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Interim Report 2018

Voith at a Glance

in € millions	2016-10-01 to 2017-03-31	2017-10-01 to 2018-03-31
Orders received	2,320	2,291
Sales	1,965	2,049
Profit from operations[1)]	91	75
Profit from operations in % (core business)	117	119
Return on sales in %	4.6	3.7
Return on sales in % (core business)	6.0	5.8
Result before taxes[2)]	593	39
Net result	566	29
Cash flow from operating activities	-40	-31
Total cash flow	1,054	-162
Investments	47	40
Equity[3)]	1,366	1,331
Equity ratio in %[3)]	27.3	27.2
Balance sheet total[3)]	4,998	4,892
Employees[3), 4)]	19,045	19,014

1) See “Notes on segment reporting” in the notes to the Group interim financial statements.
2) Previous year: excluding the discontinued Group Division Voith Industrial Services.
3) Reference date March 31, 2018, compared to September 30, 2017.
4) Without apprentices.

Interim Report 2018

Ladies and gentlemen, dear business partners,

The first half of the fiscal year ended on March 31 for the Voith Group. The next day, I assumed the office of President and CEO of the Corporate Board of Management from Dr. Hubert Lienhard, who had held this position for about a decade.

In recent years, the Group has overcome immense structural and financial challenges, has set the strategic sails on an important new course and has made progress along the way towards a new phase of sustainable, profitable growth. At the same time, the Voith Group's performance over the first half of the year has made it apparent that we have quite a way to go along this path.

"We will stay on course, remain dedicated to building up our digital activities and making them into a significant growth driver for our Group."

Stephan Schaller

The financial performance indicators are sound on the whole, Voith's financial situation continues to be very resilient, and the Group remains on schedule with its strategic initiatives. But it must also be stated that Voith did not meet all of its objectives in the first half of the year. This is due, firstly, to the unexpected weaker development at Voith Hydro and, secondly, to other external circumstances that no business is able to influence. For instance, the impact of considerable negative currency effects on account of the appreciating euro was felt across the board.

This meant that we fell short of our expectations with regard to orders received, which stood almost exactly at the previous-year level. We still achieved an increase in sales despite the negative currency effects – primarily as a result of the high level of orders received in the previous year. And we have taken another step forward – although only a small one – with regard to the profit from operations of the core business.

We owe this to the pleasing development of Voith Paper and Voith Turbo – with Voith Paper in particular seamlessly following up on the very good previous year with another set of strong figures, returning it to its position as the strongest pillar of the Group. The fact that the business with digital solutions and products is playing an increasingly important role in our traditional activities is another positive aspect. Our digital innovative products and solutions not only expand our long-standing portfolio, our start-up activities are also making good progress. Voith Digital Solutions' sales more than tripled in the first half of the year – admittedly starting from a very low base.

For this reason, we will stay on course, remain dedicated to building up our digital activities and making them into a significant growth driver for our Group. To this end, we are making a conscious decision to bear a considerable temporary burden on results as already seen in the first half of the year. The decisive factor is our ability to shoulder the up-front costs for the new activities from current business. This was the case to date and will remain so in the future.

Over the next few months, we will further increase our efforts in the area of cutting-edge technologies overall. These include, for example, our own new products such as the IIoT platform ("Industrial Internet of Things") OnCumulus for which we have great expectations specifically in the business with other industrial companies. This also includes, however, our entry into the growth market of e-mobility with our own, fully electric drive systems for city buses. And last but not least, we are going to integrate the rapidly growing market for robotics into our portfolio. The strategic partnership entered into with Franka Emika that will gradually come to life over the coming few months is to be the nucleus for this.

> **“We must continue to work on our efficiency and profitability. We are in a good starting position to enter into a new phase of profitable growth.”**
>
> Stephan Schaller

One core topic for the immediate future is to implement suitable measures to improve the underlying conditions for the Voith Group to settle into a stable, sustainably profitable growth trajectory over the coming years. In the current fiscal year, this is not likely to be the case, contrary to original forecasts. In particular, it will be difficult to make up for the shortfall at Voith Hydro in the remaining months. In addition, we anticipate ongoing pressure from the currency side over the remainder of the fiscal year.

In light of this, we adjusted our outlook for the full year. We now assume that not only the Group’s orders received but also its sales will be roughly at the previous-year level. The profit from operations will probably fall perceptibly and will only manage to remain stable after adjustment for currency effects.

For this reason, it is clear to me what needs to be done now: we must continue to work on our efficiency and profitability. We are in a good starting position to enter into a new phase of profitable growth. We have a strong team, a plethora of ideas and the resources necessary to implement them.

Sincerely yours,

Stephan Schaller
President and CEO

Group Interim Management Report

for the period from October 2017 to March 2018 | Page

01. Business development and earnings position of the Group

In the first half of 2017/18, the operating business of the Voith Group continued to present itself in good shape. Group sales rose by 4 %, while orders received stood roughly at the previous-year level. The three traditional Group Divisions achieved good profitability levels and increased their total profit from operations by 2 %. The core business was impacted by considerable negative currency effects due to the appreciating euro; adjusted for currency effects, there was more significant growth in sales, orders received and profit from operations. The digital transformation of the Group is progressing on schedule. Taking account of the up-front costs incurred in this context, the Group saw a profit from operations of €75 million and net income for the period of €29 million.

01.1. Overall assessment

Operating business developing well, considerable negative currency effects

In the first half of 2017/18 (October 1, 2017 to March 31, 2018), the Voith Group saw satisfactory development overall in a market environment that is brightening in some areas, while Voith Paper stood out with an excellent performance. Group sales rose by 4% to €2,049 million. Orders received stood at €2,291 million, roughly unchanged on the previous-year level (–1%). Orders on hand rose significantly to €5,319 million. Both sales and orders received were impacted by considerable negative currency effects as a consequence of the appreciation of the euro against virtually all currencies of importance to the Group in comparison to the previous year. Adjusted for currency effects, sales increased by 10% and orders received by 3%.

Alongside the currency effects, one of the reasons for the generally subdued level of orders received is a weaker development in the Voith Hydro Group Division (–22%) due to the market and competitive situation. In contrast, Voith Paper was once again able to increase its level of orders received in comparison to the already high previous-year level (+3%) and exceeded its planned targets at the end of the reporting period. Orders received likewise rose by 3% at Voith Turbo. Also in terms of sales, the traditional

Group Divisions saw heterogeneous developments. Voith Paper stood out with a rise in sales of 27%, while Voith Turbo remained roughly at the previous-year level and Voith Hydro saw a decrease of 15%.

We have continued to improve the profitability of our core business: the total profit from operations of Voith Hydro, Voith Paper and Voith Turbo increased by 2% to €119 million. Adjusted for currency effects, the growth amounted to 8%.

In the Voith Digital Solutions Group Division founded in 2016, sales more than tripled from a low level; the shortfall in profit from operations of €–37 million was somewhat higher than planned on account of development costs being pulled forward. At the same time, the digital transformation of the Voith Group is progressing on schedule.

In the Voith Group seen as a whole, the profit from operations was €75 million, lower than the previous-year figure (–18%) on account of the build-up costs for Voith Digital Solutions. The Group net result stood at €29 million. The previous-year figure had been exceptionally high (€566 million), with the sale of the shares in KUKA Aktiengesellschaft making a significant contribution. After adjusting for the KUKA effect in the previous year, there has been a significant rise in the net income for the period.

The net assets and the financial position of the Group remain at a very good level. As at March 31, 2018, Voith had net liquidity of €574 million and an equity ratio of 27.2%.

For the 2017/18 fiscal year as a whole, we now anticipate a stable development for the Voith Group in comparison to the previous year. On account of the negative currency effects and developments in the Voith Hydro Group Division failing to meet our expectations, it will in all probability not be possible to achieve the growth anticipated at the time the 2017 annual report was published.

01.2. Economic environment

Upswing in the global economy still underway

The global economy continued its upswing in the first half of Voith's 2017/18 fiscal year. In its most recent release (April 2018), the International Monetary Fund (IMF) forecast a rate of growth in the global economy of 3.9% for 2018 compared with a rate of 3.8% in 2017. These are the highest rates of growth since 2011.

Economic momentum has increased significantly in advanced economies, which can be attributed to a general rise in the level of investment. After an increase of 1.7% in 2016, these countries saw growth of 2.3% in 2017 according to IMF figures. From today's perspective, the advanced economies are forecast to return a growth rate of 2.5% – better than anticipated by economic analysts at the time of publication of our last annual report. As a consequence of stronger domestic and international demand, the euro area is recording economic growth in excess of original expectations. The German economy in particular is proving to be unexpectedly strong. After sound growth in 2017, the US is expected to see a perceptible increase in momentum over the course of 2018.

The emerging markets as a whole continue to grow at a higher rate than advanced economies. In this context, the IMF is anticipating growth rates in the emerging markets as a whole of 4.8% and 4.9% for 2017 and 2018, respectively, with the figure for Asia being higher than the average. China is achieving the targets set out in its own five-year plan (raising gross domestic product by an annual 6.5% or more). Rising international demand, progress being made in the national reform programs and expansionary monetary policy contribute to the good development of the Chinese economy. India's economy is being supported by ongoing strong demand from private households and is increasingly benefiting from the successful implementation of its currency reform. Brazil and Russia are gradually recovering from recession.

The improved economic data exerted a positive influence on the global investment climate. According to data provided by the VDMA, the German Mechanical Engineering Industry Association, the German mechanical and plant engineering sector reported a perceptible rise in orders received in the reporting period in comparison to the previous-year period.

The business environment in most of the five target markets served by Voith has also improved in comparison to the comparative previous-year period.

The paper market in particular is on a stable growth trajectory. Demand for new machines continued at a high level over the reporting period with clear signals coming from Asia, North America and EMEA, while developments in South America were weak. Paper production is rising in all regions of the world,

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

World output	2017	3.8%
	2018	**3.9%**
Advanced economies	2017	2.3%
	2018	**2.5%**
United States	2017	2.3%
	2018	**2.9%**
Euro area[2)]	2017	2.3%
	2018	**2.4%**
Germany	2017	2.5%
	2018	**2.5%**
Emerging market and developing economies	2017	4.8%
	2018	**4.9%**
China	2017	6.9%
	2018	**6.6%**
ASEAN-5	2017	5.3%
	2018	**5.3%**
India	2017	6.7%
	2018	**7.4%**
Brazil	2017	1.0%
	2018	**2.3%**
Russia	2017	1.5%
	2018	**1.7%**

Source: International Monetary Fund (IMF), World Economic Outlook, April 2018.
[1)] 2017: estimates; 2018: forecasts.
[2)] Including Germany.

which is resulting in increasing demand for consumables and services. Graphic paper is the only paper grade to see a decline in production.

The energy market saw a slight rise overall, but with significant differences between the individual segments and regions. The hydropower market remained quiet at the beginning of the current fiscal year and took some time before gradually picking up. Calculated on the basis of the reporting period seen as a whole, the market volume was up on the weak previous year, however. Demand for pumped storage technology is growing, especially from China. Investment in the market for conventional power plant technology, which is relevant for Voith Turbo, is stabilizing at a low level.

The transport & automotive market remains at a high level. Unit sales of commercial vehicles are expected to decline slightly in 2018 after significant growth in the previous year. The rail segment is enjoying slight growth in the current fiscal year. Growth is being driven by the service business.

There is still no significant recovery in the oil & gas market or the raw materials market. Although the fall in prices seems to have stopped on both markets for the time being after several years, investment activities remain at a low level in the current fiscal year, with the exception of a few segments and regions.

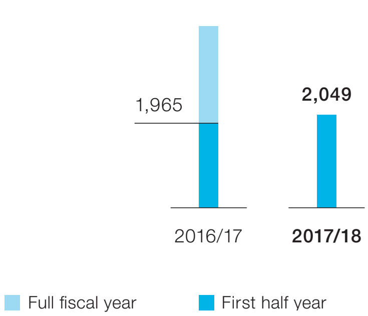
01.3. Sales

Group sales up 4%

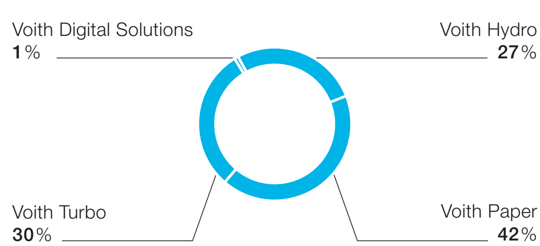
In the first half of 2017/18, the Voith Group increased its sales by 4% to €2,049 million (previous year: €1,965 million).

