

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Income statement from January 1 to June 30, 2022 (January 1 to June 30, 2021).
Balance sheet data as of June 30, 2022 (December 31, 2021).

1. Net Sales CHF 5,250.3 mn (CHF 4,448.7 mn)

Sales of goods account for nearly all net sales. Year-on-year net sales in local currency increased by 19.5%. Taking into account the currency effect of -1.5%, sales in Swiss francs increased by 18.0%, including a growth from acquisitions of 4.0%. Details to segments can be found in note 2.

2. Segment Reporting

Sika conducts its worldwide activities according to geographical regions and the global segment Global Business. Heads of the segments are members of Group Management. Group Management is the highest executive body that measures the success of the operating segments and allocates resources. The key figure of profit by which the segments are directed is operating profit, which is consistent with the consolidated financial statements. Financing (including financial expenses and income) and income taxes are managed on a Group-wide basis and are not allocated to the individual segments. The composition of the segments is shown on page 8.

The acquired companies Sable Marco Inc., Canada, and United Gilsonite Laboratories (UGL), USA, were allocated to the segment Americas.

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

NET SALES FROM JANUARY 1 TO JUNE 30

in CHF mn	2021			2022		
	With third parties	With other segments	Total	With third parties	With other segments	Total
EMEA	2,036.4	115.1	2,151.5	2,190.5	128.8	2,319.3
Americas	1,100.5	2.5	1,103.0	1,535.7	2.5	1,538.2
Asia /Pacific	960.8	12.7	973.5	1,130.9	12.4	1,143.3
Global business	351.0	7.2	358.2	393.2	7.5	400.7
Eliminations	-	-137.5	-137.5	-	-151.2	-151.2
Net sales	4,448.7	-	4,448.7	5,250.3	-	5,250.3
Products for construction industry	3,624.3			4,320.7		
Products for industrial manufacturing	824.4			929.6		

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 to manufacturers and service providers in automotive OEM, commercial vehicles, automotive aftermarket, marine vessels, renewable energy, sandwich panels, industrial equipment, HVAC, home and commercial appliances, modular building, facades and fenestration.

CHANGES IN NET SALES/CURRENCY IMPACT

in CHF mn	1/1/2021 – 6/30/2021	1/1/2022 – 6/30/2022	Change compared to prior period (+/- in %)		
			In Swiss francs	In local currencies	Currency impact
EMEA	2,036.4	2,190.5	7.6	12.9	-5.3
Americas	1,100.5	1,535.7	39.5	35.8	3.7
Asia/Pacific	960.8	1,130.9	17.7	17.0	0.7
Global business	351.0	393.2	12.0	13.2	-1.2
Net sales	4,448.7	5,250.3	18.0	19.5	-1.5
Products for construction industry	3,624.3	4,320.7	19.2	20.6	-1.4
Products for industrial manufacturing	824.4	929.6	12.8	14.3	-1.5

OPERATING PROFIT

in CHF mn	1/1/2021 – 6/30/2021	1/1/2022 – 6/30/2022	Change compared to prior period	
			(+/-)	(+/- in %)
EMEA	367.6	494.4	126.8	34.5
Americas	203.5	266.5	63.0	31.0
Asia/Pacific	152.3	143.1	-9.2	-6.0
Global business	38.5	11.4	-27.1	-70.4
Other segments and activities	-76.0	-73.5	2.5	n.a.
Operating profit	685.9	841.9	156.0	22.7

RECONCILIATION OF SEGMENT RESULT AND NET PROFIT

in CHF mn	1/1/2021 – 6/30/2021	1/1/2022 – 6/30/2022
Operating profit	685.9	841.9
Interest income	6.1	6.9
Interest expenses	-27.2	-31.9
Other financial income	3.1	4.2
Other financial expenses	-7.5	-22.8
Income from associated companies	0.0	-0.1
Profit before taxes	660.4	798.2
Income taxes	-165.7	-199.4
Net profit	494.7	598.8

3. Material expenses CHF 2,658.1 mn (CHF 2,075.9 mn)

As a result of the sharp rise in raw material costs worldwide due to global supply chain issues and increased transport and energy costs, as well as the base effect due to significant selling price adjustments, the gross margin decreased by 3.9 percentage points to 49.4% (53.3%).

