Financial report

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Group financial review

Gratifying business development The demand for the specialised products of Bucher Industries saw another sharp increase in the reporting period. The economic momentum was particularly strong in the first half of the year and diminished somewhat towards the end of the year. The Group posted an increase of 11.7% in order intake and 15.8% in sales. Adjusted for currency and acquisition effects, the growth rates were 9.3% and 13.4% respectively. Because the European dairy and livestock industry reported solid growth particularly at the start of the year, the development of the agricultural machinery market was generally satisfactory despite the challenges. These good market conditions had a positive impact on the order intake and sales of Kuhn Group. Bucher Municipal benefited from the good economic situation and the resulting public-sector demand for municipal vehicles. Bucher Hydraulics recorded order intake and sales at exceptionally high levels thanks to strong demand for hydraulic system solutions and components, primarily from the construction equipment, materials handling and other mobile applications segments. Demand for glass containers rose thanks to the good state of the global economy and the trend in society towards the greater use of containers made of recyclable glass instead of plastic. Bucher Emhart Glass used its excellent market position to expand further. The markets of Bucher Specials' business units experienced a positive development overall during the reporting period, with the division seeing an increase in sales as a result. The Group's order book remained good, standing at CHF 1 136.8 million, an 18.4% increase over the high level of the previous year. Adjusted for currency and acquisition effects, the increase was 14.2%. The order backlog at the end of the reporting period was around 4.5 months of full-year sales for 2018 (2017: 4.4 months). Compared with the previous year, the changes in the average exchange rates against the Swiss franc were as follows: EUR +3.7%, USD -0.8%, GBP +2.6%, SEK -2.4%, BRL -12.4% and AUD -3.2%.

Net sales

CHF million	2018	2017	change in %
Net sales	3 064.5	2 647.4	15.8%
Net sales adjusted for currencies	3 024.2	2 647.4	14.2%
Net sales adjusted for acquisitions	3 042.0	2 647.4	14.9%
Net sales adjusted for currencies and acquisitions	3 002.0	2 647.4	13.4%

Boosting market position through acquisitions The complete takeover of Sanjin enabled Bucher Emhart Glass to continue the systematic development of the company. With the purchase of the laser marking business of glass containers from Qualimarq, Bucher Emhart Glass now offers state-of-the-art technologies for the laser marking of hot glass containers. The majority holding in Wuxi Deli Fluid Technology enabled Bucher Hydraulics to strengthen its presence in China and to become a leading global provider of hydraulic power packs. The two divisions of Bucher Industries active in the agricultural machinery market expanded their business by taking over leading suppliers: Kuhn Group acquired the remaining 62% shares in Artec, one of the most successful manufacturers of self-propelled agricultural sprayers in France, while Bucher Specials with its Bucher Landtechnik business unit bought the import business of Grunderco. The purchase price of the acquisitions including liabilities acquired was CHF 43.9 million. The net cash outflow for acquisitions was CHF 31.3 million. The acquisition of the non-controlling interest in Sanjin led to an additional outflow of CHF 36.9 million. Since the acquisition date, the acquired companies have generated sales of CHF 22.5 million and profit for the year of CHF 0.9 million.

Increase in profitability The group EBIT margin was 9.1%, an increase of 0.5 percentage points on the previous year. The very gratifying increases in profitability of the Bucher Municipal and Bucher Emhart Glass divisions were able to more than offset the downturn in other divisions. Profitability rose thanks to higher sales and optimised structures. A negative impact came in particular from the continued low level of sales in the American agricultural machinery market and rising costs for material, personnel and logistical services. In addition, the acquisition and integration costs of the businesses acquired weighed on the EBIT margin. The EBITDA of the Group rose by 17.2% to CHF 372.7 million, resulting in an EBITDA margin of 12.2% (2017: 12.0%). Other operating income and expenses came to 11.2% (11.8%) of sales. Employment costs were adjusted as far as possible in line with capacity utilisation by way of flexible deployment of temporary staff. The ratio of employment costs to sales was 25.8% (26.8%).

Net financial result Net financial result improved by CHF 0.5 million compared with the previous year. Net interest expense was at the same level as the previous year while the net gain on financial instruments was CHF 2.9 million lower. The previous year also included a profit on the sale of bonds. The financial foreign exchange gains and losses are mainly due to currency losses related to internal group financing. The Group's share of profit/(loss) of associates and joint ventures increased and also included the gain from the revaluation of the shares in Artec that were already held.

CHF million	2018	2017
Interest expense on financial liabilities	–4.7	–5.5
Interest income on financial assets	1.8	2.6
Net interest expense	**–2.9**	**–2.9**
Net gain on financial instruments	1.7	4.6
Financial foreign exchange gains and losses	–2.1	–2.2
Share of profit/(loss) of associates and joint ventures	3.6	0.4
Other financial items	–0.9	–1.0
Net financial result	**–0.6**	**–1.1**

Tax rate and profit for the year Income tax expense increased to CHF 61.6 million (2017: CHF 57.6 million) because of the higher profits from group entities. The effective tax rate was 22.2%, below the previous-year level (25.6%). The decrease is due primarily to changes in local income tax rates and lower results in countries with higher tax rates. Group profit for the year amounted CHF 215.3 million, a significant increase of 28.4% over the previous year. The return on sales was 7.0% (6.3%). As a result of the higher profit for the year, earnings per share rose by 23.6% to CHF 20.77 (CHF 16.81).

Solid financial situation Net operating assets at the end of 2018 amounted to CHF 1 361.0 million. Adjusted for currency and acquisition effects, the increase was 8.6% and is primarily due to the volume-related increase in receivables and inventories. As a percentage of sales, the net operating assets decreased from 48.1% to 44.8%. Due to the increased profitability, the return on net operating assets after tax (RONOA) improved to 15.7%. This was once again significantly higher than the cost of capital and only slightly below the long-term target of 16%. In the reporting period, the Group invested CHF 102.7 million in expanding production infrastructure and in modernising and automating the production equipment. The most important individual projects concerned Kuhn Group's logistics centre in France, the further expansion of the production sites of Bucher Municipal in Latvia and Bucher Hydraulics in Italy and India.

Return on net operating assets (RONOA) after tax

CHF million	2018	2017
Trade receivables	520.0	457.2
Inventories	770.5	694.0
Property, plant and equipment	625.8	614.7
Intangible assets	244.3	234.9
Other operating receivables	96.9	97.9
Trade payables	− 296.3	− 269.8
Advances from customers	− 252.7	− 234.5
Provisions	− 67.8	− 74.4
Other operating liabilities	− 279.7	− 265.2
Net operating assets (NOA)	**1 361.0**	**1 254.8**
Net operating assets (NOA) average	1 372.9	1 273.9
Operating profit (EBIT)	277.5	226.4
Effective tax rate	22.2%	25.6%
Return on net operating assets (RONOA) after tax	**15.7%**	**13.2%**

Intangible assets increased to CHF 244.3 million because of acquisitions. Goodwill amounted to CHF 152.7 million (2017: CHF 136.9 million). As in the previous year, the impairment test did not indicate any need for an impairment charge. The ratio of intangible assets to equity was 16.4% as in the previous year, while that of goodwill to equity was 10.3% (9.6%). Equity increased by CHF 57.5 million to CHF 1 489.6 million at 31 December 2018. The increase in group profit for the year of CHF 215.3 million was offset by the acquisition of non-controlling interests, dividend payments and negative effects from other comprehensive income of CHF 45.1 million. Other comprehensive income was affected primarily by negative currency effects of CHF 55.9 million. The equity ratio rose by 1.0 percentage point to 53.7% and the return on equity was 14.7% (12.6%). At the end of the year, the Group had cash and liquid assets of CHF 441.5 million and financial liabilities of CHF 282.2 million, resulting in a net liquidity of CHF 159.3 million (CHF 214.2 million). A total of CHF 185.0 million was available in unused committed credit facilities. The financial covenants are reviewed every six months. All credit terms were complied with on the reporting date of 31 December 2018.

Cash flow/free cash flow

CHF million

	2018	2017
Net cash flow from operating activities	**201.0**	**222.4**
Purchases of property, plant and equipment	−98.2	−71.8
Proceeds from sale of property, plant and equipment	2.4	2.0
Purchases of intangible assets	−4.5	−4.4
Operating free cash flow	**100.7**	**148.2**
Purchases of other financial assets	−2.4	−1.9
Proceeds from sale of other financial assets	3.7	6.4
Acquisitions	−31.3	−0.4
Acquisition of associates and joint ventures	–	−0.3
Acquisition of non-controlling interests	−36.9	–
Purchases of treasury shares	−6.9	–
Proceeds from sale of treasury shares	1.0	27.7
Dividend received	0.2	0.1
Dividend paid	−67.0	−50.7
Free cash flow	**−38.9**	**129.1**

The decrease in operating free cash flow is primarily due to a higher capital commitment in net working capital and higher capital expenditure. After deduction of cash flows for acquisitions and the dividend and taking into account purchases and sales of treasury shares, there was a negative free cash flow of CHF 38.9 million.

Number of employees Bucher Industries adjusted the number of employees as far as possible on the basis of seasonal influences and local economic developments. As a result of higher demand, the number of employees rose by 7.8% to 13 054 full-time equivalents. On average for the year, the increase was 7.9%, while adjusted for acquisition effects it was 6.8%. Sales per employee increased by 7.5% to CHF 243 000 (2017: CHF 226 000). Adjusted for currency and acquisition effects, the increase was 6.2%.

Shareholder value In a highly volatile stock market, the share price of Bucher initially advanced very strongly before moving into a persistent downturn, closing the year at CHF 264.40, below the previous year’s share price of CHF 396.00 (a decline of 33.2%). The high for the year was CHF 448.40 and the low was CHF 256.00. The company’s market capitalisation reached CHF 2.7 billion at year-end, representing a price/book ratio of 1.8. Earnings per share amounted to CHF 20.77, compared with CHF 16.81 for the previous year.

Dividend In keeping with a consistent dividend policy and in consideration of the group profits achieved, the Board of Directors proposes that the annual general meeting on 17 April 2019 approve payment of a dividend of CHF 8.00 per registered share. Based on the average share price of CHF 345.60 for 2018, the board’s proposal represents a dividend yield of 2.3% (2017: 2.0%).

Consolidated balance sheet as at 31 December 2018

CHF million	Note	31 December 2018	31 December 2017
Cash and cash equivalents		415.5	513.2
Other financial assets	7	26.0	27.3
Trade receivables	3	520.0	457.2
Current income tax assets		22.6	26.0
Other receivables	3	68.6	67.4
Inventories	4	770.5	694.0
Current assets		**1 823.2**	**1 785.1**
Long-term receivables	3	10.5	7.7
Property, plant and equipment	5	625.8	614.7
Intangible assets	6	244.3	234.9
Other financial assets	7	9.2	10.4
Investments in associates and joint ventures	8	12.3	13.3
Deferred income tax assets	17	48.2	53.7
Non-current assets		**950.3**	**934.7**
Assets		**2 773.5**	**2 719.8**
Financial liabilities	9	46.8	60.6
Trade payables		296.3	269.8
Advances from customers		252.7	234.5
Provisions	10	55.1	61.6
Other liabilities	12	231.4	219.0
Current income tax liabilities		36.4	33.1
Current liabilities		**918.7**	**878.6**
Financial liabilities	9	235.4	265.7
Provisions	10	12.7	12.8
Other liabilities	12	24.1	18.7
Deferred income tax liabilities	17	49.8	54.6
Retirement benefit obligations	18	43.2	57.3
Non-current liabilities		**365.2**	**409.1**
Total liabilities		**1 283.9**	**1 287.7**
Attributable to owners of Bucher Industries AG		1 466.4	1 398.1
Attributable to non-controlling interests		23.2	34.0
Equity		**1 489.6**	**1 432.1**
Liabilities and equity		**2 773.5**	**2 719.8**

Consolidated income statement for the year ended 31 December 2018

CHF million	Note	2018	%	2017	%
Net sales	1	**3 064.5**	**100.0**	**2 647.4**	**100.0**
Changes in inventories of finished goods and work in progress		27.1		32.1	
Raw materials and consumables used		−1 585.6		−1 339.4	
Employment costs	14	−791.0		−708.4	
Other operating income	15	25.5		20.9	
Other operating expenses	15	−367.8		−334.6	
Operating profit before depreciation and amortisation (EBITDA)		**372.7**	**12.2**	**318.0**	**12.0**
Depreciation	5	−77.7		−74.5	
Amortisation	6	−17.5		−17.1	
Operating profit (EBIT)		**277.5**	**9.1**	**226.4**	**8.6**
Share of profit/(loss) of associates and joint ventures	16	3.6		0.4	
Finance costs	16	−7.7		−8.8	
Finance income	16	3.5		7.3	
Profit before tax		**276.9**	**9.0**	**225.3**	**8.5**
Income tax expense	17	−61.6		−57.6	
Profit/(loss) for the year		**215.3**	**7.0**	**167.7**	**6.3**
Attributable to owners of Bucher Industries AG		212.4		170.9	
Attributable to non-controlling interests		2.9		−3.2	
Basic earnings per share in CHF	13	20.77		16.81	
Diluted earnings per share in CHF	13	20.76		16.79	

Consolidated statement of comprehensive income for the year ended 31 December 2018

CHF million

	2018	2017
Profit/(loss) for the year	**215.3**	**167.7**
Change in actuarial gains/(losses) on defined benefit pension plans	12.7	39.7
Income tax	– 2.7	– 10.2
Change in actuarial gains/(losses) on defined benefit pension plans net of tax	**10.0**	**29.5**
Items that will not be transferred subsequently to income statement	**10.0**	**29.5**
Change in fair value reserve	–	0.5
Transfer to income statement	–	– 3.2
Income tax	–	0.9
Change in fair value reserve net of tax	**–**	**– 1.8**
Change in cash flow hedge reserve	– 3.7	3.4
Transfer to income statement	4.3	– 2.7
Income tax	0.2	– 0.9
Change in cash flow hedge reserve net of tax	**0.8**	**– 0.2**
Change in currency translation reserve	– 56.0	35.3
Transfer to income statement	0.1	–
Change in currency translation reserve	**– 55.9**	**35.3**
Items that may be transferred subsequently to income statement	**– 55.1**	**33.3**
Other comprehensive income	**– 45.1**	**62.8**
Comprehensive income	**170.2**	**230.5**
Attributable to owners of Bucher Industries AG	167.5	232.2
Attributable to non-controlling interests	2.7	– 1.7

