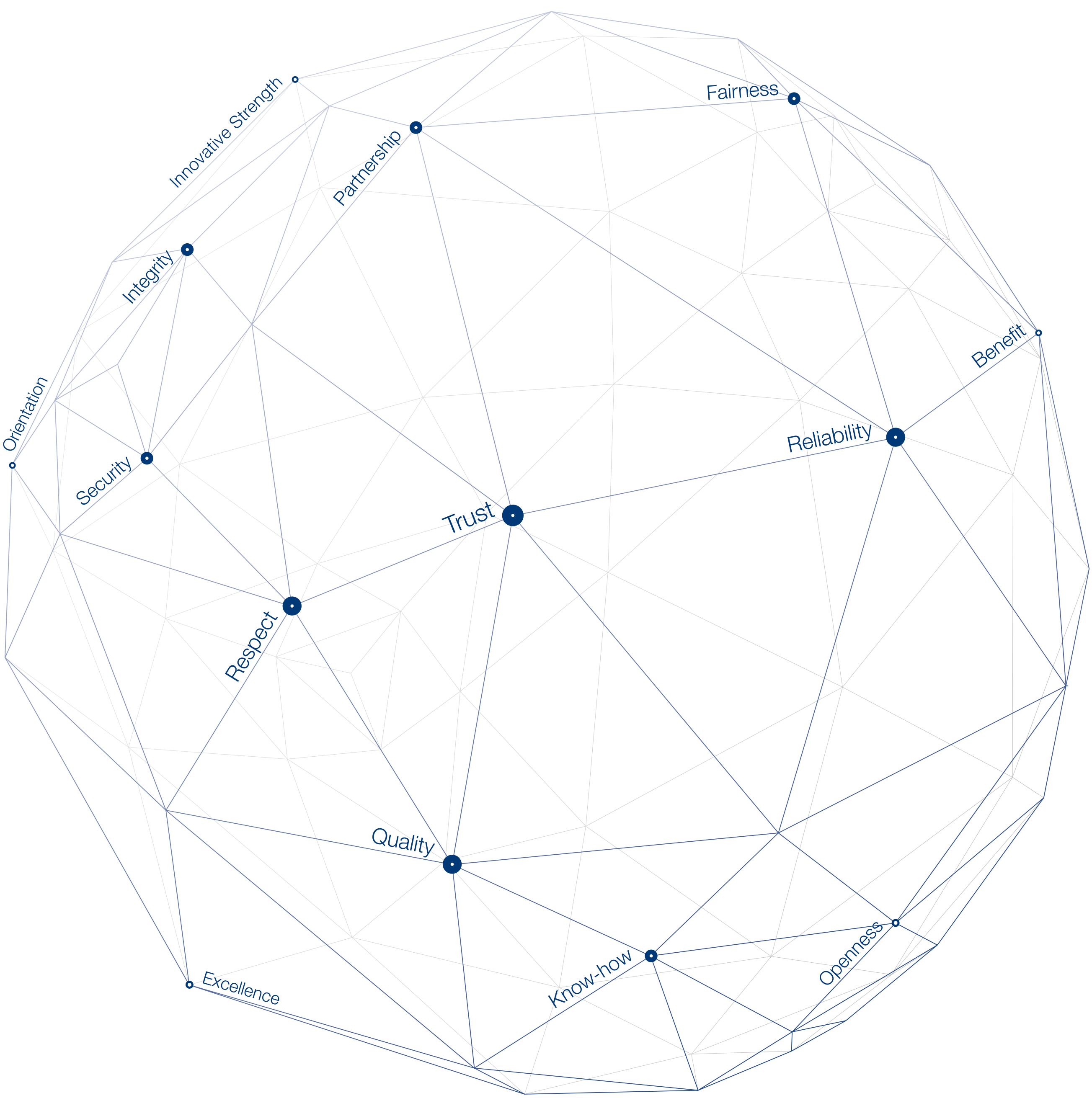
Relations
Annual Report 2014



The Voith Group in Figures

in € millions	2013/14	2012/13
Orders received	**5,581**	5,194
Sales	**5,345**	5,728
Profit from operations[1)2)]	**270**	350
Return on sales in %	**5.1**	6.1
Income before tax[2)]	**119**	98
Net income[2)]	**41**	65
Cash flow from operating activities	**191**	317
Total cash flow	**-98**	31
Investments	**134**	192
Research and development	**216**	242
in % of sales	4.0	4.2
Equity[2)]	**1,031**	1,140
Equity ratio in %[2)]	18.9	19.8
Balance sheet total[2)]	**5,453**	5,765
Employees[3)]	**39,302**	43,134

1) See “Notes on segment reporting” in the notes to the consolidated financial statements.
2) Previous year restated (refer to “Restatement of previous-year amounts” in the notes to the consolidated financial statements).
3) Without apprentices.

Voith Annual Report 2014

Voith is a global technology group. With energy, oil & gas, paper, raw materials and transport & automotive, the broad portfolio with its plants, products and services serves five essential markets in all regions of the world. Voith's operating business is bundled in four Group Divisions: Voith Hydro, Voith Industrial Services, Voith Paper and Voith Turbo.

A large proportion of the world's paper production is manufactured on Voith paper machines. A quarter of the energy generated worldwide from hydropower is produced with turbines and generators from Voith. Voith's drive components are found in applications all over the world, both in industrial plants and in road and rail vehicles, as well as on the waters. The largest companies trust in the technical services of Voith.

Founded in 1867, Voith employs more than 39,000 people, generates €5.3 billion in sales, operates in over 50 countries around the world and is today one of the biggest family-owned companies in Europe.

01 The Voith Group

02 Relations

03 Group Management Report

04 Consolidated Financial Statements

Ladies and gentlemen, Dear business partners and friends of the Company,

In this Annual Report 2014 we once again report on a fiscal year in which all Group Divisions returned a profit from operations, the Group generated a positive free cash flow and net income, and net liquidity proved satisfactory. The operational result before taxes was up considerably on the previous year, mainly due to lower restructuring expenses.

However, we once again operated in an extremely difficult environment in 2014 and report on a very weak and unsatisfactory fiscal year overall in which some of the key performance indicators were down on the previous year and therefore short of our own expectations. Global economic development was by far not as stable and positive as expected. Several geopolitical conflicts provided for a high degree of uncertainty and a very restrained and gloomy climate for capital investments by our customers. In virtually all of our key markets, significant stimulus failed to materialize for our business. Nevertheless, we were able to increase the level of orders received despite this difficult environment, thus continuing the trend reversal we had already determined mid-year.

Group sales fell noticeably on account of the lower level of orders received over the previous two years. The profit from operations also decreased significantly in line with the development of sales. This fall in sales and earnings was mainly driven by the structural and economic challenges in the new machine business at Voith Paper. A major factor in this regard was the almost complete collapse of the business with new machines to manufacture graphic papers. This situation will also continue to challenge us in the coming fiscal year. The fall in the operational result in addition to an impairment of a financial investment that became necessary as well as higher tax expenses compared to the previous year influenced by special tax effects also produce a net income that is down significantly on the previous year.

Overall, the Group continued to face great challenges once again in 2014, which it dealt with quickly and proactively, but with a sense of proportion. As an example, we continued to push ahead with our success program Voith 150+, which is expected to prepare the Group in the best possible way for the next growth stage. Voith 150+ was launched in the fall of 2013 and is set to run until 2017, the 150th anniversary of the founding of the Company. This program will see us revise our group portfolio. We successfully completed the first major steps towards this in the fiscal year which included the sale of Deutsche Industriewartung (DIW) and the discontinuation of locomotive production as well as the closure of various locations. Another core component of the program is the improvement of our internal structures and processes. In addition to other activities, this included improving the process quality in our factories and production

“Voith will in the future remain a family company, one that has had the freedom and commercial independence to focus squarely on its customers since 1867.”

facilities and initiating the reorganization of our indirect group functions. Our Voith 150+ program also aims to enhance and strengthen our established corporate culture.

All initiatives and measures of Voith 150+ are on schedule and have already saved costs in the double-digit million range.

However, among all the changes and challenges the Company currently faces, one thing remains clear: Voith will in the future remain a family company, one that has had the freedom and commercial independence to focus squarely on its customers since 1867.

The pioneering spirit of our founder Friedrich Voith and our deep roots as a technology-driven company will continue to be our defining factors in the future. They are an integral component of our identity and shape our self-image and our values. We see change as an opportunity to take us back to our roots, to strengthen and refine those things that define Voith: in line with our owners, our customers and our more than 39,000 employees worldwide. In this regard, I would like to thank our customers and business partners who have once again placed their trust in Voith as well as everyone that has accompanied our Company in 2014. I would also like to thank our boards and, most of all, our more than 39,000 employees: I know how much flexibility and commitment we demand of our employees in times like these. All Voithians have once again contributed in the past year to making Voith a robust and financially healthy company despite the major challenges.

Voith has clear expectations as to the future of the family company. We have the headroom and independence necessary to develop Voith both powerfully and proactively.

I would be glad if you would continue to accompany Voith on this journey in the future.

Best regards,

Hubert Lienhard

Dr. Hubert Lienhard
President and CEO

The Corporate Board of Management

"The pioneering spirit of our founder Friedrich Voith and our deep roots as a technology-driven company will continue to be our defining factors in the future. They are an integral component of our identity and shape our self-image and our values."

1 Hubert Lienhard, President and CEO
2 Hermann Jung, Finance and Controlling
3 Martin Hennerici, Voith Industrial Services
4 Bertram Staudenmaier, Voith Paper
5 Roland Münch, Voith Hydro
6 Carsten J. Reinhardt, Voith Turbo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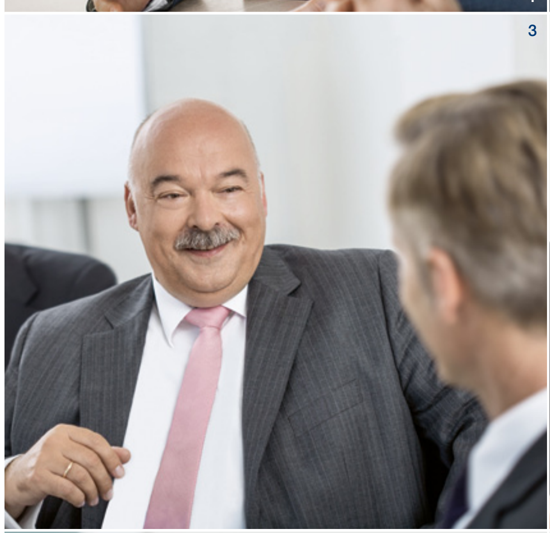
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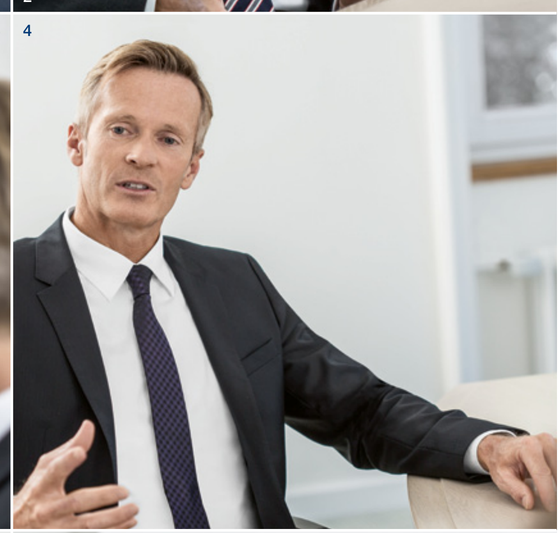
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5


6

Ladies and gentlemen,

The framework conditions for the Voith Group in the 2013/14 fiscal year were characterized by the persistent uncertainties surrounding the development of the global economy and the unstable situation of the international financial markets. The only way to avoid slipping into a global recession was by the most important central banks flooding the capital markets with cheap money. In the euro area, however, this was not enough to stimulate investments in the real economy. In many countries, larger investment projects could not be carried out due to the high level of private and public debt, while expansion investments rarely proved necessary on account of the low capacity utilization. Development in the US was above average compared to the other Western advanced economies By comparison, the emerging market and developing economies continued to report stronger growth than the Western advanced economies. However, growth momentum here also slowed in the second half of the year under review. There were also sharp decreases in exchange rates, especially in Brazil, India, Russia and in various ASEAN countries.

At its four ordinary meetings, the Supervisory Board discussed strategic issues such as the analysis and further development of Voith's portfolio as well as the challenges and consequences for Voith's operating business stemming from the economic and structural changes in the markets that are relevant for Voith. This affects Voith Paper and Voith Turbo Group Divisions in particular. In the business with new machines, Voith Paper is currently having to contend with a structural collapse in the market for large paper machines due to a shift towards mid-sized machines. In the Mining & Metals and Power, Oil & Gas divisions, Voith Turbo is being hit particularly hard by changes in market conditions and the inherent fall in demand. The Committee discussed the measures taken by management, including significant personnel cuts at various locations, in a way that was transparent, constructive and critical.

The ordinary meetings took place on October 14, 2013, December 6, 2013 as well as on March 21, 2014 and June 11, 2014. As usual, all the meetings of the Supervisory Board were characterized by intensive and solution-oriented exchanges of views with the Board of Management.

Discussions were based on detailed written and oral reports by members of management on the current situation, corporate planning (including financial and investment planning), the development of the economic situation of the Group and its Divisions, the measures to be implemented at Voith Paper and Voith Turbo, the development of the results of operations and financial position as well as the assessment of business risks. Also discussed in detail was the necessary and increasing global orientation of the Company and its Group Divisions – especially in Asia – both in terms of the product portfolio and focus of the portfolio of services as well as with regard to changes in the organizational structure. The financial and capital expenditure planning for the current and subsequent year underlying this orientation was approved unanimously at the meeting in October.

The Supervisory Board highly appreciates the efforts of the Voith Group for its sustainable and compliance-oriented business approach, which is clearly demonstrated in Voith's sustainability report for 2013. Building on the sustainable strategy, management regularly informed the Supervisory Board of further progress made with improving the occupational health and safety of Voith's employees. The Chairman of the Supervisory Board was also kept constantly informed of significant developments and key decisions by management. He consulted regularly with the President and Chief Executive Officer on matters of material importance.

The Personnel Committee met twice in the past fiscal year, on December 6, 2013, and on March 21, 2014. At the meeting of the Supervisory Board in March 2014, a decision was taken to appoint Mr. Bertram Staudenmaier Chairman of the Board of Management of Voith Paper effective July 1, 2014. Furthermore, the decision taken by Dr. Hans-Peter Sollinger to step down as at June 30, 2014 and retire as at June 1, 2016 was approved. The Supervisory Board would like to thank Dr. Sollinger for his great dedication and achievements in his more than 32 years of working for Voith.

There was no need to convene the Mediation Committee formed pursuant to Sec. 27 (3) German Codetermination Act (MitbestG).

The Audit Committee met twice, on December 5, 2013 and June 10, 2014. The first meeting, which was held in the presence of the auditors who examined the annual financial statements, conducted an in-depth examination of the financial statements of both the consolidated Group and Voith GmbH for the 2012/13 fiscal year, and of the report submitted by the auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. In the meeting with the auditors, the Committee also discussed individual issues of suggested improvements set out in the management letter to the financial statements, but none of these was deemed relevant for the report. The head of the Internal Audit function discussed the group audit report prepared for the fiscal year under review at length with the Committee and explained any existing deficits as well as improvements which had been made during the course of the fiscal year. The head of the Compliance Committee informed the Audit Committee of the certification of the compliance management system within the Group.

At its second meeting, the Audit Committee considered the half-yearly financial statements of the Group as at March 31, 2014, building on earlier briefings as well as the effectiveness of the implemented measures of the risk management system at Voith and how to handle major risks.

The shareholders' meeting on February 21, 2014 granted discharge to the Management Board and the Supervisory Board for their activities in the 2012/13 fiscal year and again appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as auditors for the 2013/14 fiscal year. The Supervisory Board subsequently approved the corresponding request to appoint the auditors.

By resolution of the shareholders' meeting dated June 10, 2014 Dr. Siegfried Dais and Ton Büchner were appointed successors to Dr. Manfred Bischoff and Dr. Heinrich Weiss, who stepped down from the Supervisory Board as at September 30, 2014 due to age. In the meeting of the Supervisory Board dated June 11, 2014, Prof. Dr.-Ing. Dr.-Ing. E.h. Hans-Peter Keitel was appointed Chairman of the Supervisory Board as at October 1, 2014 as successor to Dr. Manfred Bischoff.

The Supervisory Board would like to thank both long-serving members of the Supervisory Board, Dr. Bischoff and Dr. Weiss, for their constructive working relationship based on mutual trust. Both men have accompanied the development of the Company over many years with great dedication and contributed their experience to Voith. The Supervisory Board would like to wish Dr. Bischoff and Dr. Weiss all the best for the future.

The auditor examined and granted its unqualified audit opinion on the accounting records, the annual financial statements and Group management report of Voith GmbH and the consolidated financial statements and Group management report for the Voith Group as at September 30, 2014. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft paid special attention to “Compliance of the accounting process” and “Pension Provisions (IAS 19)” in accordance with the mandate laid down by the Supervisory Board.

At its meeting on December 8, 2014, the Audit Committee examined the annual financial statements prepared for Voith GmbH and the Group and recommended that the Supervisory Board approve said financial statements, which it did at its meeting on December 9, 2014. Both meetings were attended by the relevant member of the auditor’s Management Board and the person who led the audit. They explained the significant audit findings and were available to provide additional information. The Supervisory Board also approved the management report of Voith GmbH and the Group and concurred in the proposal submitted by management regarding the appropriation of net income.

Finally, the Supervisory Board would like to thank the members of management of Voith GmbH, the management of the subsidiaries and the representatives of the workforce, but most of all the employees for their dedicated service and successful work under difficult conditions in the fiscal year under review, which has posed considerable challenges for the employees.

Heidenheim, December 9, 2014

Prof. Dr.-Ing. Dr.-Ing. E. h. Hans-Peter Keitel
Chairman of the Supervisory Board

The Supervisory Board

Dr. Manfred Bischoff
Chairman, Chairman of the Supervisory Board Daimler AG, Stuttgart / Germany (until 2014-09-30)

Prof. Dr.-Ing. Dr.-Ing. E. h. Hans-Peter Keitel
Chairman (since 2014-10-01), Vice President of the Federation of German Industry e. V., Berlin / Germany

Gerd Schaible*
Deputy Chairman, Head of secretariat of the corporate works council of Voith GmbH, Heidenheim / Germany

Walter Beraus*
Secretary of the Metalworkers' Union, Regional Organization Baden-Württemberg, Stuttgart / Germany

Thomas Brezina*
Member of the works council of the common entity of companies of Voith Paper Heidenheim, Heidenheim / Germany

Ton Büchner
CEO and Chairman of the Board of Management AkzoNobel NV Amsterdam / the Netherlands (since 2014-10-01)

Dr. Siegfried Dais
Associate of Robert Bosch Industrietreuhand KG, Stuttgart / Germany (since 2014-10-01)

Ulrich Eckelmann*
General Secretary industriAll European Trade Union, Brussels / Belgium

Sonja Gorsch
Teacher, Erftstadt / Germany

Prof. Dr. Bernd Gottschalk
Member of the Board of Management of Mercedes-Benz AG (retired)

Johannes Hammacher
Executive Vice President of Familiengesellschaft J.M. Voith GbR, Mannheim / Germany

Dr. Alan Hippe
Member of the Corporate Executive Committee F. Hoffmann-La Roche AG, Basel / Switzerland

Michael Koob*
Construction Manager,
Voith Industrial Services,
Speyer / Germany

Dr. phil.
Nicola Leibinger-Kammüller
President of the Board of Management of Trumpf GmbH + Co. KG,
Ditzingen / Germany

Dr. Volker Linden*
Head of Industrial Property Rights,
Voith GmbH, Heidenheim / Germany

Dr. Ophelia Nick
Veterinarian, Wülfrath / Germany

Richard Obermeier*
Chairman of the works council of Voith Paper GmbH & Co. KG,
Ravensburg / Germany

Gerold Schaubmayr*
Chairman of the works council of Voith Turbo GmbH & Co. KG,
Crailsheim / Germany

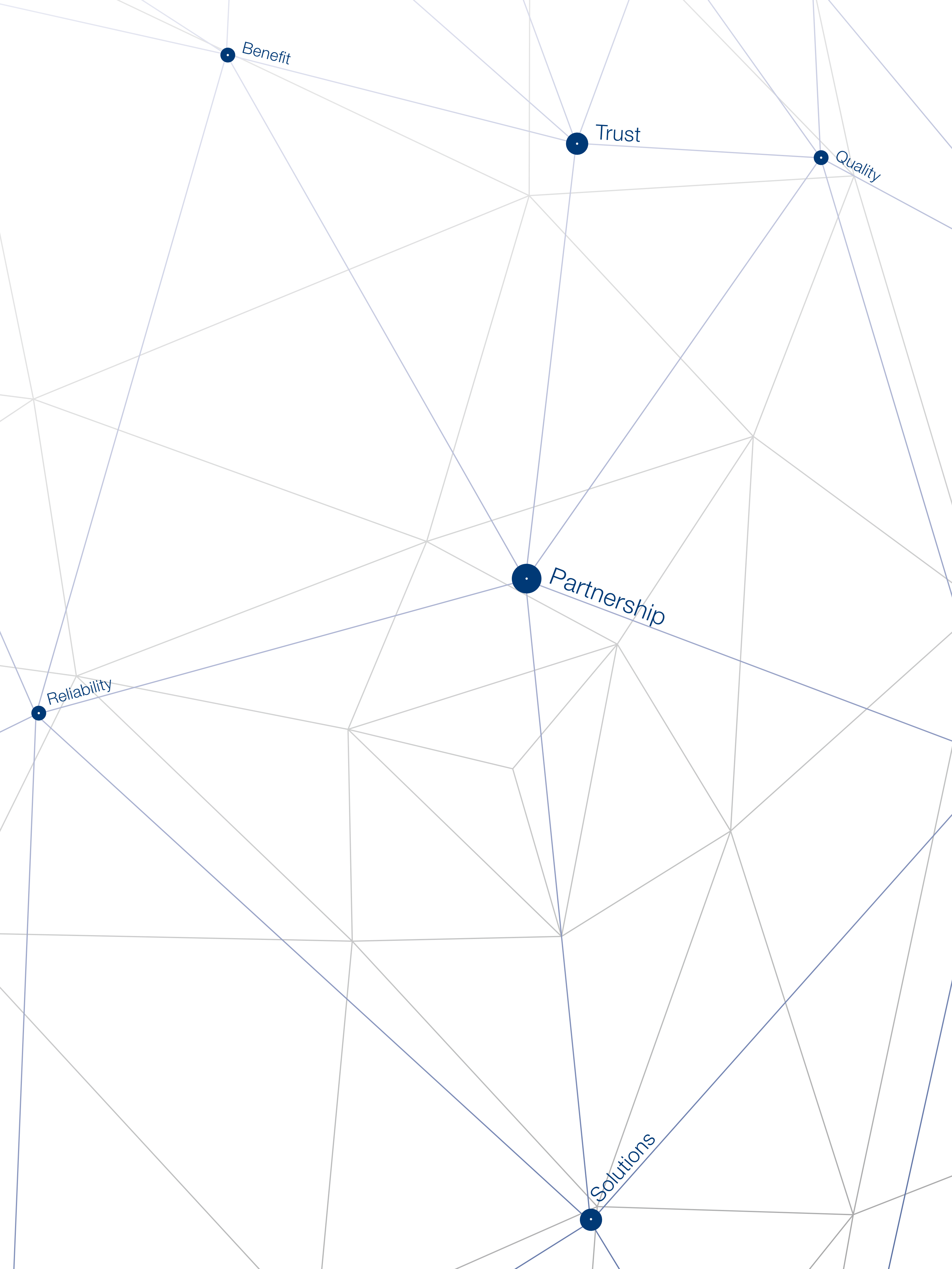
Ute Schurr*
Chairwoman of the works council of the common entity of companies of Voith Turbo Heidenheim,
Heidenheim / Germany

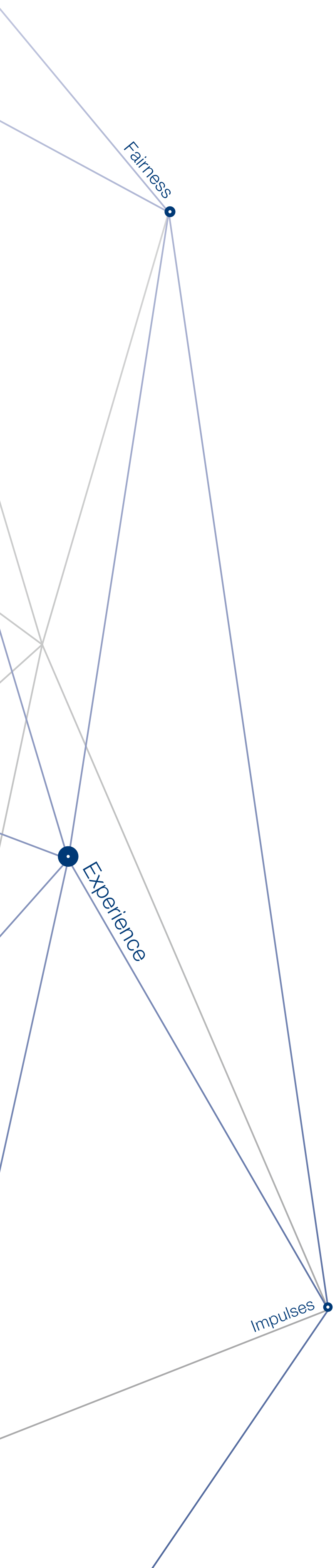
Klemens Schweppenhäuser
Member of the Board of Management of Familiengesellschaft J.M. Voith GbR,
Mannheim / Germany

Dr.-Ing. E. h. Heinrich Weiss
Chairman of the Supervisory Board of SMS GmbH,
Düsseldorf / Germany
(until 2014-09-30)

Ralf Willeck*
First Authorized Representative IG Metall (Metalworkers' Union),
Heidenheim / Germany

* Elected by the employees.


Benefit
Trust
Quality
Partnership
Reliability
Solutions



Verbindungen
Relations
联系 lián xì
Relacionamentos

Customers first. Customers are at the very center of all Voith’s activities. Above all, we pursue one goal: with our goods and services we want to provide customers with benefits. Make customers more successful on the market. Offer them more than others do. And this applies equally well to our customers in India, China and Austria as it does to our customers in Oman, Germany and Brazil.

But what are the defining characteristics of a healthy partnership? Offering the best products? Certainly. Contributing experience? Most definitely. Being an expert in the field? Yes, that too. But most of all, it needs one thing in particular: relations and a connection to customers. This is the sole foundation of a successful partnership. Having relations means understanding one another. Having a connection means trusting one another. Having relations means being able to rely on one another.

The annual report for 2014 tells of such relations. They are stories of longevity and genuine partnership. Of optimum rather than maximum solutions, of expertise and quality. Of new stimulus and tradition, of trust, sympathy and fairness. They are stories of Voith and its customers.

