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the Rate of Interest, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6. **Redemption and Purchase**

(a) **Final Redemption:**

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 29 April 2027 (the **"Maturity Date"**). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) **Redemption for Taxation Reasons:**

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), at their principal amount (together with interest accrued to but excluding the date fixed for redemption), if (i) the Issuer (or, if the Guarantee was called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 25 April 2019, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Fiscal Agent a

certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

Any Bonds which are the subject of Change of Control Put Exercise Notices which have been validly delivered pursuant to Condition 6(f) before the date on which notice is provided by the Issuer as referred to in the preceding paragraph shall be redeemed as provided in Condition 6(f) and not as provided in this Condition 6(b).

(c) **Redemption at the Option of the Issuer (Make Whole Redemption):**

The Issuer may, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Make Whole Optional Redemption Date**")), redeem all, but not some only, of the Bonds at the Make Whole Redemption Price together with interest accrued to but excluding the Make Whole Optional Redemption Date.

Any Bonds which are the subject of Change of Control Put Exercise Notices which have been validly delivered pursuant to Condition 6(f) before the date on which notice is provided by the Issuer as referred to in the preceding paragraph shall be redeemed as provided in Condition 6(f) and not as provided in this Condition 6(c).

Any notice of redemption given under this Condition 6(c) will override any notice of redemption given (whether previously, on the same date or subsequently) under Condition 6(b), Condition 6(d) or Condition 6(e).

In these Conditions:

"**Determination Agent**" means a financial adviser or bank, which is independent of the Issuer and the Guarantor, appointed by the Issuer for the purpose of determining the Make Whole Redemption Price (which, for the avoidance of doubt, will not be any of the initial Agents);

"**Frankfurt Business Day**" means any day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in Frankfurt;

"**Make Whole Redemption Price**" means, in respect of each Bond, (a) the principal amount of such Bond or, if this is higher, (b) the sum of the then present values of the remaining scheduled payments of principal and interest discounted to the Make Whole Optional Redemption Date on an annual basis (based on the actual number of days elapsed divided by 365 or (in the case of a leap year) by 366) at the Reference Dealer Rate (as defined below) plus 0.20 per cent., in each case as determined by the Determination Agent;

"**Reference Dealers**" means five (or, in the circumstances set out in the definition of "Reference Stock" below, three or four) credit institutions or financial services institutions that regularly deal in bonds and other debt securities as selected by the Determination Agent after consultation with the Issuer;

"**Reference Dealer Rate**" means with respect to the Reference Dealers and the Make Whole Optional Redemption Date, the average of the five quotations of the mid-market annual yield to maturity of the Reference Stock at 11.00 a.m. Central European time on the third Frankfurt Business Day preceding the Make Whole Optional Redemption Date quoted in writing to the Determination Agent by the Reference Dealers; and

"**Reference Stock**" means (a) DBR 0.250 per cent. due 15 February 2027 or (b) if, at 11.00 a.m. Central European time on the third Frankfurt Business Day preceding the Make Whole Optional Redemption Date, the Reference Stock is no longer outstanding, such other central bank or government security that, in the majority opinion of three Reference Dealers (one of whom shall be the Determination Agent) (i) has a maturity comparable to the remaining term of the Bonds and (ii) would be utilised, at the time of selection and in

accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds. If each such Reference Dealer selects a different central bank or government security, the Determination Agent after consultation with the Issuer shall approach a fourth Reference Dealer and, from the three different central bank or government securities selected by the other Reference Dealers, such fourth Reference Dealer shall select as the Reference Stock the central bank or government security which, in its opinion (i) has a maturity comparable to the remaining term of the Bonds and (ii) would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds. The central bank or government security so selected by the fourth Reference Dealer shall then be the Reference Stock.

(d) **Redemption at the Option of the Issuer (Acquisition Event):**

If an Acquisition Event occurs, the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Acquisition Event Optional Redemption Date**")), redeem all, but not some only, of the Bonds at 101 per cent. of their principal amount (the "**Acquisition Event Redemption Price**"), together with any accrued and unpaid interest up to (but excluding) the Acquisition Event Optional Redemption Date, and provided that the Acquisition Event Optional Redemption Date shall fall no later than 75 days after the date on which the Acquisition Event shall have occurred.

Any Bonds which are the subject of Change of Control Put Exercise Notices which have been validly delivered pursuant to Condition 6(f) before the date on which notice is provided by the Issuer as referred to in the preceding paragraph shall be redeemed as provided in Condition 6(f) and not as provided in this Condition 6(d).

Any notice of redemption given under this Condition 6(d) will override any notice of redemption given (whether previously, on the same date or subsequently) under Condition 6(b) or Condition 6(e).

An "**Acquisition Event**" will occur if:

- (i) on or before the Long Stop Date, the Guarantor announces to the public that its acquisition of the Parex Group from CVC Fund V, as announced by the Guarantor on 8 January 2019, (the "**Acquisition**") will not proceed; or
- (ii) the Guarantor has not, on or before the Long Stop Date, announced completion of the Acquisition,

where "**Long Stop Date**" means 29 January 2020.

(e) **Redemption at the Option of the Issuer (Pre-Maturity Call):**

The Issuer may, at any time from (and including) 29 January 2027 to (but excluding) the Maturity Date, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption (the "**Pre-Maturity Optional Redemption Date**")), redeem all, but not some only, of the Bonds at their principal amount together with interest accrued to but excluding the Pre-Maturity Optional Redemption Date.

Any Bonds which are the subject of Change of Control Put Exercise Notices which have been validly delivered pursuant to Condition 6(f) before the date on which notice is provided by the Issuer as referred to in the preceding paragraph shall be redeemed as provided in Condition 6(f) and not as provided in this Condition 6(e).

Any notice of redemption given under this Condition 6(e) will override any notice of redemption given (whether previously, on the same date or subsequently) under Condition 6(b) or Condition 6(c).

(f) **Redemption at the option of the Bondholders following Change of Control:**

If a Change of Control Put Event (as defined below) occurs, the holder of each Bond will have the option (a "**Change of Control Put Option**") (unless prior to the giving of the relevant Change of Control Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 6(b), 6(c), 6(d) or 6(e) above) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Bond on the Change of Control Put Date (as defined below) at its principal amount together with interest accrued to (but excluding) the Change of Control Put Date.

Promptly upon the Issuer or the Guarantor becoming aware that a Change of Control Put Event has occurred the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Bondholders in accordance with Condition 13 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, the holder of a Bond must deliver such Bond to the specified office of any Agent at any time during normal business hours of such Agent falling within the period (the "**Change of Control Put Period**") of 30 days after the relevant Change of Control Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Agent (a "**Change of Control Put Exercise Notice**").

Payment in respect of any Bond so delivered will be made on the date which is the fifth payment business day (as defined in Condition 7(f)) after the expiration of the Change of Control Put Period (the "**Change of Control Put Date**"). A Change of Control Put Exercise Notice, once given, shall be irrevocable. The Issuer shall redeem or purchase (or procure the purchase of) the relevant Bonds on the Change of Control Put Date unless previously redeemed (or purchased) and cancelled.

If 85 per cent. or more in principal amount of the Bonds then outstanding have been redeemed or purchased pursuant to this Condition 6(f), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Bondholders (such notice being given within 30 days after the Change of Control Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Bonds at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

If the rating designations employed by any of Moody's, Fitch or S&P are changed from those which are described in paragraph (ii) of the definition of "**Change of Control Put Event**" below, or if a rating is procured from a Substitute Rating Agency, the Guarantor shall determine the rating designations of Moody's, Fitch or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's, Fitch or S&P and this Condition 6(f) shall be construed accordingly.

In these Conditions:

A "**Change of Control Event**" shall occur if:

- (i) an offer to acquire Shares, whether expressed as a public takeover offer (whether voluntary or mandatory), a merger or similar scheme with regard to such acquisition, or in any other way, is made in circumstances where:
 - (A) such offer is available to (aa) all holders of Shares, (bb) all holders of Shares other than the offeror and any persons acting in concert with such offeror, or (cc) all holders of Shares other than persons who are excluded from the offer by reason of being connected with one or more specific jurisdictions (or a combination of the exceptions pursuant to (bb) and (cc)); and
 - (B) such offer having become or been declared unconditional with respect to acceptances, the Guarantor becomes aware that the right to cast more than 33 1/3 per cent. of all the voting rights (whether exercisable or not)

of the Guarantor has become or will become unconditionally vested in the offeror and any persons acting in concert with the offeror; or

- (ii) the Guarantor consolidates with or merges into any other company, save where, following such consolidation or merger, shareholders of the Guarantor immediately prior to such consolidation or merger have the right to cast 33 1/3 per cent. or more of the voting rights (whether exercisable or not) of such other company; or
- (iii) the Guarantor becomes aware that the right to cast more than 33 1/3 per cent. of all voting rights (whether exercisable or not) of the Guarantor has become unconditionally vested directly or indirectly in any person (or in persons acting in concert with each other in respect of the exercise of such voting rights); or
- (iv) the legal or beneficial ownership of all or substantially all of the assets owned by the Guarantor, directly or indirectly, is acquired by one or more other persons acting in concert;

A "**Change of Control Put Event**" will be deemed to occur if:

- (i) a Change of Control Event occurs; and:
- (ii) on the date (the "**Relevant Announcement Date**") that is the earlier of (1) the date of the first public announcement of the relevant Change of Control Event and (2) the date of the earliest Relevant Potential Change of Control Announcement (if any), the Bonds carry:
 - (A) an investment grade credit rating (being BBB– from S&P or Fitch, and Baa3 from Moody's, each as defined below, or their respective equivalents, or better) from any Rating Agency at the invitation of the Issuer or the Guarantor and such rating is, within the Change of Control Period, either downgraded to a non-investment grade credit rating (being BB+ from S&P or Fitch, and Ba1 from Moody's, or their respective equivalents, or worse) (a "**Non-Investment Grade Rating**") or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency; or
 - (B) a Non-Investment Grade Rating from any Rating Agency at the invitation of the Issuer or the Guarantor and such rating is, within the Change of Control Period, either downgraded by one or more rating categories (for example, from Baa1 to Baa2 in the case of Moody's, or such similar lowering) or withdrawn and is not, within the Change of Control Period, subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better by such Rating Agency; or
 - (C) no credit rating and a Negative Rating Event also occurs within the Change of Control Period,

provided that, if on the Relevant Announcement Date the Bonds carry a credit rating from more than one Rating Agency, at least one of which is investment grade, then only sub-paragraph (A) will apply; and

- (iii) in making any decision to downgrade or withdraw a credit rating pursuant to sub-paragraphs (ii)(A) and (ii)(B) above (as the case may be) or not to award a credit rating of at least investment grade as described in limb (ii) of the definition of Negative Rating Event, the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Guarantor that such decision(s) resulted, in whole or in part, from the occurrence of the Change of Control Event or the Relevant Potential Change of Control Announcement;

"Change of Control Period" means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control Event (or such longer period for which the Bonds are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control Event) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

a **"Negative Rating Event"** shall be deemed to have occurred if at such time as there is no rating assigned to the Bonds by a Rating Agency (i) the Issuer, failing which the Guarantor, does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control Event seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Bonds, or any other unsecured and unsubordinated long-term debt of the Guarantor or (ii) if the Issuer or the Guarantor does so seek and use such endeavours, it is unable to obtain such a rating of at least investment grade by the end of the Change of Control Period;

"Rating Agency" means Moody's Investors Service, Inc. ("**Moody's**"), Fitch Ratings Ltd. ("**Fitch**") or Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("**S&P**") or any of their respective successors or any rating agency (a "**Substitute Rating Agency**") substituted for any of them by the Issuer or the Guarantor from time to time in relation to the Bonds;

"Relevant Potential Change of Control Announcement" means any public announcement or statement by the Guarantor, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control Event where within 180 days following the date of such announcement or statement, a Change of Control Event occurs; and

"Shares" means registered shares of the Guarantor (as well as any other (if any) shares or stock resulting from any subdivision, consolidation or reclassification of such shares) which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Guarantor.

- (g) **Purchase:** The Issuer, the Guarantor and the Guarantor's Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders (or to sign any Written Resolution (as defined in Condition 12(a)) or participate in any Electronic Consent (as defined in the Fiscal Agency Agreement)) and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or otherwise for the purposes of Condition 12(a).
- (h) **Cancellation:** All Certificates representing Bonds purchased by or on behalf of the Issuer, the Guarantor and/or the Guarantor's Subsidiaries may be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

7. **Payments**

- (a) **Method of Payment:**
 - (i) Payments of principal (including any Make Whole Redemption Price and Acquisition Event Redemption Price) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in paragraph (ii) below.

- (ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the payment business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in euros by cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in euros maintained by the payee with a bank.
 - (iii) If the amount of principal (including any applicable premium) being paid upon surrender of the relevant Certificate is less than the outstanding principal amount (including any applicable premium) of such Certificate, the Registrar will annotate the Register with the amount so paid and will (if so requested by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount (including any applicable premium). If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.
- (b) **Payments subject to Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Bondholders in respect of such payments.
- (c) **Payment Initiation:** Where payment is to be made by transfer to an account in euros, payment instructions (for value the due date, or if that is not a payment business day, for value the first following day which is a payment business day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Fiscal Agent is open for business preceding the due date for payment or, in the case of payments of principal (and premium, if applicable) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Fiscal Agent is open for business and on which the relevant Certificate is surrendered.
- (d) **Appointment of Agents:** The Fiscal Agent, the Registrar and the Transfer Agents initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Registrar and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, the Registrar or any Transfer Agent and to appoint additional or other Transfer Agents, provided that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Determination Agent where the Conditions so require and (vi) such other agents as may be required by any other stock exchange on which the Bonds may be listed.
- (e) Notice of any such change or any change of any specified office shall promptly be given to the Bondholders.
- (f) **Delay in Payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a payment business day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.
- (g) **Non-Payment Business Days:** If any date for payment in respect of any Bond is not a payment business day, the holder shall not be entitled to payment until the next following payment business day nor to any interest or other sum in respect of such postponed payment.

In this Condition 7:

"**payment business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and which is a TARGET Business Day;

"**TARGET Business Day**" means a day on which the TARGET System is open for the settlement of payments in euro; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system or any successor thereto.

8. **Taxation**

All payments of principal (including any Make Whole Redemption Price and Acquisition Event Redemption Price) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee Agreement shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction, unless such withholding or deduction is required by law. In that event the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or under the Guarantee Agreement (as applicable):

- (a) held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Netherlands or Switzerland (as applicable) other than the mere holding of the Bond; or
- (b) where such withholding or deduction is imposed on a payment and is required to be made pursuant to laws enacted by Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on 17 December 2014, or otherwise changing the Swiss federal withholding tax system from an issuer-based system to a paying agent-based system pursuant to which a person other than the Issuer is required to withhold tax on any interest payments; or
- (c) in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days; or
- (d) in respect of any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

In these Conditions:

"**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender; and

"**Relevant Jurisdiction**" means, in the case of the Issuer, the Netherlands, or in the case of Guarantor, Switzerland or in each case any political subdivision or any authority thereof or therein having power to tax, or any other jurisdiction or any political subdivision or any authority thereof

or therein having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it on the Bonds or under the Guarantee Agreement.

9. Events of Default

If any of the following events ("**Events of Default**") occurs:

- (a) **Non-Payment:** the Issuer and the Guarantor each fail to pay the principal of or any interest or other amount on any of the Bonds when due and such failure continues for a period of 14 days; or
- (b) **Breach of Other Obligations:** a default is made by the Issuer or the Guarantor in the performance or observance of any covenant, condition or provision contained in these Conditions or the Guarantee Agreement which is to be performed or observed on their respective parts and which default is incapable of remedy or is not remedied within 10 calendar days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Bondholder; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries for or in respect of moneys borrowed or raised (x) is not paid when due or, as the case may be, within any originally applicable grace period or (y) becomes due and payable prior to its stated maturity as a result of an event of default (howsoever described), or (ii) any security in respect of any such indebtedness becomes enforceable or any guarantee of, or indemnity in respect of, any such indebtedness given by the Issuer, the Guarantor or any of the Guarantor's Subsidiaries is not honoured when due and called upon or, as the case may be, within any originally applicable grace period, provided that no such event shall be taken into account for the purposes of this paragraph (c) unless the relative indebtedness, either alone or when aggregated with other indebtedness relative to all, if any, other such events which shall have occurred and are continuing, has an outstanding nominal value of CHF 150 million (or its equivalent in another currency) or more; or
- (d) **Insolvency:** the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, or proposes or makes a stay of execution; or
- (e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or substantially all of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Material Subsidiaries; or
- (f) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or the Guarantor or any of the Guarantor's Material Subsidiaries, or the Issuer or the Guarantor or any of the Guarantor's Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Guarantor or another Material Subsidiary of the Guarantor; or
- (g) **Postponement:** a postponement of payments (*Stillhaltevereinbarung*), a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium or postponement of payments is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries; or
- (h) **Dissolution or merger:** a dissolution or merger involving the Issuer or the Guarantor as a result of which the Issuer or the Guarantor, as applicable, is not the surviving company,

unless the successor company assumes all of the Issuer's or the Guarantor's liabilities, as applicable; or

- (i) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any the Bonds and the Guarantee (as the case may be); or
- (j) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 9; or
- (k) **Guarantee:** the Guarantee is not in full force and effect (as determined by a court of competent jurisdiction) or is claimed by the Guarantor not to be in full force and effect,

then any Bond may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable at its principal amount together with accrued interest without further formality.

10. **Prescription**

Claims in respect of principal, premium and interest in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal and premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11. **Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. **Meetings of Bondholders, Modification and Substitution**

- (a) **Meetings of Bondholders:** The Fiscal Agency Agreement contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Bondholders holding not less than 10 per cent in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or premium payable on redemption of, or Rate of Interest on, the Bonds or vary the method for calculating the Make Whole Redemption Price and/or Acquisition Event Redemption Price, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee Agreement, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds outstanding (a "**Written Resolution**") shall for all purposes be as valid and effective as an

Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

- (b) **Modification of the Fiscal Agency Agreement:** The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement (including, without limitation, the regulations concerning transfers of Bonds scheduled thereto), if to do so could not reasonably be expected to be prejudicial to the interests of the Bondholders.
- (c) **Substitution:** The Issuer, or any previous substituted company, may at any time, without the consent of the Bondholders, substitute for itself as principal debtor under the Bonds such company (the "**Substitute**") as is specified in the Fiscal Agency Agreement, provided that no payment in respect of the Bonds is at the relevant time overdue. The substitution shall be made by a deed poll (the "**Deed Poll**"), to be substantially in the form exhibited to the Fiscal Agency Agreement, and may take place only if (i) the Substitute shall, by means of the Deed Poll, agree to indemnify each Bondholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Bond and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution, (ii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll and the Bonds shall be unconditionally guaranteed by the Guarantor by means of the Deed Poll, (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll and the Bonds represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect, (iv) the Substitute shall have become party to the Fiscal Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it, (v) legal opinions addressed to the Fiscal Agent from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above and in England as to the fulfilment of the preceding conditions of this Condition 12(c) and the other matters specified in the Deed Poll and (vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Bondholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are referred to above, or which might otherwise reasonably be regarded as material to Bondholders, will be available for inspection at the specified office of each of the Principal Paying Agent, the Registrar and the Transfer Agents. References in Condition 9 to obligations under the Bonds shall be deemed to include obligations under the Deed Poll, and, where the Deed Poll contains a guarantee, the events listed in Condition 9 shall be deemed to include that guarantee not being (or being claimed by the guarantor not to be) in full force and effect and the provisions of Conditions 9(c) to 9(k) inclusive shall be deemed to apply in addition to the guarantor.

13. **Notices**

Notices required to be given to the holders of Bonds pursuant to the Conditions shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices required to be given to the holders of Bonds pursuant to the Conditions shall also be published (if such publication is required) in a manner which complies with the rules and regulations of the stock exchange or other relevant authority on which the Bonds are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

14. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

15. **Governing Law and Jurisdiction**

- (a) **Governing Law:** The Fiscal Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The Guarantee Agreement provides that it is governed by, and will be construed in accordance with the substantive laws of Switzerland (without regard to the conflict of laws rules).
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with any Bonds ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not). Any dispute which may arise between Bondholders on the one hand and the Guarantor on the other hand regarding the Guarantee Agreement shall be resolved exclusively by the courts of the City of Zug, Canton of Zug, Switzerland.
- (c) **Agent for Service of Process:** Each of the Issuer and the Guarantor irrevocably appoints Sika Limited of Watchmead, AL7 1BQ, Welwyn Garden City, United Kingdom as its agent in England to receive service of process in any Proceedings in England based on any of the Bonds. If for any reason the Issuer or the Guarantor does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

TERMS AND CONDITIONS OF THE SERIES 2 BONDS

The Conditions of the Series 2 Bonds shall be in the same form as the Conditions of the Series 1 Bonds in all respects, save for as provided below.

- (i) The aggregate principal amount thereof shall be €500,000,000;
- (ii) The annual interest rate will be 1.500 per cent. per annum (for which the interest payable on each Interest Payment Date will be €15 per Calculation Amount);
- (iii) The date in the definition of "**Maturity Date**" will be 29 April 2031;
- (iv) The margin in the definition of "**Make Whole Redemption Price**" will be 0.25 per cent.;
- (v) Redemption at the Option of the Issuer (Pre-Maturity Call) will be applicable from (and including) 29 January 2031 to (but excluding) the Maturity Date; and
- (vi) The Reference Stock specified in part (a) of the definition thereof will be DBR 0.250 per cent. due 15 February 2029.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The following provisions apply to the Bonds whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. The following is a summary of certain of those provisions:

1. **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system ("**Alternative Clearing System**") as the holder of a Bond represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bond are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

2. **Cancellation**

Cancellation of any Bond following its redemption or purchase by the Issuer, the Guarantor or any of the Guarantor's subsidiaries of the will be effected by reduction in the aggregate principal amount of the Bonds in the register of Bondholders and shall be duly endorsed (for information purposes only) on the schedule to the Global Certificate.

3. **Payments**

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made to the registered holder of the Global Certificate. Upon payment of any principal or interest, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Certificate.

Principal and interest shall be payable from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation of interest will be made in respect of the total aggregate amount of the Bonds represented by the Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Distributions of amounts with respect to book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be credited, to the extent required by the Registrar, to the cash accounts of participants in Euroclear, Clearstream, Luxembourg or any Alternative Clearing System in accordance with the relevant clearing system's rules and procedures.

All payments in respect of the Bonds whilst they are represented by the Global Certificate will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday (inclusive) except 25 December and 1 January.

4. **Meetings**

For the purposes of any meeting of Bondholders, the Bondholder represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each €1,000 in principal amount of the Bonds.

5. **Notices**

So long as all of the Bonds are represented by the Global Certificate and it is held by or on behalf of a clearing system, notices to Bondholders will be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for notification as required by the Conditions. A notice will be deemed to have been given to accountholders on

the first Clearing System Business Day following the day on which such notice is sent to the relevant clearing system for delivery to entitled accountholders.

6. **Exchange**

Owners of beneficial interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual Certificates if Euroclear, Clearstream, Luxembourg or any Alternative Clearing System is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In such circumstances, the Issuer will cause sufficient Certificates to be executed and delivered to the Registrar and the Transfer Agent for completion, authentication and despatch to the relevant Bondholders within 14 days following a request therefor by the registered holder of the Global Certificate. A person with an interest in the Bonds represented by the Global Certificate must provide the Registrar and the Transfer Agent with (A) a written order containing instructions and other such information as the Issuer, the Transfer Agent and the Registrar may require to complete, execute and deliver such Certificates; and (B) a certificate to the effect that such person is not transferring its interest in the Global Certificate.

7. **Transfer**

Bonds represented by the Global Certificate may only be made in part:

- (a) if Euroclear, Clearstream, Luxembourg or any Alternative Clearing System is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (b) upon or following any failure to pay principal in respect of any Bonds when it is due and payable; or
- (c) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (i) or (ii) above, the Bondholder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Bonds represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

8. **Events of Default**

The Global Certificate provides that the holder may cause the Global Certificate or a portion of it to become due and payable in the circumstances described in Condition 9 by stating in the notice to the Fiscal Agent the principal amount of Bonds which is being declared due and payable. Upon each such notice being given, the Global Certificate and the corresponding entry in the Register shall become void to the extent of the principal amount stated in such notice, save to the extent that the appropriate direct rights shall fail to take effect, for whatever reason.

9. **Electronic Consent and Written Resolution**

While any Global Certificate is registered in the name of any nominee for one or more of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, then:

- (a) approval of a resolution proposed by the Issuer or the Guarantor given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) to the Principal Paying Agent or another specified agent in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Bonds outstanding (an "**Electronic Consent**" as

defined in the Fiscal Agency Agreement) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders even if the relevant consent or instruction proves to be defective. Neither the Issuer nor the Guarantor shall be liable or responsible to anyone for such reliance; and

- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Fiscal Agency Agreement) has been validly passed, the Issuer and the Guarantor shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Guarantor, as the case may be, by (a) accountholders in the clearing system(s) with entitlements to such Global Certificate and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Guarantor shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clear stream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Bondholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Bonds is clearly identified together with the amount of such holding. The Issuer and the Guarantor shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

FORM OF GUARANTEES

The following is the form of the Guarantee in respect of the Series 1 Bonds in the form executed by the Guarantor on 29 April 2019:

GUARANTEE

dated 29 April 2019

by

Sika AG
Zugerstrasse 50
6340 Baar
Switzerland

(the "**Guarantor**")

for the benefit of

Holders of the Series 1 €500,000,000 0.875 per cent. Guaranteed Bonds due 29 April 2027 (the "Bonds"), issued by Sika Capital B.V. (the "Issuer") and guaranteed by Sika AG

WHEREAS,

- (A) The Issuer has issued the Bonds and, in connection with the issuance of the Bonds, the Issuer and the Guarantor have executed a deed of covenant dated 29 April 2019 (the "**Deed of Covenant**").
- (B) In connection with the issuance of the Bonds, the Guarantor has agreed to issue this guarantee (the "**Guarantee**") for the benefit of the Holders (as defined below) and to unconditionally and irrevocably guarantee the payment of all sums expressed to be payable under the Bonds by the Issuer to holders of the Bonds (the "**Bondholders**") and to Relevant Account Holders (as defined in the Deed of Covenant) (the Bondholders and the Relevant Account Holders are, together, referred to herein as the "**Holders**").

NOW THEREFORE, the Guarantor undertakes as follows:

1. The Guarantor hereby unconditionally and irrevocably guarantees, in accordance with the terms of Article 111 of the Swiss Code of Obligations and the terms hereof, as primary obligor and not merely as a surety, irrespective of the validity and the legal effects of the Bonds and waiving all rights of objection and defence arising from the Bonds, to the Holders the due and punctual payment of all sums expressed to be payable by the Issuer under the Bonds as and when the same are expressed to become due according to the terms and conditions of the Bonds (the "Conditions"), and accordingly undertakes to promptly pay, upon receipt of the first written request for payment from one or more Holders, the relevant amount to such Holder(s), in the manner and the currency set forth in the Conditions.
2. The Guarantor further agrees to comply with, and to be bound by, all provisions of the Conditions expressed to be applicable to it.
3. Subject to Condition 4 (*Negative Pledge*), the obligations of the Guarantor under this Guarantee constitute direct, unsecured and unsubordinated obligations of the Guarantor and the Guarantor undertakes that its obligations hereunder will rank *pari passu* with all other present or future direct, unsecured and unsubordinated obligations of the Guarantor, save for such preferences as are provided for by any mandatorily applicable provision of law.
4. This Guarantee shall continue in full force and effect by way of continuing security until all sums payable by the Issuer under the Bonds, the Deed of Covenant and this Guarantee have been paid in full and all other actual or contingent obligations of the Issuer in relation to the Bonds and the Deed of Covenant have been satisfied in full.

5. All payments under this Guarantee shall be made on the terms of and subject to Condition 8 (*Taxation*) of the Bonds, to the extent expressed to be applicable to the Guarantee, as if set out in full herein.
6. Each notice or demand under the Guarantee by any Holder(s) shall be made in writing, in English, and shall be sent by courier, fax or registered mail to the Guarantor at the address, and for the attention of the person, from time to time designated by the Guarantor for the purposes of the Guarantee. Any such notice or demand shall be effective when actually received by such addressee. The address, attention and fax number of the Guarantor for notices or demands under the Guarantee for the time being are as follows:

Sika AG
Zugerstrasse 50
6341 Baar
Switzerland

Fax: +41 58 436 68 20 / +41 58 436 68 50
Attention: Group CFO / Group General Counsel
7. The Guarantor shall not be entitled to assign or transfer any or all of its rights, benefits or obligations under this Guarantee.
8. Notwithstanding any reference herein to the Deed of Covenant and the Bonds, the Guarantor hereby acknowledges and agrees that this Guarantee and its obligations under this Guarantee shall constitute separate, independent, primary and non-accessory guarantee obligations of the Guarantor within the meaning of Article 111 of the Swiss Code of Obligations and not a mere surety within the meaning of Article 492 *et seq.* of the Swiss Code of Obligations and will, in particular, not be affected or discharged by reason of any time or other indulgence granted by any person or the winding-up, insolvency or reorganization of the Issuer. This Guarantee and the Guarantor's obligations under this Guarantee shall in particular be independent from the legal validity and enforceability of the Holders' claims under the Deed of Covenant and the Bonds and the Guarantor hereby waives all rights of objection and defence arising from the Deed of Covenant and the Bonds (other than payment by the Guarantor hereunder).
9. Condition 12(a) (*Meetings of Bondholders, Modification and Substitution – Meetings of Bondholders*) and Schedule 3 of the Fiscal Agency Agreement shall apply in respect to any modifications of this Guarantee.
10. This Guarantee is governed by and shall be construed in accordance with the substantive laws of Switzerland (without regard to the conflict of laws rules).
11. All disputes arising out of or in connection with this Guarantee shall be resolved exclusively by the courts of the City of Zug, Canton of Zug, Switzerland.
12. Terms and expressions not otherwise defined in this Guarantee shall have the same meaning as in the Conditions. As used herein, the term "Issuer" includes any Substitute (other than the Guarantor) pursuant to Condition 12(c) (*Meetings of Bondholders, Modification and Substitution – Substitution*).

The Guarantor

Sika AG

By: _____
Name:
Title:

By: _____
Name:
Title:

The Guarantee of the Series 2 Bonds shall be in the same form as the Guarantee of the Series 1 Bonds in all material respects.

THE ISSUER

Corporate Information

Sika Capital B.V. (the "**Issuer**") was incorporated on 12 March 2019 under the Dutch Civil Code (*Burgerlijk Wetboek*) as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*), with its statutory seat (*statutaire zetel*) at Utrecht, the Netherlands and operates under Dutch law. The Issuer has been incorporated for an unlimited duration and has been registered with the trade register maintained by the Dutch Chamber of Commerce under number 74254545. The registered office and the business address of the Issuer is Zonnebaan 56, 3542 EG Utrecht, the Netherlands and its telephone number is +31 30 241 0120.