Consolidated cash flow statement for the year ended 31 December 2018

CHF million	Note	2018	2017
Profit/(loss) for the year		**215.3**	**167.7**
Income tax expense	17	61.6	57.6
Net interest expense	16	2.9	2.9
Share of profit/(loss) of associates and joint ventures	8	−3.6	−0.4
Depreciation and amortisation	5, 6	95.2	91.6
Other operating cash flow items		2.3	−0.2
Gain on sale of non-current assets	15	−1.0	−0.1
Gain on sale of short-term investments and financial assets		−0.3	−3.2
Interest received		1.7	2.0
Interest paid		−3.7	−4.0
Income tax paid		−47.0	−41.6
Change in provisions and retirement benefit obligations		−5.6	−3.3
Change in receivables		−69.6	−66.1
Change in inventories		−88.3	−73.7
Change in advances from customers		27.3	54.4
Change in payables		34.4	58.5
Other changes in working capital		−20.6	−19.7
Net cash flow from operating activities		**201.0**	**222.4**
Purchases of property, plant and equipment		−98.2	−71.8
Proceeds from sale of property, plant and equipment		2.4	2.0
Purchases of intangible assets	6	−4.5	−4.4
Purchases of other financial assets		−2.4	−1.9
Proceeds from sale of other financial assets		3.7	6.4
Acquisitions	2	−31.3	−0.4
Acquisition of associates and joint ventures	8	–	−0.3
Dividend received	8	0.2	0.1
Net cash flow from investing activities		**−130.1**	**−70.3**
Purchases of treasury shares	13	−6.9	–
Proceeds from sale of treasury shares	13	1.0	27.7
Proceeds from non-current financial liabilities		5.6	4.6
Repayment of non-current financial liabilities		−2.9	−4.5
Proceeds from current financial liabilities		45.7	43.2
Repayment of current financial liabilities		−92.9	−76.9
Acquisition of non-controlling interests	2	−36.9	–
Dividend paid		−67.0	−50.7
Net cash flow from financing activities		**−154.3**	**−56.6**
Effect of exchange rate changes		−14.3	27.1
Net change in cash and cash equivalents		**−97.7**	**122.6**
Cash and cash equivalents at 1 January		513.2	390.6
Cash and cash equivalents at 31 December		**415.5**	**513.2**

Consolidated statement of changes in equity for the year ended 31 December 2018

CHF million	Share capital	Retained earnings	Treasury shares	Currency translation reserve	Fair value reserve	Cash flow hedge reserve	Attributable to owners of Bucher Industries AG	Non-controlling interests	Total equity
Balance at 1 January 2017	**2.1**	**1 537.9**	**–17.7**	**–338.5**	**4.7**	**–0.6**	**1 187.9**	**35.7**	**1 223.6**
Profit/(loss) for the year		170.9					170.9	–3.2	**167.7**
Other comprehensive income		29.5		33.8	–1.8	–0.2	61.3	1.5	**62.8**
Comprehensive income		**200.4**		**33.8**	**–1.8**	**–0.2**	**232.2**	**–1.7**	**230.5**
Change in treasury shares		9.8	12.7				22.5		**22.5**
Share-based payments		4.9	1.3				6.2		**6.2**
Dividend		–50.7					–50.7	–	**–50.7**
Balance at 31 December 2017	**2.1**	**1 702.3**	**–3.7**	**–304.7**	**2.9**	**–0.8**	**1 398.1**	**34.0**	**1 432.1**
Impact of first application of IFRS 9 and IFRS 15		2.9		–	–2.9		–	–	**–**
Restated balance at 1 January 2018	**2.1**	**1 705.2**	**–3.7**	**–304.7**	**–**	**–0.8**	**1 398.1**	**34.0**	**1 432.1**
Profit/(loss) for the year		212.4					212.4	2.9	**215.3**
Other comprehensive income		10.0		–55.7		0.8	–44.9	–0.2	**–45.1**
Comprehensive income		**222.4**		**–55.7**	**–**	**0.8**	**167.5**	**2.7**	**170.2**
Change in treasury shares		–	–6.9				–6.9		**–6.9**
Share-based payments		1.5	1.7				3.2		**3.2**
Change in non-controlling interests		–29.0					–29.0	–13.0	**–42.0**
Dividend		–66.5					–66.5	–0.5	**–67.0**
Balance at 31 December 2018	**2.1**	**1 833.6**	**–8.9**	**–360.4**	**–**	**–**	**1 466.4**	**23.2**	**1 489.6**

Notes to the consolidated financial statements

Group accounting policies

Organisation Bucher Industries AG is a public limited company incorporated in Switzerland whose shares are publicly traded on the SIX Swiss Exchange. Its registered office is in Niederweningen, Switzerland. The Group comprises five specialised divisions in industrially related areas of mechanical and vehicle engineering.

Basis of preparation The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and Swiss law under the historical cost convention, except for certain assets and liabilities which are measured at fair value. The consolidated financial statements are prepared in Swiss francs (CHF) and are based on the group entities' separate financial statements made up to 31 December using uniform classification and measurement criteria (IFRS). All amounts are stated in millions of Swiss francs (CHF million), unless otherwise indicated. The policies set out below have been consistently applied to all the periods presented, unless otherwise stated. Where necessary, prior-year comparative information has been reclassified or extended from the previously reported consolidated financial statements to take into account any presentational changes.

Changes in accounting policies Bucher Industries has applied the new standards IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) since 1 January 2018. The cumulative effects from the initial application were recognised directly in equity. In accordance with the standards, the comparative figures from prior periods were not adjusted. The new or revised standards and interpretations published by the International Accounting Standards Board (IASB) and implemented on 1 January 2018 had no significant impact on the consolidated financial statements presented here. Published standards or interpretations that will only come into effect for the financial years from 1 January 2019 and beyond will not be applied at an earlier date.

IFRS 9 — Financial instruments IFRS 9 replaces IAS 39 and introduces changes to the classification and measurement of financial assets, the recognition of impairments of financial assets and hedge accounting. Financial assets are classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. As a result of applying IFRS 9, other financial assets with a value of CHF 24.6 million were reclassified as of 1 January 2018 to the category "fair value through profit or loss (FVTPL)" (previously "available for sale"). The corresponding effects from the increase in fair value in the amount of CHF 2.9 million were reclassified from the fair value reserve to retained earnings as of 1 January 2018. The expected credit loss model is now used to calculate the impairments of financial assets. The change had no material impact on the consolidated financial statements.

IFRS 15 — Revenue from contracts with customers IFRS 15 replaces revenue recognition in accordance with IAS 18 and IAS 11 and calls for a standardised five-step model for recognising revenue from the transfer of promised goods and services. The new standard also sets out disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The application of IFRS 15 has no material impact on the timing or amount of revenue recognition for Bucher Industries. The initial application of the modified retroactive approach as of 1 January 2018 did not have any significant impact.

Future standards not yet adopted The board of directors has decided to switch from IFRS to Swiss GAAP FER as of 1 January 2019. With the changeover, goodwill and other intangible assets from acquisitions will be offset against equity. The offsetting eliminates amortisation from acquisitions, which will have a positive impact on the income statement. Bucher Industries will continue to guarantee transparent reporting that gives a true and fair view of the financial situation. The decision to change accounting standards as of 1 January 2019 means that future new and revised IFRS standards and interpretations will have no impact on the Group. Consequently the new standards are not listed here.

Management's assumptions and estimates The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. All estimates and judgements are reviewed regularly. They are based on historical experience and expectations of future events. Actual outcomes may differ from these estimates. The consolidated financial statements will be modified as appropriate in the reporting period in which the circumstances change. Assumptions and estimates in the following areas have a significant influence on the consolidated financial statements.

- Impairment of non-financial assets, in particular in the assessment of the carrying value of goodwill
- Recognition of long-term provisions
- Determination of the amount of current and deferred income tax assets and liabilities
- Actuarial calculations of defined benefit obligations

More information is given in the following group accounting policies and in the notes.

Basis of consolidation The consolidated financial statements incorporate the financial statements of Bucher Industries AG and all its Swiss and foreign group entities (subsidiaries) where the company exercises control by directly or indirectly holding more than 50% of the voting rights or has acquired control through contractual arrangements. Using the full consolidation method, all assets, liabilities, income and expenses of the consolidated entities are included in the consolidated financial statements. Subsidiaries acquired during the year are consolidated from the date on which control is transferred to the Group and those disposed of are deconsolidated from the date that control ceases. Equity and profit or loss attributable to non-controlling interests are presented as separate line items in the consolidated balance sheet and income statement. All intercompany balances, transactions, cash flows and realised and unrealised profits are eliminated in the consolidated financial statements. The acquisition method is used to account for business combinations. Under this method, the acquiree's assets, liabilities and contingent liabilities are measured at their fair values using uniform group accounting policies. Any excess of the cost of acquisition over the fair value of the net assets acquired is recorded as goodwill. Any negative difference is recognised directly in the income statement in the reporting period. For each business combination, the non-controlling interests are either carried at fair value or according to the proportion of net assets. Upon acquisition of non-controlling interests in a fully consolidated entity, any difference between the purchase price and the carrying amount of such non-controlling interests is recognised directly in retained earnings. Transaction costs are booked as expenses in the income statement. Any reduction in ownership interest that does not result in a loss of control is also recognised in equity.

Associated companies and joint ventures Associates are those entities in which Bucher Industries has significant influence, but not control, over the financial and operating policy decisions. Significant influence can generally be assumed with voting rights of 20% to 50%. Joint ventures are companies over whose activities the Group has joint control with one or more parties and where financial and operational decisions require the unanimous consent of the parties to joint control. Associated companies and joint ventures are initially recognised at cost. Subsequently the equity method is used to adjust the carrying amount of the investment for the Group's share of the profit or loss less the Group's share of profit distributions.

Foreign currency translation The individual financial statements of each of the Group's foreign entities are reported in the currency of the primary economic environment in which the entity operates (its functional currency). Within Bucher Industries, the functional currency is generally the local currency of the respective country. The consolidated financial statements are presented in Swiss francs, which is both the functional and presentation currency of Bucher Industries AG. For group entities that have a functional currency different from the Group's presentation currency, assets and liabilities are translated into Swiss francs at year-end closing exchange rates (mid rates) at the reporting date, while items in the income statement and cash flow statement are translated at average exchange rates for the year (average of the twelve month-end mid exchange rates). Translation differences arising on consolidation are reported in other comprehensive income and are transferred to the income statement as profit or loss when a foreign operation is sold or liquidated. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Realised and unrealised foreign currency translation gains and losses relating to operating activities are presented within operating profit, while those relating to financing transactions are presented within net financial result. Derivative financial instruments used to hedge foreign currency risk exposures associated with assets and liabilities and with expected future cash flows are measured at fair value, with changes in the fair value recognised in the income statement. Exceptions are transactions designated for hedge accounting where gains and losses are recognised in other comprehensive income.

Segment reporting Segments are defined using the management approach. Although they are technologically related, the segments are quite distinct from each other in terms of products and sales markets. Responsibility for the management and performance of the segments is therefore decentralised. Assets, liabilities, income and expenses can be clearly allocated to the segments. Sales between segments are at arm's length prices.

Financial assets Financial assets are classified into the categories “held at fair value through profit or loss” and “loans and receivables at amortised cost”. In addition, the previous year included the category “available for sale” as defined by IAS 39. The classification depends on the purpose for which the financial assets were acquired. All financial assets are initially recognised at fair value, plus transaction costs in the case of financial instruments not held at fair value through profit or loss. Purchases and sales are recognised on the date of payment and delivery (settlement date). Management assesses at each reporting date whether there is any indication that an asset may be permanently impaired. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

“Held at fair value through profit or loss” Subsequent to initial recognition, money market instruments and derivative financial assets are measured at fair value, with changes in fair value recognised in the income statement.

“Loans and receivables at amortised cost” These include non-derivative financial assets such as loans and receivables with fixed or determinable payments. These financial assets are not listed on an active market and are carried at amortised cost using the effective interest method. If they become impaired or uncollectable, they are provided for in the income statement.

Additional category in previous year “Available for sale” as defined by IAS 39 Available-for-sale financial assets were non-derivatives that were either designated as such or could not be classified in any of the other categories. These assets were generally carried at fair value. If their fair value could not be reliably determined, they were recognised at cost. Unrealised gains or losses were recognised in other comprehensive income as the “net change in fair value reserve” until they were realised. Interest was calculated using the effective interest method and recognised in the income statement. When an asset was disposed of or determined to be permanently impaired, the cumulative gains or losses recognised in other comprehensive income were taken to the income statement for the period.

Cash and cash equivalents Cash and cash equivalents are defined as short-term, liquid financial investments that are readily convertible to defined cash amounts within a three-month period and subject to insignificant risk of changes in value. These include cash on hand, post office and bank balances as well as short-term time deposits. There are no restrictions on cash and cash equivalents.

Other financial assets Marketable short-term investments (assets, bonds, money market investments) are classified as “held at fair value through profit or loss”. in the previous year there was also the category “available for sale” as defined by IAS 39. Fair value is determined by reference to quoted market prices. These assets include long-term investments (with participating interests of less than 20%), long-term loans and other miscellaneous financial assets and are classified as “loans and receivables at amortised cost”. Charges and credits to the income statement are recorded in finance income.

Receivables Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest method, net of specific provisions for known credit and country transfer risks. Allowances are made, based on the expected credit losses using the simplified impairment model, to cover risks inherent in receivables for which no specific allowances have been made. This takes into account historical customer default rates as well as current customer attributes such as geographic region, customer rating and collateral. Provisions for impairment are included in other operating expenses.

Derivative financial instruments and hedging activities Derivative financial instruments, such as forward contracts and options, are used to hedge exposure to interest rate and foreign currency fluctuations. The first-time accounting and the subsequent valuation are made at the respective fair value. This is based on the market prices quoted on the reporting date. Changes in fair value are recognised in the income statement. Unrealised gains and losses on contracts to hedge operating cash flows are taken to operating profit, while those on contracts to hedge financing activities are taken to finance income and finance costs. Derivative financial instruments are recorded as other receivables or other liabilities as applicable.

Hedge accounting The Group uses hedge accounting to hedge selected transactions. Future cash flows with a high probability of occurrence are hedged using cash flow hedges. Fair value hedges and net investment hedges were not used. At the inception of the hedge, group treasury identifies and documents transactions which are designated as a hedged item for hedge accounting purposes. The effectiveness of a hedge instrument in terms of the cash flow hedged is checked and documented both on the date it is concluded and also during the entire term of the hedge. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income. The non-effective portion is recorded in the income statement. Amounts accumulated in other comprehensive income are transferred to the income statement when the underlying transaction has been booked or the conditions for hedge accounting no longer apply.

Inventories Inventories are stated at the lower of cost and net realisable value. Cost is determined using either the weighted average or first-in, first-out method. The same method is used for inventories having a similar nature and use to the company. Where necessary, provision is made for all foreseeable losses on work in progress, other goods and slow-moving items, with write-downs recognised in changes in inventories of finished goods and work in progress.