Group sales suffered from negative currency effects amounting to €102 million on account of the appreciation of the euro against virtually all currencies of importance to the Group in comparison to the previous year. Adjusted for currency effects, sales increased by 10%, which is in line with our expectations. All three of the traditional Group Divisions were affected by the currency effects, albeit not to the same degree.

Sales Group
in € millions



Sales total €2,049 million
by Group Division



First half year 2017/18

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**.

While Voith Paper (+27%) achieved a significant increase in sales, Voith Turbo (-2%) exhibited more or less stable development and Voith Hydro (–15%) returned a decrease in sales volume, mainly on account of the market-related fall in orders received seen in the previous year.

Voith Paper made the largest contribution to the Group's sales (42%; previous year: 35%). Voith Turbo contributed 30% (previous year: 32%) and Voith Hydro 27% (previous year: 33%). At 1% (previous year: 0%), the share attributable to Voith Digital Solutions was still small, as expected.

01.4. Orders received

Orders received almost stable

In the first half of 2017/18, the Voith Group secured new orders worth €2,291 million (previous year: €2,320 million; –1%).

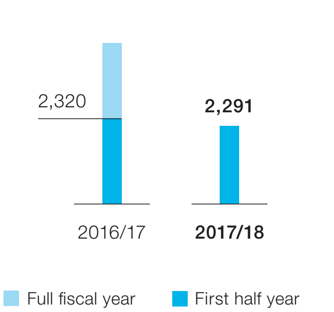
This figure was at the lower end of our expectations. While Voith Hydro (-22%) remained below our expectations on account of the market and competitive situation, not being able to reproduce the very positive level of orders received due to, among other things, individual major orders in the previous year, Voith Paper provided positive surprises and exceeded the high previous-year figure once again (+3%). Voith Turbo likewise revealed a slight increase in orders received (+3%). Considerable negative currency effects continued to have an impact on the level of orders received in the core business. Adjusted for currency effects amounting to €–97 million, the Group's orders received increased by 3%.

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**.

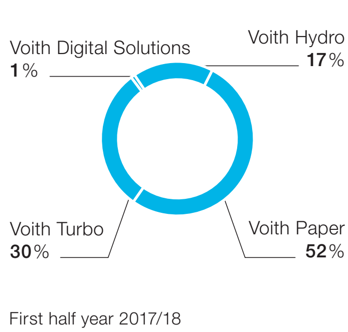
Voith Paper contributed 52% (previous year: 50%) to the Group's orders received. Voith Turbo accounted for 30% (previous year: 29%) and Voith Hydro for 17% (previous year: 21%).

One positive aspect of note is the fact that the level of orders received was once again higher than sales, which meant that orders on hand increased significantly in the reporting period, from €5,193 million at the end of the past fiscal year to €5,319 million as at March 31, 2018.

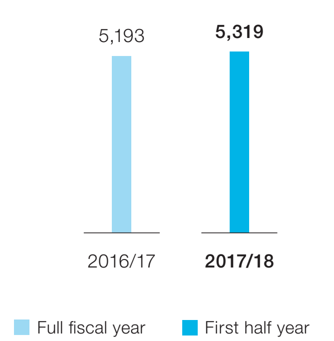
Orders received Group
in € millions



Orders received total €2,291 million
by Group Division



Orders on hand Group
in € millions



01.5. Results

Total output improved, profit from operations impacted by up-front costs for building up new business fields

The operating profitability of our core business remains to a great extent at the previous-year level. Essentially driven by Voith Paper, the profit from operations from the core business increased by 2% in comparison to the previous year – at a somewhat slower rate than sales (+4%). In the Voith Group seen as a whole, the profit from operations declined (–18%) on account of the budgeted investments in the digital agenda, specifically in the new Voith Digital Solutions Group Division. The Group net result, which in the previous year had been significantly influenced by the sale of the shares in KUKA Aktiengesellschaft, amounted to €29 million in the reporting period (previous year: €566 million).

Total output in the Voith Group stood at €2,099 million (previous year: €1,994 million; +5%). In percent, the rise in total output was slightly higher than the increase in sales (+4%). This resulted from the fact that the changes in inventories and other own work capitalized increased from €29 million in the previous-year period to €49 million in the reporting period. Similarly, the Group Divisions' respective total outputs essentially developed in line with sales (Voith Hydro –15%, Voith Paper +26% and Voith Turbo –1%).

The cost of materials increased to €923 million (previous year: €854 million; +8%). The ratio of cost of materials to total output rose slightly to 44.0% (previous year: 42.8%). The increase is essentially due to a higher ratio of cost of materials to total output in the Voith Paper Group Division.

Personnel expenses stood at €734 million (previous year: €724 million; +1%). This reflects the practically unchanged headcount. The personnel expenses ratio (ratio of personnel expenses to total output) thus fell slightly to 35.0% (previous year: 36.3%).

At €63 million, depreciation and amortization stood at virtually the same level (previous year: €64 million; –2%). The ratio of depreciation and amortization to total output decreased slightly to 3.0% (previous year: 3.2%).

The balance of other operating expenses and income increased to €333 million (previous year: €276 million; +21%). The rise is attributable, among other things, to the fact that the provisions for various warranty claims from previous periods increased.

Detailed information on the development of the profit from operations and the ROCE broken down by Group Division can be found in section 02. **Business development and earnings position of the Group Divisions**.

The operational result before non-recurring items came to €46 million (previous year: €76 million; –40%), while the profit from operations, which is an indicator used for internal management purposes, stood at €75 million (previous year: €91 million; –18%). The return on sales fell slightly to 3.7% (previous year: 4.6%), the ROCE (return on capital employed) to 7.4% (previous year: 8.5%).

The non-recurring result stood at €–4 million (previous year: €–11 million). In the reporting period, the non-recurring result mainly comprises personnel-related expenses arising from measures to consolidate production capacities and to improve competitiveness at Voith Hydro in Brazil, as was the case in the previous year. In the previous-year period, this figure additionally included as a further material item personnel-related and other expenses arising from measures to consolidate production capacities at Voith Paper in the US. In detail, the contributions to the non-recurring result were as follows: Voith Hydro

€-3 million (previous year: €-4 million), Voith Paper €-1 million (previous year: €-6 million) and divisions with a holding function €0 (previous year: €-1 million).

The operational result stood at €42 million (previous year: €65 million; -35%).

The previous year's result from the sale of associates of €565 million (first half of the 2017/18 fiscal 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 improved to €-12 million (previous year: €-38 million; -68%). The improvement stems mainly from a fall in interest expenses of €14 million as a consequence of the repayment of the bond and the partial repayment of the US private placement in the previous year and from a €10 million fall in the interest expenses arising from the measurement of financial liabilities on account of termination rights on the part of holders of non-controlling interests.

The other financial result was positive at €7 million (previous year: €-5 million). This item is impacted to a significant extent by income from the sale of the remaining 20% interest in the former Voith Industrial Services Group Division (€18 million). The opposite effect came from currency gains and losses on long-term financing positions and the measurement of the related hedge relationships (balance of €-12 million, previous year: €-6 million).

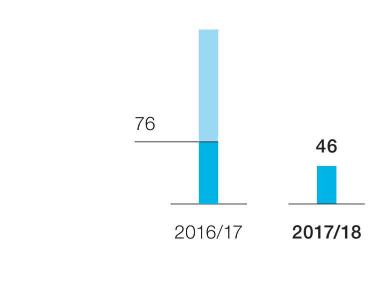
Income taxes totaled €-10 million (previous year: €-26 million). This figure does not contain any taxes relating to other periods (previous year: €-9 million).

The net result from continuing operations amounted to €29 million. The previous-year figure had been exceptionally high, with the sale of the shares in KUKA Aktiengesellschaft making a significant contribution (previous year: €567 million).

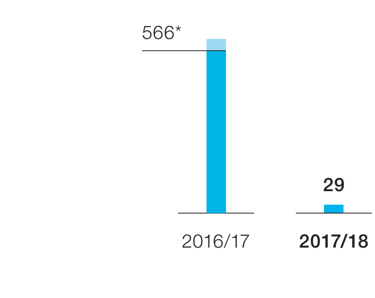
In the previous year, the net result from discontinued operations of €-1 million reflected the contribution to the Voith Group's net result made by the Voith Industrial Services Group Division, which has been sold, and mainly consisted of adjustments from expected tax expenses in connection with the sale (first half of the 2017/18 fiscal year: €0).

Bottom line, the Group net result comes to €29 million (previous year: €566 million). After adjusting for the KUKA effect in the previous year, there has been a significant rise in the net income for the period.

Operational result before non-recurring items Group
in € millions



Net result Group
in € millions



* Including the result from the sale of the KUKA shares.

02. Business development and earnings position of the Group Divisions

The three traditional Group Divisions saw heterogeneous developments in the first six months of the 2017/18 fiscal year. Voith Paper stood out with a perceptible increase in sales and results while exceeding its targets for orders received. Voith Turbo was able to maintain a stable profit from operations although sales fell slightly and continued the positive trend in orders received. Voith Hydro fell below our expectations on account of the market and competitive situation. In total, the profit from operations in the core business rose slightly. The expansion of our digitalization activities is progressing on schedule. It was possible to shoulder the up-front costs for Voith Digital Solutions from current business.

02.1. Voith Hydro

Low level of orders received

Voith Hydro looks back on a weak first half of the fiscal year. Market activities remained at a very low level at the start of the current fiscal year and did not recover until towards the end of the reporting period, which left its mark on Voith Hydro's orders received. The low level of orders received in the previous year and at the beginning of the reporting period meant that sales also fell in the reporting period. Despite the decrease, the profit from operations remained at a high level. On account of business lagging behind targets in the first half of 2017/18, Voith Hydro is likely to fail to meet the forecast for the year.

Fall in sales

In the first half of 2017/18, Voith Hydro generated sales of €555 million (previous year: €653 million; –15%). The perceptible decrease is essentially a consequence of the low level of orders received due to the market situation prevailing in the previous year and at the beginning of the reporting period. In addition, there were delays in construction work for some major projects, which means that revenue recognition is postponed. A not inconsiderable share of the fall in sales is also attributable to negative currency effects. 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

The hydropower market remained quiet at the beginning of the current fiscal year and took some time before gradually picking up. Calculated on the basis of the reporting period seen as a whole, the market volume was up on the weak previous year, however. Around half of the volume of projects awarded worldwide was attributable to China, the US and Brazil. At the same time, competition has become noticeably more intense. With orders received of €380 million in the first half of 2017/18 (previous year: €486 million; -22%), Voith Hydro fell short of expectations. The signing of the contract for one major project was delayed, so that we anticipate a certain catch-up effect in the second half of the fiscal year. Negative currency effects are putting additional pressure on orders received. Even though we expect a stronger second half of the year for Voith Hydro, orders received are likely to fall below targets for the full year – the timing of the awarding of individual major projects will, ultimately, be the decisive factor in this respect. At €2,721 million as at March 31, 2018, orders on hand remained below the high level seen at the end of the 2016/17 fiscal year (September 30, 2017: €2,976 million).

Measured in terms of volume awarded, Asia was the dominant hydropower market in the reporting period. In China, there is great demand for pumped storage power plants that contribute to the reliability of electricity supplies and grid stability in light of the volatility of wind and solar power. Voith Hydro won an extensive order to equip Tianchi pumped storage power plant in the eastern Chinese province of Henan with a total output of 1,200 megawatts. In Japan, we were awarded the Gokasegawa small hydro project.

The important hydropower market of Brazil, where the awarding of major infrastructure projects was impeded by the economic and political crisis for several years, is showing signs of recovery. Modernization and service activities are picking up since the Brazilian government tendered licenses in 2017 for the operation of hydropower plants that had previously been state-run to Chinese and European energy producers. In the reporting period, Voith recorded a further installment of the construction work for the Belo Monte hydropower plant in Brazil, currently the third-largest hydropower plant in the world. Construction began in 2012.