The Issuer's articles of association are dated 12 March 2019 and have never been amended. Article 2.2 (*Objects*) of the Issuer's articles of association (as contained in its deed of incorporation dated 12 March 2019) defines the corporate purpose of the Issuer as follows:

The company's objects are:

- a. to borrow money in any form, including via public offerings;*
- b. to issue notes, bonds and debentures and any kind of debt, including subordinated debt instruments;*
- c. to acquire participations in loans and/or to lend funds, including the proceeds of any borrowings and/or issues of debt securities, to its subsidiaries, affiliated companies or to any other company which forms part of the group of companies to which the company belongs;*
- d. to pledge, transfer, encumber or otherwise create security over all or part of its assets;*
- e. to acquire participations, in the Netherlands or abroad, in any companies or enterprises in any form whatsoever and to manage those companies or enterprises;*
- f. to acquire by subscription, purchase, exchange or otherwise acquire any stock, shares and other participation securities, bonds, commercial paper and certificates of deposit issued by any public or private entity;*
- g. to provide services, such as asset management services, to other companies which form part of the group of companies to which the company belongs and which are controlled by the same mother;*
- h. to employ any techniques and instruments relating to its investments for the purpose of their efficient management, including techniques and instruments designed to protect the company against credit risks, currency exchange risks, interest rate risks and other risks;*
- i. to carry out any commercial or financial operation useful in the accomplishment and development of those objects; and*
- j. to engage in all activities, whether or not in collaboration with others, which directly and indirectly relate to those objects, all this in the broadest sense.*

The Issuer's principal purpose and activity is to act as a financing company for the Group and it has no independent operating business of its own.

Board of Directors

The following table sets out details of the members of the Board of Directors.

<u>Name</u>	<u>Function</u>	<u>Other principal activities</u>
Piet Nieuwpoort	Managing director	General Manager, Sika Nederland B.V.
Herman Henk Lunneker	Managing director	Head Finance, IT & HR, B.V. Descon Kunststof Chemie

<u>Name</u>	<u>Function</u>	<u>Other principal activities</u>
		Head Finance, IT & HR, Sika Nederland B.V.
Peter Karl Baumann	Managing director	Group Treasurer, Sika AG

The business address for each member of the Board of Directors is Zonnebaan 56, 3542 EG Utrecht, the Netherlands.

The Issuer is not aware of any potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests or duties.

Information on the Issuer's Capital Structure and Shares

Share Capital Structure

Form of Shares

The shares on issue are in registered form and the transfer of shares requires the prior approval of the shareholders of the Issuer at general meeting, as further described in the Issuer's articles of association.

Issued Share Capital

As of the date of this Prospectus, the Issuer had an issued share capital of EUR 10,000,000 divided into 10,000,000 shares having a nominal value EUR1 each, each of which is held by its parent company Sika AG, which is registered in Switzerland. The shares are not paid up and do not need to be paid up when subscribed for but only after the relevant shares been called up by the company.

As at the date of this Prospectus, the Issuer is in compliance with all applicable rules relating to corporate governance in force under the laws of its country of incorporation, the Netherlands.

Issuance of Shares

The Swiss law concept of conditional share capital is not known under Dutch law and accordingly, there is no and there will be no conditional share capital. Further, the Swiss law concept of authorised capital deviates from the applicable Dutch law concept described below.

The general meeting of shareholders of the Issuer can resolve to issue further shares. The issuance of shares requires the execution of a deed before a civil law notary in The Netherlands.

Own Equity Securities

As of the date of this Prospectus, the Issuer does not hold any own equity securities.

Participation certificates

The Issuer has not issued any participation certificates, dividend right certificates, or stock options.

Employee Options

The Issuer does not have any employee option plans. The Issuer also does not have any employees.

Dividends and other Distributions

The Issuer has not paid out any dividends or made any other distributions since the date of its incorporation.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware) during the period of the 12 months prior to the date of this Prospectus which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

Financial Information

The financial year of the Issuer ends on 31 December each year. The first financial year of the Issuer will end on 31 December 2020.

As of the date of this Prospectus, the Issuer has not prepared any financial statements.

No Material Adverse Change

Since the date of its incorporation, there has been no material adverse change in the prospects of the Issuer and there has been no significant change in the financial or trading position of the Issuer.

Other Information about the Issuer

The Issuer is not rated by any internationally recognised rating agency.

THE SIKA GROUP

Corporate Information

Name, Registered Office, Commercial Register, Incorporation, Duration and Articles of Association

Sika AG (the "**Guarantor**" or "**Sika**") is a corporation (*Aktiengesellschaft*) organised under the laws of Switzerland, incorporated on 17 June 1993 with an unlimited duration. The Guarantor is registered with the Commercial Register of the Canton of Zug under the company number CHE-106.919.184. The Guarantor maintains its registered office at Zugerstrasse 50, 6340 Baar, Switzerland and its telephone number is +41 58 436 68 00.

The Guarantor's articles of association (the "**Articles of Association**") were last amended on 11 June 2018. Article 1(2) of the Guarantor's Articles of Association defines the corporate purpose of the Guarantor as follows (non-binding translation of the original and binding German version of the Articles of Association):

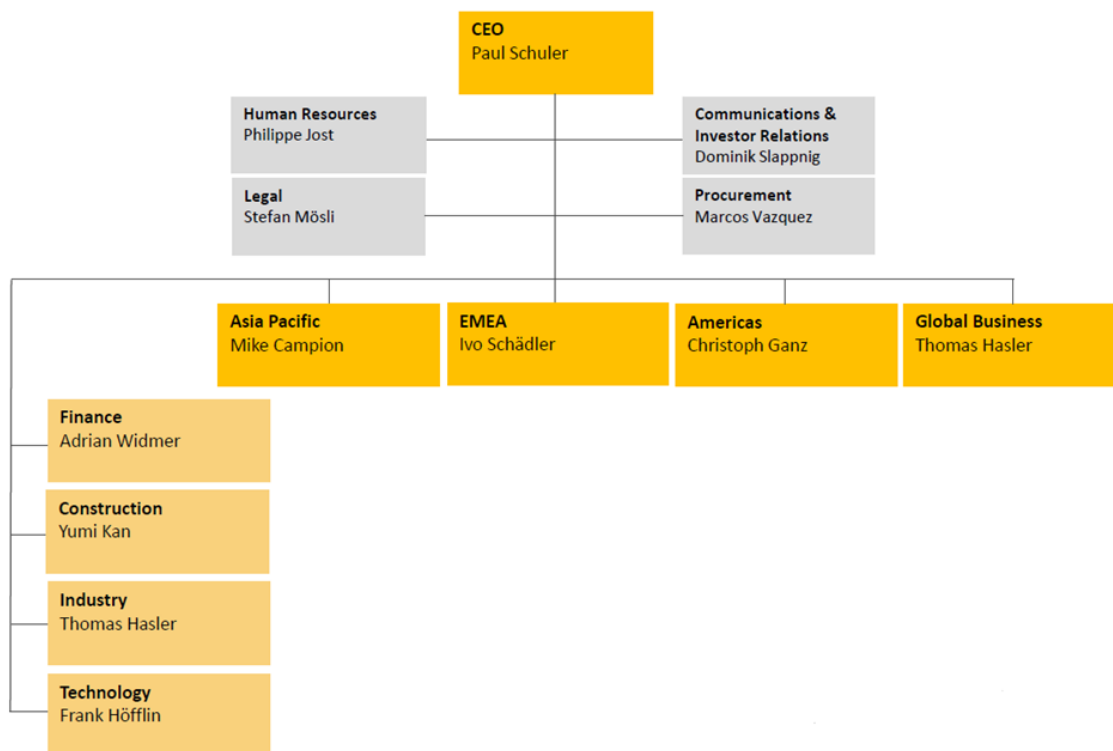
The purpose of the Company is the participation in companies of all types and particularly the financing of companies for the production of, application of, and trade in and with, special products as well as services for the building trade and the industry in Switzerland and abroad.

Furthermore, the Company may conduct any business suitable for promoting and facilitating the development of the Company and the achievement of the purpose of the Company, including the acquisition of real estate.

Group Structure

The Sika Group is headed by the listed company Sika AG, headquartered in Baar, Switzerland. Sika conducts its worldwide activities according to countries that have been classed into regions with area-wide managerial functions. See "*—Business Activities—Geographical Markets*". The heads of the regions are members of Sika Group's management team. Sika has geared its internal organisation towards seven target markets from the construction industry or from industrial manufacturing industry. See "*—Business Activities—Target Markets*". The Group's target markets are represented in Sika Group's management team with two members.

The chart below illustrates the Sika Group's structure of the regions, target markets and other group functions as of the date of this Prospectus (for further information on Sika Group's market segments, see "*—Business Activities—Geographical Markets*"):



The Sika Group encompassed unlisted subsidiaries in over 100 countries across the globe. More than 160 companies are included in the Group's scope of consolidation. For a list of the Guarantor's subsidiaries, including respective jurisdiction of incorporation and capital stock, see "*List of Group Companies*" in the notes to the Guarantor's audited consolidated financial statements for the year ended 31 December 2018 included in this Prospectus.

Business Activities

Overview

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. As at the date of this Prospectus, Sika has subsidiaries in over 100 countries around the world and manufactures in over 200 factories.

In the 2018 business year, Sika had more than 20,000 employees, which generated net sales of CHF 7,085.4 million (previous year: CHF 6,248.3 million), an operating profit of CHF 945.9 million (previous year: CHF 896.3 million) and a net profit of CHF 687.1 million (previous year: CHF 649.0 million).

For further information on the Guarantor's results of operations and financial condition, see the audited consolidated financial statements for the year ended 31 December 2018 included in this Prospectus.

Strategy

The Sika Group's business model is aimed at ensuring long-term success and profitable growth, and focuses on the following "five strategic pillars":

- *Market penetration:* The high-margin mortar business, a core component of the Sika Group's business strategy, has been delivering above-average performance over the last few years. The Sika Group has further expanded its mortar business by opening 23 new factories and completing 7 acquisitions since 2015. In total, the Sika Group has 105 production plants worldwide dedicated to serving customers in the mortar business.
- *Innovation:* Over 900 employees work in Research and Development ("**R&D**") with the aim of driving Sika Group's innovation. Since 2015, the Sika Group has filed 302 patents globally.

- *Emerging markets and diversified revenues:* In 2018, 34.8 per cent. of sales were generated in emerging markets. The Group has a well diversified business across emerging, developing and mature markets, and also benefits from regular repair and refurbishment businesses and increasing regulatory standards, which support revenue generation even when new development is constrained.
- *Acquisitions:* Whilst organic growth is at the core of the Sika Group's strategy, carefully targeted acquisitions complement Sika Group's growth. This external growth allows the Sika Group to close gaps in access to the target markets and to consolidate fragmented markets. Organic growth contributed a 6.3 per cent. growth in net sales in 2017 and 6.8 per cent. in net sales in 2018, with acquisition contributing a 2.7 per cent. growth in net sales in 2017 and 6.8 per cent. growth in net sales in 2018.
- *Values:* The Sika Group takes a long-term perspective on the development of its business and acts with respect and responsibility towards customers, stakeholders and employees. The future success of the company is not only dependent on pursuing the right strategy, but is just as much based on the trust and dedication of all Sika Group employees. The Sika Group believes in the competence and the entrepreneurial spirit of its employees.

These five strategic pillars are the foundation for growth of the Sika Group. Within this framework, various initiatives contribute to the achievement of strategic targets, including:

- Key investments in the supply chain in growth markets, new national subsidiaries and acquisitions drive growth and margins. Since 2015 Sika has invested in 37 new plants, 11 new national subsidiaries and 20 acquisitions – a total of 68 key investments. The Sika Group invested CHF 163.4 million in capital expenditure in 2017 and CHF 238.6 million in 2018, of which CHF 79 million and CHF 93 million respectively related to replacement and maintenance activities.
- Investments in R&D have led to the launch of a large number of new products in all target markets in recent years. In 2018, the Sika Group spent 2.7 per cent. (previous year: 3.0 per cent.) of sales on R&D.
- Globally organised procurement coordinates purchasing in all regions, resulting in more price efficient sourcing.
- Focus on pricing with global pricing tools and monthly pricing reporting.
- Transparent performance management focused on well-defined key performance indicators.
- Strict cost management. The Sika Group aims to quickly deploy efficiency measures in countries which are not growing.
- Operating leverage: A strategic target of the Sika Group is to achieve annual sales growth of 6-8 per cent., allowing it to generate higher margins, as costs tend to increase at a lower rate.

Geographical Markets

The Sika Group carries out its worldwide activities according to regions which determine the segments of its financial reporting. The regional breakdown is based on unified economic areas and supply chain structures. Overarching leadership responsibility ensures integrated management from production to the customer.

During the 2018 business year, Sika Group's geographical markets were the following:

- EMEA, which includes Europe, Middle East and Africa;
- North America, which covers the United States and Canada;
- Latin America, which includes South America, Central America and the Caribbean; and
- Asia/Pacific, which covers East Asia, Southeast Asia, the Pacific area and India.

In addition to the geographical markets described above, certain activities of Sika are managed centrally on a global basis. These activities were historically reported in "Other Segments and Activities". In 2018, the Group's activities were split among its geographical markets as follows:

	<u>EMEA</u>	<u>Americas⁽¹⁾</u>	<u>Asia/Pacific</u>	<u>Global Business⁽²⁾</u>
Net sales ⁽³⁾ in CHF million in 2018 (2017)	3,167.3 (2,735.7)	1,820.5 (1,684.0)	1,177.2 (1,121.4)	920.4 (707.2)

⁽¹⁾ As further described below, in the course of the first quarter of 2018, the geographical markets "North America" and "Latin America" were combined to form the new "Americas" market. 2017 figures were restated in order to reflect the changes in the segment structure.

⁽²⁾ "Other segments and activities" includes activities which are managed centrally on a global basis. Sika's automotive business is a key part of these areas of operation. As described below, on 1 March 2018, these activities are combined in Sika's "Global Business" market segment. 2017 figures were restated in order to reflect the changes in the segment structure.

⁽³⁾ Net sales with third parties only. Net sales with other segments within the Group have been eliminated as further described in the notes to the annual consolidated financial statements for the year ended 31 December 2018, included in this Prospectus.

In the course of the first quarter of 2018, Sika adjusted its segments. The geographical markets "North America" and "Latin America" were combined to form the new "Americas" market segment, in order to achieve a more efficient supply chain and to benefit from higher purchasing volumes in the economically closely intertwined segments of North America and Latin America. In addition, Sika's the global automotive business, the SikaAxson business, previously assigned to the segment EMEA, further minor structural adjustments and the recently acquired Faist ChemTec Group, were combined in the new segment "Global Business".

Furthermore, following the segment changes, Sika reports a "other segments and activities" position on the level of operating profit. Since 2018, such "other segments and activities" position includes expenses for the Group headquarters and its income from services rendered to Group companies. Finally, research and development costs that were previously allocated to "Other segments and activities" are now allocated to the relevant reporting segments.

Target Markets

Sika is active in seven target markets: concrete, waterproofing, sealing & bonding, roofing, flooring, refurbishment and industry. Sika's target markets are substantial markets with solid growth rates: these markets were estimated to have a combined volume of more than CHF 70 billion.

Concrete

Sika develops and markets a complete range of admixtures and additives for use in concrete, cement, and mortar production. These products enhance specific properties of the fresh or hardened concrete, such as workability, watertightness, durability, load-bearing capacity, or early and final strength. The demand for admixtures and additives is currently on the rise, particularly due to the increased performance requirements placed on concrete and mortar, especially in urban areas and for infrastructure construction. Furthermore, the increasing use of alternative cementitious materials in cement, mortar, and therefore also in concrete, leads to a growth in the need for admixtures.

Waterproofing

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

Roofing

Sika provides a full range of single-ply and built-up flat roofing systems incorporating both flexible sheet and liquid-applied membranes as well as thermal insulation and various roofing accessories. A more than 50-year history has documented that Sika roofing solutions are outstanding performers, reliable, sustainable, and long-lasting. Demand in this segment is driven by the need for eco-friendly, energy-saving solutions such as green roof systems, cool roofs, and solar roofs, which simultaneously help to reduce CO₂ emissions. While refurbishment projects continue to gain significance in the mature markets, the emerging markets are moving towards higher-quality roof solutions for new build structures.

Flooring

Sika's flooring solutions are based on synthetic resin and cementitious systems for industrial and commercial buildings, for example pharmaceutical and food-sector production plants, public buildings such as educational and healthcare facilities, parking decks, and private residential properties. Each market segment is subject to its own particular requirements in terms of mechanical properties, safety regulations, anti-static performance, and chemical or fire resistance. Trends in the flooring market are being dictated by the growing significance of safety and environmental regulations, as well as customised technical requirements. The high volume of building alteration and conversion projects nowadays has boosted the importance of efficient solutions for the refurbishment of existing flooring systems.

Sealing & Bonding

Sika offers a wide range of high-performance and durable sealants, tapes, spray foams, and elastic adhesives for the building envelope, for interior finishing and for infrastructure construction. Typical applications include the sealing of movement joints between facade elements to make buildings weatherproof, the bonding of wood floors to reduce noise, or the sealing of joints in airport aprons. The growing demand in this market is fueled by an increasing awareness of the importance of high-performance sealants for the overall durability and energy efficiency of buildings, the increasing urbanisation including the larger volumes of high-rise projects, and the continued replacement of mechanical fastening systems by adhesives due to better performance.

Refurbishment

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

Industry

The markets served by Sika include automobile and commercial vehicle assembly (structural bonding, direct glazing, acoustic systems, reinforcing systems), automotive aftermarket (auto glass replacement, car body repair), marine vessels, industrial lamination, renewable energies (solar and wind), and facade engineering (structural glazing, sealing of insulating glass units). Sika is a technology leader in elastic bonding, structural adhesives, sealants, reinforcing, and acoustic applications – serving the world's leading industrial manufacturers. Customers rely on Sika solutions to enhance product performance and durability while optimising manufacturing efficiency. For example, Sika's solutions address key megatrends in vehicle design, leading to lighter, stronger, safer, quieter, and more efficient vehicles, while fast-processing materials and compatibility with automation optimise productivity.

Acquisitions

Acquisitions are an important element of Sika's growth strategy, enabling it to enhance its core business with related technologies as well as to improve access to certain markets or additional distribution channels. Through capacity expansion and investment in plant efficiency, the Group ensures the consolidation of its global growth potential. Acquisitions thus become a platform for further growth.

For further information on the Guarantor's acquisitions during the business year ended 31 December 2018, refer to "*Acquisitions 2018*" in the notes to the Guarantor's audited consolidated financial statements for the year ended 31 December 2018, included in this Prospectus.

On 15 January 2018, Sika acquired a 75 per cent. majority stake in Index S.p.A. Construction Systems and Products ("**Index**"), Italy, a leading manufacturer of roofing and waterproofing systems. By acquiring Index, Sika will extend its product range and aims to strengthen its position in the Italian market. Its product portfolio consists of technologically advanced bituminous membranes for roofing and waterproofing, products for thermal and acoustic insulation, as well as waterproofing and repair mortars. On 26 November 2018, Sika acquired the remaining 25 per cent. of shares in the company and is now the sole shareholder of Index. For further information, including Index S.p.A. Construction Systems and Products' contribution to the Group's sales and profits, see "*Acquisition 2018*" in the notes to the Guarantor's audited consolidated financial statements for the year ended 31 December 2018 included in this Prospectus.

In February 2018, Sika further acquired Faist ChemTec Group ("**Faist ChemTec**"), a leading manufacturer of high-performance engineered, structure-borne acoustic solutions for the automotive industry. Faist ChemTec has technology and process know-how in modified bituminous and rubber-based extruded products for the structure-borne noise management in the automotive industry. Sika's strength in airborne noise treatments and reinforcing parts is complemented by these acquired technologies. For further information, including Faist ChemTec Group's contribution to the Group's sales and profits, see "*Acquisition 2018*" in the notes to the Guarantor's audited consolidated financial statements for the year ended 31 December 2018 included in this Prospectus.

See "*—Recent Developments—Parex Acquisition*" for further information on the acquisition of Parex.

Research, Patents and other Intellectual Property

Innovation and research are dynamic components of Sika's long-term success and future growth. Multiple large-scale projects are cultivated simultaneously around the globe. Securing and enforcing patents is an active part of protecting Sika's intellectual property.

Sika's research activities are carried out at its 20 technology centers worldwide, with Switzerland as a key location. The research program targets the development of proprietary technology that provides key performance benefits and thus allows Sika's product platforms to respond to global trends such as resource-saving building methods, energy-efficient and low emission construction materials, high-speed manufacturing methods, or lighter and safer vehicles. Key projects focus on high-performance molecules with unique features, smart refining techniques for polymers and surfaces, and tailored laboratory equipment allowing quick scale-up to full-size production. Sika complements its internal research efforts by working with major universities and scientific institutes on fundamental technologies. Sika also participates in international research projects and networks.

Sika maintains exclusivity over its products through the systematic registration of its intellectual property rights. In the course of the 2018 business year, 113 new inventions were reported (in 2017: 112) and 85 new patent applications were filed (in 2017: 81). As of 31 December 2018, the Sika's patent portfolio included more than 800 unique patent families with more than 3,400 single national patents. Some of the Group's know-how is, however, not capable of being patented and for confidentiality and other reasons the Group does not file for patent protection for all of its technological know-how. See "*Risk Factors—Risks Relating to the Sika Group—The Group may not be able to protect its intellectual property, including its proprietary technology, which could harm the Group's business and competitive position*" Technology know-how which is not patented by the Group is secured by means of non-disclosure agreements and other agreements regarding the protection of intellectual property rights with its employees, partners of research and development projects as well as customers.

In addition to the patents and other technological knowhow referred to above, Sika protects its product names and its other brands by way of a registration of such product names and brands as trademarks. The Sika umbrella brand and some 930 Sika product trademarks, such as Sika® ViscoCrete®, SikaBond® or Sikaflex®, sharpen the Group's competitive edge. For this reason, trademark protection is a management task that performed both globally at Group level and locally at national level. As of 31 December 2018, Sika held over 11,383 trademark registrations in more than 165 countries. The Group continuously monitors its trademarks and takes appropriate legal action in cases of infringement.

Board of Directors, Group Management and Employees

Board of Directors

According to the Guarantor's Articles of Association, the Guarantor's board of directors (the "**Board of Directors**") consists of five or more members. The Guarantor's general meeting of shareholders elects the members of the Board of Directors and the Chairman of the Board of Directors individually. Their term of office ends with the conclusion of the next ordinary general meeting of shareholders following the election. Re-election is possible.

As of the date of this Prospectus, the Board of Directors currently consists of the following seven members:

<u>Name</u>	<u>Year of Birth</u>	<u>Function</u>
Paul Hälg	1954	Chairman of the Board of Directors
Daniel J. Sauter.....	1957	Member of the Board of Directors
Frits van Dijk.....	1947	Member of the Board of Directors
Monika Ribar.....	1959	Member of the Board of Directors
Christoph Tobler.....	1957	Member of the Board of Directors
Justin Marshall Howell.....	1971	Member of the Board of Directors
Thierry Vanlancker.....	1964	Member of the Board of Directors
Victor Balli.....	1957	Member of the Board of Directors

The business address for each of the members of the Board of Directors is at the Guarantor's registered office at Zugerstrasse 50, 6340 Baar, Switzerland.

The Guarantor is not aware of any potential conflicts of interest between the duties to the Guarantor of the persons listed above and their private interests or duties.

Paul Hälg (1954), Swiss citizen, Dr. sc. techn., ETH Zurich, was appointed as a member of the Board of Directors in 2009 and since 2012, he serves as the Chairman of the Board of Directors.

Other activities and functions outside of the Sika Group:

- Chairman of the Board of Dätwyler Holding AG, Altdorf, Switzerland
- Member of the Board of Directors of Dätwyler Cabling Solutions AG, Altdorf, Switzerland; Sonceboz Automotive SA, Sonceboz; and Baumann Federn AG, Ermenswil, Switzerland
- Chairman of the Welfare Foundation Sika, Baar Switzerland
- Member of the Foundation Council of ETH Foundation, Zurich, Switzerland; and Swisscontact, Zurich, Switzerland

Daniel J. Sauter (1957), Swiss citizen, Financial Expert, was appointed as a member of the Board of Directors in 2000. In addition, he is also a member of the Nomination and Compensation Committee.

Other activities and functions outside of the Sika Group:

- Chairman of the Board of Directors of Julius Bär Gruppe AG, Zurich, Switzerland; Trinsic AG, Zug, Switzerland; Tabulum AG, Zug, Switzerland and Hadimec AG, Mägenwil, Switzerland
- Member of the Board of Directors of ARAS Holding AG, Lenzburg, Switzerland; AS Print AG, Villmergen, Switzerland; and Richnerstutz AG, Villmergen, Switzerland
- Member of the Foundation Board of Avenir Suisse, Zurich, Switzerland

Frits van Dijk (1947), Dutch citizen, School of Economics (HES), Rotterdam, was appointed as a member of the Board of Directors in 2012. In addition, he is also the Chairman of the Nomination and Compensation Committee.

Other activities and functions outside of the Sika Group:

- Member of the Board of Directors of Nestlé Malaysia Berhad, Malaysia
- Member of the Advisory Board of Al Muhaidib Group, Saudi Arabia

Monika Ribar (1959), Swiss citizen, lic. oec HSG, was appointed as a member of the Board of Directors in 2011. In addition, she is also the Chairman of the Audit Committee.

Other activities and functions outside of the Sika Group:

- Chairman of the Board of Directors of SBB AG (Swiss Federal Railways), Bern, Switzerland
- Member of the Board of Directors of Lufthansa Group, Frankfurt am Main, Germany; and IQ Group, Zurich, Switzerland
- Member of the Swiss Innovation Agency's Innovation Council, "Innosuisse", Bern, Switzerland

Christoph Tobler (1957), Swiss citizen, Dipl. El. Ing. EPFL, was appointed as a member of the Board of Directors in 2005. In addition, he is also a member of the Audit Committee.

Other activities and functions outside of the Sika Group:

- CEO, Sefar Holding AG, Thal SG, Switzerland
- Chairman of the Board of Directors of AG Cilander, Herisau, Switzerland
- Member of the Board of Directors of Sefar Holding AG, Thal SG, Switzerland
- Member of the Board of economiesuisse, Zurich, Switzerland
- Member of Regional Advisory Board of the Swiss National Bank

Justin Marshall Howell (1971), Canadian citizen, LL.B and B.C.L (McGill University, Canada), was appointed as a member of the Board of Directors in 2018. In addition, he is also a member of the Nomination and Compensation Committee.

Other activities and functions outside of the Sika Group:

- Member of the Board of Directors of OE Holdings, LLC, Texas, USA

Thierry Vanlancker (1964), Belgian citizen, degree in chemical engineering (University of Gent, Belgium), was appointed as a member of the Board of Directors in 2019.

Other activities and functions outside of the Sika Group:

- CEO and chair of the board of management at Akzo Nobel N.V., the Netherlands

Victor Balli (1957), Swiss citizen, Master in Economics (University of St. Gallen (HSG), Switzerland) and Master in Chemical Engineering (Swiss Federal Institute of Technology in Zurich (ETH), Switzerland), was appointed as a member of the Board of Directors in 2019.

Other activities and functions outside of the Sika Group:

- member of the board of directors of the listed companies Givaudan SA, Switzerland and CEVA Logistics AG, Switzerland
- member of the supervisory board of the listed company KWS Saat SE, Germany.
- member of the supervisory board of Louis Dreyfus Company Holdings B.V., the Netherlands, and member of the board of directors of Hemro AG, Switzerland
- member of the board of directors Swiss Federal Audit Oversight Authority (FAOA)

Group Management

The Guarantor's group management (the "**Group Management**") currently consists of eight members:

<u>Name</u>	<u>Year of Birth</u>	<u>Function</u>
Paul Schuler	1955	Chief Executive Officer
Mike Campion.....	1965	Regional Manager Asia/Pacific
Christoph Ganz.....	1969	Regional Manager Americas
Thomas Hasler	1965	Head Global Business and Industry
Frank Höfflin.....	1964	Chief Technology Officer
Yumi Kan	1970	Head of Construction
Ivo Schädler	1966	Regional Manager EMEA
Adrian Widmer.....	1968	Chief Financial Officer

The business address for each of the members of the Group Management is at the Guarantor's registered office at Zugerstrasse 50, 6340 Baar, Switzerland.

Paul Schuler (1955), Swiss citizen, MBA, is a member of the Group Management since and since 2017, he is Sika's Chief Executive Officer. In addition, he is a member of the Board of Directors of Swisspearl Group AG.

Mike Campion (1955), U.S. citizen, BSc Chemistry, is a member of the Group Management and the Regional Manager Asia/Pacific.

Christoph Ganz (1969), Swiss citizen, lic. oec. HSG, is a member of the Group Management and Regional Manager Americas and the General Manager of Sika USA.

Thomas Hasler (1965), Swiss citizen, Dipl. Ing. Chem. HTL, Executive MBA, is a member of the Group Management, the Head Industry and the Head Global Business.

Frank Höfflin (1964), U.S. and German citizen, Ph. D. Chemistry, is a member of the Group Management and Sika's Chief Technology Officer.

Yumi Kan (1970), Vietnamese and Taiwanese citizen, is a member of the Group Management and Sika's Head of Construction. From 1 June 2019, Yumi Kan will be succeeded by Philippe Jost as Head of Construction. Philippe is a Luxembourg national and a qualified engineer and has worked for Sika since 1997.

Ivo Schädler (1966), Swiss and Liechtenstein citizen, MSc ETH Materials Eng., Executive MBA, is a member of the Group Management and the Regional Manager EMEA.

Adrian Widmer (1968), Swiss citizen, lic. oec. publ., is a member of the Group Management and Sika's Chief Financial Officer.

Employees

As of 31 December 2018, the Sika Group had a total of 20,060 employees (previous year: 18,484). The regional distribution of these employees is as follows: EMEA: 10,983 (previous year: 9,083), Americas: 4,867 (previous year: 4,621), Asia/Pacific: 4,210 (previous year: 4,041).

Information on the Guarantor's Capital Structure and Shares

The Shares

Single Class of Registered Shares

On 11 June 2018, the Guarantor's extraordinary general meeting (the "**2018 EGM**") approved, among other things, the creation of a single class of registered shares with a nominal value of CHF 0.01 per share. This was achieved by way of splitting and converting the then existing bearer shares with a nominal value of CHF 0.60 each (the "**Bearer Shares**") into new registered shares with a nominal value of CHF 0.01 each and by way of splitting the then existing registered shares with a nominal value of CHF 0.10 each into registered shares with a nominal value of CHF 0.01 each.