Property, plant and equipment Property, plant and equipment are stated at historical cost less accumulated depreciation. The different components are accounted for as separate items. Expenditure on improvements is capitalised. The costs of repairs, maintenance and replacements as well as low-value assets are charged to the income statement as they are incurred. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. Land is stated at cost and is not depreciated. The residual useful lives of property, plant and equipment are reviewed periodically. The Group has determined the following useful lives:

	Years
Buildings and Infrastructure	10–50
Plant and machinery	5–12
Furniture, fixtures and equipment	2–15

Intangible assets Goodwill, licences, patents, trademarks, customer lists, supplier relationships, software and similar rights are recognised as acquired intangible assets. Intangible assets are capitalised only if they will generate sustainable economic benefits. They are generally measured using the cost model. Intangible assets with finite useful lives are amortised on a straight-line basis over their expected residual lives, ranging from five to twenty years depending on the asset. Goodwill from acquisitions is not amortised, but is capitalised and tested for impairment annually or whenever there are indications of possible impairment. Expenditure on research activities is recorded as an expense in the period in which it is incurred. Development costs are capitalised and amortised over their useful lives only if the future economic benefits will be sufficient to recover the development costs and if the other criteria required by IAS 38 are met. Development costs that do not meet these criteria are expensed directly through the income statement.

Impairment of non-financial assets For goodwill, impairment is tested at least annually, while other assets are reviewed for impairment whenever there is an indication that they may be impaired. When there are indications of permanent impairment, the asset's recoverable amount is determined and compared with its current carrying amount. If the carrying amount exceeds the recoverable amount, the carrying amount is written down accordingly. Such impairment losses are recognised in the income statement. To enable impairment tests to be carried out on non-financial assets, these are grouped into cash-generating units. The definition of and differentiation between cash-generating units vary from division to division. Goodwill is allocated to the cash-generating units or group of cash-generating units that are expected to benefit from the respective business combination. The recoverable amount of the cash-generating unit is determined on the basis of the value in use, which is influenced essentially by the cash flow projections, the discount rate before taxes (WACC) and the long-term growth rate. These calculations are based on the expected market trends and require the application of various assumptions and estimates. Actual cash flows may differ from those expected. Write-ups are performed if, in subsequent periods, the recoverable amount is higher than the book value. Assets are written up at most to the amount that would have resulted if the impairment had not been booked. Impairment losses on goodwill are not reversed.

Borrowing costs Borrowing costs for assets that require a substantial period of preparation until they are ready for their intended use are capitalised from the start of the construction phase until commissioning. The amount of borrowing costs to be capitalised depends on the actual costs incurred in connection with the borrowing of funds for the specific asset. All other borrowing costs are expensed on an accrual basis directly in the period in which they occur.

Discontinued operations and non-current assets held for sale Non-current assets or groups of non-current assets are reclassified as being held for sale if the associated carrying amount is mostly to be realised by the sale and not from continued use. Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell, and any impairment losses are recognised in the income statement.

Financial liabilities Financial liabilities include short-term and long-term borrowings, trade payables and other liabilities. Financial liabilities are initially recognised at fair value less any directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. A financial liability is derecognised when the obligation underlying this liability has been fulfilled or terminated or has expired.

Provisions A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required in the future to settle the obligation, and the amount can be reliably estimated. However, actual cash outflows and their timing may differ significantly depending on the outcome of events. Restructuring provisions are recognised only when the Group has a detailed formal plan for restructuring and has announced or already started to implement the restructuring plan. Future losses are not provided for. Provisions are valued at the present value of the anticipated costs.

Equity/treasury shares Retained earnings include amounts paid in by shareholders in excess of the par value of shares (share premium). Treasury shares are recorded as a deduction from equity. Realised gains or losses on the sale of treasury shares are also recognised in equity as a component of retained earnings. The same applies to the cost of share-based payments (share plans). Dividends are charged to equity in the period in which they are approved by the general meeting of shareholders.

Net sales/revenue recognition Sales equate to all amounts collected and still to be collected from third parties for goods, products and services. Sales are measured at the expected fair value of the consideration received, net of value-added tax and sales deductions such as sales incentives, rebates and trade discounts. The estimated amounts recognised are based on past experience and the contractual terms and conditions. The sale of goods and services is recognised when the performance obligation has been satisfied or when control is transferred to the customer. The timing of the transfer depends on specific contract criteria or the agreed international commercial terms (Incoterms), among other things. Payment is usually due within 30 to 90 days from delivery. In some contracts, short-term advance payments are required before the goods or products are delivered. Some contracts may include expanded guarantees, service or maintenance as well as installation services. These are accounted for as separate performance obligations and part of the transaction price is allocated on the basis of the individual selling prices. The rendering of services such as installation is based on agreements with the customer. Sales from services are recognised over the period in which the service is rendered. Payment is usually made after completion of the services and acceptance by the customer. In some contracts, short-term advance payments are required before the services are provided.

Interest income/dividends Interest income is recorded over the anticipated term, so that it reflects the effective income on an asset. Dividends are recorded if shareholders are able to assert a legal claim.

Income tax The tax expense for the period comprises current and deferred income tax. Tax is recognised in the income statement, except where it relates to items recognised directly in other comprehensive income or in equity. In this case, the tax is also recognised in the corresponding account.

Current income tax Current income tax is calculated on the basis of the local tax laws enacted at the reporting date in the countries where the group entities operate and generate taxable income. Provision is made for all current tax liabilities. Taxes that are not based on taxable profit are charged to other operating expenses.

Deferred income tax In measuring deferred income tax assets and liabilities, the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements are determined at individual group entity level (balance sheet liability method). Deferred income tax assets and liabilities are measured and recognised using tax rates and laws that have been enacted or substantially enacted in the respective countries by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Potential tax benefits arising from tax losses carried forward and temporary differences are reviewed annually and recognised only to the extent that it is probable that they will be realised through future taxable profits against which the losses can be utilised. Assessing the probability of realising potential tax savings is based on planning data and requires assumptions and estimates to be made. Deferred tax liabilities in connection with undistributed profits for group companies, associated companies and joint ventures are taken into account unless the Group can fully control the distribution policy for the corresponding companies and if no dividend payments are to be expected in the foreseeable future. Deferred taxes are also not recognised upon the initial recognition of goodwill or of assets and liabilities that do not affect taxable profit.

Retirement benefits Bucher Industries operates a number of defined benefit and defined contribution pension plans. In the case of defined contribution plans, contributions are paid in on the basis of a statutory or contractual obligation, or on a voluntary basis. Apart from these contributions, there are no other payment obligations. Defined benefit obligations are calculated by independent actuaries using the projected unit credit method every one to three years, depending on the materiality of the pension plan. Actuarial calculations of defined benefit obligations are based on statistical and actuarial assumptions, such as expected inflation rates, future salary increases, probable turnover rates and life expectancies of plan members, as well as discount rates, which may deviate from actual future developments. Actuarial gains and losses are recognised at the full amount in other comprehensive income in the period in which they occur. Current and past service costs, interest expense or income and benefit entitlements arising from changes in the pension schemes are charged to the income statement. Surpluses in pension schemes are only recognised when they are actually available to the Group in the form of future contributions or reductions in future contributions to the plan.

Share-based payment schemes These comprise the Bucher Share Plan and the options awarded in previous years.

Bucher Share Plan The Bucher Share Plan is a share-based, performance-related component of remuneration for the members of group management, senior management in the divisions and selected specialists. The annual financial targets for the award of shares are set by the board of directors at the beginning of each financial year, taking into account the Group's long-term targets, the results for the previous year, the budget for the current year and the general economic environment. Awards are based on a percentage of basic salary as well as the achievement of the Group's annual financial "earnings per share" target. The shares awarded are calculated using the share price on the reporting date. The number of shares to be awarded to the members of group management is subject to the approval of the annual general meeting. This is granted retrospectively. The share price on the reporting date is taken as the best estimate for valuation of the plans. The costs are recognised in the income statement on an accrual basis. In the following year, the estimate is adjusted to take account of the share price at the date of approval through the income statement. The offsetting entry is made in equity. The shares required for awards under the Bucher Share Plan are purchased in the open market and held by Bucher Beteiligungs-Stiftung, a consolidated employee share ownership trust, and by Bucher Industries AG.

Share option plans No share options have been granted since the 2010 financial year. Share options granted in respect of previous reporting periods remain valid as originally provided and may be exercised at any time. One option entitles the holder to purchase one registered share of Bucher Industries AG. The options cannot be traded.

Leases A finance lease is defined as a lease that transfers substantially all the risks and rewards of ownership of an asset. Ownership may or may not eventually be transferred. An operating lease is a lease other than a finance lease. Bucher Industries enters into contracts both as lessor and lessee.

Group as lessee Assets held under finance leases in which Bucher Industries acts as lessee are, on initial recognition, capitalised at the lower of their fair value and the present value of the future minimum lease payments and are then depreciated over the shorter of their estimated useful lives and the lease term. The corresponding obligations are carried as liabilities. In the case of operating leases, payments are charged to the income statement on a straight-line basis over the lease term.

Group as lessor Assets held under finance leases in which Bucher Industries acts as lessor are recorded as receivables with a value equivalent to the amount of the net investment. Leasing income from finance leases is recognised in accordance with the effective interest method over the lease term.

Government grants Grants from the government are recognised only where there is a reasonable assurance that all attached conditions will be complied with and the grant will be received. They are recognised at their fair value. The grants are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Notes to the consolidated financial statements

1 Segment reporting

The Group comprises five divisions: specialised agricultural machinery (Kuhn Group), municipal vehicles (Bucher Municipal), hydraulic components (Bucher Hydraulics), manufacturing equipment for the glass container industry (Bucher Emhart Glass), equipment for the production of wine, fruit juice, beer and instant products, a Swiss distributorship for tractors and specialised agricultural machinery, as well as control systems for automation technology (Bucher Specials).

Segment information

CHF million	Net sales		Depreciation		Amortisation		Operating profit (EBIT)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Kuhn Group	1 204.4	1 075.6	−35.6	−32.9	−6.9	−7.1	98.0	93.0
Bucher Municipal	539.1	425.7	−8.3	−8.1	−3.0	−3.0	48.5	26.1
Bucher Hydraulics	626.6	545.9	−18.8	−17.1	−2.6	−2.6	82.1	74.7
Bucher Emhart Glass	446.5	381.2	−8.7	−9.3	−2.1	−1.9	45.0	25.2
Bucher Specials	308.8	271.6	−3.6	−3.3	−2.9	−2.5	24.0	22.1
Reportable segments	**3 125.4**	**2 700.0**	**−75.0**	**−70.7**	**−17.5**	**−17.1**	**297.6**	**241.1**
Other/consolidation	−60.9	−52.6	−2.7	−3.8	–	–	−20.1	−14.7
Group	**3 064.5**	**2 647.4**	**−77.7**	**−74.5**	**−17.5**	**−17.1**	**277.5**	**226.4**

The performance of each of the divisions is evaluated on the basis of operating profit or loss, which is measured consistently for management reporting. The figures reported as “other/consolidation” comprise the results of the holding, finance and management companies, as well as consolidation adjustments for intersegment transactions. The previous year also included the one-time effect in the amount of CHF 4.9 million from the lowering of the conversion rate of the Angestellten-Pensionskasse Bucher Schweiz (Bucher Switzerland employee pension fund). Intersegment sales amounted to CHF 12.8 million (2017: CHF 13.1 million) for Kuhn Group, CHF 4.5 million (CHF 3.8 million) for Bucher Hydraulics and CHF 43.4 million (CHF 35.6 million) for Bucher Specials. The other divisions had only marginal intersegment sales.

CHF million	Net sales Europe		Net sales Americas		Net sales Asia		Net sales Other	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Kuhn Group	780.0	665.2	343.1	327.6	50.2	41.7	31.1	41.1
Bucher Municipal	376.0	289.7	41.3	31.9	20.2	16.4	101.6	87.7
Bucher Hydraulics	377.4	337.0	181.3	160.3	65.7	46.5	2.2	2.1
Bucher Emhart Glass	176.9	129.5	119.5	119.4	115.0	118.4	35.1	13.9
Bucher Specials	233.2	205.1	36.6	27.3	32.4	23.8	6.6	15.4
Reportable segments	**1 943.5**	**1 626.5**	**721.8**	**666.5**	**283.5**	**246.8**	**176.6**	**160.2**
Other/consolidation	−48.4	−43.3	−1.6	−1.0	−10.8	−8.3	−0.1	–
Group	**1 895.1**	**1 583.2**	**720.2**	**665.5**	**272.7**	**238.5**	**176.5**	**160.2**

Net sales have been allocated to the countries of destination.

CHF million	Capital expenditure		Goodwill		Operating assets		Operating liabilities	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Kuhn Group	32.3	33.7	65.6	67.3	905.5	887.8	− 447.0	− 453.5
Bucher Municipal	11.9	6.5	21.7	22.6	368.2	335.7	− 133.5	− 117.6
Bucher Hydraulics	39.3	21.0	20.8	3.5	439.1	349.8	− 105.5	− 84.5
Bucher Emhart Glass	10.8	7.8	22.1	21.9	345.6	341.0	− 148.3	− 134.6
Bucher Specials	5.4	4.1	4.8	4.2	175.1	156.3	− 74.3	− 67.4
Reportable segments	**99.7**	**73.1**	**135.0**	**119.5**	**2 233.5**	**2 070.6**	**− 908.6**	**− 857.6**
Other/consolidation	3.0	3.1	17.7	17.4	24.0	28.1	12.1	13.7
Group	**102.7**	**76.2**	**152.7**	**136.9**	**2 257.5**	**2 098.7**	**− 896.5**	**− 843.9**

Operating assets include current and non-current receivables, inventories, property, plant and equipment and intangible assets (incl. goodwill). Operating liabilities comprise trade payables, advances from customers, other liabilities and provisions.

Reconciliation of segment results

CHF million		
	2018	**2017**
Segment operating profit (EBIT)	297.6	241.1
Other/consolidation	− 20.1	− 14.7
Operating profit (EBIT)	**277.5**	**226.4**
Share of profit/(loss) of associates and joint ventures	3.6	0.4
Finance costs	− 7.7	− 8.8
Finance income	3.5	7.3
Profit before tax	**276.9**	**225.3**

Reconciliation of segment assets

CHF million		
	2018	**2017**
Segment operating assets	**2 233.5**	**2 070.6**
Other/consolidation	24.0	28.1
Operating assets	**2 257.5**	**2 098.7**
Cash and cash equivalents and other financial assets - current	441.5	540.5
Other financial assets – non-current	9.2	10.4
Other assets	4.8	3.2
Investments in associates and joint ventures	12.3	13.3
Deferred income tax assets	48.2	53.7
Assets	**2 773.5**	**2 719.8**

Reconciliation of segment liabilities

CHF million

	2018	2017
Segment operating liabilities	**−908.6**	**−857.6**
Other/consolidation	12.1	13.7
Operating liabilities	**−896.5**	**−843.9**
Financial liabilities – current	−46.8	−60.6
Financial liabilities – non-current	−235.4	−265.7
Other liabilities	−12.2	−5.6
Deferred income tax liabilities	−49.8	−54.6
Retirement benefit obligations	−43.2	−57.3
Total liabilities	**−1 283.9**	**−1 287.7**

Property, plant and equipment and intangible assets by region

CHF million

	2018	2017
Europe	522.4	522.3
Americas	216.8	228.1
Asia	108.9	75.8
Other	22.0	23.4
Total	**870.1**	**849.6**

2 Acquisitions

Acquisition of Wuxi Deli Fluid Technology Co., Ltd. (Bucher Hydraulics Wuxi) At the end of July 2018, Bucher Industries acquired 70.0% of the shares of Wuxi Deli Fluid Technology Co., Ltd. for the Bucher Hydraulics division. The company is the leading manufacturer of hydraulic pumps and hydraulic power packs in China and has been successful in growing its export business in recent years. The majority stake enabled Bucher Hydraulics to expand its presence in China and to become a globally leading provider of hydraulic power packs. The company has changed its name to Bucher Hydraulics (Wuxi) Co., Ltd. For the remaining 30% there are contracts that can be exercised at various times. The first 10% will be exercised within nine months after the acquisition. The put option of the non-controlling interests for the remaining 20% can be exercised from the fourth year after the acquisition, while Bucher Industries' call option can only be exercised after the sixth year. The obligations to acquire the shares amount to CHF 10.2 million and are reported in other liabilities. CHF 4.2 million are shown as current liabilities. The exercise prices are derived from the profits of the three years prior to exercise. The liabilities were calculated by discounting at the reporting date the earliest possible payments, based on plan data reported by the management. The non-controlling interests retain full dividend and voting rights until the possible exercise of the options.

