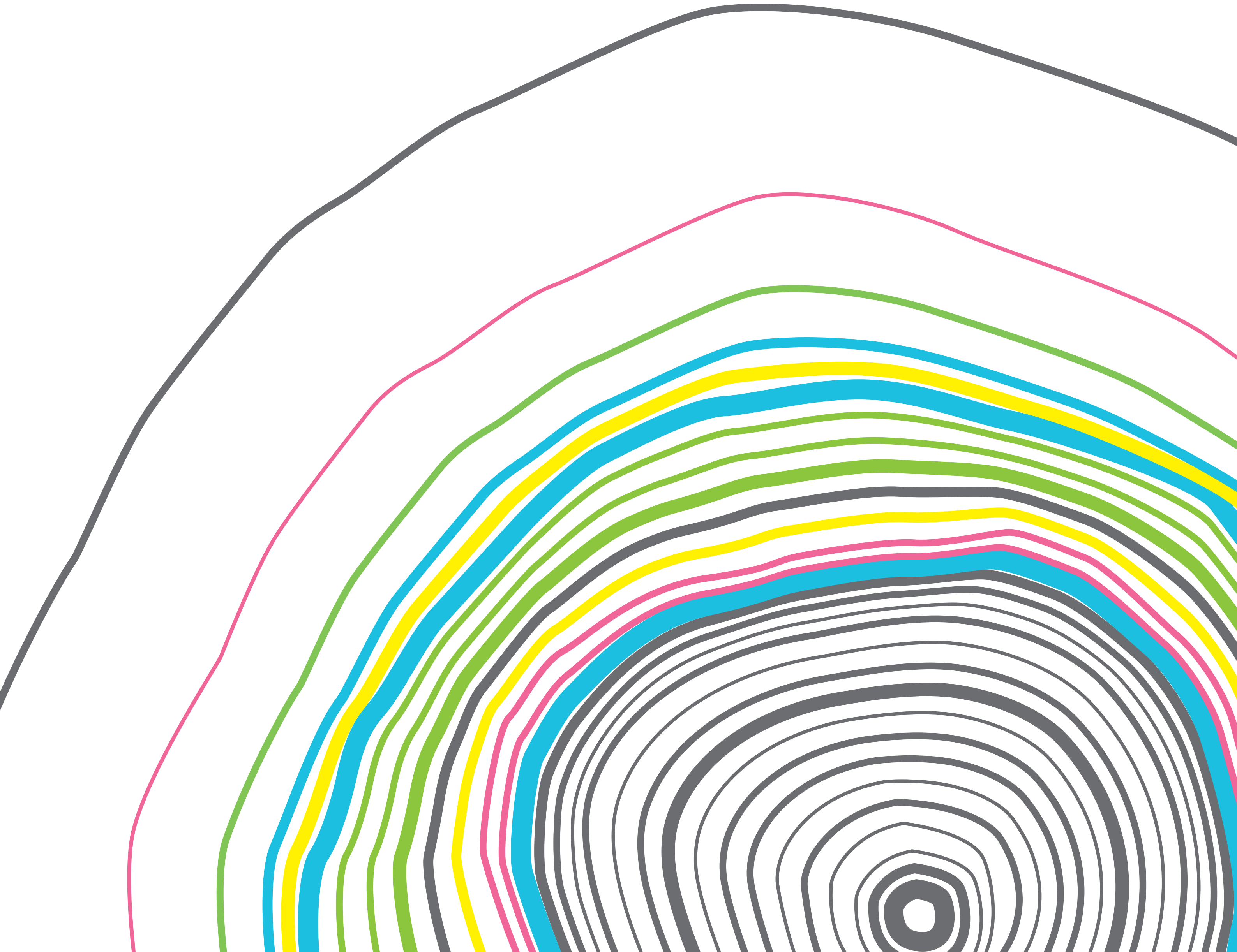
Interim Report 2017



The Voith Group in Figures

in € millions	2016-10-01 to 2017-03-31	2015-10-01 to 2016-03-31
Orders received[1]	2,320	2,155
Sales[1]	1,965	2,038
Profit from operations[1, 2]	91	97
Return on sales in %[1]	4.6	4.8
Result before taxes[3]	593	18
Net result	566	-48
Cash flow from operating activities	-40	-48
Total cash flow	1,054	11
Investments[1]	47	59
Equity[4]	1,372	799
Equity ratio in %	23.8	14.9
Balance sheet total[4]	5,760	5,359
Employees[4, 5]	18,806	19,098

[1] Previous year: excluding the discontinued Group Division Voith Industrial Services.
[2] See “Notes on segment reporting” in the notes to the Group interim financial statements.
[3] Excluding the discontinued Group Division Voith Industrial Services.
[4] Reference date March 31, 2017, compared to September 30, 2016.
[5] Without apprentices.

Contents

Foreword

Ladies and gentlemen,

The first six months of the current 2016/17 fiscal year were not only eventful and demanding but also very rewarding for the Voith Group – we provide all material figures, facts and background information in this report.

So far over the course of our anniversary year, the operating business has presented itself in even better shape. The volume of orders received has risen in comparison to the first half of the previous year. And despite the market environment that remains difficult, we have succeeded in keeping Group sales at a roughly stable level. There is one especially pleasing factor in all this: the profit from operations of our three core Group Divisions – Voith Hydro, Voith Paper and Voith Turbo – has, in turn, improved in total. This means that the profitability of our established activities has also continued to rise. They have developed as planned over the past months – with Voith Paper excelling with an increase in profit from operations of more than 50 percent and a volume of orders received up by three quarters on the previous year. This shows that the turnaround at Voith Paper, already apparent in the previous year, has been confirmed in an impressive manner over the course of the current year.

The slight decline in the profit from operations reported at Group level is attributable solely to the budgeted build-up costs for our new Voith Digital Solutions Group Division – this is where we have bundled our entire expertise in the fields of automation, IT, software, data analytics and sensor technology. Voith Digital Solutions is nothing less than the centerpiece of our digital agenda. The new Group Division not only acts as an "enabler" for the digital transformation of established activities but also initiates new digital products and solutions. One of its first flagship projects is merQbiz, our digital trading platform for the recovered paper market that was launched in March. The recently agreed majority shareholding in Ray Sono, a provider of digital services, is representative of the dynamics of how we are driving forward our digital agenda.

Despite the temporary burdens on results caused by the digital transformation, the Voith Group reports a record bottom-line result in the first half of the year. The extraordinarily high figure of €566 million can be primarily explained by the sale of our KUKA shares completed in January. But even without this effect, we would have been able to report a positive net result, in contrast to one year ago. The KUKA transaction, the most successful financial investment in Voith's history to date, was also a decisive factor in the considerable improvement in the Group's financial position in the first half of the year. Today, we not only have a very sound equity base but also a substantial amount of free liquidity. This gives us considerable financial headroom for organic growth or acquisitions.

To summarize, we can quite rightly say that our Company is making great progress along its path towards a sustainably successful future. Thanks to pivotal strategic decisions made in past years, the Voith Group has a profitable core business, a coherent strategy for the future and a strong balance sheet. This means that the Company is now in the best possible position to achieve profitable growth on a sustainable basis over the coming years.

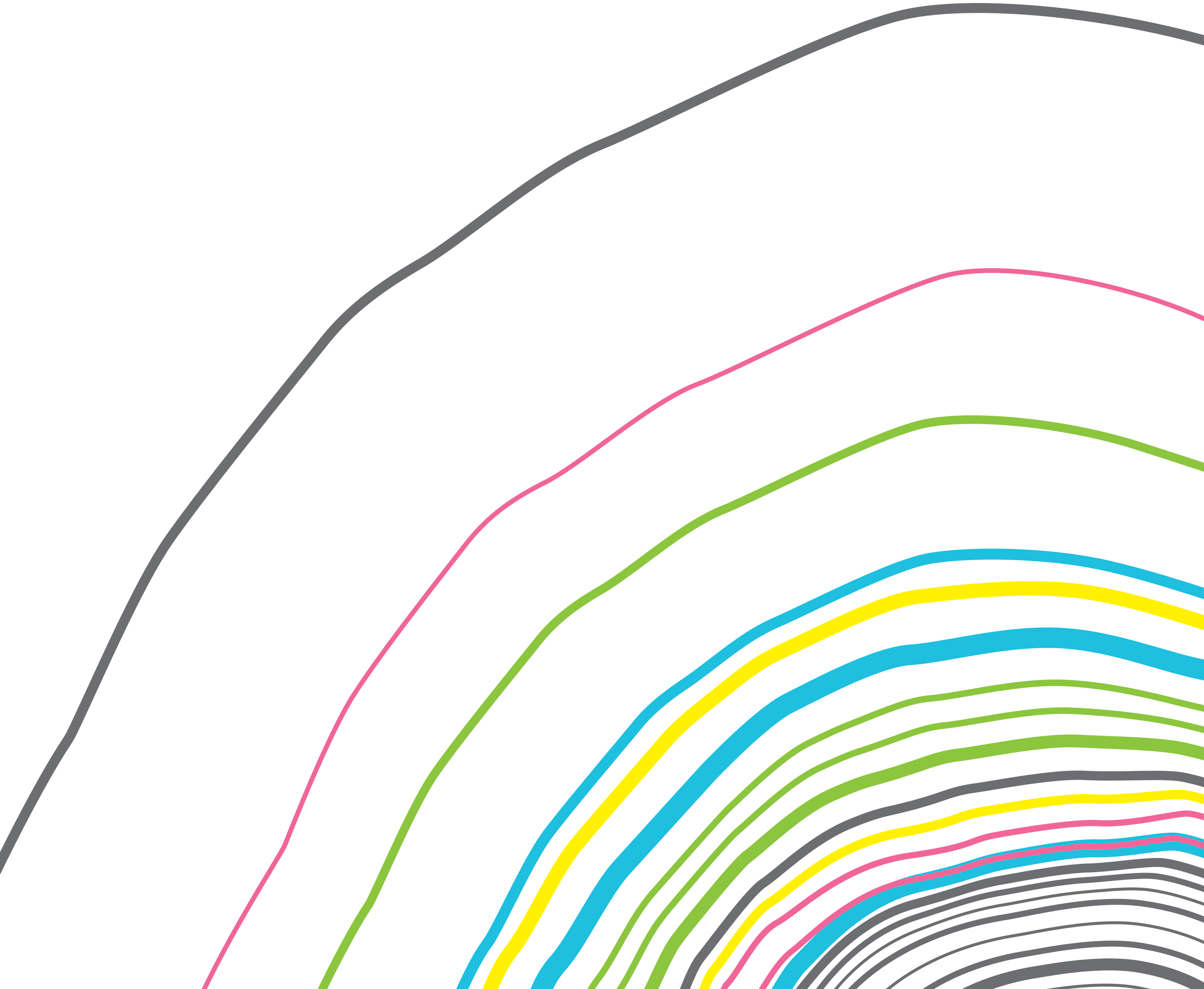
In this light, the full fiscal year 2016/17 promises to be another good year for Voith. We remain well on track for the future. Our investments in Voith's digital transformation continue undiminished. We are vigorously driving forward the growth of our core activities, as demonstrated by the recent opening of a new Voith Turbo production location in China, which will be one of the most modern sites worldwide in the Voith network.

After the first six months that have gone according to plan, we stand by our forecasts for the operating business: we continue to expect sales roughly matching the previous-year level and a slightly increasing volume of orders received in an ongoing challenging environment. The profit from operations will be clearly positive but is likely to fall below the level seen in the previous year on account of the build-up costs for Voith Digital Solutions in line with planning. The group net result will reach a record level due to the KUKA effect.

It is rather fitting that this is happening in 2017, the 150th year of Voith's existence. We are celebrating this anniversary with a number of in-house and public events that are putting a very special mark on the current year. 150 years of Voith – that is an occasion to look back with pride. But it is most of all an incentive for the future: in the same way as we have always helped shape the industrial revolution ever since 1867, the year in which our Company was founded, we also intend to play a role in the digital revolution. As the past few months have demonstrated in an impressive manner, Voith is ready to live up to this claim.

Sincerely,

Dr. Hubert Lienhard
President and CEO



Group Interim Management Report

for the period from October 2016 to March 2017

01 Business development and earnings position of the Group

In the first half of 2016/17, the operating business of the Voith Group presented itself in even better shape. Voith Hydro and Voith Paper were each able to increase their profit from operations, whereas Voith Turbo was impacted by declining sales in the rail business. All in all, the profit from operations in the core business increased by 6%. We reached important milestones in the implementation of our digital strategy. Including the favorable impact of the gain on sale in connection with the successful disposal of the KUKA shares, we generated a group net result of €566 million.

01.1. Overall assessment

Significant improvement in the operating business, net income for the period at a high level

In the first half of 2016/17, the Voith Group saw successful developments in an environment that remains difficult. The Voith Group's orders received exceeded the previous-year level by a significant amount (up 8%), with the Voith Paper Group Division excelling in this respect. Orders on hand rose to €5,745 million. There was a slight decrease in group sales (down 4%), primarily on account of weak demand from some of Voith Turbo's customer industries and project delays at Voith Hydro. All in all, this figure nevertheless remained within the anticipated parameters, so that we still consider ourselves to be on course to meet our sales forecast for the year ("previous-year level"). At the same time, we have improved the profitability of our core business. The profit from operations of Voith Hydro, Voith Paper and Voith Turbo increased by a total of 6%.