Transfer Restrictions

In the context of the 2018 EGM, the Guarantor's shareholders resolved to abolish the transfer restrictions and the "opting out" clause previously included in article 4(1) and article 5, respectively, of the Guarantor's Articles of Association. Accordingly, the Guarantor's Articles of Association no longer include any transfer restrictions with respect to the Guarantor's ordinary shares (the "**Shares**").

The Guarantor may, however, deny the registration of an acquirer of shares in the shareholders' register if, upon the Guarantor's request, the acquirer does not explicitly declare that the shares have been acquired in their own name and for their own account.

Listing

The Shares are listed on the SIX Swiss Exchange according to the SIX Swiss Exchange's International Reporting Standard under the ticker symbol SIKA.

Share Price

Information on the historical prices of the Shares is available from the Guarantor's website (<https://www.sika.com/en/group/investors/stock-overview/stock-performance.html>) or the website of the SIX Swiss Exchange (https://www.six-group.com/exchanges/shares/security_info_de.html?id=CH0418792922CHF4).

Dividends and Distributions

In connection with the Guarantor's annual general meeting of shareholders held on 9 April 2019, the Guarantor has proposed to its shareholders a dividend of CHF 2.05 per share, and the Guarantor's shareholders have agreed to such proposal. The net dividend (after deduction of Swiss withholding tax) is expected to be paid on 15 April 2019.

Set out below are the historical dividend payments and other distributions made by the Guarantor to the shareholders of Sika. The information presented below reflects dividend payouts and distributions for each of the then existing bearer shares with a nominal value of CHF 0.60 each. As described in "*Single Class of Registered Shares*", the Guarantor has introduced a single class of registered shares with a nominal value of CHF 0.01 each in 2018

Financial Year	Gross dividend per Bearer Share (in CHF)	Repayment of nominal value per Bearer Share (in CHF)	Net payout of capital contribution reserves (in CHF)	Total dividend/repayment of nominal value amount (in CHF million)	Payout ratio in % of consolidated earnings
2017	111.00	-/-	-/-	281.8	44
2016	96.00	-/-	-/-	243.7	43
2015	78.00	-/-	-/-	198.0	43
2014	72.00	-/-	-/-	182.8	42
2013	57.00	-/-	-/-	144.6	42

Share Capital Structure

Issued Share Capital

As of the date of this Prospectus, the Guarantor had an issued share capital of CHF 1,417,811.60, divided into 141,781,160 fully-paid registered shares with a nominal value of CHF 0.01 each. One share represents one vote at the Guarantor's general meeting of shareholders. The voting rights of treasury shares (see "*Own Equity Securities*"), if any, are suspended for as long as they are held by the Guarantor and/or its subsidiaries. Each share carries the same entitlement to dividends, except for the treasury shares which do not carry dividend rights.

Authorised Share Capital

As of the date of this Prospectus, Sika AG does not have an authorised share capital.

Conditional Share Capital

Pursuant to the Articles of Association as in force as of the date of this Prospectus, the Guarantor may increase its share capital by a maximum amount of CHF 155,893.20, through the issuance of a maximum of 15,589,320 Shares (which represents approximately 11 per cent. of the outstanding share capital as of the date of this Prospectus) out of conditional share capital. These Shares are reserved for the exercise of option or conversion rights which were granted on a stand-alone basis or in connection with bonds or other debt financing instruments by the Guarantor or any of its subsidiaries. The relevant provision of the Articles of Association (article 2(4)) reads as follows (non-binding translation of the original and binding German version of the Articles of Association):

The share capital of the Company is increased through the issuance of a maximum of 15,589,320 fully paid-in registered shares with a nominal value of CHF 0.01 each, representing a maximum nominal value of CHF 155,893.20, by exercising option or conversion rights, which were granted on a stand-alone basis or in connection with bonds or other debt financing instruments by the Company or any of its subsidiaries. The pre-emptive right of shareholders is excluded.

Placement of the option or conversion rights may be effected by one or more banks, which subscribe to these rights on a fiduciary basis.

When issuing option or conversion rights, the Board of Directors may revoke the advance subscription right of the shareholders, if such option or conversion rights are used for the acquisition, or the financing of an acquisition, of enterprises, parts of enterprises or participations. In this case, the structure, duration, and, if need be, amount of the bond or other debt financing instrument, as well as the conditions of the option or conversion rights must be fixed by the Board of Directors in accordance with market conditions at the time of issuance, provided that conversion rights and option rights may be exercisable for a maximum period of ten years only.

Own Equity Securities

As of 10 April 2019, the Sika Group held 27,259 Shares as treasury shares. The treasury shares do not carry voting and dividend rights.

Participation certificates

Sika has not issued any participation certificates, dividend right certificates, or stock options.

Employee Options

Sika does not have any employee option plans.

Notices to Shareholders

Statutory publications of the Guarantor are made in the Swiss Official Gazette of Commerce (*Schweizerisches Handelsamtsblatt*). Notices to shareholders are given by publication in the Swiss Official Gazette of Commerce.

Legal and Arbitration Proceedings

The Group is, from time to time, involved in various claims and lawsuits incidental to the ordinary operations of its business.

On 11 May 2018, Sika announced the conclusion of settlement negotiations with Compagnie de Saint-Gobain ("**Saint-Gobain**") and the Burkard-Schenker family. Pursuant to the agreements reached, Sika acquired from Saint-Gobain such number of Sika Shares held by Schenker-Winkler Holding AG ("**SWH**") corresponding to 6.97 per cent. of Sika's outstanding share capital for a consideration of CHF 2.08 billion. The purchase price was financed by a bridge loan and subsequently partially to refinance by way of issuance of convertible bonds. The agreement reached between Sika and Saint-Gobain provides for lock-up and standstill obligations as well as a right of first refusal for Sika in case Saint-Gobain wishes to sell its stake in Sika in the future. Further, Sika, Saint-Gobain and SWH have agreed to terminate all pending litigation. In connection with the above settlement agreement, an extraordinary general meeting of Sika's shareholders approved on 11 June 2018 (i) the abolition of the opting-out clause in Sika's Articles of Association, (ii) the

creation of a single class of registered shares (*Einheitsnamenaktien*), (iii) the removal of the share transfer restrictions (*Vinkulierung*) from Sika's Articles of Association, and (iv) the cancellation of the shares acquired from Saint-Gobain/SWH. See also "*Other Information—Significant Shareholders*" in the notes to Sika's audited consolidated financial statements for the year ended 31 December 2018, included in this Prospectus in pages F-74 to F-119. As a result of these transactions, Saint-Gobain currently holds 10.75 per cent. of all the Shares. In the agreements with Saint-Gobain, Sika undertook to refrain from taking measures that could lead to a dilution of Saint-Gobain's interest in Sika below 10 per cent. of Sika's share capital prior to 22 November 2020 or, under certain circumstances, 30 June 2021.

Auditors

The Guarantor's auditors are elected at the Guarantor's annual ordinary general meeting of shareholders for a term of one year. Since 1995, Ernst & Young AG, Maagplatz 1, 8005 Zurich (CHE-491.907.686) has served as the Guarantor's auditors. The Guarantor's auditors are supervised by and registered with the Swiss Federal Audit Oversight Authority (FAOA) (*Eidgenössische Revisionsaufsichtsbehörde, RAB*). The auditors' FAOA register number is 500646.

Recent Developments

Bond Placements

On 22 January 2019, Sika successfully placed mandatory convertible notes in the total amount of CHF 1,300 million. The notes are listed on the SIX Swiss Exchange. The net proceeds of the bond transaction has been used (i) to partially finance the acquisition of the Parex Group and, (ii) for general corporate purposes.

Parex Acquisition

On 8 January 2019, the Guarantor has announced that it made a binding offer to acquire ParexGroup SA (ParexGroup SA, together with its direct and indirect subsidiaries, the "**Parex Group**") from its current owner CVC Fund V. It is currently anticipated that the acquisition of the Parex Group will be closed in the course of the second or third quarter of 2019. The Parex Group is a leading manufacturer of mortar solutions including facade mortars, tile adhesives, waterproofing, and technical mortars. In 2018 the company generated sales of approx. CHF 1.2 billion and has a seven year compounded annual growth rate of 7 per cent. from 2011 to 2017. With its expertise in mortar solutions for renovation and new builds, the Parex Group participates in all phases of the construction life cycle. The Parex Group has a particularly strong presence in distribution channels (comprising around 80 per cent. sales in 2018), combining recognised brands with R&D expertise and technical excellence. It is locally present in 23 countries with key positions in 8 core geographies and operates 74 plants around the world. The Sika and Parex brands are complementary, offering potential for enhanced revenue growth as well as anticipated synergies of between CHF 80m to CHF 100m per annum. The acquisition will allow Parex products to leverage Sika's direct access to job sites as well as the sale of Parex products in approximately 70 countries where Parex is not currently present. Initial transaction and integration costs are expected to be in the region of CHF 70m over the next three years.

First quarter trading update for 2019

On 9 April 2019, Sika published its first quarter trading update for 2019.

Sika reported net sales of CHF1,644.8 million during the 3 month period up to 31 March 2019 (the "**first quarter of 2019**") compared with CHF1,554.0 million during the corresponding period in the previous year (the "**first quarter of 2018**"). This equates to an increase of 7.1 per cent. in local currencies. A negative currency effect (-1.3 per cent.) led to net sales growth in CHF of 5.8 per cent.

In the first quarter of 2019, net sales in the EMEA region increased by 8.2 per cent. in local currencies (first quarter of 2018: 10.2 per cent.). Business developed well in Germany, Austria, and Switzerland. The countries of Eastern Europe and Africa posted double-digit growth rates. In Africa, the new national subsidiaries in particular significantly contributed to the growth.

At the start of 2019, Sika announced the acquisition of Belineco, a polyurethane foam systems manufacturer based in Belarus. In addition, Sika has invested in a mortar production facility in Senegal.

The Americas region recorded net sales growth of 4.8 per cent in local currencies in the first quarter of 2019 (first quarter of 2018: 12.2 per cent.). Numerous major construction projects have been delayed in the United States due to the ongoing shortage of skilled labour. In Mexico, the change in government has led to noticeable cost-cutting measures in the area of infrastructure. Business development in Brazil and Colombia was higher than average. In Canada, the acquisition of the King Packaged Materials Company by the Guarantor in the first quarter of 2019 brought a leading manufacturer of concrete repair systems into the Group.

Net sales in the Asia/Pacific region rose by 2.8 per cent. in local currencies in the first quarter of 2019 (first quarter of 2018: 3.9 per cent.). Double-digit growth rates were reported in two of the largest economies of Asia, namely China and India. By contrast, growth in the countries of Southeast Asia and the Pacific area was uneven, and in some cases even negative.

The Global Business segment recorded growth of 13.3 per cent. in local currencies in the first quarter of 2019 (first quarter of 2018: 20.9 per cent.), 11.3 per cent. being attributed to acquisitions. In the Automotive area, Sika was further able to increase its market share in the first quarter and grow organically, despite the decline in car production figures worldwide. In particular, Sika is benefiting from the megatrends evident in modern automotive construction, which are dominated by electromobility and lightweight construction. New platforms and multi-material designs are opening up new avenues of growth potential for Sika.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds are expected to amount to approx. EUR 994,240,000, after deduction of commissions, fees, and estimated expenses. The net proceeds will be used for (i) the financing of the acquisition of the Parex Group, and (ii) general corporate purposes of the Sika Group. The Sika Group may use the proceeds also in Switzerland, but in each case only up to the amount permitted by the Swiss Federal Tax Administration according to the practice published on 5 February 2019. (see "*Taxation—Swiss Taxation—Swiss Withholding Tax*").

TAXATION

DUTCH TAXATION

The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this Prospectus and is subject to any changes in law and the interpretation and application thereof, which changes could have retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of Bonds, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

For the purpose of the paragraph "Taxes on income and capital gains" below it is assumed that a Bondholder, being an individual or a non-resident entity, neither has nor will have a substantial interest (aanmerkelijk belang) or – in the case of such holder being an entity – a deemed substantial interest in the Issuer and that no connected person (verbonden persoon) to the holder has or will have a substantial interest in the Issuer.

Generally speaking, an individual has a substantial interest in a company if (a) such individual, either alone or together with his partner, directly or indirectly has or is deemed to have, or (b) certain relatives of such individual or his partner directly or indirectly have or are deemed to have, (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company.

Generally speaking, a non-resident entity has a substantial interest in a company if such entity directly or indirectly has (i) the ownership of, a right to acquire the ownership of, or certain rights over, shares representing 5 per cent. or more of either the total issued and outstanding capital of such company or the issued and outstanding capital of any class of shares of such company, or (ii) the ownership of, or certain rights over, profit participating certificates (winstbewijzen) that relate to 5 per cent. or more of either the annual profit or the liquidation proceeds of such company. Generally, an entity has a deemed substantial interest in a company if such entity has disposed of or is deemed to have disposed of all or part of a substantial interest on a non-recognition basis.

For the purpose of this summary, the term "entity" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.

Where this summary refers to a Bondholder, an individual holding Bonds or an entity holding Bonds, such reference is restricted to an individual or entity holding legal title to as well as an economic interest in such Bonds or otherwise being regarded as owning Bonds for Dutch tax purposes. It is noted that for purposes of Dutch income, corporate, gift and inheritance tax, assets legally owned by a third party such as a trustee, foundation or similar entity, may be treated as assets owned by the (deemed) settlor, grantor or similar originator or the beneficiaries in proportion to their interest in such arrangement.

Where the summary refers to "the Netherlands" or "Dutch" it refers only to the European part (which does not include Aruba, Curacao or Sint Maarten) of the Kingdom of the Netherlands.

Investors should consult their professional advisers as to the tax consequences of acquiring, holding and disposing of Bonds.

Withholding tax

All payments of principal (including any Make Whole Redemption Price and Acquisition Event Redemption Price) and interest by the Issuer under the Bonds and all guarantee payments by the Guarantor under the Guarantee Agreements can be made without withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on income and capital gains

Residents

Resident entities

An entity holding Bonds which is or is deemed to be resident in the Netherlands for Dutch corporate tax purposes and which is not tax exempt, will generally be subject to Dutch corporate tax in respect of income or a capital gain derived from the Bonds at the prevailing statutory rates (up to 25 per cent. in 2019).

Resident individuals

An individual holding Bonds who is or is deemed to be resident in the Netherlands for Dutch income tax purposes will be subject to Dutch income tax in respect of income or a capital gain derived from the Bonds at the prevailing statutory rates (up to 51.75 per cent. in 2019) if:

- (i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or
- (ii) the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) as defined in the Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, such individual will generally be subject to Dutch income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from the Bonds. For 2019, the deemed return ranges from 1.94 per cent. to 5.60 per cent. of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Bonds). The applicable percentages will be updated annually on the basis of historic market yields. Subject to application of certain allowances, the deemed return will be taxed at the prevailing statutory rate (30 per cent. in 2019).

Non-residents

A Bondholder which is not and is not deemed to be resident in the Netherlands for the relevant tax purposes will not be subject to Dutch taxation on income or a capital gain derived from the Bonds unless:

- (i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in the Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) taxable in the Netherlands and the holder derives profits from such enterprise (other than by way of the holding of securities); or
- (ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in the Netherlands as defined in the Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

Gift and inheritance taxes

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of Bonds by way of gift by, or on the death of, a Bondholder, unless:

- (i) the Bondholder is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions; or
- (ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands for the purpose of the relevant provisions.

Value added tax

There is no Dutch value added tax payable by a Bondholder in respect of payments in consideration for the issue or acquisition of Bonds, payments of principal or interest under the Bonds, or payments in consideration for a disposal of Bonds.

Other taxes and duties

There is no Dutch registration tax, stamp duty or any other similar tax or duty payable in the Netherlands by a Bondholder in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of the Netherlands) of the Bonds or the performance of the Issuer's obligations under the Bonds.

Residence

A Bondholder will not be and will not be deemed to be resident in the Netherlands for Dutch tax purposes and, subject to the exceptions set out above, will not otherwise become subject to Dutch taxation, by reason only of acquiring, holding or disposing of Bonds or the execution, performance, delivery and/or enforcement of Bonds.

SWISS TAXATION

The following statements contain an overview of the Swiss tax implications resulting from the Bonds. The following statements are based upon Swiss tax laws and administrative practices as currently in force. Modifications of the applicable legal regulations may require a re-evaluation of the tax consequences. The summary below is not a substitute for legal and/or tax advice sought by interested parties. Prospective Bondholders are advised to consult their own tax advisors concerning the overall tax consequences of their acquisition, ownership and disposal of the Bonds.

Swiss Withholding Tax

Payments by the Issuer, or by Sika AG as Guarantor, of interest on, and repayment of principal of, the Bonds, will not be subject to Swiss withholding tax, despite the fact that the Bonds are guaranteed by Sika AG as Guarantor provided that the Issuer is at all times resident outside Switzerland and the proceeds will be used in Switzerland only up to the amount accepted by the Swiss Federal Tax Administration according to the practice published on 5 February 2019 (see "*Use of Proceeds*").

Swiss Federal Stamp Duty

Secondary market dealings in Bonds with a maturity in excess of 12 months where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss Federal Stamp Duty Act) acts as a party or as an intermediary to the transaction may be subject to Swiss federal stamp duty on dealing in securities at a rate of up to 0.3 per cent. of the purchase price of Bonds.

Swiss Income Tax

A Bondholder who is not a resident of Switzerland and who during the taxable year has not engaged in trade or business through a permanent establishment or a fixed place of business within Switzerland and who is not subject to Swiss taxation for any other reason will be exempt from any Swiss income tax in respect of periodic interest as well as any other income realised on sale of the Bonds.

Interest Payments

Swiss resident individuals holding the Bonds for private investment purposes are subject to Swiss federal income tax with respect to all payments of interest on such Bonds, and are required to include all payments of such interest received on such Bonds in their personal income tax return for the relevant tax period and will be taxed on the net taxable income for such tax period at the then prevailing tax rates.

Foreign residents who hold the Bonds through a permanent establishment or a fixed place of business in Switzerland and Swiss residents who hold Bonds as business assets (including individuals, who for income tax purposes, are classified as professional securities dealers (*gewerbsmässige Wertschriftenhändler*)) will be subject to Swiss federal income tax in respect of all interest payments received as well as any other income from the Bonds reflected in their income statement for the respective tax period.

The above rules regarding Swiss federal income tax normally also apply to Swiss cantonal/municipal income taxes.

Capital Gains realised upon Sale of the Bond

Swiss resident individuals holding Bonds for private investment purposes will be generally exempt from Swiss federal income tax in respect of capital gains realised upon sale of the Bonds prior to maturity, except if they are considered as professional securities dealers (*gewerbsmässige Wertschriftenhändler*) for tax purposes.

Foreign residents who hold Bonds through a permanent establishment or a fixed place of business in Switzerland and Swiss residents who hold Bonds as business assets (including individuals, who for income tax purposes, are classified as professional securities dealers (*gewerbsmässige Wertschriftenhändler*)) will be subject to Swiss federal income tax on any income from the Bonds upon sale reflected in their income statement for the respective tax period.

The above rules regarding Swiss federal income tax normally also apply to Swiss cantonal/municipal income taxes.

Automatic Exchange of Information in Tax Matters

On 19 November 2014, Switzerland signed the Multilateral Competent Authority Agreement (the "MCAA"). The MCAA is based on Article 6 of the OECD/Council of Europe administrative assistance convention and is intended to ensure the uniform implementation of Automatic Exchange of Information (the "AEOI"). The Federal Act on the International Automatic Exchange of Information in Tax Matters (the "AEOI Act") entered into force on 1 January 2017. The AEOI Act is the legal basis for the implementation of the AEOI standard in Switzerland. The AEOI is being introduced in Switzerland through bilateral agreements or multilateral agreements. The agreements have, and will be, concluded on the basis of guaranteed reciprocity, compliance with the principle of speciality (i.e. the information exchanged may only be used to assess and levy taxes (and for criminal tax proceedings)) and adequate data protection.

Switzerland has concluded a multilateral AEOI agreement with the EU (replacing the EU savings tax agreement) and has concluded bilateral AEOI agreements with several non-EU countries. Based on such multilateral agreements and bilateral agreements and the implementing laws of Switzerland, Switzerland will begin to collect data in respect of financial assets, including, as the case may be, the Bonds, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of individuals resident in a EU Member State or in a treaty state.

Swiss Facilitation of the Implementation of the U.S. Foreign Account Tax Compliance Act ("FATCA")

Switzerland has concluded an intergovernmental agreement with the U.S. to facilitate the implementation of FATCA. The agreement ensures that the accounts held by U.S. persons with Swiss financial institutions are disclosed to the U.S. tax authorities either with the consent of the account holder or by means of group requests within the scope of administrative assistance. Information will not be transferred automatically in the absence of consent, and instead will be exchanged only within the scope of administrative assistance on the basis of the double taxation agreement between the U.S. and Switzerland. On 8 October 2014, the Swiss Federal Council approved a mandate for negotiations with the U.S. on changing the current direct-notification-based regime to a regime where the relevant information is sent to the Swiss Federal Tax Administration, which in turn provides the information to the U.S. tax authorities.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited (the "**Sole Global Coordinator**" and a "**Joint Lead Manager**"), Credit Suisse Securities (Europe) Limited and UBS AG London Branch (together with Citigroup Global Markets Limited, the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 25 April 2019, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe (i) the Series 1 Bonds at 99.716 per cent. of their principal amount less a combined management and underwriting commission and (ii) the Series 2 Bonds at 99.782 per cent. of their principal amount less a combined management and underwriting commission. In addition, the Issuer, failing which the Guarantor, has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

General

None of the Issuer, the Guarantor or any of the Joint Lead Managers have made any representation that any action will be taken in any jurisdiction by any of the Joint Lead Managers, the Issuer or the Guarantor that would permit a public offering of the Bonds, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer, the Guarantor or any of the other Joint Lead Managers in any such jurisdiction as a result of any of the foregoing actions.

United States

The Bonds and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Joint Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Bonds, as part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds and the Guarantees. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

Each Joint Lead Manager has represented that it has not entered and agreed that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Bonds and the Guarantees, except with its affiliates or with the prior written consent of the Issuer.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to NV or the Initial Guarantors; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the

European Economic Area. For the purposes of this provision the expression "retail investor" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of MiFID II; or
- (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

GENERAL INFORMATION

1. It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the regulated market of Euronext Dublin will be granted on or before 29 April 2019, subject only to the issue of the Global Certificate in respect of each Series. Transactions will normally be effected for delivery on the third working day after the day of the transaction. The Issuer estimates that the amount of expenses related to the admission of trading of the Bonds on Euronext Dublin will be approximately €7,500.
2. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in the Netherlands and Switzerland, as applicable, in connection with the issue and performance of the Bonds and the Guarantees. The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 25 March 2019 and the Guarantees were authorised by a resolution of the Board of Directors of the Guarantor passed on 9 April 2019.
3.
 - (a) Since 31 December 2018, there has been no significant change in the financial or trading position of the Guarantor or the Sika Group; and
 - (b) Since 31 December 2018, there has been no material adverse change in the prospects of the Guarantor or the Sika Group.
4. None of the Issuer, the Guarantor or any of the Guarantor's subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have or has had a significant effect on the financial position or profitability of the Issuer, the Guarantor or Sika Group.
5. The Series 1 Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 198641626. The International Securities Identification Number ("**ISIN**") for the Series 1 Bonds is XS1986416268. For the Financial Instrument Short Name ("**FISN**") and the Classification of Financial Instruments Code ("**CFI Code**"), please see the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

The Series 2 Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems with a Common Code of 198641669. The ISIN for the Series 2 Bonds is XS1986416698. For the FISN and the CFI Code, please see the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.
6. The Legal Entity Identifier (LEI) code of the Issuer is 549300QW8B2Z3FSBS808.
7. The yield of the Series 1 Bonds is 0.912 per cent. on an annual basis. The yield of the Series 2 Bonds is 1.520 per cent. on an annual basis. The yield in respect of each Series is calculated as at 15 April 2019 on the basis of the relevant issue price. It is not an indication of future yield.
8. From the date of this Prospectus and for so long as any Bond remains outstanding, physical copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the principal offices of the Issuer and the Guarantor:
 - (a) the articles of association of the Issuer;
 - (b) the articles of association of the Guarantor;

- (c) the audited annual consolidated financial statements of the Guarantor for the years ended 31 December 2017 and 2018;
- (d) the latest annual and interim financial statements of the Guarantor;
- (e) the Fiscal Agency Agreements;
- (f) the Guarantee Agreements;
- (g) the Deeds of Covenant; and
- (h) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus.

This Prospectus will be published on the website of Euronext Dublin at www.ise.ie. The website of Euronext Dublin does not form any part of the contents of this Prospectus.

9. The Guarantor's audited consolidated financial statements for the years ended 31 December 2017 and 31 December 2018 have been prepared in accordance with IFRS and comply in all material respects with applicable Swiss law.
10. The Guarantor's auditors are elected at the Guarantor's annual ordinary general meeting of shareholders for a term of one year. Since 1995, Ernst & Young AG, Maagplatz 1, 8005 Zurich (CHE-491.907.686) has served as the Guarantor's auditors. The Guarantor's auditors are supervised by and registered with the Swiss Federal Audit Oversight Authority (FAOA) (*Eidgenössische Revisionsaufsichtsbehörde, RAB*). The auditors' FAOA register number is 500646. The Guarantor's audited consolidated financial statements for the years ended 31 December 2017 and 31 December 2018 have been audited by the Guarantor's auditors and the audit reports thereon are unqualified.
11. The Issuer's auditors are Ernst & Young Accountants LLP, whose principal place of business is at Boompjes 258, 3011 XZ Rotterdam, The Netherlands. Ernst & Young Accountants LLP is registered at the Chamber of Commerce of Rotterdam in The Netherlands under number 24432944. The register accountants of Ernst & Young Accountants LLP are members of the NBA (*Koninklijke Nederlandse Beroepsorganisatie van Accountants - the Royal Netherlands Institute of Chartered Accountants*). The NBA is the professional body for accountants in the Netherlands.
12. Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer, the Guarantor and their respective affiliates in the ordinary course of business. Certain of the Joint Lead Managers and their affiliates may have positions, deal or make markets in the Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer, the Guarantor and their respective affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their respective affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Guarantor routinely hedge their credit exposure to the Guarantor consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds. Any such positions could adversely affect future trading prices of the Bonds. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

13. Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Bonds and is not itself seeking admission of the Bonds to the Official List of Euronext Dublin or to trading on the regulated market of Euronext Dublin for the purposes of the Prospectus Directive.
14. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

in CHF mn	Notes	12/31/2016	12/31/2017
Cash and cash equivalents	1, 26	1,155.0	1,037.9
Accounts receivable	2, 26	1,043.1	1,188.1
Inventories	3	600.8	729.5
Prepaid expenses and accrued income		89.0	116.2
Other current assets	4, 26	9.1	12.7
Current assets		2,897.0	3,084.4
Property, plant, and equipment	5	959.2	1,065.2
Intangible assets	6	1,021.2	1,314.2
Investments in associated companies	7	6.3	6.2
Deferred tax assets	8	159.7	228.1
Other non-current assets	4, 26	55.8	94.1
Non-current assets		2,202.2	2,707.8
ASSETS		5,099.2	5,792.2
Accounts payable	9, 26	587.0	730.9
Accrued expenses and deferred income	10	223.9	253.4
Bond	12, 13, 26	0.0	150.0
Income tax liabilities		92.0	147.0
Current provisions	14	20.8	20.0
Other current liabilities	11, 13, 26	44.3	48.7
Current liabilities		968.0	1,350.0
Bonds	12, 13, 26	698.7	549.0
Non-current provisions	14	57.5	56.4
Deferred tax liabilities	8	110.2	129.3
Employee benefit obligations	15	274.6	260.0
Other non-current liabilities	11, 13, 26	42.5	36.4
Non-current liabilities		1,183.5	1,031.1
LIABILITIES		2,151.5	2,381.1
Capital stock		1.5	1.5
Treasury shares		-11.0	-6.6
Reserves		2,933.8	3,389.8
Equity attributable to Sika shareholders		2,924.3	3,384.7
Non-controlling interests		23.4	26.4
SHAREHOLDERS' EQUITY	16	2,947.7	3,411.1
LIABILITIES AND SHAREHOLDERS' EQUITY		5,099.2	5,792.2

CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	Notes	%	2016	%	2017	Change in %
Net sales	17, 29	100.0	5,747.7	100.0	6,248.3	8.7
Material expenses	18	-44.7	-2,566.6	-45.6	-2,849.2	
Gross result		55.3	3,181.1	54.4	3,399.1	6.9
Personnel expenses	19	-20.1	-1,159.1	-19.4	-1,212.1	
Other operating expenses	20	-18.4	-1,056.3	-17.9	-1,118.5	
Operating profit before depreciation		16.8	965.7	17.1	1,068.5	10.6
Depreciation and amortization expenses	5, 6, 21	-3.0	-170.4	-2.8	-172.2	
Operating profit	29	13.8	795.3	14.3	896.3	12.7
Interest income	23	0.0	2.6	0.0	1.9	
Interest expenses	22	-0.3	-20.4	-0.3	-18.3	
Other financial income	23	0.1	5.2	0.2	5.9	
Other financial expenses	22	-0.5	-27.4	-0.4	-24.0	
Income from associated companies	23	0.0	0.5	0.0	0.3	
Profit before taxes		13.1	755.8	13.8	862.1	14.1
Income taxes	8	-3.2	-189.2	-3.4	-213.1	
Net profit		9.9	566.6	10.4	649.0	14.5
Profit attributable to Sika shareholders		9.8	563.1	10.3	643.5	
Profit attributable to non-controlling interests	24	0.1	3.5	0.1	5.5	
Undiluted/diluted earnings per bearer share (in CHF)	25		221.81		253.52	14.3
Undiluted/diluted earnings per registered share (in CHF)	25		36.97		42.25	14.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF mn	Notes	%	2016	%	2017	Change in %
Net profit		9.9	566.6	10.4	649.0	14.5
Actuarial gains (+)/losses (-) on employee benefit obligations	15	0.7	44.4	1.0	63.9	
Income tax effect	8	-0.1	-6.4	-0.2	-11.6	
Items that will not be reclassified to profit or loss		0.6	38.0	0.8	52.3	
Exchange differences taken to equity		0.0	0.1	0.1	5.8	
Items that may be reclassified subsequently to profit or loss		0.0	0.1	0.1	5.8	
Other comprehensive income		0.6	38.1	0.9	58.1	
Comprehensive income		10.5	604.7	11.3	707.1	16.9
Attributable to Sika shareholders		10.4	600.7	11.2	702.1	
Attributable to non-controlling interests		0.1	4.0	0.1	5.0	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock	Capital surplus	Treasury shares	Currency trans- lation differ- ences	Retained earnings	Equity attributable to Sika share- holders	Non-con- trolling interests	Total equity
in CHF mn								
January 1, 2016	1.5	203.1	-0.9	-543.3	2,870.4	2,530.8	21.3	2,552.1
Net profit					563.1	563.1	3.5	566.6
Other comprehensive income				-0.4	38.0	37.6	0.5	38.1
Comprehensive income	0.0	0.0	0.0	-0.4	601.1	600.7	4.0	604.7
Transactions with treasury shares ¹			-10.1		-8.6	-18.7		-18.7
Share-based payments					7.7	7.7		7.7
Dividends ²					-198.0	-198.0	-1.9	-199.9
Inflation adjustment ⁴					1.8	1.8		1.8
December 31, 2016	1.5	203.1	-11.0	-543.7	3,274.4	2,924.3	23.4	2,947.7
January 1, 2017	1.5	203.1	-11.0	-543.7	3,274.4	2,924.3	23.4	2,947.7
Net profit					643.5	643.5	5.5	649.0
Other comprehensive income				6.3	52.3	58.6	-0.5	58.1
Comprehensive income	0.0	0.0	0.0	6.3	695.8	702.1	5.0	707.1
Transactions with treasury shares ¹			4.4		-8.7	-4.3		-4.3
Share-based payments					5.4	5.4		5.4
Dividends ³					-243.7	-243.7	-2.0	-245.7
Inflation adjustment ⁴					0.9	0.9		0.9
December 31, 2017	1.5	203.1	-6.6	-537.4	3,724.1	3,384.7	26.4	3,411.1

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

2 Dividend per bearer share: CHF 78.00, dividend per registered share: CHF 13.00.

3 Dividend per bearer share: CHF 96.00, dividend per registered share: CHF 16.00.

4 Hyperinflation accounting has been applied since January 1, 2010, and concerns the subsidiary in Venezuela.

CONSOLIDATED STATEMENT OF CASH FLOWS

in CHF mn	Notes	2016	2017
Operating activities			
Profit before taxes		755.8	862.1
Depreciation and amortization expenses	5, 6, 21	170.4	172.2
Increase (+)/decrease (-) in provisions/ employee benefit obligations and assets		12.3	-9.6
Increase (-)/decrease (+) in net working capital ¹		-29.5	-86.5
Non-liquidity-related other financial expenses (+)/income (-) as well as cash flow from hedging transactions ¹		26.4	-38.2
Other adjustments ¹	28	0.7	5.9
Income taxes paid		-200.4	-254.0
Cash flow from operating activities		735.7	651.9
Investing activities			
Property, plant, and equipment: capital expenditures	5	-149.5	-158.5
Property, plant, and equipment: disposals		5.5	8.3
Intangible assets: capital expenditures	6	-5.4	-4.9
Intangible assets: disposals		0.2	0.0
Acquisitions less cash and cash equivalents		-23.6	-320.4
Acquisitions (-)/disposals (+) of financial assets		0.1	-2.7
Cash flow from investing activities		-172.7	-478.2
Financing activities			
Increase in financial liabilities	13	13.0	17.0
Repayment of financial liabilities	13	-3.8	-55.4
Repayment of a bond	12	-250.0	0.0
Purchase of treasury shares		-56.7	-31.4
Sale of treasury shares		24.1	26.3
Dividend payment to shareholders of Sika AG		-198.0	-243.7
Dividends related to non-controlling interests		-1.9	-2.0
Cash flow from financing activities		-473.3	-289.2
Exchange differences on cash and cash equivalents		-9.1	-1.6
Net change in cash and cash equivalents		80.6	-117.1
Cash and cash equivalents at the beginning of the year	1	1,074.4	1,155.0
Cash and cash equivalents at the end of the year	1	1,155.0	1,037.9
Cash flow from operating activities contains:			
Dividends from associated companies		0.6	0.5
Interest received		2.6	1.8
Interest paid		-20.4	-14.4

¹ Prior year restated due to the reclassification and separate disclosure of non-liquidity related other financial expenses/income as well as cash flows from hedging transactions.