The three ladies from the Mur

Three Francis turbines from Voith were in service at Pernegg in Austria for more than 80 years. They became monuments even while they were still in operation. This is a story of three ladies with staying power, who are only just now making way for a new generation.

35,000
households

Andreas Huterer, a technician at the Pernegg hydropower plant, always had time to listen to Irmgard, Eva and Margot. Nowadays, he always needs his laptop to maintain the Voith turbines.

Idyllic falls - the Mur river drops 17 meters on its way down the valley. A beautiful place for a hydropower plant.

In 1987 the apprentice Andreas Huterer was instructed on how to handle Margot, who was already 60 years old at the time. Margot was one of three Francis turbines manufactured by Voith that the workers at the Pernegg hydropower plant had affectionately christened Eva, Margot and Irmgard. "Mechanics worked by ear," reminisces Huterer. He, too, learned how to inspect the machines using his hearing. "These turbines can tell how they are feeling by the noises they make."

Margot – red, round, roomy. A glorious example of a turbine, or, as Huterer puts it, "She's absolutely awesome." Nowadays she is on display on the front grounds of the hydropower plant as a technical monument. Originally put into operation in 1927 as one of the three ladies from the Mur, she ran for 600,000 operating hours without faltering. "It was a really strange feeling when she was lifted out of the power plant in 2013," says Huterer. "Each of them was unique. They all had character."

Verbund AG operates the Pernegg location. 90 percent of the power generated by Austria's largest producer of electricity comes from hydropower sources. The turbines at Pernegg provide power for up to 35,000 households. The power plant nestles in the bottom of a valley in Styria, tucked in by gentle hills. Only the imposing Rote Wand rock face dominates the scene. The air carries a hydrophonic symphony composed of roaring, foaming, splashing and dropping water. At this point, the idyllic river Mur drops almost 17 meters down the valley – the perfect location for a hydropower plant.

Where water drops a long way, mechanics must climb high. Andreas Huterer takes the steps two at a time. The agile mechanic in his mid-forties grew up in the region. He wears his gray overalls from which his mobile phone dangles like a pocket watch. The daily round takes him to the surge tank, access to which is from the top floor. From here, he can look down on the three new units, i.e. the combined turbines and generators supplied and installed by Voith in 2013. The modern Kaplan turbines feature a high performance range, are particularly well-suited to low heads and, moreover, are of an elegant design. The mechanics are hardly visible. Electronic displays light up in their place. Currently they indicate that one turbine is generating 8.1 MW. Margot was capable of generating slightly more than 6 MW.

His telephone rings. “I’m on my way!” Huterer calls, and, on his way down the stairs, runs into Daniel Holzinger. The Voith manager for assembly operations is visiting to prepare a regular maintenance check for a Voith turbine at another power plant operated by Verbund. As is usual, Holzing and Huterer discuss the tools needed for the job. In their strong local dialect they talk shop about load rings and and M36 high-tensile ring bolts.

The order for the three new units substantiates the excellent relationship that has lasted between the two companies for generations. So says Rupert Emsenhuber, who was in charge of coordinating the installation of the new turbines. “Doing this in the old building was a real technical challenge.” Despite the issues, the installation was completed on schedule because, as Emsenhuber puts it, we all pulled together. “If the customer has a problem, we help. When we have a problem, we address it and benefit from the assistance given by the customer.” Verbund put the power plant back on line in 2013 after three years of refurbishment. Voith completed the project on schedule.

The days in which Andreas Huterer monitored the turbines by ear are now gone. “Without a laptop, we cannot find anything,” he smiles and points to the colorful array of cables in a switching cabinet. “On top of that, turbines nowadays are far too quiet.” Just underneath Huterer a massive steel turbine is rotating at 200 rpm. The load on the foundation is more than 70 tons per square meter and the only sign of all that energy is a slight hum. Nothing shakes, nothing vibrates. Everything is running as it should. The best beginnings, therefore, for the new generation of Voith turbines to gain as much fame as Eva, Margot and Irmgard.

The giant from Xiluodu

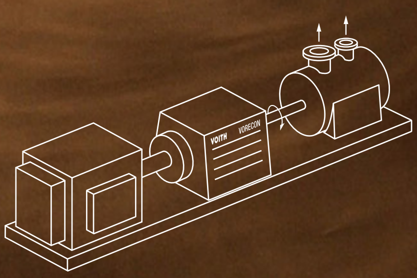
Generator Number 8 at the Xiluodu power plant in China induces **855.6** megavolt amperes – one of the most powerful generators in the entire world. 18 of these mega units have successively gone on line at Xiluodu since 2013, making the plant with installed capacity of around 14 gigawatts the third-largest hydropower plant in the world. Voith constructed three such generators directly on-site. Transportation would have been impossible as the rotor of the generator alone weighs as much as three fully laden Boeing 747s.

The new generation – the state-of-the-art Voith turbines provide a compelling argument based on performance and sheer elegance. They have not yet been given names.

Team work – Martin Tatzl (left) and Andreas Huterer from Verbund AG discuss the list of tools needed for maintenance work with the supervisor from Voith, Daniel Holzinger.

Reliable in the extreme

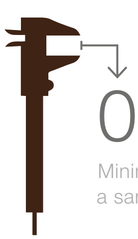
33 Vorecons are destined for oil and gas fields in Oman. To date, 23 of these have been installed at a total of ten facilities. In the desert areas, such as Yibal, the Vorecons have to withstand the heat and sandstorms. The Vorecon is a hydrodynamic variable speed planetary gear which controls the speed of compressors used to compress natural gas extracted from the wells to obtain the pressure at the surface needed to pipe it to the processing plants. The extreme environmental conditions place the most harsh and severe demands on the technology. In face of heat and dust, the robust Vorecon gears run efficiently and without interruption. Voith delivers this technology to Petroleum Development Oman (PDO). The close cooperation between Voith and PDO stands its ground over a number of decades. For example, Voith incorporates the lessons learned flowing back from the customer during plant operations to refine its technology. “We jointly develop our drive systems into new PDO sites and implement our commonly reached understanding directly into Voith’s engineering efforts in order to meet customer requirements,” says Alexander Schust, Area Manager Technical Sales at Voith Turbo. He describes this designing practice as “engineered in cooperation.” At present, the engineers from Oman and Crailsheim are specifying the technical parameters of the Vorecons that will be installed in the desert up until the year 2024.



Compact and robust – Vorecons regulate compressors and pumps at 95% efficiency.

Extreme data

Mean time between failure (MTBF) of a Vorecon under these conditions.



0.002 mm

Minimum particle size blown by a sandstorm through the air.

10 m/s

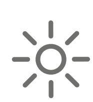
Transportation speed of these particles during a sandstorm.

60°C

Maximum temperature in the shade.

Statistical availability of a Vorecon under these conditions.

82°C



Maximum temperature in the sun.

Maintenance interval of a Vorecon under these conditions.

Luiz Rossi, in charge of operations excellence in Brazil, is passionate about transformations. His goal: shorter processing times.

20
key components

The Excellence Factory

A good customer relationship begins in the factory. Any manufacturer who has installed efficient processes in their own operations helps customers by giving them the most important commodity of all: time.

1 Listening – the path to excellent production starts with a talk.

2 Regular communication with colleagues – frequently a source of new ways of making processes more efficient.

Naturally, there is always something that can be improved. However, the fact that this can lead to such impressive results in a modern factory that has already installed optimized production processes nevertheless stunned Luiz Rossi. “By eliminating waiting times, operations excellence can usually reduce production time by 50 percent or more.” Rossi can let this statement stand for the time being.

The Brazilian is in charge of operations excellence at the Voith location in São Paulo. The turbines manufactured by the facility there are as large as a family house. Rossi and Leonardo Nuzzi, the head of production in Brazil, managed to halve the production time for generator components in the first stage of a company-wide initiative to streamline operations. The component is just one of roughly 20 key components and this illustrates the potential for even more time-savings. Voith plans to become even faster for its customers. Delivery dates are an important sales argument. Luiz Rossi says: “The earlier customers put their power plants into operation, the sooner they earn money.”

When Jürgen Lochner talks of the Excellent Factory in Heidenheim, he knows he is speaking of an intangible good. “There’s no DIN standard for an excellent factory.” Yet Lochner, who is responsible for operations excellence in the Voith Group worldwide, has a clear idea of what excellence in production means. “If we want to keep raising the already high standards at our factories, we need a change in our mindset.” He is referring to the truism that less can be more.

This actually involves putting the cart before the horse, as the saying goes, for the production process of a product needs to be viewed from the perspective of the customer and followed backwards through the factory. Swimming against the current in this way led to the insight that there are steps which can be efficiently combined or are even unnecessary. For example, there are materials which spend more time in logistics and storage than actual processing. “Often these are trivial amounts of idle time, but in such a complex process they can add up to a significant figure,” says Lochner.

1 A look at the figures – Luiz Rossi must substantiate all reengineering of production processes with figures.

2 All colleagues are involved in implementation to ensure that the customer profits from shorter production times.

Talking, changing mindsets, implementing the plan

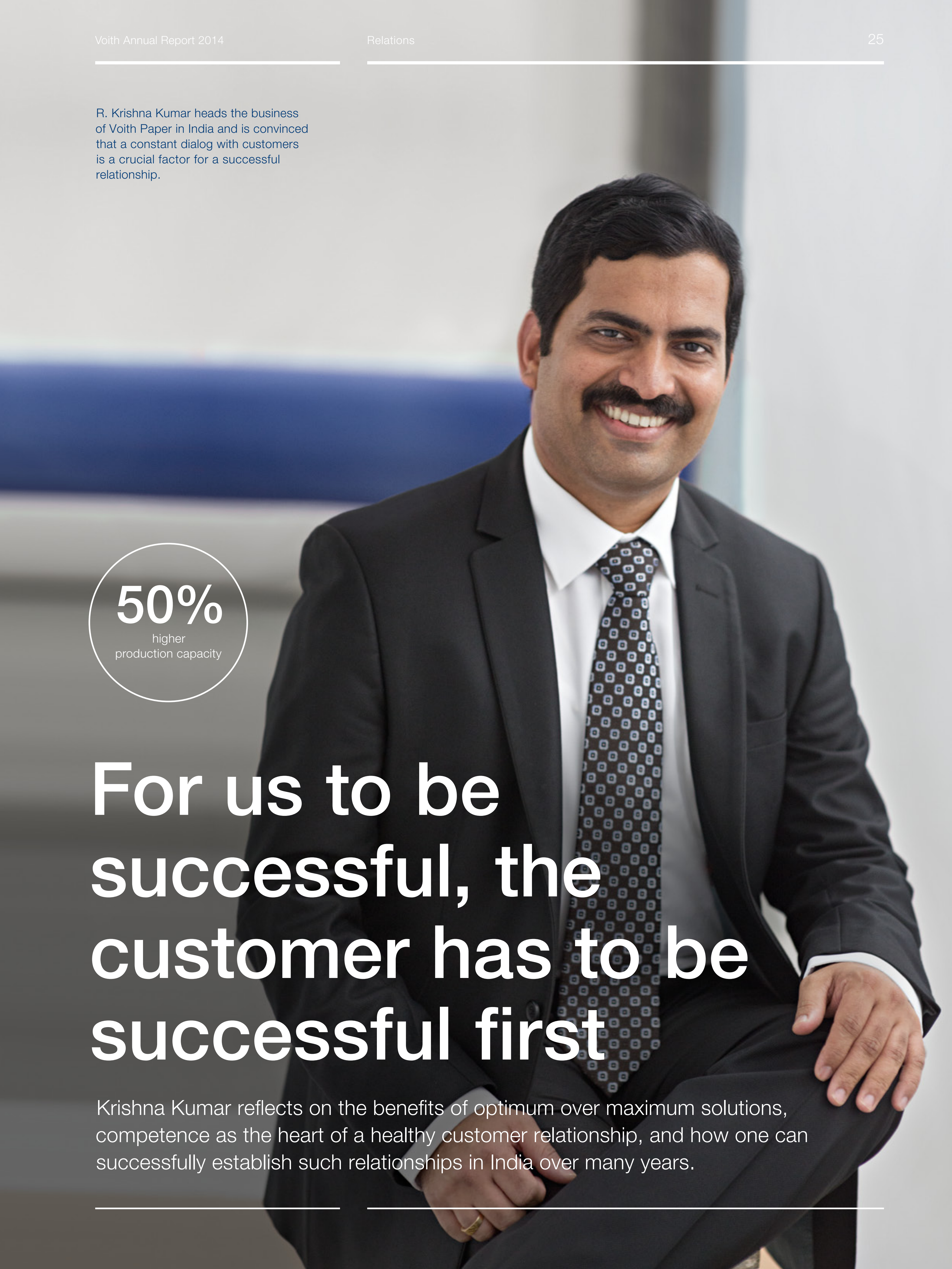
In the turbine production in São Paulo the production of individual components can sometimes take several months. Yet the individual steps involved are measured in seconds sometimes. Luiz Rossi explains: “If there is a step that takes 30 seconds for example, then we do not necessarily want to reduce this time, but instead speed things up by investing this time only on high-quality work on the product and not on transporting material from A to B or looking for tools.”

Operations excellence is not a stand-alone savings program. Rather, it frees up valuable time in the various processes. The workers in the factory often have a very clear idea of how that works, as Luiz Rossi found out when he started the streamlining process in São Paulo. “Swapping notes with everyone involved in production is a key principle and the first step of our analysis.”

This is how a shift in mindset begins. Implementation is then a matter of setting quantitative goals for the ideas and plans. “We shouldn’t remain vague when we seek change,” says Jürgen Lochner. After carefully talking over the issues, work starts on the calculations.

With regard to the generator parts, for example, the time and motion studies of processing, storage and logistics delivered specific goals for a change in the mindset during production. Other details are also critically important: A change in the workflows of maintenance and programming improved machine operating hours by 50 percent. Stocks of materials at the machine were cut back, the workforce became more motivated and all of this will soon become noticeable to customers, for they will take delivery of their turbines even faster in future.

R. Krishna Kumar heads the business of Voith Paper in India and is convinced that a constant dialog with customers is a crucial factor for a successful relationship.



50%
higher production capacity

For us to be successful, the customer has to be successful first

Krishna Kumar reflects on the benefits of optimum over maximum solutions, competence as the heart of a healthy customer relationship, and how one can successfully establish such relationships in India over many years.

At Voith, competence is understood to mean offering the customer the optimum solution to meet its needs.

Let's talk about a good customer relationship, what do you think constitutes a good one?

Krishna Kumar: When we are in constant dialog with our customers and not just because we want to sell something. Customers want to hear our opinion about what products they need, how they can optimize their processes and what trends are important for them. We have to understand for us to be successful, the customer has to be successful first.

But how do you do this day-to-day?

It is important to invest in customer relationships – and that applies to everyone, from technologists to sales staff. These contacts are important. I also try to make contact with as many different people at the customer as possible in as many different fields as possible, and not just with my direct contacts in management.

What is important at an informal level in India?

The most important informal and formal factor is being accessible. Whoever asks me or one of my staff a question gets a response. On a private level, birthdays, weddings and other festive occasions are extremely important in India. This is also reflected in the fact that we often congratulate the family members of our customers.

What are the differences in attitude between Indians and Germans?

The directness of Germans, which I really appreciate, can be quite problematic in India. For us, age, social status and hierarchies are extremely important. Even the very best expert cannot simply go up to the boss here and tell him how to do things, regardless of whether he's objectively right or not. We respect the opinions of the people we talk to, agree with them politely and then make suggestions. The customer is always the one to make the decision. The more we try to convince them of our opinion, the more likely they are to insist on their own.

So how do you manage to win over a customer to your point of view?

The customer knows that we understand our business better than virtually anybody else. We need to live up

Tamilnadu Newsprint and Papers (TNPL) is one of India's leading fiber and paper manufacturers. The company operates three paper machines from Voith Paper, the last of which was the PM 3 plant for producing printing paper and writing paper. The contract for a fourth machine for the production of coated board is currently being processed by Voith Paper.

to this reputation every day. Likewise, being a global player, it helps us to have a local face in India. We employ local employees at all levels who can pursue their careers with us, receive training and become important contacts for our customers locally. For me it is an important sign of respect, not only to have foreign experts available but to also make clear that we trust the competence of the locals.

This year, TNPL, one of India's largest paper manufacturers, ordered its fourth paper machine from Voith. Could you explain the background to this decision?

This latest order is a great illustration of our philosophy. Tamilnadu told us what they wanted to do. We helped them find the right machine and size for this project. We then proposed a solution that was optimally tailored to their needs.

What does that mean exactly? What do you understand to be a tailored solution?

India is a very special market that is not as developed in many respects as the countries in Europe. For this reason it is critical that we listen very carefully to all of our customers to find the right solution out of our wide range of products for the respective needs of each individual paper manufacturer. In a market like India, our customers primarily demand mid-sized machines that are extremely reliable and comprise components that have stood the test of time. Our customers know that we can also produce machines that go to the very limit of what is technically feasible, but the question is, does this help our customer?

And, does it?

We have been the sole market player to offer a less sophisticated mid-sized paper machine that is exactly the right choice for our customer to meet the demand for board on their market. We invited the customer to inspect similar machines operated by other customers of ours in India and in Europe. Moreover, the customer also performed their own printing trials. After the customer weighed up all the offers made within the course of the rigorous global tender process, they chose us. With this new line, the annual production capacity of our customer is scheduled to grow by 50 percent.

Test run at the customer

Steinbeis Papier GmbH realized energy savings of **37%** in a test run of its recycling paper operation after refitting with LEF technology. This long-standing customer of Voith confirms the effectiveness of Voith's hydrodynamic improvement in the flotation subsystem for cleaning recycled paper. The test run of the LowEnergyFlotation system in 2012 saved time and enhanced the reputation of the product. "Such instances of cooperation necessitate the trust of the customer. They must feel confident that they are going to receive an attractive product from us," says product manager Reinhard Bluhm. LEF technology is nowadays an integral component of plant refurbishments and new machines as it can lead to energy savings of up to 50%.

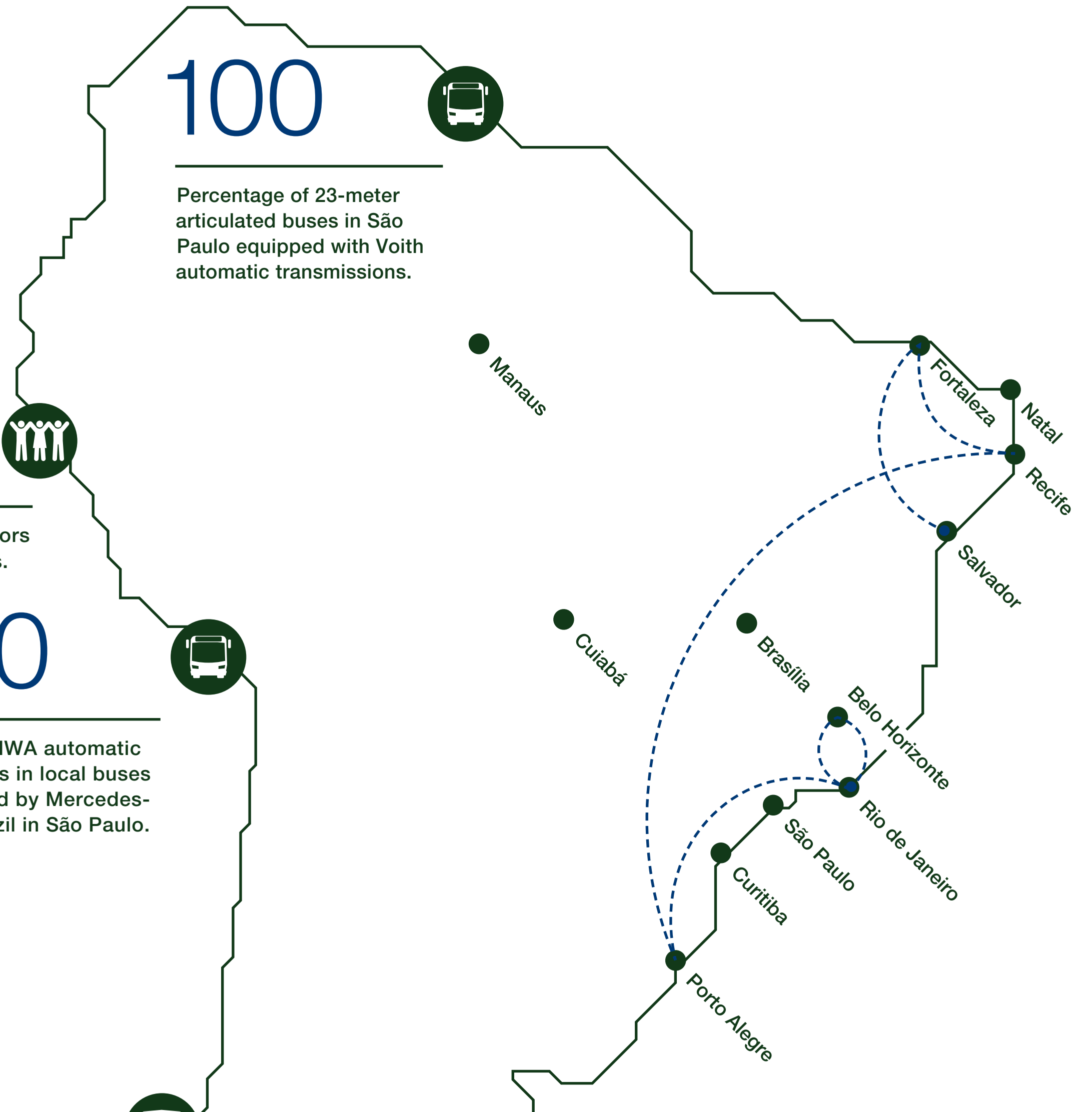
World champions on the way – for 50 seasons

2014 was an exceptional year – for soccer fans and for Voith. In Brazil, the German soccer team was crowned world champion for the fourth time. Moreover, in the very same year, Voith celebrated its 50th anniversary in Brazil. Voith's products and services have been keeping Brazil on the move ever since the the first subsidiary outside of Europe was founded in 1964. In 2014 millions of fans made the pilgrimage to the games. Most of the fans made at least some part of the trip on buses and trains incorporating components from Voith. Voith's key players at the FIFA World Cup 2014 were RailPacks, Scharfenberg couplers, gear units and DIWA automatic transmissions. Voith also had a hand in supplying the power, too, via its turbines and generators. A look back at the 2014 soccer highlights from a mobility perspective in figures:

To keep things turning

50 bogies designed by Voith Engineering Services were produced so far by the Brazilian customer, Bom Sinal, in 2014. The long-term business relationship with Voith Turbo, which has supplied RailPacks to the Brazilian local train manufacturer for decades, thus gave rise to a new business relationship for the colleagues at Voith Engineering Services: Over 500 development experts based in Chemnitz have unique experience with rail vehicles. For example, they have been the preferred supplier to Bombardier for 20 years. This development expertise will be exploited at an international level to a much greater extent in future – with engineers from China, Russia, India and other countries. The new drive solutions for Bom Sinal signal a successful start. Negotiations are currently being held on the joint development of a tram.

50 years
Voith Brazil



100

Percentage of 23-meter articulated buses in São Paulo equipped with Voith automatic transmissions.

3,429,873

Total number of spectators for all World Cup games.

500

Number of DIWA automatic transmissions in local buses manufactured by Mercedes-Benz do Brazil in São Paulo.

70

Number of Voith RailPacks used for local trains between Fortaleza, Recife, Maceió, Natal and João Pessoa.

4,000

Number of Voith DIWA automatic transmissions used for local transport at the World Cup locations.

Voith gets soccer fans moving

Anyone tracking the German soccer team to all of its World Cup games would have covered a distance of **8,100 kilometers** by road. This most likely means that fans would have followed the team's example and flown.

Once at the venue, it was then time to **switch to Voith**: Our components are used in many commuter trains, regional buses and long-distance coaches that make up the modernized infrastructure.

Itinerary of the German National Soccer Team 2014

16.06. Salvador de Bahia
Germany – Portugal 4:0

21.06. Fortaleza
Germany – Ghana 2:2

26.06. Recife
USA – Germany 0:1

30.06. Porto Alegre
Germany – Algeria 2:1

04.07. Rio de Janeiro
France – Germany 0:1

08.07. Belo Horizonte
Brazil – Germany 1:7

13.07. Rio de Janeiro
Germany – Argentina 1:0

18,250
days of
customer relationship

Always ready to respond

Short detour to Thuringia: At Arnstadt and Kölleda, Voith Industrial Services works under one roof with two subsidiaries of Daimler AG. Impressions of a customer relationship that lives on trust and a will to perform.

1 No fear of sophisticated technology – Matthias Roth from Voith Industrial Services maintains state-of-the-art production robots. Pace and expertise are of the essence.

2 Don’t skew it! – inventory logistics is one of the tasks performed by Voith at the MDC facility.

Robert Passlack scurries across the gray concrete floor of the production hall of MDC Technology, whizzing past the whirring machinery and buzzing gesticulations of the robots. This subsidiary of Daimler AG manufactures crankcases for Mercedes-Benz car engines on a production space equivalent in size to roughly two soccer fields.

The factory was constructed in 2012. Voith was on board as a service provider from the beginning. This follows the pattern established ten years ago at MDC Power in Kölleda, another Daimler AG facility used to manufacture engines, located 60 km away. Nowadays 80 Voith employees perform services at each location. The Voith staff are assigned a variety of tasks, such as repairs and maintenance of machines, planning the processes involved in redesigning factory layouts, driving forklifts, helping in the incoming goods department, loading and unloading trucks, managing stores, cleaning and also in facility management. A colorful variety of jobs, or as Passlack, the foreman of Voith Industrial Services in charge of Arnstadt, puts it: “We’ve got the customer’s back covered.” MDC Technology can therefore concentrate on its core business.

The cooperation with Daimler has been in place for over fifty years already. The evolution of the arrangement over time has resulted in new tasks and duties constantly being added to the service package, and at MDC now extends, for example, to the technically challenging task of cleaning highly sensitive technology in the automated production process using ultrasound, highly compressed air and dry ice instead of cleaning rags.

1 Right at the heart of the customer – Ralf Böx (left), Voith foreman at the MDC facility in Kölleda and Arnstadt and Robert Passlack, in charge of Voith Industrial Services in Arnstadt, standing at the MDC's production line.

2 Trust implies responsibility – Olaf Heyer and Robert Passlack focus on every detail of the customer's work.

Finger on the pulse

Robert Passlack is in charge of the activities of Voith Industrial Services at the components facility in Arnstadt. The 28-year-old technician touches base each day with his contact from MDC Technology. We leafed through his calendar.

8:30 a.m.

The early meeting: At the meeting to start the day, the managers in charge at MDC Technology discuss the coming day's production. We report on the current status of our work. What maintenance needs to be performed? Do any machines have to be prepared for production tests? When everything is running smoothly the mood is correspondingly bright.

9:30 a.m.

Inspection round/repairs: The daily round of checking on repairs and maintenance. The production facility is chock-full of high-tech machinery. We maintain pumps that run at 3,000 bar and drills that have to work at an accuracy measured in microns. Time is of the essence to prevent any interruption to production.