In the established North American market, the focus was on modernization and service projects. In the first half of 2017/18, Voith was awarded an extensive service contract in the US.

In Europe, where the market remains at a low level owing to the current energy policy situation, existing excess capacities and low energy prices, we succeeded in winning two noteworthy contracts in the reporting period. In Luxembourg, Voith has taken on the task of modernizing Vianden pumped storage power plant, which feeds power into the German electricity grid and is used in network regulation within the scope of the energy transition. In Portugal, we were awarded the contract for the new Alto Tamega hydropower plant.

The service business ("HyService") remained an important mainstay for Voith Hydro. In the reporting period, we were successful in tenders for major service projects in the US, France, Japan, Sweden, India and Italy.

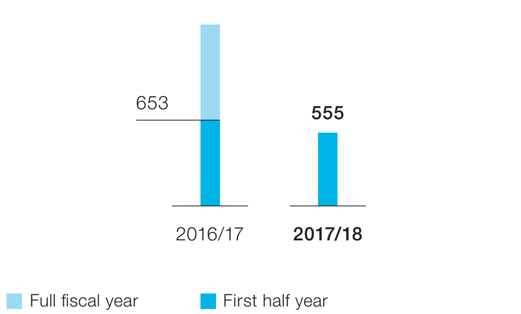
Branch office opened in Australia

In March 2018, Voith Hydro opened a branch office in Sydney with a view to further expanding its presence in the Australian and New Zealand hydropower markets. In Australia, investments in renewable energy are increasing and the share of hydropower in the energy mix is rising. Additional opportunities arise from projects to equip and modernize existing hydropower plants. The expansion of renewable energy means that there is increasing need for pumped storage power plants. Our new branch office will provide support for hydropower and pumped storage projects in Australia and New Zealand and will, at the same time, act as a local HyService center for manufacturers and customers in the region.

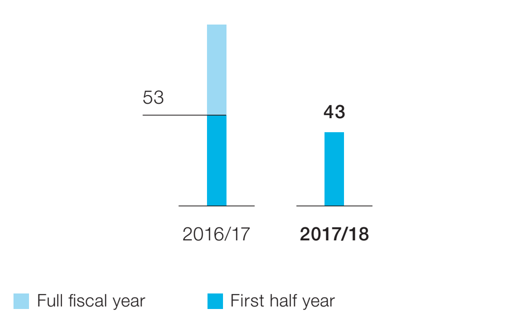
Profit from operations at a high level despite decrease

In the first half of 2017/18, Voith Hydro generated a profit from operations of €43 million (previous year: €53 million). The decrease of 21 % is attributable to the downward trend in sales. Return on sales and return on capital employed (ROCE) likewise decreased on account of the decline in earnings but remained at a good level, nonetheless. For instance, Voith Hydro generated a return on sales of 7.6 % (previous year: 8.1 %) and an ROCE of 17.6 % (previous year: 21.1 %).

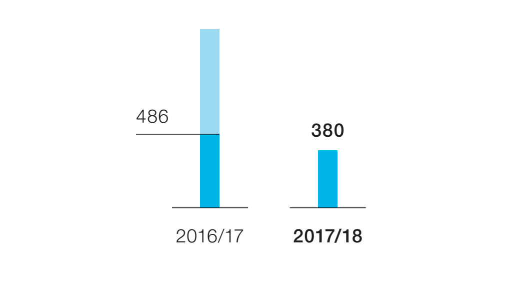
Sales Voith Hydro
in € millions



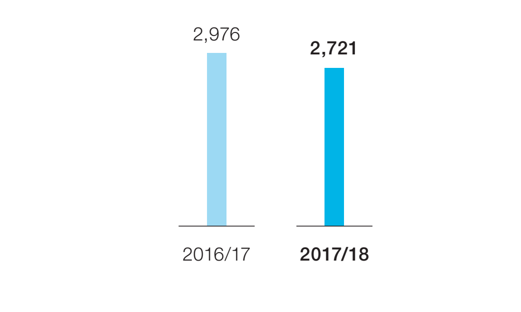
Profit from operations Voith Hydro
in € millions



Orders received Voith Hydro
in € millions



Orders on hand Voith Hydro
in € millions



02.2. Voith Paper

On a profitable growth trajectory

Voith Paper looks back on a very good first half of the fiscal year. Voith Paper operated successfully in a good market environment and was even able to exceed the high level of orders received in the previous year. There was a significant rise in sales, and profit from operations increased at an even faster rate. The improvements in return on sales and ROCE are primarily the result of the successfully completed restructuring and the activities launched in the recent past to improve productivity. With regard to the forecast for the year, we consider Voith Paper to be very much on the right track.

Significant rise in sales

In the first half of 2017/18, Voith Paper increased its sales by 27% to €862 million (previous year: €678 million) despite considerable negative currency effects. The main factor in this development was an excellent project business (new machines and major rebuilds) that generated strong sales growth as a consequence of the high level of orders received in the previous year, especially in the EMEA and Asia regions. Adjusted for currency effects, the business with products, consumables and services saw stable developments. The development of sales over the reporting period is, on the whole, within our expectations, so that we consider ourselves to be on track to meet our forecast for the year ("noticeable rise").

Orders received up on the high previous-year level

On the basis of a very high level of orders received in the previous year, which was characterized by several major projects, Voith Paper succeeded once more in slightly increasing its level of orders received over the reporting period. In the first half of 2017/18, Voith Paper received new orders of €1,185 million (previous year: €1,147 million), a rise of 3% on the comparative period. Adjusted for currency effects, there would have been even greater growth. This means that we have 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 good level of orders received seen in the reporting period is essentially attributable to several major contracts, it is probably not possible to extrapolate this figure to the second half of the year. We are, however, confident that we will be able to exceed our forecast made in the last annual report ("perceptible fall") and to generate for the full year orders received roughly at the previous-year level.

Orders on hand rose significantly and stood at €1,532 million as at March 31, 2018 (September 30, 2017: €1,228 million).

On the paper market, there was an overall slight rise in production across all paper grades in light of the healthy global economy. In particular, there is very great demand for board and packaging paper in all regions apart from South America. There is also strong demand for specialty papers. The production of graphic paper is the only paper grade still in decline, as expected.

In Asia, papermakers once again made substantial investments in new machinery and the modernization of existing equipment. A rise in paper prices in conjunction with stricter environmental regulations in China contributed to this development. The focus of investment was on machines for the manufacture of board and packaging paper. 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.

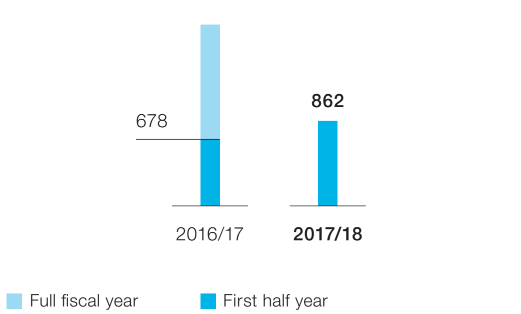
In the EMEA region where many manufacturers are currently exploiting their good earnings position to make strategic investments for the future, the demand for new machines and rebuilds remained strong. For example, Voith was awarded a large-scale order from Germany for the manufacture of one of the most powerful specialty paper machines in the world and a major contract from Turkey for a machine for the production of high-quality board and packaging paper.

In North America, the market for new machines also proved to be stronger than expected. In Mexico, we won an order for a new machine for the manufacture of testliner and heavy duty corrugated board. In addition, we received orders for two medium-sized rebuilds. In South America, in contrast, investment activities remained at a low level, with the large Brazilian market in particular falling short of expectations.

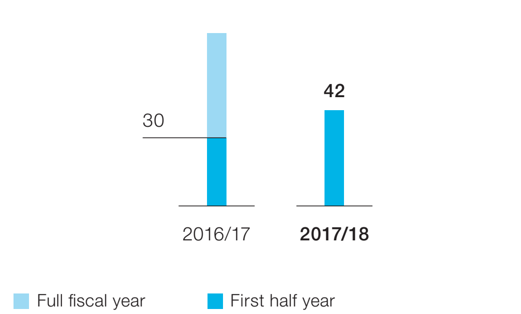
Significant increase in profit from operations

In the first half of 2017/18, Voith Paper generated a profit from operations of €42 million (previous year: €30 million). The 41 % rise constitutes a faster rate of increase in comparison to sales. The improvement in profitability is a reflection of the successfully completed restructuring and the activities launched in recent years to improve productivity. The return on sales rose to 4.9 % (previous year: 4.4 %). The ROCE was significantly improved and stood at 13.0 % in the reporting period (previous year: 7.9 %). In addition to the rise in profit from operations, a reduction in the capital employed contributed to this development.

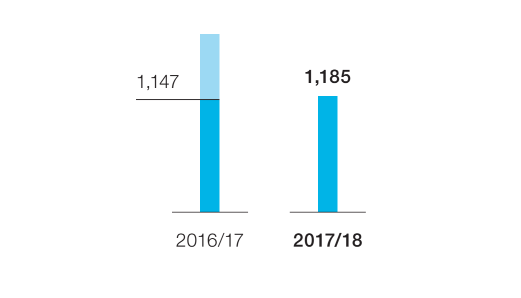
Sales Voith Paper
in € millions



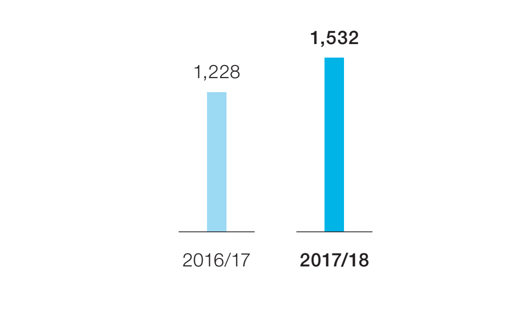
Profit from operations Voith Paper
in € millions



Orders received Voith Paper
in € millions



Orders on hand Voith Paper
in € millions



02.3. Voith Turbo

Good business development

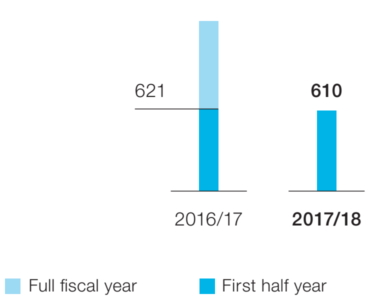
Voith Turbo developed well in the first half of 2017/18 in the face of a market environment that remained challenging in some areas. Although sales fell slightly on account of currency effects, Voith Turbo succeeded in maintaining a stable profit from operations. Return on sales and ROCE improved. In terms of orders received, Voith Turbo once again achieved slight growth. Based on the developments in the reporting period, Voith Turbo sees itself on course to meet the forecast for the year.

Sales down slightly on the previous year

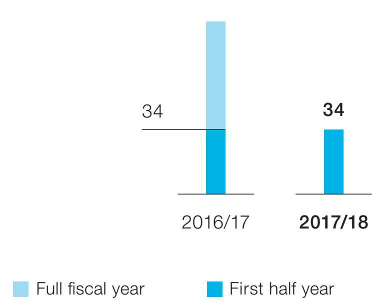
In the reporting period, Voith Turbo's total sales stood at €610 million (previous year: €621 million). The slight decline in sales of 2% is at the lower end of our expectations. Adjusting for negative currency effects results in a slight rise in sales.

In the Industry division, sales in a still challenging market environment were just below the already low level seen in the comparative period of the previous year. In the Mobility division, we were not quite able to match the high level of sales seen in the previous year. In this respect, the ongoing decline in demand from the large rail market in China was balanced out to a great extent by positive developments in the commercial vehicle business.