4. Personnel expenses CHF 882.4 mn (CHF 813.3 mn)

Personnel expenses decreased in relation to net sales from 18.3 % to 16.8 %.

Personnel expenses include a portion of salaries paid to senior managers and Group Management in the form of Sika AG stocks. Related personnel expenses in the first half of 2022 amounted to CHF 8.4 million (CHF 18.5 million). Provided employees are entitled to the option of drawing shares of Sika AG, this portion will be recognized as liabilities as at balance sheet date. In the event that shares are drawn, this portion will be taken to equity in the subsequent year.

5. Other operating expenses CHF 673.7 mn (CHF 692.5 mn)

Other operating expenses decreased in relation to net sales from 15.5% to 12.9%. Included in other operating expenses is the profit before tax from the divestment of the European industrial coating business in the amount of CHF 168.3 million (see note 10). Also included are costs in the amount of approximately CHF 28 million related to the planned acquisition of the MBCC Group.

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

6. Interest expenses/other financial expenses CHF 54.7 mn (CHF 34.7 mn)

Interest expenses of CHF 31.9 million (CHF 27.2 million) consist mainly of interest expenses for outstanding bond issues as well as interests on lease liabilities. Other financial expenses of CHF 22.8 million (CHF 7.5 million) include foreign exchange gains and losses from the management of foreign currency, net gains and losses from hedging and revaluation of loans to Group companies denominated in foreign currencies as well as inflation adjustment effects from countries with hyperinflation.

7. Cash and cash equivalents CHF 693.5 mn (CHF 1,175.0 mn)

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

8. Accounts receivable CHF 1,997.6 mn (CHF 1,576.8 mn)

Accounts receivable have increased due to sales growth. In addition, they are higher at mid-year than at the end of 2021 as a result of seasonal influences.

9. Inventories CHF 1,395.3 mn (CHF 1,158.3 mn)

The increase in inventories is due to seasonal distribution of sales. In addition, higher raw material prices and longer delivery times lead to higher inventory values.

10. Held for sale – assets CHF 8.5 mn (CHF 33.7 mn) and liabilities CHF 0.9 mn (CHF 3.7 mn)

On August 19, 2021, Sika has announced to sell its European industrial coatings business, based in Germany, to the American Sherwin-Williams Company. The headquarters and production plant are located in Vaihingen, Germany. The product range comprises anticorrosive and fire protection coatings which are mainly sold in Germany, Switzerland, Poland, and Austria. Accordingly, the corresponding assets and liabilities were presented as a disposal group held for sale. In 2021, the business segment generated sales of approximately CHF 80 million, included as part of the EMEA region).

The transaction was closed on March 31, 2022. From the sale, a gain before taxes in the amount of CHF 168.3 million results and is included in other operating expenses. Expected income tax expense in the amount of approximately CHF 47 million is accrued.

On May 6, 2022, Sika further announced to sell Aliva Equipment, a Swiss unit supplying machines for the application of shotcrete, to the Finnish Normet Group Oy. In 2021, Aliva Equipment generated sales of approximately CHF 12 million. The transaction is expected to close in the third quarter of 2022.

The disposal group is stated at its carrying amounts (including impairment losses of CHF 2.2 million for Aliva Equipment) and comprised the following assets and liabilities.

in CHF mn	12/31/2021	6/30/2022
Accounts receivable	0.0	0.7
Inventories	10.8	7.6
Property, plant, and equipment	3.5	0.0
Goodwill	19.4	0.0
Assets classified as held for sale	33.7	8.3
Accounts payable	0.0	0.2
Accrued expenses and deferred income	0.5	0.3
Provisions	0.0	0.1
Employee benefit obligations	3.2	0.3
Liabilities classified as held for sale	3.7	0.9
Net	30.0	7.4

11. Property, Plant, and Equipment CHF 1,829.7 mn (CHF 1,776.6 mn)

in CHF mn	12/31/2021	6/30/2022
Own property, plant, and equipment	1,455.4	1,504.5
Right-of-use assets	321.2	325.2
Property, plant, and equipment	1,776.6	1,829.7

12. Intangible assets CHF 4,424.1 mn (CHF 4,379.9 mn)

The increase in intangible assets is mainly due to this year's acquisitions. The acquisitions resulted in an increase in goodwill of CHF 54.5 million. In addition, trademarks, customer relationships, and technologies of CHF 48.0 million were capitalized and are being amortized over their useful lives.