11:30 a.m.

Midday meeting: We discuss the afternoon shift before the lunch break. At 2 p.m. a new batch of casings is ready for processing. But first the plant needs to be programmed accordingly. In addition, we get a message that the water needs to be changed in one of the washing machines used to clean the crankcases.

2:00 p.m.

New shift: Morning shift workers briefly swap notes with their colleagues on the afternoon shift. Industrial safety is also on the agenda today. Noise levels in the manufacturing hall frequently climb over 80 db – as loud as a pneumatic drill. Ear protection is mandatory.

4:00 p.m.

Project planning: In parallel to the daily business, we assist in the planning for the new projects together with MDC Technology: possible expansion of the production lines, planting out the roof with green cover, installing a ventilation duct, ensuring the fire extinguishers are where they should be. We are the point of first contact for a wide range of our customer's needs.

Milestones in the cooperation between Voith Industrial Services and Daimler AG

1963

First contract awarded by Daimler-Benz AG at the Gaggenau facility Shifting machine cleaning from production time to the weekend

1965

First contract for cleaning the painting shop in Sindelfingen Introduction of fixed cleaning tasks to improve the quality of the process

1971

First contract for infrastructural facility management services at the facility in Untertürkheim Focus of production workers firmly placed on production

1988

First contract for construction-related services at the Group headquarters in Möhringen Entry into the market for infrastructure services at Daimler's new location

1998

First contract at a foreign facility at Juiz di Fora, Brazil Maintenance services performed during production time

2002

First contract for a complete suite of facility management services at the Kölleda facility Bundling of indirect services into one package during the establishment of a powertrain production facility

2009

Accompanying the construction of the facility at Kecskemét, Hungary Expertise in setting up a new facility transferred from the model used at Rastatt and Sindelfingen

2010

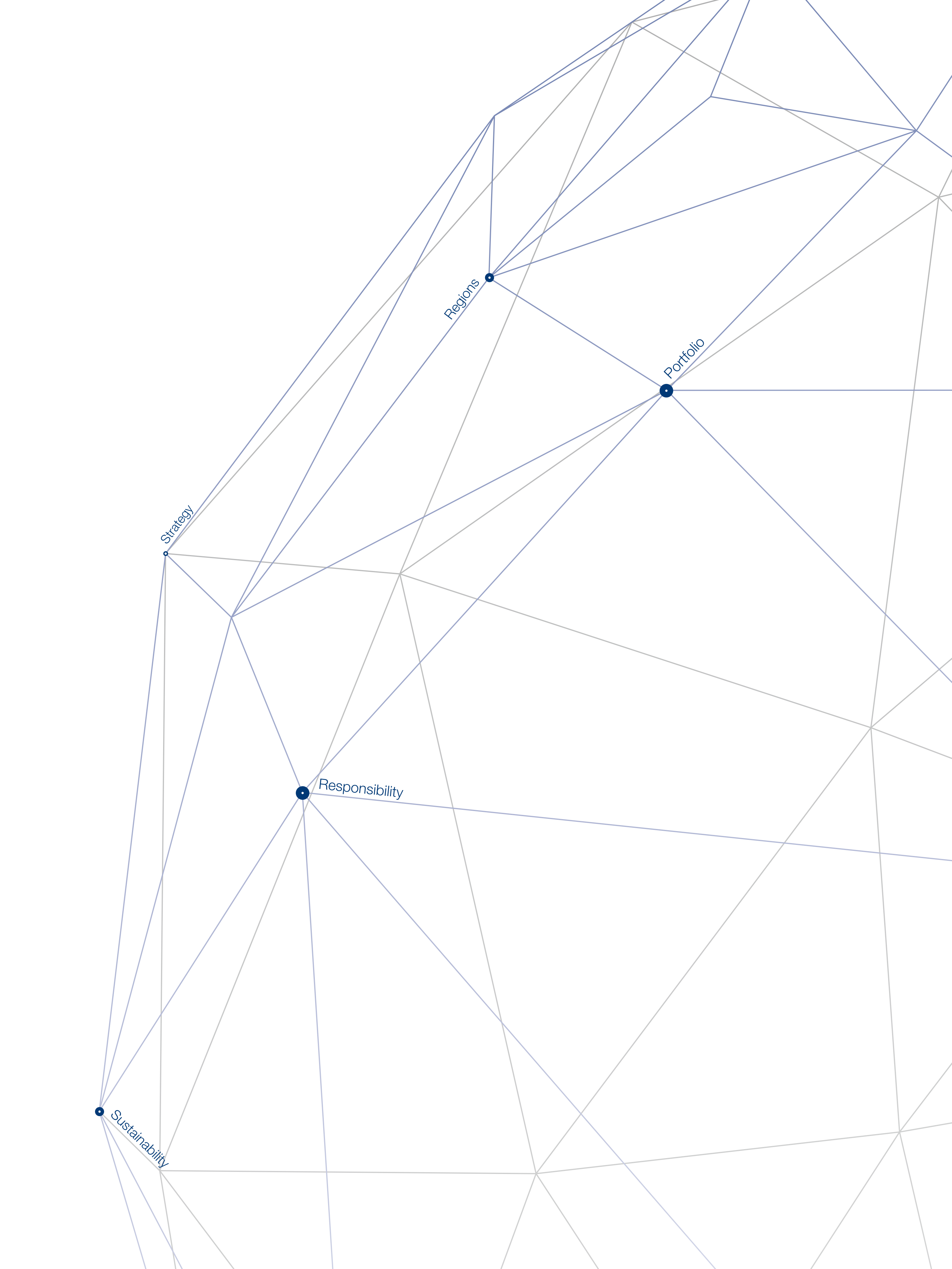
First contract for maintaining the shell of the building for the facility in Bremen Assuming the operator's tasks and duties upon end of the model's serial production

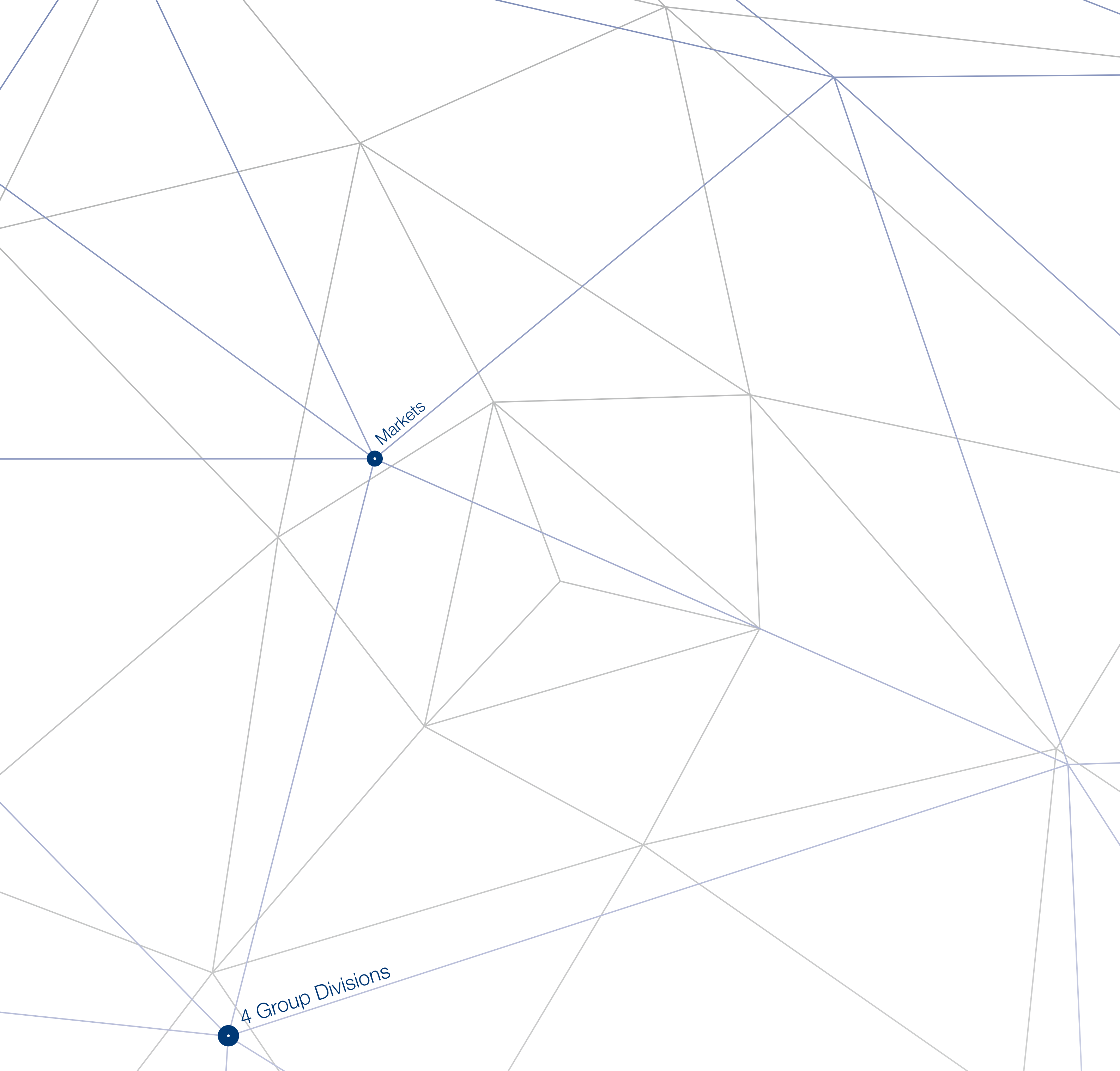
2013

First automation project for a car model at the Bremen facility Exploiting process expertise to support the transition to a new model

Daimler Supplier Award 2013

Voith has been serving Daimler facilities all around the globe for more than 50 years. In March, Voith Industrial Services, one of the best Daimler suppliers, was awarded the Daimler Supplier Award 2013 in recognition of its innovative solutions, high level of commitment and outstanding expertise in technical and infrastructural facility management. Markus Glaser-Gallion, Member of the Board of Management Voith Industrial Services and in charge of the Automotive Division, says: “Our customers appreciate the decades of experience we have gathered in the automotive sector, our high quality standards and the day-to-day reliability of our staff to deliver on our promises – globally, at all foreign locations operated by our customers.”


Regions
Portfolio
Strategy
Responsibility
Sustainability



Group Management Report

01 Background

Voith is a global technology group. With its diversified product and service portfolio, Voith sets standards in the markets of energy, oil & gas, paper, raw materials and transport & automotive. Founded in 1867, Voith today has locations in more than 50 countries worldwide and is working on further deepening its roots in the international markets. As a family-owned company, Voith is focused on sustainable profitable growth.

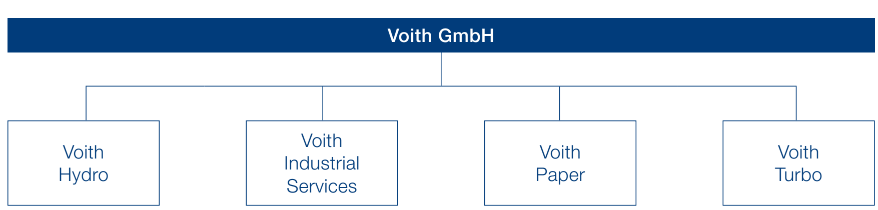
01.1. Group structure and business activities

Family-owned, global technology group

Voith is a global technology group. With its broad portfolio of systems, products and industrial services, Voith serves five essential markets: energy, oil & gas, paper, raw materials and transport & automotive. Voith operates in over 50 countries around the globe, maintaining an extensive network of production, service and sales units on every continent on the planet.

Voith GmbH, based in Heidenheim an der Brenz, Germany, is the operative management holding company of the Group. It is 100% family owned. The management of Voith GmbH is responsible for strategy and operative management of the Group. The advisory and supervisory bodies are the Shareholders' Committee and the Supervisory Board. The latter is also in charge of monitoring management.

Organizational structure
Voith Group Divisions



Four Group Divisions

The operating business is bundled in four Group Divisions: Voith Hydro, Voith Industrial Services, Voith Paper and Voith Turbo. In each Group Division, legally independent head organizations oversee the activities of the Division's subsidiaries.

As a full-line supplier for equipping hydropower plants, Voith Hydro is one of the world's leading industrial partners for hydropower plant operators. This applies both to the field of electricity generation and the pumped storage of energy. Voith Hydro's portfolio of products and services covers the entire life cycle and supplies all major components for large and small hydro plants: from generators, turbines, pumps and automation systems right through to aftermarket business in spare parts and maintenance services.

Voith Industrial Services is a leading supplier of technical services to the automotive, energy, chemical and petrochemical industries, all of which are of key importance in today's world. Its portfolio of services ranges from facility management, maintenance, automation and installation through to planning and development.

As a partner and pioneer to the paper industry, Voith Paper provides technologies, products and services for the entire paper manufacturing process, all from a single source. Its continuous stream of innovations optimizes the paper manufacturing process. The focus is on developing products and technologies aimed at ensuring maximum efficiency in the consumption of energy, water and fiber in order to conserve resources.

Voith Turbo helps millions of people, goods and machines to move safely from place to place each and every day. Voith Turbo's technologies transmit and control power under extreme conditions – safely and in a resource-efficient manner. Smart drive solutions and highly engineered components and systems from Voith are used in a wide range of industries, wherever power has to be converted into controlled movement.

01.2. Management system

The key financial performance indicators for the Voith Group are the development of sales and orders received as well as the profit from operations and return on capital employed (ROCE).

The profit from operations is calculated from operating activities and is the result of sales and costs plus operating interest income but before the financial result and income taxes.

The profit from operations is based on an operational indicator derived from the external reporting: operational result before non-recurring items. To derive the profit from operations, the operating interest income and several other adjustment items are added to the latter. Operating interest income comprises income received from 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 contain effects which, based on their operating character, are normally shown as other operating income and expenses. In determining the profit from operations, these adjustments are eliminated as non-recurring effects so as to facilitate the assessment of the activities by segment.

Capital employed describes the funds associated with generating sales within the Company. These primarily comprise property, plant and equipment and net working capital.

For more information on the calculation of the ROCE, see also section “Notes on segment reporting” in the notes to the financial statements.

The ROCE is calculated by bringing the profit from operations and capital employed into relation with each other.

This act of bringing a performance indicator from the statement of income (profit from operations) into relation with a stock variable from the balance sheet (capital employed) complies with generally accepted standards for overall company management and with value-based management.

The indicators and reports submitted to the Corporate Board of Management of Voith GmbH as well as within the Group Divisions and the operating companies are based on these group management ratios.

01.3. Values, guidelines, compliance

Voith – Engineered Reliability

All of our actions are based on trust. This is also reflected in our values: professionalism, respect for the individual, helpfulness towards colleagues, openness, reliability and integrity. We summarize our canon of values in our slogan “Voith – Engineered Reliability”. Voith stands for providing reliable technology that creates added value for its customers and acts fairly, openly and reliably in dealings with its employees, partners and customers.

Our values likewise form the foundation on which the Voith brand is built and the core of our corporate identity. Our values, and the guidelines derived from them, ensure that Voith acts according to the same business principles and adopts the same philosophy worldwide. In this way, we marry the culture of a family-owned business with that of a global player.

Voith’s values are the element that connects the owner family, the supervisory bodies, management, employees, customers and partners. We want those employees who meet our high demands to chose Voith for the long term. We maintain partnerships with our business partners, customers and suppliers that often span several generations. Remaining true to our values, we seek out open dialog with important stakeholders and target groups: financial services providers and investors, universities and research institutes, political groups, NGOs and interested members of the general public.

Code of Conduct

Voith's Code of Conduct defines rules that govern dealings with customers and business partners as well as dealings between employees within the Group. We require each and every employee to comply with the applicable laws and also our own internal guidelines (compliance). This applies to all levels of the hierarchy throughout the Group. Infringements are countered with sanctions. Rules and protocols are revised continuously to match the latest requirements.

The main principles addressed by the Voith Code of Conduct are as follows:
- Compliance with the rules of fair competition
- No agreements that contravene competition law
- No corruption or bribery: no offering and granting or demanding and accepting unfair benefits
- Transparency of donations and sponsorship
- Maintaining own and respecting third-party company and patent secrets
- No undue preferential treatment of suppliers and service providers

The wording of the Voith Code of Conduct is available on the Internet at: **http://voith.com/en/group/compliance-187.html**

Each employee is bound to report any suspicion of an infringement of the Code of Conduct without fear of reprisal. This can be done in person by reporting to their immediate supervisor or the compliance officer responsible for the Group Division as well as electronically via helpdesk or by e-mail. We also follow up anonymous complaints using a global system for input from whistleblowers.

Compliance organization

The Compliance program and related training measures are coordinated and developed by the Compliance Committee, whose chair reports directly to the CEO. This committee comprises the Head of the Corporate Office (chair), the Head of Corporate Legal Affairs, the Head of Corporate HR Management and the Head of Corporate Internal Audit. The compliance officers in the individual Group Divisions are responsible for implementing the Code of Conduct in their respective area of responsibility and are important contact persons for all issues relating to compliance.

However, it is the ultimate responsibility of each individual employee to act in accordance with our corporate values. In order to raise awareness of this, we ask our executives to act as role models and also provide executives and employees with training and information. The e-learning program on how to collaborate with customers, suppliers and other business partners that commenced in 2011 was expanded in the period under review by adding a second program focusing on management and employees. The two programs are mandatory and have so far been completed at least once by all employees with PC access. Employees without PC access are briefed by compliance officers or their supervisors. In addition to the e-learning programs, executives at the top four levels as well as employees in sales and procurement also take part in intensive classroom training covering topics such as corruption, competition issues and export controls.

Voith's compliance management system was audited by a major audit firm.

01.4. Group strategy

Geared towards sustainable profitable growth

At Voith, business success is defined as a long-term goal. The 147-year success story of the Voith Company demonstrates that the business strategy aligned toward sustainable growth can be supported over generations.

The commercial success of Voith is based on four sound pillars that have been carefully erected over decades: our balanced product portfolio, our global presence, our innovative strengths, and our financial independence as a family-owned enterprise.

A balanced product portfolio

Out of its original core business, mechanical and plant engineering, in the past decades Voith has systematically expanded its product and service portfolio to gain a firm foothold in its core markets of energy, oil & gas, paper, raw materials and transport & automotive with leading competitive positions. In this respect it has proved possible to spread sales fairly evenly between our four Group Divisions. Although the share contributed by each line of business varies from year to year depending on general industry performance, all four Group Divisions now account for a substantial share of Group sales. Our broad strategic positioning acts as a buffer against the majority of economic risks. Because economic cycles affect the individual markets at different times, a fall in sales on the markets such as oil & gas, raw materials and energy that traditionally respond more slowly to economic trends is offset by growth on the fast-responding paper and transport & automotive markets and vice versa.

In order to build up a portfolio that can successfully cater to market demand, also in the long term, it is vital that we identify the relevant global megatrends and respond to them in good time. The shift to Asia, demographic changes, continuing urbanization, particularly in the emerging markets, as well as growing demand for raw materials and energy and the need for sustainable, low-consumption technological solutions are the global megatrends confronting us in the present day. Voith has responded to these shifts from their very inception, with innovations, providing solutions such as climate-friendly electricity generation, sustainable mobility in the megacities or low-consumption production methods.

An international footprint and local roots

As one of the pioneers in globalism, as early as the beginning of the 20th century we were already exporting turbines for hydroelectric projects to the US and Asia and paper machines to what was then Austria-Hungary and to Russia and Sweden. We began establishing production facilities in other countries at a very early stage in an endeavor to establish greater proximity to the customer and to shorten transport routes. Voith's first production location outside of Germany was opened in St. Pölten near Vienna in 1903. This was followed by additional international locations, such as the first location outside of Europe established in Brazil in 1964. Today, Voith is represented by companies in more than 50 countries on all five continents.

Looking at the regions in which we operate, we strive to ensure a balanced distribution of our business. Today, almost half of Voith's consolidated sales is still generated in Europe, while the Americas and Asia account for 29% and 20%, respectively. However, economists expect economic growth for the Americas and in particular Asia to be considerably greater than for Europe in the coming years. For this reason, we are aiming specifically to increase the share of regions of strong growth in our income over the next few years and benefit from this development. We are therefore working on deepening our roots in the international markets. We rely on locally developed and manufactured products and services that are tailored to local needs. We operate as a responsible employer with local management and employees whom we continue to train, and use local supply chains as well as local sources of finance. For the coming years we have set ourselves the goal of fostering the influence of regional entities within our organization and granting them greater responsibility to allow them to better address local market conditions and local cultural aspects within our business. The reorganization of the Group Divisions Voith Paper and Voith Turbo, which took effect at the beginning of the 2012/13 and 2013/14 fiscal years, respectively, reflects these thoughts. The organization of the central functions is also in a state of change aimed at taking the regions more into account. In 2011 we created the first regional corporate service center outside of Europe. The Shanghai Corporate Service Center constitutes a vital interface between China and Germany by supporting Voith firms in this essential market with such shared services as human resources, procurement, IT, legal affairs, taxes, mergers & acquisitions, finance and communications. We are training young professionals at our own training center in Kunshan in China which was completed in the period under review, deploying methods adapted from the German dual-track training system.

Strong innovative power

Voith's position on its markets and in its regional segments is based among other things on its innovative power. Since the Company was founded, our engineers have been writing history with their inventions in the field of technology. Voith currently has many thousands of active patents around the world, and hundreds more are registered each year. There is no contradiction between a pioneering spirit on the one hand and permanence on the other. This is why we invest in research and development for new products even and especially in difficult economic times. Approximately €1.25 billion was invested in total over the past five years.

Detailed information on the current focus areas of our R&D activities is provided in section 5, "Research and development".

Financial independence

As one of the major family-owned enterprises, Voith benefits from the stability and long-term approach taken by its owners. Growth that is both sustainable and profitable is the central goal of the shareholders, the Supervisory Board and the Corporate Board of Management. This forms the foundation on which Voith can maintain its financial independence and pass the Company on to the next generation in even stronger shape.

Aided by our modest distribution policy, Voith has sufficient financial resources to fuel continuous, attractive growth, the trajectory of which can be planned over extended periods. A suitable equity ratio and a stable financial position constitute a sound platform on which the Group will continue to develop successfully in the future.

Voith 150+ success program ensures competitiveness

At the beginning of the 2013/14 fiscal year we began the Group-wide success program Voith 150+. The program is the answer to a number of external and internal challenges. This is set to pave the way for long-term competitiveness and growth of the Voith Group for its 150th anniversary in 2017, and beyond.

Among other things, the measures strive to safeguard, streamline and expand our existing business and make adjustments to the portfolio where necessary. On the one hand, a contributory factor here has been the implementation of the restructuring measures and capacity adjustments initiated in the 2011/12 and 2012/13 fiscal years. On the other, we work intensively on enhancing our portfolio of products and services, with a focus on profitable fields and units, by means of both organic growth and strategic acquisitions and divestitures. Overall, we aim to round off our portfolio, but not completely redesign it, for we are convinced that our fundamental positioning, based on our four Group Divisions serving five large markets, is the right foundation for ongoing successful development in the future.

In this respect, we have made important advances during the period under review. In Voith Industrial Services in particular, we have made several inorganic portfolio adjustments: by means of an acquisition in the US, we have strengthened the service business for the automotive industry. Also worthy of mention is the sale of the companies belonging to the DIW Group and therefore the sale of the entire Industries division. The sale of the DIW Group is part of Voith Industrial Services' realignment. Voith Industrial Services' strategy aims to focus on technical services for key industries. DIW, which for more than 50 years has enjoyed market success in providing industrial services, offers its services regardless of the industry involved, meaning it no longer fits in the Group Division's industry-focused concept. In the Voith Turbo Group Division, the locomotive business in Kiel was strategically realigned. In the future, the Kiel location will offer a comprehensive range of services for components and rail vehicles. The manufacture of its own locomotives will be discontinued.

Further sales and acquisitions can be found in section 4.4., “Financial investments and participating interests”.

Further information on the strategic realignment of the locomotive business in Kiel can be found in section 3.4., “Voith Turbo”.

As part of the Voith 150+ program, we have also set a change process in motion which is set to make structures and processes in the entire Group more effective and efficient. We are working on reducing the complexity of processes and thereby increasing the speed at which we react to events worldwide. Employees and executives at all levels are involved in various Excellence@Voith initiatives. While we have been working on optimizing the production processes for a while now, we systematically examined the indirect divisions in the 2013/14 fiscal year, such as procurement, IT, finance, accounting and human resources. In the year under review, improvement and savings potential were identified which must now be translated into action for implementation. The measures developed under the various Excellence@Voith programs are to be implemented by 2017.

The strategic and operating initiatives described above are supported by a strengthening and enhancement of our corporate culture. In addition to the current values we live, we encourage our employees to act proactively, contribute their own ideas regardless of hierarchy and to live up to them. Each employee is called upon to actively participate in improving Voith every day and to speak up by pointing out sources of error or emerging problematic issues. This requires our executives to consistently entrust responsibility, pick up suggestions from their team in a constructive manner and make each individual's contribution to the Company's success transparent. This understanding of people management is part of our leadership concept and is communicated as part of our management development program which is uniform across the Group.

Our implementation of Voith 150+ is right on schedule. We expect the implementation of the projects under this program to make cost savings of around €150 million per year.

02 Business development and earnings position of the Group

In light of the economic recovery failing to materialize and the generally subdued investment climate, sales at the Voith Group decreased in the period under review. Despite significant restructuring expenses, all the Group's key earnings indicators were positive. There was a notable increase in orders received, which will help us stabilize sales in the next fiscal year.

02.1. Overall assessment

Weak business development in a stubbornly adverse environment

Voith looks back on a weak fiscal year. In light of the economic recovery failing to materialize and the generally subdued investment climate, both the sales volume and earnings of the Voith Group decreased in the period under review. At €5,345 million, consolidated sales were down on the previous year due to the level of orders received having fallen over the previous two fiscal years. As a result, we failed to reach the sales target published in our Annual Report 2013. Reasons for this shortfall included project delays caused by customers as well as a decline in the market for raw materials that was greater than expected. Sales were also impacted by negative currency effects amounting to over €170 million. One positive development is the notable increase in orders received, up 7% on the previous year, which will help us stabilize sales in the next fiscal year.

The development of business at the four Group Divisions was not uniform. While Voith Industrial Services generated sales at the previous-year level as expected, and Voith Hydro, although down 5% on the previous year, performed in line with our forecast, the fall in sales at Voith Paper was sharper than we expected at 13%. Voith Turbo (down 6%) also fell slightly short of its sales target. As for the orders received, by contrast, all the Group Divisions where the volumes of orders on hand are recorded separately (Voith Hydro, Voith Paper, Voith Turbo) recorded an increase. Moreover, within each Group Division, business developments varied between the regions and the various market segments. In order to tailor our organization to permanent changes in the business environment and create a foundation for the return to profitable growth, we initiated the Group-wide success program Voith 150+ at the beginning of the 2013/14 fiscal year, which involved the introduction of restructuring measures and, in some cases as a result of such measures, discontinuing operations. All of these measures are on target.