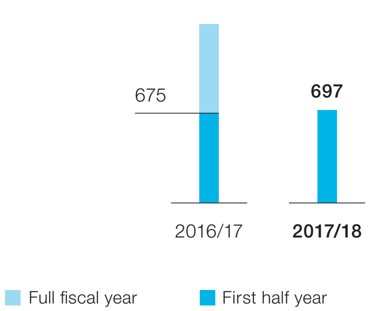
Sales Voith Turbo
in € millions



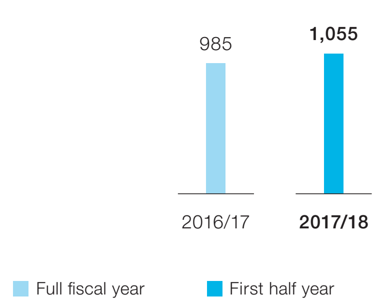
Profit from operations Voith Turbo
in € millions



Orders received Voith Turbo
in € millions



Orders on hand Voith Turbo
in € millions



Orders received increased by 3%

In the first half of 2017/18, Voith Turbo received new orders worth a total of €697 million (previous year: €675 million; +3%). This means that the positive trend seen in the previous year continued, driven by a good development in the Mobility division. Adjusted for currency effects, there would have been greater growth. Orders on hand as at March 31, 2018 improved to €1,055 million (September 30, 2017: €985 million).

In the Industry division, we achieved a slight increase in our volume of orders received in comparison to the previous year. Although the prices of oil and gas and the prices of raw materials have recovered slightly after years of decline, the investment activities of oil and gas companies and mine operators alike remained at a low level. The segments of the power plant market relevant to Voith Turbo also saw a sidewards movement.

In the Mobility division we achieved a perceptible increase in orders received. This development was driven by good business with DIWA automatic transmissions for buses and retarders for trucks. The rail market continued to be characterized by delays in the awarding of projects and very intense competition on account of excess capacities on the part of rail vehicle manufacturers. The service business saw positive developments.

Increase in profitability

In the first half of 2017/18, Voith Turbo generated a profit from operations of €34 million that matched the previous-year level despite the slight decline in sales (previous year: €34 million). The measures to improve efficiency launched in the previous year contributed for the first time to this pleasing development at the upper end of our expectations. Voith Turbo succeeded in achieving a corresponding improvement in return on sales and ROCE: the return on sales rose to 5.6% (previous year: 5.4%); return on capital employed stood at 10.0% (previous year: 9.4%).

02.4. Voith Digital Solutions

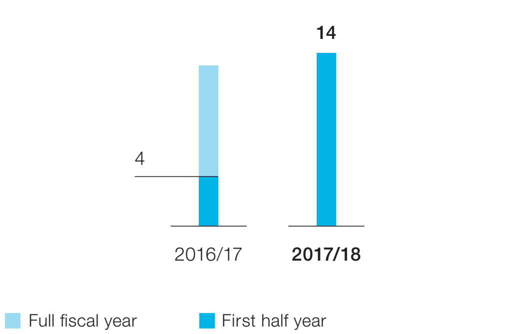
Digital agenda driven forward

Under our digital agenda, we are pursuing three strategic directions: firstly, enhancing Voith's existing product portfolio to include digital capabilities that offer customers extended 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 previously served by Voith. The portfolio offered by Voith Digital Solutions correspondingly extends from automation solutions and cloud-based solutions relating to the "Internet of Things" (IoT) to completely new business models.

Expansion of the digital product portfolio

In the first half of 2017/18, we continued to expand our portfolio of digital offerings. In particular, we worked intensely on the development of our OnCumulus range of offerings with which we provide assistance to industrial companies in their digital transformation. The new offerings are based on an IIoT platform ("Industrial Internet of Things") developed by Voith: OnCumulus.Platform acts as a structural data hub for data from various sources, for example from machines, ERP systems and external data sources. In this way, OnCumulus makes it possible for manufacturing companies to use data from all systems and across all plants and equipment, irrespective of location. OnCumulus is based on open-source, highly standardized technologies and meets the highest industry standards in terms of privacy, security and compliance. Over and above the IIoT platform, the offering provides basic industry-independent functions: OnCumulus.Suite contains special visualization and analysis functions and easy-to-use tools that support monitoring and optimizing of operating processes. In addition, we provide added value for our customers with industry-specific applications. These allow manufacturing companies to increase the reliability and availability of their plants and machines, as well as to optimize the efficiency and quality of the entire production chain. With the launch of the new offering, applications from two industry-proven product families for the paper industry are available through OnCumulus as cloud-based applications. In the future, OnCumulus.Platform will be used to run all Voith applications, whether newly developed or already industry-tested. OnCumulus has already been deployed at several pilot customers. We presented our range of OnCumulus offerings to a broad professional community for the first time at the Hannover Messe trade fair in April 2018.

Sales Voith Digital Solutions
in € millions



Profit from operations Voith Digital Solutions
in € millions

merQbiz, the digital marketplace for recovered paper, which was launched in the previous year, was extended in January 2018 to include integrated logistics solutions. To this end, we entered into an exclusive partnership with C.H. Robinson, one of the world's largest logistics groups. merQbiz customers are now offered unmatched freight capacity, competitive real-time pricing online and a powerful supply chain network.

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

In the first half of 2017/18, Voith Digital Solutions generated sales of €14 million (previous year: €4 million) with the start-up activities. This is more than a threefold increase on the comparative period. Sales moved within the parameters we anticipated.

The effect of the first-time consolidation of digital services provider Ray Sono acquired in May 2017, the increased headcount as well as development and operating costs relating to the new OnCumulus IIoT platform were reflected on the costs side.

Bottom line, there was a shortfall in profit from operations of €-37 million in the reporting period (previous year: €-20 million) that was slightly higher than originally planned on account of development costs being pulled forward. We regard these costs as a conscious investment in the digital transformation of Voith, laying the basis for future growth.

Enabler for traditional Group Divisions

In addition to the business results posted in the segment reporting for Voith Digital Solutions, the new Group Division stands for further sales and profits for the Voith Group. This is because Voith Digital Solutions – as well as developing new business models such as merQbiz – also provides the three established Group Divisions with support in enhancing their product portfolio in the field of automation solutions and digital offerings. The resulting sales – amounting in the reporting period to €112 million (previous year: €132 million; -15%) – and profits are presented in the respective Group Divisions for the purposes of our segment reporting. The decrease in sales relating to digital solutions in the core business can be attributed to the lower level of project business in the hydropower market. In contrast, the sales generated with digital solutions in the paper market saw a markedly positive development. All in all Voith Digital Solutions generated sales for the Voith Group of €126 million (previous year: €136 million; -8%).

03. Net assets and financial position

The net assets and the financial position of the Voith Group remain at a very good level. On the basis of the significant rise in liquidity in the previous year, Voith has further reduced its level of borrowing. With net liquidity of €574 million and an equity ratio of 27.2%, Voith is in a strong position for new, profitable growth.

03.1. Balance sheet

Equity ratio remains at a high level

Total assets decreased slightly in comparison to September 30, 2017 by €106 million to €4,892 million (previous year: €4,998 million; -2%). On the assets side, non-current financial assets decreased on account of the sale of the remaining shares in the former Voith Industrial Services Group Division and due to the repayment of a loan. The equity and liabilities side was impacted by the repayment of long-term bank loans in China.

In total, non-current assets were reduced by €125 million to €1,823 million (previous year: €1,948 million; -6%). This drop is primarily attributable to the sale of investments and the repayment of loans. As a consequence, this item decreased by €75 million to €31 million (-71%). The €30 million decrease in property, plant and equipment to €948 million results from the fact that depreciation was higher than investments. Furthermore, non-current other financial receivables fell by €26 million to €63 million (-29%).

At €3,069 million, current assets are virtually unchanged on the previous-year level of €3,050 million (-1%). Within this item, cash and cash equivalents fell by €170 million to €412 million (previous year: €582 million; -29%), primarily on account of current cash investments that, in turn, led to an increase in current securities of €92 million to €694 million (previous year: €602 million; +15%). In addition, inventories and trade receivables increased by €97 million in total (thereof Voith Hydro €+88 million). Furthermore, receivables from customer-specific contracts decreased slightly; these contain long-term orders that are presented using the percentage of completion method (fall of €12 million; this figure contains a decrease of €21 million pertaining to Voith Hydro, an increase of €7 million pertaining to Voith Paper and an increase of €2 million pertaining to Voith Digital Solutions).

Non-current liabilities decreased by €97 million to €1,540 million (previous year: €1,637 million; -6%). This essentially results from the repayment of long-term bank loans in China (€-57 million). In addition, non-current other provisions decreased by €28 million to €163 million (previous year: €191 million).

Mainly on account of the increase in the discount rates in Germany and the US, the pension provisions decreased by €12 million to €735 million (previous year: €747 million; –2%).

Current liabilities rose slightly by €25 million to €2,021 million (previous year: €1,996 million; +1%). The item “other liabilities” (€+101 million) rose primarily on account of a higher level of customer advances (€+100 million). In addition, liabilities from customer-specific contracts increased by €12 million (thereof Voith Hydro €+40 million and Voith Paper €–28 million) and current other provisions by €8 million on account of the addition to contract-specific provisions. The opposite effect came from other financial liabilities (€–71 million), mainly on account of a lower level of personnel-related liabilities (€–41 million) and trade payables (€–14 million).

The net balance of deferred tax assets and liabilities increased by €7 million. The increase was mainly the result of changes in temporary differences.

Equity decreased slightly to €1,331 million (previous year: €1,366 million; –3%). In this respect, the negative effects from currency translation and distributions of profit exceeded the positive net income. The equity ratio of 27.2% was virtually unchanged on the high previous-year level (27.3%).

03.2. Liquidity

Cash flow from operating activities slightly improved

The cash flow from operating activities amounted to €–31 million in the first half of the 2017/18 fiscal year (previous year: €–40 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 (€+29 million; previous year: €+42 million).

The cash flow from investing activities amounted to €–57 million in the reporting period (previous year: €1,189 million). After the previous year had been primarily characterized by the receipts in connection with the sale of the shares in KUKA Aktiengesellschaft, the cash flow from investing activities in the reporting period was marked by, among other factors, changes in cash investments in securities (short-term deposits) of €–92 million (previous year: €+47 million). In addition, payments from purchase price adjustments in connection with the sale of Voith Industrial Services in the previous year amounting to €–16 million were incurred (previous year: €+39 million included in the consolidated cash flow statement item “purchase price receipts in connection with disposal of companies in previous years”).

Development of cash flow in € millions	**First half year 2017/18**	First half year 2016/17
Cash flow from operating activities	–31	–40
Cash flow from investing activities	–57	1,189
Cash flow from financing activities	–74	–95
Total cash flow	**–162**	**1,054**

The remaining 20% interest in the former Voith Industrial Services Group Division was sold and a loan was repaid in the reporting period. The receipts from the disposal of financial assets of €92 million essentially stem from these transactions. The KUKA effect (€+1,148 million) was reported in this item in the previous year. The balance of payments for property, plant and equipment and intangible assets of €-38 million was slightly lower in comparison to the previous year (€-43 million).

We continued to significantly reduce our level of borrowing over the reporting period (net repayment: €-53 million; previous year: €-63 million), essentially on account of the premature repayment of long-term bank loans in China. In addition, payments for dividends (€-33 million) were slightly higher than the previous-year figure (€-26 million). This results in a cash flow from financing activities of €-74 million (previous year: €-95 million).

The total cash flow amounted to €-162 million (previous year: €+1,054 million).

Net debt, measured as the difference between interest-bearing financial liabilities and liquid financial assets, amounted to €-574 million (= net asset position) (September 30, 2017: €-648 million).

03.3. Investments and R&D expenses

Further investments in productivity

We invested €40 million in the Voith Group in the first half of 2017/18 (previous year: €47 million; -16%). The investment ratio as a percentage of Group sales stood at 1.9% (previous year: 2.4%). The decline can be explained by the fact that significant investment projects, specifically ones relating to the expansion of our locations in China, have to a great extent been completed. In the reporting period, we invested both in the expansion of our core business and in the development of digital products and services. Germany, where we maintain the largest locations, was the regional focus of investment. At €63 million, depreciation and amortization stood at virtually the same level as in the previous year (previous year: €64 million; -2%).

In the reporting period, research and development expenses stood at €101 million (previous year: €109 million; -7%). All four Group Divisions invested heavily in research and development. The ratio of the Voith Group's R&D expenses to sales stood at 4.9% at the end of the half year (previous year: 5.5%).

03.4. Financial assets and investments

There were no reportable changes in the area of financial assets and investments in the first half of 2017/18.

