

Report to shareholders

Dear Shareholders

In 2016 the business performance of the Bucher divisions showed diverse trends, ranging from pleasing progress to marked slowdown. Despite the difficult market conditions, sales were only 4% lower year on year, partly thanks to acquisitions. The successful performance of hydraulic components, machinery for forming glass containers and the specialist businesses failed to compensate fully for the decline in specialised agricultural machinery at Kuhn Group and stagnating demand for municipal vehicles. The operating profit margin was also squeezed by one-off costs and stood at 7.1%. Profit for the year amounted to CHF 118 million and earnings per share were CHF 11.73.

Diverse market trends During the reporting year, the agricultural machinery market, which is important for Bucher, felt the effects of the longest and toughest global crisis to hit the sector in years. The worldwide decline, which has been ongoing since 2014, continued in the reporting year. In the European market for municipal vehicles there were few major contracts put up for tender. Winter services were also affected by another mild winter. Overall, the various market segments served by the business with hydraulic system solutions remained stable; equipment for the glass container industry also saw stable demand. The markets of the specialist businesses showed diverse trends, but were rather positive overall.

Weak agricultural machinery market affects performance

In this challenging business environment the order intake at group level was CHF 2 386 million, 2% lower than the previous year. Sales were 4% lower at CHF 2 380 million, operating profit amounted to CHF 169 million and the operating profit margin decreased to 7.1%. The main reasons for the lower margin was a decline in the sales of agricultural machinery and one-off costs in the municipal vehicles business. Profit for the year amounted to CHF 118 million and earnings per share were CHF 11.73. The crisis in the agricultural equipment market was reflected in a considerable fall in sales and profitability at Kuhn Group. The division focused on cost control, introducing a comprehensive package of measures to adapt capacity levels across its businesses. Thanks to acquisition effects, Bucher Municipal was able to post a mod-

est increase in sales and compensate for the absence of the major order from the city of Moscow worth over CHF 30 million in 2015. One-off costs totalling CHF 7 million had a negative impact on the division's operating profit. Bucher Hydraulics performed well, increasing sales and operating profit margin in a market environment characterised by pricing pressure. Bucher Emhart Glass also turned in a pleasing performance, although the pronounced market weakness in China necessitated restructuring measures. Bucher Specials held up well in its diverse markets, posting a significant improvement in profitability.

Solid financial situation Bucher Industries continues to be on a sound financial footing. The Group invested CHF 129 million in organic growth and acquisitions in the reporting year. The main focus was on expansion of the production infrastructure, modernisation and automation of production plants and selective acquisitions on behalf of the Bucher Municipal division. Net operating assets increased by 2 percentage points to 54% of net sales. As a consequence of the lower profitability and acquisitions, return on net operating assets (RONOA) after tax was 9.7%. This was still significantly higher than the cost of capital, but below the long-range target of 16%. The positive free cash flow resulted in net liquidity of CHF 61 million. With an equity ratio of 51% and high liquid assets, the Group's financial independence and opportunities for further growth remain secure.

Acquisitions In early March 2016, Bucher Industries acquired a 100% equity holding in J. Hvidtved Larsen A/S (JHL) on behalf of the Bucher Municipal division. The company, established in 1915 and headquartered in Silkeborg, Denmark, is a technology leader in sewer cleaning and holds strong market positions in Scandinavia and Great Britain. For Bucher Municipal, the takeover of JHL represented the acquisition of highly specialised engineering know-how and technology in the field of sewer cleaning equipment. In September of the reporting year, Bucher Industries acquired the operating activities of PakMor Waste Equipment Australia Pty Ltd, Sydney, on behalf of the Bucher Municipal division. The acquisition strengthened the presence of Bucher Municipal in the waste disposal segment in Australia.

Kuhn Group was affected by the continuing global slowdown in the agricultural equipment market. Year on year the order intake declined by 7% and sales by 13%, while the operating profit margin decreased by two percentage points to 8.0%. The market for agricultural equipment declined for the third year. Record harvests in the arable sector, overproduction of milk, which was also a consequence of the abolition of milk quotas in the European Union, as well as oversupply of meat led to a further decline in the prices of agricultural commodities. In France, an important market for Kuhn Group, adverse weather conditions resulted in lower yields at harvest. These trends resulted in falling income for farmers worldwide and particularly cautious investment behaviour, above all in North America. The resulting slump in sales led to a reduction in profitability which the division was unable to fully absorb, despite its flexible cost structures. Kuhn Group responded by introducing a range of measures to adapt capacity.

Bucher Municipal held firm in the European market for municipal vehicles, where there were few major contracts up for tender. In the important British market, the business performance slowed because of uncertainties arising from the Brexit vote and the weakness of the pound sterling. Another mild winter dampened the business with winter maintenance equipment, while the refuse collection vehicles segment was affected by the weak economy in Australia. In this challenging business environment, the acquisition of the sewer cleaning vehicles and refuse compactor businesses enabled the division to increase its order intake by 2% and sales by 1%, and also compensated for the absence of the major order from the city of Moscow worth over CHF 30 million in 2015. The operating profit margin narrowed to 3.7%. The margin was affected by one-off costs totalling CHF 7 million for the ongoing concentration of sweeper production in Latvia and Great Britain, for the acquisition and integration of the businesses with sewer cleaners and refuse compactors, and for initiatives to improve quality.