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 the Sika Group 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, 2017, 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 97 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, 2017. The application of these standards does not have any material impact on the Consolidated Financial Statements of the Group.

- Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses
- Amendments to IAS 7 – Cash flow statement disclosure initiative (see note 13 “Reconciliation of financial liabilities”)
- Annual improvements (2014 – 2016 Cycle) – Collective standard with amendments to various IFRS standards with the primary goal of eliminating inconsistencies and clarifying terminology

A number of new standards and amendments to standards and interpretations are effective for the financial year 2018 and later, and have not been applied in preparing these Consolidated Financial Statements. If they had been applied in 2017 they would have had no significant effect on the Consolidated Financial Statements of the Group, except for IFRS 16:

- Amendments to IFRS 2 – Classification and measurement of share-based payment transactions (effective as of January 1, 2018)
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Hedge accounting (applicable as of January 1, 2018)
- IFRS 9 – Financial instruments (applicable as of January 1, 2018)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (applicable as of January 1, 2018)
- IFRIC 23 – Uncertainty over Income Tax Treatments (applicable as of January 1, 2019)
- IFRS 15 – Revenue from contracts with customers (applicable as of January 1, 2018):

Entities need to apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Based on a detailed analysis there is no material effect on the Consolidated Financial Statements of the Group, only certain additional disclosures will be required. Sika's customer contracts primarily include the delivery of goods with no separate performance obligations.

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

The new leases standard will substantially change the financial statements. The differentiation between finance and operating lease arrangements which was required until now under IAS 17 is dropped in future for the lessee. The standard provides a single lessee accounting model, requiring lessees to recognize liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. In addition, a right to use the underlying asset needs to be recognized. The current operating lease commitments (see note 5) provide an indication of the impact of the implementation of IFRS 16 on the Group's consolidated balance sheet. In the income statement a shift from other operating expenses towards depreciation expenses will be caused. The leasing and rent payments will be replaced by the depreciation expenses of the recognized underlying assets. Operating profit will be released from the interest rate component on the leasing liability and charged to interest expenses.

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, 2017, 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".

OTHER NON-CONTROLLING INTERESTS

Other non-controlling interests are carried at fair value.

INTRA-GROUP TRANSACTIONS

Transactions within the Group are eliminated as follows:

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

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as 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 fair value of 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 acquisition of control or up to the effective date of loss of control.

SEGMENT REPORTING

Sika carries out its worldwide activities according to regions. Heads of regions are members of Group Management. Group Management is the highest operating executive body measuring the profit and loss of segments and allocating resources.

SIGNIFICANT ACCOUNTING ESTIMATES

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

IMPAIRMENT OF GOODWILL

The Group tests for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units or groups of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates such as expected future cash flows and discount rates. The carrying value of goodwill as of December 31, 2017, was CHF 889.3 million (CHF 678.7 million). Further details are presented in note 6.

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, 2017, was CHF 72.4 million (CHF 72.4 million). Further details are presented in note 6.

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.

VALUATION PRINCIPLES

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	2016 Balance sheet ¹ CHF	2016 Income statement ² CHF	2017 Balance sheet ¹ CHF	2017 Income statement ² CHF
Egypt	EGP	100	5.59	10.05	5.49	5.52
Argentina	ARS	100	6.41	6.68	5.10	5.95
Australia	AUD	1	0.74	0.73	0.76	0.75
Brazil	BRL	100	31.30	28.19	29.45	30.87
Chile	CLP	10,000	15.23	14.55	15.87	15.16
China	CNY	100	14.67	14.83	14.99	14.56
Euro zone	EUR	1	1.07	1.09	1.17	1.11
Great Britain	GBP	1	1.24	1.33	1.32	1.27
India	INR	100	1.50	1.47	1.53	1.51
Indonesia	IDR	100,000	7.58	7.40	7.21	7.36
Japan	JPY	100	0.87	0.91	0.87	0.88
Canada	CAD	1	0.76	0.74	0.78	0.76
Colombia	COP	10,000	3.39	3.23	3.27	3.33
Mexico	MXN	100	4.93	5.28	4.95	5.21
Poland	PLN	100	24.35	25.00	28.02	26.05
Russia	RUB	1,000	16.70	14.66	16.86	16.86
Sweden	SEK	100	11.24	11.52	11.89	11.52
Thailand	THB	100	2.85	2.79	2.99	2.90
Turkey	TRY	100	28.97	32.70	25.74	27.00
USA	USD	1	1.02	0.98	0.98	0.98
Vietnam	VND	100,000	4.48	4.40	4.30	4.33

1 Year-end rates.

2 Annual average rates.

CONSOLIDATED BALANCE SHEET

CASH AND CASH EQUIVALENTS

This position includes cash and cash equivalents with a maturity of less than three months.

RECEIVABLES

Accounts receivable are recorded following the deduction of an allowance for doubtful debts necessary for business purposes. A specific provision for impairment is carried out on accounts receivable balances for which payment is considered at risk.

INVENTORIES

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.

PREPAID EXPENSES AND ACCRUED INCOME

This item includes prepaid expenses and accrued income unrelated to accounts receivable.

PROPERTY, PLANT, AND EQUIPMENT

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.

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

INTANGIBLE ASSETS

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 usually 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 through use within the Group and that its cost can be reliably measured. Conditions for capitalization are the technical feasibility of the asset and the intention and ability to complete its development, as well as the availability of adequate resources. Sika has created an SAP platform with standard processes that a number of companies have been using since 2010. The further rollout will take several years to complete. The capitalized costs are transferred to the companies in the year of first use.

AMORTIZATION SCHEDULE

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

¹ Software is usually written off over three years with the exception of the SAP platform. For details see note 6.

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.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

LEASING

Fixed assets acquired under finance leasing contracts and therefore owned by the Group in respect to risks and rewards of ownership, are classified as finance leases. Such assets are carried at the fair value of the lease property or, if lower, present value of the minimum lease payments and are reported as non-current assets and financial liabilities. Assets classified as finance leasing are depreciated over their estimated useful life or any shorter term of the lease. Unrealized earnings from sale and leaseback transactions that fall under the definition of finance leasing are shown as a liability and are realized over the lease term. Payments for operating leases are recorded as operating expenses and are charged accordingly to the income statement.

DEFERRED TAXES (ASSETS/LIABILITIES)

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.

LIABILITIES

Current liabilities consist of liabilities with maturities of less than twelve months. Income tax liabilities include taxes due and accrued. Non-current liabilities include loans and provisions with a term of more than one year.

PROVISIONS

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 (see note 27) are not recognized in the balance sheet but only for acquisitions. Potential losses due to future incidents are not recognized in the balance sheet.

EMPLOYEE BENEFIT OBLIGATIONS

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 under application of IFRIC 14 only to the extent of possible future reimbursement or reduction of contributions.

CAPITAL STOCK

The capital stock is equal to the par value of all issued bearer and registered shares.

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.

HYPERINFLATION

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.

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.

FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are classified into the following categories:

- Financial assets and financial liabilities held for trading as well as designated by the Group and derivatives, "at fair value through profit and loss": these are initially recognized at fair value. Gains and losses arising from changes in the fair value are presented in the financial result. The designation as at fair value through profit and loss is consistent with the entity's risk management and investment strategy.
- Loans and receivables: this category includes loans granted and credit balances. The valuation occurs at nominal value insofar as repayment within one year is foreseen. Otherwise they are classified as assets carried at amortized cost using the effective interest method.
- All other financial assets are classified as available-for-sale. The assets are carried at fair value and gains and losses arising from changes in the fair value are presented in other comprehensive income. Upon sale, permanent depreciation in value or other divestiture, the cumulative gains and losses that had been recognized in other comprehensive income are reclassified from equity to the income statement.
- Non-current financial liabilities are carried at amortized cost. Once they have been settled, financial liabilities are derecognized.

All purchases and sales of financial assets and liabilities are recognized on the settlement date. Financial assets are derecognized when Sika loses the rights to receive cash flows from the investment. Normally this occurs through the sale of assets or the repayment of granted loans or accounts receivable. The financial liabilities include financing debts that are carried at amortized cost using the effective interest method.

On each balance sheet date the Group assesses whether a financial asset is impaired. If objective evidence exists that an impairment of financial assets carried at amortized cost has occurred, then the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If in the case of accounts receivable there is objective evidence that not all amounts due will be rendered according to the originally agreed invoicing conditions (for example when there is a high probability of insolvency or significant financial difficulties at a debtor), an impairment is recognized through use of an allowance account. The derecognition of receivables occurs when they are assessed as uncollectible. If an available-for-sale asset is impaired in its value, the cumulative loss – measured as the difference between the acquisition cost and the current fair value – is removed from equity and recognized in the income statement.

INCOME STATEMENT

NET SALES

Proceeds from the sale of goods and services are only reported in the income statement if risks and rewards of ownership have been substantially transferred to the purchaser, revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Net sales include all revenues from the sale of goods and services less discounts granted.

CONSTRUCTION CONTRACTS

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

PERSONNEL EXPENSES

Personnel expenses include all payments to persons operating in an employment relationship with Sika. This item also encompasses such expenditures as pension fund contributions, health insurance contributions, and taxes and levies directly associated with personnel compensation.

EMPLOYEE PARTICIPATION PLAN – SHARE-BASED PAYMENTS

The Group operates a number of share-based compensation plans. The total amount to be recognized in profit and loss is determined by reference to the fair value at grant date of the equity instrument. The expenses are recognized in personnel expenses over the vesting period.

RESEARCH AND DEVELOPMENT

Research expenses are recognized in the income statement. Development expenses are not capitalized if the recognition criteria have not been met.

DEPRECIATION AND AMORTIZATION EXPENSES

Property, plant, and equipment are depreciated using the straight-line method based on the expected useful life of the asset. Intangible assets are usually amortized using the straight-line method.

INTEREST EXPENSE/OTHER FINANCIAL EXPENSES

In general, all interests and other expenses paid for the procurement of loans are recognized in the income statement. Any borrowing costs accrued in the course of development projects, e.g. the construction of new production facilities or software development, are capitalized together with the assets created.

INTEREST INCOME/OTHER FINANCIAL INCOME

Interest income is recognized pro rata temporis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

INCOME TAXES

Income tax expenses include income taxes based on current taxable income and deferred taxes.

SCOPE OF CONSOLIDATION AND ACQUISITIONS

The Consolidated Financial Statements of the Sika Group comprise the financial statements of Sika AG, Zugerstrasse 50, 6340 Baar, Switzerland, as well as its subsidiaries (see list starting on page 135 et seq. of the download version of this report) and associated companies (see note 7). In the year under review the scope of consolidation was expanded to include the newly acquired companies (see the next pages) and the following companies:

- Sika El Salvador S.A. de C.V., Antiguo Cuscatlán, El Salvador
- Sika Sénégal SARLU, Dakar, Senegal
- Sikalkoat de México, S.A. de C.V., Corregidora, Mexico
- Sika Bangladesh Limited, Dhaka, Bangladesh

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

- Schönox GmbH, Rosendahl, Germany, was merged with Sika Deutschland GmbH, Stuttgart, Germany.
- FRC Fiber, Limited Company, Tuscaloosa, USA, was merged with Sika Corporation, Lyndhurst, USA.
- Sika Automotive Ltda., São Paulo, Brazil, was merged with Sika SA, Osasco, Brazil.

ACQUISITIONS 2016

In 2016, Sika acquired various companies or parts of companies. The purchase prices and their allocation (PPA) did not change and are now final.

ACQUIRED NET ASSETS AT FAIR VALUES

in CHF mn	Acquisitions 2016 ¹
Cash and cash equivalents	3.6
Accounts receivable	4.3
Inventories	3.3
Other current assets	0.5
Property, plant, and equipment	4.7
Intangible assets	12.0
Total assets	28.4
Current bank loans	0.2
Accounts payable	2.0
Other current liabilities	2.0
Provisions	0.2
Deferred tax liabilities	2.2
Other non-current liabilities	0.4
Total liabilities	7.0
Acquired net assets	21.4
Goodwill	23.7
Total purchase price	45.1
Cash in acquired assets	-3.6
Use of Sika bearer shares	-14.0
Payments still due (per December 31, 2016)	-3.9
Net cash outflow	23.6

1 L.M. Scofield, FRC Industries, Ronacrete (Far East) Ltd.; individually not material.

Since the purchase, the acquisitions have contributed sales of CHF 15.9 million and net profit of CHF 0.5 million in 2016. If the acquisitions had taken place on the first day of the accounting period, their additional contribution to consolidated net sales would have been CHF 21.1 million. Consolidated net profit would have been CHF 1.3 million higher.

The directly attributable transaction costs of all acquisitions amounted to CHF 0.5 million and were charged to other operating expenses.

ACQUISITIONS 2017

In 2017, Sika acquired various companies.

Company	Type of transaction	Stake in %	Closing date
Rmax Operating LLC, USA	Share deal	100.0	1/31/2017
Bitbau Dörr GmbH, Austria	Share deal	100.0	2/21/2017
ABC Sealants, Turkey	Share deal	100.0	8/23/2017
KVK Holding a.s., Czech Republic	Share deal	100.0	10/5/2017
Butterfield Color Inc., USA	Share deal	100.0	10/31/2017
Grupo Industrial Alce, Mexico	Asset deal		12/15/2017
Emseal Joint Systems, Ltd., USA	Share deal	100.0	12/19/2017

RMAX OPERATING LLC

On January 31, 2017, Sika acquired Rmax Operating LLC, an US-based market leader in the production of insulation products for complete building envelope solutions (roofing and wall systems). The acquisition brings technology and know-how that will accelerate Sika's growth in the North American market.

Since the purchase, Rmax has contributed sales of CHF 66.6 million and net profit of CHF 5.7 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 5.4 million. Consolidated net profit would have been CHF 0.8 million higher. Accounts receivable of Rmax had a gross value of CHF 8.2 million and were adjusted since CHF 0.5 million were classified as non-recoverable.

KVK HOLDING A.S.

In October, Sika further acquired KVK Holding headquartered in Prague, Czech Republic. KVK is a leading manufacturer of waterproofing and roofing systems and produces a wide range of mortar products. With the strategically located facilities Sika will strengthen its production platform and expand its geographical footprint in the Czech market. Furthermore, KVK's strong relationships with major builders' merchants will allow Sika to significantly enhance its presence in the Czech market.

Since the purchase, KVK has contributed sales of CHF 11.9 million and net loss of CHF 1.2 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 38.0 million. Consolidated net profit would have been CHF 3.2 million higher. Accounts receivable of KVK had a gross value of CHF 10.1 million and were adjusted since CHF 0.1 million were classified as non-recoverable.

EMSEAL JOINT SYSTEMS, LTD.

On December 19, 2017, Sika acquired Emseal Joint Systems, Ltd., an US-based market leader in the development and manufacturing of structural expansion joint products for new construction and refurbishment. The acquisition perfectly complements Sika's range of sealing and bonding products and offers extensive cross-selling opportunities for other Sika technologies. With manufacturing in Westborough, Massachusetts, and Toronto, Canada, Emseal is well-positioned geographically to supply the North American market.

As the acquisition was completed shortly before the end of the year, Emseal has not yet contributed any share of sales. Due to the tax rate reduction in the USA, however, there has been a profit since the purchase of CHF 5.0 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 39.7 million. Consolidated net profit would have been CHF 4.1 million higher. Accounts receivable of Emseal had a gross value of CHF 3.9 million and none were classified as non-recoverable.

OTHER ACQUISITIONS

In February, Sika further acquired Bitbau Dörr GmbH, a leading waterproofing system manufacturer, headquartered in Innsbruck, Austria. The acquisition of Bitbau Dörr will enable Sika to expand its product portfolio. The product portfolio includes complete waterproofing systems for roofs, buildings, and civil engineering applications.

In August, Sika acquired ABC Sealants, a leading manufacturer of sealants and adhesives, headquartered in Istanbul, Turkey. The acquisition will strengthen Sika's market position in Turkey and further establish Sika as a comprehensive supplier of solutions for interior finishing applications.

On October 31, Sika further acquired Butterfield Color, Inc., a US-based market leader in the production of decorative concrete floor products and systems. The products range from colors and sealers to innovative tools for stamping and texturing. Acquiring Butterfield now adds an unmatched contractor presence and, establishes Sika as the clear market leader in this fast-growing market.

In addition, Sika acquired certain assets of Grupo Industrial Alce, Mexico, in mid-December to expand its own portfolio of waterproofing systems for roofs and buildings and to further expand its manufacturing footprint in Mexico. The product offerings will allow Sika to become market leader in bituminous membranes and number two in liquid-applied membranes.

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

Accounts receivable have a gross value of CHF 11.2 million and were adjusted since CHF 1.4 million were classified as non-recoverable.

ACQUIRED NET ASSETS AT FAIR VALUE

in CHF mn	Rmax	KVK	Emseal	Other acquisitions ¹
Cash and cash equivalents	0.0	0.9	0.3	5.2
Accounts receivable	7.7	10.0	3.9	9.8
Inventories	5.6	8.6	2.4	12.2
Other current assets	0.7	1.9	0.7	0.8
Property, plant, and equipment	5.1	22.1	1.9	11.2
Intangible assets	45.9	12.6	38.4	23.4
Total assets	65.0	56.1	47.6	62.6
Short-term loans and bank overdrafts	1.2	6.9	0.0	4.2
Accounts payable	3.0	5.2	2.2	6.8
Other current liabilities	1.1	3.2	1.5	2.5
Long-term loans and financial liabilities	0.0	20.0	9.4	0.5
Provisions	0.9	1.2	0.5	0.0
Employee benefit liabilities	0.0	0.3	0.0	1.9
Deferred tax liabilities	0.1	4.0	13.8	1.8
Other non-current liabilities	0.1	0.0	0.0	0.0
Total liabilities	6.4	40.8	27.4	17.7
Acquired net assets	58.6	15.3	20.2	44.9
Goodwill	53.1	25.0	66.1	44.9
Total purchase consideration	111.7	40.3	86.3	89.8
Cash in acquired assets	0.0	-0.9	-0.3	-5.2
Payments still due (per December 31, 2017)	0.0	0.0	0.0	-1.3
Net cash outflow	111.7	39.4	86.0	83.3

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

The purchase price of the other acquisitions include performance-related contingent considerations for which a market value of CHF 1.3 million was estimated.

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 in the amount of CHF 82.0 million is tax-deductible.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND CASH EQUIVALENTS CHF 1,037.9 MN (CHF 1,155.0 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.

2. ACCOUNTS RECEIVABLE CHF 1,188.1 MN (CHF 1,043.1 MN)

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

MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS

in CHF mn	2016	2017
January 1	65.4	65.9
Additions to or increase in allowances	17.1	18.2
Reversal of allowances	-5.3	-7.0
Utilization of allowances	-9.7	-9.4
Exchange differences	-1.6	0.8
December 31	65.9	68.5

AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE

in CHF mn	2016	2017
Net accounts receivable	1,043.1	1,188.1
Of which		
Not overdue	793.7	908.5
Past due < 31 days	158.1	174.7
Past due 31 - 60 days	43.8	48.1
Past due 61 - 180 days	36.5	43.9
Past due > 181 days	11.0	12.9

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.

3. INVENTORIES CHF 729.5 MN (CHF 600.8 MN)

in CHF mn	2016	2017
Raw materials and supplies	182.4	227.6
Semi-finished goods	44.4	52.7
Finished goods	311.3	378.5
Merchandise	62.7	70.7
Total	600.8	729.5

4. OTHER ASSETS CHF 106.8 MN (CHF 64.9 MN)

The assets contained in this category and any changes in them can be seen in the following table.

OTHER CURRENT ASSETS

in CHF mn	2016	2017
Derivatives (at fair value through profit and loss)	4.3	5.1
Loans (loans and receivables)	3.0	5.3
Securities (at fair value through profit and loss)	1.8	2.2
Other financial assets	9.1	12.6
Other non-financial assets	0.0	0.1
Other current assets	9.1	12.7

OTHER NON-CURRENT ASSETS

in CHF mn	2016	2017
Securities (at fair value through profit and loss)	38.3	45.3
Loans (loans and receivables)	1.7	1.5
Other financial assets	40.0	46.8
Employee benefit assets ¹	15.8	47.3
Other non-current assets	55.8	94.1

¹ Includes the excess of assets for employee benefit plans with defined benefits, see note 15.

5. PROPERTY, PLANT, AND EQUIPMENT CHF 1,065.2 MN (CHF 959.2 MN)

	Property	Plant	Equipment	Plants and buildings under construction	Total
in CHF mn					
At January 1, 2016					
Acquisition cost	113.5	641.0	1,489.6	83.1	2,327.2
Cumulative depreciation and impairment	-1.4	-388.7	-1,012.2	-0.6	-1,402.9
Net values at January 1, 2016	112.1	252.3	477.4	82.5	924.3
Additions	2.9	10.5	59.7	76.4	149.5
Acquired on acquisition	1.7	1.1	1.8	0.1	4.7
Exchange differences	0.3	0.0	1.7	1.4	3.4
Disposals	-0.7	-1.2	-1.9	0.0	-3.8
Reclassifications ¹	7.5	41.4	57.5	-107.0	-0.6
Depreciation charge for the year	0.0	-20.9	-97.4	0.0	-118.3
At December 31, 2016	123.8	283.2	498.8	53.4	959.2
As January 1, 2017					
Acquisition cost	125.3	692.5	1,582.6	53.4	2,453.8
Cumulative depreciation and impairment	-1.5	-409.3	-1,083.8	0.0	-1,494.6
Net values at January 1, 2017	123.8	283.2	498.8	53.4	959.2
Additions ²	7.7	31.9	41.3	102.1	183.0
Acquired on acquisition	6.3	6.6	25.0	2.4	40.3
Exchange differences	1.7	4.8	6.6	0.1	13.2
Disposals	-2.6	-0.9	-2.7	0.0	-6.2
Reclassifications ¹	0.1	7.3	60.4	-67.8	0.0
Depreciation charge for the year	0.0	-21.2	-103.1	0.0	-124.3
At December 31, 2017	137.0	311.7	526.3	90.2	1,065.2
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
Net values at December 31, 2017	137.0	311.7	526.3	90.2	1,065.2

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

2 The cash outflows from investments amount to CHF 158.5 million.

In principle all plants are owned by subsidiaries. Some smaller plants as well as the adhesive plant in Düringen, Switzerland, and a Swiss logistics center are financed by operating leases. Operating leases also relate to data processing equipment and copiers as well as vehicles used by the sales force. Leasehold contracts are insignificant. Plant and equipment includes machinery, vehicles, equipment, furnishings, and hardware. Rent and operating lease expenses in the amount of CHF 112.4 million (CHF 104.7 million) were recognized.

in CHF mn	Operating leases		2016			Finance leases		
	2016 Minimum payments	2017 Minimum payments	Minimum payments	Interest	2016 Present value of payments	Minimum payments	Interest	2017 Present value of payments
Within 1 year	88.9	88.8	0.1	0.0	0.1	0.2	0.0	0.2
1 - 5 years	170.7	151.2	0.3	0.0	0.3	0.3	0.0	0.3
Over 5 years	57.6	67.8	0.0	0.0	0.0	0.0	0.0	0.0
Total	317.2	307.8	0.4	0.0	0.4	0.5	0.0	0.5

6. INTANGIBLE ASSETS CHF 1,314.2 MN (CHF 1,021.2 MN)

in CHF mn	Goodwill	Software	Trademarks	Customer relations	Other intangibles	Total
At January 1, 2016						
Acquisition costs	669.2	147.9	124.8	319.9	102.0	1,363.8
Cumulative amortization and impairment	-7.5	-106.0	-22.4	-133.7	-56.3	-325.9
Net values at January 1, 2016	661.7	41.9	102.4	186.2	45.7	1,037.9
Additions	0.0	5.2	0.0	0.0	0.2	5.4
Acquired on acquisition	23.7	0.0	3.7	6.7	1.6	35.7
Exchange differences	-6.7	0.1	0.5	0.0	-0.1	-6.2
Disposals	0.0	-0.1	0.0	0.0	0.0	-0.1
Reclassifications (net)	0.0	0.8	0.0	0.0	-0.2	0.6
Amortization for the year	0.0	-13.8	-7.1	-22.8	-8.4	-52.1
At December 31, 2016	678.7	34.1	99.5	170.1	38.8	1,021.2
At January 1, 2017						
Acquisition costs	685.7	148.4	108.5	310.4	103.2	1,356.2
Cumulative amortization and impairment	-7.0	-114.3	-9.0	-140.3	-64.4	-335.0
Net values at January 1, 2017	678.7	34.1	99.5	170.1	38.8	1,021.2
Additions	0.0	4.4	0.3	0.0	0.2	4.9
Acquired on acquisition	189.1	0.1	19.0	87.7	13.5	309.4
Exchange differences	21.5	0.8	0.0	4.1	0.2	26.6
Amortization for the year	0.0	-9.2	-6.4	-24.7	-7.6	-47.9
At December 31, 2017	889.3	30.2	112.4	237.2	45.1	1,314.2
Acquisition costs	896.4	154.1	127.9	403.8	117.6	1,699.8
Cumulative amortization and impairment	-7.1	-123.9	-15.5	-166.6	-72.5	-385.6
Net values at December 31, 2017	889.3	30.2	112.4	237.2	45.1	1,314.2

The intangible assets (except for goodwill and trademarks with indefinite useful lives) each have finite useful lives over which the assets are amortized. The internally developed SAP platform used since 2010 will be amortized on the basis of its effective use within the Group. The carrying value was CHF 20.4 million (CHF 23.3 million) as of December 31, 2017. The remaining useful life is estimated to be between 4 and 7 years.

Trademarks may have an indefinite useful life because they are influenced by internal and external factors such as strategic decisions, competitive and customer behavior, technical development, and changing market requirements. The carrying value of trademarks with indefinite useful lives amounts to CHF 72.4 million (CHF 72.4 million) and is subject to an annual impairment test.

GOODWILL ITEMS TESTED FOR IMPAIRMENT. Impairment tests were performed on all goodwill items. The carrying amounts of trademarks with indefinite useful lives are allocated to the carrying amounts of the cash-generating units in accordance with the proportionate share of sales. The impairment tests are based on the discounted cash flow method. The calculation of the value in use is based on the target figures and cash flow forecasts. The forecasting horizon is three years as approved by the Board of Directors. The growth rates upon which the forecast is set correspond to the market expectations of the cash-generating units and range between 4.7% and 11.8% (4.3% and 10.0%) 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 cash flow forecast beyond the planning period is extrapolated using a growth rate of 2.0% to 3.9% (2.5% to 4.5%). 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 business segments within the regions constitute the cash-generating units.