In spite of the weak business environment and a significant burden from restructuring expenses, we have once again returned a profit from operations in each of our Group Divisions as well as for the Group as a whole, and have also generated clearly positive operating cash flows. As a consequence, we continue to report no net debt but instead have stable net liquidity of €40 million. We view our ability to return a profit even in a difficult business climate in all of our Group Divisions as evidence of our strong earnings potential and the robustness of our Company. Nevertheless, we failed to meet the earnings targets we announced in our 2013 annual report. At a Group level, the profit from operations fell by 23% on the previous year to €270 million. This decrease is primarily attributable to the lower sales volume as well as special burdens resulting from higher provisions for warranty risks compared to the previous year. The Group's profit was burdened by non-recurring effects in connection with the ongoing restructuring measures of €35 million, although these were much lower than in the previous year (€156 million). As tax expenses were considerably higher than in the previous year, which had been boosted by tax income relating to other periods, the Group's net income for the year was down by 37%. The Group's bottom-line result stood at a net income of €41 million.

In the consolidated financial statements 2013/14 some previous-year figures were adjusted. Explanations of these changes can be found in the "Restatement of previous-year amounts" section in the notes to the consolidated financial statements. These adjustments are taken into account in the following sections.

02.2. Economic environment

Economic recovery fails to eventuate

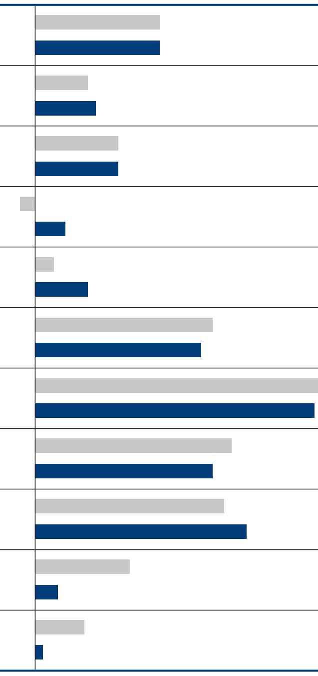
Economic development proved weaker in the 2013/14 fiscal year than expected. The International Monetary Fund (IMF), for example, has revised its growth forecast for almost all regions downwards several times since the Voith Annual Report 2013. In the fall of 2014, the IMF forecast economic growth for the 2014 calendar year, which, at only 3.3%, was at the low level of the previous year (2013: growth of 3.3%).

Geopolitical conflicts became more frequent from spring 2014 onwards. The resulting high degree of uncertainty dampened the global investment climate. Although the European Central Bank (ECB) lowered its key interest rates to a historic low, this did not generate any stimulus for investments in the real economy. Larger investment projects could not be carried out due to the high level of private and public debt, while expansion investments rarely proved necessary on account of the low capacity utilization. By contrast, development in the US was above average compared to the other advanced economies, a trend driven by high levels of private consumer spending and the ongoing boom in shale gas. For the 2014 calendar year, the IMF (as at October 2014) expects the gross domestic product (GDP) of the advanced economies to increase by 1.8% in total (2013: 1.4%).

By comparison, the emerging market and developing economies continued to report stronger growth. However, growth momentum here also slowed in the second half of the year. There were also sharp decreases in exchange rates, especially in Brazil, Turkey, South Africa, India, Russia and in various ASEAN countries.

Economic growth according to the International Monetary Fund
Real change in GDP on the previous year[1)]

World output	2013	3.3%
	2014	**3.3%**
Advanced economies	2013	1.4%
	2014	**1.8%**
United States	2013	2.2%
	2014	**2.2%**
Euro area[2)]	2013	-0.4%
	2014	**0.8%**
Germany	2013	0.5%
	2014	**1.4%**
Emerging market and developing economies	2013	4.7%
	2014	**4.4%**
China	2013	7.7%
	2014	**7.4%**
ASEAN-5	2013	5.2%
	2014	**4.7%**
India	2013	5.0%
	2014	**5.6%**
Brazil	2013	2.5%
	2014	**0.3%**
Russia	2013	1.3%
	2014	**0.2%**



Source: International Monetary Fund; World Economic Outlook, Oct. 2014.
[1)] 2013: estimates; 2014: forecasts.
[2)] Including Germany.

This reduced the profits of foreign companies in these countries. According to IMF forecasts, GDP growth in the emerging markets for the whole of 2014 (4.4%) was down on the previous year (2013: 4.7%) and lower than originally forecast. China continued to generate above-average growth. The Indian economy is expected to benefit from a shift in sentiment following the change in government. By contrast, the Brazilian economy continued to lose momentum and, according to the latest IMF forecasts for 2014, is experiencing next to no growth.

Voith markets: gloomy investment climate prevails

In three target markets served by Voith – energy, oil & gas and raw materials – the investment climate remained subdued. The willingness to commit to investments saw relatively positive developments in the transport & automotive market. With regard to investing activities in the paper market, the downturn in development seems to have bottomed out with the market volume in the third year stabilizing at a low level.

Energy: rising share of renewable sources

The energy market encompasses the conversion of various primary energy sources such as coal, gas, wind or hydropower into electricity and alternative forms of storage. This market is served by the Group Divisions Voith Hydro, Voith Industrial Services and Voith Turbo.

On the whole, the increase in fossil fuel capacities decreased sharply. In an effort to expand their electricity-generating capacity, all regions of the globe are also putting greater emphasis on renewable energy sources or relying on gas-based generation. Renewable energy sources now account for some 26% of the total existing electricity-generating capacity. However, the by far greatest share of the installed base of electricity-generating capacity from renewable sources (62%) is attributable to hydropower. Despite the increase in capacities, total investments in renewable energy sources were down. This was primarily attributable to the uncertainty concerning energy policies in some countries as well as the poor economic situation in the southern European countries. Investments in pumped storage plants are very low in North America due to the boom in shale gas. In central Europe, development in this area is also modest as the strong rise in the share of solar in the power mix as well as new quick-responding gas-fired power plants have drastically inhibited the business model of pumped storage technology, which is aimed first and foremost at meeting peak demand.

Oil & gas: rising levels of investment

The oil & gas market comprises three main segments: upstream involving the extraction of crude oil and natural gas, mid-stream involving transport primarily via pipelines and tankers, and downstream consisting of refining of crude oil and natural gas into the various fuels and raw materials used by the chemicals industry. Voith Turbo and Voith Industrial Services provide specialized products and services to all the segments of this market.

Demand for oil and gas, the most important primary energy sources, continued to rise in the 2013/14 fiscal year and, according to projections made by the International Energy Agency (IEA), will continue to rise in the coming years. The share of gas in total global energy consumption is also increasing, driven primarily by a number of new conventional and unconventional gas sources, increasing the supply and lowering gas prices. In contrast to crude oil, gas prices differ greatly according to region on account of the limited transportation options. This explains why gas prices in the US are only a third of import prices in Europe due to the large scale of shale gas extraction. Oil prices fell sharply over the course of the fiscal year.

Investments in the oil & gas market rose again in the period under review, with the most emphasis being placed on the upstream segment. On the one hand, new wells were tapped to satisfy future demand, while on the other, extraction is becoming increasingly complicated. In this regard, the distribution of expenses is shifting away from major infrastructure projects and toward drilling, evaluation and closing activities, which is offering opportunities for those providing diversified oil services. Expansion of the downstream segment was not as strong on the whole, with the main growth due to the installation of additional refinery capacity in Asia, and China in particular, while in the industrialized countries, particularly in Europe, there are excess capacities.

Paper: market for paper machines stabilizes at a low level

Against the background of the fundamental structural change within the paper industry triggered by the digitization of daily life, production capacities for graphic paper are being reduced. Demand for new machinery to manufacture graphic paper has fallen both significantly and permanently. By contrast, there is growth potential for board and packaging paper in the wake of rising online shopping.

Consumption of tissue papers is also set to rise in the emerging markets of Asia and Latin America in line with the strongly growing middle class in these countries.

Although global paper production rose slightly in Voith's 2013/14 fiscal year, according to estimates made by industry analysts at RISI future growth will be at a slower rate than assumed at the time our Annual Report 2013 was published. Until 2018, global paper production is expected to record annual growth rates at a level below global GDP growth. The more negative market outlook impacted all paper categories, with the exception of tissue. From a regional perspective, Asia (excluding India) has the strongest growth in both absolute and relative terms, although expectations for this region were also revised downwards.

The market for paper machines as a whole seems to be stabilizing at a low level. The slow growth in production is currently being covered for the most part by existing production capacity. We do not expect to see any market recovery in the coming years in Europe on account of the excess capacities. In Asia and Latin America we assume that demand for machines to make tissue, board and packaging paper will rise again in the mid-term.

Raw materials: temporary excess capacities among manufacturers slowing down investments

We define raw materials as ores and minerals that are extracted from the earth, such as coal, copper and iron ore, as well as other geological materials such as sediments used in building. By contrast, the raw materials oil and gas are treated separately as part of the oil & gas market. The segments of the raw materials market that are of relevance for Voith are surface and sub-surface mining and the steel industry. Both are supplied by the Group Division Voith Turbo.

The level of investment in the mining sector continued to drop in the period under review. This was mainly due to the significant fall in prices for raw materials, which is leading to cost pressure among producers. As a result, prices for iron ore and coal fell to their lowest level since 2009. We expect the mining sector to recover in the mid-term. A decisive factor in this regard is the rising demand for the raw materials needed to develop the infrastructure in emerging markets. The growing investments in technology made by the mining sector to improve safety standards and reduce the environmental impact of mining also represent opportunities for Voith. There is also the need to tap increasingly difficult fields, which on the one hand are more difficult to access and on the other require more overburden to be shifted due to the lower concentration of raw materials in the volume extracted.

Steel production continues to grow, with growth expected to reach just under 3% in 2014 and 2015. North America is the current growth driver. With a global market share of almost 50% China remains the largest producer, although after years of recording high growth is currently performing below average. Steel prices are stabilizing albeit with regional differences. However, only few new investments are still being made due to the continuing excess capacities.

Transport & automotive: market booming in most segments

The transport & automotive market includes diverse transport routes and the means of transport used on them for moving people and goods. Two of Voith's Group Divisions serve this very heterogeneous market: Voith Turbo supplies drive components and solutions as well as braking systems for the commercial vehicle industry, the railway industry and also the marine segment. Voith Industrial Services provides contract engineering to automobile manufacturers and suppliers as well as the railway industry and the aviation industry, and supplies manufacturers of automobiles with diverse infrastructure and production services.

Development in the passenger and commercial vehicle industry was varied in the period under review: the passenger vehicle and light truck segment grew significantly, driven by higher demand primarily from China and the US. By contrast, global truck sales were down slightly and the bus market stagnated. Growth for trucks and buses came from the NAFTA countries, the ASEAN region and India.

The rail sector, which is dominated by public sector investment in infrastructure, also continued to develop positively in the period under review. The main driver behind this is the urbanization in the emerging markets, primarily in China, which is linked to high demand for metro systems and local public transport systems. In southern Europe, investments remained low on account of the high level of sovereign debt.

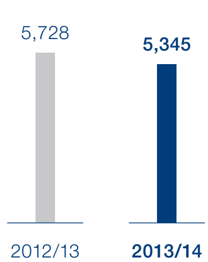
In the marine market, slight growth was recorded for tugs and offshore special ships. The market for engineering services in the aerospace industry suffered a sharp decline in the period under review as the most recent development programs of the two major manufacturers came to a conclusion.

02.3. Sales

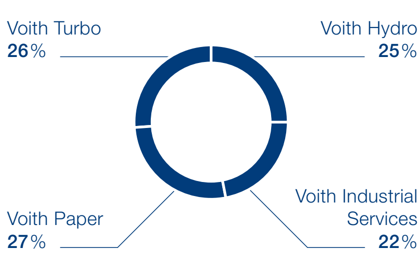
Sales down

In the 2013/14 fiscal year, the Voith Group generated sales of €5,345 million compared to €5,728 million in the previous year. This represents a decrease of 7 %. As a result, we failed to reach our sales target (Annual Report 2013: "at the same level as in the previous year"). Reasons for this shortfall included project delays at Voith Paper caused by customers as well as a decline in the market for raw materials, that was greater than expected and had an impact on Voith Turbo's sales. Sales

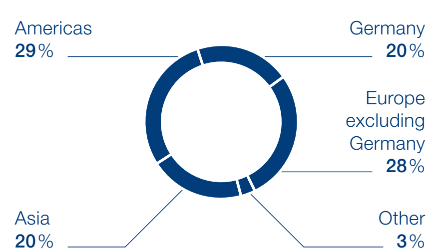
Sales Group
in € millions



Sales total €5,345 million
by Group Division



by region



were also impacted by negative currency effects amounting to over €170 million. As a consequence of the unexpectedly rapid decline in exchange rates in certain emerging markets, our sales in these countries turned out to be significantly lower, when translated into euros, than expected as at the date our Annual Report 2013 was published. All four Group Divisions were impacted by this effect. Adjusted for currency effects, sales fell by 4%.

Detailed information on the development of sales at the separate Group Divisions can be found in section 3, “Business development and earnings position of the Group Divisions”.

The four Group Divisions suffered a decrease in sales ranging from 1% (Voith Industrial Services) to 13% (Voith Paper). Voith Paper was the largest contributor to Group sales (27%; previous year: 29%) followed by Voith Turbo (26%; previous year: 26%). The share of sales accounted for by Voith Hydro was 25% (previous year: 24%), while Voith Industrial Services’ share rose to 22% (previous year: 21%).

The regional distribution of Group sales among the most significant economic areas worldwide has only changed marginally in comparison to the previous year: as in the previous year, Germany accounts for 20% of Group sales and Europe excluding Germany for 28% (previous year: 27%). More than half of total sales in the 2013/14 fiscal year were generated outside Europe. The Americas were the strongest region in terms of sales, contributing 29% to Group sales (previous year: 27%), while Asia contributed 20% (previous year: 23%). 3% was attributable to other regions (in particular Africa and Australia).

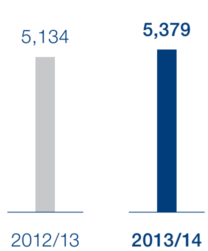
02.4. Orders received

Notable increase in orders received

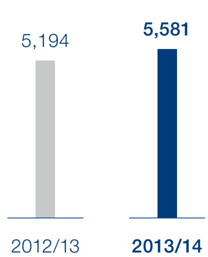
After the decrease seen in the previous year, we succeeded in noticeably boosting orders received in the 2013/14 fiscal year. All in all, the Voith Group secured new orders totaling €5,581 million (previous year: €5,194 million). This represents an increase of 7%. Although the Group’s orders received were similarly impacted by the negative currency effects of more than €160 million, the figure exceeded our forecast (Annual Report 2013: “stable development of new business”). Adjusted for currency effects, growth in orders received came to 11%.

Orders on hand as at the end of the period under review came to €5,379 million, thereby exceeding the previous-year figure by €245 million (September 31, 2013: €5,134 million).

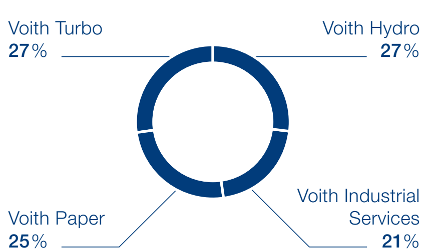
Orders on hand Group
in € millions



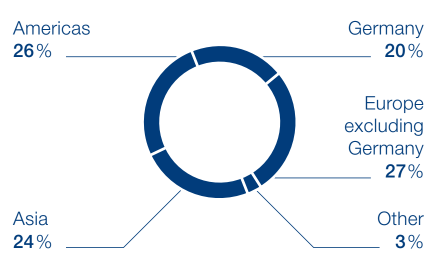
Orders received Group
in € millions



Orders received total €5,581 million
by Group Division



by region



Detailed information on the development of orders received at the separate Group Divisions can be found in section 3, “Business development and earnings position of the Group Divisions”.

The most significant factor in the Group’s orders received exceeding expectations was the new business in the Voith Hydro Group Division, which was up 24% on the previous year. Orders received at both Voith Paper and Voith Turbo were also above the level of the previous year (up 3% and 5%, respectively).

Voith Turbo (previous year: 28%) and Voith Hydro (previous year: 23%) each contributed 27% to the Group’s orders received, followed by Voith Paper at 25% (previous year: 26%). Voith Industrial Services contributed 21% in the period under review (previous year: 23%).

With respective shares of 27% and 26% in total orders received, Europe excluding Germany (previous year: 29%) and the Americas (previous year: 27%) were the regions with the strongest new business. Asia’s share increased from 18% in the previous year to 24% in the 2013/14 fiscal year. As in the previous year, Germany contributed 20% of the Group’s orders received.

02.5. Results

Profit from operations and net income down significantly on the previous year

In the 2013/14 fiscal year, the Group generated net income of €41 million. This was down considerably on the figure for the previous year (€65 million, down 37%). While the operational earnings indicators fell noticeably, primarily as a result of the situation at Voith Paper, earnings before taxes were up by 22% mainly due to the positive effects in the non-recurring result. Higher tax expenses compared to the previous-year period led to a fall in the net income.

For information on the development of sales, we refer to section 2.3.

In line with sales, the Group’s total output was down by 6%, falling by €372 million to €5,361 million (previous year: €5,733 million). As was the case with sales, total output did not develop uniformly between the Group Divisions (Voith Paper down 14%, Voith Turbo down 5%, Voith Hydro down 5% and Voith Industrial Services unchanged).

In line with the development of sales and total output, the operating expense items were also down. Cost of material fell to €2,112 million (previous year: €2,339 million, down 10%). The ratio of the cost of material to total output decreased to 39.4% (previous year: 40.8%). The fall in sales at Voith Paper made a significant contribution to this development, especially in the business with new machines and major rebuilds which consumes a greater amount of material. In addition, some plant engineering projects at Voith Hydro were at an advanced stage, where the share of material is typically lower.

Personnel expenses fell only slightly to €2,124 million (previous year: €2,143 million, down 1%). The change is due to the lower headcount, countered by moderate wage and salary increases. As a result, the ratio of personnel expenses to total output increased to 39.6% (previous year: 37.4%). The savings in personnel costs achieved so far could not make up for the negative effect on earnings stemming from the fall in sales, especially at Voith Paper. The cost savings from the capacity adjustment programs implemented did not develop their full effect.

Depreciation and amortization decreased only slightly to €170 million (previous year: €175 million), with the ratio to total output remaining virtually constant at 3.2% (previous year: 3.1%).

The balance of other operating expenses and income fell to €735 million (previous year: €766 million). The ratio to total output increased slightly to 13.7% (previous year: 13.4%).

The operational result before non-recurring items fell to €220 million (previous year: €310 million, down 29%). The profit from operations used for internal management purposes came to €270 million (previous year: €350 million, down 23%). Return on sales as a ratio of the profit from operations to sales was 5.1% (previous year: 6.1%). The ROCE (return on capital employed) decreased to 10.8% (previous year: 13.3%) as a result of the fall in the profit from operations.

For more detailed information on the development of the profit from operations and the ROCE for each Group Division, see section 3.

The non-recurring result in the period under review comes to €4 million (previous year: €-156 million). This contains expenses and income in connection with the restructuring measures introduced in the previous years, expenses in connection with the structural and market-related capacity adjustment measures decided upon in the 2013/14 fiscal year as well as income and expenses from the sale of business activities. In detail, Voith Industrial Services accounts for €34 million of the non-recurring result (previous year: €-9 million), Voith Hydro for €-6 million (previous year: €-4 million), Voith Paper for €-8 million (previous year: €-64 million) and Voith Turbo for €-16 million (previous year: €-73 million). At the entities with cross-divisional functions, there was no non-recurring result in the period under review (previous year: €-6 million).

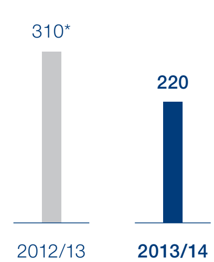
Further information on the non-recurring result can be found in note (7) in the notes to the consolidated financial statements.

The balance of interest expenses and interest income came to a net interest expense of €68 million (previous year: €69 million) and therefore remained virtually unchanged.

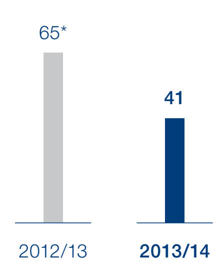
The other financial result came to €-41 million. This contains impairment losses on securities with a negative effect on income of €41 million. The figure from the previous year of €9 million mainly arose from a one-time effect in the form of a dividend received from a financial investment.

Income taxes totaled €-78 million (previous year: €-33 million). In the same period of the previous year, this item contained income from other periods of €20 million.

Operational result before non-recurring items
Group in € millions



Net income Group
in € millions



* Previous year restated.

03 Business development and earnings position of the Group Divisions

The development of business at the four Group Divisions was not uniform. While Voith Industrial Services generated sales at the previous-year level as expected and Voith Hydro, although down 5% on the previous year, performed in line with our forecast, the fall in sales at Voith Paper was sharper than planned at 13%. Voith Turbo also fell slightly short of its sales target (down 6%). Voith Hydro, Voith Paper and Voith Turbo recorded an increase in orders received. All Group Divisions posted positive operating figures.

03.1. Voith Hydro

Successful new business

Voith Hydro looks back on a satisfactory 2013/14 fiscal year. Sales and earnings were good. In a year in which a number of large projects were awarded, Voith Hydro generated a higher level of orders received than expected.

Sales down on the previous year as expected
Voith Hydro generated sales of €1,313 million in the 2013/14 fiscal year. As expected, this was down on the very high figure for the previous year (€1,388 million, down 5%). At the time our Annual Report 2013 was published, we had forecast a “slight fall in sales” for Voith Hydro on account of the lower level of orders received in previous years.

In addition to South America, Brazil in particular, the regions enjoying the strongest sales were North America and Europe excluding Germany.

Orders received increase by 24%
In the 2013/14 fiscal year, several major high-volume projects were awarded in a hydropower market that was subdued on the whole. Voith Hydro operated successfully on the market, winning orders worth €1,471 million. This constitutes growth of 24% on the previous year (€1,190 million), meaning orders received developed a little better than expected at the time our Annual Report 2013 was published (“slight increase in orders received”). Orders on hand improved to €3,091 million as at the end of the fiscal year on September 30, 2014 (previous year: €2,880 million).

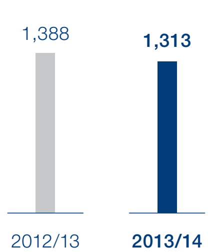
We benefited from the fact that more major projects were awarded in the period under review than in the previous year. The small hydro segment (power plants with a generating capacity of up to 30 MW per unit) also developed positively. We also managed to increase the volume of our new business with spare parts and maintenance services on the previous year. Due to the cyclical nature of how major projects are awarded, the high level of orders received in the period under review is no indicator of how orders received will develop in the future.

The North American market developed very positively in the period under review. In the US, it was mostly modernization projects that were awarded. For example, Voith Hydro secured a contract for the modernization of Center Hill Dam Powerhouse in the US state of Tennessee. Voith Hydro also won a major contract running over ten years for Priest Rapids hydropower plant in the US state of Washington. Voith Hydro will upgrade a total of ten vertical Kaplan turbines at this hydropower plant, located on the Columbia River and opened in 1959. In Canada, Voith Hydro also received various contracts involving modernization, including the service contract to fully overhaul three hydropower generators at Kettle Generating Station in the province of Manitoba. Although the Canadian market, too, is generally shaped by modernization and maintenance projects, Canada is also seeing new plants being constructed such as Keeyask hydropower plant in Manitoba. In this example, Voith Hydro won the contract to supply seven propeller turbine-generator units.

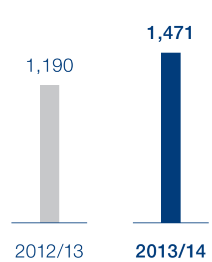
We also won important new orders in Asia. The largest order placed in the 2013/14 fiscal year came from Pakistan with a volume of around €200 million. We will be supplying the entire electromechanical equipment for the extension of Tarbela hydropower plant, which was originally built in 1974. We also received two orders for hydropower plants in the Himalayas: one to provide equipment to Rasuwaghadi in Nepal, and one to modernize Salal in India. On top of this came a service contract for Bhira pumped storage plant in India. In addition to central Asia, Southeast Asia is also gaining in importance as a hydropower market and presenting opportunities for Voith Hydro. Here, the contracts we received in the period under review included the order to supply the complete electromechanical equipment for Lam Ta Khong pumped storage plant in Thailand. The order, with a volume of around €50 million, was received from the Thai energy agency EGAT. Lam Ta Khong is the first pumped storage plant in Southeast Asia to be equipped by Voith Hydro. In Indonesia, too, we won small and large hydro projects.

The Latin American market showed weaker development in Voith's 2013/14 fiscal year than in the previous year, although it remains one of the largest and most

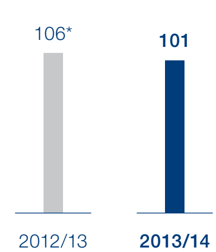
Sales Voith Hydro
in € millions



Orders received Voith Hydro
in € millions



Profit from operations Voith Hydro
in € millions



* Previous year restated.

important. Several major projects were postponed on account of political and economic conditions. Among others, Voith Hydro received an order from the energy company Endesa to equip Los Cóndores hydropower plant in Chile.

The established hydropower markets of Russia and eastern Europe most of all provide potential for modernization. In the fiscal year under review Voith won, among others, the contract for the extensive modernization of Zvornik hydropower plant in Serbia. We were awarded the contract for the third stage of the modernization work relating to four further turbine units for Russia's Saratovskaya hydropower plant. This modernization project has been ongoing since 2011.

In northern Europe, we recorded a pleasing level of orders received from Sweden and Norway. Voith Hydro also won orders in the pumped storage segment in central Europe, which is currently proving a challenge. The Austrian energy supplier Vorarlberger Illwerke AG awarded us the contract to supply two pumps and one pump turbine for the two projects Obervermuntwerk II and Rellswerk. We received an order from the energy provider E.ON to modernize a generator at Germany's Waldeck pumped storage plant. In central Europe, the economic viability of pumped storage plants continues to be severely impeded by the political environment in the wake of the new energy concept in Germany. Due to the massive expansion of photovoltaics, solar power is now available on a large scale at the midday peak times. As a result, the prevailing business model of pumped storage plants to date, of meeting peak demand and being compensated accordingly, came under pressure. In the period under review, in a widely recognized study carried out by RWTH Aachen University, we pointed out to policymakers and the general public the importance of pumped storage for the expansion of renewable energies.

In southern Europe, the market situation remained difficult against the backdrop of the European financial crisis and the high levels of sovereign debt.

Profit from operations down slightly

In the 2013/14 fiscal year, Voith Hydro generated a profit from operations of €101 million (previous year: €106 million). This represents a decrease of 5%, which was primarily attributable to the sales volume being slightly down on the previous year as well as currency effects. As a result, we did not achieve the high level of the previous year contrary to the forecast in the Annual Report 2013. Return on sales remained unchanged at 7.7%. The ROCE (return on capital employed) improved to 21.8% (previous year: 20.9%).