Bucher Hydraulics outperformed the overall market, which was generally stable and affected by pricing pressure, in the reporting year. The division increased order intake by 5% and sales by 3%. The operating profit margin surpassed the high value achieved the previous year, reaching 11.9%. The good performance was the result of successful collaboration with customers in the materials handling and industrial and lift hydraulics segments. A strong performance in the niche segment of high-voltage switches also contributed to sales growth. In the agricultural equipment segment the division profited from serial orders at the beginning of the year, but in the second half was unable to escape the effects of the downward trend. Exports from both Swiss plants continued to be affected by the strength of the Swiss franc.

Bucher Emhart Glass increased sales by 3% in 2016 in a generally stable market for glass-forming and inspection machinery. For project-related reasons order intake was 12% lower than the high level achieved the previous year. Above all healthy demand for technologically advanced machinery for the manufacture of glass containers in Central America, the positive trend in the spare parts business and the close cooperation with O-I were the main factors contributing to the sales growth. In China demand for glass-forming machinery fell to a low level because of the cyclical downturn and surplus capacity in the glass container industry. This trend had an adverse impact on the profitability of the joint venture with Sanjin, necessitating restructuring measures. A provision of CHF 2 million was set aside in the reporting year to cover the costs. Nevertheless, the division increased the operating profit margin from 6.6% to 7.1% compared with the previous year. Without taking into account the joint venture with Sanjin, the division achieved an operating profit margin of 9.0%. This demonstrated the improved sustainable cost efficiency of Bucher Emhart Glass.

Bucher Specials posted a 21% increase in order intake year on year in the diverse conditions of its various markets. By contrast sales growth was only 2% because some of the projects ordered are not for delivery until 2017. The operating profit margin exceeded the previous year's level by three percentage points, reaching 8.0%. The business with winemaking equipment posted modest growth, although the market weakened slightly owing to the fall in wine production worldwide; adverse weather conditions also had a negative impact on the sales trend in France. The project business with beverage technologies showed a marked recovery. The Swiss distributorship for tractors and agricultural machinery was also affected by the worldwide slowdown in the farming sector, but held up well, successfully defending its market position. Jetter, specialists in automation solutions, also reported a good business performance. Bucher Specials achieved a marked improvement in profitability thanks to better capacity utilisation and the introduction of measures to increase efficiency and control costs.

Dividend The board of directors will propose a dividend of CHF 5.00 per share to the annual general meeting on 19 April 2017. The dividend paid in 2016 was CHF 5.50 per share. This proposal is in keeping with a consistent dividend policy and takes account of the Group profit for 2016.

Board of directors and group management In the reporting year, a new chairman of the board of directors was elected and in group management there were new appointments to the posts of CEO, CFO and president of the Bucher Municipal division. On 15 April 2016, Rolf Broglie handed over as chairman of the board of directors to Philip Mosimann, hitherto CEO, and retired from the board. Jacques Sanche took over the post of CEO on the same date. On 1 October 2016, Christina Johansson assumed the position of CFO. The previous CFO, Roger Baillo, left the Group at the end of the reporting year. Aurelio Lemos took over as president of the Bucher Municipal division on 1 March 2016. Ernst Bärtschi (65), who has served since 2005 as a member of the board of directors and the audit committee, will not stand for re-election at the 2017 annual general meeting.

Thanks to our employees and partners Bucher has relied for more than 200 years on the expertise and experience of its highly skilled employees. It is only through the efforts of these talented and committed people that we are able to develop and manufacture our successful products in the specialised machinery and vehicle engineering sector. The creative ideas and dedication of our employees worldwide are vital to the creation of real and enduring value for our customers. This commitment is all the more important in economically challenging times such as we face today. We wish to thank our employees, but also our customers and business partners, for their trust and cooperation in the past year. We greatly appreciate these valuable individual contributions, and are well aware that, added together, they are the foundation of our success.

Outlook for 2017 For the year in progress, the Group is reckoning with continuing economic uncertainties. Kuhn Group is expecting prices for arable crops to remain stable at a low level. Rising milk prices could provide a slight stimulus in demand for livestock bedding and feeding technology. The measures introduced in 2016 to improve profitability should have a positive impact at Kuhn Group in the current year. Bucher Municipal is expecting demand for municipal vehicles to remain stable. The absence of the one-off costs arising in 2016 and the concentration of sweeper production in Great Britain and Latvia should have a positive effect on profitability. Bucher Hydraulics is expecting its markets to develop along the same lines as in 2016, while Bucher Emhart Glass is anticipating demand in the project business to remain lively. Bucher Specials

is projecting higher sales in beverage technologies and Jetter's automation solutions. Overall, the Group is expecting the current year to show a slight increase in sales and an improved operating profit margin.

Niederweningen, 7 March 2017



Philip Mosimann
Chairman of the Board



Jacques Sanche
Chief Executive Officer

Right:
Philip Mosimann
Chairman of the Board

Left:
Jacques Sanche
Chief Executive Officer