13. Accounts payable CHF 1,220.1 mn (CHF 1,033.2 mn)

Accounts payable are higher at mid-year than at the end of 2020 as a result of seasonal influences. Accounts payable do not bear interest and will usually become due within 30 to 60 days.

14. Financial liabilities CHF 3,525.7 mn (CHF 3,737.0 mn)

in CHF mn	12/31/2021			6/30/2022		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives	10.4	-	10.4	30.7	-	30.7
Bank loans	18.0	0.0	18.0	12.7	0.0	12.7
Lease liabilities	73.5	244.1	317.6	77.1	246.2	323.3
Straight bonds	150.0	1,748.5	1,898.5	150.0	1,711.8	1,861.8
Convertible bond	-	1,381.9	1,381.9	0.0	1,246.3	1,246.3
Mandatory convertible bond (liability component)	48.7	0.0	48.7	0.0	0.0	0.0
Other financial liabilities	42.5	19.4	61.9	14.4	36.5	50.9
Total	343.1	3,393.9	3,737.0	284.9	3,240.8	3,525.7

The fair value of straight bonds amounts to CHF 1,752.0 million (CHF 1,982.5 million), that of the convertible bond to CHF 1,581.5 million (CHF 2,830.1 million).

Furthermore, Sika has the following credit facilities:

- Revolving credit facility of CHF 750.0 million, drawable in CHF, EUR, USD, or GBP. The term ends on April 1, 2026.
- Revolving credit facility of CHF 750.0 million, drawable in CHF, EUR, USD, or GBP. The term ends on December 13, 2026, with the option of two one-year extensions.
- Bridge credit facility of EUR 5,000.0 million for the planned acquisition of MBCC. The term ends on May 10, 2023, with the option of two six-month extensions.

As of June 30, 2022, Sika did not use any of these credit facilities.

OUTSTANDING STRAIGHT BONDS

in CHF mn						12/31/2021	6/30/2022
Issuer	Bond	Nominal	Coupon	Term	Book value	Book value	
Sika AG, Baar, Switzerland	Straight bond	CHF 150.0	1.750%	2012 - 07/12/2022	150.0	150.0	
	Straight bond	CHF 200.0	1.875%	2013 - 11/14/2023	199.8	199.8	
	Straight bond	CHF 250.0	0.625%	2018 - 07/12/2024	250.2	250.2	
	Straight bond	CHF 140.0	0.600%	2018 - 03/27/2026	140.0	140.0	
	Straight bond	CHF 130.0	1.125%	2018 - 07/12/2028	130.7	130.6	
Sika Capital B.V., Utrecht, Netherlands	Straight bond	EUR 500.0	0.875%	2019 - 04/29/2027	514.3	496.0	
	Straight bond	EUR 500.0	1.500%	2019 - 04/29/2031	513.5	495.2	
Total					1,898.5	1,861.8	

CONVERTIBLE BONDS

In May 2018, Sika placed a convertible bond in the amount of CHF 1,650.0 million due in 2025. The convertible bond has a coupon of 0.15% p.a. The shares to be delivered upon conversion will be provided by existing shares or by the issue of new shares from the conditional capital. At the end of June 2022, the conversion price per share is CHF 188.45. The convertible bond can be converted early or redeemed early in accordance with the general bond conditions. In the reporting period, bonds with a nominal value of CHF 141.7 million (in prior year CHF 241.0 million) were converted.