Other acquisitions At the end of June Bucher Industries acquired for the Bucher Emhart Glass division the laser marking business for hot glass containers from Qualimarq Sàrl (Qualimarq), a pioneer and the world's leading provider in this area. As a result, Bucher Emhart Glass now offers state-of-the-art technologies for the laser marking of hot glass containers. At the end of October 2018, Kuhn Group acquired the remaining 62.0% of the shares of Artec Pulvérisation SA (Artec). Together with the existing interest of 38.0%, Bucher Industries now holds 100% of the French company. Artec develops and manufactures self-propelled agricultural sprayers geared towards the needs of large farming operations. The acquisition enables Kuhn Group to offer a wide range of plant protection sprayers in Europe and to become a leading market player in France for self-propelled sprayers. The products of Artec will continue to be sold under their current brand in a specialised distribution network. At the end of November 2018, Bucher Industries took over the import business of Grunderco S.A. The transaction enabled Bucher Landtechnik, a business unit of Bucher Specials, to expand its product range in harvesting technology, strengthen its presence in western Switzerland and consolidate its leading position in the Swiss agricultural machinery market.

Acquired net assets

CHF million	Bucher Hydraulics Wuxi	Other	Total
			2018
Cash and cash equivalents	2.1	1.0	3.1
Trade receivables	8.3	4.0	12.3
Inventories	4.4	11.5	15.9
Property, plant and equipment	12.3	0.4	12.7
Intangible assets	8.3	2.9	11.2
Deferred income tax assets	0.5	0.1	0.6
Current financial liabilities	−1.2	−0.9	−2.1
Trade payables	−13.7	−2.3	−16.0
Current provisions	−0.3	−1.7	−2.0
Current other liabilities	−1.0	−1.1	−2.1
Deferred income tax liabilities	−2.7	−0.7	−3.4
Retirement benefit obligations	–	−0.9	−0.9
Other net assets	0.1	–	0.1
Net assets	**17.1**	**12.3**	**29.4**

Net cash flow for acquisitions

CHF million	Bucher Hydraulics Wuxi	Other	Total	Total
			2018	**2017**
Net assets	17.1	12.3	29.4	–
Shares previously held	–	– 4.0	– 4.0	–
Non-controlling interests	– 5.1	–	– 5.1	–
Goodwill	18.0	5.6	23.6	–
Total purchase consideration	**30.0**	**13.9**	**43.9**	**–**
Cash and cash equivalents acquired	– 2.1	– 1.0	– 3.1	–
Contingent consideration	–	– 0.7	– 0.7	–
Deferred consideration	– 7.2	– 2.0	– 9.2	–
Deferred consideration relating to previous years	–	0.4	0.4	0.4
Net cash outflow for acquisitions	**20.7**	**10.6**	**31.3**	**0.4**

The purchase price of the acquisitions including liabilities acquired was CHF 43.9 million. This includes deferred payments of CHF 9.2 million. The purchase price less deferred and contingent payments was paid in full from cash and cash equivalents. From the acquisition of the business of Qualimarq, CHF 0.7 million was recorded in other liabilities as contingent consideration. The contingent payments totalling a maximum of CHF 0.9 million depend on the annual sales targets over the next five years. The value of the acquired trade receivables corresponded to the fair value. On the reporting date, the process to determine the fair values of identifiable assets, goodwill, liabilities and contingent liabilities was not yet completed. Based on the preliminary purchase price allocations, the goodwill from the acquisitions was CHF 23.6 million, which represents the entry into the markets and the synergy potential from the business combinations as well as the employees' expertise. The acquired companies have generated sales of CHF 22.5 million (Bucher Hydraulics Wuxi CHF 17.8 million) and profit for the year of CHF 0.9 million (CHF 0.7 million) since the acquisition dates. If all the acquisitions had been completed on 1 January 2018, the adjusted sales of the acquisitions would have totalled CHF 83.8 million (CHF 42.6 million) and profit for the year CHF 3.5 million (CHF 1.8 million). The acquisition costs totalling CHF 0.8 million were recognised in 2018, the period in which they were incurred, under other operating expenses and they related mostly to Bucher Hydraulics Wuxi.

Acquisition of non-controlling interests in Shandong Sanjin Glass Machinery Co., Ltd. (Sanjin) Bucher Industries increased its interest in Sanjin by 37.0% to 100% by the purchase of the remaining shares. The purchase price of CHF 36.9 million was recognised as an acquisition of non-controlling interests in the cash flow from financing activities. The increase led to a change in the non-controlling interests in the consolidated statement of equity in the amount of CHF 18.1 million. The difference of CHF 18.8 million between the purchase price and the carrying value of the non-controlling interests was recognised in retained earnings.

3 Receivables

CHF million	Current	Non-current	Total	Current	Non-current	Total
			2018			**2017**
Trade receivables	501.4	6.4	507.8	445.5	3.3	448.8
Notes receivable	18.6	–	18.6	11.7	–	11.7
Trade receivables, net	**520.0**	**6.4**	**526.4**	**457.2**	**3.3**	**460.5**
Other receivables	47.8	4.1	51.9	48.1	4.3	52.4
Prepayments to suppliers	6.7	–	6.7	6.5	–	6.5
Derivative financial instruments	4.8	–	4.8	3.1	0.1	3.2
Accrued income	9.3	–	9.3	9.7	–	9.7
Other receivables	**68.6**	**4.1**	**72.7**	**67.4**	**4.4**	**71.8**
Receivables	**588.6**	**10.5**	**599.1**	**524.6**	**7.7**	**532.3**

Ageing analysis of trade receivables

CHF million	**2018**	**2017**
Trade receivables, gross	556.5	491.5
Amount provided for	–30.1	–31.0
Receivables, net	**526.4**	**460.5**
Not due	446.9	380.5
Not due, amount provided for	–5.8	–5.6
Past due, within 30 days	56.7	57.1
Past due, from 31 to 90 days	20.3	21.7
Past due, more than 90 days	32.6	32.2
Past due, amount provided for	–24.3	–25.4

The due dates of trade receivables are constantly monitored. The past due amounts relate to trade receivables for which the agreed payment deadline has been exceeded.

Movements in the provision for impairment of trade receivables

CHF million	2018	2017
Balance at 1 January	31.0	28.5
Exchange differences	−1.9	1.5
Acquisition/disposal of subsidiaries	0.5	–
Provision for receivables impairment	5.3	4.1
Unused amounts reversed	−3.5	−2.6
Receivables written-off during the year as uncollectable	−1.3	−0.5
Balance at 31 December	**30.1**	**31.0**

4 Inventories

CHF million	2018	2017
Raw materials and consumables	213.6	182.3
Work in progress	183.9	170.3
Finished goods and goods for resale	373.0	341.4
Inventories	**770.5**	**694.0**
Change of write-downs	11.0	6.5

In the reporting period, CHF 0.8 million was written off directly to the income statement (2017: CHF 8.2 million). The prior-year figures include inventory adjustments of CHF 7.8 million at Sanjin.

5 Property, plant and equipment

CHF million	Land and buildings	Plant and machinery	Furniture, fixtures and equipment	Prepayments and assets under construction	Total
					2018
Cost at 1 January	661.6	551.0	232.4	44.1	1 489.1
Exchange differences	−21.5	−19.0	−8.0	−1.4	−49.9
Acquisition/disposal of subsidiaries	9.7	8.5	1.2	–	19.4
Additions	12.1	29.7	18.5	39.2	99.5
Disposals	−5.4	−9.7	−10.7	−0.5	−26.3
Transfers	20.8	23.5	2.1	−46.4	–
Cost at 31 December	**677.3**	**584.0**	**235.5**	**35.0**	**1 531.8**
Accumulated depreciation at 1 January	−293.3	−407.4	−173.7	–	−874.4
Exchange differences	8.3	13.8	5.8	–	27.9
Acquisition/disposal of subsidiaries	−1.9	−4.0	−0.8	–	−6.7
Disposals	5.2	9.4	10.3	–	24.9
Depreciation for the year	−24.7	−34.3	−18.7	–	−77.7
Accumulated depreciation at 31 December	**−306.4**	**−422.5**	**−177.1**	**–**	**−906.0**
Net book value at 31 December	**370.9**	**161.5**	**58.4**	**35.0**	**625.8**
					2017
Cost at 1 January	625.4	511.4	214.2	28.6	1 379.6
Exchange differences	27.3	24.7	10.2	2.2	64.4
Additions	8.0	18.4	15.4	30.0	71.8
Disposals	−1.9	−12.7	−11.6	−0.5	−26.7
Transfers	2.8	9.2	4.2	−16.2	–
Cost at 31 December	**661.6**	**551.0**	**232.4**	**44.1**	**1 489.1**
Accumulated depreciation at 1 January	−258.2	−366.9	−159.4	–	−784.5
Exchange differences	−12.7	−19.4	−8.1	–	−40.2
Disposals	1.9	11.9	11.0	–	24.8
Depreciation for the year	−24.3	−33.0	−17.2	–	−74.5
Accumulated depreciation at 31 December	**−293.3**	**−407.4**	**−173.7**	**–**	**−874.4**
Net book value at 31 December	**368.3**	**143.6**	**58.7**	**44.1**	**614.7**

The net book value of assets under finance leases amounted to CHF 11.1 million in the reporting period (2017: CHF 15.5 million).

6 Intangible assets

CHF million	Goodwill	Trademarks	Customer lists	Licences/ Patents	Other	Total
						2018
Cost at 1 January	228.9	50.8	85.8	187.3	25.5	578.3
Exchange differences	−10.2	−2.6	−3.7	−7.1	−1.0	−24.6
Acquisition/disposal of subsidiaries	23.6	1.1	9.8	–	0.5	35.0
Additions	–	–	–	2.9	1.6	4.5
Disposals	–	–	–	−0.7	−0.1	−0.8
Cost at 31 December	**242.3**	**49.3**	**91.9**	**182.4**	**26.5**	**592.4**
Accumulated amortisation at 1 January	−92.0	−29.4	−31.3	−168.8	−21.9	−343.4
Exchange differences	2.4	1.1	1.1	6.8	0.8	12.2
Acquisition/disposal of subsidiaries	–	–	–	–	−0.2	−0.2
Disposals	–	–	–	0.7	0.1	0.8
Amortisation for the year	–	−3.8	−6.0	−6.8	−0.9	−17.5
Accumulated amortisation at 31 December	**−89.6**	**−32.1**	**−36.2**	**−168.1**	**−22.1**	**−348.1**
Net book value at 31 December	**152.7**	**17.2**	**55.7**	**14.3**	**4.4**	**244.3**
						2017
Cost at 1 January	229.1	50.7	85.4	172.7	22.1	560.0
Exchange differences	−0.2	0.1	0.4	12.4	1.5	14.2
Additions	–	–	–	2.3	2.1	4.4
Disposals	–	–	–	−0.1	−0.2	−0.3
Cost at 31 December	**228.9**	**50.8**	**85.8**	**187.3**	**25.5**	**578.3**
Accumulated amortisation at 1 January	−91.3	−25.4	−25.9	−151.3	−19.7	−313.6
Exchange differences	−0.7	–	0.4	−11.3	−1.4	−13.0
Disposals	–	–	–	0.1	0.2	0.3
Amortisation for the year	–	−4.0	−5.8	−6.3	−1.0	−17.1
Accumulated amortisation at 31 December	**−92.0**	**−29.4**	**−31.3**	**−168.8**	**−21.9**	**−343.4**
Net book value at 31 December	**136.9**	**21.4**	**54.5**	**18.5**	**3.6**	**234.9**

In the reporting period, as in the previous year, no research and development costs were capitalised. Research and development costs mainly comprise expenditure to update and extend the divisions' ranges of products and services and are included in raw materials and consumables used, employment costs, other operating expenses and depreciation of property, plant and equipment. Research and development costs of CHF 118.5 million (2017: CHF 110.0 million) were charged to the income statement.

Goodwill impairment testing The management of Bucher Industries monitors the recoverability of goodwill at divisional level for Kuhn Group, Bucher Municipal, Bucher Hydraulics and Bucher Emhart Glass as well as for the individual business units of Bucher Specials. Consequently the cash-generating units were grouped at the divisional or business unit level as applicable. Bucher Industries uses the discounted cash flow (DCF) method to assess the recoverable amount of goodwill, based on value in use. The calculations were based on the financial budgets for the next three years (2019 to 2021). These budgets take account of the latest management estimates regarding sales and prices as well as operating costs and are based on the assumption that there will be no significant organisational changes. Cash flows beyond the budget period were estimated on the basis of prudently calculated growth rate projections. The growth rates and capital costs take account of specific weighted country and currency risks. The cost of equity was determined using the capital asset pricing model.

Allocation of goodwill to cash-generating units

CHF million	Growth rates	WACC [1]	Goodwill	Growth rates	WACC [1]	Goodwill
	%	**%**	**2018**	**%**	**%**	**2017**
Kuhn Group	1.9	8.1	65.6	1.7	7.8	67.3
Bucher Municipal	1.5	7.3	21.7	1.5	7.3	22.6
Bucher Hydraulics [2]	1.1	7.2	38.5	0.9	7.1	20.9
Bucher Emhart Glass	1.3	6.9	22.1	1.1	6.7	21.9
Bucher Specials	0.1 – 0.5	5.9 – 6.7	4.8	0.1 – 0.5	5.9 – 6.6	4.2
Goodwill			**152.7**			**136.9**

[1] Before tax
[2] The goodwill recognised in the Bucher Industries US holding company was allocated in its entirety to the Bucher Hydraulics division for impairment testing purposes.

Sensitivity analysis The sensitivity analysis conducted by management shows that in all cash-generating units neither a reduction of growth rates in the residual value to 0%, nor an increase in the weighted average cost of capital by 0.5 percentage points would affect the result of the impairment test.