In the Voith Group seen as a whole, the profit from operations was lower than the previous-year figure (down 6%), as anticipated, on account of the build-up costs for the Voith Digital Solutions Group Division, which was created in 2016. At the same time, the digital transformation of the Voith Group and the building up of the new Group Division is making rapid progress. After launching merQbiz, the first digital marketplace for recovered paper worldwide, in March 2017, we continue to work on the development of new business models and applications as well as on enhancing our existing product portfolio with digital capabilities. The greater portion of the sales and profit from operations generated by Voith Digital Solutions – specifically in relation to the field of automation where Voith Digital Solutions acts as an "enabler" for the three established Group Divisions – is presented in the respective Group Divisions for the purposes of segment reporting. The sales and profit from operations as reported in the Voith Digital Solutions segment reflect its situation as a start-up, and are in keeping with our business planning.

With the successful sale of the shares in KUKA Aktiengesellschaft exerting a decisive influence, we generated a group net result of €566 million. This figure had still been negative in the previous year on account of a high level of impairment losses.

01.2. Economic environment

Subdued investment climate continues despite upswing in the global economy

The global economy continued to recover in the first half of Voith's 2016/17 fiscal year. For example, in its most recent publication (April 2017), the International Monetary Fund (IMF) forecast sound rates of growth in the global economy of 3.5% for the calendar year 2017 compared with a rate of 3.1% in 2016. At the same time, the growth in industrialized countries (IMF forecast: +2.0% in 2017) is, as always, slower than in the emerging markets (+4.5% in 2017).

So far in 2017, economic growth has accelerated slightly in most of the regions that are of relevance for Voith. China constitutes one important exception, where – under the negative influence of ongoing excess capacities, a high level of private debt and a change in the economic model toward more domestic consumption – the rate of growth in gross domestic product is falling continually, which is being clearly felt by export-based economies such as Germany and by manufacturers of capital goods in particular. With an anticipated growth rate of 6.6% in 2017 (IMF forecast), China nevertheless continues to see above-average growth and remains, in absolute figures, the growth driver for the global economy. India is growing at a faster pace than China, albeit at a lower absolute level. Brazil and Russia are expected to return to growth in 2017 after two years of recession.

In the industrialized countries, growth is being driven by above-average economic expansion in the US. With benefits stemming from low energy prices and the low euro exchange rate, the euro zone is continuing to demonstrate moderate growth at the same level of dynamism as in the previous year, according to the IMF's 2017 forecast. Despite the historically low level of interest rates, investing activities remain modest. According to the IMF's forecast, Germany will see weaker growth in 2017 than in the previous year, slightly below the average in comparison to the euro zone seen as a whole.

All in all, growth is primarily being fed by the consumer goods and services sector; in contrast, the infrastructure and capital goods sector is continuing to see modest developments. Over the period between October and December 2016, i.e. the first half of our reporting period, the German mechanical engineering industry saw the strongest decline in orders received since 2012 in comparison to the corresponding period of the previous year, according to data provided by the VDMA, the German Mechanical Engineering Industry Association. In this respect, the power transmission and mining machinery segments, that are also served by Voith, experienced an outright slump in orders received. After a good start to the year, the VDMA does, however, anticipate a slight rise in orders received on the part of the German mechanical engineering sector for 2017 seen as a whole.

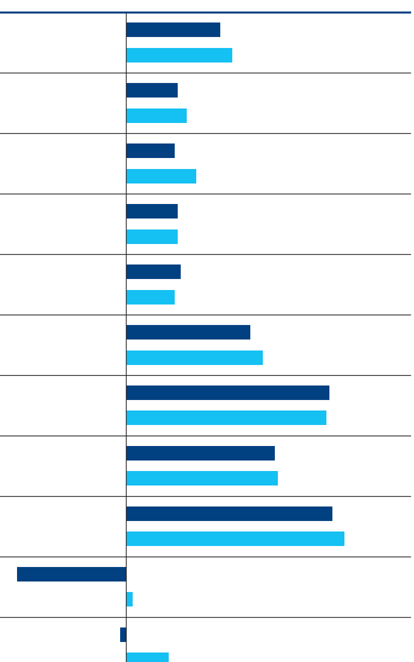
In most of our five target markets – primarily energy, oil & gas and raw materials – the investment climate remained stable at a cautious level in the first half of the 2016/17 fiscal year.

The energy market is seeing stable developments overall, but with significant differences between the individual segments. For example, capital expenditure in the sector of conventional power plants, which is relevant for Voith, is rather subdued. On account of economic and political uncertainties, the market for hydropower plants can experience considerable delays in the awarding of contracts; in light of the high volume of individual projects, this is a factor that may cause volatile swings in both directions. For example, a significantly smaller volume was awarded in the reporting period than in the comparative period of the previous year. This decline might, however, still be balanced out, assuming stronger market activity in the second half of the fiscal year.

Even if the prices of oil and gas have increased slightly on the comparative period, they still continue to move at a low level overall. For this reason, the investment activities on the part of oil and gas companies remain subdued. We do not anticipate an increase in the volume of capital expenditure in the oil and gas market within the current fiscal year.

Economic growth
Real year-on-year change in GDP[1]

World output	2016	3.1%
	2017	**3.5%**
Advanced economies	2016	1.7%
	2017	**2.0%**
United States	2016	1.6%
	2017	**2.3%**
Euro zone[2]	2016	1.7%
	2017	**1.7%**
Germany	2016	1.8%
	2017	**1.6%**
Emerging market and developing economies	2016	4.1%
	2017	**4.5%**
China	2016	6.7%
	2017	**6.6%**
ASEAN-5	2016	4.9%
	2017	**5.0%**
India	2016	6.8%
	2017	**7.2%**
Brazil	2016	-3.6%
	2017	**0.2%**
Russia	2016	-0.2%
	2017	**1.4%**



Source: International Monetary Fund (IMF), World Economic Outlook (WEO), April 2017.
[1] 2016: Estimates; 2017: Forecasts.
[2] Including Germany.

The rise in the prices for important raw materials, such as coal and iron ore, started at a very low level following a decline over several years. Industry analysts are of the opinion that capital expenditure in the mining sector has bottomed out. No tangible increase in capital expenditure in the market for raw materials is anticipated before the next fiscal year, however.

The paper market is demonstrating a gradual recovery in demand for new machines, with stimuli coming from Asia and Europe. Paper production is showing slight growth, even if there are great differences between the various paper grades and regions, which is resulting in increasing demand for consumables and services overall.

The transport & automotive market is enjoying positive developments in the commercial vehicles segment. The rail segment was characterized by very intense competition and proved to be stable in Europe, for example, but subdued on the previous year in China.

01.3. Sales

Group sales slightly down

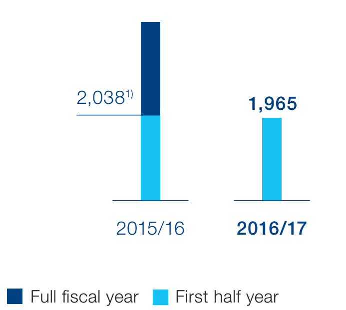
In the first half of 2016/17, the Voith Group generated sales of €1,965 million (previous year: €2,038 million, down 4%). All in all, this sales development remained within the anticipated parameters so that we still consider ourselves to be on course to meet our forecast for the year ("previous-year level").

Whereas Voith Hydro (up 0%) and Voith Paper (down 2%) revealed a more or less stable sales development, sales declined at Voith Turbo, as anticipated, as a consequence of the fall in orders received in the prior year in the oil and gas business and in the rail sector (down 10%).

Detailed information on the development of sales in each Group Division can be found in section 02 "Business development and earnings position of the Group Divisions."

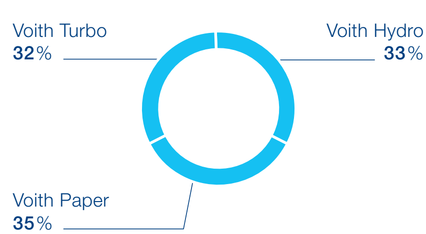
Sales were distributed just about equally over the three established Group Divisions: Voith Hydro contributed 33% (previous year: 32%), Voith Paper 35% (previous year: 34%) and Voith Turbo likewise 32% (previous year: 34%).

Sales Group
in € millions



[1)] Excluding the discontinued Group Division Voith Industrial Services.

Sales total €1,965 million
by Group Division



First half year 2016/17

01.4. Orders received

Noticeable rise in orders received

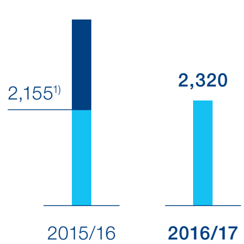
In the first half of 2016/17, the Voith Group secured new orders worth €2,320 million (previous year: €2,155 million). This corresponds to an increase of 8%. Over the reporting period, our orders on hand increased from €5,307 million at the end of the past fiscal year to €5,745 million as at March 31, 2017. We are confident of being able to achieve the forecast for the year ("orders received increasing slightly").

Growth was driven by the Voith Paper Group Division, which won several major orders in the reporting period and increased its volume of orders received by 74% in comparison to the first half of the past year. Voith Turbo also saw a slight rise (up 3%). Orders received at Voith Hydro fell in line with a significantly smaller number of major projects awarded in comparison to the previous-year period (down 42%).

Detailed information on the development of orders received in each Group Division can be found in section 02 "Business development and earnings position of the Group Divisions."

Voith Paper contributed 50% (previous year: 31%) to the Group's orders received. Voith Turbo accounted for 29% (previous year: 30%) and Voith Hydro for 21% (previous year: 39%).

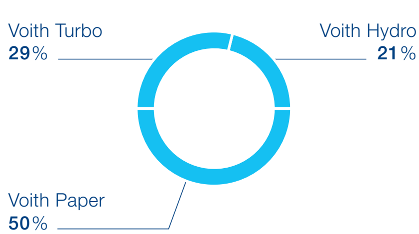
Orders received Group
in € millions



Full fiscal year First half year

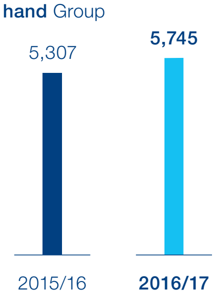
[1)] Excluding the discontinued Group Division Voith Industrial Services.

Orders received total €2,320 million
by Group Division



First half year 2016/17

Orders on hand Group
in € millions



Full fiscal year First half year

01.5. Net result

Net result at €566 million, significant effect coming from KUKA sale

The operating profitability of our core business has improved. Driven by Voith Hydro and Voith Paper, the profit from operations from the core business increased by 6% in comparison to the previous year – despite a fall in sales (down 4%). In the Voith Group seen as a whole, the profit from operations decreased (down 6%), as anticipated, on account of the budgeted build-up costs for the new Voith Digital Solutions Group Division. The group net result, which had been negative in the previous year on account of a high level of impairment losses, came to €566 million, with a significant effect coming from the sale of the shares in KUKA Aktiengesellschaft.

Total output in the Voith Group stood at €1,994 million (previous year: €2,072 million, down 4%). In percent, the decline matched the development of sales. Similarly, the Group Division's respective total outputs essentially developed in line with sales (Voith Hydro up 0%, Voith Paper down 2% and Voith Turbo down 11%).

The cost of materials fell to €854 million (previous year: €881 million, down 3%). The ratio of cost of materials to total output rose slightly to 42.8% (previous year: 42.5%). This slight increase was due in particular to the less material-intensive Voith Turbo Group Division constituting a smaller proportion of the Group's total output.

Personnel expenses stood at €724 million (previous year: €715 million; up 1%). The reduction in headcount on account of the restructuring projects completed and the associated fall in personnel expenses was canceled out by rises in ongoing personnel costs. The ratio of personnel expenses to total output thus rose to 36.3% (previous year: 34.5%).

At €64 million, depreciation and amortization stood at virtually the same level (previous year: €65 million; down 2%). The ratio of depreciation and amortization to total output therefore remained unchanged at 3.2%.

The balance of other operating expenses and income was reduced to €276 million (previous year: €329 million, down 16%). A significantly lower level of warranty expenses in comparison to the previous-year period made a decisive contribution to this development.

Detailed information on the development of the profit from operations and the ROCE broken down by Group Division can be found in section 02 of the management report.

The operational result before non-recurring items came to €76 million (previous year: €82 million, down 7%), while the profit from operations, which is an indicator used for internal management purposes, stood at €91 million (previous year: €97 million; down 6%). The return on sales fell slightly to 4.6% (previous year: 4.8%), the ROCE (return on capital employed) to 8.5% (previous year: 9.1%).