RECONCILIATION LIABILITY COMPONENT 0.15%-CONVERTIBLE BOND 2018-2025

in CHF mn	1/1/2021 - 12/31/2021	1/1/2022 - 6/30/2022
Opening balance	1,609.4	1,381.9
Interest expense (amortized cost)	9.0	3.7
Conversion of bond into registered shares	-236.5	-139.3
Ending balance	1,381.9	1,246.3
Open par value	1,409.0	1,267.3

On January 22, 2019, Sika placed a mandatory convertible bond in the amount of CHF 1,300.0 million due end of January 2022. The mandatory convertible bond had a coupon of 3.75% p.a. These interest payments were classified as a liability component. Accordingly, the liability component was reduced annually by the interest payments made.

On January 31, 2022, the open mandatory convertible bonds with a nominal value of CHF 1,299.8 million were fully converted into new shares from the conditional capital of Sika AG. The conversion price per share was CHF 130.756.

15. Provisions CHF 120.7 mn (CHF 121.6 mn)

Provisions for guarantees reflect all known or anticipated claims in the near future. The provision amounts are determined based on experience and are therefore subject to a degree of uncertainty. The outflow of funds depends on the timing of the filing and conclusion of warranty claims. Provisions for sundry risks include loan guarantees as well as open and anticipated legal cases with a probability of above 50% as well as contingent liabilities from acquisitions. For provisions of CHF 27.4 million (CHF 26.0 million) an outflow of funds is expected during the next twelve months. These amounts are shown as current provisions.

Other information

SIGNIFICANT SHAREHOLDERS

As at the balance sheet date of June 30, 2022, Sika had received notification of four significant shareholders whose voting rights exceed 3%: (1) BlackRock Inc., which owned 7.7% of all voting rights. (2) William H. Gates and Melinda French Gates, who held 5.3% of all voting rights via Cascade Investment L.L.C. and Bill & Melinda Gates Foundation Trust. (3) The Capital Group Companies, who held 5% of all voting rights via Capital Research and Management Company, Capital Bank and Trust Company, Capital International Limited, Capital International Inc., and Capital International Sarl. (4) Norges Bank (the Central Bank of Norway), which held 3.01% of all voting rights. There are no changes compared with December 31, 2021.

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.

IMPAIRMENT INDICATIONS

The negative impacts of the Ukraine war required a review of the business activities in the affected companies in Ukraine, Belarus, and Russia. Strictly in line with all international sanctions, Sika has significantly scaled down its business activities in Russia since the beginning of March 2022 and ceased product exports into Russia and Belarus. Sika has also suspended investments in Russia. Due to these far-reaching measures, Sika reviewed whether there could be a potential impairment of the assets capitalized. Currently there is no need for impairment. The share of the cumulative carrying amounts of the affected companies in the Group is less than 1%.

EVENTS AFTER THE BALANCE SHEET DATE

No events to report occurred between June 30, 2022, and the release of these consolidated financial statements.

OTHER INFORMATION

PLANNED ACQUISITION

On November 11, 2021, Sika has signed a definitive agreement to acquire MBCC Group, the former BASF Construction Chemicals, from an affiliate of Lone Star Funds, a global private equity firm, for a consideration of CHF 5.5 billion.

MBCC Group is a leading supplier in construction chemicals worldwide. The acquisition will complement and broaden Sika's product and solution offerings in four of five core technologies and seven of eight Sika Target Markets and will further strengthen its geographic footprint. MBCC Group, headquartered in Mannheim, Germany, is active in the field of construction systems and admixture systems. With approximately 7,500 employees MBCC Group has operations in over 60 countries and more than 130 production facilities. In 2021, the company generated net sales of CHF 2.9 billion. MBCC Group has a world-renowned product portfolio of global and local brands which enjoy a strong reputation for quality and reliability. With its broad and balanced product offering, MBCC Group participates in all phases of the construction life cycle and is a key contributor to the decarbonization of the construction industry.

The financing of the planned transaction is secured by a bridge loan facility. Sika intends to put in place a long-term funding structure comprising a combination of cash-on-hand, bank loans, and capital markets instruments. The acquisition is subject to regulatory approval. The closing of the acquisition is targeted for the end of 2022.