GOODWILL ASSIGNED TO CASH-GENERATING UNITS

in CHF mn	Growth rates (%) ¹	Discount rates (%) ²	Trademarks with indefinite useful lives	Goodwill
December 31, 2016				
Construction business EMEA	2.5	8.3	29.1	403.0
Industrial manufacturing EMEA	2.6	8.3		19.6
Construction business North America	2.8	10.6	43.3	107.4
Construction business Latin America	4.5	18.4		11.0
Construction business Asia/Pacific	3.5	10.7		89.2
Automotive	3.2	9.6		48.5
Total			72.4	678.7
December 31, 2017				
Construction business EMEA	2.1	7.2	27.7	466.5
Industrial manufacturing EMEA	2.2	7.4		20.9
Construction business North America	2.3	9.8	44.7	238.3
Construction business Latin America	3.9	17.7		22.3
Construction business Asia/Pacific	2.5	9.8		90.1
Automotive	2.0	8.7		51.2
Total			72.4	889.3

1 Growth rate beyond the planning period.

2 Pre-tax discount rates (%).

7. INVESTMENTS IN ASSOCIATED COMPANIES CHF 6.2 MN (CHF 6.3 MN)

The following associated companies are included in the Consolidated Financial Statements as of December 31, 2017: Condensil SARL, France (Sika stake 40%), Part GmbH, Germany (50%), Sarna Granol AG, Switzerland (50%), Hayashi-Sika Automotive Ltd., Japan (50%), Chemical Sangyo Ltd., Japan (50%), and Seven Tech Co. Ltd., Japan (50%). The stakes are unchanged compared to the prior year.

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

ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%)

in CHF mn	2016	2017
Sales	20.2	21.7
Profit	0.4	0.3

8. INCOME TAXES

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

in CHF mn	2016	2017
1 year or less	0.0	0.0
1 - 5 years	5.6	7.8
Over 5 years or non-expiring	2.6	6.0
Total	8.2	13.8

The underlying average tax rate is 27.1% (24.8%).

RECONCILIATION OF NET DEFERRED TAX ASSETS

in CHF mn	2016	2017
January 1	16.3	49.5
Credited (+)/debited (-) to income statement	40.0	81.0
Credited (+)/debited (-) to other comprehensive income	-6.4	-11.6
Exchange differences	1.8	-0.4
Acquisitions/divestments	-2.2	-19.7
December 31	49.5	98.8

ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF mn	2016			2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax losses brought forward	20.1		20.1	13.6		13.6
Current assets	22.5	-10.1	12.4	22.1	-13.3	8.8
Property, plant, and equipment	7.9	-31.7	-23.8	8.1	-28.8	-20.7
Other non-current assets ¹	29.3	-56.4	-27.1	115.9	-70.3	45.6
Liabilities	79.9	-6.0	73.9	68.4	-7.7	60.7
Withholding taxes on dividends	0.0	-6.0	-6.0	0.0	-9.2	-9.2
Total	159.7	-110.2	49.5	228.1	-129.3	98.8

¹ Increase in deferred tax assets of CHF 94.6 million in 2017 due to the transfer of intangible assets for CHF 1,000.0 million from Sika AG to Sika Technology AG, a wholly-owned subsidiary of Sika AG.

In the year under review, deferred tax assets from carried forward tax losses of CHF 5.6 million (CHF 4.0 million) were offset and deferred carried forward tax losses of CHF 0.7 million (CHF 0.6 million) were generated. As a result of valuation adjustments, they increased by CHF 0.5 million (reduction of CHF 12.9 million).

The tax rate decreased to 24.7% (25.0%). Income taxes of CHF 213.1 million (CHF 189.2 million) consist of:

INCOME TAXES

in CHF mn	2016	2017
Income tax during the year under review	227.9	291.9
Deferred income tax	-40.0	-81.0
Income tax from prior years	1.3	2.2
Total	189.2	213.1

RECONCILIATION BETWEEN ANTICIPATED AND EFFECTIVE TAX EXPENSE

in CHF mn	%	2016	%	2017
Profit before taxes		755.8		862.1
Anticipated tax expense	24.0	181.4	23.4	201.7
Non-taxable income/non-tax-deductible expenses	0.4	3.5	0.6	5.6
Change in anticipated tax rate	0.0	0.1	-0.1	-1.0
Adjusted tax expense from earlier periods	0.2	1.3	0.2	2.2
Valuation adjustment on deferred tax assets	-1.4	-10.8	0.2	1.7
Withholding tax on dividends, licenses, and interests	2.2	16.9	2.5	21.4
Other ¹	-0.4	-3.2	-2.1	-18.5
Tax expense as per consolidated income statement	25.0	189.2	24.7	213.1

¹ In 2017, this includes a net tax effect of CHF -16.3 million (income taxes of CHF 78.3 million and deferred tax income of CHF 94.6 million) resulting from the sale of intangible assets for CHF 1,000 million from Sika AG to Sika Technology AG.

The anticipated average Group income tax rate of 23.4% (24.0%) 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.

9. ACCOUNTS PAYABLE CHF 730.9 MN (CHF 587.0 MN)

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

10. ACCRUED EXPENSES AND DEFERRED INCOME CHF 253.4 MN (CHF 223.9 MN)

Accrued expenses and deferred income relate to outstanding invoices and liabilities for the past financial year, including performance-based compensation payables to employees and social security expenses in the following year. In addition, deferred revenues for warranty extensions in the amount of CHF 4.0 million (CHF 4.1 million) are included (see note 17).

11. OTHER LIABILITIES CHF 85.1 MN (CHF 86.8 MN)

OTHER CURRENT LIABILITIES

in CHF mn	2016	2017
Derivatives (at fair value through profit and loss)	10.5	5.7
Bank loans	19.8	22.6
Other financial liabilities	14.0	20.4
Other current liabilities	44.3	48.7

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.

OTHER NON-CURRENT LIABILITIES

in CHF mn	2016	2017
Bank loans	0.0	0.9
Other financial liabilities	8.7	3.4
Other non-financial liabilities ¹	33.8	32.1
Other non-current liabilities	42.5	36.4

¹ Includes deferred revenue in the amount of CHF 32.1 million (CHF 33.8 million). For details see note 17.

12. BONDS CHF 150.0 MN SHORT-TERM/CHF 549.0 MN LONG-TERM (CHF 0.0 MN/CHF 698.7 MN)

Sika AG has the following bonds outstanding:

in CHF mn	2016		2017	
	Book value	Nominal	Book value	Nominal
1.000% 2012 - 2018	149.9	150.0	150.0	150.0
1.125% 2013 - 2019	199.7	200.0	199.8	200.0
1.750% 2012 - 2022	149.9	150.0	149.9	150.0
1.875% 2013 - 2023	199.2	200.0	199.3	200.0
Total	698.7	700.0	699.0	700.0

13. RECONCILIATION OF FINANCIAL LIABILITIES

in CHF mn	Bank loans	Bonds	Other financial liabilities	Total financial liabilities
As January 1, 2017	19.8	698.7	33.2	751.7
Proceeds	14.4	0.0	2.6	17.0
Repayments	-46.9	0.0	-8.5	-55.4
Cash flow	-32.5	0.0	-5.9	-38.4
Acquired on acquisition	37.2	0.0	5.0	42.2
Exchange differences	-1.0	0.0	0.4	-0.6
Other changes	0.0	0.3	-3.2	-2.9
Non-cash movements	36.2	0.3	2.2	38.7
At December 31, 2017	23.5	699.0	29.5	752.0

14. PROVISIONS CHF 76.4 MN (CHF 78.3 MN)

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 56.4 million (CHF 57.5 million) are shown as non-current liabilities, since an outflow of funds is not expected within the next twelve months.

For provisions of CHF 20.0 million (CHF 20.8 million), an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

in CHF mn	Warranties	Sundry risks	Provisions Total
Current provisions	13.1	6.9	20.0
Non-current provisions	29.2	27.2	56.4
Provisions	42.3	34.1	76.4
Reconciliation			
At January 1, 2017	45.8	32.5	78.3
Additions	16.9	8.6	25.5
Assumed on acquisition	0.3	2.3	2.6
Exchange differences	0.9	0.1	1.0
Utilization	-15.6	-5.3	-20.9
Reversal	-6.0	-4.1	-10.1
At December 31, 2017	42.3	34.1	76.4

15. EMPLOYEE BENEFIT OBLIGATIONS

To complement the benefits provided by state-regulated pension schemes, Sika maintains additional employee pension plans for a number of subsidiaries. In principle these fall into the following categories:

DEFINED CONTRIBUTION PENSION FUNDS. The majority of Sika subsidiaries operate defined contribution pension plans. In these, employees and employer regularly contribute to funds administered by third parties. This does not give rise to any assets or liabilities in the consolidated balance sheet.

DEFINED BENEFIT PENSION FUNDS. Defined benefit pension plans for staff exist at 41 Group companies. The biggest plans are in Switzerland, accounting for 78.5% (79.5%) of Sika's entire defined benefit pension obligations and 96.2% (96.2%) of plan assets.

SWISS PENSION PLANS. Sika companies in Switzerland have legally independent foundations for this purpose, thereby segregating their pension obligation liabilities. In accordance with local statutory requirements, Sika has no obligations to these pension plans beyond the regulatory contributions and any recapitalization contributions that may become necessary. According to IAS 19, the Swiss pension plans qualify as defined benefit plans, so the actuarially calculated surplus or deficit is recognized in the consolidated balance sheet.

The supreme governing body of the pension fund is composed of equal numbers of employee and employer representatives. There is also a management pension scheme and a welfare foundation, which provide statutory benefits, and a scheme that enables employees to take early retirement.

Both the Sika pension fund and the welfare foundation bear the investment risks and the age risk themselves. As the supreme governing body of the pension fund, the Board of Trustees is responsible for investment. The investment strategy is defined so as to ensure that the benefits can be provided when they become due. The pension fund has concluded a contract for matching reinsurance for the risks of death and invalidity. The insurance-related and investment risks of the management pension scheme are fully reinsured. The retirement pension is calculated using the retirement assets available at the time of retirement multiplied by the conversion rates specified in the regulations. The employee has the opportunity to withdraw pension benefits in the form of a lump sum.

The Federal Law on Occupational Retirement, Survivors', and Disability Pensions (BVG) governs the way in which employees and employer must jointly participate in any restructuring measures in the event of a significant deficit, such as by making additional contributions. 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.

This year the benefits of the insurance plan were adjusted by reducing the conversion rate and increasing the savings contributions. This led to an adjustment in the pension plan and is therefore recognized in the income statement as a gain on a plan curtailment (CHF 9.9 million).

in CHF mn	2016			2017		
	Assets ¹	Liabilities	Net	Assets ¹	Liabilities	Net
Employee benefit plans with defined benefits	15.8	210.0	194.2	47.3	184.5	137.2
Other employee commitments	29.2	64.6	35.4	35.3	75.5	40.2
Total	45.0	274.6	229.6	82.6	260.0	177.4

¹ Includes employee benefit assets recognized in balance sheet for employee benefit plans with defined benefits (see note 4) as well as financial assets for non-qualifying pension plans recognized in other non-current financial assets (securities).

Other long-term liabilities arise from long-service bonuses and similar benefits that Sika grants to its employees.

MOVEMENT IN THE NET DEFINED BENEFIT OBLIGATION

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
At January 1, 2016	-883.9	657.7	-0.9	-227.1
Current service cost	-31.4			-31.4
Interest expense/interest income	-10.6	6.5		-4.1
Total expense recognized in income statement	-42.0	6.5		-35.5
thereof Switzerland	-31.7	5.7		-26.0
thereof others	-10.3	0.8		-9.5
Return on plan assets, excluding amounts included in interest income		24.3		24.3
Gains (+)/losses (-) from change in financial assumptions	4.3			4.3
Gains (+)/losses (-) from change in demographic assumptions	10.3			10.3
Experience gains (+)/losses (-)	4.6			4.6
Change in asset ceiling			0.9	0.9
Total remeasurement recognized in other comprehensive income	19.2	24.3	0.9	44.4
thereof Switzerland	35.8	22.3	0.9	59.0
thereof others	-16.6	2.0	0.0	-14.6
Exchange differences	1.1	-0.3		0.8
Contributions by employers		18.4		18.4
Contributions by plan participants	-12.1	12.1		0.0
Benefits paid	28.9	-22.8		6.1
Settlements paid	1.5	-1.5		0.0
Acquired in a business combination and others	-1.3	0.0		-1.3
At December 31, 2016	-888.6	694.4	0.0	-194.2
thereof Switzerland	-706.7	667.7	0.0	-39.0
thereof others	-181.9	26.7	0.0	-155.2

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

The contributions that are expected to be paid into the defined benefit pension plans for 2018 amount to CHF 21.3 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 146.9 million (CHF 139.2 million). Schemes in Germany, in particular, do not have segregated assets. For the Swiss pension plans the result is a surplus of CHF 26.8 million (underfunding of CHF -39.0 million).

MAJOR CATEGORIES OF TOTAL PLAN ASSETS

in CHF mn	2016			2017		
	Switzerland	Others	Total	Switzerland	Others	Total
Cash and cash equivalents	25.0	14.2	39.2	45.7	6.4	52.1
Equity instruments	269.7	2.6	272.3	308.1	2.5	310.6
Debt instruments	235.8	1.8	237.6	230.7	1.9	232.6
Real estate investments	114.2	0.0	114.2	126.7	10.2	136.9
Other assets	23.0	8.1	31.1	22.8	7.8	30.6
Total	667.7	26.7	694.4	734.0	28.8	762.8

Most of the plan assets of the pension schemes are invested in assets with quoted market prices. In the year under review, 10.6% (12.7%) of the investments in real estate and 8.5% (6.1%) of the other assets did not have a quoted market price.

AMOUNTS INCLUDED IN PLAN ASSETS

in CHF mn	2016	2017
Shares Sika AG	23.9	31.7
Own property occupied by Sika	9.4	11.0
Total	33.3	42.7

ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

	2016		2017	
	Switzerland	Others	Switzerland	Others
Discount rate in the year under review (%)	0.7	1.9	0.7	2.1

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

in CHF mn	Change in assumption	Impact on defined benefit obligation	
		Switzerland	Others
Discount rate	+0.25%	-27.0	-7.3
Discount rate	-0.25%	28.9	7.7

NUMBER OF PLANS AND INSURED PERSONS

	2016		2017	
	Switzerland	Others	Switzerland	Others
Total number of defined benefit plans	5	37	5	38
thereof number of defined benefit plans funded	4	10	4	10
thereof number of defined benefit plans unfunded	1	27	1	28
Average weighted duration in years	16.2	16.8	15.9	16.2

16. SHAREHOLDERS' EQUITY CHF 3,411.1 MN (CHF 2,947.7 MN)

Equity accounts for 58.9% (57.8%) of the balance sheet total.

CAPITAL STOCK

in CHF mn	Number	2016	2017
Registered shares, nominal value CHF 0.10	2,333,874	0.2	0.2
Bearer shares, nominal value CHF 0.60	2,151,199	1.3	1.3
Capital stock		1.5	1.5

The Board of Directors proposes to the Annual General Meeting payment of a dividend of CHF 18.50 per registered share and of CHF 111.00 per bearer share, in the total amount of CHF 281.8 million, to the shareholders of Sika AG.

The capital stock is divided into the following categories:

	Bearer shares ¹ nominal value CHF 0.60	Registered shares nominal value CHF 0.10	Total ¹
12/31/2016 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107
12/31/2017 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107

¹ Includes treasury shares, 1,098 bearer shares, and 270 registered shares (2,666 bearer shares), which do not carry voting and dividend rights.

17. NET SALES CHF 6,248.3 MN (CHF 5,747.7 MN)

Sales of goods account for practically all net sales. In comparison with the prior year, net sales denominated in Swiss francs increased by 8.7%. Taking currency effects amounting to -0.3% into consideration, sales increased in local currencies by 9.0%, including a growth from acquisitions of 2.7%.

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. In 2017, revenues of CHF 4.2 million (CHF 4.2 million) were recognized. The contract balances are included in accrued expenses and deferred income (see note 10) as well as in other non-current non-financial liabilities (see note 11).

18. MATERIAL EXPENSES CHF 2,849.2 MN (CHF 2,566.6 MN)

Material expenses increased as a percentage of net sales by 0.9 percentage points mainly due to higher raw material costs and acquisition effects. The gross result decreased from 55.3% to 54.4%. Material expenses include the value adjustment expenses for unsaleable goods and depreciation and amortization due to inventory differences in the amount of CHF 25.5 million (CHF 24.0 million).

19. PERSONNEL EXPENSES CHF 1,212.1 MN (CHF 1,159.1 MN)

Personnel expenses decreased in relation to sales from 20.1% to 19.4%, mainly due to further efficiency improvements and selective structural adjustments in some countries.

in CHF mn	2016	2017
Wages and salaries	941.0	990.9
Social charges	218.1	221.2
Personnel expenses	1,159.1	1,212.1

EMPLOYEE BENEFIT COSTS

in CHF mn	2016	2017
Employee benefit plans with defined benefits ¹	31.4	18.8
Other employee benefit plans	38.5	41.3
Employee benefit costs	69.9	60.1

1 Includes pension expense recognized in income statement (see note 15) without interest income/interest expenses.

EMPLOYEE PARTICIPATION PLAN – SHARE-BASED PAYMENTS

Sika operates the following share-based compensation plans:

PERFORMANCE BONUS (SHORT-TERM INCENTIVE). Sika Senior Management (by definition, Sika Senior Management includes the management level reporting into Group Management, 167 participants) and Group Management receive shares of Sika AG as a component of their variable compensation. The shares are granted at the average market price of the first five trading days in April of the subsequent business year. The allocated shares are subject to a blocking period of four years. The following different share plans are in place:

Sika Senior Managers may draw optionally 0%, 20% or 40% of the performance bonus in the form of shares of Sika AG. As remuneration for the services rendered by them in 2016, they drew 591 shares at a fair value of CHF 3.6 million in 2017 (CHF 6,075 per share). In 2016, the fair value of the compensation for 2015 amounted to CHF 3.2 million (824 shares at CHF 3,870).

Members of the Group Management may draw optionally 0%, 20% or 40% of the performance bonus in the form of shares of Sika AG. As compensation for the services rendered by them in 2016, in 2017, they drew 103 shares at a fair value of CHF 0.6 million (CHF 6,075 per share). In 2016, the fair value of the compensation for 2015 amounted to CHF 1.2 million (303 shares at CHF 3,870).

LONG-TERM INCENTIVE (LTI-PLAN). The long-term incentive for members of the top management (extended Group Management) is granted in performance share units (PSU) that will be paid out in shares of Sika AG after a three-year vesting period. In 2017, 1,242 shares at a fair value of CHF 7.5 million (CHF 6,075 per share) were allocated to the members of the top management as part of the LTI. In 2016, the fair value of the compensation for 2015 amounted to CHF 5.7 million (1,477 shares at CHF 3,870).

The long-term variable remuneration for Sika Senior Managers is granted in performance share units (PSU). The PSUs are paid out in cash after a three-year vesting period. For senior managers who are transferred to another country during the vesting period, a pro-rata payout is made immediately in form of shares for the time of the vesting period that has elapsed until the transfer. The shares are granted at the fair value of the grant date and are blocked until the end of the vesting period. In 2017, 63 shares at a fair value of CHF 0.5 million were allocated. In 2016, the fair value of the compensation for 2015 amounted to CHF 0.2 million (40 shares).

Share-based remunerations are made by means of the transfer of treasury shares of Sika AG. The personnel expenses recognized for services received in the 2017 business year totaled CHF 30.1 million (CHF 26.7 million) of which the amount of CHF 5.4 million (CHF 7.7 million) was taken to equity and the amount of CHF 24.7 million (CHF 19.0 million) was recognized under liabilities.

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

20. OTHER OPERATING EXPENSES CHF 1,118.5 MN (CHF 1,056.3 MN)

Other operating expenses showed a below-average development compared to volume growth, with the cost ratio improving from 18.4% to 17.9%. Cost savings were recorded in particular in other administrative expenses and warranty costs. Furthermore, the costs for logistics and distribution have developed slightly above average.

in CHF mn	2016	2017
Production and operation ¹	373.0	398.8
Logistics and distribution	264.6	295.1
Sales, marketing, and travel costs	206.2	218.5
Administration and other costs ²	212.5	206.1
Total	1,056.3	1,118.5

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

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

Expenditures on research and development in the Group during the year under review totaled CHF 180.8 million (CHF 172.1 million), roughly equivalent to 2.9% (3.0%) of sales. Research and development expenses are included in personnel expenses, other operating expenses, as well as in depreciation and amortization expenses.

21. DEPRECIATION AND AMORTIZATION EXPENSES CHF 172.2 MN (CHF 170.4 MN)

The amount includes the regular depreciation and amortization expenses of tangible and intangible assets.

22. INTEREST EXPENSES/OTHER FINANCIAL EXPENSES CHF 42.3 MN (CHF 47.8 MN)

Interest expenses consist mainly of interest expenses for bond issues outstanding in the amount of CHF 10.4 million (CHF 12.2 million). Other financial expenses include foreign exchange gains and losses from the management of foreign currency as well as net gains and losses from hedging and revaluation of loans to Group companies denominated in foreign currencies. Other financial expenses decreased to CHF 24.0 million (CHF 27.4 million). A net loss of CHF 56.0 million (net loss of CHF 13.4 million) on financial assets and liabilities held at fair value through profit or loss was recognized in the income statement under other financial expenses.

23. INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES CHF 8.1 MN (CHF 8.3 MN)

Short-term surpluses in liquidity in various countries led to interest income of CHF 1.9 million (CHF 2.6 million). Income from associated companies is CHF 0.3 million (CHF 0.5 million).

24. NON-CONTROLLING INTERESTS CHF 5.5 MN (CHF 3.5 MN)

Most important companies with non-controlling interests:

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

25. EARNINGS PER SHARE CHF 253.52 (CHF 221.81)

	2016	2017
Undiluted ("basic EPS")		
Net profit (in CHF mn)	563.1	643.5
Weighted average number of shares¹		
Bearer shares ² /units	2,149,695	2,149,317
Registered shares ³ /units	2,333,874	2,333,739
Earnings per share		
Bearer share ² /CHF	221.81	253.52
Registered share ³ /CHF	36.97	42.25

1 Excluding treasury shares held in the Group.

2 Nominal value: CHF 0.60.

3 Nominal value: CHF 0.10.

Earnings per share (EPS) amount to CHF 253.52 (CHF 221.81). The EPS have been 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. No dilution effect resulted because no options or convertible bonds are outstanding. For the business year 2016 the dividend amounted to CHF 96.00 per bearer share and to CHF 16.00 per registered share.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial instruments and the related risk management of the Sika Group are presented in this note.

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

in CHF mn	Level	Book value	2016 Fair value	Book value	2017 Fair value
Financial assets					
Cash and cash equivalents		1,155.0		1,037.9	
Loans and receivables		1,047.8		1,194.9	
Financial assets at fair value through profit and loss	1	40.1	40.1	47.5	47.5
Financial assets at fair value through profit and loss (derivatives)	2	4.3	4.3	5.1	5.1
Total		2,247.2		2,285.4	
Financial liabilities					
Bank overdrafts		19.8		23.5	
Bonds	2	698.7	738.0	699.0	736.6
Accounts payable		587.0		730.9	
Other financial liabilities		22.7		23.8	
Financial liabilities measured at amortized cost		1,328.2		1,477.2	
Financial liabilities at fair value through profit and loss (derivatives)	2	10.5	10.5	5.7	5.7
Total		1,338.7		1,482.9	

The book value of cash and cash equivalents, loans and receivables, bank overdrafts, accounts payable, and other financial liabilities almost equals the fair value.

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.

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 Group's financial risk management program focuses on hedging volatility risks.

The corporate finance department identifies, evaluates, and hedges financial risks in close cooperation with the Group's operating units.

PLEGDED OR CEDED ASSETS (ENCUMBERED ASSETS), TO SECURE OWN OBLIGATIONS

in CHF mn	2016	2017
Receivables	1.7	0.0
Property, plant, and equipment	0.6	1.1
Total book value of encumbered assets	2.3	1.1

OPEN DERIVATIVES

in CHF mn	Replacement value		Contractual value upon maturity		
			Contract value	Up to 3 months	3 to 12 months
	(+)	(-)			
Open derivatives 2016					
Forward contracts (foreign exchange)	2.4	-2.1	183.9	50.6	133.3
Swaps (foreign exchange)	1.9	-8.4	965.6	328.0	637.6
Total derivatives	4.3	-10.5	1,149.5	378.6	770.9
Open derivatives 2017					
Forward contracts (foreign exchange)	0.3	-1.7	166.9	90.8	76.1
Swaps (foreign exchange)	4.8	-4.0	1,013.0	335.8	677.2
Total derivatives	5.1	-5.7	1,179.9	426.6	753.3

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.

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	2016	2017
EUR: +10%	-6.3	-6.0
EUR: -10%	6.3	6.0
USD: +10%	-5.8	-12.1
USD: -10%	5.8	12.1

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

INTEREST RATE RISK. Interest rate risks result from changes in interest rates, which could have a negative impact on the Group's financial position, cash flow, and earnings situation. Interest rate risk is limited through the issue of fixed-interest long-term bonds (nominal CHF 700.0 million). A change in the rate of interest would therefore alter neither annual financial expenses nor shareholders' equity materially. Local bank loans and mortgages are insignificant. Interest rate developments are closely monitored by management.

CREDIT RISK. Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge its obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and banks. In addition, receivable balances 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 2.0% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2016 nor at year-end 2017. 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
December 31, 2016				
Bank loans	19.8	0.0	0.0	19.8
Bonds	10.1	381.5	360.1	751.7
Accounts payable	587.0	0.0	0.0	587.0
Other financial liabilities	14.0	7.8	0.9	22.7
Financial liabilities measured at amortized cost	630.9	389.3	361.0	1,381.2
Financial liabilities at fair value through profit and loss	10.5	0.0	0.0	10.5
Total	641.4	389.3	361.0	1,391.7
December 31, 2017				
Bank loans	22.6	0.9	0.0	23.5
Bonds	160.1	377.8	203.7	741.6
Accounts payable	730.9	0.0	0.0	730.9
Other financial liabilities	20.4	2.7	0.7	23.8
Financial liabilities measured at amortized cost	934.0	381.4	204.4	1,519.8
Financial liabilities at fair value through profit and loss	5.7	0.0	0.0	5.7
Total	939.7	381.4	204.4	1,525.5

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, 2017, and December 31, 2016. The Group monitors its equity using the equity ratio, which is shareholders' equity divided by total capital.

27. FUTURE OBLIGATIONS

CONTINGENT LIABILITIES. Given the Group's international operations, there are inherent tax risks which cannot be conclusively estimated. In ongoing business activity the Group may be involved in legal proceedings such as lawsuits, claims, investigations, and negotiations due to product liability, mercantile law, environmental protection, health, and safety, etc. There are no current proceedings of this nature pending which could have significant influence on business operations, or on the Group's financial position or income. The Group is active in countries in which political, economic, social, and legal developments could impair business activity. The effects of such risks which can occur in the normal course of business is unforeseeable. In addition, their probability of occurrence lies below 50%.

CAPITAL COMMITMENTS. Significant capital expenditure for property, plant, and equipments contracted for as at December 31, 2017, but not recognized as liabilities is CHF 61.8 million (no material commitments at the end of 2016).

28. CASH FLOW STATEMENT

DETAILS TO THE CASH FLOW STATEMENT. Compared with the prior year, cash flow was influenced by:

- a higher net profit before taxes (CHF 106.3 million)
- an increase in net working capital (CHF -57.0 million)
- changes of non-cash financial income as well as cash flows from hedging transactions (CHF -64.6 million)
- higher tax payments (CHF -53.6 million)
- a strongly higher acquisition activity (CHF -296.8 million)
- no repayment of bonds (CHF 250.0 million)
- a higher dividend payment (CHF -45.7 million)

in CHF mn	2016	2017
Operating activities	735.7	651.9
Investment activities	-172.7	-478.2
Financing activities	-473.3	-289.2
Exchange differences	-9.1	-1.6
Net change in cash and cash equivalents	80.6	-117.1

FREE CASH FLOW AND OPERATING FREE CASH FLOW

in CHF mn	2016	2017
Cash flow from operating activities	735.7	651.9
Net investment in		
Property, plant, and equipment	-144.0	-150.2
Intangible assets	-5.2	-4.9
Acquisitions less cash and cash equivalents	-23.6	-320.4
Acquisitions (-)/disposals (+) of financial assets	0.1	-2.7
Free cash flow	563.0	173.7
Acquisitions / disposals less cash and cash equivalents	23.6	320.4
Acquisitions (+)/disposals (-) of financial assets	-0.1	2.7
Operating free cash flow	586.5	496.8

OTHER ADJUSTMENTS. Included in "Other adjustments" are:

in CHF mn	2016	2017
Non-liquidity-related interest expenses (-)/income (+)	-6.7	0.0
Profit (-)/loss (+) from disposals of non-financial assets	-1.8	-2.1
Personnel expenses settled through treasury shares	7.7	5.4
Others ¹	1.5	2.6
Total	0.7	5.9

¹ Prior year restated due to the reclassification and separate disclosure of non-liquidity related other financial expenses/income as well as cash flows from hedging transactions.

29. SEGMENT REPORTING

Sika conducts its worldwide activities according to regions. Heads of regions are members of Group Management. Group Management is the highest operative executive body measuring the profit and loss of segments and allocating resources. The key figure of profit by which the segments are directed is that of operating profit, which stands in correlation with the Consolidated Financial Statements. The financing (including financial expenditures and revenues) as well as income taxes are managed uniformly across the Group and are not assigned to the individual segments. The composition of the regions is shown on page 77 of the download version of this report.

Products and services from all product groups are sold in all regions. Customers derive from the building and construction industry or from the area of industrial manufacturing. Sales are assigned according to company locations. Taxes and any effects of financing are allocated to other segments and activities. Transfer prices between segments are calculated according to generally accepted principles.

“Other segments and activities” include the automotive segment, expenditures for Group headquarters, and the proceeds from services. In addition they contain expenses and income that cannot be allocated to an individual region.

The acquired companies Rmax Operating LLC, USA, Butterfield Color Inc., USA, and Emseal Joint Systems, Ltd., USA, were assigned to region North America. Bitbau Dörr GmbH, Austria, and ABC Sealants, Turkey, as well as KVK Holding a.s., Czech Republic, were assigned to region EMEA. The assets of Grupo Industrial Alce, Mexico, were allocated to region Latin America.