The non-recurring result stood at €-11 million (previous year: €-5 million). In the reporting period, the non-recurring result mainly comprises personnel-related and other expenses arising from measures to consolidate production capacities at Voith Hydro in Brazil and at Voith Paper in the US. In the previous-year period, the non-recurring result had included individual consequential effects of the packages of measures implemented at Voith Paper in previous years and in connection with excellence initiatives in the context of the Group-wide Voith 150+ success program, specifically expenses that were not eligible for provisioning in previous years and income from these measures. Furthermore, the non-recurring result from the previous-year period included personnel-related expenses arising from a measure at Voith Turbo as well as expenses in connection with a restatement of a cut-off error at a subsidiary of Voith Paper. In detail, the contributions to the non-recurring result were as follows: Voith Hydro €-4 million (previous year: €5 million), Voith Paper €-6 million (previous year: €-8 million), Voith Turbo €0 (previous year: €-5 million) and divisions with a holding function €-1 million (previous year: €3 million).

The result from the sale of associates of €565 million (previous year: €0) contains the effect on results from the sale of the shares in KUKA Aktiengesellschaft completed in January 2017.

The balance of interest expenses and interest income amounted to €-38 million (previous year: €-36 million; down 6%). A lower level of expenses from pension obligations and from a reduced level of liabilities to banks was more than canceled out by interest expenses from the measurement of financial liabilities on account of termination rights of holders of non-controlling interests. The other financial result stood at €-5 million (previous year: €-28 million). This item contains impairment losses on financial assets of €-2 million (previous year: €-36 million).

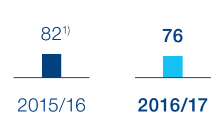
Income taxes totaled €-26 million (previous year: €-27 million). This figure includes expenses from taxes relating to other periods of €-9 million (previous year: income of €1 million).

The net result from continuing operations amounts to €567 million (previous year: €-9 million).

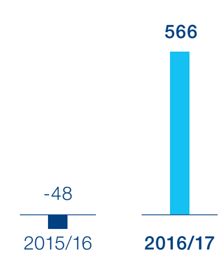
The net result from discontinued operations amounted to €-1 million (previous year: €-38 million). This shows the contribution to the net result of the Voith Group made by the Voith Industrial Services Group Division, which has been sold in the meantime, and in the year under review mainly consists of adjustments from expected tax expenses in connection with the sale.

Bottom line, the group net result comes to €566 million (previous year: €-48 million).

Operational result before non-recurring items
Group in € millions



Net result Group
in € millions



[1)] Excluding the discontinued Group Division Voith Industrial Services.

02 Business development and earnings position of the Group Divisions

Our three established Group Divisions enjoyed successful developments in the first six months of the 2016/17 fiscal year. While sales remained stable, Voith Hydro achieved a significant increase in its profit from operations and, despite the lower market volume over the reporting period, considers itself to be on course to meet the stable level forecast for orders received over the full year. Voith Paper has achieved a turnaround: the Group Division has significantly increased its orders received and generated considerably higher profit from operations with sales virtually stable. At Voith Turbo, sales and profit from operations declined, reflecting the market-related fall in orders received in the previous year; orders received were up slightly in the reporting period. The negative profit from operations at Voith Digital Solutions reflects the new Group Division's situation as a start-up in accordance with planning.

02.1. Voith Hydro

Low level of market activity, increase in profitability

Voith Hydro looks back on a good first half of the fiscal year. With sales remaining stable, Voith Hydro succeeded in increasing its profit from operations and profitability. As fewer major projects were awarded in the reporting period than in the comparative period of the previous year, as expected, there was a corresponding fall in Voith Hydro's orders received. Assuming increasing market activity in the second half of the year, we see Voith Hydro nevertheless on course for the full 2016/17 fiscal year.

Stable sales

In the first half of 2016/17, Voith Hydro generated sales of €653 million that remained, as anticipated, at the high level seen in the comparative period of the previous year (previous year: €652 million). The regions with the strongest sales were Asia and North America, where we had recorded a high level of orders received in previous years.

Orders received down on the previous year on account of market situation

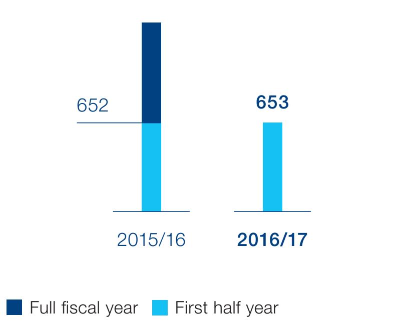
In the reporting period, the hydropower market remained below the previous-year level. In all regions of the world there was a smaller volume of contracts awarded in light of the volatile economic and, in some cases, political environment. In addition, an exceptionally large project was recorded in orders received in the comparative period. Voith Hydro took an appropriate share of this smaller volume of contracts awarded in the first half of 2016/17 and won new orders worth €486 million (previous year: €839 million; down 42%).

We are expecting a stronger second half of the year for Voith Hydro and continue to see ourselves on course to meet our forecast for the year.

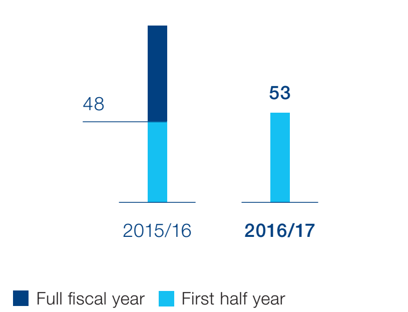
At €3,222 million as at March 31, 2017, orders on hand remained at a high level (September 30, 2016: €3,315 million).

Brazil, an important hydropower market, showed the first signs of recovery following two years of recession. For example, two modernization projects were

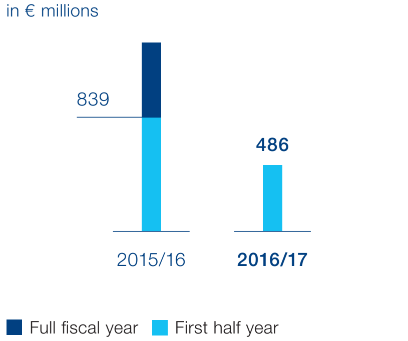
Sales Voith Hydro
in € millions



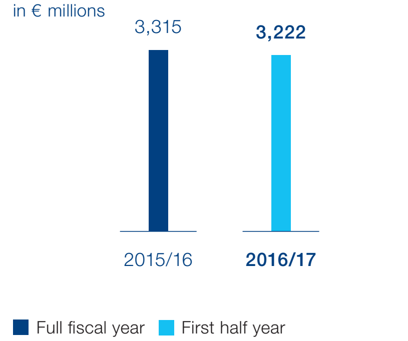
Profit from operations Voith Hydro
in € millions



Orders received Voith Hydro
in € millions



Orders on hand Voith Hydro
in € millions



awarded to Voith Hydro in the reporting period. Furthermore, we won a contract for a generator that is to be used as a synchronous compensator to ensure grid stability. Demand for large new-build hydropower plants was on hold in Brazil, however, as the unsolved economic and political crisis continued to prevent the awarding of major infrastructure projects.

Asia remains one of the most important sales markets for Voith Hydro. In China, Voith was awarded the contract for the supply of turbines and generators for the Tian Huang Ping II/Chang Long Shan pumped-storage power plant. We were further awarded a contract in Nepal.

North America, an established hydropower market, continued to see positive developments over the reporting period. Voith Hydro took an appropriate share of the volume of contracts awarded, winning the Bridge River modernization project in Canada, for example.

The market continued to be difficult in Europe on account of the current energy policy situation, existing excess capacities and low energy prices. In the reporting period, we received orders from the UK, Norway and Germany.

Although the structural conditions remain difficult with regard to small hydro projects (power plants with a generating capacity of up to 30 megawatts per unit) due to subsidies and financing models not being available in many countries, we succeeded in winning orders in this segment from North and South America in addition to several orders from Japan. In this respect, we were particularly successful with our innovative StreamDiver technology for small hydropower plants, which is now on sale worldwide.

Voith Hydro's service business ("HyService") saw clearly positive developments; growth was driven by the North America, Latin America and Asia regions.

Profit from operations increased by 12%

Voith Hydro increased its profit from operations by 12% to €53 million in the first half of 2016/17 (previous year: €48 million). The return on sales improved to 8.1% (previous year: 7.3%) and the ROCE to 21.1% (previous year: 19.5%).

02.2. Voith Paper

Turnaround achieved

Voith Paper looks back on a good first half of the fiscal year. In an improved market environment, Voith Paper enjoyed successful operations and achieved a significant increase in orders received. Sales remain just about stable at the previous-year level. Profit from operations, return on sales and the ROCE rose on account of increases in productivity and as a consequence of the restructuring measures, which have proven to be effective. With regard to the forecast for the year, we consider Voith Paper to be on track to meet all key performance indicators.

Sales stable and roughly at previous-year level

In the first half of 2016/17, sales stood roughly at the previous-year level at €678 million (previous year: €689 million, down 2%). In the business with products, consumables and services, we benefited from the rise in global paper production and achieved a rise in sales. In the project business (new builds and major rebuilds), the declining volumes of orders received seen in previous years continued to exert the expected effect.

All in all, the sales generated at Voith Paper within the reporting period are on budget. In anticipation of a slightly stronger second half of the fiscal year, we stand by our sales forecast ("slight growth") for the full 2016/17 year.

Orders received up by 74%

In the reporting period, Voith Paper achieved a significant rise in its volume of orders received for the first time following several consecutive years of decline. In the reporting period, we recorded new orders worth €1,147 million (previous year: €658 million), a rise of 74% on the comparative period. This means that we have clearly exceeded our own expectations. The project business was the growth driver, but the business with products, consumables and services also saw a slight rise.

As the high growth rate seen in the reporting period is very much attributable to several major contracts, it is probably not possible to extrapolate this figure to the second half of the year. We are nevertheless confident that we will achieve significant growth in orders received also in relation to the full year and exceed our forecast ("slight growth").

Orders on hand as at March 31, 2017 increased to €1,472 million (September 30, 2016: €988 million).

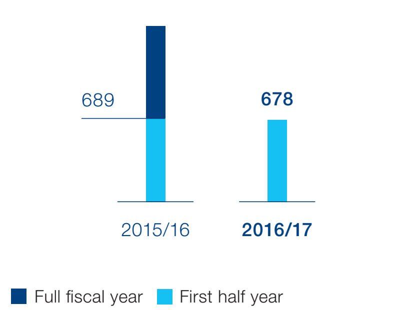
In the paper market, an overall slight rise in production is becoming apparent across all paper grades that is expected to extend to all regions in 2017. The production of graphic paper remains in decline worldwide, while the board and packaging paper and tissue segments report growth in all regions.

In Asia, paper manufacturers have made massive investments in new machines and the modernization of existing ones. A rise in paper prices in conjunction with stricter environmental regulations in China contributed to this development. The focus of investment was on board and packaging paper as well as tissue machines. Voith has taken an appropriate share in this development with a good level of orders received from this region and won, among others, two major orders from China.

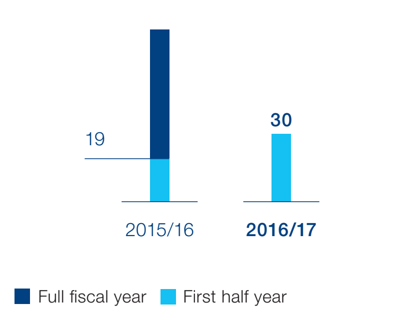
Demand has likewise seen positive developments in Europe, where there is great demand for packaging paper and a large number of manufacturers are currently enjoying a good earnings position. For example, Voith received a large-scale order from Sweden for the manufacture of one of the largest board machines of its kind. In addition, an order came from Germany for the rebuilding of a facility for the manufacture of newsprint into a testliner for the production of corrugated board as well as an order for the delivery of a new tissue machine to Spain.

The reluctance to engage in investments on account of the recession continued in Brazil. In North America, the paper machine market stagnated despite increasing demand for packaging paper – the costs for buildings and assembly, which are higher than average in an international comparison, are diminishing the profitability of the overall investment from the perspective of paper manufacturers.

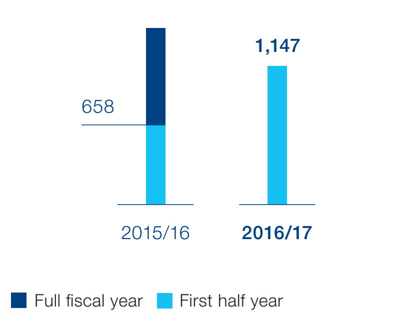
Sales Voith Paper
in € millions



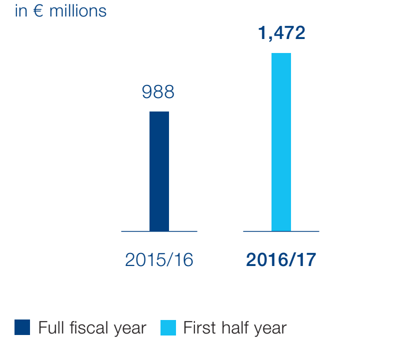
Profit from operations Voith Paper
in € millions



Orders received Voith Paper
in € millions



Orders on hand Voith Paper
in € millions



Improved profitability

In the first half of 2016/17, Voith Paper increased its profit from operations by 54% to €30 million (previous year: €19 million) despite sales remaining virtually constant. This pleasing development reflects the cost savings achieved through the restructuring and productivity increases. Bottom line, return on sales improved to 4.3% (previous year: 2.8%). The ROCE increased significantly, mainly on account of the rise in the profit from operations, standing at 7.9% in the reporting period (previous year: 5.1%).