7 Other financial assets

CHF million	2018	2017
Money market investment	2.3	3.0
Bonds	23.7	24.4
Pension asset	1.3	1.3
Long-term loans	6.4	7.2
Other	1.5	1.8
Other financial assets	**35.2**	**37.7**
Current portion	26.0	27.3
Non-current portion	9.2	10.4

Starting in 2018, changes in bond values are recognised in the income statement. In the previous year, the changes in bond values were recognised in other comprehensive income and amounted to CHF 0.5 million.

8 Investments in associates and joint ventures

CHF million	2018	2017
Balance at 1 January	13.3	11.6
Exchange differences	−0.4	1.1
Additions	–	0.3
Disposals	−4.0	–
Share of profit/(loss)	1.2	0.4
Share of other comprehensive income	–	–
Revaluation	2.4	–
Dividend received	−0.2	−0.1
Balance at 31 December	**12.3**	**13.3**

At the end of October 2018, Kuhn Group acquired the remaining 62.0% of the shares of Artec. Together with the existing interest of 38.0%, Bucher Industries now holds 100% of the share capital of Artec. Until 31 October 2018, Artec was classified as an associated company and was valued using the equity method. Artec has been fully consolidated since 1 November 2018. The revaluation resulted in a gain of CHF 2.4 million, which was recognised in the share of profit/(loss) of associates. Further information is provided in note 2.

Aggregated financial information of associates and joint ventures

CHF million	Associates	Joint ventures	Associates	Joint ventures
		2018		**2017**
Profit/(loss) for the year	4.9	−0.3	2.2	−0.2
Other comprehensive income	–	–	–	–
Comprehensive income	**4.9**	**−0.3**	**2.2**	**−0.2**

9 Financial liabilities

CHF million		
	2018	**2017**
Bonds	199.8	199.7
Other bank borrowings	50.8	94.5
Finance lease liabilities	7.8	11.2
Loans and other financial liabilities	23.8	20.9
Financial liabilities	**282.2**	**326.3**
Current portion	46.8	60.6
Non-current portion	235.4	265.7

The decrease in financial liabilities is primarily due to cash changes, see the consolidated cash flow statement. CHF 2.1 million of the increase in loans and other financial liabilities is related to acquisitions (see note 2) and is mostly compensated for by foreign exchange effects.

Bonds

CHF million	Company	Term	Currency	Nominal value	Effective interest rate	Total	Total
						2018	**2017**
Bond, Switzerland 0.625%	Bucher Industries AG	2014–2020	CHF	100.0	1.3%[1]	99.8	99.7
Bond, Switzerland 1.375%	Bucher Industries AG	2014–2024	CHF	100.0	1.4%	100.0	100.0
Bonds						**199.8**	**199.7**

[1] Additionally includes 0.6 percentage points from interest rate forward contracts

Other bank borrowings These include CHF 30.0 million (2017: CHF 55.0 million) in bilateral loans from committed credit facilities as well as CHF 20.8 million (CHF 39.5 million) from uncommitted credit facilities. The bilateral loans bear interest at rates of between 0.75% and 1.15% and are due for repayment from 2019 to 2022. The undrawn committed credit facilities on 31 December totalled CHF 185.0 million (CHF 210.0 million). The financial covenants are reviewed every six months. All credit terms were complied with on the reporting date of 31 December 2018.

10 Provisions

CHF million	Warranties	Legal claims	Other	Total	Total
				2018	**2017**
Balance at 1 January	44.3	19.7	10.4	74.4	72.9
Exchange differences	− 1.7	− 1.5	− 0.2	− 3.4	3.1
Acquisition/disposal of subsidiaries	1.9	0.1	–	2.0	–
Additional provisions	31.1	3.7	2.8	37.6	37.9
Unused amounts reversed	− 4.1	− 3.1	− 1.4	− 8.6	− 6.5
Used during year	− 29.7	− 2.0	− 2.5	− 34.2	− 33.0
Balance at 31 December	**41.8**	**16.9**	**9.1**	**67.8**	**74.4**
Current portion	40.3	11.9	2.9	55.1	61.6
Non-current portion	1.5	5.0	6.2	12.7	12.8

Provisions for warranty claims are recognised when the products are sold and are measured on the basis of historical data for the last two years. The timing of cash outflows depends on the dates when warranty claims are filed and/or the relevant cases settled. Warranty costs incurred are offset against the provisions when paid.

The provisions for legal claims cover risks associated with accidents, distribution rights and patents or other legal disputes. The resources required and timing of any cash outflows are difficult to predict and are usually recognised as short term if a decision can be expected within the next year. However, depending on the course of the proceedings, it may be several years before an outflow of resources actually occurs.

Other provisions relate to risks associated with the Group's industrial operations as well as costs from restructuring. The amounts of other provisions used during the year are primarily due to the dismantling of buildings in Niederweningen and the restructuring measures that were implemented at Bucher Emhart Glass in China.

11 Contingent liabilities and other commitments

Contingent liabilities CHF 0.8 million in contingent liabilities (2017: CHF 0.8 million) consist of guarantees given in respect of goods sold and services provided. The amount represents the maximum amount of the obligations assumed. These contingent liabilities are not expected to give rise to any outflows of funds. Following the filing of a complaint, the Swiss Competition Commission (COMCO) opened an investigation into Bucher Landtechnik AG on 14 March 2017. The Group is co-operating with COMCO and assisting in every way to help resolve the matter.

Other commitments As in the previous year, the Group did not enter into any commitments to purchase plant and equipment. Commitments relating to operational leases are disclosed in note 22.

12 Other liabilities

CHF million

	2018	2017
Accruals and deferred income	152.1	142.0
Social security and pensions	24.0	25.7
Sales and capital tax liabilities	35.9	38.5
Derivative financial instruments	1.6	5.4
Other	41.9	26.1
Other liabilities	**255.5**	**237.7**
Current portion	231.4	219.0
Non-current portion	24.1	18.7

Accruals and deferred income mainly include accruals for employment costs such as accrued holiday and overtime pay and variable remuneration, as well as accruals for commissions and contract-related liabilities.

Liabilities from contracts with customers These liabilities, in the amount of CHF 287.1 million (2017: CHF 267.0 million), include advance payments from customers, discounts and rebates not yet refunded, and the portion of the transaction prices related to unfinished installation work and services to be provided in the future. Bucher Industries assumes that all portions of the transaction prices for contracts that have not been fulfilled as of 31 December 2018 will be recognised as sales in the following year. Sales of CHF 263.6 million (CHF 201.8 million) were recorded in the reporting period that were included under liabilities from contracts with customers at the beginning of the period.

13 Earnings per share

	2018	2017
Profit/(loss) attributable to owners of Bucher Industries (CHF million)	212.4	170.9
Average number of shares outstanding (undiluted)	10 227 835	10 171 322
Average number of shares outstanding (diluted)	10 234 105	10 183 429
Basic earnings per share (CHF)	20.77	16.81
Diluted earnings per share (CHF)	20.76	16.79
Dividend per registered share (CHF) [1)]	8.00	6.50
Total dividend (CHF million) [1)]	82.0	66.6

1) 2018: Proposed by the board of directors

The average number of shares outstanding is calculated on the basis of the number of shares issued, less the weighted average number of treasury shares held.

Share capital

		2018	2017
Par value	CHF	0.20	0.20
Outstanding registered shares	number	10 212 225	10 224 434
Treasury registered shares	number	37 775	25 566
In issue and ranking for dividend	**number**	**10 250 000**	**10 250 000**
Authorised but unissued	number	1 184 100	1 184 100
Issued share capital	CHF million	2.1	2.1

The share capital of Bucher Industries AG consists of one class of voting rights.

Treasury shares

CHF million	Number of shares	2018	Number of shares	2017
Balance at 1 January	25 566	3.7	123 871	17.7
Purchases of treasury shares	25 000	6.9	–	–
Sales of treasury shares	–	–	– 68 777	– 12.7
Reissued for share-based payment schemes	– 12 791	– 1.7	– 29 528	– 1.3
Balance at 31 December	**37 775**	**8.9**	**25 566**	**3.7**

14 Employment costs

CHF million	2018	2017
Wages and salaries	– 552.5	– 504.8
Share awards	– 2.4	– 2.8
Social security costs	– 98.0	– 85.3
Defined contribution costs	– 31.2	– 29.5
Defined benefit costs	– 12.9	– 9.5
Other employment costs	– 94.0	– 76.5
Employment costs	**– 791.0**	**– 708.4**

Other employment costs comprise incidental costs of staff recruitment, training and development as well as external staff costs.

15 Other operating income and expenses

CHF million	2018	2017
Own work capitalised	1.5	0.6
Gain on sale of non-current assets	1.0	0.1
Other income	23.0	20.2
Other operating income	**25.5**	**20.9**
Energy, maintenance and repairs	− 114.9	− 99.4
Charges, levies, taxes and consulting fees	− 38.4	− 42.3
Marketing and distribution costs	− 123.7	− 110.8
Insurance expenses	− 5.7	− 6.7
Operating lease expenses	− 12.8	− 11.9
Miscellaneous operating expenses	− 72.3	− 63.5
Other operating expenses	**− 367.8**	**− 334.6**

Other operating income comprises revenue from sales of goods and services that are outside the normal course of the Group's business. Miscellaneous operating expenses include operating foreign exchange losses and changes in operating provisions that cannot be charged to an appropriate expense account.

16 Net financial result

CHF million	2018	2017
Interest expense on financial liabilities	− 4.7	− 5.5
Financial foreign exchange gains and losses	− 2.1	− 2.2
Other finance costs	− 0.9	− 1.1
Finance costs	**− 7.7**	**− 8.8**
Interest income on financial assets	1.8	2.6
Net gain on financial instruments	1.7	4.6
Other finance income	–	0.1
Finance income	**3.5**	**7.3**
Share of profit/(loss) of associates and joint ventures	3.6	0.4
Net financial result	**− 0.6**	**− 1.1**
Of which financial items relating to:		
Financial instruments; at amortised cost	− 8.1	− 9.0
Financial instruments; fair value through profit or loss	3.9	4.3
Financial instruments; available-for-sale	–	3.2

As in the previous year, no borrowing costs were capitalised. In the previous year, the net gain on financial instruments included CHF 3.2 million transferred from other comprehensive income in connection with the sale of available-for-sale securities.

17 Income tax

The reconciliation shown below is based on the tax rates applicable in the respective tax jurisdictions. The applicable tax rate represents the weighted average of the tax rates. As the Group operates in various countries, the weighted average tax rate may vary from period to period to reflect the profits in the respective countries and the impact of any changes in the tax rates.

Effective income tax expense

CHF million	2018	2017
Current income tax	−66.9	−56.9
Deferred income tax	5.3	−0.7
Income tax expense	**−61.6**	**−57.6**
Reconciliation:		
Profit before tax	276.9	225.3
Weighted average tax rate	22.5%	26.9%
Theoretical income tax charge	**−62.3**	**−60.6**
Utilisation of unrecognised tax loss carryforwards	0.7	2.4
Reassessment of tax loss carryforwards with tax asset adjustment	0.6	1.3
Changes in valuation allowances on losses and on deferred tax assets	−2.9	−2.3
Expenses not deductible for tax purposes/income not subject to tax	−1.0	−0.6
(Under)/over provided in prior years	−0.9	2.0
Changes in deferred taxes due to changes in tax rates	0.6	3.1
Other differences	3.6	−2.9
Effective income tax expense	**−61.6**	**−57.6**
Effective tax rate	22.2%	25.6%

Deferred income tax

CHF million	Assets	Liabilities	Assets	Liabilities
		2018		**2017**
Property, plant and equipment	0.6	−22.5	0.6	−22.1
Other non-current assets	2.6	−32.5	2.8	−38.7
Inventories	35.8	−4.3	33.5	−3.7
Other current assets	4.8	−7.8	5.7	−8.3
Provisions	5.7	−3.1	6.5	−3.2
Other liabilities	21.6	−5.9	25.2	−5.8
Tax loss carryforwards	3.4	–	6.6	–
Deferred income tax	**74.5**	**−76.1**	**80.9**	**−81.8**
Offset amounts	−26.3	26.3	−27.2	27.2
Deferred income tax assets/liabilities	**48.2**	**−49.8**	**53.7**	**−54.6**

Movements in deferred income tax

CHF million	Assets	Liabilities	Assets	Liabilities
		2018		**2017**
Balance at 1 January	53.7	−54.6	60.8	−51.4
Exchange differences	−2.4	1.7	1.5	−0.9
Acquisition/disposal of subsidiaries	0.6	−3.4	–	–
Transfer from income tax liabilities	–	–	0.2	−0.2
Charged/credited to income statement	−1.5	6.8	0.8	−1.5
Charged/credited to other comprehensive income	−2.2	−0.3	−9.6	−0.6
Balance at 31 December	**48.2**	**−49.8**	**53.7**	**−54.6**

In the reporting period, current income tax of CHF 0.2 million (2017: CHF 1.7 million) arising from the sale of treasury shares was recognised directly in equity. The tax expenses in other comprehensive income amounted to CHF 2.5 million (CHF 10.2 million) and were allocated to “Change in actuarial gains/(losses) on defined benefit pension plans”, “Change in fair value reserve” and “Change in cash flow hedge reserve”. Deferred tax liabilities exclude withholding taxes and other taxes on potential future dividends of subsidiaries when the funds have been reinvested on a long-term basis and no dividend is planned.

Tax loss carryforwards

CHF million	2018	2017
Tax loss carryforwards	63.1	99.2
Of which recognised in deferred income tax	−27.3	−50.3
Unrecognised tax loss carryforwards	**35.8**	**48.9**
Expiration:		
Within 1 year	–	5.9
In 1 to 5 years	4.3	7.4
In more than 5 years	–	–
No expiration	31.5	35.6
Tax effect on unrecognised tax loss carryforwards	11.5	14.1

18 Retirement benefits

Most employees are covered by pension plans in accordance with the relevant national regulations. Most of these pension plans are defined contribution plans. The Group also operates a number of defined benefit plans. The largest pension plan is in Switzerland, covering 81% of the retirement benefit obligations and 89% of the plan assets. The "international plans" category mainly comprises the plans in North America (6% of the retirement benefit obligations, 5% of the plan assets) and in France (6% of the retirement benefit obligations, 6% of the plan assets).

Swiss plan The Angestellten-Pensionskasse Bucher Schweiz (Bucher Switzerland employee pension fund, APK) has the legal form of a semi-autonomous foundation and is subject to the minimum legal requirements for pension plans, which are governed by the Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). The supreme governing body is the board of trustees, which comprises equal numbers of employee and employer representatives. The foundation covers all underwriting risks except death before retirement and invalidity, which are separately reinsured. Contributions to the pension plan are funded by both employees and the employer, the latter paying at least 50% of the necessary contributions. In the event of a deficit, additional contributions can be levied from both employer and employees to make up the shortfall. The risks are mainly demographic (life expectancy) and financial (discount rate, future salary increases and rates of return on plan assets). These risks are regularly reassessed by the board of trustees.