NET SALES

in CHF mn	2016			2017		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	2,695.3	111.5	2,806.8	2,874.9	125.4	3,000.3
North America	922.6	22.1	944.7	1,094.0	18.3	1,112.3
Latin America	564.3	0.3	564.6	590.0	0.7	590.7
Asia/Pacific	1,080.7	12.8	1,093.5	1,132.7	13.9	1,146.6
Other segments and activities	484.8	-	484.8	556.7	-	556.7
Eliminations		-146.7	-146.7		-158.3	-158.3
Net sales	5,747.7	-	5,747.7	6,248.3	-	6,248.3
Products for construction industry			4,518.9			4,905.4
Products for industrial manufacturing			1,228.8			1,342.9

CHANGES IN NET SALES/CURRENCY IMPACT

in CHF mn	2016	2017	Change compared to prior year (+/- in %)		
			In Swiss francs	In local currencies	Currency impact
By region					
EMEA	2,695.3	2,874.9	6.7	7.5	-0.8
North America	922.6	1,094.0	18.6	18.4	0.2
Latin America	564.3	590.0	4.6	3.3	1.3
Asia/Pacific	1,080.7	1,132.7	4.8	5.2	-0.4
Other segments and activities	484.8	556.7	14.8	14.0	0.8
Net sales	5,747.7	6,248.3	8.7	9.0	-0.3
Products for construction industry	4,518.9	4,905.4	8.6	9.0	-0.4
Products for industrial manufacturing	1,228.8	1,342.9	9.3	8.7	0.6

OPERATING PROFIT

in CHF mn	2016	2017	Change compared to prior year (+/- in %)	
By region				
EMEA	395.6	425.8	30.2	7.6
North America	166.0	193.6	27.6	16.6
Latin America	109.2	112.5	3.3	3.0
Asia/Pacific	205.7	221.2	15.5	7.5
Other segments and activities	-81.2	-56.8	24.4	n.a.
Operating profit	795.3	896.3	101.0	12.7

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	2016	2017
Operating profit	795.3	896.3
Interest income	2.6	1.9
Interest expenses	-20.4	-18.3
Other financial income	5.2	5.9
Other financial expenses	-27.4	-24.0
Income from associated companies	0.5	0.3
Profit before taxes	755.8	862.1
Income taxes	-189.2	-213.1
Net profit	566.6	649.0

in CHF mn	2016		2017	
	Depreciation/ Amortization	Capital expenditures	Depreciation/ Amortization	Capital expenditures
EMEA	84.6	75.2	85.2	60.4
North America	21.4	20.6	24.4	33.4
Latin America	11.2	18.6	12.4	24.3
Asia/Pacific	25.4	23.4	25.2	25.1
Other segments and activities	27.8	17.1	25.0	44.7
Total	170.4	154.9	172.2	187.9

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 ¹			
	2016	%	2017	%	2016	%	2017	%
Switzerland	316.5	5.5	363.4	5.8	474.2	23.9	474.8	19.9
USA	955.3	16.6	1,131.0	18.1	254.6	12.8	495.7	20.8
Germany	663.7	11.6	668.0	10.7	239.0	12.0	252.9	10.6
All other	3,812.2	66.3	4,085.9	65.4	1,018.9	51.3	1,162.2	48.7
Total	5,747.7	100.0	6,248.3	100.0	1,986.7	100.0	2,385.6	100.0

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

OTHER INFORMATION

RELATED PARTIES

As of the balance sheet date of December 31, 2017, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting rights via Schenker-Winkler Holding AG (SWH) as of December 31, 2017. On December 8, 2014, the Burkard-Schenker family announced the sale of their Sika participation to Compagnie de Saint-Gobain ("Saint-Gobain"), and, on December 11, 2014, the Burkard-Schenker family and Saint-Gobain announced the formation of a group. On April 7, 2015, the Burkard-Schenker family and Saint-Gobain announced the dissolution of their group. Saint-Gobain itself announced on April 7, 2015, that it held 52.92% of all voting rights via SWH. Legal proceedings are ongoing in connection with the planned transaction, which, as far as the company is aware, has not yet been completed. (2) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III and Melinda French Gates as well as Bill & Melinda Gates Foundation Trust, which owned 4.77% of all voting rights on the balance sheet date. (3) BlackRock, Inc., which owned 3.41% of all voting shares on the balance sheet date. 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, 2016, Sika had received notification of three significant shareholders whose voting rights exceed 3%: (1) The Burkard-Schenker family, who, according to information provided by the family, held 52.92% of all voting shares via Schenker-Winkler Holding AG as at December 31, 2016. (2) BlackRock, Inc., which owned 4.93% of all voting shares on the balance sheet date. (3) A group consisting of Threadneedle Asset Management Limited, Threadneedle Investment Services Limited, Threadneedle Management Luxembourg S.A., FIL Limited, William H. Gates III, Melinda French Gates and Bill & Melinda Gates Foundation Trust, which owned 5.00% of all voting shares on the balance sheet date.

ASSOCIATED COMPANIES. In the year under review, goods and services totaling CHF 10.4 million (CHF 10.6 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 24.0 million (CHF 23.5 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 2017 amounted to CHF 0.6 million (CHF 0.6 million).

All transactions were conducted at market conditions.

REMUNERATION OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

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

in CHF mn	2016	2017
Current benefits	7.0	8.1
Share-based payments ¹	9.5	6.4
Pension benefits	1.2	1.2
Total	17.7	15.7

¹ Refer to note 19, employee participation plan - share-based payments.

Detailed information regarding remuneration of the Board of Directors and Group Management are included in the compensation report (as of page 53 of the download version of this report). Information regarding participations of the Board of Directors and Group Management of Sika AG can be found in the Sika AG's Financial Statements (on page 147 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 21, 2018. The financial statements will be submitted for approval to the Annual General Meeting on April 17, 2018.

EVENTS AFTER THE BALANCE SHEET DATE

The following events occurred between December 31, 2017, and the release of these Consolidated Financial Statements:

ACQUISITIONS. On January 15, 2018, Sika acquired a 75% majority stake in Index S.p.A. Construction Systems and Products, Italy, a leading manufacturer of roofing and waterproofing systems. By acquiring Index, Sika will extend its product range and significantly strengthen its position in the Italian market. Its product portfolio consists of technologically advanced bituminous membranes for roofing and waterproofing, products for thermal and acoustic insulation, as well as waterproofing and repair mortars. In 2017, Index generated annual sales of around CHF 115 million. A put-and-call agreement has been concluded with the seller for the remaining 25% shares in the company. The owner of the minority interests can exercise his put option from April 2018. Sika can exercise the call option from the beginning of 2019. Therefore, Sika considers the outstanding minority interests to have already been acquired and will consolidate the stake to 100%. The total expected cash outflow is estimated at CHF 185 million. Since the final determination of the purchase price and the conversion of the accounting from a successfully managed family business to Sika's international accounting standards have not yet been completed, the information required to prepare a detailed purchase price allocation is not yet available.

In February 2018, Sika further acquired Faist ChemTec Group, a leading manufacturer of high-performance engineered, structure-borne acoustic solutions for the automotive industry. Faist ChemTec has strong technology and process know-how in modified bituminous and rubber-based extruded products for the structure-borne noise management in the automotive industry. Sika's strength in airborne noise treatments and reinforcing parts is complemented by these acquired technologies. In addition, Sika will gain knowledge in acoustic technology for the white goods market and the construction industry. Faist ChemTec achieved sales of around CHF 190 million in 2017. The cash outflow for the acquisition amounted to CHF 348 million. The antitrust authorities approved the transaction at the beginning of February 2018. The detailed figures were accessed when the transaction was completed on February 16. As the transaction was only completed so shortly before the publication of the Consolidated Financial Statements, it has not yet been possible to make independent valuations of the assets and liabilities.

LIST OF GROUP COMPANIES

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
EMEA (Europe, Middle East, Africa)					
Albania	❖ Sika Albania SHPK, Tirana	ALL	40,471	100	
Algeria	☐ Sika El Djazaïr SpA, Les Eucalyptus	DZD	313,400	100	◆
Austria	○ Sika Österreich GmbH, Bludenz	EUR	2,500	100	◆★
	○ Bitbau Dörr GmbH, Innsbruck	EUR	37	100*	
Azerbaijan	○ Sika Limited Liability Comp., Baku	AZN	5,311	100	◆
Bahrain	○ Sika Gulf B.S.C., Adliya	BHD	1,000	51*	◆★★
	▲ Sika Arabia Holding Company WLL, Manama	BHD	6,000	51	
Belarus	○ S I K A Bel LLC, Minsk	USD	300	100	
Belgium	○ Sika Belgium NV, Nazareth	EUR	10,264	100	◆★
	❖ Sika Automotive Belgium S.A., Saintes	EUR	1,649	100	◆★
Bosnia- Herzegovina	❖ Sika BH d.o.o., Sarajevo	BAM	795	100	
Bulgaria	❖ Sika Bulgaria EOOD, Sofia	BGN	340	100	◆★
Cameroon	❖ Sika Cameroon SARL, Douala	XAF	982,500	100	
Croatia	❖ Sika Croatia d.o.o., Zagreb	HRK	4,000	100	◆★
Czech Republic	○ Sika CZ, s.r.o., Brno	CZK	30,983	100	◆★
	▲ KVK Holding a.s., Prague	CZK	2,058	100*	
	○ KVK PARABIT, a.s., Svoboda nad Upou	CZK	97,232	100*	
	○ Krkonošské vápenky Kunčice, a.s., Kunčice nad Labem	CZK	25,000	100*	
Denmark	○ Sika Danmark A/S, Farum	DKK	6,000	100	◆★
Djibouti	❖ Sika Djibouti FZE, Djibouti City	USD	300	100	
Egypt	○ Sika Egypt for Construction Chemicals S.A.E., Cairo	EGP	10,000	100	◆★★
	○ Sika Manufacturing for Construction, S.A.E., Cairo	EGP	2,000	100	◆★★
Estonia	❖ Sika Estonia Oü, Tallinn	EUR	3	100	
Ethiopia	○ Sika Abyssinia Chemicals Manufacturing PLC., Addis Abeba	ETB	49,760	100	
Finland	○ Oy Sika Finland Ab, Espoo	EUR	850	100	◆★
France	○ Sika France SAS, Paris	EUR	18,018	100	◆★★
	○ Axson France SAS, Cergy-Pontoise Cedex	EUR	1,343	100*	◆★★
Germany	▲ Sika Holding GmbH, Stuttgart	EUR	26,000	100*	
	○ Sika Deutschland GmbH, Stuttgart	EUR	75	100*	◆★
	○ Sika Automotive GmbH, Hamburg	EUR	5,300	100*	◆★
	○ Sika Trocal GmbH, Troisdorf	EUR	4,000	100*	◆★
	■ Sika Bauabdichtungs-GmbH, Stuttgart	EUR	50	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	203,424	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*	

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Ivory Coast	○ Sika Côte d'Ivoire SARL, Abidjan	XOF	804,200	100	
Jordan	❖ The Swiss Construction Chemicals Co. Ltd., Amman	JOD	50	100	
Kazakhstan	○ Sika Kazakhstan LLP, Almaty	KZT	690,394	100	◆★
Kenya	○ Sika Kenya Ltd., Nairobi	KES	50,000	100	
Kuwait	❖ Sika Kuwait for Construction Materials & Paints Co WLL, Shuwaikh Industrial Area	KWD	55	51*	
Latvia	○ Sika Baltic SIA, Riga	EUR	1,237	100	
Lebanon	○ Sika Near East SAL, Beirut	LBP	400	100	
Mauritius	○ Sika (Mauritius) Ltd., Plaine Lauzun	MUR	2,600	100*	◆
Morocco	○ Sika Maroc, Casablanca	MAD	55,000	100	◆★★
Mozambique	○ Sika Moçambique Limitada, Maputo Province	MZN	205,691	100	
Netherlands	○ Sika Nederland B.V., Utrecht	EUR	1,589	100	◆★★
Nigeria	○ Sika Manufacturing Nigeria Limited, Lagos	NGN	510,350	100	
Norway	○ Sika Norge AS, Skjetten	NOK	42,900	100	◆★
Oman	❖ Sika LLC, Muscat	OMR	150	51	
Pakistan	○ Sika Pakistan (Pvt.) Ltd., Lahore	PKR	499,969	100	
Poland	○ Sika Poland Sp.z.o.o., Warsaw	PLZ	12,188	100	◆★★
Portugal	○ Sika Portugal – Produtos Construção Indústria SA, Vila Nova de Gaia	EUR	1,500	100	◆★
Qatar	❖ Sika Qatar LLC, Doha	QAR	200	51*	◆
Romania	○ Sika Romania s.r.l., Brasov	RON	1,285	100	◆★★
Russia	○ Sika LLC, Lobnya	RUB	535,340	100	◆★
Saudi Arabia	○ Sika Saudi Arabia Co Ltd., Riyadh	SAR	41,750	51	◆★
Senegal	○ Sika Sénégal SARLU, Dakar	XOF	900,000	100	
Serbia	○ Sika Srbija d.o.o., Simanovci	EUR	373	100	
Slovakia	❖ Sika Slovensko spol. s.r.o., Bratislava	EUR	1,131	100	◆★
	○ Axson Central Europe s.r.o, Zlaté Moravce	EUR	7	100	◆★
	❖ KVK Slovakia, s.r.o., Bratislava	EUR	7	100*	
Slovenia	❖ Sika Slovenija d.o.o., Trzin	EUR	1,029	100	◆★
South Africa	○ Sika South Africa (Pty) Ltd., Pinetown	ZAR	25,000	100	◆★★
Spain	○ Sika S.A.U., Alcobendas	EUR	19,867	100	◆★★
	❖ Axson Technologies Spain S.L., Les Franqueses del Valles	EUR	80	100*	
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	
	○ Klebag AG, Ennetbürgen	CHF	100	100*	
Tanzania	○ Sika Tanzania Construction Chemicals Limited, Dar es Salaam	TZS mn	3,459	100	
Tunisia	□ Sika Tunisienne Sàrl, Douar Hicher	TND	150	100*	◆★

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Turkey	○ Sika Yapi Kimyasallari A.S., Tuzla	TRY	6,700	100	◆★★
	○ ABC Kimya Sanayi ve Dış Ticaret Anonim Şirketi, Istanbul	TRY	5,200	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 Ltd., Welwyn Garden City	GBP	10,000	100	◆★★
	○ Everbuild Building Products Ltd., Leeds	GBP	21	100*	◆★★
	○ Incorez Ltd., Preston	GBP	1	100	◆★★
	❖ Axson UK Ltd., Suffolk	GBP	1	100*	
North America					
Canada	○ Sika Canada Inc., Pointe Claire/QC	CAD	5,600	100	◆★
USA	○ Sika Corporation, Lyndhurst/NJ	USD	72,710	100	◆★
	▲ Sarnafil Services Inc., Canton/MA	USD	1	100*	★
	○ Axson Tech US Inc., Madison Heights/MI	USD	4,602	100*	◆★
	○ L.M. Scofield Company, Commerce/CA	USD	32	100*	
	○ Rmax Operating LLC, Dallas/TX	USD	11,220	100*	
	○ Butterfield Color, Inc., Aurora/IL	USD	1	100*	
	○ Emseal Joint Systems Ltd., Westborough/MA	USD	1,040	100*	
	○ Emseal LLC, Westborough/MA	USD	1	100*	◆★
Latin America					
Argentina	○ Sika Argentina SAIC, Caseros	ARS	7,600	100	◆★★
Bolivia	○ Sika Bolivia SA, Santa Cruz de la Sierra	BOB	1,800	100	◆
Brazil	○ Sika S/A, Osasco	BRL	280,981	100	◆★★
Chile	○ Sika S.A. Chile, Santiago de Chile	CLP mn	4,430	100	◆★
Colombia	○ Sika Colombia SA, 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	12,150	100	
Ecuador	○ Sika Ecuatoriana SA, Guayaquil	USD	1,982	100	◆★
El Salvador	❖ Sika El Salvador S.A. de C.V., Antiguo Cuscatlán	USD	2	100	
Guatemala	○ Sika Guatemala SA, Ciudad de Guatemala	GTQ	2,440	100	
Mexico	○ Sika Mexicana SA de CV, Corregidora	MXN	270,053	100	◆★
	○ Sikalkoat de México, S.A. de C.V., Corregidora	MXN	15,050	100*	
	○ Axson Mexico S.A. de CV, Mexico City	MXN	700	100*	◆
Nicaragua	❖ Sika Nicaragua S.A., 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	
Peru	○ Sika Perú S.A.C., Lima	PEN	3,500	100	◆★
Uruguay	○ Sika Uruguay SA, Montevideo	UYP	22,800	100	◆★
Venezuela	○ Sika Venezuela SA, Valencia	VEF	29,441	100	

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Asia/Pacific					
Australia	○ Sika Australia Pty. Ltd., Wetherill Park	AUD	4,000	100	◆★★
Bangladesh	❖ Sika Bangladesh Limited, Dhaka	BDT	809	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 (Hebei) Building Material Ltd., Zhengding County	CNY	30,000	85*	◆★★
	○ Axson Technologies Shanghai Co. Ltd., Shanghai	CNY	2,666	100*	◆
	○ Ronacrete (Guangzhou) Construction Products Limited, Guangzhou	CNY	16,924	100*	
Hong Kong	○ Sika Hong Kong Ltd., Shatin	HKD	30,000	100	◆★
	❖ Ronacrete (Far East) Ltd., Shatin	HKD	450	100*	
India	○ Sika India Private Ltd., Mumbai	INR	45,000	100	◆★
	❖ Axson India Private Limited, Pune	INR	3,000	100*	
Indonesia	○ Sika Indonesia P.T., Bogor	IDR mn	3,282	100	◆★
Japan	○ Sika Ltd., Shinagawa	JPY	490,000	100	◆★
	❖ Dic Proofing Co. Ltd., Tokyo	JPY	90,000	100*	
	○ Dyflex Co. Ltd., Tokyo	JPY	315,175	100	◆★
	■ DCS Co. Ltd., Toda-shi	JPY	30,000	100*	
	○ Axson Japan K.K., Okazaki-shi	JPY	10,000	100*	
Korea	○ Sika Korea Ltd., Seoul	KRW mn	5,596	100	◆★
Malaysia	○ Sika Kimia Sdn. Bhd., Nilai	MYR	5,000	100	◆★
	▲ Sika Harta Sdn. Bhd., Nilai	MYR	10,000	100	
	○ LCS Optiroc Sdn. Bhd., Johor Bahru	MYR	100	100	◆★★
Mongolia	○ Sika Mongolia LLC, Ulaanbaatar	MNT mn	7,091	100	
Myanmar	○ Sika Myanmar Limited, Dagon Myothit (South) Township	MMK	541,363	100	
New Zealand	○ Sika (NZ) Ltd., Auckland	NZD	1,100	100	◆★
Philippines	○ Sika Philippines Inc., Las Pinas City	PHP	55,610	100	◆★
Singapore	○ Sika Singapore Pte. Ltd., Singapore	SGD	400	100	◆
	▲ Sika Asia Pacific Mgt. Pte. Ltd., Singapore	SGD	100	100	
	○ LCS Optiroc Pte. Ltd., Singapore	SGD	1,000	100	◆★★
Sri Lanka	○ Sika Lanka (Private) Limited, Ekala	LKR	129,100	100	◆★
Taiwan	○ Sika Taiwan Ltd., Taoyuan County	TWD	40,000	100	◆★
Thailand	○ Sika (Thailand) Ltd., Chonburi	THB	200,000	100	◆★★
Vietnam	○ Sika Limited (Vietnam), Dong Nai Province	VND mn	44,190	100	◆★

□ Production, sales, construction contracting

○ Production and sales

❖ Sales

▲ Real estate and service companies

■ Construction contracting

◆ ISO 9001 (Quality Management)

★ ISO 14001 (Environmental Management)

* OHSAS 18001 (Occupational Health and Safety)

¹ For associated companies see note 7.

* Company indirectly held by Sika AG.

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

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

OPINION

We have audited the consolidated financial statements of Sika AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and appendix to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 89 to 138 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, 2017, 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 17% of the Group's total assets and 28% of the Group's total shareholders' equity as at December 31, 2017. 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 2017 and determined that there was no impairment. Key assumptions as well as the results of the impairment tests are disclosed in note 6 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 Group's internal control over its annual impairment test and key assumptions applied as well as the proper authorization and approval. Further, we assessed whether the CGU structure is aligned with the organizational structure. We included in our team a valuation expert to assist us with our assessment of the WACC, expected inflation rates and the model used. We assessed sensitivities in the available headroom of CGUs and whether a possible change in assumptions such as forecasted EBITDAs, growth rate in the first year, long-term growth rate, and WACC could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of the Group's estimates and long-term business plans. Finally, we assessed the adequacy of the Group's disclosures included in note 6 of the consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

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 21, 2018

ERNST & YOUNG LTD



CHRISTOPH MICHEL
Licensed audit expert
(Auditor in charge)



MARC RÜEGSEGGER
Licensed audit expert

SIKA AG, BAAR FINANCIAL STATEMENTS

SIKA AG BALANCE SHEET AS OF DECEMBER 31

in CHF mn	Notes	2016	2017
Cash and cash equivalents	1	448.6	362.8
Securities		0.1	0.1
Other current receivables from subsidiaries	2	1,508.5	2,560.9
Other current receivables from third parties	2	2.3	2.1
Prepaid expenses and accrued income		2.4	4.4
Current assets		1,961.9	2,930.3
Investments	3	1,364.7	1,612.7
Property, plant, and equipment		0.3	0.2
Other non-current assets	4	20.7	5.8
Non-current assets		1,385.7	1,618.7
ASSETS		3,347.6	4,549.0
Accounts payable to subsidiaries	5	7.9	1.7
Accounts payable to third parties	5	1.0	0.8
Current interest-bearing liabilities to subsidiaries	6	181.7	228.7
Current interest-bearing liabilities to third parties	6	0.0	150.0
Other current liabilities to subsidiaries		0.0	2.0
Accrued expenses and deferred income	7	40.4	90.7
Current provisions	9	1.9	2.4
Current liabilities		232.9	476.3
Non-current interest-bearing liabilities	6	700.0	550.0
Other non-current liabilities	8	2.5	2.1
Non-current provisions	9	2.6	1.9
Non-current liabilities		705.1	554.0
LIABILITIES		938.0	1,030.3
Share capital		1.5	1.5
Legal capital reserves		56.5	56.5
Legal retained earnings		4.0	4.0
Voluntary retained earnings		121.7	121.7
Profit brought forward		2,236.9	3,341.6
Treasury shares	10	-11.0	-6.6
Shareholders' equity	11	2,409.6	3,518.7
LIABILITIES AND SHAREHOLDERS' EQUITY		3,347.6	4,549.0

SIKA AG INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

in CHF mn	Notes	2016	2017
Dividend income	12	337.4	391.9
Financial income	13	20.3	37.5
Trademark licenses income	14	71.8	48.6
Other income	15	19.3	22.5
Income		448.8	500.5
Financial expenses	16	-23.4	-24.5
Personnel expenses		-16.2	-16.5
Other operating expenses	17	-35.6	-20.8
Operating profit before depreciation		373.6	438.7
Impairment losses (-)/reversal of an impairment loss (+) on investments		-2.8	-1.8
Depreciation and amortization expenses	18	-8.0	-0.1
Extraordinary, non-recurring or prior-period income	19	289.0	1,000.0
Extraordinary, non-recurring or prior-period expenses	20	-1.0	0.0
Net profit before taxes		650.8	1,436.8
Direct taxes	21	-28.4	-88.4
Net profit for the year		622.4	1,348.4

NOTES TO THE SIKA AG FINANCIAL STATEMENT

PRINCIPLES

GENERAL

The 2017 financial statements were prepared according to the Swiss Law on Accounting and Financial Reporting. The significant accounting and valuation principles applied are as described below.

SECURITIES

Securities are valued at historical costs.

RECEIVABLES

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

INVESTMENTS

Investments are initially recognized at cost. On an annual basis the investments are assessed individually and adjusted to their recoverable amount if required.

PROPERTY, PLANT, AND EQUIPMENT, AND INTANGIBLE ASSETS

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

CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES

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

PROVISIONS

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

TREASURY SHARES

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

SHARE-BASED PAYMENTS

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

INFORMATION ON BALANCE SHEET AND INCOME STATEMENT ITEMS

1. CASH AND CASH EQUIVALENTS CHF 362.8 MN (CHF 448.6 MN)

All bank deposits are held in interest-bearing accounts, whereof CHF 330.3 million (CHF 406.7 million) are invested in Swiss francs and CHF 32.5 million (CHF 41.9 million) in foreign currencies.

2. OTHER CURRENT RECEIVABLES FROM SUBSIDIARIES AND THIRD PARTIES CHF 2,563.0 MN (CHF 1,510.8 MN)

Receivables consist of short-term loans to subsidiaries in the amount of CHF 2,548.9 million (CHF 1,497.0 million). The increase is due to the sale of the umbrella brand to Sika Technology AG of CHF 1,000.0 million.

In addition, Sika AG has receivables of CHF 12.0 million (CHF 11.5 million) from Sika subsidiaries and receivables from third parties in the amount of CHF 2.1 million (CHF 2.3 million).

3. INVESTMENTS CHF 1,612.7 MN (CHF 1,364.7 MN)

The change in shareholdings is essentially attributable to the acquisition of new subsidiaries and capital increases.

Major participations are indicated on the list of Group companies beginning on page 135 of the download version of this report.

4. OTHER NON-CURRENT ASSETS CHF 5.8 MN (CHF 20.7 MN)

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

5. ACCOUNTS PAYABLE TO SUBSIDIARIES AND THIRD PARTIES CHF 2.5 MN (CHF 8.9 MN)

The total includes liabilities to subsidiaries in the amount of CHF 1.7 million (CHF 7.9 million) and liabilities to third parties in the amount of CHF 0.8 million (CHF 1.0 million).

6. INTEREST-BEARING LIABILITIES CHF 378.7 MN CURRENT/CHF 550.0 MN NON-CURRENT (CHF 181.7 MN/CHF 700.0 MN)

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

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

1.000%	fixed-interest bond	2012 to 7/12/2018	CHF 150.0 mn
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The following bonds are disclosed in the non-current interest-bearing liabilities:

1.125%	fixed-interest bond	2013 to 11/14/2019	CHF 200.0 mn
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1.750%	fixed-interest bond	2012 to 7/12/2022	CHF 150.0 mn
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1.875%	fixed-interest bond	2013 to 11/14/2023	CHF 200.0 mn
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7. ACCRUED EXPENSES AND DEFERRED INCOME CHF 90.7 MN (CHF 40.4 MN)

Accrued expenses and deferred income include pro rata interest, employee-related accruals as well as other accrued expenses. Furthermore, accrued taxes in the amount of CHF 82.1 million (CHF 23.6 million) are included in 2017, resulting from the sale of the umbrella brand to Sika Technology AG.

8. OTHER NON-CURRENT LIABILITIES CHF 2.1 MN (CHF 2.5 MN)

The other non-current liabilities contain the premium, less issue costs of the bonds in the amount of CHF 1.5 million (CHF 2.0 million).

9. PROVISIONS CHF 2.4 MN CURRENT/CHF 1.9 MN NON-CURRENT (CHF 1.9 MN/CHF 2.6 MN)

The current provisions contain commitments of CHF 2.0 million to the Sika pension fund as well as liabilities from forward contracts and conditional purchase price obligations.

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

10. TREASURY SHARES CHF 6.6 MN (CHF 11.0 MN)

Treasury shares are appropriated for Group-wide share-based payment plans and used to invest liquid assets. The shares are traded at market price; in 2017 the average trading price was CHF 6,450 (CHF 4,119).

in CHF mn	Units	Share value
At January 1, 2016	343	0.9
Reductions	-8,349	-33.0
Additions	14,358	56.8
Acquisition Scofield	-3,686	-13.7
At December 31, 2016	2,666	11.0
At January 1, 2017	2,666	11.0
Reductions	-6,114	-33.7
Additions	5,153	31.3
Acquisition Scofield	-337	-2.0
At December 31, 2017	1,368	6.6

11. SHAREHOLDERS' EQUITY CHF 3,518.7 MN (CHF 2,409.6 MN)

The shareholders' equity exceeds the prior year's level. The ratio of shareholders' equity to balance sheet total increased from 72.0% to 77.4%.

in CHF mn	Capital stock	Legal capital reserves ¹	Retained earnings ²	Treasury shares	Shareholders' equity
January 1, 2016	1.5	56.5	1,938.2	-0.9	1,995.3
Dividend payment			-198.0		-198.0
Transactions with treasury shares				-10.1	-10.1
Net profit for the year			622.4		622.4
December 31, 2016	1.5	56.5	2,362.6	-11.0	2,409.6
January 1, 2017	1.5	56.5	2,362.6	-11.0	2,409.6
Dividend payment			-243.7		-243.7
Transactions with treasury shares				4.4	4.4
Net profit for the year			1,348.4		1,348.4
December 31, 2017	1.5	56.5	3,467.3	-6.6	3,518.7

1 Thereof CHF 0.3 million capital contribution reserves.

2 Retained earnings: legal retained earnings, voluntary retained earnings, and profit brought forward.

The capital stock remains unchanged. The increase in net profit is mainly due to the sale of the umbrella brand to Sika Technology AG. In April 2017, the dividend of CHF 243.7 million was paid to shareholders from the profit carried forward from 2016.

There is CHF 155,893.20 in contingent capital, unrestricted in time, comprising 259,822 bearer shares with a per-share nominal value of CHF 0.60. These shares are reserved for the exercise of option or conversion rights.

The capital stock consists of:

	Bearer shares ¹ nominal value CHF 0.60	Registered shares nominal value CHF 0.10	Total ¹
12/31/2016 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107
12/31/2017 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107

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

12. DIVIDEND INCOME CHF 391.9 MN (CHF 337.4 MN)

Dividends from subsidiaries are recognized in this position.

13. FINANCIAL INCOME CHF 37.5 MN (CHF 20.3 MN)

Financial income includes interest income and gains from foreign exchange transactions.

14. TRADEMARK LICENSES INCOME CHF 48.6 MN (CHF 71.8 MN)

Sika AG receives license fees for the use of trademarks from subsidiaries. In the previous year, royalties were collected for the umbrella brand and product brands. In the year under review, only royalties for the umbrella brand were collected, as all royalties on product brands are collected by Sika Technology AG.

15. OTHER INCOME CHF 22.5 MN (CHF 19.3 MN)

Other income includes valuation adjustments and income from the allocation of cost to subsidiaries.

16. FINANCIAL EXPENSES CHF 24.5 MN (CHF 23.4 MN)

Financial expenses include the interest costs on bonds as well as foreign currency losses on loans to subsidiaries.

17. OTHER OPERATING EXPENSES CHF 20.8 MN (CHF 35.6 MN)

This position includes the holding company's general expenses. Other operating expenses mainly include legal and consulting fees, costs related to management training as well as marketing expenses. In addition, a provision in the amount of CHF 8.1 million was released in the year under review in connection with trademark rights.

18. DEPRECIATION AND AMORTIZATION CHF 0.1 MN (CHF 8.0 MN)

The decrease in depreciation and amortization is due to the fact that, in the previous year, product brand rights which were transferred to Sika Technology AG as of December 31, 2016, were still being amortized.

19. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD INCOME CHF 1,000.0 MN (CHF 289.0 MN)

Extraordinary income includes the gain from the sale of the umbrella brand to Sika Technology AG, a wholly-owned subsidiary of Sika AG, in the amount of CHF 1,000.0 million. The previous year's income of CHF 289.0 million is attributable to the sale of the product trademarks.

20. EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD EXPENSES CHF 0.0 MN (CHF 1.0 MN)

The extraordinary expenses in the previous year include a one-off cost allocation from a subsidiary.

21. DIRECT TAXES CHF 88.4 MN (CHF 28.4 MN)

In the reporting period the increase in direct taxes is based on the non-recurring profit made from the sale of the umbrella brand to Sika Technology AG.