02.3. Voith Turbo

Satisfactory business development

Voith Turbo saw satisfactory developments in the first half of 2016/17 in a market that continued to be challenging in many sectors. Sales and profit from operations declined, as anticipated, as a consequence of the fall in orders received in previous years. Voith Turbo achieved a slight increase in orders received for the first time after two years of declining volumes of orders received. Based on the developments in the reporting period, Voith Turbo sees itself on course to meet the forecast for the year.

Sales down on the previous year as expected

In the reporting period, Voith Turbo's total sales stood at €621 million (previous year: €691 million). The 10% decrease reflects the previous year's market-related fall in orders received in the oil & gas and rail segments and lies within the parameters we anticipated.

Sales in the Industry division stood roughly at the same low level already seen in the comparative period of the previous year. Raw materials producers and oil companies had cut back their investment budgets over several years on account of the difficult market environment in which they operate. In the Mobility division, we were not able to match the exceedingly high level of sales seen in the previous year. The main reason for this development was the decline in the large Chinese rail market in the reporting period.

Slight rise in orders received

In the first half of 2016/17, Voith Turbo received new orders worth a total of €675 million (previous year: €653 million; up 3%). This means that slight growth was achieved for the first time again after two years of a declining volume of orders received. Orders on hand stood at €1,051 million as at March 31, 2017 (September 30, 2016: €1,004 million).

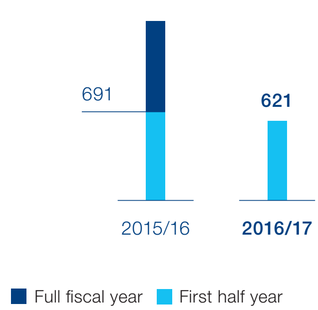
In the Industry division, we succeeded in increasing our volume of orders received in comparison to the previous year, particularly on account of two major orders stemming from the power plant industry, a sector that is generally showing stable developments at most. Although the prices of oil and gas have stabilized at a low level and the prices of raw materials have recovered slightly after years of decline, the investing activities of oil and gas companies and mine operators alike remained at a low level.

In the Mobility division, orders received just about reached the high level seen in the previous period. At the same time, those segments of the transport & automotive market relevant for us saw heterogeneous developments. The rail market was characterized by delays in the awarding of projects and very intense competition on account of excess capacities on the part of the vehicle manufacturers. In contrast, the commercial vehicle market enjoyed positive developments.

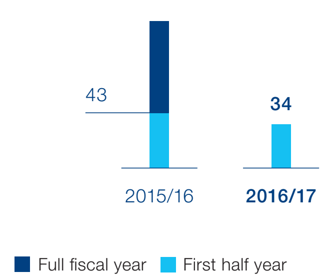
Decline in profit from operations

In the first half of 2016/17, Voith Turbo generated a profit from operations of €34 million (previous year: €43 million, down 23%). This figure lies within the parameters we anticipated. As announced, the fall in the volume of sales, a shift in the sales mix and pressure on prices in some market segments caused profit from operations to fall at a faster rate than sales. The return on sales consequently fell to 5.4% (previous year: 6.3%). The ROCE stood at 9.4% (previous year: 11.7%).

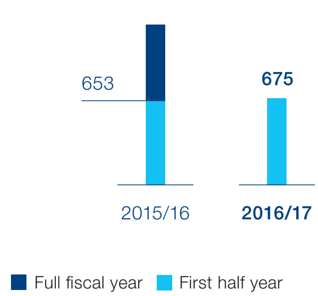
Sales Voith Turbo
in € millions



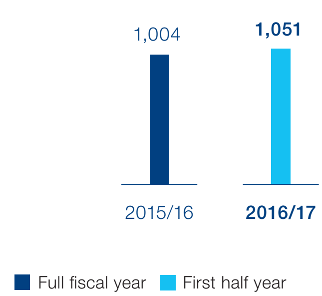
Profit from operations Voith Turbo
in € millions



Orders received Voith Turbo
in € millions



Orders on hand Voith Turbo
in € millions



02.4. Voith Digital Solutions

Successful start

In the present interim report, we are reporting our Group Division Voith Digital Solutions, which was founded in the previous year, for the first time as a standalone segment.

The new Group Division comprises the Group's entire expertise in the fields of automation, IT, software, data analytics and sensor technology. The objective of the new unit: we intend to play a major role in shaping the digital transformation of the industry. As an established technology leader with extensive domain knowledge that has a large installed base of plant and products on the market and in conjunction with our digital expertise, we consider ourselves to be in an excellent starting position in this respect.

Within the framework of our digital agenda, we are pursuing three strategic directions: firstly, enhancing the existing product portfolio to include digital capabilities that offer customers additional functions and added value; secondly, developing new digital solutions for our established core markets; and thirdly, developing new applications and business models for markets not yet covered by Voith.

Important milestones reached

In the reporting period, we reached the milestones set in the implementation of our digital strategy.

The internal transfer process that was deployed to migrate existing products and services, projects and teams to Voith Digital Solutions from the three established Group Divisions has been completed to a great extent. The Group's in-house IT service provider has also been fully integrated into Voith Digital Solutions.

As of the March 31, 2017 reporting date, around 1,000 employees (full-time equivalents) had taken up work at Voith Digital Solutions. Following completion of the transfer process and further external staff recruitment measures, we expect to employ a headcount of around 1,500 at the Voith Digital Solutions Group Division by the end of the fiscal year.

Expansion of the product portfolio

In addition, we are working on the expansion of our portfolio of digital offerings. For example, Voith Digital Solutions launched merQbiz in the US in March 2017 after only 14 months; this is the first digital marketplace for recovered paper worldwide. First of all, merQbiz will ensure transparency in the extremely fragmented North American recovered paper market and will offer dealers and purchasers from paper and cellulose factories, paper brokers and recycling businesses the possibility of handling their transactions, including transportation, using a secure medium. There are plans to expand the trading platform to further regions. Furthermore, Voith Digital Solutions is working together with the three established Group Divisions on a number of incubation projects.

Sales and profit from operations reflect Voith Digital Solutions’ situation as a start-up

Voith Digital Solutions did not record any noteworthy levels of sales with its start-up activities in the first half of 2016/17. merQbiz was not launched until just before the end of the reporting period and the other projects have not yet been introduced onto the market. The sales shown in the segment reporting of €4 million stems from the business of the Group’s own IT service provider with external customers.

Furthermore, Voith Digital Solutions acts as an “enabler” for the established Group Divisions, providing them with support in enhancing their product portfolio in the field of automation to include digital offerings. This gave rise to group sales in the first half of 2016/17 of €132 million, which is presented in the sales of the respective Group Divisions for the purposes of our segment reporting. All in all, sales generated by Voith Digital Solutions totaled €136 million in the reporting period. For the full fiscal year 2016/17, we expect Digital Solutions sales within the Group of around €300 million.

The cost side is dominated by the build-up costs for the new Group Division, essentially research and development expenses.

Bottom line, there was a profit from operations of €-20 million in the first half of the 2016/17 fiscal year. This level of profit from operations is in line with our business planning. The profit from operations of the sales from automation activities is reported in the other Group Divisions.

Digitization as a future growth driver

In our estimation, Voith Digital Solutions will constitute an important growth driver for the Voith Group in the coming years. We are consequently making targeted investments in building up the new Group Division.

03 Net assets and financial position

The net assets and financial position of the Voith Group has improved significantly over the reporting period – supported most of all by the successful sale of the shares in KUKA Aktiengesellschaft, which brought about a liquidity inflow of around €1.15 billion. With a substantially increased equity ratio (23.8%) and much greater financial headroom, Voith is in a strong position for new growth.

03.1. Balance sheet

Significant rise in equity ratio to 23.8% due to sale of KUKA shares

In comparison to September 30, 2016, total assets increased by €401 million to €5,760 million (previous year: €5,359 million, up 7%), mainly due to the sale of the shareholding in KUKA Aktiengesellschaft. On the assets side, this meant, on the one hand, that cash and cash equivalents increased on account of the cash inflow and, on the other, that there was a decrease in the assets held for sale. On the equity and liabilities side, equity increased by the amount of the income from the sale.

In total, non-current assets were reduced by €62 million to €1,994 million (previous year: €2,056 million, down 3%). The drop is primarily attributable to the sale of securities. As a consequence, this item decreased by €74 million to €11 million (down 87%).

Current assets increased by €463 million to €3,766 million (previous year: €3,303 million, up 14%). The increase in cash and cash equivalents of €1,065 million to €1,715 million (previous year: €650 million) made a contribution to this development primarily due to the proceeds in connection with the sale of the shareholding in KUKA Aktiengesellschaft. In contrast, the assets held for sale fell by €591 million to €18 million in this context. In addition, receivables from customer-specific contracts decreased; these contain long-term orders that are presented using the percentage of completion method (fall of €118 million; this figure contains a decrease of €130 million pertaining to Voith Hydro and an increase of €12 million to Voith Paper). In contrast, inventories and trade receivables rose by €103 million in total (thereof Voith Hydro up €93 million).

Non-current liabilities declined by €56 million to €1,721 million (previous year: €1,777 million, down 3%). This is mainly the result of the fall in pension provisions of €49 million to €804 million (previous year: €853 million) caused by the increase in the discount rates in Germany, the US and Canada. Furthermore, a portion of the US private placement was repaid prematurely (€-38 million). In contrast, non-current financial liabilities rose by €26 million due to measurement-related changes.

Current liabilities decreased by €116 million to €2,667 million (previous year: €2,783 million, down 4%). The decrease is reflected in virtually all items. Current liabilities to banks of €27 million were repaid. In addition, liabilities from customer-specific contracts fell by €26 million (of which Voith Hydro €-20 million and Voith Paper €-6 million) and trade payables by €18 million. The decrease in current other provisions (down €13 million) is essentially attributable to a lower level of provisions for restructuring (down €19 million). Current other financial liabilities decreased by €36 million, mainly on account of a lower level of personnel-related liabilities (down €45 million). The only item to run counter to this development was other liabilities (up €37 million), primarily on account of a higher level of customer advances (up €21 million).

The net balance of deferred tax assets and liabilities saw only an immaterial decrease of €1 million. In this respect, the effects recorded directly in equity, mainly caused by the tax effect of the measurement-related fall in pension provisions, just about completely balanced out the effects through profit or loss.

Equity increased to €1,372 million (previous year: €799 million, up 72%). The decisive factor in this was the positive group net result, which was mainly impacted by the income from the sale of the KUKA shares. Additionally, measurement-related adjustments to pension provisions exerted a positive influence. The equity ratio rose to 23.8% (previous year: 14.9%).

03.2. Liquidity

Total cash flow achieved in excess of €1 billion

The cash flow from operating activities amounted to €-40 million in the first half of the 2016/17 fiscal year (previous year: €-48 million). The improvement on the previous year is the result, among other factors, of the smaller rise in net working capital in the reporting period (up €42 million; previous year: up €70 million). Higher income tax payments and lower dividend proceeds had the opposite effect.

The cash flow from investing activities in the reporting period of €1,189 million (previous year: €-30 million) primarily relates to the proceeds in connection with the

Development of cash flow in € millions	**First half year 2016/17**	First half year 2015/16
Cash flow from operating activities	-40	-48
Cash flow from investing activities	1,189	-30
Cash flow from financing activities	-95	89
Total cash flow	**1,054**	11

sale of the shares in KUKA Aktiengesellschaft, Augsburg (up €1,148 million). Net receipts and payments for property, plant and equipment and intangible assets amounted to €-43 million (previous year: €-38 million). Proceeds from the sale of financial assets are €37 million higher in comparison to the previous-year period. Furthermore, proceeds of €39 million were received in the reporting year from the sale of Voith Industrial Services in connection with the settlement of outstanding receivables from and liabilities to the purchaser (included in the item Purchase price receipts in connection with disposal of companies in previous years in the consolidated cash flow statement).

We significantly reduced our level of borrowing in the reporting period (net repayment: €-63 million; previous year €+119 million) through the premature repayment of a portion of the US private placement amounting to €38 million, among other things. As a consequence, cash flow from financing activities stood at €-95 million (previous year: €89 million). In the previous year, the cash flow from financing activities was dominated by the successful placement of a note loan totaling €300 million.

This made it possible to generate a total cash flow of €1,054 million (previous year: €11 million).

Net debt, measured as the difference between interest-bearing financial liabilities and liquid financial assets, amounted to €-597 million (net asset position) (September 30, 2016: €-168 million).

03.3. Investments and R&D expenses

Further investments in productivity

We invested €47 million in the Voith Group in the first half of 2016/17 (previous year: €59 million, down 19%). The investment ratio as a percentage of group sales stood at 2.4% (previous year: 2.9%). The largest investments in property, plant and equipment were made by the Voith Turbo Group Division into, among other things, building up a state-of-the-art transmission plant in China. Regionally, investments focused on Germany and Asia. At €64 million, depreciation and amortization stood at virtually the same level as in the previous year (previous year: €66 million, down 3%).