04. Employees

With 19,014 employees at the end of the first half of 2017/18, the headcount in the Voith Group remained almost stable. The build-up of personnel at Voith Digital Solutions continued. Voith Paper and Voith Turbo created new jobs to a smaller extent, while Voith Hydro cut jobs as a consequence of the fall in orders received.

Headcount virtually unchanged

As at March 31, 2018, the Voith Group had 19,014 employees (full-time equivalents without apprentices). This means that the number of jobs remained virtually unchanged (September 30, 2017: 19,045; –31 jobs).

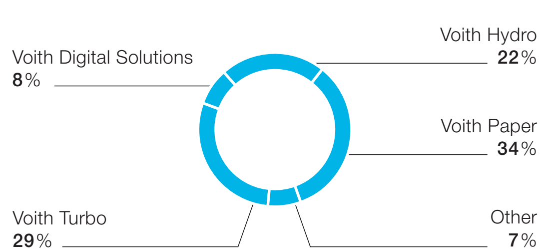
Voith Paper remained the largest Group Division in terms of number of employees with a share of 34% of the total headcount. At the end of the reporting period, this Group Division had 6,520 employees, 71 more than at September 30, 2017 (6,449 employees). The build-up of personnel mostly took place in the EMEA region, where there is currently a good order situation.

Voith Turbo had 5,438 employees (previous year: 5,408; +30 jobs) or 29% of the Group's headcount. In this context, human resources were built up in particular in two cross-divisional departments: research and development as well as purchasing, logistics and production.

With 4,260 people, Voith Hydro employed 22% of the Group's total workforce (previous year: 4,507 employees). The headcount at Voith Hydro fell by 247, essentially as a consequence of capacity adjustments in light of the order situation.

Employees Group

Employees total 19,014
by Group Division



First half year 2017/18

At the end of the reporting period, Voith Digital Solutions had 1,525 employees (September 30, 2017: 1,397). This corresponds to a share of 8% of the Group's headcount. Over the course of the reporting period, we succeeded in filling 128 new positions with a qualified staff. In this context, we expanded research and development capacities in particular, hired staff for the OnCumulus IIoT platform and found reinforcements for Ray Sono and merQbiz.

The remaining jobs (1,271, previous year: 1,284; –13) were attributable to the activities in the Composites division, the internal administrative and service centers and the divisions with holding functions. We were able to further reduce the number of positions required as a consequence of the reorganization of the indirect activities under Voith 150+ and by achieving efficiency gains.

05. Subsequent events

Stephan Schaller takes up his new post as President and CEO of the Corporate Board of Management

As announced, Mr. Stephan Schaller commenced his duties as President and CEO of the Corporate Board of Management of Voith GmbH & Co. KGaA with effect from April 1, 2018; in this role, he will lead the global technology Group into the future. He is thus the successor to Dr. Hubert Lienhard, the Corporate Board of Management's long-standing President and CEO, who is retiring as planned at the age of 67 after ten years at the top of the Group. As a member of the Voith Shareholders' Committee, Stephan Schaller has been involved with Voith since 2015.

Long-standing President and CEO of the Corporate Board of Management Dr. Hubert Lienhard was appointed to the Shareholders' Committee similarly with effect from April 1, 2018; in this new role, he will continue to provide support to the Group's ongoing development with his professional expertise.

Strategic partnership entered into with robotics start-up Franka Emika

In April 2018, we entered into a strategic partnership with the robotics firm Franka Emika. The partnership involves Voith taking a direct financial investment of 10% in this Munich-based robotics specialist and the creation of the Voith Robotics joint venture.

The plans are for Voith Robotics – A Voith and Franka Emika Company to become a global system provider for robot-assisted automation in the digital age. Voith Robotics is to provide both adaptive lightweight robots from Franka Emika and appropriate software solutions, apps, services and process consulting for customers worldwide in a wide range of industries and markets. As Voith holds a 51% interest in the new joint venture and is responsible for its operative management, it will be fully consolidated in the consolidated financial statements of the Voith Group in the future. The 10% interest in Franka Emika will be recognized in other financial assets in the future.

Franka Emika is a leader in the domain of the design and development of powerful, adaptive and easy-to-operate state-of-the-art lightweight robot technology. For the first time ever, these systems make it possible to automate necessary but generally monotonous tasks such as sensitive insertion, screwing and joining tasks as well as inspection and assembly jobs.

With this strategic partnership, Voith is taking another step consistent with its digital agenda. We had defined robotics as one of the key competencies that we want to add to our portfolio.

Debt reduced further

Further information on the repayment of debt in the reporting period and thereafter can be found in section 06. **Risks and opportunities**.

In view of the very high level of liquidity, we have further reduced our debt. In this context, the volume of credit under the euro loan arranged in 2011 was reduced from €770 million to €550 million as part of the refinancing in April 2018. Furthermore, the Corporate Board of Management made the decision in April 2018 to prematurely repay the variable tranches of the note loan in an amount totaling €139 million at the end of May 2018.

No further significant developments have occurred since the close of the first half of the 2017/18 fiscal year (March 31, 2018).

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 a negative deviation from forecasts or objectives 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 2017 annual report in which we described risks that could have a substantially negative effect on our business situation and our net assets, financial position and earnings position and lead to a negative deviation from forecasts or objectives. Any deviations from this are presented below.

The risk situation is more or less unchanged in comparison to the end of the 2016/17 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. The introduction of punitive tariffs by the US has increased the probability of further substantial obstacles to trade between the US, China, Russia and Europe. The negative effects on global trade could have a severe impact on the global economy. The various geopolitical flashpoints, specifically those in the Middle East, eastern Ukraine, or northeast Asia concerning North Korea, present a significant risk to the global economy in the event of escalation. The uncertainty surrounding the Brexit negotiations, on the other hand, has been moderated in the short term by the agreed transition period until December 2020. The medium-term risks to the global economy outlined in the 2017 annual report remain in place.

In the area of liquidity and financial risks it should be mentioned that we further reduced debt in the reporting period and will continue to do so in the second half of the 2017/18 fiscal year. The Corporate Board of Management made the decision in April 2018 to prematurely repay the variable tranches of the note loan in an amount totaling €139 million at the end of May 2018. This decision stems from the fact that our liquidity position significantly increased in the 2016/17 fiscal year as a consequence of the sale of the KUKA shareholding and remains at a very high level even after the repayments of debt already made. The syndicated euro loan arranged in 2011 and confirmed until 2021 was refinanced in April 2018. The volume of credit was reduced from €770 million to €550 million and its term was extended until 2023 (with two renewal options until 2025). It was possible to adjust the facility to the good financial position in a favorable market environment. The loan has not been drawn on and is available as a strategic liquidity reserve if needed, as are additional bilateral lines of credit available to us from banks. The syndicated loan placed in China in 2012 for CNY 2 billion was reduced to CNY 1 billion in March 2018. This loan is available until May 2020 and was 29% utilized at the reporting date. This facility secures the finance for future investments and for the operating business in the same currency as the operating business on the local market.

The rating given by Moody's was raised one level to an investment grade of Baa3 in December 2017. The rating agency Standard & Poor's rated Voith for the first time in November 2017, also awarding the comparable investment grade rating of BBB-. Both rating agencies thus take account of the improved earnings and financial position of our Company.

A new risk arose after the end of the reporting period: after the US terminated the nuclear treaty with Iran in May 2018 and announced it would reinstate the economic sanctions against the Islamic Republic of Iran after a transition period of 90 to 180 days, there are concerns that "secondary sanctions" will be introduced for companies outside the US, i.e. that companies that do not limit their business with Iran will be put on the list of firms excluded from business with US companies. Discussions at a political level have currently not yet come to a conclusion and the specific details of the US sanctions are not yet available. However, on the basis of the information currently available, we concur with VDMA, our industry association, in anticipating considerable impact on Germany's trade with Iran. The main reason is the reluctance on the part of banks with regard to financing that is now almost certain to be further intensified by the US sanctions. Without the support of banks for the financing of projects, it will be virtually impossible in the future to carry out major infrastructure projects involving companies like Voith. From today's perspective, Voith's could be impacted with regard to activities in the oil & gas, raw materials, transport & automotive and energy markets. For the current fiscal year, however, we do not see any implications that would significantly jeopardize our ability to meet the forecast for the year. We are currently reviewing the potential impact on the 2018/19 and following fiscal years. At any event, the risk to Voith's earnings position, net assets and financial position is not significant from a Group perspective.

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 positive deviations from forecasts or objectives. For an assessment of our situation regarding opportunities, we generally refer to the 2017 annual report. We continue to identify the principal opportunities described there.

07. Forecast report

Based on the developments in the reporting period, we confirm the forecasts for the year for Voith Paper, Voith Turbo and Voith Digital Solutions. On account of the weaker development at Voith Hydro and considerable negative currency effects, we have to make a slight adjustment to the forecast for the Voith Group, however. We now anticipate stable developments in terms of the Group's orders received and sales for the full 2017/18 year. The three traditional Group Divisions are expected to achieve good profitability levels, so that we will continue to be able to shoulder the up-front costs for the digital transformation from our core business. In the Group, i.e. taking account of investments in building up new business fields, the profit from operations adjusted for currency effects is anticipated to be roughly at the previous-year level.

07.1. Business environment

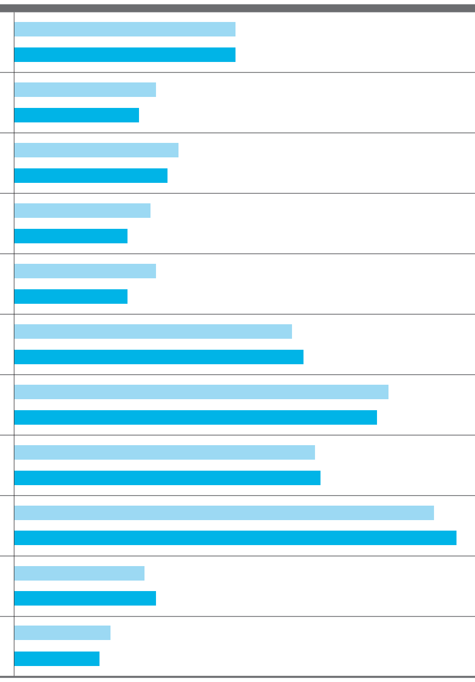
Positive short-term economic conditions

The short-term economic prospects are better than they have been for a long time. Economic analysts anticipate undiminished economic growth for 2018 and 2019. For example, in its latest release the International Monetary Fund (IMF) has forecast global growth rates of 3.9% for both 2018 and 2019, following 3.8% in 2017.

In the medium to long term, however, economic activity might weaken significantly, especially in advanced economies. This is because short-term growth was purchased at the price of building up burdens on medium- and long-term development. After many years of extremely loose monetary policy, the limits of conventional monetary policy have been reached in advanced economies, necessary structural reforms have been postponed, and the burden of sovereign debt remains high in many countries, for example in the euro area. In addition, the further development of the global economy is subject to a series of risks, the most serious of which include the potential escalation of geopolitical crises and protectionist tendencies that, in a worst case scenario, could lead to a trade war.

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

World output	2018	3.9%
	2019	**3.9%**
Advanced economies	2018	2.5%
	2019	**2.2%**
United States	2018	2.9%
	2019	**2.7%**
Euro area[2)]	2018	2.4%
	2019	**2.0%**
Germany	2018	2.5%
	2019	**2.0%**
Emerging market and developing economies	2018	4.9%
	2019	**5.1%**
China	2018	6.6%
	2019	**6.4%**
ASEAN-5	2018	5.3%
	2019	**5.4%**
India	2018	7.4%
	2019	**7.8%**
Brazil	2018	2.3%
	2019	**2.5%**
Russia	2018	1.7%
	2019	**1.5%**



Source: International Monetary Fund (IMF), World Economic Outlook, April 2018.
1) Forecasts.
2) Including Germany.

The positive outlook for the near future is founded on the anticipation of a broad-based upswing. The advanced economies are expected to enjoy sound economic growth in 2018 and 2019 that, according to the most recent forecasts by the IMF, will be stronger at 2.5% (2018) and 2.2% (2019) than assumed at the time of publication of our last annual report. Sound growth is similarly expected for Germany and the euro area as a whole in 2018, with its pace slacking in 2019. In the US, the IMF sees a perceptible increase in the pace of growth with rates of 2.9% (2018) and 2.7% (2019) stemming from the short-term stimulus from the corporate tax reform passed at the end of 2017. The President's obscure political agenda provides for ongoing uncertainty, nevertheless.