03.2. Voith Industrial Services

A year of intensive changes

Voith Industrial Services looks back on a year in which the restructuring of the service portfolio was driven forward. Adjusted for non-recurring effects from the optimization of the portfolio, sales were up slightly. The profit from operations was down on the previous year primarily as a result of insufficient capacity utilization in the Engineering Services division.

In the period under review, Voith Industrial Services was organized into four divisions: the Automotive and Energy-Petro-Chemicals divisions offer industry-specific solutions for the automotive industry/process industries and power plants. The Engineering Services division offers engineering services to automakers and manufacturers of rail vehicles, as well as the aerospace industry. Under the DIW brand, the Industries division provided comprehensive regional services related to operating and managing industrial locations in Germany and Austria.

Sales before non-recurring effects up slightly

In the 2013/14 fiscal year, Voith Industrial Services generated sales which, at €1,178 million (previous year: €1,185 million, down 1%), were almost at the previous-year level. We therefore met our own forecast (Annual Report 2013: "stable development").

We worked on our services portfolio in the period under review, which included for example an acquisition in the Automotive division as well as various divestitures in the Engineering Services and Energy-Petro-Chemicals divisions. Adjusted for non-recurring effects from the optimization of the portfolio, the net effect of which was a decrease in sales, sales were up slightly on the previous-year level.

Voith Industrial Services continued to generate just over half of its sales in Germany. Europe excluding Germany was the second most important regional market for this Group Division, followed by North America. In the mid-term Voith Industrial Services aims to achieve a greater regional balance. In particular, it intends to expand its activities in North America and South America as well as in China and India in order to continue to participate successfully in the growth of these markets.

Owing to the short throughput times of service contracts, Voith Industrial Services does not record the volume of orders on hand, which means that orders received are identical to sales.

Varying developments in the divisions

While the Automotive and Industries divisions grew and Energy-Petro-Chemicals remained stable, the Engineering Services division saw a decrease in sales.

In the Automotive division, Voith Industrial Services' largest division, we succeeded in increasing sales once again following three years with strong volume growth. In Europe, we benefited from our focus on premium manufacturers whose exports to the Americas and Asia remain at a high level. Daimler engaged us with the task of infrastructure facility management for various locations in Germany, while Porsche

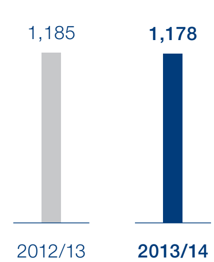
Leipzig concluded a maintenance agreement with us. We also received a major order from BMW relating to technical facility management at the Dingolfing location. The good development of business in China, where the market environment remains positive, also contributed to the division's sales growth, which includes orders from Daimler, Airbus, BMW Brilliance Automotive, a German-Chinese joint venture, and from various European automotive suppliers. In South America, by contrast, the market environment remained difficult for industrial service providers to the automotive industry, on the back of the weak Brazilian economy and the decrease in production figures in the automotive and commercial vehicle industry. Nevertheless, we succeeded in winning several new contracts, including one from BMW for technical facility management at the new plant in Santa Catarina, one from Hyundai CAOA, one from Mitsubishi and one from Volvo Trucks in Caminhões. In North America, business was somewhat modest measured against the dynamic market development. However, we were able to expand our business with European and Asian manufacturers. BMW Spartanburg concluded a maintenance agreement with us, while Honda engaged us with the task of technical facility management. We were also able to extend our contracts with Ford, Toyota and Honda on technical cleaning services and maintenance work.

Further information on the purchase of Helix Systems can be found in section 4.4., “Financial investments and participating interests”.

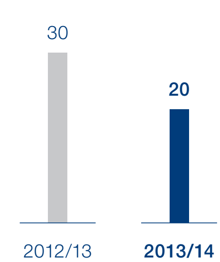
As a way of expanding our services portfolio in the US and strengthening our position in the strategic growth market of North America, we acquired the industrial services provider Helix Systems Inc., based in the US state of Alabama, in the summer of 2014. Helix Systems offers integrated service solutions for automation, system control and plant engineering as well as construction services for the automotive industry. The acquisition supplements our portfolio in the North American market by adding activities with a technical focus, which in Europe already form part of Voith Industrial Services' core competences. In the US, the Automotive division had previously concentrated on technical cleaning and facility management as well as production facility management for automotive manufacturers.

Sales in the Energy-Petro-Chemicals division were up slightly on the previous year. Business with oil and gas refineries developed positively, particularly in northern Europe. In addition to several turnaround projects for oil and gas refineries, we performed automation orders within the context of plant automation projects. This strong development in northern Europe was aided by the framework agreement with the oil and gas conglomerate Statoil we won in the previous year, which involved us performing extensive electronic and mechanical maintenance services for the refinery at Norway's Mongstad site in the period under review. In the Benelux

Sales Voith Industrial Services
in € millions



Profit from operations Voith Industrial Services
in € millions



countries, we carried out major inspections at refineries belonging to Total, BP and Exxon Mobil. Business with electricity providers in Germany remained difficult. Although the outcome of the national elections in Germany has provided planning certainty with regard to the residual operating periods of nuclear power plants in Germany, which means that deferred inspection work has increased slowly, the new energy concept in Germany continues to result in the closure of conventional power plants. Demand for maintenance work and modernization projects for existing facilities therefore remained at a low level. We were able to gain a reasonable share of the contracts from electricity providers in Germany that were up for tender. In the period under review, the Energy-Petro-Chemicals division also founded a power plant service branch in Switzerland as a way of expanding its range of action to its neighboring country. The first success was an order to modernize Beznau power plant. Business with the petrochemical and chemical industry is largely supported by framework agreements concluded with each individual location and remained stable over the course of the year. Individual projects on a larger scale were managed for customers Sanofi (Höchst) and BASF (Ludwigshafen).

Further information on the sale of Voith Railservices can be found in section 4.4., “Financial investments and participating interests”.

In the Engineering Services division, which offers contract engineering for the aerospace, automobile, commercial and rail vehicle industries, sales declined in the period under review. The disposal of the Dutch entity Voith Railservices contributed to this development. The organic decrease in sales is attributable to the Aerospace segment, the development of which was highly unsatisfactory. The major aircraft manufacturers awarded very few contracts for engineering services as they have completed the basic development work for their new aircraft programs and are now concentrating their work on design variants. By contrast, there were positive developments in our Engineering Services business with automotive manufacturers, where our new services are met with a positive reaction from customers. With regard to its engineering services for rail vehicle manufacturers, Voith Industrial Services was on a par with the previous year, although several major orders for China were pushed back to the next year. Despite these delays in contract awarding as well as project execution caused by customers, development of the Asian market was highly positive. Fortunately, we succeeded in concluding a framework agreement with the Transport division at Alstom, making us one of four strategic engineering partners. In the period under review, we expanded our competences in the Engineering division for both the automotive industry and rail vehicle manufacturers. We also built up the necessary structures and human resources.

The Industries division, comprising the companies belonging to the DIW Group, operated in a stable economic environment in the period under review and saw its sales increase slightly. In addition to extending contractual relationships and strengthening customer relationships, several larger-scale tenders were won in the area of infrastructure facility management and technical facility management, e.g. from electricity suppliers EnBW and E.ON. The young business unit LED was able to sign contracts with new customers, namely the drugstore chain dm in Austria and the investment goods manufacturer Komatsu in Germany.

As at September 30, 2014, we sold the Industries division to Strabag SE. The sale of the DIW Group is part of Voith Industrial Services' strategic realignment, which aims to focus on technical services for key industries. DIW's focus is on offering infrastructure services regardless of the industry involved and therefore is no longer in line with Voith Industrial Services' strategic concept.

Profit from operations down

Voith Industrial Services generated a profit from operations of €20 million in the fiscal year (previous year: €30 million, down 31%). The decrease in earnings is primarily attributable to project delays and resulting problems with capacity utilization in the Engineering Services division. Furthermore, the profit from operations was burdened by the costs for expanding engineering expertise for automotive and rail vehicle manufacturers, which is expected to make a contribution to sales from the 2014/15 fiscal year onwards. In the Energy-Petro-Chemicals division, additional costs incurred for individual projects have had a negative impact on earnings. Overall, earnings fell short of our expectations (Annual Report 2013: "significant improvement"). Return on sales was 1.7% (previous year: 2.5%). The ROCE came to 8.5% (previous year: 12.6%).

03.3. Voith Paper

Another difficult year

Voith Paper looks back on a difficult 2013/14 fiscal year. The willingness of paper manufacturers to commit to new investments remained cautious worldwide. Despite intense competition and high pressure on prices, orders received were up slightly. As for sales, however, the decrease was sharper than expected on account of project delays. The restructuring measures currently being implemented showed the first positive effects on costs. The profit from operations remained positive but was down significantly on the previous year.

Sales down on the previous year

As expected, the massive slump in orders received in previous years had a profound impact on sales. In the 2013/14 fiscal year, Voith Paper's sales fell by 13% to €1,430 million (previous year: €1,639 million). Although the fall is in agreement with the forecast we made in our Annual Report 2013 ("sales to fall"), it is much more than we expected.

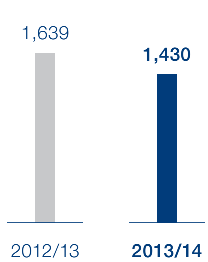
The decline in sales solely affects project business (new machines and large rebuilds) and is primarily due to the sharp decrease in orders received in previous years. On top of this there were project delays caused by customers either during or after the tender process and individual projects being canceled. These delays which caused sales to fall further and – together with exchange rate effects – are the reason why the sales development failed to meet expectations. However, business with products, consumables, and services remained stable overall and were in line with our expectations.

From a regional perspective, Asia and the Americas contributed the largest shares of Voith Paper's sales in the period under review. However, at the same time Asia was the region that reported the largest fall in sales.

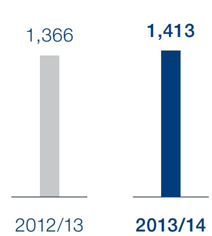
Slight increase in orders received

In the 2013/14 fiscal year, we achieved an increase in orders received for the first time again after a downward trend for the last three years. All in all, we won new contracts totaling €1,413 million (previous year: €1,366 million). This represents an increase of 3% despite adverse exchange rate effects. Orders received in the period under review lie within our expectations (forecast in Annual Report 2013: "slight growth"). As at the end of the fiscal year on September 30, 2014, orders on hand came to €1,078 million (September 30, 2013: €1,134 million).

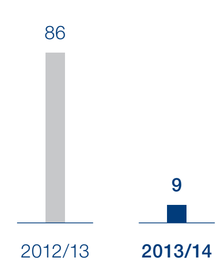
Sales Voith Paper
in € millions



Orders received Voith Paper
in € millions



Profit from operations Voith Paper
in € millions



While business with products, consumables and services remained stable, orders received in the project business recorded a notable increase. However, the slight recovery in the project business was driven by few individual investments, while the general reluctance on the part of paper manufacturers to commit to investments in new machines continued. Demand for machinery at the top end of the size range remained extremely low. Most demand was for compact medium-sized machines with a much lower investment volume. This medium-sized segment is characterized by intense competition, especially in Asia.

The majority of our orders received in the fiscal year came from Asia, in particular China, where the market showed signs of economic brightening in the wake of a difficult previous year. By contrast, demand from South America was significantly below the previous-year level due to the economic slowdown in Brazil. In Europe, too, we received fewer orders than in the previous year.

In the period under review, we succeeded in winning orders in the project business primarily for machines for the manufacture of board and packaging papers as well as for specialty papers. This saw us receive a major rebuild order for a specialty paper machine as well as an order for a new machine in China. In the promising board and packaging paper machines segment, we also received orders for new machines on top of several orders for large rebuilds. This included an order made by the Indian paper manufacturer Tamil Nadu Newsprint and Papers Ltd. for a machine for the manufacture of folding box board. This board machine for Tamil Nadu is a compact machine from the growing, fiercely contested medium-sized segment. In the declining segment for graphic paper machines, we also succeeded in winning a large rebuild order. We likewise received an order for a new tissue machine from Asia. Under our cooperation agreement with the textile machine manufacturer Trützschler Nonwovens, we won two projects from Spain and China for machines to produce nonwoven fabrics.

New hall construction in Kunshan, China, awarded for energy efficiency

For a particularly energy-efficient new hall construction at the production location Kunshan, China, Voith Paper received LEED gold certification in sustainability. LEED stands for “Leadership in Energy and Environmental Design”. This makes the new hall one of the very few industrial buildings in the country to have received this internationally recognized certification for ecological construction at gold level. The building also came second at the “Energy Masters Award” hosted by the Berlin manager network econique in the “Overall Concept” category. We see these awards as recognition of our sustainable approach. The construction of the new building in Kunshan is a good example of how ecological and economic benefits can be meaningfully combined.

Profit from operations down significantly due to the fall in sales

In the 2013/14 fiscal year, Voith Paper’s profit from operations was positive as announced, although it fell to €9 million (previous year: €86 million, down 90%). Even though we had expected earnings to fall, we had not expected such a sharp decline. This was primarily due to us not reaching our sales target, although the intense competition and high pressure on prices in the project business also played their part. This was accompanied by negative effects stemming from cost overruns in projects. Cost savings had a positive effect on earnings, although they were unable to fully compensate for the negative effects. Return on sales fell to 0.6% (previous year: 5.2%), while the ROCE decreased to 1.0% (previous year: 9.1%).

03.4. Voith Turbo

Good level of orders received in a difficult market environment

Voith Turbo introduced a new organizational structure as at October 1, 2013. The new Mining & Metals division and the new Power, Oil & Gas division are the successors to the former Industry division. The former Marine division was also allocated to the latter in the form of a business unit. The other two divisions, Commercial Vehicles (formerly: Road) and Rail, were restructured internally. Voith Turbo's global sales organization was also restructured in order to give additional responsibility for the business to the different regions.

Voith Turbo increased the level of its orders received in the 2013/14 fiscal year in a generally adverse market environment. Sales were down slightly due to the strategic realignment of the Rail location in Kiel and decreases in the Mining & Metals and Power, Oil & Gas divisions. Nevertheless, Voith Turbo was able to exceed its high profit from operations from the previous year. The efficiency programs launched began to take effect, with the fall in sales as well as extraordinary burdens on earnings in the Rail division being more than compensated for.

Sales in the core business almost at the previous-year level

In the 2013/14 fiscal year, Voith Turbo generated sales of €1,409 million compared to €1,500 million in the previous year. This represents a decrease of 6%. Adjusted for the activities of the Locomotive business at the Kiel location which we strategically realigned in the period under review, Voith Turbo's total sales were almost at the previous-year level.

We were slightly down on the forecast we published in the Annual Report 2013 ("to remain stable"). This was primarily attributable to a decline in the market for raw materials which was sharper than expected and burdened sales in the Mining & Metals division accordingly.

Developments in the individual divisions were not uniform. We achieved a rise in sales in the Commercial Vehicles division. The other three divisions, Mining & Metals, Power, Oil & Gas and Rail did not reach the sales seen in the previous year. Adjusted for the locomotive business, sales increased in the Rail division.

More than half of sales in the past fiscal year were again generated in Europe (including Germany). Asia accounted for more than one quarter of sales. Voith Turbo generated significant sales growth in the regions of the Americas and Europe excluding Germany, whereas in Asia sales decreased noticeably.

Orders received up by 5%

In the 2013/14 fiscal year, Voith Turbo won new orders worth €1,505 million (previous year: €1,436 million) thus increasing orders received by 5%. This is in line with our forecast (Annual Report 2013: "grow slightly"; Interim Report 2014: "significantly exceeding the previous year"). There was a pleasing development in orders received in the Rail division, which recorded strong growth.

The other three divisions recorded new business that ranged from stable to up slightly. Orders on hand increased to €1,210 million as at September 30, 2014 (previous year: €1,120 million).

In the Commercial Vehicles division, Voith Turbo was able to generate a slight increase in orders received in a generally tense market environment, with DIWA automatic transmissions for buses accounting for a significant portion of the total volume. In the period under review, we received large important orders in all regions. Unit sales of retarders were pleasing in both the truck and the bus segment. This reflects the positive effect of the introduction of the Euro 6 emissions standard on the European truck business. The compressor business developed positively compared to the previous year as a result of vehicle manufacturers continuing to ramp up the number of units produced.

In the Mining & Metals division, we succeeded in keeping our orders received at a constant level in a difficult market environment. On account of the overheating market for raw materials, mine operators and mining companies are still having to contend with falling prices. This led to cost pressure and a lower level of investment activity among producers. As the steel industry remained characterized by excess capacities despite the rise in steel production, there were also only few new investments made here. The machine tool market also stagnated. Nevertheless, we were able to record growth thanks to innovations such as the CLDP (closed loop differential pump) self-contained servo drive and the IPVP servo pump. China, North America, South Africa, Australia and South America remain the most important sales markets for the Mining & Metals division. In North America we increased our orders received, scoring mainly with complete drive packages. Business with safety and highly flexible couplings developed very positively. For these product groups we managed to tap important new fields of application.

Orders received by the Power, Oil & Gas division were also on a par with the previous year, with falling demand in the power plant business being compensated for by an increase in orders received by the oil and gas business. In the core markets of China and India, construction activities for new coal-fired power plants were down on account of weakening macroeconomic data and decisions relating to energy policy. By contrast, our oil and gas business benefited from a strong market in the US and the Middle East. As part of the expansion of the supply of shale gas, in the US we received several orders to supply gas pipeline compressor stations with Vorecon planetary gears. The Marine business unit won two major contracts for Voith Schneider propellers, which increased its orders received significantly.

The Rail division recorded strong growth in orders received. The upswing in the global market for rail vehicles continued. At the same time, the arrival of new providers caused competition to become even fiercer, thus generating pressure on prices accordingly. In the important Chinese market, the government approved a number of new high-speed projects in the period under review. Throughout Asia, massive investments were also made in inner-city transportation on account of ongoing urbanization. We recorded a high level of orders received for couplings in connection with metro projects for Delhi and for several Chinese projects. In the area of gear units, our local presence in India is beginning to bear fruit: in the period under review, we won two major contracts from India and Australia. We also won interesting contracts in the difficult Russian market.

In order to reinforce and expand our position in the promising Chinese rail market, we made the decision to build a new factory and an engineering center for rail vehicle components in Shanghai.

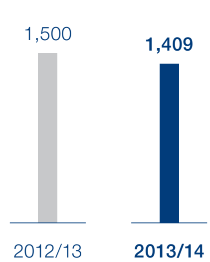
Strategic realignment of the Rail location in Kiel

Under the Group-wide success program Voith 150+, the Rail location in Kiel was realigned in the 2013/14 fiscal year: Kiel is being turned into a major service location for Voith Turbo's Rail division, offering comprehensive services for rail vehicles and components. In the course of the strategic realignment, more than half of the jobs will be kept, while around 70 positions will be cut in a way that will be socially compatible. The restructuring is expected to be implemented by the end of the 2014/15 fiscal year.

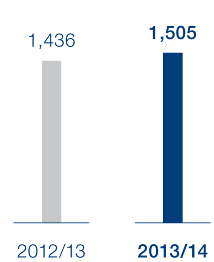
Profit from operations at previous-year level

In the 2013/14 fiscal year, Voith Turbo generated a profit from operations of €111 million which was at the previous-year level (previous year: €110 million, 0%). Caused by currency effects, we did not entirely meet our forecast (Annual Report 2013: "climb markedly"). Although the efficiency programs launched were able to compensate for the sales-related fall in earnings as well as burdens from recognizing provisions for risks from warranties in the Rail division, they prevented a significant increase in earnings. The return on sales improved to 7.8% (previous year: 7.2%). The ROCE came to 14.7% (previous year: 13.9%).

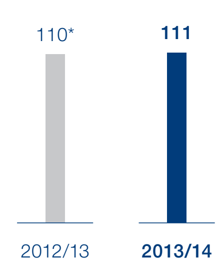
Sales Voith Turbo
in € millions



Orders received Voith Turbo
in € millions



Profit from operations Voith Turbo
in € millions



* Previous year restated.

04 Net assets and financial position

The Voith Group continues to display a healthy structure of assets and equity and liabilities. In the period under review, we once again generated clearly positive operating cash flows, meaning we continue to report no net debt but instead have stable net liquidity of €40 million. As announced, the investment volume was down on the high figure of the previous year.

04.1. Balance sheet

Equity ratio remains at a pleasing level

The balance sheet of the Voith Group as at September 30, 2014 continues to display a healthy structure of assets and equity and liabilities. Total assets fell by €312 million in comparison to September 30, 2013 to €5,453 million (previous year: €5,765 million, down 5%). The main drivers of this development were the repayment of financial liabilities and a reduction in working capital.

Non-current assets decreased to a total of €2,403 million (previous year: €2,491 million, down 4%). While the value of property, plant and equipment of €1,190 million changed only slightly (previous year: €1,197 million), intangible assets fell significantly by €50 million primarily as a result of deconsolidation effects as well as a reclassification of assets to assets held for sale. Non-current securities fell to €134 million (previous year: €216 million) on account of the market value of individual securities falling significantly.

Current assets fell by €222 million in total to €3,051 million overall (previous year: €3,273 million, down 7%). In this context, inventories and trade receivables decreased on aggregate by €60 million to €1,871 million (previous year: €1,931 million). This is mainly attributable to Voith Paper (down €60 million) and goes hand in hand with the development of sales/total output. Cash and cash equivalents fell by €100 million to €801 million (previous year: €901 million). Other assets decreased to €113 million (previous year: €177 million) mainly as a result of lower receivables from VAT.

Further information on current assets can be found in section 4.2., “Liquidity”.

Non-current liabilities increased significantly by €116 million to €1,995 million (previous year: €1,879 million, up 6%). This was primarily due to an increase in non-current pension provisions of €105 million, which in turn was attributable to the decrease in the interest level as at September 30, 2014. In addition, non-current bank liabilities increased by €24 million, mainly due to an increase in long-term debt in China.

Current liabilities fell noticeably by €319 million to €2,427 million (previous year: €2,746 million, down 12%). The item bonds, bank loans and other interest-bearing liabilities contained in this figure decreased by €212 million, mainly on account of the scheduled repayment of one tranche of the existing US private placement as well as the repayment of additional current bank liabilities. Current other provisions decreased by €40 million mainly on account of a reduction in provisions for severance payments (down €38 million). Trade payables dropped by €38 million, primarily caused by Voith Hydro (down €30 million) as some of the projects in this Group Division have reached an advanced stage where less material is consumed.

As at September 30, 2014, the items “Assets held for sales” and “Liabilities directly associated with assets classified as held for sale” contained the assets and liabilities of one of Voith Hydro’s subsidiaries which is due to be sold. The previous-year figures for these items contained assets and liabilities of one of Voith Industrial Services’ subsidiaries which was sold in the 2013/14 fiscal year.

Net deferred tax assets increased by €37 million primarily as a result of tax effects on the adjustment made to pension provisions as described above.

Equity decreased by €109 million to €1,031 million (previous year: €1,140 million). Equity was reduced by measurement effects on securities and pension provisions as well as dividend distributions. By contrast, the equity increased on account of the net income and currency effects. The equity ratio fell to 18.9% (previous year: 19.8%).

04.2. Liquidity

Cash flow from operating activities positive

Cash flow from operating activities came to €191 million in the period under review, thus falling short of the previous-year figure of €317 million. This was primarily attributable to the fall in the operational result. In addition, higher tax payments compared to the previous year burdened the cash flow from operating activities. A fall in net current assets of €45 million had a positive impact (previous year: €25 million). This decrease in net current assets in the period under review is mainly due on the one hand to lower inventories and receivables, and on the other to lower trade receivables and other liabilities.

Development of cash flow
in € millions

	2013/14	2012/13
Cash flow from operating activities	191	317
Cash flow from investing activities	-57	-216
Cash flow from financing activities	-232	-70
Total cash flow	**-98**	31

The cash flow from investing activities moved to €-57 million (previous year: €-216 million). The lower cash outflow overall mainly results from the lower level of investing activities, higher cash inflows on the previous year from the sale of business activities and from the change in cash investments.

The cash flow from financing activities stood at €-232 million (previous year: €-70 million). Higher spending was chiefly due to the repayment of financial liabilities as described above.

For more details on the development of cash flow, please refer to the cash flow statement in the notes to the financial statements.

In total, there was a cash outflow in the period under review of €98 million (previous year: cash inflow of €31 million).

Net debt, measured as the difference between interest-bearing financial liabilities and liquid financial assets, amounted to €-40 million (= net asset position) (September 30, 2013: €-55 million).

The net debt ratio is not covered by the accounting policies based on the International Financial Reporting Standards (IFRS) and its definition and calculation may diverge from the practice of other companies. In contrast to the carrying amount, which is based on the effective interest rate method, the ratio is calculated by measuring financial liabilities at their higher nominal repayment amount.

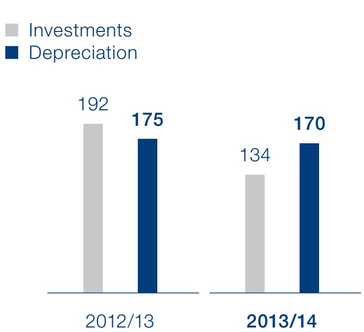
04.3. Investments

Investments reduced as announced

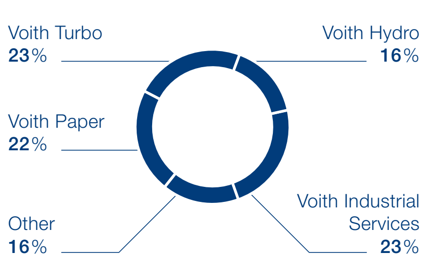
We used the high level of investment in recent years to modernize and greatly expand the infrastructure of the Voith Group, thereby creating a sound basis to reach our mid-term targets. This enabled us to reduce the investment volume as planned. In sum, we invested €134 million in the 2013/14 fiscal year in strengthening our productivity and in the strategic alignment of the Voith Group. As announced, this total was less than in the previous year (€192 million, down 30%).

The investment ratio in terms of sales came to 2.5% of Group sales in the period under review (previous year: 3.4%). Total investments are approximately €36 million lower than the depreciation and amortization charge of €170 million (previous year: €175 million, down 3%).

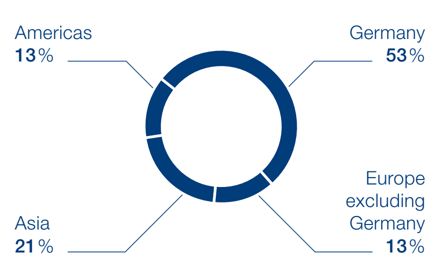
Investments and depreciation
in € millions



Investments total €134 million
by Group Division



by region



Strong commitment to Asia

We continued to commit ourselves strongly to Asia. However, after the intensive investment activity seen in recent years, many important projects have now been completed in this strongly growing region. In the period under review, we invested €28 million (previous year: €48 million) in Asia, with special focus on China. This figure accounts for 21% of our total investment spend (previous year: 25%). We invested €18 million (previous year: €24 million), or 13% (previous year: 12%), of the total volume in the Americas. As in previous years, more than half of our investments (53%, previous year: 53%) were made in Germany at a volume of €71 million (previous year: €101 million). In Europe excluding Germany, investments in the period under review came to €17 million (previous year: €20 million) corresponding to a share of 13% (previous year: 10%).