International plans – North America The pension plan is governed by the regulations of the Employee Retirement Income Security Act of 1974 (ERISA), which sets minimum standards. These regulations were updated by the Pension Protection Act of 2006. This requires that the annual contributions ensure plan assets are sufficient to meet the expected obligations. Plan members are insured against the economic consequences of old age, invalidity and death. Contributions are funded entirely by the employer. The plan was closed to new members as of 31 July 2004. Employee pension entitlements were frozen as of 31 July 2005. In addition, there is a defined benefit plan for healthcare provision during retirement for employees who are at least 55 years old and have been employed by the company for more than ten years when they reach the age of 65. Funding is provided principally by the employer. The part of the premium paid by employees is based on their length of service with the company.

International plans – France The occupational pension plan is based on various regulations and company agreements. The plan provides a basic entitlement to benefit payments at the onset of the insured event, old age. The plans are funded internally by the employer. The Group also has schemes for employee anniversaries, which qualify as other long-term employee benefits.

Funding of defined benefit plans

CHF million	Swiss	International	Total	Swiss	International	Total
			2018			**2017**
Fair value of plan assets	360.2	46.6	406.8	339.2	45.3	384.5
Present value of funded obligations	– 366.2	– 58.2	– 424.4	– 354.9	– 60.9	– 415.8
Funding surplus/(deficit)	**– 6.0**	**– 11.6**	**– 17.6**	**– 15.7**	**– 15.6**	**– 31.3**
Present value of unfunded obligations	–	– 25.6	– 25.6	–	– 26.0	– 26.0
Surplus/(deficit)	**– 6.0**	**– 37.2**	**– 43.2**	**– 15.7**	**– 41.6**	**– 57.3**

Movements in defined benefit obligations and plan assets

CHF million	Fair value of plan assets	Present value of retirement obligation	Impact of minimum funding requirement/ asset ceiling	Total	Total
				2018	**2017**
Balance at 1 January	**384.5**	**– 441.8**	**–**	**– 57.3**	**– 96.6**
Current service cost		– 11.3		– 11.3	– 12.7
Past service cost		–		–	4.9
Interest income/(expense)	3.3	– 4.3	–	– 1.0	– 1.3
Administration expenses, taxes and premium paid	– 0.6			– 0.6	– 0.4
Defined benefit expense recognised in profit or loss	**2.7**	**– 15.6**	**–**	**– 12.9**	**– 9.5**
Return on plan assets (excluding interest based on discount rate)	7.6			7.6	23.7
Actuarial gains/(losses) arising from changes					
– in demographic assumptions	–	0.1		0.1	0.2
– in financial assumptions	–	19.5		19.5	4.0
Experience gains/(losses)	–	– 14.5		– 14.5	11.8
Change in actuarial gains/(losses) on defined benefit pension plans in other comprehensive income	**7.6**	**5.1**	**–**	**12.7**	**39.7**
Exchange differences	– 0.7	1.5		0.8	– 1.7
Acquisition/disposal of subsidiaries	2.9	– 3.8		– 0.9	–
Employer contributions	13.7			13.7	9.9
Employee contributions	4.8	– 4.8		–	–
Benefits paid	– 8.7	9.4		0.7	0.9
Plan curtailments/settlements	–	–		–	–
Balance at 31 December	**406.8**	**– 450.0**	**–**	**– 43.2**	**– 57.3**

Categories of plan assets

CHF million	Swiss	International	Total	%	Swiss	International	Total	%
				2018				2017
Equities	113.8	9.9	123.7	30.4	119.2	9.4	128.6	33.4
Bonds	116.3	5.8	122.1	30.0	121.8	5.1	126.9	33.0
Assurances	7.2	27.6	34.8	8.6	3.9	27.8	31.7	8.3
Property	98.7	–	98.7	24.3	73.6	–	73.6	19.1
Cash	1.5	0.3	1.8	0.4	1.4	0.5	1.9	0.5
Other assets	22.7	3.0	25.7	6.3	19.3	2.5	21.8	5.7
Plan assets	**360.2**	**46.6**	**406.8**	**100.0**	**339.2**	**45.3**	**384.5**	**100.0**

The equities and bonds are mainly listed investments.

Breakdown of defined benefit obligations by category

CHF million	Swiss	International	Total	Swiss	International	Total
			2018			2017
Obligation active insured members	227.4	47.9	275.3	223.7	50.5	274.2
Obligation former members with vested benefits	–	15.6	15.6	–	23.5	23.5
Obligation members receiving pensions	138.8	20.3	159.1	131.2	12.9	144.1
Defined benefit obligations	**366.2**	**83.8**	**450.0**	**354.9**	**86.9**	**441.8**
Term of obligations in years (duration)	15.5	13.3	15.1	15.9	14.2	15.5

Actuarial assumptions

Weighted averages in %	Swiss	International		Swiss	International	
			2018			2017
Discount rate	0.9	2.5	1.2	0.7	2.3	1.0
Future salary increases	1.0	2.0	1.1	1.0	1.8	1.1
Future pension increases	–	1.6	0.1	–	1.6	0.1
Inflation rate	1.0	2.1	1.2	1.0	2.1	1.2

For the 2019 financial year, contributions to defined benefit pension plans are expected to total CHF 13.2 million (2017: CHF 12.2 million).

Sensitivity analysis A change in the parameters, under otherwise identical conditions, would result in the following increases/(decreases) in pension liabilities.

CHF million		Swiss	International	Total	Swiss	International	Total
				2018			**2017**
Discount rate:	+25 basis points	−13.4	−2.6	−16.0	−13.4	−2.8	−16.2
Discount rate:	−25 basis points	14.3	2.7	17.0	14.3	2.9	17.2
Future salary increases:	+100 basis points	0.8	0.9	1.7	0.8	1.0	1.8
Future salary increases:	−100 basis points	−0.8	−1.0	−1.8	−0.8	−1.0	−1.8
Life expectancy:	+1 year	3.2	0.9	4.1	3.6	1.7	5.3

19 Share-based payments/share option plans

Bucher Share Plan Eligible employees were awarded a total of 7 003 shares for the reporting period (2017: 4 979 shares). The number and value of shares were calculated using the year-end share price of CHF 264.40 (CHF 396.00). The valuation totalled CHF 1.9 million (CHF 2.0 million).

Share option plans Share options granted in respect of previous years may be exercised at any time. One option entitles the holder to purchase one registered share of Bucher Industries AG. The average share price for options exercised was CHF 337.42 (2017: CHF 325.30).

Movements in the number of share options outstanding

	Number of options	Average exercise price in CHF	Number of options	Average exercise price in CHF
		2018		**2017**
Outstanding options at 1 January	12 500	133.0	34 400	164.5
Exercised	−6 900	147.5	−21 900	182.5
Expired	–	–	–	–
Outstanding options at 31 December	**5 600**	**115.0**	**12 500**	**133.0**
Option expiry date:				
2018	–	–	6 600	149.0
2019	5 600	115.0	5 900	115.0

20 Related parties and companies

Remuneration of directors and members of group management

CHF million	2018	2017
Salaries	−5.5	−5.8
Post-employment benefits	−1.3	−1.3
Share awards	−1.4	−1.4
Key management remuneration	**−8.2**	**−8.5**

Salaries include variable remuneration, fees and expense allowances paid in cash. For the reporting period, group management members were awarded 3 609 shares (2017: 2 535 shares) with a par value of CHF 0.20 in Bucher Industries AG under the share plans. As part of their fees, the board of directors were allocated 1 801 shares (1 065 shares). No directors or group management members or persons connected with them received any additional remuneration, fees or loans during the year. At year-end, there were no loans outstanding to the company's governing bodies. Directors' fees were paid in the form of cash and shares.

Year-end balances and transactions with related parties

CHF million	2018	2017
Receivables from pension funds	1.3	1.3
Receivables from associates and joint ventures	4.3	0.4
Payables to pension funds	−4.3	−0.1
Payables to associates and joint ventures	−2.4	−1.1

In the reporting period, products worth CHF 37.1 million (2017: CHF 35.3 million) were purchased from associates and joint ventures. The sales generated with associates and joint ventures amounted to CHF 3.2 million (CHF 0.9 million), and other expenditure with associated companies CHF 0.7 million (CHF 0.4 million).

21 Pledged assets

The book value of assets pledged or assigned to secure the Group's obligations was CHF 19.2 million (2017: CHF 7.8 million).

22 Leases

Finance leases, lessee

CHF million	Minimum lease payments	Finance lease liabilities	Minimum lease payments	Finance lease liabilities
		2018		2017
Within 1 year	3.0	2.8	3.4	3.1
From 1 to 5 years	4.1	3.9	6.4	6.1
More than 5 years	1.2	1.1	2.1	2.0
Balance at 31 December	**8.3**	**7.8**	**11.9**	**11.2**
Finance charge	−0.5	–	−0.7	–
Finance lease liabilities	**7.8**	**7.8**	**11.2**	**11.2**

Operating leases, lessor

CHF million	2018	2017
Within 1 year	1.6	1.2
From 1 to 5 years	1.8	1.7
More than 5 years	–	–
Minimum lease payments	**3.4**	**2.9**

Minimum lease payments from non-cancellable operating lease contracts relate to lease contracts for equipment to customers of Bucher Municipal in Australia.

Operating leases, lessee

CHF million	2018	2017
Within 1 year	9.2	8.3
From 1 to 5 years	15.0	13.5
More than 5 years	9.9	10.0
Minimum lease payments	**34.1**	**31.8**

The Group has entered into operating leases for the use of buildings, machinery and vehicles.

23 Financial risk management

The Group's international operations expose it to a variety of financial risks, such as credit, liquidity, price and market risks. Group financial risk management is based on internally formulated guidelines and responsibilities. These include criteria for general financial risk management as well as for specific areas such as management of interest, exchange rate and counterparty risks, as well as the use of derivative financial instruments. With the exception of the management of credit risks, financial risk management is the responsibility of the central treasury function. Group treasury identifies and assesses financial risks and hedges these in close collaboration with the Group's operational units. The risk management process as implemented also includes regular reporting on the development of financial risks.

Credit risk Credit risk arises from the possibility of partial or total default on contractual payments and/or performance obligations. It also includes exposure to losses in the value of financial items due to deterioration in credit quality or counterparty risks under financial contracts. Each of the individual businesses is responsible for operational credit risk as part of their receivables management. They determine the credit terms and monitor payment from customers, taking into account their past payment history (for existing customers) and an analysis of their credit rating (for new and existing customers). In the reporting period, the credit risk on trade receivables was limited due to the Group's diversified customer base. Its customers operate in different industries spread across diverse geographical areas worldwide, as shown in the segment reporting in note 1. As a result, the Group had no cluster risk. In addition, credit risk was minimised by security in the form of credit insurance, advance payment schemes, letters of credit and bank guarantees. Further details of receivables and of the calculation of the provision for impairment and changes to it are set out in note 3. Bucher Industries invested its free cash in short-term money market investments with banking institutions that have a very good international risk rating, as well as in top-rated money market funds. The Group had no concentration of credit risk associated with receivables from banks. Its banking relationships included relationships with local banks so they were widely spread geographically. It also made short-term financial investments in marketable securities with high credit ratings. The maximum credit risk is equal to the carrying amounts of the financial assets reported in the consolidated balance sheet.

Liquidity risk Bucher Industries defines liquidity risk as the risk that the Group and/or any of its subsidiaries may not have sufficient financial resources available to meet all of the payment obligations at any given time. In order to anticipate and manage liquidity requirements, group treasury conducts short- to medium-term liquidity planning in coordination with the businesses' finance departments to forecast future cash flows and financial commitments in each currency. The calculated liquidity requirements are always matched with existing credit facilities so that appropriate measures can be taken in good time to ensure the ability to meet current and future financial obligation. The necessary funds are raised as and when required in the money and capital markets.

Liquidity analysis The maturity analysis shows the contractual cash flows, including interest and repayments. The contractual payments are measured from the earliest possible date on which Bucher Industries could be required to pay. Future variable interest payments are calculated at the rates valid on 31 December.

CHF million	Within 1 year	From 1 to 5 years	More than 5 years	Total	Carrying amount
					2018
Trade payables	−296.3	–	–	**−296.3**	−296.3
Other liabilities	−29.5	−8.3	−4.4	**−42.2**	−41.9
Financial liabilities	−49.6	−140.6	−103.1	**−293.3**	−282.2
Non-derivative financial instruments	**−375.4**	**−148.9**	**−107.5**	**−631.8**	**−620.4**
Currency contracts – assets	537.5	19.1	–	**556.6**	
Currency contracts – liabilities	−534.3	−19.1	–	**−553.4**	
Derivative financial instruments	**3.2**	**–**	**–**	**3.2**	**3.2**
					2017
Trade payables	−269.8	–	–	**−269.8**	−269.8
Other liabilities	−19.2	−2.4	−4.5	**−26.1**	−26.1
Financial liabilities	−64.2	−171.0	−105.8	**−341.0**	−326.3
Non-derivative financial instruments	**−353.2**	**−173.4**	**−110.3**	**−636.9**	**−622.2**
Currency contracts – assets	512.2	37.9	–	**550.1**	
Currency contracts – liabilities	−514.1	−38.2	–	**−552.3**	
Derivative financial instruments	**−1.9**	**−0.3**	**–**	**−2.2**	**−2.2**

Market risk Market risk comprises three types of risk: foreign currency risk, interest rate risk and price risk. Market risk may change the valuation of assets and liabilities and/or profit and loss items because of changes in risk factors, such as foreign exchange rates and interest rates. These are analysed by means of risk simulations and reported to group management. Interest rate and exchange rate risk exposures are regularly quantified using a value-at-risk and a net-asset-value-at-risk approach.

Foreign currency risk As the Group operates internationally, Bucher Industries is mainly exposed to the risk of changes in the exchange rates of the euro, US dollar, British pound and Swedish krona in its most important sales and procurement markets. Individual subsidiaries' cash inflows and outflows denominated in foreign currencies are hedged by group treasury using appropriate financial instruments based on the respective underlying transactions in accordance with the risk policy. Hedging transactions are entered into only with financial institutions that have solid credit ratings. In the reporting period, foreign exchange losses of CHF 3.7 million (2017: foreign exchange gains of CHF 3.3 million) were transferred from other comprehensive income to the income statement. The Group has investments in foreign operations, whose assets and liabilities are exposed to foreign currency translation risk arising on translation into the Group's presentation currency (Swiss francs). The following exchange rates were used to translate the principal currencies in the Group into Swiss francs:

1 CHF	Income statement annual average rates		Balance sheet closing rates	
	2018	2017	2018	2017
1 EUR	1.1545	1.1131	1.1272	1.1701
1 GBP	1.3041	1.2706	1.2597	1.3184
1 USD	0.9759	0.9835	0.9841	0.9756
1 BRL	0.2696	0.3076	0.2536	0.2945
1 AUD	0.7298	0.7538	0.6948	0.7624
1 CNY	0.1476	0.1456	0.1431	0.1499
1 SEK	0.1127	0.1155	0.1101	0.1189
1 RUB	0.0157	0.0169	0.0141	0.0169

Interest and price risk Interest risks result from changes in market interest rates which have an impact on the profit or loss for the year and the market values of the financial instruments. The risk of a change in interest rates is constantly monitored and managed. Where necessary, interest rate forwards are used to hedge specific interest risks. As in the previous year, interest expense of CHF 0.6 million was transferred from other comprehensive income to the income statement as part of hedge accounting.