Research and development expenses stood at €109 million in the reporting period (previous year: €92 million, up 18%). The significant increase stems from the newly founded Voith Digital Solutions Group Division. No R&D expenses had been incurred in this Group Division in the comparative period of the previous year. The ratio of the Voith Group's R&D expenses to sales stood at 5.5% at the end of the half year (previous year: 4.5%). In the core business, the R&D ratio remained unchanged at 4.5%.

03.4. Financial assets and investments

Some €1.15 billion from sale of KUKA shares

We completed the disposal of our 25.1 % shareholding in the listed robotic systems manufacturer KUKA Aktiengesellschaft, Augsburg, in January 2017 as part of the public takeover bid by Chinese investor Midea Group Ltd. This move had already been announced in the previous year. Within the scope of the transaction, we recorded a cash inflow of €1,148 million in the cash flow statement and a positive effect on the group net result of €565 million. The investment has been exceedingly successful for the Voith Group: the value of the shareholding has more than doubled since the acquisition in December 2014.

All shares in SGL Carbon sold off

In the reporting period, Voith GmbH sold off all of its shares in SGL Carbon SE, a listed company. Within the scope of the disposal, we recorded a cash inflow of €61 million.

04

Employees

At the end of the first half of the 2016/17 fiscal year, we had a headcount of around 18,800 employees. In the reporting period several hundred jobs were relocated from the three established Group Divisions to Voith Digital Solutions. Voith Paper remained the largest Group Division by headcount.

Headcount slightly lower

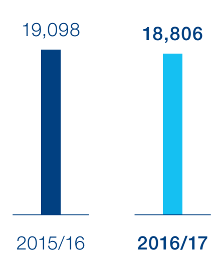
As at March 31, 2017, the Voith Group had 18,806 employees (full-time equivalents without apprentices). This is on balance 292 fewer jobs than at the end of the past fiscal year (September 30, 2016: 19,098).

Relocation of jobs to Voith Digital Solutions

As part of building up Voith Digital Solutions, jobs continued to be transferred from the three established Group Divisions to the new Group Division. In addition, new employees were recruited externally. At the end of the reporting period, Voith Digital Solutions had a headcount of 966 employees (previous year: 654; increase of 312 jobs). This corresponds to 5% of the Group's employees.

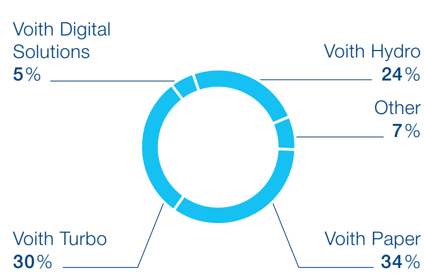
Voith Paper remained the largest Group in terms of headcount with a share of 34% of the total headcount. A total of 6,469 employees were working there at the end of the reporting period (previous year: 6,550 employees). The decrease of 81 jobs is essentially attributable to the migration to the new Group Division.

Employees Group



■ Full fiscal year ■ First half year

Employees total 18,806
by Group Division



First half year 2016/17

Voith Turbo had 5,553 employees (previous year: 5,702) or 30% of the Group's headcount. The drop of 149 in the reporting period is partly due to targeted capacity adjustments at individual locations and partly to the relocation of jobs to Voith Digital Solutions.

With 4,584 people, Voith Hydro employed 24% of the Group's total workforce (previous year: 4,934 employees). The headcount at Voith Hydro fell by 350, primarily as a consequence of capacity adjustments in South America, but also due to the relocation of jobs to Voith Digital Solutions.

The remaining jobs (1,234, previous year: 1,258) were attributable to the activities in the Composites division, the internal administrative and service centers as well as the units with holding functions. We were able to implement further job cuts as a consequence of the reorganization of the indirect functions under Voith 150+ and by achieving efficiency gains.

05 Subsequent events

Majority shareholding acquired in Ray Sono, a leading provider of digital services

In May 2017, Voith signed a purchase agreement for the acquisition of the majority shareholding of 60% in Ray Sono AG, one of Germany's leading digital services providers. The strategic partnership firstly covers the development of digitization solutions relevant to industry, primarily in the fields of Internet of Things and Industry 4.0 and, secondly, the implementation of digital solutions within Voith's portfolio. Examples of this include the virtualization of machines and systems and the improvement of existing digital solutions with the support of Ray Sono. Ray Sono currently employs around 200 permanent members of staff and generated around €19 million in sales in the past year – with customers that include Austrian Airlines, BMW, BRITA, DATEV, Deutsche Bahn, Linde, MAN, McDonald's and Miles & More. Following closing of the transaction, which is currently subject to approval by the antitrust authorities, the plans are for the investment to be allocated to the Voith Digital Solutions Group Division.

Change in legal form planned

Voith GmbH's Corporate Board of Management, in close consultation with the Shareholder's Committee, proposed to the shareholders in April 2017 to change the legal form of the Company from a limited liability company (GmbH) to a partnership limited by shares (Kommanditgesellschaft auf Aktien or KGaA). The shareholders will decide on this change after consultation with the required boards and committees. The plans are for the Company's new name to be "Voith GmbH & Co. KGaA". Voith Management GmbH, an entity yet to be founded, is planned to be the personally liable shareholder (general partner) of the partnership limited by shares. As a final step, a decision on the change in legal form is scheduled for an extraordinary shareholders' meeting in July 2017. This step is anticipated to expand Voith's ability to maneuver during the coming years and support the Company's growth strategy in the wake of its digital transformation.

Changes on the Corporate Board of Management announced

After a total of 13 successful years at Voith, Bertram Staudenmaier, Chairman of the Management Board of the Voith Paper Group Division and Member of the Corporate Board of Management of Voith GmbH, has decided to look for new challenges outside the Company and for this reason does not wish to extend his contract that expires at the end of the year. We announced this in May 2017. The Supervisory Board of Voith GmbH will decide on his successor at the next regular meeting on June 2, 2017.

No further significant developments have occurred since the end of the first half of the 2016/17 fiscal year (March 31, 2017).

06 Risks and opportunities

Our assessment of the situation regarding risks and opportunities has not changed in any significant way since publication of the Annual Report. There continue to be no risks to the Voith Group's ability to continue as a going concern. The most significant risks which could cause the results to deviate negatively from those forecast/targeted continue to be external. The risks are matched by opportunities that could have a positive influence on business development.

Risk management aligned to increasing the value of the Company

Entrepreneurial activity involves making decisions under conditions of uncertainty. To safeguard against risks that could jeopardize the Group or its companies as a going concern, Voith operates a consistent and binding Group-wide risk management system. It should contribute to increasing the value of the Group and its companies by reducing potential risks and their probability of occurrence. At the same time, the system is intended to produce a state of equilibrium between correctly assessed risks and the exploitation of opportunities.

Risks

To the best of our knowledge at present, there are no risks of any kind which could jeopardize the ability of the Voith Group to continue as a going concern. For our assessment of the risk situation, we generally refer to our 2016 Annual Report in which we described risks that could have a substantially negative effect on our net assets, financial position and earnings position and lead to failure to meet forecasts or targets. Any deviations from this are presented below.

There are essentially no changes in the risk situation in comparison to the end of the 2015/16 fiscal year. We continue to consider the most significant risk for Voith to be developments in the global economy that fall noticeably short of expectations. This said, the nature of the threats to the global economy has shifted somewhat in comparison to the time when our Annual Report was published. From our perspective, the upcoming elections in several important European economies constitute one of the potential threats to the economic recovery in Europe. Other issues include the euro zone crisis, which has yet to be overcome, and the tensions that mark relations with Turkey. The unclear direction of the future US economic and trade policy under the new administration constitutes an ongoing element of uncertainty for export-oriented countries, the American economy and the global economy as a whole. Geopolitical conflicts such as those in North Africa and the Middle East as well as North Korea could likewise have a negative impact in the event of escalation.

In the area of liquidity and financial risks, there are no longer any noteworthy risks relating to securities and stock prices in the reporting period following the sale of the shares in SGL Carbon SE. In the past, there was, in the event of there being objective evidence of a significant decline in the fair value of the investment, the possibility of impairment losses becoming necessary that could have a negative impact on the financial result.

Opportunities

Alongside risks, we see a range of opportunities that could have a positive impact on our business situation and net assets, financial position and earnings position and lead to overachievement of forecasts or targets. For an assessment of our situation regarding opportunities, we generally refer to the 2016 Annual Report. We continue to identify the principal opportunities described there.

Deviating from that document, we deem it unlikely, from today's perspective, that the Brazilian economy will develop significantly better following the change of government than forecast by economic analysts and assumed in our planning.

07 Forecast report

Based on the developments in the reporting period, we confirm the Group's forecast for the year in almost all key performance indicators. This means that we continue to expect stable sales and a slightly rising volume of orders received for the full 2016/17 fiscal year. In this respect, the three established Group Divisions are expected to achieve profitability levels typical for their industries, so that we will be able to shoulder the build-up costs for the new Voith Digital Solutions Group Division from current business. The group net result will reach a new record with a significant effect coming from the sale of the KUKA shares.

07.1. Business environment

Sound global economic growth forecast

Economic analysts expect the development of the global economy to remain sound. In its most recent publication, for example, the International Monetary Fund (IMF) has forecast global growth rates of between 3.5% and 3.6% for the calendar years 2017 and 2018, respectively.

For the emerging markets, the IMF identifies growth rates of 4.5% in 2017 and of 4.8% in 2018. China is expected to continue to show slowing growth rates but still provide the largest contribution to the growth of the global economy. Based on the assumption of an improved legal and structural framework for businesses, increasing growth rates are forecast for India, albeit at a lower level in absolute terms. Following two years of recession, Brazil and Russia should demonstrate modest growth again from 2017 onwards, supported by the gradual recovery of oil and raw materials prices, but the economic outlook remains subdued. For Southeast Asia, we expect very strong growth to continue.

For the industrialized countries, the IMF has forecast economic growth at a rate of 2.0% for 2017 and for 2018. In the US, the economy could pick up considerable speed as a consequence of the infrastructure investments and tax reforms promised by the new administration. Under this assumption, the IMF forecasts annual growth rates for the US economy of 2.3% and 2.5% for 2017 and 2018, respectively. On the other hand, the unclear political direction being taken by the new US administration constitutes an ongoing element of uncertainty. The pace of growth in Germany and the euro zone seen as a whole is expected to remain below average due to a continued lack of appropriate reforms. From our perspective, the upcoming elections in several important European economies constitute a

Economic growth
Real change in GDP on the previous year[1]

World output	2017	3.5%
	2018	3.6%
Advanced economies	2017	2.0%
	2018	2.0%
United States	2017	2.3%
	2018	2.5%
Euro zone[2]	2017	1.7%
	2018	1.6%
Germany	2017	1.6%
	2018	1.5%
Emerging market and developing economies	2017	4.5%
	2018	4.8%
China	2017	6.6%
	2018	6.2%
ASEAN-5	2017	5.0%
	2018	5.2%
India	2017	7.2%
	2018	7.7%
Brazil	2017	0.2%
	2018	1.7%
Russia	2017	1.4%
	2018	1.4%

Source: International Monetary Fund, World Economic Outlook, April 2017.
[1] Forecasts.
[2] Including Germany.

risk to Europe's economic development. Other issues include the euro zone crisis, which has yet to be overcome, and the tensions that mark relations with Turkey.

In the light of this world economic situation and due to ever-increasing competition from the Far East, the environment for capital goods remains challenging. The trends in our five target markets should continue to develop as described in section 01.2. "Economic environment".

The forecast for our business assumes that there will be no unforeseen major economic or political events.

07.2. Future development of the Company

Clearly positive net result in the Voith Group despite build-up costs for digital transformation

At the close of the first half of the fiscal year, we consider ourselves to be well on our way to meeting our Group forecast for the year that we published along with the Annual Report in December 2016. We continue to anticipate stable developments in terms of group sales in the 2016/17 fiscal year (previous year: €4,252 million). The volume of orders received (previous year: €4,113 million) should see a modest increase, as announced. The three established Group

Divisions will enjoy profitable operations and, in total, generate a stable profit from operations. As forecast, the Voith Group's profit from operations (previous year: €275 million) will be clearly positive but will not, however, reach the level seen in the previous year on account of the budgeted build-up costs for the Voith Digital Solutions Group Division. We therefore anticipate a noticeable fall in the Group's profit from operations on the basis of the full year. We continue to expect a slight decrease in the ROCE (previous year: 12.9%), in line with the development of the profit from operations. The group net result will reach a record level in the full 2016/17 fiscal year. The effect on results from the sale of the shares in KUKA Aktiengesellschaft will make a particular contribution to this development. With a substantially increased equity ratio and much greater financial headroom for acquisitions, Voith is in a very strong position for new growth – through reinforcement of the core business and important progress in the digital transformation of the Group.

Profitable core business

At Voith Hydro, we anticipate much stronger market activity in the second half of the fiscal year than in the reporting period. Whether the expected stable market development actually comes about over the full year depends, however, on the timely awarding of individual major projects. Assuming this happens, we continue to expect that the volume of orders received by Voith Hydro in the 2016/17 fiscal year will roughly come to the previous year's level (previous year: €1,387 million). On account of minor project delays, we now anticipate a slight decrease in the volume of sales at Voith Hydro in comparison to the high level achieved in the previous year (previous year: €1,388 million). At the time of publication of the 2016 Annual Report we had still anticipated a stable development. In terms of profit from operations (previous year: €105 million) and ROCE (previous year: 21.3%), we continue to forecast a stable development at the high levels already achieved in the previous year.