The emerging markets seen as a whole should continue to see dynamic developments in 2018 and 2019 and, according to an IMF forecast, return growth rates of 4.9% and 5.1%, respectively, with Asia continuing to see above-average growth. High growth rates are expected for China once again in 2018 and 2019, despite a slightly slacker pace in comparison to 2017. Strong international demand remains the growth driver. In this respect, the Chinese government is attempting to redesign China's own economy to achieve more domestic consumption without jeopardizing its growth targets. State-subsidized excess capacities in many sectors and a high level of private and business debt constitute potential obstacles to growth. Following the successful implementation of the currency reform, growth of the Indian economy is expected to accelerate perceptibly in 2018 and 2019. In this respect, India is growing at a faster percentage rate than China, albeit at a very low absolute level. We continue to see dynamic developments in Southeast Asia. The growth rates for South America, Africa and the Middle East are still expected to fall short of global developments, significantly so in some cases. This also applies to Brazil, an important sales market. Even though forecasts have been raised for this country, political uncertainties and the necessary structural reforms remain challenges. Russia is expected to continue its recovery but still with low growth rates, however.

In light of this global economic situation, we see a positive environment for capital goods in many segments also for the second half of the 2018 fiscal year. The trends in our five target markets should continue 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 profit from operations in the Voith Group despite build-up costs for the digital transformation

After the end of the first half of the fiscal year, we are confident that we will be able to fulfill the forecasts for the year for our Voith Paper, Voith Turbo and Voith Digital Solutions Group Divisions published in the 2017 annual report. In the case of Voith Hydro, it will be difficult for the weaker development in the reporting period on account of the market and competitive situation to be made up for in the second half of the fiscal year. In addition, considerable negative currency effects in comparison to the previous year will continue to have an impact on our traditional core business in the second half of the fiscal year as we do not presume that the euro exchange rate will weaken significantly. For this reason, we have to make a slight adjustment to our Group forecast for the year. For the 2017/18 fiscal year, we now expect orders received to remain at a stable level instead of the slight growth originally forecast in comparison to the previous year (€4,368 million). The level of the Group's orders received will ultimately depend to a great extent on the timing of the awarding of individual large-scale hydropower projects. Group sales (forecast in the 2017 annual report: "perceptible rise") should also come to roughly the previous-year level (€4,223 million). Our profitable core business will enable us to shoulder the up-front costs for the digital transformation from business operations. Taking account of these investments that will be slightly higher in the reporting period than originally planned due to development costs being pulled forward, the profit from operations in the Group is likely to perceptibly fall below the previous-year figure (€241 million) (forecast in 2017 annual report: "slight growth"). Adjusted for currency effects, we expect stable development for the Group's profit from operations. We continue to assume that we will be able to slightly increase our profitability indicator ROCE in comparison to the previous year (11.5%).

Profitable core business

The Voith Hydro Group Division anticipates a slightly stronger second half of the year but, from today's perspective, it will not achieve the development anticipated for the full year, specifically because the awarding of major projects has been postponed. In light of the more positive market situation, we expect an improvement in the orders received by Voith Hydro in the second half of the fiscal year. In the full 2017/18 fiscal year, however, orders received are likely to see a slight decline on account of project delays and intense competition (previous year: €1,180 million). In terms of sales, we now anticipate a perceptible decrease for the full year in comparison to the previous year (€1,381 million) as a consequence of the low level of orders received in the previous year and in the reporting period. The profit from operations will probably fall perceptibly short of the previous-year figure (€106 million) in line with the development of sales. The decline in profit from operations is only partially balanced out by a reduction in the capital employed, which means that the ROCE for the full year will be slightly down on the high level seen in the previous year (21.8%).

In the Voith Paper Group Division, the good development over the reporting period permits us to be confident that we will achieve our forecast for the current fiscal year. We still anticipate a perceptible rise in sales in comparison to the previous year (€1,527 million). The profit from operations will remain at a good level and is likely to increase slightly in comparison to the previous year (€107 million). For the ROCE (previous year 14.9%) we continue to expect a perceptible improvement. With regard to orders received, from today's perspective we assume that we will be able to exceed our forecast made in the last annual report ("perceptible fall") and, in relation to the full year, more or less reach the previous-year figure (€1,813 million).

For the Voith Turbo Group Division, we confirm our forecast for the current fiscal year. We continue to anticipate a slight increase in sales for the full 2017/18 year in comparison to the previous year (€1,283 million) with the profit from operations remaining stable (previous year: €91 million). The ROCE should likewise be around the previous year's level (12.9%). With regard to orders received, we expect the positive trend to continue and we forecast slight growth for the full 2017/18 year in comparison to the previous year (€1,344 million).

Concerning Voith Digital Solutions, there is no change to our expectations of strong percentage growth in sales in comparison to the previous year (€13 million). In view of the start-up situation, the sales figures shown for the Voith Digital Solutions Group Division will remain in the double-digit millions of euros. The profit from operations will be negative on account of the budgeted build-up costs and cause a shortfall in profit from operations in the double-digit millions for the Group. In contrast to the forecast made in the 2017 annual report, this shortfall might slightly exceed the previous year's figure (€–43 million) due to development costs being pulled forward. We consider the up-front costs for the digital transformation, 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.

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 2017 to March 2018

Consolidated statement of income

for the period from October 1, 2017 to March 31, 2018

in € thousands	2017-10-01 to 2018-03-31	2016-10-01 to 2017-03-31
Sales	2,049,434	1,964,940
Changes in inventories and other own work capitalized	49,105	28,798
Total output	**2,098,539**	**1,993,738**
Other operating income	211,452	194,210
Cost of materials	–922,997	–853,511
Personnel expenses	–734,002	–723,647
Depreciation and amortization	–62,829	–64,106
Other operating expenses	–544,075	–470,330
Operational result before non-recurring items	**46,088**	**76,354**
Non-recurring result	–3,910	–11,366
Operational result	**42,178**	**64,988**
Share of profit/loss from companies accounted for using the equity method	2,362	6,185
Gains/losses from the disposal of associated companies	0	565,078
Interest income	4,906	8,722
Interest expenses	–16,905	–46,667
Other financial result	6,457	–4,996
Result before taxes from continuing operations	**38,998**	**593,310**
Income taxes	–9,936	–26,275
Net result from continuing operations	**29,062**	**567,035**
Net result from discontinued operations	**0**	**–1,140**
Net result	**29,062**	**565,895**
Net result attributable to shareholders of the parent company	26,097	562,313
Net result attributable to holders of non-controlling interests	2,965	3,582

Consolidated statement of comprehensive income

for the period from October 1, 2017 to March 31, 2018

in € thousands	2017-10-01 to 2018-03-31	2016-10-01 to 2017-03-31
Net result	**29,062**	**565,895**
Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods:		
Remeasurement of defined benefit plans	7,292	44,669
Taxes on components of other comprehensive income that will not be recycled through profit or loss in later accounting periods	–9,770	–15,807
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	–79	–9,739
Gains/losses on cash flow hedges	193	2,588
Gains/losses on currency translation	–28,669	12,881
Gains/losses on net investments in foreign operations	–1,283	503
Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods	0	–490
Other comprehensive income	**–32,316**	**34,605**
Total comprehensive income	**–3,254**	**600,500**
Total comprehensive income attributable to shareholders of the parent company	–6,573	597,113
Total comprehensive income attributable to holders of non-controlling interests	3,319	3,387
	–3,254	**600,500**

Consolidated balance sheet

as at March 31, 2018

Assets

in € thousands		2018-03-31	2017-09-30
A.	**Non-current assets**		
I.	Intangible assets	513,495	515,676
II.	Property, plant and equipment	948,220	978,459
III.	Investments accounted for using the equity method	33,788	32,006
IV.	Securities	11,098	11,734
V.	Other financial assets	31,097	105,954
VI.	Other financial receivables	63,314	89,411
VII.	Other assets	11,030	10,749
VIII.	Deferred tax assets	210,571	204,538
Total non-current assets		**1,822,613**	**1,948,527**
B.	**Current assets**		
I.	Inventories	614,339	547,825
II.	Trade receivables	745,059	713,899
III.	Receivables from customer-specific contracts	311,811	323,929
IV.	Securities	693,755	601,812
V.	Current income tax assets	62,522	52,263
VI.	Other financial receivables	97,435	101,289
VII.	Other assets	117,064	110,544
VIII.	Cash and cash equivalents	411,810	581,947
		3,053,795	**3,033,508**
IX.	Assets held for sale	15,182	15,845
Total current assets		**3,068,977**	**3,049,535**
Total assets		**4,891,590**	**4,997,880**

Equity and liabilities

in € thousands		2018-03-31	2017-09-30
A.	**Equity**		
I.	Issued capital	120,000	120,000
II.	Revenue reserves	1,130,689	1,138,763
III.	Other reserves	–67,795	–37,664
IV.	Profit participation rights	6,600	6,600
Equity attributable to shareholders of the parent company		**1,189,494**	**1,227,699**
V.	Profit participation rights	96,800	96,800
VI.	Other interests	44,369	41,425
Equity attributable to holders of non-controlling interests		**141,169**	**138,225**
Total equity		**1,330,663**	**1,365,924**
B.	**Non-current liabilities**		
I.	Provisions for pensions and similar obligations	735,486	747,282
II.	Other provisions	162,657	190,611
III.	Income tax liabilities	320	277
IV.	Bonds, bank loans and other interest-bearing liabilities	498,949	551,363
V.	Other financial liabilities	35,156	35,635
VI.	Other liabilities	53,563	58,222
VII.	Deferred tax liabilities	53,777	53,744
Total non-current liabilities		**1,539,908**	**1,637,134**
C.	**Current liabilities**		
I.	Provisions for pensions and similar obligations	29,626	29,319
II.	Other provisions	351,232	343,082
III.	Income tax liabilities	47,323	46,968
IV.	Bonds, bank loans and other interest-bearing liabilities	72,689	82,516
V.	Trade payables	495,873	509,741
VI.	Liabilities from customer-specific contracts	58,025	45,623
VII.	Other financial liabilities	162,569	234,080
VIII.	Other liabilities	803,682	703,493
Total current liabilities		**2,021,019**	**1,994,822**
Total equity and liabilities		**4,891,590**	**4,997,880**

Consolidated statement of changes in equity

for the period from October 1, 2017 to March 31, 2018

in € thousands	Equity attributable to shareholders of the parent company				
	Issued capital	Revenue reserves	Gains/losses on available-for-sale financial assets	Cash flow hedges	Currency translation
2017-10-01	**120,000**	**1,138,763**	**1,708**	**–2,319**	**–32,553**
Net result		26,097			
Other comprehensive income		–2,539	–139	193	–28,902
Total comprehensive income	**0**	**23,558**	**–139**	**193**	**–28,902**
Allocation of profit participation rights		–5,590			
Share of net result attributable to profit participation rights					
Dividends		–25,000			
Non-controlling interests – capital contributions					
Non-controlling interests – put options		–511			
Other adjustments		–531			
2018-03-31	**120,000**	**1,130,689**	**1,569**	**–2,126**	**–61,455**

in € thousands	Equity attributable to shareholders of the parent company				
	Issued capital	Revenue reserves	Gains/losses on 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					
Changes in non-controlling interests as a result of changes in group structure		209			
Dividends		–18,000			
Non-controlling interests – capital contributions					
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 holders of non-controlling interests			
Net investment in foreign operations	Profit participation rights	Total	Profit participation rights	Other interests	Total	Total equity
–4,500	**6,600**	**1,227,699**	**96,800**	**41,425**	**138,225**	**1,365,924**
		26,097		2,965	2,965	29,062
–1,283	0	–32,670	0	354	354	–32,316
–1,283	**0**	**–6,573**	**0**	**3,319**	**3,319**	**–3,254**
	363	–5,227	5,227		5,227	0
	–363	–363	–5,227		–5,227	–5,590
		–25,000		–2,384	–2,384	–27,384
				1,217	1,217	1,217
		–511		591	591	80
		–531		201	201	–330
–5,783	**6,600**	**1,189,494**	**96,800**	**44,369**	**141,169**	**1,330,663**