Sensitivity analysis Value at risk (VaR) and net asset value at risk (NAVaR) are measures used to quantify the impact of likely future changes in the value of financial items on profit or loss for the year (transaction risk) and consolidated equity (translation risk) respectively. VaR and NAVaR show the maximum loss in value of a portfolio that could arise with a given probability (confidence level) over a specific holding period. The portfolio comprises defined risk positions on financial items. The potential loss reported is assessed and analysed in the context of the Group's defined risk capacity. Based on this analysis, financial items are either restructured or hedged using financial derivatives where necessary. The following VaR and NAVaR figures are based on a confidence level of 90% and a holding period of 30 days (VaR) and one year respectively (NAVaR).

CHF million

	2018	2017
Currency risk	– 11.5	– 8.6
Interest risk	– 1.2	– 1.4
Correlation effect	5.6	5.3
VaR–transaction risk	**– 7.1**	**– 4.7**
NAVaR–translation risk	**– 83.9**	**– 85.3**

Foreign currency risk increased significantly due to greater volatility. The slight decrease in interest rate risk was primarily due to the shortening of the residual terms of the fixed-interest financial liabilities. The transaction risk increased sharply year on year due to the continued reduction of the correlation effect to 44% (2017: 53%). The reduction of the translation risk year on year is primarily due to a higher correlation effect.

Capital management The Group can manage its capital structure either by adjusting the amount of dividends or by initiating share buy-back programmes, issuing new shares and raising or repaying debt. With the continuous monitoring of the indicators listed below, Bucher Industries ensures that the appropriate and necessary equity measures are taken in a timely manner if required.

	2018	2017
Interest coverage ratio (EBITDA to net interest expense)	128.5	109.7
Debt payback period (net debt to EBITDA)	– 0.4	– 0.7
Gearing ratio (net debt to equity)	– 10.7%	– 15.0%
Equity ratio (equity to total assets)	53.7%	52.7%
Quick ratio (current assets less inventory to current liabilities)	114.6%	124.2%

Carrying amounts/financial assets and liabilities by category

CHF million	At fair value through profit or loss	At amortised cost	Held for hedge accounting	Carrying amount	Carrying amount
				2018	**2017 [1)]**
Cash and cash equivalents	415.5	–		415.5	513.2
Other financial assets	26.2	7.7		33.9	36.4
Trade receivables	–	526.4		526.4	460.5
Other receivables	–	51.9		51.9	52.4
Trade payables	–	–296.3		–296.3	–269.8
Other liabilities	–	–41.9		–41.9	–26.1
Financial liabilities	–	–282.2		–282.2	–326.3
Non-derivative financial instruments	**441.7**	**–34.4**		**407.3**	**440.3**
Currency contracts – assets	3.7		1.1	4.8	3.2
Currency contracts – liabilities	–1.2		–0.4	–1.6	–5.4
Derivative financial instruments	**2.5**		**0.7**	**3.2**	**–2.2**

1) With the exception of the category "available for sale" the values for the previous year were allocated to the various categories in the same order of magnitude as in the current reporting period. Other financial assets of CHF 24.6 million were classified as "available for sale" and CHF 1.1 million of currency contracts were designated as "held for hedge accounting".

Fair values With the exception of the financial liabilities with a fair value of CHF 290.3 million (2017: CHF 336.0 million), the book values are roughly equivalent to the fair values. With the exception of contingent consideration resulting from acquisitions and the put options on the shares of non-controlling interests, the fair values are based on observable market data at the end of the reporting period (level 2). There is no observable market data available regarding the contingent consideration and options that are included in other liabilities. The valuation is based primarily on specific data from the acquired companies (level 3) and is made using contractually agreed formulas.

Contingent consideration and options on the shares of non-controlling interests (level 3) To determine the fair values, future payments are discounted at the reporting date, using projections based on financial budgets approved by management. Dependent on the achievement of targets until the end of 2018, maximum payments of CHF 0.4 million were foreseen for Bucher Hidráulica. As in the previous year, the liability was valued at zero. From the acquisition of the Qualimarq business CHF 0.7 million was recorded in other liabilities as contingent consideration. The contingent consideration totalling a maximum of CHF 0.9 million depends on the annual sales targets over the next five years. In connection with the acquisition of Bucher Hydraulics Wuxi there are liabilities amounting to a total of CHF 10.2 million from the potential purchase of shares from the non-controlling interests. The exercise prices are derived from the profits of the three years prior to exercise. The liabilities were calculated by discounting at the reporting date the earliest possible payments, based on plan data reported by the management.

24 Events after the reporting date

The consolidated financial statements were approved for publication by the board of directors on 25 February 2019. They are subject to formal approval by the annual general meeting on 17 April 2019.

25 Group companies

Company, place of incorporation	Country	Currency	Share capital	Division	Activities		Group interest in %	
							2018	2017
Bucher Industries AG, Niederweningen	CH	CHF	2 050 000	O		S		
Bucher Sudamerica Participações Ltda., São Paulo	BR	BRL	1 000	O		S	100	100
Bucher Beteiligungs-Stiftung, Niederweningen	CH	CHF	250 000	O		S	100	100
Bucher BG Finanz AG, Steinhausen	CH	EUR	21 591 000	O		S	100	100
Bucher-Guyer AG, Niederweningen	CH	CHF	10 000 000	O		S	100	100
Bucher Management AG, Kloten	CH	CHF	6 600 000	O		S	100	100
Bucher (China) Investment Pty Ltd., Beijing	CN	CNY	6 769 000	O		S	100	100
Bucher Beteiligungen GmbH, Klettgau	DE	EUR	4 500 000	O		S	100	100
Bucher Beteiligungsverwaltung AG, Munich	DE	EUR	50 000	O		S	100	100
Kuhn Germany GmbH, Freiburg	DE	EUR	4 000 000	O		S	100	100
Bucher Industries Danmark ApS, Them	DK	DKK	51 000	O		S	100	100
Bucher Industries France SAS, Entzheim	FR	EUR	225 072 400	O		S	100	100
Kuhn Group SAS, Saverne	FR	EUR	200 100 000	O		S	100	100
Bucher Industries Italia S.p.A., Reggio Emilia	IT	EUR	3 380 000	O		S	100	100
Bucher Industries US, Inc., Enfield CT	US	USD	3	O		S	100	100
Kuhn Argentina, Buenos Aires	AR	ARS	500 000	KG	D		100	100
Kuhn-Montana Argentina S/A, Casilda	AR	ARS	3 412 326	KG	D		100	100
Kuhn Farm Machinery Pty Ltd, Warragul VIC	AU	AUD	100 000	KG	D		100	100
Kuhn do Brasil S/A, Passo Fundo	BR	BRL	320 077 812	KG	P D		100	100
Kuhn-Montana Indústria de Máquinas S/A, São José	BR	BRL	250 000 000	KG	P D		100	100
Kuhn Farm Machinery Inc., Sainte Madeleine	CA	CAD	150 100	KG	D		100	100
Kuhn Tianjin Farm Machinery Ltd., Tianjin	CN	CNY	5 045 167	KG	D		100	100
Kuhn Maschinen-Vertrieb GmbH, Schopsdorf	DE	EUR	300 000	KG	D		100	100
Kuhn Ibérica SA, Huesca	ES	EUR	100 000	KG	D		100	100
Artec Pulvérisation SAS, Corpe	FR	EUR	2 000 000	KG	P D		100	38
Contifonte SA, Saverne	FR	EUR	48 000	KG	P D		100	100
Kuhn-Audureau SA, La Copechagnière	FR	EUR	4 070 000	KG	P D		100	100
Kuhn Blanchard SAS, Chéméré	FR	EUR	2 000 000	KG	P D		100	100
Kuhn-Huard SA, Châteaubriant	FR	EUR	4 800 000	KG	P D		100	100
Kuhn MGM SAS, Monswiller	FR	EUR	2 000 000	KG	P D		100	100
Kuhn Parts SAS, Monswiller	FR	EUR	5 000 000	KG	D		100	100
Kuhn SA, Saverne	FR	EUR	19 488 000	KG	P D		100	100
Kuhn Farm Machinery Ltd., Telford	GB	GBP	100 000	KG	D		100	100
Kuhn Italia Srl., Melegnano	IT	EUR	520 000	KG	D		100	100
Kuhn-Geldrop B.V., Geldrop	NL	EUR	15 000 000	KG	P D		100	100
Kuhn Maszyny Rolnicze Sp.z.o.o., Suchy Las	PL	PLN	10 000 000	KG	D		100	100
Kuhn Vostok LLC, Moscow	RU	RUB	10 000 000	KG	D		100	100
Kuhn Ukraine Sarl, Kiev	UA	UAH	650 000	KG	D		100	100
Kuhn Krause, Inc., Hutchinson KS	US	USD	4 462 050	KG	P D		100	100
Kuhn North America, Inc., Brodhead WI	US	USD	60 110 000	KG	P D		100	100

Divisions: KG Kuhn Group, BM Bucher Municipal, BH Bucher Hydraulics, BEG Bucher Emhart Glass, BSp Bucher Specials, O Other
Activities: P Production, D Distribution, S Services

Company, place of incorporation	Country	Currency	Share capital	Division	Activities			Group interest in %	
								2018	2017
Bucher Municipal Pty Ltd., Clayton North VIC	AU	AUD	5 901 000	BM	P	D		100	100
Bucher Municipal AG, Niederweningen	CH	CHF	10 000 000	BM		D	S	100	100
Bucher Municipal GmbH, Hanover	DE	EUR	3 000 000	BM		D		100	100
Gmeiner GmbH, Wernberg-Köblitz	DE	EUR	25 565	BM	P	D		60	60
Beam A/S, Them	DK	DKK	5 000 000	BM	P	D		100	100
J. Hvidtved Larsen A/S, Silkeborg	DK	DKK	6 500 000	BM	P	D	S	100	100
Maquiasfalt SL, Madrid	ES	EUR	30 051	BM		D		60	60
Arvel Industries Sàrl, Coudes	FR	EUR	200 000	BM	P	D		60	60
Tecvia Eurl, Lyon	FR	EUR	38 112	BM		D		60	60
J. Hvidtved Larsen UK Ltd, Coalville	GB	GBP	1	BM		D		100	100
Johnston Sweepers Ltd., Dorking	GB	GBP	8 000	BM	P	D		100	100
J. Hvidtved Larsen Ireland Ltd, Thurles	IE	EUR	1	BM		D		100	100
Giletta S.p.A., Revello	IT	EUR	1 250 000	BM	P	D	S	60	60
Bucher Municipal Ltd., Seoul	KR	KRW	350 000 000	BM	P	D		100	100
Bucher Municipal SIA, Ventspils	LV	EUR	3 630 400	BM	P	D		100	100
Bucher Municipal LLC, Kaluga	RU	RUB	420 000	BM	P	D		60	60
J. Hvidtved Larsen AB, Eslöv	SE	SEK	500 000	BM		D		–	100
J. Hvidtved Larsen US, Inc., Chicago IL	US	USD	10 000	BM		D		100	100
Bucher Municipal North America, Inc., Mooresville NC	US	USD	500 000	BM	P	D		100	100
Bucher Hidráulica Ltda., Porto Alegre	BR	BRL	12 313 570	BH	P	D		100	100
Bucher Hydraulics Corp., London	CA	CAD	75 000	BH	P	D		100	100
Bucher Hydraulics AG Frutigen, Frutigen	CH	CHF	300 000	BH	P	D		100	100
Bucher Hydraulics AG, Neuheim	CH	CHF	1 200 000	BH	P	D		100	100
Bucher Hydraulics Suzhou Co., Ltd., Wujiang	CN	CNY	13 640 071	BH	P	D		100	100
Bucher Hydraulics (Wuxi) Co., Ltd., Wuxi	CN	CNY	25 000 000	BH	P	D		70	–
Bucher Hydraulics Dachau GmbH, Dachau	DE	EUR	30 000	BH	P	D		100	100
Bucher Hydraulics Erding GmbH, Erding	DE	EUR	25 000	BH	P	D		100	100
Bucher Hydraulics GmbH, Klettgau	DE	EUR	4 000 000	BH	P	D		100	100
Bucher Hydraulics Remscheid GmbH, Remscheid	DE	EUR	25 000	BH	P	D		100	100
Bucher Hydraulics SAS, Rixheim	FR	EUR	200 000	BH		D		100	100
Bucher Hydraulics Ltd., Nuneaton	GB	GBP	10 000	BH		D		100	100
Bucher Hydraulics Pvt Ltd., Gurgaon	IN	INR	39 666 680	BH	P	D		100	100
Bucher Hydraulics S.p.A., Reggio Emilia	IT	EUR	1 500 000	BH	P	D		100	100
Bucher Hydraulics KK, Tokyo	JP	JPY	10 000 000	BH		D		85	85
Bucher Hidrolik Sistemleri Tic. Ltd. Sti., Istanbul	TR	TRY	3 000 000	BH		D		100	100
Bucher Hydraulics, Inc., Grand Rapids MI	US	USD	12 473 000	BH	P	D		100	100

Divisions: KG Kuhn Group, BM Bucher Municipal, BH Bucher Hydraulics, BEG Bucher Emhart Glass, BSp Bucher Specials, O Other
Activities: P Production, D Distribution, S Services

Company, place of incorporation	Country	Currency	Share capital	Division	Activities			Group interest in %	
								2018	2017
Emhart Glass International SA, Steinhausen	CH	CHF	100 000	BEG			S	100	100
Emhart Glass SA, Steinhausen	CH	CHF	10 000 000	BEG		D	S	100	100
Shandong Sanjin Glass Machinery Co., Ltd., Zibo	CN	CNY	72 000 000	BEG	P	D		100	63
Emhart Glass GmbH, Leipzig	DE	EUR	50 000	BEG			S	100	100
Emhart Glass Ltd., Manchester	GB	GBP	1 838 000	BEG			S	–	100
Emhart Glass S.r.l., Savona	IT	EUR	320 000	BEG			S	100	100
Emhart Glass Japan Co Ltd., Kawasaki	JP	JPY	10 000 000	BEG			S	100	100
Emhart Glass Sdn Bhd., Ulu Tiram Johor	MY	MYR	500 000	BEG	P			100	100
Emhart Glass Sweden AB, Sundsvall	SE	SEK	30 000 000	BEG	P			100	100
Emhart Glass Pte. Ltd., Singapore	SG	SGD	2	BEG			S	100	100
Emhart Glass, Inc., Windsor CT	US	USD	2	BEG			S	100	100
Emhart Glass Manufacturing, Inc., Horseheads, NY	US	USD	1 000	BEG	P			100	100
Bucher Vaslin Argentina S.A., Mendoza	AR	ARS	7 341 800	BSp		D		100	100
Bucher Vaslin Sudamérica, Santiago de Chile	CL	CLP	3 449 571 856	BSp	P	D		100	100
Bucher Vaslin SA, Chalonnes-sur-Loire	FR	EUR	2 400 000	BSp	P	D		100	100
Bucher Vaslin S.r.l., Romans d'Isonzo	IT	EUR	100 000	BSp		D		100	100
Bucher Vaslin North America, Inc., Sebastopol CA	US	USD	87 500	BSp		D		100	100
Bucher Engineering Ges.m.b.H., Vösendorf	AT	EUR	36 336	BSp		D		100	100
Bucher Unipektin AG, Niederweningen	CH	CHF	600 000	BSp	P	D		100	100
Beijing Bucher Unipektin Equipment Co., Ltd., Beijing	CN	CNY	3 098 895	BSp		D		100	100
Bucher-Alimentech Ltd., Auckland	NZ	NZD	3 000	BSp		D		100	100
Bucher Landtechnik AG, Niederweningen	CH	CHF	4 000 000	BSp		D		100	100
Jetter Automation Technology (Shanghai) Co., Ltd., Shanghai	CN	CNY	12 820 627	BSp		D	S	100	100
futronic GmbH, Tettnang	DE	EUR	260 000	BSp	P	D		100	100
Jetter AG, Ludwigsburg	DE	EUR	3 241 061	BSp	P	D		100	100

Divisions: KG Kuhn Group, BM Bucher Municipal, BH Bucher Hydraulics, BEG Bucher Emhart Glass, BSp Bucher Specials, O Other
Activities: P Production, D Distribution, S Services

Report of the statutory auditor

to the annual general meeting of Bucher Industries AG

Niederweningen

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bucher Industries AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 78 to 123) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the 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.