In the Voith Paper Group Division, we are confident of being able to meet our forecast for the current fiscal year after the good development in the reporting period. While sales are expected to increase slightly in comparison to the previous year (€1,456 million), we still anticipate profit from operations to rise at a faster rate (previous year: €76 million). The ROCE (previous year: 10.2%) should likewise see a marked improvement, as expected. In the 2016 Annual Report, we held out the prospect of a slight increase in the volume of orders received (previous year: €1,463 million). In view of the high volume of orders received in the first half of the fiscal year, the increase could well turn out to be even bigger over the full 2016/17 fiscal year than forecast at that time.

For the Voith Turbo Group Division, we confirm our forecast for the current fiscal year. On account of the fall in orders received in the two previous years, sales in the 2016/17 fiscal year are expected to suffer a slight to significant decrease (previous year: €1,397 million). The reduced sales volume, changed sales mix and high pressure on prices will affect profit from operations, which is therefore likely to fall significantly and at a higher rate than sales (previous year: €114 million). There will also be a noticeable fall in the ROCE compared to the previous year (15.8%), yet it will still be well into the double digits. In contrast, we anticipate slight growth in the volume of orders received (previous year: €1,247 million).

In the new Voith Digital Solutions Group Division, which we report as a standalone segment for the first time in the reporting year, we expect sales in the single-digit millions of euros. In addition, sales of some €300 million are expected to arise from digital products and solutions generated by the established Group Divisions in cooperation with Voith Digital Solutions acting as an "enabler". The profit from operations will be negative on account of the budgeted build-up costs and cause a burden in the double-digit millions for the Group. We consider the build-up costs, which we are able to shoulder from our profitable core business, as an investment in building up a business that is intended to become an important growth driver for the Voith Group over the coming years. In addition to building up the business with our own resources, we are also looking for acquisition targets that will supplement our digital portfolio.

Forecasts are always subject to considerable uncertainty. A host of macroeconomic and industry-specific factors can influence, positively or negatively, the development of individual Group Divisions or the entire Group. For information on the significant risks and opportunities that could lead to a negative/positive forecast deviation, we refer to section 06 "Risks and opportunities" of this management report.

Group Interim Financial Statements

for the period from October 2016 to March 2017

Consolidated statement of income

for the period from October 1, 2016 to March 31, 2017

in € thousands	2016-10-01 to 2017-03-31	2015-10-01 to 2016-03-31
Sales	1,964,940	2,038,317
Changes in inventories and other own work capitalized	28,798	33,608
Total output	**1,993,738**	2,071,925
Other operating income	194,210	171,171
Cost of materials	-853,511	-880,682
Personnel expenses	-723,647	-715,338
Depreciation and amortization	-64,106	-65,515
Other operating expenses	-470,330	-499,962
Operational result before non-recurring items	**76,354**	81,599
Non-recurring result	-11,366	-4,853
Operational result	**64,988**	76,746
Share of profit/loss from companies accounted for using the equity method	6,185	5,422
Result from the sale of associates	565,078	0
Interest income	8,722	4,226
Interest expenses	-46,667	-40,758
Other financial result	-4,996	-27,925
Result before taxes from continuing operations	**593,310**	17,711
Income taxes	-26,275	-26,796
Net result from continuing operations	**567,035**	-9,085
Net result from discontinued operations	**-1,140**	-38,471
Net result	**565,895**	-47,556
Net result attributable to shareholders of the parent company	562,313	-52,972
Net result attributable to holders of non-controlling interests	3,582	5,416

Consolidated statement of comprehensive income

for the period from October 1, 2016 to March 31, 2017

in € thousands	2016-10-01 to 2017-03-31	2015-10-01 to 2016-03-31
Net result	**565,895**	-47,556
Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods:		
Remeasurement of defined benefit plans	44,669	-58,958
Taxes on components of other comprehensive income that will not be recycled through profit or loss in later periods	-15,807	18,396
Components of other comprehensive income that will be recycled through profit or loss in later accounting periods:		
Gains/losses on available-for-sale financial assets	-9,739	-10
Gains/losses on cash flow hedges	2,588	-1,761
Gains/losses on currency translation	12,881	-7,177
Gains/losses from the currency translation of net investments in foreign operations	503	2,777
Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods	-490	582
Other comprehensive income	**34,605**	-46,151
Total comprehensive income	**600,500**	-93,707
· Total comprehensive income attributable to shareholders of the parent company	597,113	-99,695
· Total comprehensive income attributable to holders of non-controlling interests	3,387	5,988
	600,500	-93,707

Consolidated balance sheet

as at March 31, 2017

in € thousands		2017-03-31	2016-09-30
A.	**Non-current assets**		
I.	Intangible assets	451,553	450,750
II.	Property, plant and equipment	1,035,031	1,040,677
III.	Investments accounted for using the equity method	22,239	15,307
IV.	Securities	11,421	84,859
V.	Other financial assets	109,412	109,584
VI.	Other financial receivables	104,307	88,631
VII.	Other assets	14,261	17,060
VIII.	Deferred tax assets	246,174	248,693
Total non-current assets		**1,994,398**	2,055,561
B.	**Current assets**		
I.	Inventories	612,075	567,233
II.	Trade receivables	749,115	690,632
III.	Receivables from customer-specific contracts	308,543	426,720
IV.	Securities	48,478	33,126
V.	Current income tax assets	52,030	54,688
VI.	Other financial receivables	155,737	172,480
VII.	Other assets	107,688	99,816
VIII.	Cash and cash equivalents	1,714,616	649,672
		3,748,282	2,694,367
IX.	Assets held for sale	17,671	609,365
Total current assets		**3,765,953**	3,303,732
Total assets		**5,760,351**	5,359,293

in € thousands		2017-03-31	2016-09-30
A.	**Equity**		
I.	Issued capital	120,000	120,000
II.	Revenue reserves	1,097,431	532,060
III.	Other reserves	7,368	1,440
IV.	Profit participation rights	6,600	6,600
Equity attributable to shareholders of the parent company		**1,231,399**	660,100
V.	Profit participation rights	96,800	96,800
VI.	Other interests	43,903	42,034
Equity attributable to holders of non-controlling interests		**140,703**	138,834
Total equity		**1,372,102**	798,934
B.	**Non-current liabilities**		
I.	Provisions for pensions and similar obligations	804,183	852,803
II.	Other provisions	211,293	221,304
III.	Income tax liabilities	796	326
IV.	Bonds, bank loans and other interest-bearing liabilities	551,997	563,929
V.	Other financial liabilities	32,622	28,831
VI.	Other liabilities	71,634	59,079
VII.	Deferred tax liabilities	48,837	51,199
Total non-current liabilities		**1,721,362**	1,777,471
C.	**Current liabilities**		
I.	Provisions for pensions and similar obligations	29,380	29,969
II.	Other provisions	255,245	268,306
III.	Income tax liabilities	56,207	72,511
IV.	Bonds, bank loans and other interest-bearing liabilities	726,243	768,544
V.	Trade payables	413,284	430,779
VI.	Liabilities from customer-specific contracts	91,541	118,188
VII.	Other financial liabilities	234,411	270,425
VIII.	Other liabilities	860,576	824,166
Total current liabilities		**2,666,887**	2,782,888
Total equity and liabilities		**5,760,351**	5,359,293

Consolidated statement of changes in equity

	Equity attributable to shareholders of the parent company				
in € thousands	Issued capital	Revenue reserves	Available-for-sale financial assets	Cash flow hedges	Currency translation
2016-10-01	**120,000**	**532,060**	**13,968**	**-4,010**	**-4,015**
Net result		562,313			
Other comprehensive income		28,872	-9,828	2,100	13,153
Total comprehensive income	**0**	**591,185**	**-9,828**	**2,100**	**13,153**
Allocation of profit participation rights		-5,590			
Share of net result attributable to profit participation rights					
Dividends		-18,000			
Changes in non-controlling interests as a result of changes in group structure		209			
Contributions by non-controlling interests					
Non-controlling interests – put options		-2,120			
Other adjustments		-313			
2017-03-31	**120,000**	**1,097,431**	**4,140**	**-1,910**	**9,138**

	Equity attributable to shareholders of the parent company				
in € thousands	Issued capital	Revenue reserves	Available-for-sale financial assets	Cash flow hedges	Currency translation
2015-10-01	120,000	624,938	3,992	-1,067	-9,410
Net result		-52,972			
Other comprehensive income		-41,754	2	-1,243	-6,414
Total comprehensive income	0	-94,726	2	-1,243	-6,414
Allocation of profit participation rights		-5,590			
Share of net result attributable to profit participation rights					
Dividends		-15,000			
Changes in non-controlling interests as a result of changes in group structure		-1,968			
Non-controlling interests – put options		1,822			
Other adjustments		1,619			
2016-03-31	120,000	511,095	3,994	-2,310	-15,824

			Equity attributable to holders of non-controlling interests			
Net investment in foreign operations	Profit participation rights	Total	Profit participation rights	Other interests	Total	Total equity
-4,503	**6,600**	**660,100**	**96,800**	**42,034**	**138,834**	**798,934**
		562,313		3,582	3,582	565,895
503		34,800		-195	-195	34,605
503	**0**	**597,113**	**0**	**3,387**	**3,387**	**600,500**
	363	-5,227	5,227		5,227	0
	-363	-363	-5,227		-5,227	-5,590
		-18,000		-2,128	-2,128	-20,128
		209		-440	-440	-231
				1,525	1,525	1,525
		-2,120		-447	-447	-2,567
		-313		-28	-28	-341
-4,000	**6,600**	**1,231,399**	**96,800**	**43,903**	**140,703**	**1,372,102**

			Equity attributable to holders of non-controlling interests			
Net investment in foreign operations	Profit participation rights	Total	Profit participation rights	Other interests	Total	Total equity
-9,080	6,600	735,973	96,800	41,470	138,270	874,243
		-52,972		5,416	5,416	-47,556
2,686		-46,723		572	572	-46,151
2,686	0	-99,695	0	5,988	5,988	-93,707
	363	-5,227	5,227		5,227	0
	-363	-363	-5,227		-5,227	-5,590
		-15,000		-2,297	-2,297	-17,297
		-1,968		-1,099	-1,099	-3,067
		1,822		-4,440	-4,440	-2,618
		1,619		1,252	1,252	2,871
-6,394	6,600	617,161	96,800	40,874	137,674	754,835

Consolidated cash flow statement

for the period from October 1, 2016 to March 31, 2017

in € thousands	2016-10-01 to 2017-03-31	2015-10-01 to 2016-03-31
Result before taxes from continuing and discontinued operations	594,163	-21,514
Depreciation and amortization	66,410	144,952
Interest expenses/income	37,945	36,909
Other non-cash items	-569,076	-6,212
Gains/losses from the disposal of property, plant and equipment and intangible assets	-63	-14,446
Gains/losses from the disposal of consolidated companies	0	0
Gains/losses from investments	-4,509	-8,169
Changes in provisions and accruals	-73,307	-76,664
Change in net working capital	-41,697	-70,114
Interest paid	-10,713	-7,340
Interest received	8,109	3,549
Dividends received	3,106	9,071
Tax paid	-49,826	-38,252
Cash flow from operating activities	**-39,458**	-48,230
Investments in property, plant and equipment and intangible assets	-48,292	-66,851
Proceeds from the disposal of property, plant and equipment and intangible assets	4,663	29,389
Investments in financial assets	-1,914	-2,246
Purchase price receipts in connection with disposal of companies in previous years	38,506	0
Receipts and payments in connection with the disposal of consolidated companies	0	0
Proceeds from the disposal of financial assets	1,148,422	273
Changes in investments in securities	47,459	9,749
Cash flow from investing activities	**1,188,844**	-29,686
Dividends paid	-25,718	-22,887
Contributions from holders of non-controlling interests	1,525	0
Acquisition of non-controlling interests	-231	-3,067
New bonds, bank loans and overdrafts	22,545	351,214
Repayment of bonds, bank loans and overdrafts	-85,838	-232,507
Changes in other interest-bearing financial receivables and liabilities	-7,501	-3,687
Cash flow from financing activities	**-95,218**	89,066
Total cash flow	**1,054,168**	11,150
Exchange rate movements and valuation changes	10,776	-215
Cash and cash equivalents at the beginning of the period	649,672	434,953
Cash and cash equivalents at the end of the period	**1,714,616**	445,888

Basis of the interim consolidated financial statements and accounting policies

Voith GmbH (Voith) is a company founded in Germany with international activities. The Company's registered offices are located in Heidenheim an der Brenz, at St. Pöltener Strasse 43. Voith is entered in the commercial register (under the number HRB 725621) at the Registration Court in Ulm, Germany. The interim consolidated financial statements prepared by Voith are published in the Bundesanzeiger [German Federal Gazette] in German. As a domestic issuer of debt securities pursuant to Sec. 2 (1) Sentence 1 German Securities Trading Act (WpHG), Voith prepares this half-year financial report in accordance with the provisions of Sec. 37w WpHG and the requirements of IAS 34 "Interim Financial Reporting."