OTHER INFORMATION

FULL-TIME EQUIVALENTS

The number of full-time equivalents for the reporting year is 46 (41) employees.

CONTINGENT LIABILITIES

Letters of guarantee and letters of comfort are issued to finance business transactions. No guarantees are required for the established zero-balance cash pooling. Sika AG is part of Sika Schweiz AG's value-added tax group and is jointly liable to the tax authorities for the value-added tax obligations of the tax group.

in CHF mn	2016	2017
Letters of guarantee		
Issued	92.2	84.9
Used	0.0	0.0
Letters of comfort		
Issued	5.0	8.7
Used	0.3	0.5
Credit lines to subsidiaries		
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, 2017, the company had 51 (50) registered shareholders. Information regarding major shareholders can be found on page 133 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	
	2016	2017
Board of Directors		
Paul Hälg, Chairman	577	577
Urs F. Burkard ¹	67	67
Frits van Dijk	92	92
Willi K. Leimer	67	67
Monika Ribar	89	89
Daniel J. Sauter	2,067	2,067
Ulrich W. Suter	67	67
Jürgen Tinggren	99	99
Christoph Tobler	167	167
Group Management		
Paul Schuler, CEO	828	942
Jan Jenisch	1,650	n.a.
Mike Champion	n.a.	117
Christoph Ganz	431	431
Heinz Gisel	504	n.a.
Thomas Hasler	265	259
Frank Höfflin	n.a.	103
Yumi Kan	86	99
Ivo Schädler	n.a.	92
Ernesto Schümperli	913	n.a.
José Luis Vásquez	877	678
Adrian Widmer	241	261
Total	9,087	6,274

¹ Urs F. Burkard also has an interest in Schenker-Winkler Holding, which holds 2,330,853 registered shares and, according to information provided by the Burkard-Schenker family, 42,634 bearer shares in Sika AG.

In connection with share-based compensation plans the following number of shares were allocated. The shares are granted at the average market price of the first five trading days of April of the subsequent business year. In the year under review the average market price was CHF 6,290 (CHF 3,870).

in CHF thousands	2016		2017	
	Units	Nominal	Units	Nominal
Board of Directors	0	0.0	0	0.0
Group Management	599	2,315.7	406	2,553.7
Employees	213	823.5	139	874.3
Total	812	3,139.2	545	3,428.0

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	2016	2017
Composition of the profit brought forward		
Net profit for the year	622.4	1,348.4
Results carried forward from prior year	1,614.5	1,993.2
Profit brought forward	2,236.9	3,341.6
Dividend payment		
Dividend payment out of the profit brought forward ¹	243.7	281.8
Results carried forward	1,993.2	3,059.8

1 Dividend payment for shares entitled to dividends (without treasury shares as per December 31, 2017).

For the year 2016, the Board of Directors' dividend proposal amounted to CHF 102.00 per bearer share and CHF 17.00 per registered share, totalling CHF 258.8 million. Instead, the annual general meeting approved a dividend of CHF 96.00 per bearer share and CHF 16.00 per registered share, resulting in a distribution of CHF 243.7 million in the current financial year.

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	2016	2017
Bearer share¹ nominal value CHF 0.60		
Gross dividend	96.00	111.00
35% withholding tax on gross dividend	33.60	38.85
Net dividend	62.40	72.15
Registered share nominal value CHF 0.10		
Gross dividend	16.00	18.50
35% withholding tax on gross dividend	5.60	6.48
Net dividend	10.40	12.03

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

Payment of the dividend is tentatively scheduled for Monday, April 23, 2018.

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 17, 2018.

Baar, February 21, 2018

For the Board of Directors
The Chairman:
DR PAUL HÄLG

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 balance sheet, income statement, and notes to the financial statements (pages 147 to 156 of the download version of this report), for the year ended December 31, 2017.

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, 2017, 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 35% 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.

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 21, 2018

ERNST & YOUNG LTD



CHRISTOPH MICHEL
Licensed audit expert
(Auditor in charge)



MARC RÜEGSEGGER
Licensed audit expert

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES OF CONSOLIDATION AND VALUATION

CORPORATE INFORMATION

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

ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Sika have been prepared in conformity with the provisions of the International Accounting Standards Board (IASB). All standards (IAS/IFRS) and interpretations (IFRIC/SIC) applicable as of December 31, 2018, were taken into account. The financial statements have been prepared according to the going-concern principle. The consolidated financial statements have been prepared under the historical cost principle with the exception of financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 99 of the download version of this report.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting standards applied conform to those standards that were valid in the prior year. Exceptions are the following revised and new standards, which Sika applies since January 1, 2018. The application of these standards does not have any material impact on the consolidated financial statements of the Group.

- IFRS 9 – Financial instruments

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

- IFRS 15 – Revenue from contracts with customers

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

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

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

- IFRIC 22 – Foreign currency transactions and advance consideration

- Annual improvements (2014–2016 Cycle) – Collective standard with amendments to various IFRS standards with the primary goal of eliminating inconsistencies and clarifying terminology

A number of new standards and amendments to standards and interpretations are effective for the financial year 2019 and later, and have not been applied in preparing these consolidated financial statements. If they had been applied in 2018 they would have had no significant effect on the consolidated financial statements of the Group, except for IFRS 16:

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

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

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

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

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

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

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

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

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

CONSOLIDATION METHOD

BASIS

The consolidated financial statements are based on the balance sheets and income statements of Sika AG, Baar, Switzerland, and its subsidiaries as of December 31, 2018, prepared in accordance with uniform standards.

SUBSIDIARIES

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

ASSOCIATED COMPANIES

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

INTRA-GROUP TRANSACTIONS

Transactions within the Group are eliminated as follows:

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

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

CONVERSION OF FOREIGN CURRENCIES

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

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

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

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

The rates listed below were applied:

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

1 Year-end rates.

2 Annual average rates.

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

SIGNIFICANT ACCOUNTING ESTIMATES

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

IMPAIRMENT OF GOODWILL

The Group tests for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units or groups of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates such as expected future cash flows and discount rates. The carrying value of goodwill as of December 31, 2018, was CHF 1,223.3 million (CHF 892.2 million). Further details are presented in note 16.

FAIR VALUE OF ACQUISITION

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

TRADEMARKS WITH INDEFINITE USEFUL LIVES

Trademarks with indefinite useful lives are tested annually for impairment. The impairment test is performed on the cash-generating unit or group of cash-generating units to which the trademark is allocated. This group can comprise several operating segments. The calculations of the recoverable amount require the use of estimates such as expected future cash flows and discount rates. The carrying value of trademarks with indefinite useful lives as of December 31, 2018, was CHF 72.4 million (CHF 72.4 million). Further details are presented in note 16.

CUSTOMER RELATIONS

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

DEFERRED TAX ASSETS

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

EMPLOYEE BENEFIT OBLIGATIONS

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

PROVISIONS

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

SCOPE OF CONSOLIDATION AND ACQUISITIONS

The consolidated financial statements of the Group comprise the financial statements of Sika AG, Zugerstrasse 50, 6340 Baar, Switzerland, as well as its subsidiaries (see list starting on page 136 et seq. of the download version of this report) and associated companies (see note 17). In the year under review the scope of consolidation was expanded to include the newly acquired companies (see the next pages) and the following companies:

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

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

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

ACQUISITIONS 2017

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

ACQUIRED NET ASSETS AT FAIR VALUE

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

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

Since the purchase, Rmax has contributed sales of CHF 66.6 million and net profit of CHF 5.7 million in 2017. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 5.4 million. Consolidated net profit would have been CHF 0.8 million higher.

Since the purchase, KVK has contributed sales of CHF 11.9 million and net loss of CHF 1.2 million in 2017. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 38.0 million. Consolidated net profit would have been CHF 3.2 million higher.

As the acquisition was completed shortly before the end of the year 2017, Emseal has not yet contributed any share of sales. Due to the tax rate reduction in the USA, however, there has been a profit since the purchase of CHF 5.0 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 39.7 million. Consolidated net profit would have been CHF 4.1 million higher.

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

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

ACQUISITIONS 2018

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

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

INDEX S.P.A. CONSTRUCTION SYSTEMS AND PRODUCTS

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

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

Since the purchase, Index has contributed sales of CHF 121.3 million and net profit of CHF 6.0 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales and the additional profit share would have been immaterial. Accounts receivable of Index had a gross value of CHF 44.4 million and were adjusted since CHF 3.6 million were classified as non-recoverable.

FAIST CHEMTEC GROUP

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

Faist ChemTec has contributed sales of CHF 163.7 million and net profit of CHF 1.4 million. If the acquisition had taken place on the first day of the business year, its additional contribution to consolidated net sales would have been CHF 25.6 million. Consolidated net profit would have been CHF 1.0 million higher. Accounts receivable of Faist ChemTec had a gross value of CHF 28.0 million and were adjusted, since CHF 0.8 million were classified as non-recoverable.

OTHER ACQUISITIONS

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

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

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

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

ACQUIRED NET ASSETS AT FAIR VALUE

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Extended warranty contracts are sold for certain products on installed roofing systems. Revenue for separately priced extended warranties is deferred and recognized on a straight-line basis over the extended warranty period. The average warranty period is nine years (nine years). In 2018, revenues of CHF 4.4 million (CHF 4.2 million) were recognized. The deferred revenue positions are included in accrued expenses and deferred income (see note 19) as well as in other liabilities (see note 23).

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

2. SEGMENT REPORTING

Sika conducts its worldwide activities according to geographical regions and the global segment Global Business. Heads of the segments are members of Group Management. Group Management is the highest executive body that measures the success of the operating segments and allocates resources. The key figure of profit by which the segments are directed is operating profit, which is consistent with the consolidated financial statements. Financing (including financial expenses and income) and income taxes are managed on a Group-wide basis and are not allocated to the individual segments. The composition of the segments is shown on page 40 of the download version of this report.

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

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

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

NET SALES

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

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

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

CHANGES IN NET SALES/CURRENCY IMPACT

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

OPERATING PROFIT

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

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

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

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

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

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

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

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

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

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

Personnel expenses comprise all payments to persons in an employment relationship with Sika. This item also includes expenses such as pension fund contributions, health insurance contributions as well as taxes and levies directly related to personnel remuneration.

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

EMPLOYEE BENEFIT COSTS

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

¹ Includes pension expense recognized in income statement (see note 22) without interest income/interest expenses.

EMPLOYEE PARTICIPATION PLAN – SHARE-BASED PAYMENTS

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

PERFORMANCE BONUS (SHORT-TERM INCENTIVE). Sika Senior Management (by definition, Sika Senior Management includes the management level reporting into Group Management, managing directors of subsidiaries and heads of central and regional functions; 187 participants) and Group Management receive shares of Sika AG as a component of their variable compensation. The shares are granted at the average market price of the first five trading days in April of the subsequent business year. The allocated shares are subject to a blocking period of four years. The following different share plans are in place:

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

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

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

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

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

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

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

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

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

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

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

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

Research and development expenses are not capitalized if the recognition criteria have not been met. Expenditures on research and development in the Group during the year under review totaled CHF 189.5 million (CHF 184.6 million), roughly equivalent to 2.7% (3.0%) of sales. Research and development expenses are included in personnel expenses, other operating expenses, as well as in depreciation and amortization expenses.

6. INTEREST EXPENSES/OTHER FINANCIAL EXPENSES CHF 61.3 MN (CHF 42.3 MN)

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

Interest expenses consist mainly of interest expenses for bond issues outstanding in the amount of CHF 18.0 million (CHF 10.4 million). Other financial expenses include foreign exchange gains and losses from the management of foreign currency as well as net gains and losses from hedging and revaluation of loans to Group companies denominated in foreign currencies. Other financial expenses increased to CHF 35.2 million (CHF 24.0 million).

7. INTEREST INCOME/OTHER FINANCIAL INCOME/INCOME FROM ASSOCIATED COMPANIES CHF 8.3 MN (CHF 8.1 MN)

Interest income is recognized pro rata temporis using the effective interest method. Short-term surpluses in liquidity in various countries led to interest income of CHF 1.9 million (CHF 1.9 million). Income from associated companies is CHF 0.6 million (CHF 0.3 million).

8. INCOME TAXES

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

RECONCILIATION BETWEEN EXPECTED AND EFFECTIVE TAX EXPENSE

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

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

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

The anticipated average Group income tax rate of 20.8% (23.4%) corresponds with the average tax on profits of the individual Group companies in their respective fiscal jurisdictions. The change in the anticipated tax rate is attributable to changing profits of the Group companies in their respective fiscal jurisdictions and to changes in their tax rates in some cases.

Tax liabilities include taxes due and accrued. Deferred taxes are calculated using the liability method. According to this method the effects on income taxes resulting from temporary differences between Group-internal and taxable balance sheet values are recorded as deferred tax assets or deferred tax liabilities, respectively. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recognized or the liability is settled based on the rates (and tax laws) that have been substantively enacted. Changes in deferred taxes are reflected in the income tax expense, the statement of comprehensive income, or directly in equity. Deferred income tax liabilities are provided for taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets including those that can be applied to carried forward tax losses are recognized to the extent that their realization is probable. Deferred tax liabilities are recognized for all taxable temporary differences insofar as the accounting regulations foresee no exception.

RECONCILIATION OF NET DEFERRED TAX ASSETS

in CHF mn	2017	2018
January 1	49.5	98.8
Credited (+)/debited (-) to income statement	81.0	12.5
Credited (+)/debited (-) to other comprehensive income	-11.6	5.3
Credited (+)/debited (-) to equity	0.0	-3.4
Exchange differences	-0.4	-2.6
Acquisitions/divestments	-19.7	-41.6
December 31	98.8	69.0

ORIGIN OF DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

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

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

9. EARNINGS PER SHARE CHF 4.69 (CHF 4.23)

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

1 Excluding treasury shares held in the Group.

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

Undiluted earnings per share (EPS) amount to CHF 4.69 (CHF 4.23) and are calculated on the basis of net profit after non-controlling interests and the number of shares entitled to dividend, weighted over the course of the year. The share capital reduction of September 7, 2018 (see note 24), is also taken into account (weighted).

The convertible bond issued (see note 20) has a dilutive effect. For the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted. It is assumed that all conversion rights were already exercised at the time of issue. In addition, the profit attributable to Sika shareholders will be increased by the interest costs for the convertible bond in the amount of CHF 6.0 million after consideration of the tax effect. Diluted earnings per share amount to CHF 4.58 (no dilution effect in prior year).

10. CASH AND CASH EQUIVALENTS CHF 914.0 MN (CHF 1,037.9 MN)

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

11. ACCOUNTS RECEIVABLE CHF 1,322.9 MN (CHF 1,188.8 MN)

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

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

AGE DISTRIBUTION OF ACCOUNTS RECEIVABLE

in CHF mn	2017 ¹	2018
Net accounts receivable	1,188.8	1,322.9
Of which		
Not overdue	907.3	1,010.3
Past due < 31 days	172.0	182.0
Past due 31-60 days	47.9	56.9
Past due 61-180 days	44.7	51.1
Past due > 181 days	16.9	22.6

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

MOVEMENTS ON THE ALLOWANCE FOR DOUBTFUL DEBTS

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

The increase and decrease of allowances for doubtful debts are recognized in other operating expenses. Amounts entered as allowances are usually derecognized when payment is no longer expected.

12. INVENTORIES CHF 800.7 MN (CHF 729.5 MN)

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

Raw materials and merchandise are stated at historical cost and finished and semi-finished products are stated at production cost, however not exceeding net realizable sales value. The production costs comprise all directly attributable material and manufacturing costs as well as other costs incurred in bringing the inventories to their present location and condition. Acquisition or production costs are determined using a standard cost approach, or alternatively using the weighted average cost method. Net realizable value corresponds to the estimated selling price in the ordinary course of business less the estimated costs of completion and the selling costs. Allowances are made for obsolete and slow-moving inventories.

13. PREPAID EXPENSES AND ACCRUED INCOME CHF 112.0 MN (CHF 116.2 MN)

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

14. OTHER ASSETS CHF 95.3 MN (CHF 106.8 MN)**OTHER CURRENT ASSETS**

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

OTHER NON-CURRENT ASSETS

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

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 1,214.2 MN (CHF 1,065.2 MN)

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

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

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

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

DEPRECIATION SCHEDULE

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

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

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

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

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

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

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

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

Internally generated patents, trademarks, and other rights are not capitalized. Research and development expenditures for new products are recognized in the income statement, since these do not fulfill the recognition criteria. Acquired intangible assets are generally capitalized and amortized using the straight-line method.

Development costs for software are capitalized as intangible assets, provided that the software will generate a future economic benefit through sale or use within the Group and that its cost can be reliably measured. Conditions for capitalization are the technical feasibility of the asset and the intention and ability to complete its development, as well as the availability of adequate resources. Sika has created an SAP platform with standard processes that a number of companies have been using since 2010. The further rollout will take several years to complete. The capitalized costs are transferred to the companies in the year of first use.

AMORTIZATION SCHEDULE

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

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

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

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

GOODWILL ITEMS TESTED FOR IMPAIRMENT. Impairment tests were performed on all goodwill items. The carrying amounts of trademarks with indefinite useful lives are allocated to the carrying amounts of the cash-generating units in accordance with the proportionate share of sales. The impairment tests are based on the discounted cash flow method. The calculation of the value in use is based on the target figures and cash flow forecasts. The forecasting horizon is three years as approved by the Board of Directors. The growth rates upon which the forecast is set correspond to the market expectations of the cash-generating units and range between 6.4% and 9.9% (4.5% and 9.8%) per year. The sensitivity analysis carried out shows that a realistic change in the key assumptions (-1% in growth rates or +0.5% of the discount rate) would not result in the realizable value falling below the book value. The discount rates are determined on the basis of the weighted average cost of capital of the Group, with country- and currency-specific risks within the context of cash flows taken into consideration. The segments constitute the cash-generating units.

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

Goodwill assigned to cash-generating units

in CHF mn	Growth rates beyond the planning period (%)	Discount rates pre-tax (%)	Trademarks with indefinite useful lives	Goodwill
December 31, 2017				
Construction business EMEA	2.1	7.2	27.7	465.8
Industrial manufacturing EMEA	2.2	7.4		20.9
Construction business North America	2.3	9.8	44.7	241.9
Construction business Latin America	3.9	17.7		22.3
Construction business Asia/Pacific	2.5	9.8		90.1
Automotive	2.0	8.7		51.2
Total			72.4	892.2
December 31, 2018				
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
Total			72.4	1,223.3

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

The following associated companies are included in the consolidated Financial Statements as of December 31, 2018: Condensil SARL, France (Sika stake 40%), Part GmbH, Germany (50%), Sarna Granol AG, Switzerland (50%), Hayashi-Sika Automotive Ltd., Japan (50%), Chemical Sangyo Ltd., Japan (50%), and Seven Tech Co. Ltd., Japan (50%). The stakes are unchanged compared to the prior year.

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

ASSOCIATED COMPANIES (PARTICIPATIONS BETWEEN 20% AND 50%)

in CHF mn	2017	2018
Sales	21.7	19.4
Profit	0.3	0.4

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

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

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

Accrued expenses and deferred income relate to outstanding invoices and liabilities for the past financial year, including performance-based compensation payables to employees and social security expenses in the following year. In addition, deferred revenues for warranty extensions in the amount of CHF 4.2 million (CHF 4.0 million) are included (see note 1).

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

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

Current financial liabilities consist of liabilities with maturities of less than twelve months. Non-current financial liabilities include financing operations with a term of more than one year.

A number of Group companies have their own credit lines. The total amount is insignificant in scale. The credit lines are used in individual cases when intra-Group financing is not permitted or there are benefits from local financing.

Sika AG has the following bonds outstanding:

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

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

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

On May 15, 2018, Sika also placed an unsecured convertible bond in the amount of CHF 1,650.0 million due in 2025 with payment date on June 5, 2018. The issue price and the redemption prices are set at 100%. The convertible bond has a coupon of 0.15% p.a. The shares to be delivered upon conversion will be made available by existing shares or by the issue of new shares from the conditional capital. The conversion price per share is CHF 190.3579. This corresponds to a conversion premium of 40.0% over the share price when the bond was placed.

The convertible bond is split into a liability and an equity component for accounting purposes. The liability component corresponds to the market value of an identical bond, but without conversion rights, and is carried at amortized cost. The equity component is calculated as the difference between the issue proceeds. The equity component is no longer revalued. The issue costs were allocated in proportion to the allocation of proceeds to the liability and equity components.

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

No rights were converted in the reporting period.

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

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

In summary, financial liabilities changed as follows:

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

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

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

21. PROVISIONS CHF 70.2 MN (CHF 76.4 MN)

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

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

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

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

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

CONTINGENT LIABILITIES. Given the Group's international operations, there are inherent tax risks which cannot be conclusively estimated. In ongoing business activity the Group may be involved in legal proceedings such as lawsuits, claims, investigations, and negotiations due to product liability, mercantile law, environmental protection, health, and safety, etc. There are no current proceedings of this nature pending which could have significant influence on business operations, or on the Group's financial position or income. The Group is active in countries in which political, economic, social, and legal developments could impair business activity. The effects of such risks which can occur in the normal course of business is unforeseeable. In addition, their probability of occurrence lies below 50%.

22. EMPLOYEE BENEFIT OBLIGATIONS

in CHF mn	2017			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Employee benefit plans with defined benefits	47.3	184.5	137.2	16.7	190.5	173.8
Other employee commitments	-	75.5	75.5	-	78.2	78.2
Total	47.3	260.0	212.7	16.7	268.7	252.0

The Group maintains various employee benefit plans that differ in accordance with local practices. Group contributions to defined contribution plans are recognized in the income statement. Defined benefit plans are administered either through self-governed pension funds (funded) or recognized directly in the balance sheet (unfunded). The amount of the liabilities resulting from defined benefit plans is regularly determined by independent experts under application of the projected unit credit method. Actuarial gains and losses are recognized directly in the statement of other comprehensive income and are not reclassified subsequently to profit and loss. Asset surpluses of employee pension funds are considered only to the extent of possible future reimbursement or reduction of contributions.

DEFINED CONTRIBUTION PENSION FUNDS. The majority of Sika subsidiaries operate defined contribution pension plans. In these, employees and employer regularly contribute to funds administered by third parties. This does not give rise to any assets or liabilities in the consolidated balance sheet.

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

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

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

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

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

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

MOVEMENT IN THE NET DEFINED BENEFIT OBLIGATION

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

in CHF mn	Present value of obligation	Fair value of plan assets	Impact of asset ceiling	Total
At January 1, 2018	-898.4	762.8	-1.6	-137.2
Current service cost	-29.7			-29.7
Interest expense/interest income	-8.8	5.8		-3.0
Past service cost and gains and losses on settlements and curtailments	-0.2			-0.2
Total expense recognized in income statement	-38.7	5.8		-32.9
thereof Switzerland	-27.1	5.2		-21.9
thereof others	-11.6	0.6		-11.0
Return on plan assets, excluding amounts included in interest income		-36.1		-36.1
Gains (+)/losses (-) from change in financial assumptions	10.8			10.8
Gains (+)/losses (-) from change in demographic assumptions	-1.7			-1.7
Experience gains (+)/losses (-)	-2.7			-2.7
Change in asset ceiling			-0.3	-0.3
Total remeasurement recognized in other comprehensive income	6.4	-36.1	-0.3	-30.0
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
At December 31, 2018	-917.9	746.0	-1.9	-173.8
thereof Switzerland	-725.0	717.2	-1.9	-9.7
thereof others	-192.9	28.8	0.0	-164.1

The contributions that are expected to be paid into the defined benefit pension plans for 2019 amount to CHF 19.5 million.

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

The stated deficit results mainly from the defined benefit obligation of the unfunded benefit plans of CHF 145.0 million (CHF 146.9 million). Schemes in Germany, in particular, do not have segregated assets. For the Swiss pension plans the result is a deficit of CHF 9.7 million (surplus of CHF 26.8 million).

MAJOR CATEGORIES OF TOTAL PLAN ASSETS

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

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

AMOUNTS INCLUDED IN PLAN ASSETS

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

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

ACTUARIAL ASSUMPTIONS (WEIGHTED AVERAGE)

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

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

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

NUMBER OF PLANS

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

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

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

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

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

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

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

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

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

CAPITAL STOCK

in CHF mn	Number	2017	2018
Registered shares, nominal value CHF 0.10	2,333,874	0.2	-
Bearer shares, nominal value CHF 0.60	2,151,199	1.3	-
Registered shares, nominal value CHF 0.01	141,781,160	-	1.4
Capital stock		1.5	1.4

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

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

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

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

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

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

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

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

The Board of Directors proposes to the Annual General Meeting payment of a dividend of CHF 2.05 per registered share, in the total amount of CHF 290.6 million, to the shareholders of Sika AG.

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

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

25. CASH FLOW STATEMENT

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

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

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

FREE CASH FLOW AND OPERATING FREE CASH FLOW

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

OTHER ADJUSTMENTS. Included in "Other adjustments" are:

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

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Sika's financial instruments and the related risk management are presented in this note.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS. The classification depends on the financial asset's contractual cash flow characteristics. Sika uses the following categories:

- At amortized cost - Financial assets at amortized cost are measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the income statement when the asset is derecognized, modified or impaired. Financial assets measured at amortized cost mainly comprise accounts receivable as well as smaller loans and other receivables. Accounts receivable are measured at the transaction price.
- At fair value through profit or loss - Financial assets held for trading and derivatives are carried at fair value through profit or loss. Fluctuations in value are recognized in the income statement. The classification of equity instruments in this category is consistent with the Group's risk management and investment strategy. Sika does not apply hedge accounting.

All purchases and sales of financial assets are recognized on the settlement date. Financial assets are derecognized when Sika loses the rights to receive cash flows that comprise the financial asset. Normally this occurs through the sale of assets or the repayment of loans and accounts receivable.

At each balance sheet date Sika determines whether a financial asset is impaired. If there are objective indications that an impairment of assets carried at amortized cost has occurred or could occur based on forward-looking data, the amount of the impairment is the difference between the carrying amount of the asset and the present value of expected future cash flows, discounted at the original effective interest rate.

For accounts receivable Sika applies a simplified approach in calculating expected credit losses. Therefore, an allowance is recognized at initial recognition and also at each subsequent balance sheet date for the expected credit losses over the entire term. Sika has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors. Receivables are derecognized if they are classified as uncollectible.

PROVISION MATRIX OF ACCOUNTS RECEIVABLE

in CHF mn	Estimated total gross carrying amount at default	Expected credit losses
Not overdue	909.1	1.8
Past due < 31 days	174.7	2.7
Past due 31-60 days	50.5	2.6
Past due 61-180 days	53.8	9.1
Past due > 181 days	69.2	52.3
December 31, 2017	1,257.3	68.5
Not overdue	1,012.1	1.8
Past due < 31 days	184.5	2.5
Past due 31-60 days	59.7	2.8
Past due 61-180 days	60.2	9.1
Past due > 181 days	74.6	52.0
December 31, 2018	1,391.1	68.2

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES. All financial liabilities are initially recognized at fair value, in the case of bonds and loans less directly attributable transaction costs. Subsequent measurement depends on their classification:

- At amortized cost – After initial recognition, interest-bearing bonds and loans are measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are amortized or derecognized. Amortized cost is calculated taking into account any premium or discount and any fees or costs that are an integral part of the effective interest rate. Amortization using the effective interest method is included in the income statement as part of interest expense.
- At fair value through profit or loss – Financial liabilities held for trading and derivative financial instruments are carried at fair value through profit or loss. Fluctuations in value are recognized in the income statement. Sika does not apply hedge accounting.

All purchases and sales of financial liabilities are recognized on the settlement date. A financial liability is derecognized when the underlying obligation has been fulfilled, cancelled or expired. If an existing financial obligation is replaced by another financial liability of the same lender with substantially different contractual terms or if the terms of an existing liability are significantly changed, such an exchange or change is treated as a derecognition of the original liability and recognition of a new liability.

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES. The hierarchy below classifies financial instruments, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: procedures in which all input parameters having an essential effect on the registered market value are either directly or indirectly observable.
- Level 3: procedures applying to input parameters that have an essential effect on the registered market value but are not based on observable market data.

An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis. Sika does not own any financial instruments requiring evaluation according to level 3 procedures.

FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

The book value of cash and cash equivalents, accounts receivable, loans, bank loans, accounts payable, and other financial liabilities almost equals the fair value.

MANAGEMENT OF FINANCIAL RISKS

BASIC PRINCIPLES. The Group's activities expose it to a variety of financial risks: market risks (primarily foreign exchange risks, price risks, and interest rate risks), credit risks, and liquidity risks.

The corporate finance department identifies, evaluates, and hedges financial risks in close cooperation with the Group's operating units. Property, plant and equipment of CHF 0.8 million (CHF 1.1 million) are pledged as security for own liabilities.

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

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

OPEN DERIVATIVES

in CHF mn	Replacement value		Contractual value upon maturity		
	(+)	(-)	Contract value	Up to 3 months	3 to 12 months
Open derivatives 2017					
Forward contracts (foreign exchange)	0.3	-1.7	166.9	90.8	76.1
Swaps (foreign exchange)	4.8	-4.0	1,013.0	335.8	677.2
Total derivatives	5.1	-5.7	1,179.9	426.6	753.3
Open derivatives 2018					
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
Total derivatives	17.7	-2.3	1,550.9	346.4	1,204.5

Losses from currency differences recognized in the income statement amounted to CHF 49.6 million (gain CHF 24.4 million). They were recognized in the corresponding expense items. The currency differences arise from purchases and sales as well as financing activities in foreign currencies. In addition, a net gain of CHF 12.0 million (net loss of CHF 56.0 million) was generated from currency hedging transactions, which is included in other financial expenses.

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

SENSITIVITY ANALYSIS ON EXCHANGE RATES

Impact on profit before tax in CHF mn	2017	2018
EUR: +10%	-6.0	0.5
EUR: -10%	6.0	-0.5
USD: +10%	-12.1	-8.8
USD: -10%	12.1	8.8

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

INTEREST RATE RISK. Interest rate risks result from changes in interest rates, which could have a negative impact on the Group's financial position, cash flow, and earnings situation. Interest rate risk is limited through the issue of fixed-interest long-term bonds (nominal CHF 3,050.0 million). A change in the rate of interest would therefore alter neither annual financial expenses nor shareholders' equity materially. Local bank loans and mortgages are insignificant. Interest rate developments are closely monitored by management.

CREDIT RISK. Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge its obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and banks. In addition, accounts receivable are monitored on an ongoing basis via internal reporting procedures. Potential concentrations of risks are reduced by the large number of customers and their geographic dispersion. No individual customer represents more than 3.0% of the Group's net sales. The Group held no securities for loans and accounts receivable at year-end 2017 nor at year-end 2018. The largest possible risk represented by these items is the carrying amount of the accounts receivable and any warranties granted.