Our audit approach

Overview

Overall Group materiality: CHF 13.8 million

We concluded full-scope audit work at 32 reporting units in various countries.

These audits account for 84% of net sales or 80% of the Group's assets.

Additionally, individually defined audit procedures and reviews were concluded at other reporting units in various countries, which account for further 2% of net sales and 7% of the total assets of the Group.

As key audit matter the following area of focus has been identified:

Impairment testing of goodwill

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zurich, Switzerland
Tel.: +41 58 792 44 00, Fax: +41 58 792 44 10, www.pwc.ch

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Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 13.8 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 0.69 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The significant subsidiaries, with two exceptions, were audited by PwC. We are in continuous contact with the audit teams. With regard to the significant subsidiaries that are not audited by PwC, we review the audit documentation of the other auditor and evaluate its work. As auditor of the consolidated financial statements, we ensure that we participate every year in selected meetings of specific significant companies and discuss the risks of a material misrepresentation of the local results as well as the focus points and scope of the audits.

Key audit matters
Key audit matters are those matters that, in our professional judgement, 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.

Impairment testing of goodwill

Key audit matter	*How our audit addressed the key audit matter*
Impairment testing of goodwill was deemed a key audit matter for the following reasons: Goodwill of CHF 152.7 million represents a significant amount on the balance sheet. Significant judgement is required to determine the assumptions relating to future business results and to determine the discount rate to be applied to forecasted cash flows. Please refer to pages 84 and 88 (notes to the consolidated financial statements, accounting principles for the consolidated financial statements) and pages 100 and 101 (notes to the consolidated financial statements, explanations of the consolidated financial statements).	Impairment testing is based on a process defined by the board of directors that makes use of the budgets approved by the board of directors and the Group's medium-term plans. As part of the process, Management estimates the cash flows for the cash-generating units concerned. Based on the evidence obtained from our audit, we did not note any deviations from the process defined by the board of directors and from the requirements relating to the impairment testing of goodwill and the disclosure of impairment in the financial statements. In addition, we compared the consistency of the assumptions presented on pages 100 and 101 of the consolidated financial statements with the revenue and cost forecasts of Management. We compared the discount rate with the cost of capital of the Group, taking into account currency-specific aspects. Further, we tested the sensitivity analyses for the key assumptions. We noted no inconsistencies with regard to the assumptions used, which were in line with our expectations.

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 and the remuneration report of Bucher Industries AG 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.

Responsibilities 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://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 paragraph 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 consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Christian Kessler	Oliver Illa
Audit expert Auditor in charge	Audit expert

Zurich, 25 February 2019

Balance sheet of Bucher Industries AG as at 31 December 2018

CHF million	Note	31 December 2018	31 December 2017
Cash and cash equivalents		126.1	140.5
Other receivables		25.9	88.5
Accrued income		14.9	13.7
Current assets		**166.9**	**242.7**
Financial assets			
Loans		644.4	594.4
Investments		854.1	811.2
Intangible assets		0.3	0.3
Non-current assets		**1 498.8**	**1 405.9**
Assets		**1 665.7**	**1 648.6**
Interest-bearing liabilities			
Loans and other bank borrowings	2	25.0	45.0
Other interest-bearing liabilities	2	131.9	130.5
Other liabilities		6.6	14.4
Accruals and deferred income		9.9	8.3
Current liabilities		**173.4**	**198.2**
Interest-bearing liabilities			
Bonds	2	200.0	200.0
Loans and other bank borrowings	2	338.9	320.3
Other liabilities		0.1	0.4
Provisions		5.7	2.4
Non-current liabilities		**544.7**	**523.1**
Total liabilities		**718.1**	**721.3**
Share capital	5	2.1	2.1
Statutory reserve		70.6	70.6
Distributable reserve		721.8	651.8
Retained earnings		66.2	82.9
Profit/(loss) for the year		93.8	119.9
Treasury shares	6	− 6.9	–
Equity		**947.6**	**927.3**
Liabilities and equity		**1 665.7**	**1 648.6**

Income statement of Bucher Industries AG for the year ended 31 December 2018

CHF million

	2018	2017
Income from investments	91.3	96.2
Royalty income	17.3	15.1
Administrative expenses	− 6.5	− 5.5
Impairment charges	–	− 0.7
Operating profit (EBIT)	**102.1**	**105.1**
Finance costs	− 67.3	− 77.4
Finance income	66.4	95.5
Profit before tax	**101.2**	**123.2**
Income tax expense	− 7.4	− 3.3
Profit/(loss) for the year	**93.8**	**119.9**

Notes to the financial statements of Bucher Industries AG

General These financial statements of Bucher Industries AG, incorporated in Niederweningen, have been prepared in accordance with the provisions of Swiss accounting law (title 32 of the Swiss Code of Obligations). The main valuation principles applied, other than those prescribed by law, are described below. In accordance with art. 961d, paragraph 1 of the Swiss Code of Obligations, Bucher Industries AG did not present additional data in the notes or a cash flow statement, referring instead to the consolidated financial statements of Bucher Industries AG for the relevant information. The company does not have any employees.

Cash pooling To ensure group-wide financial balance, group companies are integrated into Bucher Industries AG's cash pooling. The cash pool accounts are recognised at par value and recorded in other receivables and other interest-bearing liabilities.

Derivative financial instruments These instruments are shown in other receivables and other liabilities and are used to hedge exposure to interest rate and foreign currency fluctuations. The first-time accounting and the subsequent valuations are made at the respective fair value. This is based on observable market information at the end of the reporting period. Changes in fair value are recognised in the income statement.

Investments Investments are recognised at amortised cost, net of write-downs in the case of impairment. To evaluate an impairment the carrying amount is compared with the recoverable amount. Investments which are considered an economic unit within the company, in the management and in the assessment of the business, were treated as a valuation unit. Information on the investments held, directly and indirectly, by Bucher Industries AG is given in the list of group companies on pages 121 to 123 of the annual report.

Treasury shares Treasury shares are deducted from equity at cost. When resold, the gain or loss is recognised directly in equity (retained earnings).

Interest income/dividends Interest income is recorded over the anticipated term, so that it reflects the effective income on an asset. Dividends are recognised in income from investments at the time when the company is legally entitled to them.

Royalty income Royalty income consists of fees charged to group companies for the use of brand names.

1 Balances with group companies

CHF million	2018	2017
Other receivables	20.1	84.2
Accrued income	14.9	13.7
Financial assets	644.4	594.4
Interest-bearing liabilities	−131.9	−130.5
Other liabilities	−2.8	−5.7
Accruals and deferred income	−4.4	−3.4
Loans	−324.1	−280.6

2 Interest-bearing liabilities

Interest-bearing liabilities essentially include significant bonds, bank borrowings and loans and cash pool accounts with group companies. Further information on bonds is given on page 103 of the annual report.

3 Assets and liabilities based on observable market data

CHF million

	2018	2017
Derivative financial instruments – assets	9.0	10.4
Derivative financial instruments – liabilities	– 6.6	– 14.8
Assets and liabilities based on observable market data	**2.4**	**– 4.4**

4 Contingent liabilities

The contingent liabilities have been incurred by the company mainly to cover group companies' obligations to banks in respect of credit and cash pool agreements. The maximum exposure was CHF 196.8 million (2017: CHF 191.2 million). The amount used at the reporting date was CHF 49.9 million (CHF 49.8 million). Bucher Industries AG is jointly liable for the VAT group of Bucher-Guyer AG as part of group taxation arrangements.

5 Share capital

Bucher Industries AG has authorised but unissued capital representing a maximum of 1 184 100 registered shares of CHF 0.20 each, which is reserved for the exercise of warrants or conversion rights attached to bonds or the exercise of options under rights issued to shareholders. The registered shares are widely held by public shareholders.

Significant shareholders and their investments A group of shareholders organised under a shareholders' agreement, represented by Rudolf Hauser, Zurich, holds a total of 35.2% of the voting rights, as published in the Swiss Official Gazette of Commerce (SOGC) on 10 May 2005 and subsequent to the share capital reduction in June 2012. The essence of the shareholders' agreement and the number of shares held by individual group members have not been published. At the reporting date, the Bucher Beteiligungs-Stiftung held 0.1% of the issued share capital, the voting rights attached to such shares being suspended in accordance with art. 659a paragraph 1 of the Swiss Code of Obligations. At the reporting date, the board of Bucher Industries AG is not aware of any other persons who hold more than 3% of the issued share capital of Bucher Industries AG and is not aware of any shareholders entered in the share register and with voting rights, or groups of shareholders subject to voting agreements, who hold more than 3% of the issued share capital.

Directors' interests in shares

	Number of shares	
	2018	2017
Philip Mosimann, chairman	47 355	50 425 [1)]
Anita Hauser, deputy chairman	440 086	439 953
Claude R. Cornaz	3 759	3 645
Michael Hauser	605 129	605 015
Martin Hirzel	–	n.a.
Heinrich Spoerry	3 747	3 633
Valentin Vogt	4 647	3 525
Board of directors	**1 104 723**	**1 106 196**

1) Of which 3 500 shares were reserved for written call options

As part of their fees, the board of directors was allocated 1 801 shares (2017: 1 065 shares) worth CHF 0.5 million (CHF 0.4 million). Further information is given in the remuneration report on pages 68 to 70.

Group management's interests in shares and share options

		Number of shares	
		2018	2017
Jacques Sanche	CEO	2 328	1 403
Manuela Suter	CFO	356	n.a.
Stefan Düring	Bucher Specials	1 100	880
Martin Jetter	Bucher Emhart Glass	5 384	5 106
Thierry Krier	Kuhn Group	2 333	1 255
Aurelio Lemos	Bucher Municipal	621	401
Daniel Waller	Bucher Hydraulics	10 170	9 881
Group management		**22 292**	**18 926**

No share options have been granted since the 2010 financial year. The ten-year options granted from previous reporting periods were fully exercised in the previous year. Further information is given in the remuneration report on pages 68 to 70.

6 Treasury shares

As at 31 December 2018, Bucher Industries AG held 25 000 treasury shares. These shares were acquired on the stock exchange in the reporting period at an average price of CHF 274.20 per share. The voting rights for treasury shares are suspended in accordance with art. 659a paragraph 1 of the Swiss Code of Obligations.

Proposal of the board of directors

Appropriation of retained earnings

CHF

	2018	2017
Retained profit carried forward as at 1 January	202 786 703	174 142 145
Transfer to distributable reserve	– 70 000 000	– 40 000 000
Dividend	– 66 625 000	– 51 250 000
Profit/(loss) for the year	93 822 686	119 894 558
Retained earnings available for distribution	**159 984 389**	**202 786 703**

Proposal of the board of directors

CHF

	2018	2017
Retained earnings available for distribution	159 984 389	202 786 703
Transfer to distributable reserve	– 25 000 000	– 70 000 000
Dividend [1]	– 82 000 000	– 66 625 000
Balance to be carried forward	**52 984 389**	**66 161 703**

[1] The dividend is based on the issued share capital as at 31 December. No dividends will be distributed for treasury shares held by Bucher Industries AG.

Report of the statutory auditor

to the annual general meeting of Bucher Industries AG

Niederweningen

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bucher Industries AG, which comprise the balance sheet as at 31 December 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 128 to 133) as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession 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.

Our audit approach

Overview

Overall materiality: CHF 13.8 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Impairment of equity investments

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zurich, Switzerland
Tel.: +41 58 792 44 00, Fax: +41 58 792 44 10, www.pwc.ch

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 13.8 million
How we determined it	0.83% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is a relevant benchmark for a holding company, and it is a generally accepted benchmark for holding companies. In addition, total assets represent a generally accepted benchmark for materiality considerations of holding companies.

We agreed with the Audit Committee that we would report to them misstatements above CHF 0.69 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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 judgement, 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.

Impairment of equity investments

Key audit matter	*How our audit addressed the key audit matter*
Impairment testing of equity investments was deemed a key audit matter. Equity investments recognised on the balance sheet at CHF 854.1 million or 51.3% of the balance sheet total represent a significant portion of the assets. The valuations of the companies are calculated using the intrinsic value respectively the capitalisation of earnings or discounted cash flow (DCF) methods, which require significant judgement in determining the parameters such as the capitalisation rate. Please refer to page 130 (notes to the financial statements) and to pages 121 to 123 of the annual report.	In identifying the potential need for impairment of equity investments, Management follows a predefined impairment testing process. We compared the carrying amount of the investments in the year under review with the respective pro-rata share of the investee's equity respectively with the investee's enterprise value calculated using the capitalisation of earnings or discounted cash flow (DCF) methods. We performed plausibility checks on the assumptions used by Management concerning the long-term growth rates and margins. We compared the discount rate with the cost of capital of the Group, taking into account the currency-specific particularities. Our audit results support the assumptions made by Management in assessing the impairment of equity investments.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity'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 entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

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

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Report on other legal and regulatory requirements

In accordance with article 728a paragraph 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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Christian Kessler	Oliver Illa
Audit expert Auditor in charge	Audit expert

Zurich, 25 February 2019