Voith Hydro: expanded production capacity for small hydro and the aftermarket

Voith Hydro invested €22 million (previous year: €33 million, down 35%) in the capacity of its value chain. This corresponds to an investment ratio of 1.7% (previous year: 2.4%). Following the pleasing establishment and expansion of Voith Hydro's capacities in previous years, a lower level of investment was necessary in the period under review.

In St. Georgen am Steinfeld in Austria, we made great progress with the expansion of the location at Kössler, a subsidiary of the Voith Group. Kössler is our European competence center for small hydro technologies. Following the completion of the technical center in the period under review, the new production hall is currently being constructed and is expected to be ready for operation in the first half of the 2014/15 fiscal year. Voith Hydro has invested in several locations in order to be well positioned in the aftermarket business. The workshop in Milan for repair and maintenance services was completed in the period under review and is already up and running. The factory specializing in the reconditioning of generators located in Norway's Sarpsburg, where it was spread across several locations, was moved to a large modern building in Fredrikstad.

Voith Industrial Services: increase in investments

In the period under review, Voith Industrial Services invested €31 million (previous year: €19 million, up 61%) in property, plant and equipment, almost double the amount invested in the previous year. The investment ratio in terms of sales came to 2.6% (previous year: 1.6%). A large share of investments was made in the ever-growing Automotive division, where most investment in the Wheel & Tire Assembly division was made in relation to the contracts won by the division.

Voith Paper: “Build up China” investment project successfully concluded

In the 2013/14 fiscal year, Voith Paper invested a total of €29 million (previous year: €67 million, down 56%) in property, plant and equipment. This corresponds to an investment ratio of 2.1% (previous year: 4.1%). The majority of Voith Paper’s investments were made in Asia. An example of such investment was in additional production capacities for paper machine clothing in the Chinese city of Kunshan, near Shanghai. We also completed construction of the Group-wide training center at the same location in the period under review. The major multiyear “Build up China” investment project has now been brought to a successful close. This has specifically anchored the local presence of Voith Paper in China and laid the foundation for further expansion into Asia.

Voith Turbo: plans for rail vehicle components factory in China

Following intensive efforts in previous years to modernize our locations and production capacities, we were also able to reduce Voith Turbo’s investments considerably. In the 2013/14 fiscal year, Voith Turbo invested a total of €31 million (previous year: €51 million, down 38%) in property, plant and equipment. This corresponds to an investment ratio of 2.2% (previous year: 3.4%).

In order to satisfy the localization requirements of the Chinese rail market and to reinforce our position in this promising market, we made the decision to build a new factory for rail vehicle components in Shanghai. With plans for the factory to be put into operation in 2016, production capacities for Asia-Pacific are being stepped up considerably.

04.4. Financial investments and participating interests

Optimizing the portfolios at Voith Industrial Services and Voith Turbo

In the 2013/14 fiscal year, our success program Voith 150+ saw us carry out an acquisition and adjust our portfolio. We also broke away from certain activities that had no strategic perspective within the Voith Group. The transactions affect the Voith Industrial Services and Voith Turbo Group Divisions.

In Voith Industrial Services, we sold the wholly owned subsidiaries DIW Instandhaltungs Ltd. & Co. KG, Stuttgart, DIW Mechanical Engineering GmbH & Co. KG, Stuttgart, and DIW Instandhaltung GmbH, Vienna, effective as at September 30, 2014. The DIW Group has been operating in Germany and Austria for more than 50 years and has around 6,000 employees. Its focus is on offering infrastructure services regardless of the industry involved and therefore is no longer in line with Voith Industrial Services’ strategic concept, which focuses on technical services for key industries.

For information on the sale of the DIW Group, see also section 3.2., “Voith Industrial Services”.

As at July 31, 2014, Voith acquired the industrial services provider Helix Systems Inc., based in Bessemer, Alabama, thus strengthening its Automotive business in North America. The company, with annual sales of around USD 35 million and approximately 230 employees, was fully integrated into Voith Industrial Services' Automotive division and has been fully consolidated since August 1, 2014. The acquisition supplements our services portfolio in the US by adding activities with a technical focus, which already form part of Voith Industrial Services' core competences in Europe, but which we have yet to offer to the automotive industry in the US.

For information on the acquisition of Helix Systems Inc., see also section 3.2., "Voith Industrial Services".

In October 2013, Voith Industrial Services sold its wholly owned subsidiary Voith Railservices B.V., Twello (the Netherlands). This entity, which has four locations and around 100 employees, performed maintenance work for a number of railway operators and used to be fully consolidated in the Group's financial statements of Voith GmbH. The sale does not impact engineering services for rail vehicle manufacturers which are provided by Voith Industrial Services.

In February 2014, Voith Turbo spun off the waste heat recovery business unit by way of a management buyout. The newly created entity, which is completely independent of Voith, is trading as SteamDrive GmbH and will in the future focus on products for use in combined heat and power plants, i.e. the market for local energy generation.

05

Research and development

Research and development has traditionally played a central role at Voith. With several thousand active patents to its name and hundreds more new patents filed every year, Voith ranks as one of the world's most innovative companies in the industries it serves. In the period under review, we invested €216 million, or 4% of consolidated sales, in R&D.

Aligned with global megatrends

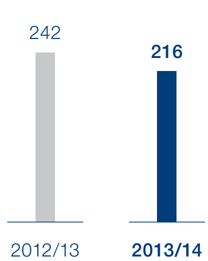
Innovative products and services are the cornerstone of the Company's future business success. As a technology group, Voith traditionally invests significantly more than the industry average in research and development. In the 2013/14 fiscal year, our R&D expenditures came to €216 million (previous year: €242 million, down 11%). The ratio of Voith Group's R&D spend to Group sales came to 4.0% (previous year: 4.2%).

Voith's ambition is to anticipate solutions to future challenges. For this reason, the R&D strategy is systematically aligned with global megatrends and in particular with the infrastructure needs of the world's growth regions. Resource and energy efficiency, urbanization and mobility are not only the key challenges facing the 21st century but also the central themes of our research and development strategy at Voith.

Voith's research and development activities are internationally organized. The focus is on Germany; centers in the Americas, Asia and Rest of Europe contribute valuable specialized R&D input in the relevant Group Divisions.

Voith Hydro, Voith Paper and Voith Turbo all make significant contributions to Voith's research and development activities. As an industrial services provider, Voith Industrial Services' R&D expenses are by nature low.

Research and development
in € millions



Voith Hydro: on the road to the one gigawatt unit

One focus of our R&D activities in the hydropower industry continued to be on especially high-performance turbines and generators with the related generator bars. For the Chinese project Xi Luo Du, we put two additional generator-turbine units into operation in the period under review. In total, Voith Hydro delivered three such units to customer China Three Gorges Corporation for the project, which has been fully connected to the grid since June 2014. With a generating capacity of 784 MW each, these are the most powerful generator-turbine units we have ever built, and therefore represent an important technological milestone on the road to developing the first one gigawatt generating unit. Development of such powerful units in the 1,000 megavolt ampere class hinges on developing suitable generator bars. Following successful development of the main insulation and a new tailored terminal corona protection for high-voltage bars, the two technologies were introduced into production.

In the area of pump turbines, our work on the Obervermuntwerk II pumped storage project led us to develop a single-stage storage pump with an adjustable guide vane similar to a pump turbine. Pump turbines are generally a compromise between a pump and a turbine. In this case, however, the machine only uses pump mode, demonstrating how we looked at pump turbine technology from a completely new perspective as well as our ability to develop ideas that can help us offer our customers even more efficient pump turbine solutions in the future.

We participate in the EU-funded research project Hyperbole, which is working to expand the operating range of Francis and pump turbines. The project, which has a total of nine cooperation partners from the business and scientific communities, seeks to integrate renewable energy sources into the grid better by increasing the operational flexibility of hydropower plants.

In the period under review, we received the first commercial orders for our environmentally friendly compact turbine StreamDiver®. With this technology, we also made it to the finals of the Deutsche Innovationspreis ["German Innovation Award"], beating more than 300 competitors to make the Top 4 in the large companies category.

Voith Paper: focus remains on resource-saving technologies

During the period under review, Voith developed various new solutions for paper manufacturers which offer considerable cost benefits as well as taking environmental issues into account. In the 2013/14 fiscal year, Voith Paper again launched a number of new products.

This included the EdgeSaver edge-cutting system, which returns valuable fibers to the production cycle and optimizes the quality of the web edges. Raw material costs can thus be substantially reduced by saving fibers.

Constant high drainage of the paper web is fundamental to ensure that the paper produced is of a consistent high quality. This is where two of Voith's innovations come into play, namely the polyurethane roll cover InForce as well as Infinity, a completely new unique generation of endless and seam press fabrics.

The Pluralis Line product family for refining during stock preparation, which we launched in 2006, is now available for virtually all types of raw materials and furnish mixtures. In the 2013/14 fiscal year, additional refiner fillings with various diameters were added to the product family. The Pluralis fillings offer significantly higher-strength values as well as energy savings of up to 30% compared to traditional refiner fillings.

With Jade, Voith Paper has brought a new dryer fabric onto the market that translates reduced contamination to increased drying capacity due to its special design.

Our efforts to develop sustainable products were rewarded with an international prize during the period under review. Our resource-saving flotation technology LowEnergyFlotation (LEF) received the “European Paper Recycling Award” in October 2013. The award is presented annually by the European Recovered Paper Council. LEF is an innovation that significantly reduces the energy requirements needed to remove printing ink from paper fiber during recycling.

Voith Turbo: focused development approach

Following the realignment of the R&D portfolio and its refocusing in the previous year, Voith Turbo redefined the processes and structures of its innovation management in the 2013/14 fiscal year. By taking a focused development approach, Voith Turbo worked on developing innovation and new technologies in all four of its divisions. Various new products were launched on the market in the period under review.

In the Commercial Vehicles division, Voith Turbo presented VR 115 China Truck, the first hydraulic retarder for trucks to be developed and produced in China. It is highly robust and fulfills the demands of local customers for high braking quality while offering outstanding economy.

In the Mining & Metals division, new control systems were developed for the mining industry which simplify the error-free programming and operation of entire belt conveyor drive systems considerably. In the machine tool industry, we enjoyed a successful market launch with the newly developed CLDP self-contained servo drive. A variation of this product helps us offer solutions at competitive costs also in the energy sector.

In the Power, Oil & Gas division, development work for further innovative variations of our Vorecon drives was intensively pursued. For our BHS gear units, our development teams have worked on innovative solutions to further reduce power dissipation and increase performance. In the Marine business unit, Voith Turbo launched a revised version of the Voith Schneider Propeller (VSP) on the market for tugs and offshore supply vessels. The VSP 34 is a new development with a focus on modularity, cost reduction and service friendliness.

With an innovative solution based on SA3 coupler technology, Voith Turbo's Rail division was able to gain entry to the eastern European market. This semi-automatic central buffer coupling is particularly common in eastern and northern Europe in the area of heavy goods and passenger transport. Voith's new version launched in the period under review offers several variations for energy absorption.

At the "Electric Drives and Mechatronic Systems" competence center founded in the previous year, which can be used by all four of the divisions, Voith Turbo aims to add electrical engineering to its core competences of mechanics and hydrodynamics. Here, we are working on new functions that arise when mechanics and electronics are combined.

Cross-divisional development of industrial CFRP production methods

We continue to research and develop industrial production methods for components made of carbon fiber composites at our cross-divisional development center for carbon fiber products. For many years now we have used CFRP for lightweight components, such as ship propellers, in paper machines and in drive systems, among other applications. The goal is to further expand our competence in this field. This is a long-term research project for which we hold great hopes for the future. The benefits of this material – such as low weight, high resilience and good formability – lead us to expect that the use of carbon fiber components will become increasingly significant in light of the demand for resource-efficient production in many industries.

06 Sustainability

For us, sustainable business and the pursuit of corporate success go hand in hand. We aim to create a measurable added value in the areas of economy, ecology and society and make Voith the benchmark for our industries, also with regard to sustainability.

Sustainable business management

We continue the traditions and style of the family-owned company Voith with a view to our understanding of sustainability: the obligation to leave a minimum ecological footprint, to act fair, and to return a profit over the long-term. Our motto is for Voith to make a tangible contribution to sustainable development. Voith follows the approach of giving equal consideration to economic, ecological and social factors.

We have defined six fields of action that are used to integrate sustainability management into the Group: sustainable business management, sustainable and profitable growth, responsibility for the environment, responsibility for products, responsibility for employees and social responsibility. Information on the field of action regarding sustainable profitable growth can be found in sections 2, 3, 4, 9 and 10 of this management report. How Voith meets its responsibility to its employees can be found in section 7 of this management report.

In 2008, Voith began implementing the strategic and organizational aspects of sustainability management throughout the Group, a process that we strive to improve constantly. Since 2009, Voith records and analyzes all relevant environmental data, material indicators and selected personnel data in a separate sustainability database. Voith began publishing its own comprehensive annual sustainability report in 2011. This report contains detailed information on sustainability management at Voith, including specific goals, performance indicators and results. The project is geared towards the requirements of the Global Reporting Initiative (GRI) for sustainability reporting.

Our expectations on sustainable business imply that our suppliers, too, must comply with recognized environmental and social standards. For this reason, social and economic factors are incorporated in the terms and conditions of purchase agreements, in the voluntary disclosures by the suppliers as well as in the assessments and audits of our suppliers.

Responsibility for the environment

We have set ourselves the goal of steadily minimizing our ecological footprint. We expect to create a measurable economic added value for Voith by taking a responsible approach to the environment.

In developing Voith further to becoming a sustainable company, we are pursuing three areas of focus regarding the environment. Our first area relates to the compliance with and implementation of environmental legislation and corporate environmental protection (eco standards). Secondly, we aim to improve energy and resource efficiency at our production and service locations taking into account economic viability (ecological business management). Thirdly, we are driving energy and resource-efficient product innovations forward through the systematic analysis and assessment of Voith's products and services (ecotechnologies).

On the basis of the 2011/12 fiscal year, the Corporate Board of Management has defined three central goals for the conservation of resources and environmental protection. Within six years, by the 2017/18 fiscal year, we want to reduce our energy consumption by 20%, our volumes of waste by 25% and fresh water consumption by 10%.

Responsibility for our products

We have set ourselves the standard of providing top-quality innovative products displaying a level of safety, reliability and efficiency that our customers can rely on. Our responsibility for products is based on three strategic pillars: quality and safety, customer satisfaction and minimizing the impact on the environment, which starts in the development phase.

Sustainability: fields of activity

In order to guarantee a consistent level of quality and safety worldwide, Voith has implemented risk and quality management across the Group. This includes instructions on managing technical risks as well as the use of suitable methods and instruments to ensure the quality of our products, such as the use of the international ISO 9001 quality management standard. We train our employees on quality management requirements and procedural guidelines. We survey our customers to assess their needs and degree of satisfaction in order to identify any potential for improvement.

We pursue a strategy of ensuring our products make a contribution to the conservation of resources and environmental protection. At three of our four Group Divisions, the bulk of the environmental impact does not arise during the phase when the products are being manufactured but rather not until they are in use, primarily on account of the longevity of our products. This firstly involves greater awareness of the use of raw materials in the production process and the steady reduction of energy consumption and the related CO_2 emissions generated thereby. Secondly, we also strive to make customer use of our products as energy-efficient as possible using fewer resources.

Social responsibility

As part of our commitment to society, we support activities and organizations in the fields of education, social welfare, sports and culture. We sponsor projects on the basis of defined criteria that apply throughout the Group. For example, the activities and organizations we sponsor must be recognized charities and be effective on an international and intercultural basis. In addition, it must be ensured that the project has a broad impact and foster the community or increase the attractiveness of the cities in which Voith is located for the people living there. And, regardless of the above, Voith takes action where it perceives an urgent humanitarian need.

07 Employees

Qualified, motivated and dedicated employees are the foundation and motor of our success. For our employees who meet our high demands, we offer a long-term employment relationship, an attractive workplace and individual development opportunities. To ensure this, we take into account each of their situations in life and enable them to take a wide range of career paths. At the end of the 2013/14 fiscal year, we had over 39,000 employees.

Headcount down significantly

For information on the sale of the DIW Group, see also section 4.4., “Financial investments and participating interests”.

As at September 30, 2014, we employed 39,302 full-time equivalents (excluding apprentices) in the Voith Group. This is 3,832 employees, or 9%, less than the year before (September 30, 2013: 43,134). This decrease contains 3,141 jobs no longer included as a result of larger changes in the consolidated group – the sale of the DIW Group offset against the purchase of Helix Systems Inc. In addition to the reduction in headcount at Voith Industrial Services as a result of the deconsolidation, we reduced the number of employees at the Voith Group by 691.

Ongoing restructuring measures meant that a total of 804 jobs at Voith Paper were cut in the period under review. The job cuts affected all regions, but hit the project business in Europe hardest of all. Gradual adjustments were made in North and South America.

At Voith Turbo and Voith Hydro, 210 and 104 jobs were cut, respectively. These cuts were partly attributable to the capacity adjustments at the Heidenheim location announced in the previous year, and partly to us systematically using natural employee turnover as a way of improving our cost structure.

Adjusted for the jobs at the DIW Group no longer included and the jobs gained from Helix Systems Inc., the number of employees at Voith Industrial Services increased by 469 overall. In line with the good business development, the new employees were assigned to the Automotive division.

Voith Industrial Services remains the Group Division with the most employees

Voith Industrial Services accounts for 47% of the total headcount (previous year: 49%), once again making it the largest Group Division in terms of total staff numbers. 18,360 people were working there at the end of the period under review (previous year: 21,032). Voith Paper employed 8,419 staff (previous year: 9,223) as at September 30, 2014, or 21% of the Group’s headcount which was unchanged on the previous year. With 6,275 staff members (previous year: 6,485), Voith Turbo made up 16% (previous year: 15%) of the Group's headcount. Voith Hydro employed 5,219 people, a 13% share of the Group's total workforce (previous year: 5,323; 12% share).

37% of the workforce based in Germany

The regional distribution of the workforce changed only marginally on the previous year: Voith continues to employ most of its staff in Germany, which accounts for 37% of the total number of employees (previous year: 40%). The Americas were still the second most important region with a share that had risen to 29% compared to 27% in the previous year. We employed 19% of our staff in Europe excluding Germany (previous year: 20%). Asia accounted for 14% of the total workforce (previous year: 12%).

In Germany, the number of employees fell to 14,434 as at September 30, 2014 (previous year: 17,327).

Europe excluding Germany recorded a net decrease of 1,036 in the number of jobs. As at the end of the fiscal year, the Group had 7,544 employees in this region (previous year: 8,580 employees).

In the Americas, the Voith Group employed 11,594 staff at the end of the year, 14 more than at the same time of the previous year (previous year: 11,580 employees).

In Asia, we created 117 new jobs and increased the number of employees to 5,543 as at the end of the period under review (previous year: 5,426).

First-class training

We train young people in more than 40 technical, commercial and trade professions. In the period under review, we once again provided a large number of young people with career prospects and maintained a high number of trainee placements. At the close of the 2013/14 fiscal year, 1,294 apprentices and students were employed at Voith locations around the globe (previous year: 1,201).

As a matter of tradition, we set great store by first-class professional training. We place great value on interdisciplinary learning and a holistic approach of imparting a combination of both social and professional skills. In May 2014, we opened our new training center in Heidenheim, our largest location. Furthermore, at our Chinese location in Kunshan where we opened Voith's largest training center outside of Germany in April 2014, we train apprentices using a similar system to the German dual-track work/study system but enriched with Chinese values and culture.

The high quality of our training is repeatedly demonstrated by the excellent performance of Voith apprentices at state and federal level. In the 2013/14 fiscal year, 49% of the apprentices at Heidenheim received a final grade of 1.9 or higher (equivalent to "good"), with one of our apprentices receiving the award for best technical draftsman in Germany by the German Chamber of Industry and Commerce.

As part of our "Global Graduate" trainee program, we offer the trainee graduates of technical and business management disciplines that we recruit worldwide a challenging entry into our Company. The participants combine practical experience with training sessions, are coached by a mentor and work in various Group Divisions and regions.

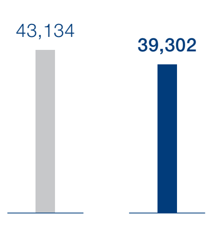
Training and qualifications for all employees

Voith sees itself as a responsible employer that encourages and challenges its employees. We require our employees to be willing to keep on learning over the entire span of their careers and help them to constantly develop. Targeted personnel development requires an employee to engage in intensive dialog with their supervisor. This is why our leadership concept requires supervisors to hold a formal meeting once a year with each of their team members to discuss their workplace, tasks and employee-supervisor relationship, and also hold an additional meeting to discuss targets, performance results and development perspectives. This meeting also determines any further training needs and the measures needed to be taken.

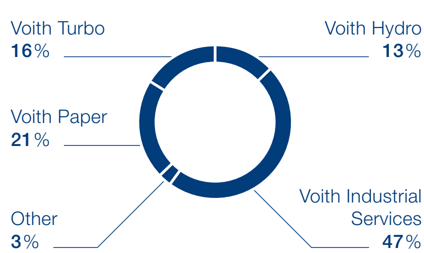
On the Company’s part we offer our employees access to internal and external training and personal development measures that foster professional, social and intercultural skill sets as well as coaching. The range of topics covers occupational safety and health, environmental protection, technology, IT, quality, languages, economics as well as management and personality. Our managers take part in a uniform development program, which is intended to enhance leadership skills at all levels of management and encourage active interchange between managers. Moreover, it will promote a common understanding and approach towards leadership throughout all Group Divisions and regions. The executives at top management level also take part in the training program offered by our Voith Academy. We train executives from procurement, finance and human resources as well as project managers in the Voith Management School. Furthermore, all employees have access to the Voith training sessions offering a wide range of training options.

In the period under review, approximately 2,200 employees worldwide (previous year: around 1,900) took part in our internal training programs which are designed to accompany their professional or management career paths. There were also various seminars with external training providers as well as internal training measures that were selected locally according to specific requirements at individual business units.

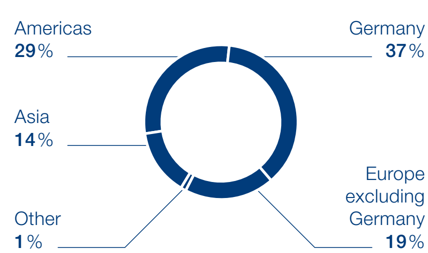
Employees Group



Employees total 39,302
by Group Division



by region



Health and safety management

Occupational safety and health are top priorities for us. By taking a responsible approach in designing workplaces and processes, we aim to avoid accidents and work-related illnesses in the best possible way we can.

The Group guidelines on occupational safety prescribe binding mandatory minimum requirements and standards for the Voith Group. All employees are involved in the occupational safety program. Our executives are given goals that cascade through the organization to the managers in their unit. Leading employees bearing responsibility for managing workers are kept informed and made aware of any issues. They train their staff and address safety issues at regular meetings. We have a comprehensive management system in place with which we identify and manage relevant information according to international standards. Since implementing this management system at all of our production locations in the 2009 fiscal year, the frequency rate, calculated pursuant to an international standard and documenting the number of accidents per one million working hours, has been constantly falling. We achieved our ambitious goal of reaching a frequency rate of 2.0 in the 2013/14 fiscal year, making Voith one of the world's leading companies when it comes to occupational safety. Our new goal is to constantly improve the frequency rate.

We also aim to systematically implement preventive measures to promote the health of our employees. It is our intention that our employees be able to maintain their ability to work and retire in good health at the end of their working life. In this regard, we concentrate on four fields of action: a safe working environment in line with demographic developments, health promotion and prevention of health-related issues, support in the event of illness and combating stress as well as corporate culture, leadership and health.

Diversity and inclusion

Voith employs men and women that are at different stages of their lives, come from over one hundred nations and bring their own individual experiences with them. This diversity enriches our corporate culture, encourages teams' creativity and innovative drive and contributes to the economic success of our Company. As an employer, Voith sees it as its duty to offer its employees equal opportunities and ensure that the workplace is free from discrimination.

Under our Diversity & Inclusion program which we launched across the Group in the 2012/13 fiscal year, we are working on fostering employee diversity and equal opportunity throughout the entire Group. In order to familiarize employees with this issue, the D&I managers and their teams initially received training in the period under review following a train-the-trainer concept, who then subsequently trained executives and top management. Our vital field of action of increasing the number of women in management applies to all regions. By contrast, the challenges relating to the age structure of workforces vary depending on the demographic development in the regions.

Family and career

We wish to offer our employees an attractive workplace that can be flexibly adapted to meet their respective situation in life. For this reason, we support them in combining family life with work. This also increasingly includes such aspects as caring for family members.

We offer a wide range of working models, such as part-time or a combination of home office and presence at the Company. At our headquarters in Heidenheim, our largest German location, we offer over 155 places in child care centers for the children of our employees, partly in cooperation with the City of Heidenheim and another local employer. Various locations in Germany have their own parent-child office allowing our employees to bring their child with them to work when other childcare options fail at the last minute.

We continued to expand on family-supporting measures in the period under review, in which we established a cooperation with an external family services provider that Voith employees can contact online or by phone to find a suitable childcare solution anywhere in Germany, for example by arranging au pairs or childminders. It also offers advice and assistance for all questions relating to nursing care needs for relatives. Our employees can find additional practical information on child and nursing care on our Germany-wide intranet platform.

08

Subsequent events

After the end of the period under review, the fair value of non-current securities accounted for in the “available for sale” category decreased by €18 million as of November 20, 2014.

No additional significant developments have occurred since the close of the 2013/14 fiscal year.

09 Risks and opportunities

Entrepreneurial activity includes making decisions under conditions of uncertainty. Our risk management system allows us to identify and manage risks to protect the Company. There continue to be no risks to the Voith Group's ability to continue as a going concern. The most significant risks which could cause the results to deviate negatively from those forecast/ targeted continue to be external. The risks are matched by opportunities that could have a positive influence on business development.

09.1. Risk and quality management

Aligned toward increasing the value of the Company

Entrepreneurial activity includes making decisions under conditions of uncertainty. Risk is therefore an integral part of entrepreneurial activity. To safeguard against risks that could jeopardize the Group and/or its companies as a going concern, Voith operates a consistent and binding Group-wide risk management system. Existential threats are defined as aggregate risk potential that threatens more than 50% of equity or more than 10% of sales.

All the elements of risk management have been brought together in a risk management system. This is not only geared to meeting legal requirements. It should also contribute to increasing the value of the Group and its companies by reducing potential risks and the probability of their occurring. At the same time, the system is intended to produce a state of equilibrium between correctly assessed risks and the exploitation of opportunities. The Group Divisions have developed standardized risk controlling matrices on the basis of the Group-wide guideline governing its internal control systems (ICS) that was implemented in November 2011. These were then rolled out to the entities in a series of suitable programs such as training measures and informational events. The adjustments to the processes and internal control systems that were needed at the companies to implement these risk control matrices are close to completion. The ICS is part of the risk management system aimed at ensuring the appropriateness and reliability of internal reporting and external financial reporting, the effectiveness, efficiency and propriety of operating activities, as well as compliance with the Voith Code of Conduct and the guidelines of the Voith Group. Risk and quality management are interlinked and integrated in a comprehensive internal controlling system.