			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	0	34,800	0	–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
		209		–440	–440	–231
		–18,000		–2,128	–2,128	–20,128
				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**

Consolidated cash flow statement

for the period from October 1, 2017 to March 31, 2018

in € thousands	2017-10-01 to 2018-03-31	2016-10-01 to 2017-03-31
Result before taxes from continuing and discontinued operations	38,998	594,163
Depreciation and amortization	63,014	66,410
Interest expenses/income	11,999	37,945
Other non-cash items	–2,220	–569,076
Gains/losses from the disposal of property, plant and equipment and intangible assets	101	–63
Gains/losses from investments	–18,647	–4,509
Changes in provisions and accruals	–50,056	–73,307
Change in net working capital	–29,050	–41,697
Interest paid	–9,999	–10,713
Interest received	7,344	8,109
Dividends received	604	3,106
Tax paid	–43,038	–49,826
Cash flow from operating activities	**–30,950**	**–39,458**
Investments in property, plant and equipment and intangible assets	–39,645	–48,292
Proceeds from the disposal of property, plant and equipment and intangible assets	1,807	4,663
Investments in financial assets	–2,977	–1,914
Purchase price payments/receipts in connection with disposal of companies in previous years	–16,352	38,506
Proceeds from the disposal of financial assets*	92,175	1,148,422
Proceeds from the disposal of securities	13,485	88,840
Payments for the acquisition of securities*	–105,331	–41,381
Cash flow from investing activities	**–56,838**	**1,188,844**
Dividends paid	–32,974	–25,718
Contributions from holders of non-controlling interests	1,217	1,525
Acquisition of non-controlling interests	0	–231
New bonds, bank loans and overdrafts	20,790	22,545
Repayment of bonds, bank loans and overdrafts	–74,323	–85,838
Changes in other interest-bearing financial receivables and liabilities	10,693	–7,501
Cash flow from financing activities	**–74,597**	**–95,218**
Total cash flow	**–162,385**	**1,054,168**
Exchange rate movements and valuation changes	–7,752	10,776
Cash and cash equivalents at the beginning of the period	581,947	649,672
Cash and cash equivalents at the end of the period	**411,810**	**1,714,616**

* Further information can be found in the section entitled “Notes to the cash flow statement”.

Basis of the interim consolidated financial statements and accounting policies

Voith GmbH & Co. KGaA (Voith), which has its headquarters at St. Pöltener Str. 43, Heidenheim an der Brenz, is registered at the commercial register in Ulm, Germany (HRB 735450) and is the parent company of the Voith Group. The Company was incorporated as Voith GmbH until July 31, 2017. Since August 1, 2017 the Company has been incorporated in the legal form of a GmbH & Co. KGaA. The Board of Management of Voith Management GmbH (HRB 735126) is responsible for the strategy and operative management of the Voith Group. Voith Management GmbH is the personally liable shareholder (general partner) of and responsible for the management of the business of Voith GmbH & Co. KGaA.

The interim consolidated financial statements for the first half of the 2017/18 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, 2017, 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 for the year ended September 30, 2017. 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 and valuation policies applied by the Group in these interim consolidated financial statements generally correspond to the accounting and valuation 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 2017/18 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 7: Disclosure Initiative	Project as part of the disclosure initiative for IAS 7 Statement of Cash Flows to improve information provided to users of financial statements about an entity's financing activities and liquidity.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	Clarification of the accounting for deferred tax assets for unrealized losses in the case of assets accounted for at fair value.
Improvements to IFRS (2014–2016)	Amendments to standard IFRS 12.

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

Consolidated group

The following companies are included in the consolidated financial statements:

	2018-03-31	2017-09-30
Voith GmbH & Co. KGaA and its fully consolidated subsidiaries:		
· Germany	32	32
· Other countries	110	111
	142	**143**
Associated companies and joint ventures:		
· Germany	3	3
· Other countries	11	11
	14	**14**

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 companies over which the Group already had control

There were no acquisitions of further interests in companies over which the Group already had control in the first half of the current 2017/18 fiscal year. The remaining 30% interest in Voith Paper Integrated Mill Service Co., Ltd., Kunshan, Jiangsu/China, was acquired in the first half of the 2016/17 fiscal year. The purchase price amounted to €231 thousand.

Disposal of shares

Within the scope of the disposal of the Voith Industrial Services segment in the 2015/16 fiscal year, a 20% interest was retained in the Voith Industrial Services entities sold. In addition, the majority owner was granted the right to acquire all shares retained by Voith. This call option was accounted for separately from the interest in the previous year and was exercised by the majority owner in the first half of the current fiscal year. The purchase price of €36 million was counterbalanced by the investment's carrying amount of €22 million and a liability from the call option of €4 million. Consequently, the disposal gave rise to a gain on sale of €18 million.

Notes on segment reporting

The demarcation between the segments and the methods used to calculate the segment information remain unchanged in comparison to September 30, 2017.

Reconciliation of profit from operations to the Group's result before taxes

The following earnings components are taken into account in the course of calculating the profit from operations, unchanged on the most recent consolidated financial statements:

Operating interest income

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.

Other adjustments

Other adjustments contain effects which are, as a rule, shown as other operating income and expenses in the consolidated statement of income on account of their operating nature. In the course of calculating the profit from operations, these items are adjusted as non-recurring effects in order to facilitate a better assessment of segments' business operations.

Average capital employed

The capital employed presented as at the March 31, 2018 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, 2017 presented as a comparative figure is an average value derived from the respective figures as at the September 30, 2017 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 dated September 30, 2016.

Segment information by business segment

	Voith Hydro		Voith Paper		Voith Turbo	
in € millions	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Sales with third parties	555	653	862	678	610	621
· Thereof attributable to Voith Digital Solutions	53	68	42	33	17	31
Sales with other segments	2	4	8	10	6	1
Segment sales, total	557	657	870	688	616	622
Profit from operations	43	53	42	30	34	34
Average capital employed[2]	482	489	646	721	682	703
Employees[3]	4,260	4,507	6,520	6,449	5,438	5,408

[1] Sub-total of Voith Hydro, Voith Paper and Voith Turbo.
[2] Average capital employed in comparison to September 30, 2017.
[3] Statistical headcount on reporting date in comparison to September 30, 2017.

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 total profit from operations to result before taxes presented below.

Total Core Business[1]		Voith Digital Solutions		Reconciliation		Total	
2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
2,027	1,952	14	4	8	9	2,049	1,965
112	132	14	4	0	0	126	136
16	15	74	62	–90	–77	0	0
2,043	1,967	88	66	–82	–68	2,049	1,965
119	117	–37	–20	–7	–6	75	91
1,810	1,913	77	44	142	132	2,029	2,089
16,218	16,364	1,525	1,397	1,271	1,284	19,014	19,045

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

in € millions	2017/18	2016/17
Profit from operations	**75**	**91**
Operating interest income	–12	–15
Non-recurring result	–4	–11
Other adjustments	–16	0
Share of profit/loss from companies accounted for using the equity method	2	6
Gains/losses from the disposal of associated companies	0	565
Interest result	–12	–38
Other financial result	6	–5
Result before taxes from continuing operations	**39**	**593**

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 disclosed in the statement of income and in the balance sheet.

Selected notes to the statement of income

Other operating income

in € thousands	2017/18	2016/17
Income from the utilization of contract-specific provisions	73,595	56,720
Income from the reversal of provisions and accruals	40,428	42,676
Foreign exchange gains	43,543	36,408
Other income	53,886	58,406
	211,452	**194,210**

Other operating expenses

in € thousands	2017/18	2016/17
Increase in provisions and accruals	136,859	101,128
Other selling expenses	137,869	144,456
Other administrative expenses	118,649	124,461
Foreign exchange losses	45,459	32,109
Rent for buildings and machinery	24,800	25,567
Other expenses	80,439	42,609
	544,075	**470,330**

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 totaled €–4 million (previous year: €–11 million).

In the reporting period, the non-recurring result primarily includes personnel-related expenses arising from measures to consolidate production capacities and to improve competitiveness at Voith Hydro in Brazil. In detail, the contributions to the non-recurring result were as follows: Voith Hydro €–3 million and Voith Paper €–1 million.

In the first half of the 2016/17 fiscal year, the non-recurring result mainly comprised 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 in the previous-year period 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	2017/18	2016/17
Personnel expenses	–3,869	–8,001
Sundry other expenses	–944	–4,719
Income from the reversal of provisions	354	156
Sundry other income	549	1,198
	–3,910	**–11,366**

Other financial result

in € thousands	2017/18	2016/17
Gains/losses from investments	18,647	3,656
Impairment of securities and other investments	0	–2,304
Currency gains on long-term financing positions	10,102	24,296
Currency losses on long-term financing positions	–26,139	–22,461
Valuation of derivatives used to hedge financial transactions	3,790	–8,272
Sundry other financial result	57	89
	6,457	**–4,996**

Income taxes

Income tax expenses totaled €–10 million (previous year: €–26 million). This figure does not contain any expenses from taxes relating to other periods (previous year: €–9 million).

Selected notes to the balance sheet

Intangible assets and property, plant and equipment

In the first half of the 2017/18 fiscal year, €7 million (previous year: €8 million) was invested in intangible assets and €33 million (previous year: €40 million) in property, plant and equipment. Amortization of €9 million (previous year: €8 million) was recognized on intangible assets and depreciation of €54 million (previous year: €56 million) on property, plant and equipment.

Inventories

Inventories consist of the following items:

in € thousands	2018-03-31	2017-09-30
Raw materials and supplies	214,654	194,785
Work in progress	174,753	146,166
Finished goods and merchandise	141,601	131,483
Prepayments	83,331	75,391
	614,339	**547,825**

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

As in the previous year, this item contains, as at March 31, 2018, an investment that is classified as held for sale.

Equity

A dividend of €0.21 per share was distributed from the unappropriated retained earnings of Voith GmbH & Co. KGaA, i.e. €25,000 thousand (previous year as at March 31, 2017: €18,000 thousand). Distributions of €5,590 thousand (previous year as at March 31, 2017: €5,590 thousand) were made in relation to the profit participation rights. Dividends of €2,384 thousand (previous year as at March 31, 2017: €2,128 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 was based on the following assumptions:

	Germany and Austria		USA	
in %	2018-03-31	2017-09-30	2018-03-31	2017-09-30
Discount rate	2.05	2.00	3.74	3.46
Pension increases	1.70	1.70	0	0

Bonds, bank loans and other interest-bearing financial liabilities

Financial liabilities include the following:

in € thousands	Current	Non-current	2018-03-31	Current	Non-current	2017-09-30
Bonds	0	16,751	16,751	0	17,935	17,935
Bank loans	27,009	337,941	364,950	23,947	394,400	418,347
Financial liabilities from leases	226	524	750	246	612	858
Notes payable	1,142	0	1,142	1,151	0	1,151
Derivatives used to hedge financial transactions	117	9,674	9,791	4,211	15,131	19,342
Other financial liabilities	44,195	134,059	178,254	52,961	123,285	176,246
	72,689	**498,949**	**571,638**	**82,516**	**551,363**	**633,879**

Notes to the cash flow statement

The Voith Industrial Services segment was disposed of in the 2015/16 fiscal year and a 20% interest was retained in the Voith Industrial Services entities sold. This 20% interest was sold in the first half of 2017/18. In addition, a loan of €50 million was repaid to Voith. Within the scope of these transactions, we recorded a cash inflow of €86 million in the cash flow statement which is reported in the item “Proceeds from the disposal of financial assets”.

A total of €65 million was deposited at selected banking partners as short-term deposits of Voith GmbH & Co. KGaA with original maturity dates of more than 90 days and is reported in the balance sheet item “Current securities”.

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: €5 million) and risks from legal disputes of €30 million (previous year: €34 million). A successful outcome is currently expected in both cases.

Neither Voith GmbH & Co. KGaA 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 German companies, further changes may be made to tax items.

There are guarantee obligations of €2,394 thousand (previous year: €1,161 thousand).