The interim consolidated financial statements for the first half of the 2016/17 fiscal year were prepared in accordance with the International Financial Reporting Standards (IFRS) for interim financial reporting as endorsed by the European Union. In comparison to the consolidated financial statements as at September 30, 2016, the interim consolidated financial statements are condensed in scope.

The unaudited interim consolidated financial statements do not include all of the information and disclosures required for consolidated financial statements and must therefore be read in conjunction with the consolidated financial statements as at September 30, 2016. The interim financial statements are presented in euros and the figures have been rounded using standard commercial principles.

Within the framework of preparing the interim consolidated financial statements pursuant to IFRS, it is necessary to make certain estimates, judgments and assumptions that could have an impact on the amount and presentation of assets and liabilities recognized in the reporting, as well as on the disclosures on contingent assets and contingent liabilities on the reporting date and on the income and expenses reported for the period. Actual amounts may differ from the estimates. Changes in estimates, judgments and assumptions could have a material impact on the interim financial reporting.

The accounting policies applied by the Group in these interim consolidated financial statements generally correspond to the accounting policies applied in the IFRS consolidated financial statements for the previous fiscal year. Income taxes are recorded on the basis of an estimate of the weighted average annual income tax rate expected for the full year, taking account of the tax impact of any circumstances that can only be allocated to the respective period under review.

In the first half of the 2016/17 fiscal year, the following new and revised IAS and IFRS standards were applied for the first time:

Standard/interpretation	Amendment/new standard or interpretation
Amendments to IAS 1: Disclosure Initiative	Initiative to research various possibilities in order to examine ways in which existing disclosure requirements made by IFRS users can be improved and simplified.
Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization	Clarification of acceptable methods of depreciation and amortization.
Amendments to IFRS 11: Joint Arrangements	Clarification of the accounting for the acquisition of interests in a joint activity.
Improvements to IFRS (2012–2014)	Amendments to standards IFRS 5 and 7, IAS 19 and 34.

None of the IAS and IFRS standards adopted for the first time had a significant effect on the net assets, financial position and results of operations of the Group.

Consolidated group

The following companies are included in the consolidated financial statements:

	2017-03-31	2016-09-30
Voith GmbH and its fully consolidated subsidiaries:		
· Germany	30	29
· Other countries	110	112
Total number of fully consolidated companies	**140**	141
Companies accounted for using the equity method:		
· Germany	3	4
· Other countries	11	11
Total number of companies accounted for using the equity method	**14**	15

Business combinations

There were no business combinations in the first half of the current fiscal year and the corresponding previous-year period.

Acquisition of further interests in entities over which the Group already has control

The remaining 30% interest in Voith Paper Integrated Mill Service Co., Ltd., Kunshan, Jiangsu, China, was acquired in the first half of the current 2016/17 fiscal year. The purchase price was €231 thousand. The remaining 20% interest in Voith Turbo Co., Ltd., Seoul, Republic of Korea, was acquired in the first half of the 2015/16 fiscal year. The purchase price was €3,067 thousand.

Disposals and discontinued operations

There were no disposals of subsidiaries in the first half of the current 2016/17 fiscal year.

The Voith Industrial Services Group Division was sold effective as at August 31, 2016. In the first half of the 2015/16 fiscal year, Voith Industrial Services was presented as held for sale and as a discontinued operation.

In the previous-year period, the net result from discontinued operations included in the statement of income included the following:

in € thousands	2015/16
Sales	482,248
Changes in inventories and other own work capitalized	7,138
Other operating income	14,107
Operating expenses	-498,045
Operational result before non-recurring items	**5,448**
Non-recurring result	-44,791
Operational result	**-39,343**
Financial result	119
Result before taxes	**-39,224**
Income taxes	753
Net result	**-38,471**

Cash flow from discontinued operations in the previous-year period:

in € thousands	2015/16
Cash flow from operating activities	-22,412
Cash flow from investing activities	-7,137

In the first half of the current 2016/17 fiscal year, proceeds of €38,506 thousand were received from the sale of Voith Industrial Services in connection with the settlement of outstanding receivables from and liabilities to the purchaser (included in the item Purchase price receipts in connection with disposal of companies in previous years in the consolidated cash flow statement).

Notes on segment reporting

Voith Digital Solutions reported for the first time as a segment

The Voith Digital Solutions Group Division, which was founded in the previous year, is being reported as a stand-alone segment for the first time. The new Group Division brings together all the Group's expertise in the areas of automation, IT, software, data analytics and sensor technology. The sales with third parties reported in the Voith Digital Solutions segment originates from transactions on the part of the Group's own IT service provider with external customers. Sales with other segments relates to digital support for the existing Group Divisions. The profit from operations reflects to a great extent the start-up costs for this new division. The sales reported in the Voith Digital Solutions segment in the previous-year period and the profit from operations include the IT services rendered within the Group. The reconciliation column for the previous-year period was adjusted by these amounts. In all other respects, the demarcation between the segments and the method used to calculate the segment information remains unchanged in comparison to September 30, 2016.

Voith Digital Solutions acts as an “enabler” for the established Group Divisions, providing them with support in enhancing their product portfolio in the field of automation to include digital offerings. Digital Solutions' sales with third parties included in the established Group Divisions is stated for the first time in the segment information by business segment.

Operating interest income

The operating interest is taken into account in the course of calculating the profit from operations, unchanged on the most recent consolidated financial statements. Operating interest income is defined as interest received by the Company on the long-term financing of receivables from customers, or as the imputed interest effect attributable to that portion of customer advances that is not used to finance inventories and PoC receivables.

Average capital employed

The capital employed presented as of the March 31, 2017 reporting date constitutes an average value derived from the values as at the current reporting date and as at the end of the previous year. The capital employed as at September 30, 2016 presented as a comparative figure is derived from the respective figures as at the September 30, 2016 reporting date, as at the reporting date of the previous half-year financial statements and as at the reporting date of the previous financial statements as at September 30, 2015.

Segment information by business segment

in € millions	Voith Hydro 2016/17	Voith Hydro 2015/16	Voith Paper 2016/17	Voith Paper 2015/16	Voith Turbo 2016/17	Voith Turbo 2015/16
Sales with third parties	653	652	678	689	621	691
thereof Digital Solutions	*68*	*65*	*33*	*30*	*31*	*62*
Sales with other segments	4	2	10	10	1	3
Segment sales, total	657	654	688	699	622	694
Profit from operations	53	48	30	19	34	43
Average capital employed	504	493	753	748	711	719
Employees[2]	4,584	4,934	6,469	6,550	5,553	5,702

[1] Subtotal for Voith Hydro, Voith Paper and Voith Turbo.
[2] Statistical headcount on reporting date in comparison to September 30, 2016.

As the earnings component “Operating interest income” is not shown directly in the consolidated statement of income, this item is presented separately in the reconciliation of the total profit from operations by segment to result before taxes presented below.

Reconciliation of total profit from operations to the Group’s result before taxes:

in € millions	2016/17	2015/16
Total profit from operations	**91**	97
Operating interest income	-15	-14
Non-recurring result	-11	-5
Share of profit/loss from companies accounted for using the equity method	6	5
Result from the sale of associates	565	0
Interest result	-38	-37
Other financial result	-5	-28
Result before taxes from continuing operations	**593**	18

Total core business[1)]		Voith Digital Solutions		Reconciliation		Total	
2016/17	2015/16	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**	2015/16
1,952	2,032	4	1	9	5	1,965	2,038
132	*157*	*4*	*1*	*0*	*0*	*136*	*158*
15	15	62	43	-77	-58	0	0
1,967	2,047	66	44	-68	-53	1,965	2,038
117	110	-20	3	-6	-16	91	97
1,968	1,960	35	36	135	141	2,138	2,137
16,606	17,186	966	654	1,234	1,258	18,806	19,098

Notes to the statement of income and the balance sheet

The following information is limited to those issues that provide useful additional information for the understanding of the amounts reported in the statement of income and in the balance sheet.

Selected notes to the statement of income

Other operating income

in € thousands	2016/17	2015/16
Income from the utilization of contract-specific provisions	56,720	54,999
Income from the reversal of provisions and accruals	42,676	24,935
Foreign exchange gains	36,408	38,112
Other income	58,406	53,125
	194,210	171,171

Other operating expenses

in € thousands	2016/17	2015/16
Increase in provisions and accruals	101,128	111,907
Other selling expenses	144,456	141,031
Other administrative expenses	124,461	121,680
Foreign exchange losses	32,109	52,798
Rent for buildings and machinery	25,567	23,228
Other expenses	42,609	49,318
	470,330	499,962

Non-recurring result

Voith generally defines expenses and income arising from major restructuring activities, measures addressing personnel capacity and the discontinuation of operations as exceptional items and presents them under the non-recurring result.

The non-recurring result stood at €-11 million (previous year: €-5 million).

In the first half of the 2015/16 fiscal year, the non-recurring result had included individual consequential effects of the packages of measures implemented at Voith Paper in previous years and in connection with excellence initiatives in the context of the Group-wide Voith 150+ success program. In detail, expenses that were not eligible for provisioning in previous years and income from such measures were included. The non-recurring result further included personnel-related costs arising from a measure introduced at Voith Turbo in order to counter the weakness in the oil and gas industry, in the mining sector and at steel producers. Further expenses of €16 million were attributable to the restatement of a cut-off error in the previous year at an Asian subsidiary of Voith Paper. In detail, the contributions to the non-recurring result in the previous-year period were as follows: Voith Hydro €5 million, Voith Paper €-8 million, Voith Turbo €-5 million and divisions with a holding function €3 million.

In the reporting period, the non-recurring result mainly comprises personnel-related and other expenses arising from measures to consolidate production capacities at Voith Hydro in Brazil and at Voith Paper in the US. In detail, the contributions to the non-recurring result were as follows: Voith Hydro €-4 million, Voith Paper €-6 million and divisions with a holding function €-1 million.

In detail, the non-recurring result includes the following:

in € thousands	**2016/17**	2015/16
Personnel expenses	-8,001	-16,222
Sundry other expenses	-4,719	-17,357
Gains on the disposal of property, plant and equipment	0	10,245
Income from the reversal of provisions	156	18,085
Other income	1,198	396
	-11,366	-4,853

Result from the sale of associates

The result from the sale of associates of €565 million (previous year: €0) contains the effect on results from the sale of the shares in KUKA Aktiengesellschaft completed in January 2017.

Other financial result

in € thousands	**2016/17**	2015/16
Gains/losses from investments	3,656	8,184
Impairment of securities and other investments	-2,304	-36,205
Sundry other financial result	-6,348	96
	-4,996	-27,925

Income taxes

Income tax expenses totaled €-26 million (previous year: €-27 million). This figure includes expenses from taxes relating to other periods of €-9 million (previous year: income of €1 million).

Selected notes to the balance sheet

Intangible assets and property, plant and equipment

In the first half of the 2016/17 fiscal year, €8 million (previous year: €3 million) was invested in intangible assets and €40 million (previous year: €56 million) in property, plant and equipment. Amortization of €8 million (previous year: €9 million) was recognized on intangible assets and depreciation of €56 million (previous year: €57 million) on property, plant and equipment.

Inventories

Inventories consist of the following items:

in € thousands	2016/17	2015/16
Raw materials and supplies	207,489	197,530
Work in progress	171,711	169,257
Finished goods and merchandise	145,623	126,988
Prepayments	87,252	73,458
	612,075	567,233

Assets held for sale and liabilities directly associated with assets held for sale

As at September 30, 2016, this item essentially comprised the carrying amount of the shares in KUKA Aktiengesellschaft. As as March 31, 2017, this item contains an investment classified as held for sale.

Equity

A dividend of €0.15 per share was distributed from the unappropriated retained earnings of Voith GmbH, i.e. €18,000 thousand (previous year as at March 31, 2016: €15,000 thousand). Distributions of €5,590 thousand (previous year as at March 31, 2016: €5,590 thousand) were made in relation to the profit participation rights. Dividends of €2,128 thousand (previous year as at March 31, 2016: €2,297 thousand) were distributed to the holders of non-controlling interests.

Provisions for pensions and similar obligations

The decrease in pensions and similar obligations is mainly attributable to changes in the actuarial parameters. The calculation of pension provisions is based on the following assumptions:

	Germany and Austria		USA	
in %	**2017-03-31**	2016-09-30	**2017-03-31**	2016-09-30
Discount rate	1.83	1.33	3.75	3.20
Pension increases	1.70	1.33	0	0

Bonds, bank loans and other interest-bearing financial liabilities

Financial liabilities include the following:

in € thousands	**Current**	**Non-current**	**2017-03-31**	Current	Non-current	2016-09-30
Bonds	599,055	20,062	619,117	597,059	59,558	656,617
Bank loans	59,352	422,886	482,238	86,659	419,780	506,439
Financial liabilities from leases	217	754	971	288	797	1,085
Notes payable	543	0	543	332	0	332
Derivatives used to hedge financial transactions	9,081	17,112	26,193	15,475	6,074	21,549
Other financial liabilities	57,995	91,183	149,178	68,731	77,720	146,451
	726,243	**551,997**	**1,278,240**	768,544	563,929	1,332,473

Other notes

Contingent liabilities, contingent assets and other financial obligations

There are risks in connection with the recognition of transfer prices outside Germany amounting to €5 million (previous year: €4 million) and risks from legal disputes of €34 million (previous year: €40 million). A successful outcome is currently expected in both cases.