Distributed nature of the risk management system

Voith distinguishes between two overarching risk groups with a total of six risk categories:

1. Risks to the Group
- External risks
- Management risks
- Financial risks
- Infrastructure risks

2. Risks to performance
- Contractual risks
- Technical risks

Voith has a distributed risk management system. Responsibilities are clearly defined for the differentiated risk profiles at all levels of the Group.

The risk management process itself breaks down into four stages:

- Risk identification: Voith constantly monitors macroeconomic developments, and developments in specific industries and internal business processes that could affect the situation of the Group. A risk catalog helps identify individual risks.

- Risk analysis and assessment: The risks identified in this way are assessed in terms of the potential damage they could cause and the probability that they will arise. Wherever possible, the scope of potential damage is quantified as a cost factor. Both the worst case scenario and a realistic scenario are analyzed for each identified risk to performance to assess the greatest possible risk, and its impact on the financial situation of the Group is examined. This involves reporting those individual risks with a maximum risk level of >€5 million or a realistic risk level of >€2 million, including the measures taken to mitigate this risk such as existing insurance policies, recognized provisions or recorded depreciation, to the Group's management on a monthly basis.

- Risk management: Analysis and assessment of the identified risks gives Voith's management the data it needs to decide whether risks can be avoided, reduced by suitable actions or distributed by signing appropriate agreements, or whether they have to be accepted and contained by means of optimized processes and controls.

- Risk monitoring and reporting: A multi-tiered set of controlling and reporting tools in place at Voith helps the Corporate Board of Management to analyze risks and take well-founded decisions.

09.2. Risks

In the following, we describe risks which could have a considerably negative effect on our net assets, financial position and results of operations and cause the results to deviate negatively from those forecast/targeted. The order of the risks presented below, within the six risk categories, reflects how we currently estimate the importance of these risks for the Voith Group. Unless otherwise stated, the following risks relate to all four Group divisions. Additional risks of which we are currently unaware or risks we currently estimate to be immaterial may also have a negative impact on our business activities.

09.2.1. Risks to the Group

External risks

Our economic environment is determined by global demand for capital goods and industrial services, which in turn are influenced by the global macroeconomic environment. The gradual recovery in the global economy forecast by economic analysts is extremely fragile. If economic development were to fall short of expectations, it is highly probable that this would have negative effects on Voith's net assets, financial position and results of operations. Economists see significant risks for the projected global economic development. The most serious risk for the global economy is the high number of geopolitical conflicts: if the current geopolitical crises – for example the Ukraine/Russia conflict and the highly unstable situation in the Middle East – were to escalate or carry on for an unexpectedly long period of time, this could disrupt international trade, drastically raise energy prices and unsettle the global investment climate. A second risk for the global economy is the crisis in the euro area which remains unresolved. Despite showing signs of recovery, the countries of the euro area remain vulnerable to setbacks as they continue to face significant challenges. First and foremost are the high level of sovereign debt and the structural reforms urgently needed in several countries to increase international competitiveness, which, bar a few exceptions, have yet to be undertaken. An additional risk for the global economy lies in the fact that the financial markets have become increasingly detached from the real economy due to the loose monetary policy and that the risks described are at present insufficiently priced into securities prices. Negative developments in the real economy could therefore trigger overreactions and, in the worst case scenario, financial market shocks which would have further feedback on the global economy.

Various market risks could have a negative impact on Voith's earnings position should they eventuate. The market risk with the highest possible damage potential from the Voith Group's perspective relates to Voith Paper. Should the forecast growth in paper production underlying our business plan not be realized in the coming years, investments in paper machines would be significantly lower than expected and increased competitive pressure would have a negative impact on prices. Both would jeopardize the ability of Voith Paper and the Voith Group as a whole to reach their sales and earnings targets. On the market for several of Voith Turbo's application fields, mechanical drive solutions are frequently in competition with electrical alternatives. Voith Turbo protects itself against this risk by constantly developing its product portfolio with a view to improving efficiency as well as by changing the cost structures by becoming even more localized. Should we fail to maintain our competitive position in the future through technological advancement, this would cause Voith Turbo's market position in the affected segments to deteriorate and thus hamper the Voith Group's earnings position. At Voith Hydro, the development of shale gas extraction could in the mid to long term lead to partial displacement of new investments as well as to renewal work being carried out on existing hydropower plants in North America, which would diminish this Group Division's earnings position. Furthermore, individual market segments in which we operate could also be impacted in the future by slowed market growth or falls in demand. Other market segments are highly competitive, meaning we find ourselves faced with pressure on prices in some cases. However, the damage potential of these market risks is considered lower as it is limited to individual divisions or business units.

One geopolitical risk that not only effects Voith indirectly as an economic risk but would also directly hamper the Voith Group's business development is a potential escalation of the tension between Russia and the EU and the inherent risk of further economic sanctions being imposed on both sides, right through to a total embargo. This would lead to Voith not being able to carry out its orders on hand or participate in future project tenders, which would have corresponding effects on our earnings position. This risk relates to all four Group Divisions, albeit to varying degrees. Voith Hydro would be noticeably affected as its orders on hand currently include several orders from Russia. If an economic embargo were to be more prolonged, Voith Hydro would also be cut off from the mid-term market potential for modernization work, something Russia has to offer as an established hydropower market. The damage potential is significantly less for Voith Turbo and Voith Paper, while it is very low for Voith Industrial Services.

We also deem there to be a location risk in Africa where Voith Hydro is currently involved in several hydropower projects. Should the Ebola epidemic continue to spread, there is the risk of projects being delayed or not being implemented at all, which could hamper Voith Hydro's earnings position in the short term. There would be mid-term effects for Voith Hydro if new orders were delayed, depending on the severity of the epidemic and how far it spreads. The other three Group Divisions are not currently participating in any significant activities on the African continent outside of South Africa.

The scenarios described below were analyzed by the Voith Group. The management of Voith GmbH is prepared to act decisively as soon as economic conditions change for the worse. Voith has a diversified portfolio in terms of both markets and regions, strong market positions, healthy finances and a stable liquidity position, and monitors all key indicators on a monthly basis. Voith therefore believes it is well placed to rapidly respond to any consequences of external risks.

Management risks

Under the multiyear success program Voith 150+, we are involved in a process of strategic adjustments. These include optimizing our product and services portfolio as well as restructuring measures, capacity adjustments and process improvements. As is always the case with such processes, there is the general risk of the strategic adjustments not being implemented within the planned time period or that they do not generate the planned savings. This would mean that the planned cost savings would be realized at a later date or not in full, which in turn would have a negative impact of the net assets, financial position and results of operations of the Voith Group and restrict our scope for further growth. Our implementation of Voith 150+ is currently on schedule.

Beyond the risk described above, there are currently no specific identifiable risks arising from Group management; for example, from the reporting system, the corporate image or the lack of coordination of business activities within the Group.

Liquidity and financial risks

The key objective of liquidity and financial management is to make sure at all times that the Company is able to continue as a going concern and to ensure the financial independence of the family-owned business. The liquidity reserves remain at a secure level to ensure the Company is always in a position to meet its payment obligations.

Cash management is the task of the Group's treasury function as well as the related regional treasury and finance centers. The Group maintains cash pooling systems in Europe, China, India and North America, which it uses to concentrate its cash and cash equivalents as far as possible (where legally permissible) and lower interest expenses caused by external debt financing. Borrowings are generally taken out by Voith GmbH and provided to the Group companies when needed.

The Voith Group's diversified financing structure is designed to safeguard long-term stability. The syndicated euro loan arranged in 2011 was increased in August of this year under an amend-and-extend agreement and now runs until 2019 with the option of extending for another two years. 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 secures the finance for future investments in the same currency as the operating business on the local market. These instruments will allow for long-term growth in a changing global market. Voith has given high priority to the availability of liquidity from existing loan agreements. Risks of termination are minimized in that compliance with the terms and conditions of the respective contracts is monitored on an ongoing basis. As in the previous years, all contractual terms and conditions were complied with in the 2013/14 fiscal year.

A "negative outlook" was added in December 2013 to the investment grade "Baa2" rating issued by Moody's, which was confirmed again in September 2014. A downgrading could raise the financing costs and have a negative effect on the net assets, financial position and results of operations.

With regard to securities, the Group generally holds isolated direct investments. Fluctuations in the value of these investments as a whole are recognized directly in equity. Market losses are recognized in profit and loss only if there is objective evidence that the fair value of an investment is sustainably or significantly impaired. The sustainability criterion is met if the impairment lasts longer than 12 months. If the fair value of the investment falls more than 30% below its cost, this is regarded as a significant impairment. It should be noted that all investment decisions are based on thorough analysis of fundamental data. Any market risks to share prices are analyzed continuously.

As a globally operating company, Voith remains exposed to the risk of fluctuating exchange rates which could have a negative impact on the net assets, financial position and results of operations. To contain risks arising from cash flows in different currencies (mainly US dollars but also currencies from emerging markets such as China, Brazil or India), defined foreign currency management procedures are applied consistently throughout the Group. All Group companies are required to hedge foreign currency items when these occur. Revaluation of the euro against various other currencies could have negative effects on sales and earnings due to currency translation for the financial statements prepared in foreign currency. This could further have an impact on our competitive position as cost benefits in weaker currencies are possible for competitors. Moreover, interest risks are covered by appropriate hedges in order to obtain long-term interest and financing security.

To hedge existing transactions such as future cash flows in different currencies or variable-rate financing, Voith uses a variety of derivative financial instruments, in particular forward exchange contracts to manage currency risks and interest rate swaps to manage interest risks. The instruments used and the hedge strategies are defined and documented at the start of a hedge in line with the goals of corporate risk management. The risks are constantly monitored and, if necessary, the hedges are adjusted.

To guard against political and economic risks associated with deliveries and services provided by the Group Divisions, the Group buys commensurate insurance from government export credit insurance agencies, from the private-sector insurance market and from banks. The Group also maintains adequate cash reserves to cover all other operating risks.

Counterparty risks with financial partners are monitored constantly.

Provisions have been recognized and contingent liabilities disclosed in the notes to cover the potential financial burden of tax risks. Moreover, neither Voith GmbH nor any of its subsidiaries are involved in tax proceedings that could have a material impact on the economic position of the Group. Likewise no such proceedings are foreseeable for the time being.

No particular liquidity or financial risks are perceivable at the present time. For more information, please refer to the notes to the consolidated financial statements.

Infrastructure risks

In the area of infrastructure risks, Voith primarily identifies IT risks, human resources risks, compliance risks and environmental protection risks, against which the Company takes specific countermeasures. No particular risks relating to the Group's infrastructure are perceivable at the present time.

Our successful business activities are underpinned by state-of-the-art and secure information technology. This is why we have our own IT function, Voith IT Solutions, which ensures that reliable data processing services are provided from our own data center. The experts at Voith IT Solutions manage the whole IT infrastructure for the entire Group and also maintain the specific application systems used by each Group Division. Our information security management is based on the international standard ISO/IEC 27001, and thus meets the most stringent standards. Our central computer center operated by Voith IT Solutions Germany has obtained certification under this standard. Our primary objective when it comes to managing IT risks is ensuring the availability of our IT infrastructure and IT applications used. Outages of basic systems owing to technical faults, virus attack or force majeure would result in business processes being massively disrupted or coming to a complete standstill. In order to prevent such business interruptions, we built redundancy capacity into the core systems of our IT landscape at two data processing centers. At an application level, we address the risk of defective software in addition to the risk of outages. We ensure the reliability ("integrity") of applications with a strict quality management system, which involves new software versions and programs being subject to a multistep test and approval process before they are implemented. In order to maintain the confidentiality of our data, these are categorized according to predefined confidentiality levels. Depending on the level of confidentiality, we use IT tools of varying complexity such as encryption technology, which we use to securely save and transfer data. This also ensures that our intellectual property is protected as best as possible. In addition to these technical measures, we train and inform our employees about how to securely handle confidential data by means of e-learning programs and awareness campaigns.

Highly qualified professionals and executives are key to our products, our image and ultimately to the success and growth of Voith. Should we be unable to cover our qualitative and quantitative personnel needs over a longer period of time, this would call into question our ability to reach our corporate targets. For this reason, we strive to bind experienced employees to Voith and constantly train them on the one hand and to remain an employer of choice for newly trained candidates on the labor market on the other. When it comes to ensuring we have a sufficient number of such employees, we compete with other international players and act with foresight. With a family-friendly human resources policy and flexible working hours, international career development prospects and performance-linked compensation systems as well as a broad spectrum of training and development programs, we offer an attractive work environment. With regard to the recruiting of new staff, we have driven forward our personnel marketing. In order to fulfill the requirements of the global labor market and the internationalization of Voith, we are realigning our human resources department. The strategic aim of this multiyear transformation process is to give the regions a stronger weighting and enhance the quality of personnel work as well as to streamline processes and make them more efficient. This is expected, among other things, to increase the standardization of administrative processes with the help of a uniform Group-wide IT platform.

At Voith, we base all our actions on integrity and trust. The clear and unambiguous guidelines and values defined by the Corporate Board of Management are summarized in the Voith Code of Conduct. This is equally binding for all Voith employees worldwide and provides clear-cut rules of behavior toward third parties such as business partners, competitors, political parties and government authorities. Compliance with these principles is monitored by the Group's Compliance Committee

Further information on compliance management can be found in section 1.3., "Values, guidelines, compliance".

and the compliance officers in the Group Divisions and in each entity of the Group. We place great value on functioning compliance management, as issues ranging from non-compliant behavior through to illegal acts committed by employees could lead to a loss of image, sanctions, penalties and ultimately to a fall in earnings.

The business activities of an industrial company give rise to risks for people and the environment. For this reason, industrial safety as well as compliance with environmental legislation and corporate environmental protection is a top priority for us. Such risks occurring could also result in production outages, claims for damages being filed and a loss of image. To avoid environmental and health risks, all production processes in the Voith Group are subject to corporate guidelines on quality, risk management, and occupational safety and environmental protection. Integrated management systems monitor compliance with these guidelines and ensure that both production and products consistently meet the same high quality and environmental standards. Since the 2009/10 fiscal year, data relevant to the environment has been systematically recorded and analyzed. Environmental risks can thus be identified at an early stage and appropriate countermeasures initiated. Adequate accounting provisions have been made for residual risks.

09.2.2. Risks to performance

Contractual risks

Long-term contracts, especially for major projects, form a key component of our plant engineering business at Voith Hydro and Voith Paper. Such contracts are associated with a host of risks and we attach great importance to managing these risks. For example, the earnings margins generated by fixed-price contracts may deviate from the values originally calculated as a result of changes in costs or productivity during their term. Also possible are cost overruns or contractual penalties stemming from unexpected technical problems or unforeseeable developments at the project locations. Several of our multiyear contracts also contain demanding timelines or regulations to ensure that legal guidelines are observed. If not met, these requirements could lead to contractual penalties, damage payment obligations, payment refusals or contract terminations. Project management and controlling, as it has been implemented, is reviewed continuously to determine whether the project is indeed developing in line with the planning. Any deviations are addressed early on. Regular checks ensure that adequate provisions have been made to cover any legal risks throughout the Group. In particular, these include risks relating to warranties, liability, contractual penalties, guarantees and the possibility of inadequate or incorrect price calculations. Liability and property insurance in line with standard industry practice is taken out to cover potential damages and/or liability risks. Appropriate other provisions are made for special risks arising from existing contracts if these risks can be reliably quantified.

Technical risks

Technical risks relate to innovation-related risks, sourcing risks and sales risks due to decreasing customer satisfaction. There are currently no indications of any particular technical risks within the Voith Group.

Innovation-related risks are a key risk area for a technology group like Voith. The future profitability of the Company hinges on its ability to develop marketable products and services and use state-of-the-art production technologies and service processes. Our earnings situation could be negatively impacted by investments in technology that does not work as planned or find the level of market acceptance expected. Voith invests large sums of money to further improve and refine existing technologies, and to research and develop new products, systems and services. With several thousand active patents to its name and hundreds more new patents filed every year, Voith ranks as one of the world's most innovative companies in the industries it serves.

Detailed information on the current focus areas of our R&D activities is provided in section 5, "Research and development".

Collaboration with suppliers on the global procurement markets involves three types of risk: supply outages, unforeseen cost increases and non-compliance with environmental and social standards. We have embedded effective measures to secure our supplies – supplier selection and order processing – in our processes. Moreover, a permanent Group-wide risk management process has been implemented to identify supply risks and the risk of insolvency among suppliers at an early stage. Our dual sourcing strategy excludes dependence on individual suppliers to the greatest possible extent. Back-up strategies are thus in place in case suppliers who provide core components for the Group's business processes should default. Moreover, in the 2013/14 fiscal year Voith once again used all means at its disposal to contain the risks posed by cost increases. It did so by concluding fixed-price contracts. Suppliers' compliance with environmental and social standards is checked by means of audits.

Our customers' satisfaction is key to achieving sales success and maintaining or increasing our market share. In the mid to long term, a fall in customer satisfaction would have a negative impact on our earnings position. For this reason, we develop technologies for and in cooperation with our customers that help them get ahead. Maintaining long-term partnerships is a high priority for us. We are proud to have collaborated with many customers, suppliers and other business partners over generations – some of our relationships even go back over 100 years. We survey customer satisfaction in order to objectively assess and enhance our customer service.

09.2.3. Overall risk

To the best of our knowledge at the time this report went to press, there are no risks which, either individually or aggregately, could jeopardize the ability of the Voith Group to continue as a going concern. The risk situation for Voith has not changed significantly compared to the previous year. Of all the risks facing the Voith Group, external risks could have the strongest negative impact on business development. We are convinced that, in light of our strong diversification, our financial strength and the instruments used to control risks, our Group is able the bear the risks associated with our business activities.

09.3. Opportunities

In addition to the systematic management of risks, it is also essential that we support our corporate success by actively managing opportunities. The identification of opportunities and their strategic and financial assessment plays a role in the strategic discussions the Corporate Board of Management holds regularly with those responsible for the operating units. The results of these meetings are incorporated into the Voith Group's strategic decisions as well as into the annual planning process.

In the following, we describe significant opportunities which could have positive effects on our net assets, financial position and results of operations and cause the results to deviate positively from those forecast/targeted. The order of the opportunities presented below reflects how we currently estimate the importance of these opportunities to be for the Voith Group. Unless otherwise stated, the following opportunities relate to all four Group divisions.

Expanding the portfolio with product innovations

We are constantly working on developing new technologies, products and solutions as well as improving existing ones. In the best possible scenario, this allows us not only to secure our market position but also to generate sales and market shares that are yet to be integrated in our business plan. We gear our development activities towards global megatrends as well as current technology trends and new industry-specific requirements, for example those that are regulatory in nature. In the period under review, we once again launched numerous new products on the market in our Group Divisions Voith Hydro, Voith Paper and Voith Turbo.

For information on current product innovations, see section 5., "Research and development".

Inorganic growth through acquisitions

Under the Voith 150+ program, we are working intensively to strengthen our portfolio of products and services, also by means of strategic acquisitions. In the short term, these offer opportunities for additional earnings not provided for in the business plan; in the mid-term they can help improve our positioning in certain markets or tap promising new fields for Voith.

New sales markets for existing products and services

In addition to expanding our portfolio of offerings, our Voith 150+ program will see us scout for market opportunities for our existing products and services in all of our Group Divisions in those regions where we have been underrepresented to date or have no presence at all. We will also try to transfer our already successful products to new fields of application or sales areas. The resulting additional sales potential has yet to be integrated in our business plan.

Opportunities from development of the global economy

Due to the gradual economic recovery and persisting uncertainties, we currently expect the 2014/15 fiscal year to be shaped by an ongoing gloomy climate for capital investments. Should global economic recovery be faster acting and longer lasting than currently anticipated, this could have a positive impact on Voith's net assets, financial position and results of operations. We currently do not deem such a development to be likely. If it were to occur, however, the impact would be tangible in all four Group Divisions, albeit with a different time lag in each division.

Opportunities in focus regions

The low level of global growth on the whole is attributable to the varying degrees of development in the different regions. We expect the world to witness three different speeds of development in the coming years, with the strongest growth stimulus coming from the emerging markets in Asia, and North America also posting strong growth on account of low energy prices due to the large scale of shale gas extraction, while most of the remaining industrialized nations, especially those in Europe, will show barely any growth. Generally speaking, we have prioritized Asia and North America as strategic growth regions for the Voith Group and will intensify our investments in an attempt to put down even deeper roots at our locations and localize products so as to participate in this growth. We will also try to use the opportunities offered to us by special developments in individual markets, segments and countries for particular Group Divisions or business units. Should individual regions record better development than expected or should we manage to be more successful in the defined focus regions than expected, this would have a positive impact on our earnings position.

09.4. Internal control and risk management system for the Group financial reporting process

Proper and reliable accounting

As a company that raises funds on the capital markets, Voith GmbH is required by Section 315 (2) No. 5 German Commercial Code (HGB) to describe the key elements of its internal control and risk management system with regard to the Group financial reporting process.

The aim of the accounting-related internal control and risk management system is to guarantee that accounts are prepared correctly and reliably and to ensure that consolidated and separate financial statements comply with the applicable regulations.

The following structures and processes have been implemented in the Group:

The Corporate Board of Management of Voith GmbH bears overall responsibility for the internal monitoring and risk management system with regard to the Group financial reporting process. All levels of the Company (companies, Group Division head organizations, Voith GmbH as management holding company) are integrated through a strictly defined management and reporting organization.

Uniform recognition and measurement based on the regulations for the Voith GmbH consolidated financial statements is ensured by Group accounting guidelines. Changed accounting rules are constantly adapted and communicated by Voith GmbH. The quality of the guidelines is ensured by an ongoing exchange between the departments responsible.

Accounting is decentrally organized. Accounting entries are recorded in the separate financial statements of the subsidiaries of Voith GmbH. Risk control matrices have been developed at corporate headquarters for the most significant line items that, from a Group perspective, are exposed to an elevated risk of misstatement. These matrices must be applied by the subsidiaries when preparing their end-of-year financial reporting. These matrices present the most significant accounting-related risks for the specified line items of the financial reporting and contain corresponding instructions on controlling activities, responsibilities and documentation duties. Among other elements, the control activities comprise analytical reviews as well as processing and controlling of key and complex business transactions by different people. Complex accounting issues (e.g. financial instruments) are referred to corporate departments or external experts (e.g. measuring the pension obligation). The activities and controls for these subjects are also considered in the risk control matrices.

The consolidated financial statements are prepared by adding information to the separate financial statements of the subsidiaries to create standardized reporting packages which are then included in the consolidation system. Once the data has been fed into the consolidation system, it is then subject to an automated plausibility check. If this returns an error message, this is immediately corrected by the individuals in charge of the subsidiaries concerned. The subsidiaries are supported by contact persons at headquarters for all accounting-related issues. After the data is finally approved, the respective management, or in isolated cases the representatives they appoint, issues a letter of representation confirming the completeness and accuracy of the reporting package in accordance with the relevant requirements and that the internal controls have been conducted and documented.

Group-wide reconciliation of balances takes place worldwide via an intranet-based platform. The various deadlines for the different parts of the reporting package are stipulated in the consolidation system and centrally monitored in the course of the preparation process. All consolidation activities are undertaken centrally at Voith GmbH. The entire consolidation process is supported by both automatic systems-based and manual controls.

The proper functioning of the controls defined in the internal accounting-related control system is evaluated on a regular basis. If any weaknesses are identified, the system is adjusted accordingly.

The quality of financial reporting is also ensured by reconciling planning calculations with the external reporting at all levels of the Company. Checks on system access based on authorization concepts as well as programmed plausibility checks in the IT systems used for the financial reporting ensure that processes are complete and precise.

The internal audit department performs regular, independent reviews of the proper functioning, correctness, reliability and efficiency of all internal control and risk management systems in the Voith Group. Suitable measures are promptly taken to remedy any gaps or weaknesses that may be identified.

Compliance with the internal accounting-related control system is verified by the external auditors in the course of their audit of the financial statements. Any deficiencies or flaws that appear are recorded in a management letter along with suggested improvements.

10 Forecast report

Against the backdrop of the economy recovering slightly but with the investment climate remaining gloomy, we expect both the sales and orders received to remain constant in the 2014/15 fiscal year. All Group Divisions are expected to continue posting positive operating figures. At Group level, we aim to improve our profitability and increase the profit from operations.

10.1. Business environment

Global economic recovery remains fragile

For more information on the risks and opportunities for the global economy, see section 9.2. and 9.3. of this management report.

Voith expects the economy to show slight signs of recovery in the 2014/15 fiscal year, although the investment climate is set to remain gloomy. Economic analysts are talking of moderate growth in the global economy. For example, in its latest release the International Monetary Fund (IMF) is forecasting growth of 3.8% in 2015 and 4.0% in 2016, after 3.3% in 2014. However, the expected recovery is extremely fragile and associated with a high number of risks, while we deem the chances of development exceeding our expectations to be poor. Due to the high level of uncertainty, the environment remains difficult for capital goods. By contrast, consumer goods and industrial services could benefit from the generally positive trend.

The US comes out on top of the advanced economies with above-average growth in both relative and absolute terms. Thanks to its shale gas and oil reserves, the world's largest economy is expected to generate robust growth in 2015 as well as in the mid-term as part of its expected re-industrialization. This is currently providing opportunities for capital goods and industrial services providers, thus making the US a global growth driver together with China. For the euro zone, we expect the gradual recovery to continue while investing activities remain subdued despite interest rates being at a record low. Moreover, the euro area remains vulnerable to setbacks. The economic forecasts for Germany were lowered, with the IMF for example expecting growth to be only marginally higher than the low growth rate for the entire euro zone.

The fact that higher growth is forecast for the emerging market and developing economies as a whole than for the advanced economies conceals significant differences between the individual countries. China for instance, despite a slight fall in momentum, is expected to continue with high growth and remains a strategic growth market for Voith. India is forecast to experience an economic upswing. By contrast, we expect to see a significantly lower level of growth in Brazil and Russia.

Economic growth according to the International Monetary Fund
Real change in GDP on the previous year[1]

World output	2015	3.8%
	2016	4.0%
Advanced economies	2015	2.3%
	2016	2.4%
United States	2015	3.1%
	2016	3.0%
Euro area[2]	2015	1.3%
	2016	1.7%
Germany	2015	1.5%
	2016	1.8%
Emerging market and developing economies	2015	5.0%
	2016	5.2%
China	2015	7.1%
	2016	6.8%
ASEAN-5	2015	5.4%
	2016	5.5%
India	2015	6.4%
	2016	6.5%
Brazil	2015	1.4%
	2016	2.2%
Russia	2015	0.5%
	2016	1.5%

Source: International Monetary Fund; World Economic Outlook, Oct. 2014.
[1] Forecasts.
[2] Including Germany.