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

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

MATURITY PROFILE OF FINANCIAL LIABILITIES

in CHF mn	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
December 31, 2017				
Bank loans	22.6	0.9	0.0	23.5
Bonds	160.1	377.8	203.7	741.6
Accounts payable	730.9	0.0	0.0	730.9
Other financial liabilities	24.0	2.7	0.7	27.4
Financial liabilities measured at amortized cost	937.6	381.4	204.4	1,523.4
Financial liabilities at fair value through profit and loss	5.7	0.0	0.0	5.7
Total	943.3	381.4	204.4	1,529.1
December 31, 2018				
Bank loans	13.8	0.0	0.0	13.8
Bonds	215.2	728.7	2,186.3	3,130.2
Accounts payable	733.8	0.0	0.0	733.8
Other financial liabilities	21.5	1.4	0.7	23.6
Financial liabilities measured at amortized cost	984.3	730.1	2,187.0	3,901.4
Financial liabilities at fair value through profit and loss	2.3	0.0	0.0	2.3
Total	986.6	730.1	2,187.0	3,903.7

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

OTHER INFORMATION

SIGNIFICANT SHAREHOLDERS

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

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

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

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

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

RELATED PARTIES

ASSOCIATED COMPANIES. In the year under review, goods and services totaling CHF 9.3 million (CHF 10.4 million) were delivered to associated companies. These transactions occurred on the usual conditions between wholesale partners.

EMPLOYEE BENEFIT PLANS. In Switzerland, employee benefit plans are handled through independent foundations, to which a total of CHF 27.5 million (CHF 24.0 million) was paid in the year under review. As of the balance sheet date, no material receivables or payables were due from these foundations. Sika offices are located in a building leased from the pension fund foundation. Rent for 2018 amounted to CHF 0.6 million (CHF 0.6 million).

All transactions were conducted at market conditions.

REMUNERATION OF THE BOARD OF DIRECTORS AND GROUP MANAGEMENT

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

in CHF mn	2017	2018
Current benefits	8.1	15.5
Share-based payments ¹	6.4	12.1
Pension benefits	1.2	1.2
Total	15.7	28.8

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

In the year under review the remuneration of CHF 10.3 million to the Board of Directors for the terms of office 2015 to 2018 is included. Part of the compensation is paid in the form of Sika AG shares. The fair value of the shares allocated was CHF 0.7 million each at the beginning of the respective term of office. Due to the increase in the share price the fair value at the time of payment increased to CHF 4.4 million. In the previous year, the Board of Directors did not receive any compensation. Detailed information regarding remuneration of the Board of Directors and Group Management are included in the compensation report (as of page 68 of the download version of this report). Information regarding participations of the Board of Directors and Group Management of Sika AG can be found in the Sika AG's financial statements (on page 157 of the download version of this report).

RELEASE OF FINANCIAL STATEMENTS FOR PUBLICATION

The Board of Directors of Sika AG approved the consolidated financial statements for publication on February 20, 2019. The financial statements will be submitted for approval to the Annual General Meeting on April 9, 2019.

EVENTS AFTER THE BALANCE SHEET DATE

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

ACQUISITIONS. In December 2018, Sika agreed to acquire Arcon Membrane Srl, a leading manufacturer of waterproofing systems for buildings and roofs in Romania. With this acquisition Sika strengthens its position in the Romanian market and significantly expands its product range to meet the increasing demand for complete solutions for roof and structural waterproofing. The transaction is subject to approval by the antitrust authorities. The exact amount and distribution of the assets are not yet known. The amounts are also immaterial from the Group's perspective. Arcon generated annual sales of approximately CHF 23 million in 2018.

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

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

LIST OF GROUP COMPANIES

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
EMEA (Europe, Middle East, Africa)					
Albania	❖ Sika Albania SHPK, Tirana	ALL	40,471	100	
Algeria	☐ Sika El Djazaïr SpA, Les Eucalyptus	DZD	313,400	100	◆★★
Austria	○ Sika Österreich GmbH, Bludenz	EUR	2,500	100	◆★★
	○ Bitbau Dörr GmbH, Innsbruck	EUR	37	100*	◆★★
Azerbaijan	○ Sika Limited Liability Comp., Baku	AZN	5,311	100	
Bahrain	○ Sika Gulf B.S.C., Adliya	BHD	1,000	51*	◆★★
	▲ Sika Arabia Holding Company WLL, Manama	BHD	6,000	51	
Belarus	○ S I K A Bel LLC, Minsk	USD	300	100	
Belgium	○ Sika Belgium NV, Nazareth	EUR	10,264	100	◆★★
	❖ Sika Automotive Belgium S.A., Saintes	EUR	1,649	100	◆★★
Bosnia-Herzegovina	❖ Sika BH d.o.o., Sarajevo	BAM	795	100	
Bulgaria	❖ Sika Bulgaria EOOD, Sofia	BGN	340	100	◆★★
Cameroon	○ Sika Cameroon SARL, Douala	XAF	856,500	100	
Croatia	❖ Sika Croatia d.o.o., Zagreb	HRK	4,000	100	◆★★
Czech Republic	○ Sika CZ, s.r.o., Brno	CZK	30,983	100	◆★★
	▲ KVK Holding, a.s., Prague	CZK	2,058	100*	◆★★
	○ KVK PARABIT, a.s., Svoboda nad Upou	CZK	97,232	100*	◆★★
	○ Krkonošské vápenky Kunčice, a.s., Kunčice nad Labem	CZK	25,000	100*	◆★★
Denmark	○ Sika Danmark A/S, Farum	DKK	6,000	100	◆★★
Djibouti	❖ Sika Djibouti FZE, Djibouti City	USD	300	100	
Egypt	○ Sika Egypt for Construction Chemicals S.A.E., Cairo	EGP	10,000	100	◆★★
	○ Sika Manufacturing for Construction S.A.E., Cairo	EGP	2,000	100	◆★★
Estonia	❖ Sika Estonia Oü, Tallinn	EUR	3	100	
Ethiopia	○ Sika Abyssinia Chemicals Manufacturing PLC., Addis Ababa	ETB	78,240	100	
Finland	○ Oy Sika Finland Ab, Espoo	EUR	850	100	◆★★
France	○ Sika France SAS, Paris	EUR	18,018	100	◆★★
	○ Sika Automotive France SAS, Cergy-Pontoise Cedex	EUR	1,343	100*	◆★★
Germany	▲ Sika Holding GmbH, Stuttgart	EUR	26,000	100*	
	○ Sika Deutschland GmbH, Stuttgart	EUR	75	100*	◆★★
	○ Sika Automotive Hamburg GmbH, Hamburg	EUR	5,300	100*	◆★★
	○ Sika Trocal GmbH, Troisdorf	EUR	4,000	100*	◆★★
	■ Sika Bauabdichtungs-GmbH, Stuttgart	EUR	50	100*	
	○ Sika Automotive Frankfurt-Worms GmbH, Worms	EUR	1,000	100*	◆★★
	▲ Sika Frankfurt Grundstücksgesellschaft mbH, Worms	EUR	25	100*	
	▲ Sika Worms Grundstücksgesellschaft mbH, Worms	EUR	25	100*	
○ Hago PU GmbH, Munich	EUR	1,000	100		
Greece	○ Sika Hellas ABEE, Kryoneri	EUR	9,000	100	◆★★
Hungary	❖ Sika Hungária Kft., Budapest	HUF	483,000	100	◆★★
Iran	○ Sika Parsian P.J.S. Co., Tehran	IRR mn	293,229	100	
Iraq	○ Sika for General Trading LLC, Erbil	IQD	1,000	100	
Ireland	❖ Sika Ireland Ltd., Dublin	EUR	1,270	100	◆

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Italy	○ Sika Italia S.p.A., Peschiera Borromeo	EUR	5,000	100	◆★★
	○ Sika Engineering Silicones S.r.l., Peschiera Borromeo	EUR	1,600	100*	◆★★
	○ Sika Polyurethane Manufacturing S.r.l., Cerano	EUR	1,600	100	◆★★
	❖ Axson Italia S.r.l., Saronno	EUR	50	100*	
	Index Construction Systems and Products S.P.A., Castel D'Azzano	EUR	7,740	100*	◆★★
Ivory Coast	○ Sika Côte d'Ivoire SARL, Abidjan	XOF mn	1,346	100	
Jordan	❖ The Swiss Construction Chemicals Co. Ltd., Amman	JOD	50	100	
Kazakhstan	○ Sika Kazakhstan LLP, Almaty	KZT	690,394	100	◆★★
Kenya	○ Sika Kenya Limited, Nairobi	KES	50,000	100	
Kuwait	❖ Sika Kuwait for Construction Materials & Paints Co WLL, Shuwaikh Industrial Area	KWD	55	51*	
Latvia	○ Sika Baltic SIA, Riga	EUR	1,237	100	
Lebanon	○ Sika Near East SAL, Beirut	LBP	400	100	
Mauritius	○ Sika (Mauritius) Ltd., Plaine Lauzun	MUR	2,600	100*	◆
Morocco	○ Sika Maroc, Casablanca	MAD	55,000	100	◆★★
Mozambique	○ Sika Moçambique Limitada, Maputo Province	MZN	286,454	100	
Netherlands	○ Sika Nederland B.V., Utrecht	EUR	1,589	100	◆★★
Nigeria	○ Sika Manufacturing Nigeria Limited, Lagos	NGN mn	1,350	100	
Norway	○ Sika Norge AS, Skjetten	NOK	42,900	100	◆★★
Oman	❖ Sika LLC, Muscat	OMR	150	51	
Pakistan	○ Sika Pakistan (Pvt.) Ltd., Lahore	PKR	499,969	100	
Poland	○ Sika Poland Sp. z o.o., Warsaw	PLZ	12,188	100	◆★★
	○ Sika Automotive Zlotoryja Sp. z o.o., Zlotoryja	PLZ	6,000	100*	◆★★
Portugal	○ Sika Portugal – Produtos Construção Indústria SA, Vila Nova de Gaia	EUR	1,500	100	◆★★
Qatar	○ Sika Qatar LLC, Doha	QAR	200	51*	◆
Romania	○ Sika Romania s.r.l., Brasov	RON	1,285	100	◆★★
Russia	○ Sika LLC, Lobnya	RUB	535,340	100	◆★★
Saudi Arabia	○ Sika Saudi Arabia Co Ltd., Riyadh	SAR	41,750	51	◆★★
Senegal	○ Sika Sénégal S.U.A.R.L., Dakar	XOF mn	1,300	100	
Serbia	○ Sika Srbija d.o.o., Simanovci	EUR	373	100	◆★★
Slovakia	❖ Sika Slovensko, spol. s.r.o., Bratislava	EUR	1,131	100	◆★★
	○ Sika Automotive Slovakia, s.r.o., Zlaté Moravce	EUR	7	100	◆★★
	❖ KVK Slovakia, s.r.o., Bratislava	EUR	7	100*	
Slovenia	❖ Sika Slovenija d.o.o., Trzin	EUR	1,029	100	◆★★
South Africa	○ Sika South Africa (Pty) Ltd., Pinetown	ZAR	25,000	100	◆★★
Spain	○ Sika S.A.U., Alcobendas	EUR	19,867	100	◆★★
	❖ Axson Technologies Spain S.L., Les Franqueses del Valles	EUR	80	100*	
	○ Sika Automotive Terrassa S.A., Terrassa	EUR	2,965	100*	◆★★
Sweden	○ Sika Sverige AB, Spånga	SEK	10,000	100	◆★★
Switzerland	○ Sika Schweiz AG, Zurich	CHF	1,000	100	◆★★
	▲ Sika Services AG, Zurich	CHF	300	100	◆★★
	▲ Sika Technology AG, Baar	CHF	300	100	◆★★
	▲ Sika Informationssysteme AG, Zurich	CHF	400	100	
	■ SikaBau AG, Schlieren	CHF	5,300	100	◆

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
	▲ Sika Finanz AG, Baar	CHF	2,400	100	
	○ Sika Manufacturing AG, Sarnen	CHF	14,000	100	◆★★
	▲ Sika Supply Center AG, Sarnen	CHF	1,000	100	◆★★
	○ Sika Automotive AG, Romanshorn	CHF	3,000	100	◆★★
	▲ Sika Europe Management AG, Zurich	CHF	100	100	
	▲ Sika Americas Management AG, Baar	CHF	100	100	
	▲ Sika Germany Management AG, Baar	CHF	50	100	
	○ Klebag AG, Ennetbürgen	CHF	100	100*	
	○ Polypag AG, Altstätten	CHF	700	100	◆
Tanzania	○ Sika Tanzania Construction Chemicals Limited, Dar es Salaam	TZS mn	3,459	100	◆★★
Tunisia	□ Sika Tunisienne Sàrl, Douar Hicher	TND	150	100*	◆★★
Turkey	○ Sika Yapi Kimyasallari A.S., Tuzla	TRY	48,700	100	◆★★
	○ ABC Kimya Sanayi ve Dış Ticaret Anonim Şirketi, Istanbul	TRY	5,200	100*	◆
	❖ Sika Turkey Otomotiv Sanayi ve Tic. Ltd. Şti., Istanbul	TRY	5,900	100*	
UAE	○ Sika UAE LLC, Dubai	AED	1,000	51*	◆★★
	❖ Sika International Chemicals LLC, Abu Dhabi	AED	300	51*	
Ukraine	○ LLC «Sika Ukraina», Kiev	UAH	2,933	100	◆
United Kingdom	○ Sika Limited, Welwyn Garden City	GBP	10,000	100	◆★★
	○ Everbuild Building Products Limited, Leeds	GBP	21	100*	◆★★
	○ Incorez Limited, Preston	GBP	1	100	◆★★
	❖ Axson UK Ltd., Suffolk	GBP	1	100*	
	❖ Propex Concrete Systems, Ltd., Alfreton	GBP	1	100	
Americas					
Argentina	○ Sika Argentina SAIC, Caseros	ARS	7,600	100	◆★★
Bolivia	○ Sika Bolivia SA, Santa Cruz de la Sierra	BOB	1,800	100	◆
Brazil	○ Sika S/A, Osasco	BRL	280,981	100	◆★★
Canada	○ Sika Canada Inc., Pointe Claire/QC	CAD	5,600	100	◆★★
Chile	○ Sika S.A. Chile, Santiago de Chile	CLP mn	4,430	100	◆★★
Colombia	○ Sika Colombia S.A.S, Tocancipá	COP mn	14,500	100	◆★★
Costa Rica	○ Sika productos para la construcción S.A., Heredia	CRC	825,005	100	
Dom. Republic	○ Sika Dominicana SRL, Santo Domingo Oeste	DOP	137,848	100	
Ecuador	○ Sika Ecuatoriana S.A., Guayaquil	USD	1,982	100	◆★★
El Salvador	❖ Sika El Salvador S.A. de C.V., Antiguo Cuscatlán	USD	2	100	
Guatemala	○ Sika Guatemala SA, Ciudad de Guatemala	GTQ	2,440	100	
Honduras	❖ Sika Honduras, S.A. de C.V., Ciudad de San Pedro Sula	HNL	236	100	
Mexico	○ Sika Mexicana SA de CV, Corregidora	MXN	270,053	100	◆★★
	○ Sikalkoat de México, S.A. de C.V., Corregidora	MXN	15,050	100*	
	○ Sika Automotive Mexico S.A. de C.V., Mexico City	MXN	700	100*	◆
Nicaragua	❖ Sika Nicaragua Sociedad Anonima, Managua	NIO	20,000	100	
Panama	○ Sika Panamá SA, Ciudad de Panamá	USD	200	100	
	▲ Sika Latin America Mgt. Inc, Ciudad de Panamá	USD	10	100	

Country	Company ¹		Capital stock in thousands	Voting- and capital share in %	Certifi- cation
Paraguay	○ Sika Paraguay S.A., Asunción	PYG mn	40	100	
Peru	○ Sika Perú S.A.C., Lima	PEN	3,500	100	◆ ★
Uruguay	○ Sika Uruguay SA, Montevideo	UYP	22,800	100	◆ ★
USA	○ Sika Corporation, Lyndhurst/NJ	USD	72,710	100	◆ ★
	▲ Sarnafil Services Inc., Canton/MA	USD	1	100*	★
	○ Sika Automotive Eaton Rapids, Inc., Eaton Rapids/MI	USD	4,602	100*	◆ ★
	○ Rmax Operating LLC, Dallas/TX	USD	11,220	100*	
	○ Butterfield Color, Inc., Aurora/IL	USD	1	100*	
	○ Emseal Joint Systems Ltd., Westborough/MA	USD	1,040	100*	
	○ Emseal LLC, Westborough/MA	USD	1	100*	◆ ★
	○ Sika Automotive Gastonia Inc., Gastonia/NC	USD	1	100*	◆ ★
	○ Sika Fibers, LLC, Wilmington/DE	USD	1	100*	
Venezuela	○ Sika Venezuela SA, Valencia	VEF	29,441	100	
Asia/Pacific					
Australia	○ Sika Australia Pty. Ltd., Wetherill Park	AUD	4,000	100	◆ ★ *
Bangladesh	❖ Sika Bangladesh Limited, Dhaka	BDT	79,416	100	
Cambodia	○ Sika (Cambodia) Ltd., Phnom Penh	KHR	422,000	100	
China	○ Sika (China) Ltd., Suzhou	USD	35,000	100	◆ ★ *
	○ Sika Sarnafil Waterproofing Systems (Shanghai) Ltd., Shang- hai	USD	22,800	100	◆ ★ *
	○ Sika Guangzhou Ltd., Guangzhou	CNY	80,731	100	◆ ★
	❖ Sika Ltd. Dalian, Dalian	CNY	45,317	100	
	❖ Sika (Guangzhou) Trading Company Ltd., Guangzhou	CNY	3,723	100*	
	○ Sika (Sichuan) Building Material Ltd., Chengdu	CNY	60,010	100*	◆ *
	○ Sika (Jiangsu) Building Material Ltd., Zhengjiang	CNY	60,010	100*	◆ ★ *
	○ Sika (Hebei) Building Material Ltd., Zhengding County	CNY	30,000	85*	◆ ★ *
	○ Sika Automotive Shanghai Co. Ltd., Shanghai	CNY	2,666	100*	◆
	○ Sika Automotive (Tianjin) Co. Ltd., Tianjin	CNY	44,344	100*	
	○ Ronacrete (Guangzhou) Construction Products Limited, Guangzhou	CNY	17,056	100*	
	Hong Kong	○ Sika Hong Kong Ltd., Shatin	HKD	30,000	100
❖ Ronacrete (Far East) Ltd., Shatin		HKD	450	100*	
India	○ Sika India Private Ltd., Mumbai	INR	45,000	100	◆ ★
	❖ Axson India Private Limited, Pune	INR	3,000	100*	
Indonesia	○ Sika Indonesia P.T., Bogor	IDR mn	3,282	100	◆ ★
Japan	○ Sika Ltd., Shinagawa	JPY	490,000	100	◆ ★
	❖ Dic Proofing Co. Ltd., Tokyo	JPY	90,000	100*	
	○ Dyflex Co. Ltd., Tokyo	JPY	315,175	100	◆ ★
	■ DCS Co. Ltd., Toda-shi	JPY	30,000	100*	
	○ Axson Japan K.K., Okazaki-shi	JPY	10,000	100*	
Korea	○ Sika Korea Ltd., Seoul	KRW mn	5,596	100	◆ ★
Malaysia	○ Sika Kimia Sdn. Bhd., Nilai	MYR	5,000	100	◆ ★ *
	▲ Sika Harta Sdn. Bhd., Nilai	MYR	10,000	100	
	○ LCS Optiroc Sdn. Bhd., Johor Bahru	MYR	100	100	◆ ★ *

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

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

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

¹ For associated companies see note 7.

* Company indirectly held by Sika AG.

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

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

OPINION

We have audited the consolidated financial statements of Sika AG and its subsidiaries (the Group), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, and appendix to the consolidated financial statements, including a summary of significant accounting policies, for the year ended December 31, 2018.

In our opinion the consolidated financial statements (pages 90 to 140 of the download version of this report) give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

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

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

GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE – VALUATION

AREA OF FOCUS. Goodwill and intangible assets with indefinite useful life represent 20% of the Group's total assets and 77% of the Group's total shareholders' equity as at December 31, 2018. The intangible assets with indefinite useful life is a brand. Goodwill recorded by the Group represents the purchase price in excess of the fair value of net assets of businesses acquired. As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying amounts of goodwill and intangible assets with indefinite useful life is tested annually or more frequently if impairment indicators are present. The Group performed its annual impairment tests of goodwill and intangible assets with indefinite useful life in the third quarter of 2018 and determined that there was no impairment. Key assumptions as well as the results of the impairment tests are disclosed in note 16 of the consolidated financial statements. In determining the recoverable amount of cash-generating units ("CGU"), management must apply judgment when using assumptions in respect of future market and economic conditions such as the economic growth and expected inflation rates. Due to the significance of the carrying values of goodwill and intangible assets with indefinite useful life and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

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

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

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

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

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

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

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

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

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

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

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

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

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

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Zurich, February 20, 2019

ERNST & YOUNG LTD

Christoph Michel
Licensed audit expert
(Auditor in charge)

Marc Rügsegger
Licensed audit expert

SIKA AG, BAAR FINANCIAL STATEMENTS

SIKA AG INCOME STATEMENT FROM JANUARY 1 TO DECEMBER 31

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

SIKA AG BALANCE SHEET AS OF DECEMBER 31

in CHF mn	Notes	2017	2018
Cash and cash equivalents	9	362.8	497.1
Securities		0.1	0.1
Other current receivables from subsidiaries	10	2,560.9	2,781.5
Other current receivables from third parties	10	2.1	3.9
Prepaid expenses and accrued income		4.4	4.5
Current assets		2,930.3	3,287.1
Investments	11	1,612.7	1,935.3
Property, plant, and equipment		0.2	0.1
Intangible assets		0.0	0.2
Other non-current assets	12	5.8	24.8
Non-current assets		1,618.7	1,960.4
ASSETS		4,549.0	5,247.5
Accounts payable to subsidiaries	13	1.7	3.6
Accounts payable to third parties	13	0.8	1.8
Current interest-bearing liabilities to subsidiaries	14	228.7	637.0
Current interest-bearing liabilities to third parties	14	150.0	200.0
Other current liabilities to subsidiaries		2.0	3.0
Accrued expenses and deferred income	15	90.7	75.0
Current provisions	16	2.4	0.4
Current liabilities		476.3	920.8
Non-current interest-bearing liabilities	14	550.0	2,850.0
Other non-current liabilities	17	2.1	5.7
Non-current provisions	16	1.9	2.3
Non-current liabilities		554.0	2,858.0
LIABILITIES		1,030.3	3,778.8
Share capital		1.5	1.4
Legal capital reserves		56.5	56.5
Legal retained earnings		4.0	4.0
Voluntary retained earnings		121.7	121.7
Profit brought forward		3,341.6	1,296.2
Treasury shares	18	-6.6	-11.1
Shareholders' equity	19	3,518.7	1,468.7
LIABILITIES AND SHAREHOLDERS' EQUITY		4,549.0	5,247.5

NOTES TO THE SIKA AG FINANCIAL STATEMENT

PRINCIPLES

GENERAL

The 2018 financial statements were prepared according to the Swiss Law on Accounting and Financial Reporting. The significant accounting and valuation principles applied are as described below.

SECURITIES

Securities are valued at historical costs.

RECEIVABLES

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

INVESTMENTS

Investments are initially recognized at cost. On an annual basis the investments are assessed individually and adjusted to their recoverable amount if required.

PROPERTY, PLANT, AND EQUIPMENT, AND INTANGIBLE ASSETS

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

CURRENT AND NON-CURRENT INTEREST-BEARING LIABILITIES

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

PROVISIONS

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

TREASURY SHARES

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

SHARE-BASED PAYMENTS

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

INFORMATION ON BALANCE SHEET AND INCOME STATEMENT ITEMS

1. DIVIDEND INCOME CHF 326.6 MN (CHF 391.9 MN)

Dividends from subsidiaries are recognized in this position.

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

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

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

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

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

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

5. FINANCIAL EXPENSES CHF 44.1 MN (CHF 24.5 MN)

Financial expenses include the interest costs on bonds as well as foreign currency losses on loans to subsidiaries. The increase in financial expenses is mainly due to interest on the additional bonds (see note 14) and realized losses on hedging transactions.

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

This position includes the holding company's general expenses. Other operating expenses mainly include legal and consulting fees, costs related to management training as well as marketing expenses. In addition, a provision in the amount of CHF 8.1 million was released in the previous year in connection with trademark rights. In the year under review the remuneration of CHF 10.3 million to the Board of Directors for the terms of office 2015 to 2018 is included. Part of the compensation is paid in the form of Sika AG shares. The fair value of the shares allocated was CHF 0.7 million each at the beginning of the respective term of office. Due to the increase in the share price the fair value at the time of payment increased to CHF 4.4 million. In the previous year, the Board of Directors did not receive any compensation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

0.00% - 0.05%	variable-interest bond	2018 to 3/27/2020	CHF 160.0 million
0.125%	fixed-interest bond	2018 to 7/12/2021	CHF 170.0 million
1.750%	fixed-interest bond	2012 to 7/12/2022	CHF 150.0 million
1.875%	fixed-interest bond	2013 to 11/14/2023	CHF 200.0 million
0.625%	fixed-interest bond	2018 to 7/12/2024	CHF 250.0 million
0.150%	convertible bond	2018 to 6/5/2025	CHF 1,650.0 million
0.600%	fixed-interest bond	2018 to 3/27/2026	CHF 140.0 million
1.125%	fixed-interest bond	2018 to 7/12/2028	CHF 130.0 million

The increase in interest-bearing liabilities is attributable to the transaction with Schenker-Winkler Holding AG in May 2018. Details on this transaction are shown in the information on significant shareholders on page 134.

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

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

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

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

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

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

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

18. TREASURY SHARES CHF 11.1 MN (CHF 6.6 MN)

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

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

The shares repurchased by Schenker-Winkler Holding AG (details on this transaction are shown in the information on significant shareholders on page 134) were cancelled by means of a capital reduction on September 7, 2018.

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

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

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

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

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

1 Thereof CHF 0.3 million capital contribution reserves.

2 Retained earnings: legal retained earnings, voluntary retained earnings, and profit brought forward.

The lower net profit for the year in 2018 is mainly due to the one-time sale of trademark rights to Sika Technology AG in 2017. In April 2018 the dividend of CHF 281.8 million from the profit carried forward for 2017 was paid out to shareholders.

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

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

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

	Bearer shares ¹ par value CHF 0.60	Registered shares par value CHF 0.10	Total ¹
12/31/2017 (units)	2,151,199	2,333,874	4,485,073
Nominal value (CHF)	1,290,719	233,387	1,524,107
		Registered shares par value CHF 0.01	Total ¹
12/31/2018 (units)		141,781,160	141,781,160
Nominal value (CHF)		1,417,812	1,417,812

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

OTHER INFORMATION

FULL-TIME EQUIVALENTS

The number of full-time equivalents for the reporting year is 47 (46) employees.

CONTINGENT LIABILITIES

Letters of guarantee and letters of comfort are issued to finance business transactions. No guarantees are required for the established zero-balance cash pooling. Sika AG is part of Sika Schweiz AG's value-added tax group and is jointly liable to the tax authorities for the value-added tax obligations of the tax group.

in CHF mn	2017	2018
Letters of guarantee		
Issued	84.9	8.6
Used	0.0	0.0
Letters of comfort		
Issued	8.7	9.4
Used	0.5	0.2
Credit lines to subsidiaries		
Issued	0.0	0.0
Used	0.0	0.0

NET RELEASE OF HIDDEN RESERVES

There is no net release of hidden reserves.

MAJOR SHAREHOLDERS

On December 31, 2018, the company had 13,655 (51) registered shareholders. Information regarding major shareholders can be found on page 134 of the download version of this report.

PARTICIPATIONS IN SIKA AG

Members of the Board of Directors and Group Management hold the following participations in Sika AG:

	Number of shares	
	2017 ¹	2018
Board of Directors		
Paul Hälgi, Chairman	34,620	47,460
Urs F. Burkard	4,020	n.a.
Frits van Dijk	5,520	7,740
Justin Marshall Howell	n.a.	0
Willi K. Leimer	4,020	n.a.
Monika Ribar	5,340	7,560
Daniel J. Sauter	124,020	126,240
Ulrich W. Suter	4,020	6,240
Jürgen Tinggren	5,940	n.a.
Christoph Tobler	10,020	11,000
Group Management		
Paul Schuler, CEO	56,520	67,320
Mike Champion	7,020	7,020
Christoph Ganz	25,860	25,860
Thomas Hasler	15,540	20,940
Frank Höfflin	6,180	6,960
Yumi Kan	5,940	8,040
Ivo Schädler	5,520	6,480
José Luis Vásquez	40,680	n.a.
Adrian Widmer	15,660	18,060
Total	376,440	366,920

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

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

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

1 Number of shares in 2017 adjusted for comparability.

PROPOSED APPROPRIATION OF PROFIT BROUGHT FORWARD

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

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

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

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

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

in CHF	2017	2018
Bearer share¹ par value CHF 0.60		
Gross dividend	111.00	n.a.
35% withholding tax on gross dividend	38.85	n.a.
Net dividend	72.15	n.a.
Registered share¹ par value CHF 0.10		
Gross dividend	18.50	n.a.
35% withholding tax on gross dividend	6.48	n.a.
Net dividend	12.03	n.a.
Registered share¹ par value CHF 0.01		
Gross dividend	n.a.	2.05
35% withholding tax on gross dividend	n.a.	0.72
Net dividend	n.a.	1.33

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

The Board of Directors proposes to the Annual General Meeting that a dividend of CHF 2.05 per single-class registered share be distributed to shareholders. The dividend for 2017 adjusted for comparability purposes amounts to CHF 1.85 per single-class registered share.

Payment of the dividend is tentatively scheduled for Monday, April 15, 2019. Registered shareholders will receive payment of the dividend at the address provided to the company for the purposes of dividend distribution.

The Annual General Meeting of Sika AG will be held on Tuesday, April 9, 2019.

Baar, February 20, 2019

For the Board of Directors
The Chairman:
Dr Paul Hälgi

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

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Sika AG, which comprise the income statement, balance sheet, and notes to the financial statements (pages 149 to 159 of the download version of this report), for the year ended December 31, 2018.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the financial statements for the year ended December 31, 2018, comply with Swiss law and the company's articles of incorporation.

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

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

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

INVESTMENTS IN SUBSIDIARIES

AREA OF FOCUS. Sika AG holds investments in subsidiaries that represent 37% of the total assets on stand-alone level. The various investments are disclosed in note "List of Group Companies" of the consolidated financial statements of Sika AG. Total investments are material to the entity and may be subject to changes in value. Accordingly, management performs regular impairment considerations and calculations to determine the value of each single investment. The investments in subsidiaries were considered significant to our audit as the amounts concerned are material and the assessments involve judgment in preparing the underlying key assumptions for the valuation.

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

Zurich, February 20, 2019

ERNST & YOUNG LTD

Christoph Michel
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(Auditor in charge)

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Licensed audit expert

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