There are in addition the following other financial obligations:

in € thousands	2018-03-31	2017-09-30
Purchase commitments for capital expenditures	17,812	10,935
Obligations arising from non-cancelable operating leases	109,033	120,506
Other	7,680	6,918
	134,525	**138,359**

Additional information on financial instruments

			Amount recognized in the balance sheet in accordance with IAS 39					
in € thousands	IAS 39 measurement category	Carrying amount 2018-03-31	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 2018-03-31
Assets:								
Cash and cash equivalents	LaR	411,810	411,810					411,810
Trade receivables	LaR	745,059	745,059					745,059
Receivables from construction contracts	LaR	311,811	311,811					311,811
Other financial assets and securities		735,950						
· Financial investments	LaR	692,010	692,010					692,010
· Loans	LaR	7,887	7,887					7,887
· Investments	AfS	23,210		23,210				[1]
· Securities	AfS	12,843			12,843			12,843
Derivative financial instruments		39,957						
· Forward exchange contracts	FAHfT	5,534				5,534		5,534
· Forward exchange contracts (fair value hedges)	n. a.	33,867				33,867		33,867
· Interest rate swaps (fair value hedges)	n. a.	556				556		556
Other receivables		83,826						
· Financial receivables	LaR	19,159	19,159					19,159
· Sundry financial assets	LaR	64,667	64,667					64,667
Liabilities:								
Trade payables	FLAC	495,873	495,873					495,873
Bonds/bank loans/notes	FLAC	382,843	382,843					399,383
Financial liabilities from leases	n. a.	750					750	
Derivative financial instruments		19,689						
· Forward exchange contracts	FLHfT	11,919				11,919		11,919
· Forward exchange contracts (fair value hedges)	n. a.	6,123				6,123		6,123
· Interest rate swaps (cash flow hedges)	n. a.	1,647			1,647			1,647
Other loans and borrowings	FLAC	178,254	136,732		41,522			213,263
Sundry financial liabilities	FLAC	187,826	187,826					187,826
IAS 39 measurement categories:								
Loans and receivables (LaR)	LaR	2,252,403	2,252,403					
Available for sale (AfS)	AfS	36,053		23,210	12,843			
Financial assets held for trading (FAHfT)	FAHfT	5,534				5,534		
Financial liabilities measured at amortized cost (FLAC)	FLAC	1,244,796	1,203,274		41,522			
Financial liabilities held for trading (FLHfT)	FLHfT	11,919				11,919		

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

in € thousands	IAS 39 measurement category	Carrying amount 2017-09-30	Amount recognized in the balance sheet in accordance with IAS 39				Amount recognized in the balance sheet in accordance with IAS 17	Fair value 2017-09-30
			Amortized cost	Cost	Fair value through equity	Fair value through profit or loss		
Assets:								
Cash and cash equivalents	LaR	581,947	581,947					581,947
Trade receivables	LaR	713,899	713,899					713,899
Receivables from construction contracts	LaR	323,929	323,929					323,929
Other financial assets and securities		719,500						
· Financial investments	LaR	599,965	599,965					599,965
· Loans	LaR	56,987	56,987					56,987
· Investments	AfS	48,967		27,367	21,600[2]			21,600[1]
· Securities	AfS	13,581			13,581			13,581
Derivative financial instruments		46,588						
· Forward exchange contracts	FAHfT	4,820				4,820		4,820
· Forward exchange contracts (fair value hedges)	n. a.	40,735				40,735		40,735
· Interest rate swaps (fair value hedges)	n. a.	1,033				1,033		1,033
Other receivables		106,478						
· Financial receivables	LaR	25,975	25,975					25,975
· Sundry financial assets	LaR	80,503	80,503					80,503
Liabilities:								
Trade payables	FLAC	509,741	509,741					509,741
Bonds/bank loans/notes	FLAC	437,433	437,433					454,275
Financial liabilities from leases	n. a.	858					858	
Derivative financial instruments		28,282						
· Forward exchange contracts	FLHfT	13,892				13,892		13,892
· Call option	FLHfT	3,500				3,500[2]		3,500
· Forward exchange contracts (fair value hedges)	n. a.	8,299				8,299		8,299
· Forward exchange contracts (cash flow hedges)	n. a.	1			1			1
· Interest rate swaps (cash flow hedges)	n. a.	2,590			2,590			2,590
Other loans and borrowings	FLAC	176,246	136,065		40,181			210,673
Sundry financial liabilities	FLAC	260,775	260,775					260,775
IAS 39 measurement categories:								
Loans and receivables (LaR)	LaR	2,383,205	2,383,205					
Available for sale (AfS)	AfS	62,548		27,367	35,181			
Financial assets held for trading (FAHfT)	FAHfT	4,820				4,820		
Financial liabilities measured at amortized cost (FLAC)	FLAC	1,384,195	1,344,014		40,181			
Financial liabilities held for trading (FLHfT)	FLHfT	17,392				17,392		

[1] The financial assets available for sale (AfS) include investments whose fair value 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	2018-03-31	Level 1	Level 2	Level 3
Assets				
Securities	12,843	12,843	0	0
Derivative financial instruments	39,957	0	39,957	0
Liabilities				
Derivative financial instruments	19,689	0	19,689	0
Liabilities arising from the acquisition of investment shareholdings	41,522	0	0	41,522

in € thousands	2017-09-30	Level 1	Level 2	Level 3
Assets				
Securities	13,581	13,581	0	0
Derivative financial instruments	46,588	0	46,588	0
Investments	21,600	0	0	21,600
Liabilities				
Derivative financial instruments	28,282	0	24,782	3,500
Liabilities arising from the acquisition of investment shareholdings	40,181	0	0	40,181

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 is no observable market data.

No reclassifications were made between the levels of the fair value hierarchy in the first half of the 2017/18 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, associated forward rates and the 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.

As at September 30, 2017, the fair value of the investment allocated to level 3 of the fair value hierarchy was determined by an impartial appraiser on the basis of an income-based measurement technique and contained parameters that cannot be observed on the market. On account of contractual subordination, the economic value of Voith's investment did not correspond to the proportionate market value of the equity. For this reason, the fair value was based on an options pricing model (binomial model), the input parameters used at the reporting date were the business model of the investment amounting to €138.7 million, capital market interest rates that reflect the term to maturity and the risk profile amounting to 0.02% per annum, and share price volatilities of a peer group amounting to 26.0% per annum.

The value of the embedded call option accounted for separately was determined indirectly from the difference in carrying amount of the investment with and without the option. In the event of the call option being exercised by the majority owner, Voith could, depending on the timing of the exercise of the call option, generate a gain on sale of up to a maximum of €40.2 million. In economic terms, the call option limited the maximum revenue Voith could generate from the investment to the option's strike price.

The call option was exercised by the majority owner in the first half of the 2017/18 fiscal year and the investment was sold. For more information on this, we refer to the section entitled "Disposal of shares".

The fair values of liabilities from the business combination allocated to level 3 of the fair value hierarchy concern put options held by non-controlling shareholders and were calculated on the basis of 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 material financial liability from a put option amounting to €26.9 million (previous year: €26.0 million) was calculated on the basis of a contractually agreed formula for the calculation of the purchase price upon exercise of the put option. This figure is the result of the gross business value of the investment (equivalent to the three-year average of the EBITDA over the period from 2020 to 2022, four-year holding period, multiplied by a contractually agreed multiplier) less net debt, multiplied by the non-controller's shareholding (40%). This figure was discounted to the reporting date using a WACC appropriate for the term of 6%.

If the business value of the underlying companies were to increase (decrease), this would lead to an increase (decrease) in the value of the associated liability from the business combination.

The changes in the fair values of assets and liabilities classified as level 3 in the fair value hierarchy were as follows:

in € thousands	2018-03-31	2017-09-30
Balance, October 1	**–22,081**	**9,511**
Put options from business combinations	0	–33,367
Disposal of investments	–21,600	0
Exercise of call option from acquisition of investments	3,500	0
Fair value changes recorded in profit or loss	–550	1,300
Fair value changes recorded in equity	–791	475
Balance at the reporting date	**–41,522**	**–22,081**

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 effective yield curve and Voith GmbH & Co. KGaA's credit spread curve determined for different currencies.

Transactions with related parties

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

in € thousands	2018-03-31	2017-09-30
Liabilities to family shareholders	21,519	14,849
Receivables from associates	2,659	2,686
Liabilities to associates	742	625
Receivables from other investments, including advances paid	10,513	10,922
Impairment of receivables from other investments	–1,412	–1,412
Liabilities to other investments and to Voith Management GmbH	20,642	21,361
Receivables from joint ventures	15,817	9,539
Liabilities to joint ventures	1,292	2,808
Receivables from the ultimate parent company	201	208
Liabilities to the ultimate parent company	8,458	7,604

in € thousands	2018-03-31	2017-03-31
Services purchased from associates	753	629
Services rendered to associates	11	0
Services purchased from other investments	2,382	1,642
Services rendered to other investments	6,000	5,038
Services purchased from joint ventures	2,298	1,974
Services rendered to joint ventures	227	288
Services purchased from the ultimate parent company	6,880	6,273
Services rendered to the ultimate parent company	583	523

In the first half of the 2017/18 fiscal year, guarantees of €2,349 thousand (previous year: €1,361 thousand) were issued in favor of other investments.

The Group has obligations under outstanding orders with the ultimate parent amounting to €3,964 thousand (previous year: €2,627 thousand) and with joint ventures of €12,939 thousand (previous year: €173 thousand).

Material subsequent events

As announced, Mr. Stephan Schaller commenced his duties as President and CEO of the Corporate Board of Management of Voith GmbH & Co. KGaA with effect from April 1, 2018; in this role, he will lead the global technology group into the future. He is thus the successor to Dr. Hubert Lienhard, the Corporate Board of Management's long-standing President and CEO, who is retiring as planned at the age of 67 after ten years at the top of the Group. As a member of the Voith Shareholders' Committee, Stephan Schaller has been involved with Voith since 2015.

Long-standing President and CEO of the Corporate Board of Management Dr. Hubert Lienhard was appointed to the Shareholders' Committee similarly with effect from April 1, 2018; in this new role, he will continue to provide support to the Group's ongoing development with his professional expertise.

In April 2018, we entered into a strategic partnership with the robotics firm Franka Emika. The partnership involves Voith taking a direct financial investment of 10% in this Munich-based robotics specialist and the creation of the Voith Robotics joint venture.

The plans are for Voith Robotics – A Voith and Franka Emika Company to become a global system provider for robot-assisted automation in the digital age. Voith Robotics is to provide both adaptive lightweight robots from Franka Emika and appropriate software solutions, apps, services and process consulting for customers worldwide in a wide range of industries and markets. As Voith holds a 51% interest in the new joint venture and is responsible for its operative management, it will be fully consolidated in the consolidated financial statements of the Voith Group in the future. The 10% interest in Franka Emika will be recognized in other financial assets in the future.

Franka Emika is a leader in the domain of the design and development of powerful, adaptive and easy-to-operate state-of-the-art lightweight robot technology. For the first time ever, these systems make it possible to automate necessary but generally monotonous tasks such as sensitive insertion, screwing and joining tasks as well as inspection and assembly jobs.

With this strategic partnership, Voith is taking another step consistent with its digital agenda. We had defined robotics as one of the key competencies that we want to add to our portfolio.

In view of the very high level of liquidity, we have further reduced our debt. In this context, the volume of credit under the euro loan arranged in 2011 was reduced from €770 million to €550 million as part of the refinancing in April 2018. Furthermore, the Corporate Board of Management made the decision in April 2018 to prematurely repay the variable tranches of the note loan in an amount totaling €139 million at the end of May 2018.

No further significant developments have occurred since the close of the first half of the 2017/18 fiscal year (March 31, 2018).

Heidenheim an der Brenz, May 8, 2018

The Board of Management of Voith Management GmbH

Stephan Schaller
Dr. Toralf Haag
Andreas Endters
Dr. Uwe Knotzer
Dr. Roland Münch
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 earnings position 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 8, 2018

The Board of Management of Voith Management GmbH

Stephan Schaller
Dr. Toralf Haag
Andreas Endters
Dr. Uwe Knotzer
Dr. Roland Münch
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