Neither Voith GmbH nor any of its Group companies are involved in any further current or foreseeable taxation, legal or arbitration proceedings that could materially influence their economic situation.

Owing to the ongoing tax field audit of the German companies, further changes may be made to tax items.

There are guarantee obligations of €1,361 thousand (previous year: €28,918 thousand).

There are in addition the following other financial obligations:

in € thousands	2017-03-31	2016-09-30
Purchase commitments for capital expenditures	17,560	13,087
Obligations arising from non-cancelable operating leases	116,373	129,227
Other	5,201	3,551
	139,134	145,865

Additional information on financial instruments

in € thousands	IAS 39 measurement category	Carrying amount 2017-03-31	Amount recognized in the balance sheet in accordance with IAS 39: Amortized cost	Cost	Fair value through equity	Fair value through profit or loss	Amount recognized in the balance sheet in accordance with IAS 17	Fair value 2017-03-31
Assets:								
Cash and cash equivalents	LaR	1,714,616	1,714,616					1,714,616
Trade receivables	LaR	749,115	749,115					749,115
Receivables from construction contracts	LaR	308,543	308,543					308,543
Other financial assets and securities		169,311						
· Financial investments	LaR	46,365	46,365					46,365
· Loans	LaR	56,612	56,612					56,612
· Investments	AfS	52,800		31,400	21,400[2]			21,400[1]
· Securities	AfS	13,534			13,534			13,534
Derivative financial instruments		74,399						
· Forward exchange contracts	FAHfT	3,024				3,024		3,024
· Forward exchange contracts (fair value hedges)	n. a.	69,974				69,974		69,974
· Forward exchange contracts (cash flow hedges)	n. a.	6			6			6
· Interest rate swaps (fair value hedges)	n. a.	1,395				1,395		1,395
Other receivables		136,753						
· Financial receivables	LaR	41,510	41,510					41,510
· Sundry financial assets	LaR	95,243	95,243					95,243
Liabilities:								
Trade payables	FLAC	413,284	413,284					413,284
Bonds/bank loans/notes	FLAC	1,101,898	1,101,898					1,122,400
Financial liabilities from leases	n. a.	971					971	
Derivative financial instruments		49,351						
· Forward exchange contracts	FLHfT	23,125				23,125		23,125
· Call option	FLHfT	4,800				4,800[2]		4,800
· Forward exchange contracts (fair value hedges)	n. a.	19,697				19,697		19,697
· Forward exchange contracts (cash flow hedges)	n. a.	2			2			2
· Interest rate swaps (cash flow hedges)	n. a.	1,727			1,727			1,727
Other financial liabilities	FLAC	149,178	139,369		9,809			326,587
Sundry financial liabilities	FLAC	243,874	243,874					243,874
IAS 39 measurement categories:								
Loans and receivables (LaR)	LaR	3,012,004	3,012,004					
Available for sale (AfS)	AfS	66,334		31,400	34,934			
Financial assets held for trading (FAHfT)	FAHfT	3,024				3,024		
Financial liabilities measured at amortized cost (FLAC)	FLAC	1,908,234	1,898,425		9,809			
Financial liabilities held for trading (FLHfT)	FLHfT	27,925				27,925		

[1] The financial assets available for sale (AfS) include investments whose fair values could not be determined reliably and that are currently not planned to be sold.

[2] A call option embedded in the investment (equity instrument) held by Voith was accounted for separately. The call option in which Voith is the writer grants the majority owner the right to acquire all shares held by Voith in the period up to 2019.

in € thousands	IAS 39 measure-ment category	Carrying amount 2016-09-30	Amount recognized in the balance sheet in accordance with IAS 39: Amortized cost	Cost	Fair value through equity	Fair value through profit or loss	Amount recognized in the balance sheet in accordance with IAS 17	Fair value 2016-09-30
Assets:								
Cash and cash equivalents	LaR	649,672	649,672					649,672
Trade receivables	LaR	690,632	690,632					690,632
Receivables from construction contracts	LaR	426,720	426,720					426,720
Other financial assets and securities		227,569						
· Financial investments	LaR	30,943	30,943					30,943
· Loans	LaR	56,259	56,259					56,259
· Investments	AfS	53,325		31,925	21,400[2]			21,400[1]
· Securities	AfS	87,042			87,042			87,042
Derivative financial instruments		56,497						
· Forward exchange contracts	FAHfT	3,393				3,393		3,393
· Interest rate/currency swaps	FAHfT	563				563		563
· Forward exchange contracts (fair value hedges)	n. a.	46,695				46,695		46,695
· Forward exchange contracts (cash flow hedges)	n. a.	5			5			5
· Interest rate swaps (fair value hedges)	n. a.	5,841				5,841		5,841
Other receivables		162,347						
· Financial receivables	LaR	79,966	79,966					79,966
· Sundry financial assets	LaR	82,381	82,381					82,381
Liabilities:								
Trade payables	FLAC	430,779	430,779					430,779
Bonds/bank loans/notes	FLAC	1,163,388	1,163,388					1,198,782
Financial liabilities from leases	n. a.	1,085					1,085	
Derivative financial instruments		43,398						
· Forward exchange contracts	FLHfT	5,402				5,402		5,402
· Interest rate/currency swaps	FLHfT	13,382				13,382		13,382
· Call option	FLHfT	4,800				4,800[2]		4,800
· Forward exchange contracts (fair value hedges)	n. a.	15,562				15,562		15,562
· Forward exchange contracts (cash flow hedges)	n. a.	885			885			885
· Interest rate swaps (cash flow hedges)	n. a.	3,367			3,367			3,367
Other financial liabilities	FLAC	146,451	139,362		7,089			334,791
Sundry financial liabilities	FLAC	277,408	277,408					277,408
IAS 39 measurement categories:								
Loans and receivables (LaR)	LaR	2,016,573	2,016,573					
Available for sale (AfS)	AfS	140,367		31,925	108,442			
Financial assets held for trading (FAHfT)	FAHfT	3,956				3,956		
Financial liabilities measured at amortized cost (FLAC)	FLAC	2,018,026	2,010,937		7,089			
Financial liabilities held for trading (FLHfT)	FLHfT	23,584				23,584		

[1] The available for sale financial instruments include investments whose fair values could not be determined reliably.

[2] A call option embedded in the investment (equity instrument) held by Voith was accounted for separately. The call option in which Voith is the writer grants the majority owner the right to acquire all shares held by Voith in the period up to 2019.

Fair value hierarchy for the financial assets and liabilities recognized at fair value listed in the table above:

in € thousands	2017-03-31	Level 1	Level 2	Level 3
Assets				
Securities	13,534	13,534	0	0
Derivative financial instruments	74,399	0	74,399	0
Investments	21,400	0	0	21,400
Liabilities				
Derivative financial instruments	49,351	0	44,551	4,800
Liabilities arising from the acquisition of investment shareholdings	9,809	0	0	9,809

in € thousands	2016-09-30	Level 1	Level 2	Level 3
Assets				
Securities	87,042	87,042	0	0
Derivative financial instruments	56,497	0	56,497	0
Investments	21,400	0	0	21,400
Liabilities				
Derivative financial instruments	43,398	0	38,598	4,800
Liabilities arising from the acquisition of investment shareholdings	7,089	0	0	7,089

The three-level fair value hierarchy divides the input factors used in the measurement techniques to measure the fair value into three levels, as follows:

Level 1:
input factors quoted in active markets accessible to the Company for identical assets or liabilities on the measurement date.

Level 2:
other inputs than those at level 1 for which observable market data which relates directly or indirectly to the financial assets or liabilities is available.

Level 3:
input factors for which there are no observable market data.

No reclassifications were made between the levels of the fair value hierarchy in the first half of the 2016/17 fiscal year.

The fair values of derivative financial instruments allocated to level 2 of the fair value hierarchy are taken from the daily observable exchange rates and yield curves. In addition, fair value measurement includes both the counterparty credit risk and the Group's own credit risk. Input factors that take account of counterparty credit risk can be obtained from observable credit default swaps (CDS) from the banks participating in the respective transaction. At Voith the market CDS rate was used to calculate the Group's own credit risk.

The fair values of liabilities from the acquisition of investment shareholdings allocated to level 3 of the fair value hierarchy are based on internal planning data. These are measured using the discounted cash flow projections taken from the latest business planning prepared by management. The planning assumptions are adjusted to reflect the current information available.

The fair values of financial assets and financial liabilities measured at cost or amortized cost, which need to be determined to meet disclosure requirements, are calculated as follows:

Cash and cash equivalents, trade receivables and other financial receivables are subject to floating interest and fall due within one year. For this reason, their carrying amounts approximate their market values on the reporting date.

Because trade payables and other financial liabilities generally have short residual terms, their carrying amounts approximate the market values.

The market values of unlisted bonds, bank loans and other financial liabilities are calculated as the present value of the payments associated with the liabilities, based on the applicable effective yield curve and Voith GmbH's credit spread curve determined for different currencies.

Transactions with related parties and individuals

All business transactions with related parties are conducted at arm's length conditions as was the case in previous reporting periods. The vast majority of goods and service transactions with related parties (entities and individuals) are shown in the two tables below:

in € thousands	2017-03-31	2016-09-30
Liabilities to family shareholders	21,333	13,470
Receivables from associates	2,736	3,420
Liabilities to associates	497	852
Receivables from other investments, including advances paid	10,580	11,834
Impairment of receivables from other investments	-1,348	-64
Liabilities to other investments	9,444	11,614
Receivables from joint ventures	175	153
Liabilities to joint ventures	964	746
Receivables from the ultimate parent company	265	190
Liabilities to the ultimate parent company	7,075	6,337

in € thousands	2016/17	2015/16
Services purchased from associates	629	612
Services rendered to associates	0	61
Services purchased from other investments	1,642	3,293
Services rendered to other investments	5,038	4,967
Services purchased from joint ventures	1,974	1,542
Services rendered to joint ventures	288	206
Services purchased from the ultimate parent company	6,273	5,855
Services rendered to the ultimate parent company	523	391

In the first half of the 2016/17 fiscal year, guarantees of €1,361 thousand (previous year: €554 thousand) were issued in favor of other investments.

The Group has obligations from outstanding orders with the ultimate parent amounting to €2,627 thousand (previous year: €5,399 thousand) and with joint ventures of €173 thousand (previous year: €0).

Material subsequent events

In May 2017, Voith signed a purchase agreement for the acquisition of the majority shareholding of 60% in Ray Sono AG, one of Germany's leading digital services providers. The strategic partnership firstly covers the development of digitization solutions relevant to industry, primarily in the fields of Internet of Things and Industry 4.0 and, secondly, the implementation of digital solutions within Voith's portfolio. Examples of this include the virtualization of machines and systems and the improvement of existing digital solutions with the support of Ray Sono. Ray Sono currently employs around 200 permanent members of staff and generated around €19 million in sales in the past year – with customers that include Austrian Airlines, BMW, BRITA, DATEV, Deutsche Bahn, Linde, MAN, McDonald's and Miles & More. Following closing of the transaction, which is currently subject to approval by the antitrust authorities, the plans are for the investment to be allocated to the Voith Digital Solutions Group Division.

Voith GmbH's Corporate Board of Management, in close consultation with the Shareholder's Committee, proposed to the shareholders in April 2017 to change the legal form of the Company from a limited liability company (GmbH) to a partnership limited by shares (Kommanditgesellschaft auf Aktien or KGaA). The shareholders will decide on this change after consultation with the required boards and committees. The plans are for the Company's new name to be "Voith GmbH & Co. KGaA". Voith Management GmbH, an entity yet to be founded, is planned to be the personally liable shareholder (general partner) of the partnership limited by shares. As a final step, a decision on the change in legal form is scheduled for an extraordinary shareholders' meeting in July 2017. This step is anticipated to expand Voith's ability to maneuver during the coming years and support the Company's growth strategy in the wake of its digital transformation.

After a total of 13 successful years at Voith, Bertram Staudenmaier, Chairman of the Management Board of the Voith Paper Group Division and Member of the Corporate Board of Management of Voith GmbH, has decided to look for new challenges outside the Company and for this reason does not wish to extend his contract that expires at the end of the year. We announced this in May 2017. The Supervisory Board of Voith GmbH will decide on his successor at the next regular meeting on June 2, 2017.

No additional significant developments have occurred since the close of the first half of the 2016/17 fiscal year.

Heidenheim an der Brenz, May 15, 2017

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Toralf Haag
Dr. Uwe Knotzer
Dr. Roland Münch
Bertram Staudenmaier
Uwe Wehnhardt

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for the interim financial reporting, the interim consolidated financial statements prepared in accordance with generally accepted accounting principles give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remaining fiscal year.

Heidenheim an der Brenz, May 15, 2017

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Toralf Haag
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Dr. Roland Münch
Bertram Staudenmaier
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