This is primarily attributable to various unsolved structural and political problems in each country which hamper investors' confidence. Russia's economy is being weakened further by the low prices of raw materials as a result of the economic environment as well as by the economic sanctions imposed by the EU and the US in connection with the Ukraine crisis. It is currently hard to foresee whether these two economies will be able to overcome their respective barriers to economic growth and whether in the mid-term they will fulfill what was expected of them back when the term "BRIC states" was originally coined. For Southeast Asia, we see solid growth which will also be supported by the expansion of the ASEAN Economic Community. In the mid to long term Africa is also gaining in importance, with short-term development in certain African countries being hampered by the Ebola epidemic.

The forecast for our business assumes that there will be no economic or political shocks which could tip the global economy into recession.

Investing activities in the Voith markets predominantly subdued

In three of our five target markets – energy, paper, raw materials – we can see little stimulus for growth and an ongoing gloomy climate for capital investments in the 2014/15 fiscal year. We are optimistic about the transport & automotive market and, to a limited degree, the oil & gas market.

As global energy needs are continuing to rise, electricity-generating capacities are being expanded further although most likely at a slower rate than in the past. This involves all regions putting greater emphasis on renewable energy sources or gas as an energy source. The generally positive outlook for hydropower will be hampered in the short to mid term by the economic and regulatory framework conditions in Europe and the expansion of shale gas and oil activities in the US.

Demand for oil and gas is expected to rise further especially in Asia. Whether the positive trend will continue for investing activities depends not least on a stabilization of oil prices. In Europe there are excess capacities at refineries, while capacities in Asia are being expanded. In the US, intensive investments are expected to be made in all three segments of the oil & gas market, which may shift their focus more toward the gas sector in the event that oil prices remain low.

Consumption of paper will continue to rise gradually, however there will be huge differences between the various grades of paper and regions. In the 2014/15 fiscal year, we assume that demand for new paper machines will remain extremely low on account of the deteriorating market prospects of paper manufacturers. We expect the majority of investments to be made in Asia and also in machines to make tissue, board and packaging paper as well as in modifications.

In the mid to long term, the market for raw materials will see a growth trend driven by the industrialization of emerging markets in Asia and a strong demand for coal to meet rising energy needs worldwide. In the short term, manufacturers' investing activities will be curbed by low prices for raw materials as well as the existing excess capacities. It remains to be seen whether a turnaround will still happen for mine operators and mining companies in the 2014/15 fiscal year or not until later.

We continue to be optimistic about Voith's most important segments of the transport & automotive market. The passenger vehicle and light truck segment is expected to post notable growth on the back of the continued upswing in the US economy, while in the truck segment we expect robust development with stimulus from the NAFTA and EMEA regions. We expect the Rail segment to generate solid growth.

10.2. Future development of the Company

All Group Divisions returning a clear profit

In light of the mixed economic environment, we expect both the sales and orders received of the Voith Group to remain constant in the 2014/15 fiscal year, while working on improving earnings and our profitability. All four Group Divisions will continue to return a profit from operations, although their sales and orders received will not develop uniformly, depending on their respective markets.

At Voith Hydro, we expect sales to be stable in the 2014/15 fiscal year on the basis of the high level of orders received in the period under review, while aiming to generate a profit from operations that is at the high level of the previous year. The ongoing positive development is to be supported by internal process improvements as well as by expanding the service business, which has a higher margin. We expect the ROCE to show a slight improvement on the back of the fall in capital employed. Due to the high number of projects, some of them major projects, awarded in the past 2013/14 fiscal year, we expect a lower volume of projects to be awarded on the market in the following year. This is expected to cause Voith Hydro's orders received to fall noticeably in the 2014/15 fiscal year. However, this is not a mid-term trend but is due solely to the cyclical nature of how major hydropower projects are awarded.

At Voith Industrial Services we expect to see moderate organic sales growth in the 2014/15 fiscal year, adjusted for the Industries division (DIW Group) sold as at September 30, 2014. This growth is to be primarily driven by the Automotive division, which is benefiting from the continued positive development in the automotive industry. In the 2014/15 fiscal year, we expect the first positive effects to be seen on Voith Industrial Services' profitability as a result of the portfolio adjustment as well as efficiency improvements in connection with Voith 150+. For this reason, we assume that growth in the profit from operations adjusted for the sale of DIW will outpace that of sales. The ROCE is expected to improve significantly and to be in double digits.

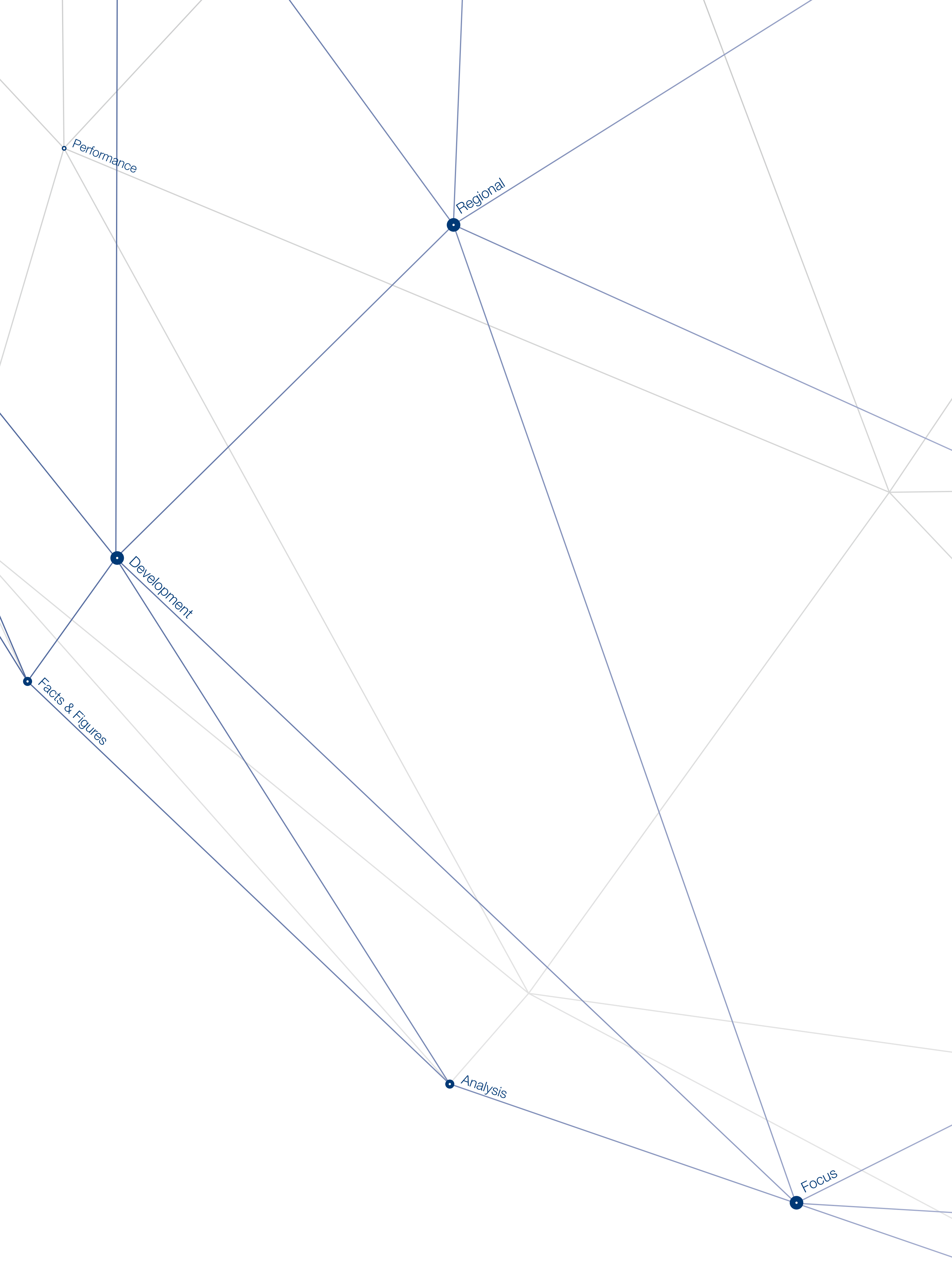
At Voith Paper, the slight increase in orders received in the period under review gives us reason to expect the decline in sales also to be reversed in the 2014/15 fiscal year, stabilizing sales at a level that is on a par with the previous year. With regard to the orders on hand, we hope that the positive trend from the period under review will continue and that we can once again generate a slight increase in Voith Paper's orders received. This is to be supported by the project business stabilizing at a low level as well as growing business with products, consumables and services. Our planning is based on the assumption that the paper machine market will remain difficult but that the market volume will bottom out, now that it has reached its lowest level. A further planning assumption is that market analysts' already low growth expectations for paper production will not be revised further downwards. Although the cost savings made due to restructuring efforts will show further positive effects in the 2014/15 fiscal year according to our planning, we expect that additional capacities will have to be reallocated among the Voith Paper locations to improve earnings to a sustainable level, incurring corresponding restructuring costs. For the 2014/15 fiscal year, we expect a noticeable increase in the profit from operations and a corresponding improvement in the return on sales and ROCE.

For Voith Turbo, we expect sales to remain constant in the 2014/15 fiscal year. On account of the efficiency programs and growth initiatives launched, we expect the profit from operations to increase slightly such that the return on sales will also improve. The ROCE is expected to reach the high level of the previous year. As for orders received, we also anticipate stable development overall. Despite the low prices for raw materials and modest market development on the whole, we expect stable business in the Power, Oil & Gas and Mining & Metals divisions. The Commercial Vehicles and Rail divisions will most likely not be able to match the high number of orders received in the previous year, although the level will remain high.

Profitability of the Voith Group on the rise

As announced in the Annual Report 2013, the focus of the Voith Group in the 2014/15 fiscal year will again be placed on improving our returns and our cash flow. With the help of the Group-wide success program Voith 150+, we aim to increase our efficiency and profitability, and, in the mid-term, to grow our sales. In the 2014/15 fiscal year, we are forecasting Group sales to remain at the same level as the period under review adjusted for the DIW sale. Our sales projections are based on the high level of orders on hand as at September 30, 2014 and a stable development of new business in the 2014/15 fiscal year. The profit from operations and consequently also the ROCE of the Voith Group are expected to grow slightly, as the measures introduced under Voith 150+ will show further positive effects in the 2014/15 fiscal year.

Forecasts are always subject to considerable uncertainty. A host of macro-economic 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 which could lead to a negative/positive forecast deviation, we refer to sections 9.2 and 9.3 of this management report. We will closely observe further developments as they occur and, where necessary, respond rapidly and decisively to changing conditions. Voith is in excellent shape. Our robust constitution, coupled with our solid equity ratio and the fact that our Company is not burdened by any net debt, provide us with the headroom we need to implement those decisions we view as making the most sense. The aim of Voith GmbH's Board of Management is to keep the Company on a secure footing for the long term and to actively steer it out of this challenging decade of the 21st century. Voith is ideally equipped for the challenges of the future: we have a portfolio that is fit for the future, sufficient financial strength with reliable long-term access to capital, an efficient organization and an outstanding workforce.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Consolidated Financial Statements

Consolidated statement of income

for the period from October 1, 2013 to September 30, 2014

in € thousands	Note	2013/14	2012/13*
Sales	(1)	5,345,110	5,728,217
Changes in inventories and other own work capitalized	(2)	16,056	4,952
Total output		**5,361,166**	5,733,169
Other operating income	(3)	327,248	301,150
Cost of material	(4)	-2,112,041	-2,339,049
Personnel expenses	(5)	-2,123,905	-2,143,520
Depreciation and amortization		-170,119	-175,371
Other operating expenses	(6)	-1,062,093	-1,066,613
Operational result before non-recurring items		**220,256**	309,766
Non-recurring result	(7)	3,542	-155,760
Operational result		**223,798**	154,006
Income from companies accounted for using the equity method		4,583	4,315
Interest income		16,456	12,812
Interest expenses		-84,507	-82,311
Other financial result	(8)	-41,038	9,044
Income before taxes		**119,292**	97,866
Income taxes	(9)	-78,496	-32,629
Net income		**40,796**	65,237
Net income attributable to shareholders of the parent company		21,997	46,835
Net income attributable to holders of non-controlling interests		18,799	18,402

* Previous year restated (refer to “Restatement of previous-year amounts”).

Consolidated statement of comprehensive income

for the period from October 1, 2013 to September 30, 2014

in € thousands	2013/14	2012/13*
Net income	**40,796**	65,237
Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods:		
Remeasurement of defined benefit plans	-122,796	16,217
Taxes on components of other comprehensive income that will not be recycled through profit or loss in later accounting periods	31,435	-8,484
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	-33,395	-20,226
Gains/losses on cash flow hedges	-34	-409
Gains/losses on currency translation	15,665	-62,575
Gains/losses from the currency translation of net investments in foreign operations	-1,144	-2,023
Share of associates in other comprehensive income	0	94
Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods	490	1,892
Other comprehensive income	**-109,779**	-75,514
Total comprehensive income	**-68,983**	-10,277
· Total comprehensive income attributable to shareholders of the parent company	-87,758	-20,049
· Total comprehensive income attributable to holders of non-controlling interests	18,775	9,772
	-68,983	-10,277

* Previous year restated (refer to “Restatement of previous-year amounts”).

Consolidated balance sheet

as at September 30, 2014

in € thousands		Note	2014-09-30	2013-09-30*	2012-10-01*
A.	**Non-current assets**				
I.	Intangible assets	(10)	712,854	762,659	770,630
II.	Property, plant and equipment	(11)	1,189,950	1,197,087	1,251,711
III.	Investments accounted for using the equity method	(12)	41,320	37,663	36,082
IV.	Securities	(16)	134,176	215,856	223,840
V.	Other financial assets	(12)	32,501	27,012	36,007
VI.	Other financial receivables	(15)	75,160	71,465	87,683
VII.	Other assets	(15)	32,868	27,747	41,731
VIII.	Deferred tax assets	(9)	183,878	151,832	149,024
Total non-current assets			**2,402,707**	2,491,321	2,596,708
B.	**Current assets**				
I.	Inventories	(13)	734,421	737,414	858,944
II.	Trade receivables	(14)	1,136,574	1,193,383	1,206,048
III.	Securities	(16)	49,552	57,781	42,233
IV.	Current income tax assets		74,527	80,721	113,237
V.	Other financial receivables	(15)	111,978	114,233	103,840
VI.	Other assets	(15)	112,616	177,327	145,947
VII.	Cash and cash equivalents	(17)	800,823	900,967	916,894
			3,020,491	3,261,826	3,387,143
VIII.	Assets held for sale	(18)	30,012	11,436	1,270
Total current assets			**3,050,503**	3,273,262	3,388,413
Total assets			**5,453,210**	5,764,583	5,985,121

* Previous year restated (refer to "Restatement of previous-year amounts").

in € thousands	Note	2014-09-30	2013-09-30*	2012-10-01*
A. Equity				
I. Issued capital		120,000	120,000	120,000
II. Revenue reserves		737,573	829,750	803,526
III. Other reserves		6,930	28,437	101,966
IV. Profit participation rights		6,600	6,600	6,600
Equity attributable to shareholders of the parent company		**871,103**	984,787	1,032,092
V. Profit participation rights		96,800	96,800	91,800
VI. Other interests		63,400	58,147	69,882
Equity attributable to holders of non-controlling interests		**160,200**	154,947	161,682
Total equity	(19)	**1,031,303**	1,139,734	1,193,774
B. Non-current liabilities				
I. Provisions for pensions and similar obligations	(20)	752,425	647,290	655,906
II. Other provisions	(21)	194,931	214,863	182,581
III. Income tax liabilities		965	869	3,219
IV. Bonds, bank loans and other interest-bearing liabilities	(22)	899,282	857,981	993,525
V. Other financial liabilities	(24)	18,348	18,076	19,762
VI. Other liabilities	(24)	52,690	58,176	67,145
VII. Deferred tax liabilities	(9)	76,730	82,069	93,197
Total non-current liabilities		**1,995,371**	1,879,324	2,015,335
C. Current liabilities				
I. Provisions for pensions and similar obligations	(20)	27,683	26,544	27,292
II. Other provisions	(21)	294,656	334,785	313,881
III. Income tax liabilities		90,847	103,820	122,614
IV. Bonds, bank loans and other interest-bearing liabilities	(22)	96,547	308,514	233,359
V. Trade payables	(23)	525,025	562,983	557,513
VI. Other financial liabilities	(24)	297,758	317,968	317,018
VII. Other liabilities	(24)	1,087,753	1,085,511	1,204,335
		2,420,269	2,740,125	2,776,012
VIII. Liabilities directly associated with the assets classified as held for sale	(18)	6,267	5,400	0
Total current liabilities		**2,426,536**	2,745,525	2,776,012
Total equity and liabilities		**5,453,210**	5,764,583	5,985,121

Consolidated statement of changes in equity

in € thousands	Issued capital	Revenue reserves	Available-for-sale financial assets	Cash flow hedges	Currency translation
	Equity attributable to shareholders of the parent company				
2013-10-01	**120,000**	**1,007,826**	**38,122**	**-1,040**	**-715**
Adjustments		-178,076			-1,072
2013-10-01 (after restatement)*	**120,000**	**829,750**	**38,122**	**-1,040**	**-1,787**
Net income		21,997			
Other comprehensive income		-88,248	-33,631	-23	12,595
Total comprehensive income	**0**	**-66,251**	**-33,631**	**-23**	**12,595**
Allocation of reserves to profit participation rights		-5,501			
Acquisition of non-controlling interests		771			
Share of income attributable to profit participation rights					
Dividends		-15,000			
Contributions from holders of non-controlling interests		-1,564			
Non-controlling interests – put options		-3,000			
Other adjustments		-1,632			
2014-09-30	**120,000**	**737,573**	**4,491**	**-1,063**	**10,808**

in € thousands	Issued capital	Revenue reserves	Available-for-sale financial assets	Cash flow hedges	Currency translation
	Equity attributable to shareholders of the parent company				
2012-10-01	120,000	990,030	57,116	-864	54,808
Adjustments		-186,504			-3,200
2012-10-01 (after restatement)*	120,000	803,526	57,116	-864	51,608
Net income		46,835			
Other comprehensive income		6,645	-18,994	-176	-53,395
Total comprehensive income	0	53,480	-18,994	-176	-53,395
Allocation of reserves to profit participation rights		-5,412			
Acquisition of non-controlling interests		-4,916			
Share of income attributable to profit participation rights					
Issue of profit participation rights					
Dividends		-15,000			
Contributions from holders of non-controlling interests					
Non-controlling interests – put options		-3,665			
Other adjustments		1,737			
2013-09-30 (after restatement)*	120,000	829,750	38,122	-1,040	-1,787

* Previous year restated (refer to “Restatement of previous-year amounts”).

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to holders of non-controlling interests: Profit participation rights	Other interests	Total	Total equity
-6,858	**6,600**	**1,163,935**	**96,800**	**58,030**	**154,830**	**1,318,765**
		-179,148		117	117	-179,031
-6,858	**6,600**	**984,787**	**96,800**	**58,147**	**154,947**	**1,139,734**
		21,997		18,799	18,799	40,796
-448		-109,755		-24	-24	-109,779
-448	**0**	**-87,758**	**0**	**18,775**	**18,775**	**-68,983**
	363	-5,138	5,138		5,138	0
		771		-3,024	-3,024	-2,253
	-363	-363	-5,138		-5,138	-5,501
		-15,000		-7,327	-7,327	-22,327
		-1,564		1,809	1,809	245
		-3,000		-5,546	-5,546	-8,546
		-1,632		566	566	-1,066
-7,306	**6,600**	**871,103**	**96,800**	**63,400**	**160,200**	**1,031,303**

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to holders of non-controlling interests: Profit participation rights	Other interests	Total	Total equity
-5,894	6,600	1,221,796	91,800	69,942	161,742	1,383,538
		-189,704		-60	-60	-189,764
-5,894	6,600	1,032,092	91,800	69,882	161,682	1,193,774
		46,835		18,402	18,402	65,237
-964		-66,884		-8,630	-8,630	-75,514
-964	0	-20,049	0	9,772	9,772	-10,277
	363	-5,049	5,049		5,049	0
		-4,916		-5,384	-5,384	-10,300
	-363	-363	-5,049		-5,049	-5,412
		0	5,000		5,000	5,000
		-15,000		-16,530	-16,530	-31,530
		0		2,000	2,000	2,000
		-3,665		-1,239	-1,239	-4,904
		1,737		-354	-354	1,383
-6,858	6,600	984,787	96,800	58,147	154,947	1,139,734

Consolidated cash flow statement

in € thousands	2013/14	2012/13
Income before taxes	119,292	97,866*
Depreciation and amortization	215,178	211,462
Interest expenses/income	68,051	69,499*
Other non-cash items	3,107	-9,447
Gains/losses from the disposal of property, plant, equipment and intangible assets	920	554
Gains/losses from the disposal of consolidated companies	-40,937	0
Gains/losses from investments	56	-8,509
Changes in other provisions and accruals	-101,432	59,144*
Change in net working capital	44,821	-24,641*
Interest paid	-53,836	-57,831
Interest received	17,267	11,343
Dividends received	3,300	12,635
Tax paid	-84,508	-44,992
Cash flow from operating activities	**191,279**	317,083
Investments in property, plant, equipment and intangible assets	-133,802	-192,176
Proceeds from the disposal of property, plant, equipment and intangible assets	8,885	6,509
Investments in financial assets	-8,991	-10,510
Acquisition of subsidiaries	-10,550	-7,076
Sale of subsidiaries	68,900	5,512
Proceeds from the disposal of financial assets	1,504	13,911
Changes in investments in securities	17,469	-32,757
Cash flow from investing activities	**-56,585**	-216,587
Dividends paid	-27,828	-35,269
Contributions from holders of non-controlling interests	245	2,000
Acquisition of non-controlling interests	-6,825	-10,300
Other changes in equity	0	5,000
New bonds, bank loans and overdrafts	51,229	143,081
Repayment of bonds, bank loans and overdrafts	-239,498	-152,832
Changes in other interest-bearing financial receivables and liabilities	-9,600	-21,480
Cash flow from financing activities	**-232,277**	-69,800
Total cash flow	**-97,583**	30,696
Exchange rate movements and valuation changes	3,530	-46,623
Reclassification to assets held for sale	-6,091	0
Cash and cash equivalents at the beginning of the period	900,967	916,894
Cash and cash equivalents at the end of the period	**800,823**	900,967

* Previous year restated (refer to “Restatement of previous-year amounts”).

Notes to the consolidated financial statements for the 2013/14 fiscal year

General information

Voith GmbH (Voith) is a capital-market-oriented company operating from its headquarters at St. Pöltener Str. 43, Heidenheim an der Brenz, and is required by Sec. 290 in conjunction with Sec. 315a German Commercial Code (HGB) to prepare consolidated financial statements. The Company is entered in the commercial register (under the number HRB 725621) at the Registration Court in Ulm, Germany. The consolidated financial statements prepared by Voith are published in the Bundesanzeiger [German Federal Gazette]. JMV GmbH & Co. KG, Heidenheim, is the ultimate parent company of the Voith Group.

The Corporate Board of Management of Voith GmbH authorized the consolidated financial statements for presentation to the Supervisory Board on November 20, 2014.

Pursuant to EU Regulation (EC) No. 1606/2002 in conjunction with Sec. 315a HGB, the consolidated financial statements of Voith GmbH for the 2013/14 fiscal year were prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC). This regulation requires all companies that participate in the capital markets (i.e. whose issued debt is traded on a regulated market in an EU member state) and are domiciled in the EU to prepare their consolidated financial statements solely on the basis of IFRS as endorsed by the EU. The term IFRS also includes the International Accounting Standards (IAS) that are still valid. All binding pronouncements of the International Accounting Standards Board (IASB) as well as the additional requirements of German commercial law pursuant to Sec. 315a HGB have been taken into account.

The consolidated financial statements have been prepared in euros. Except where explicitly stated otherwise, all amounts are stated in thousands of euros (€ thousands).

Basis of consolidation

The Voith Group is divided into four segments: Voith Hydro, Voith Industrial Services, Voith Paper and Voith Turbo. Details of the business activities pursued by the Group Divisions are provided in the explanatory notes to the segment reporting.

In addition to those entities acting as holding companies, the consolidated financial statements also include all the Group’s manufacturing, service and sales companies both in Germany and other countries as at September 30 of each fiscal year. The financial statements of the subsidiaries are prepared for the same period as the parent’s financial statements, using consistent accounting policies.

Subsidiaries are consolidated in full at the time when the Voith Group obtains control over them and are deconsolidated as soon as the parent loses control over the subsidiary. In 12 cases (previous year: 14), Voith exercises control as defined in IAS 27 (2008) owing to a majority of voting rights in the relevant decision-making bodies.

In two cases (previous year: two), while Voith has a majority shareholding it does not control the entity, as the composition of the decision-making bodies is based on equal representation.

The following companies are included in the consolidated financial statements:

in € thousands	2014-09-30	2013-09-30
Voith GmbH and its fully consolidated subsidiaries:		
· Germany	56	60
· Other countries	139	143
Total fully consolidated companies	**195**	203
Companies accounted for using the equity method:		
· Germany	6	6
· Other countries	13	13
Total companies accounted for using the equity method	**19**	19

The number of fully consolidated entities decreased mainly due to disposals and intragroup mergers.

The following significant companies are included in the consolidated financial statements:

VZ Voith GmbH, Heidenheim

VHH Voith Hydro GmbH & Co. KG, Heidenheim, Germany
VHY Voith Hydro Inc., York (PA), United States
VHP Voith Hydro Ltda., São Paulo (SP), Brazil
VHPO Voith Hydro GmbH & Co KG, St. Pölten, Austria
VHMA Voith Hydro da Amazonia Ltda., Manaus, Brazil
VHM Voith Hydro Inc., Brossard (QC), Canada
VHS Voith Hydro Shanghai Ltd., Shanghai, China
VHV Voith Hydro AB, Västerås, Sweden

VIKI Voith Industrial Services GmbH & Co. KG, Kirchseeon, Germany
VIAS Voith Industrial Services Ltd. & Co. KG, Stuttgart-Vaihingen, Germany
VICU Voith Industrial Services Inc., Cincinnati (OH), United States
VIER Voith Industrial Services GmbH, Mainhausen, Germany
VIPA Voith Serviços Industriais do Brasil Ltda., São Paulo (SP), Brazil
VIWA Voith Industrial Services Limited, Warwick, United Kingdom
VICE P3 Voith Aerospace GmbH, Hamburg, Germany
VIHC Voith Engineering Services GmbH, Chemnitz, Germany
VISK Voith Industrial Services GmbH & Co. KG, Speyer, Germany
VIDK Voith Industrial Services A/S, Ringsted, Denmark

VPH	Voith Paper GmbH & Co. KG, Heidenheim, Germany
VPP	Voith Paper Máquinas e Equipamentos Ltda., São Paulo (SP), Brazil
VPEZ	Voith Paper Fabric & Roll Systems GmbH, Heidenheim, Germany
VPIT	Voith IHI Paper Technology Co., Ltd., Tokyo, Japan
VPC	Voith Paper (China) Co., Ltd., Kunshan, Jiangsu, China
VPFS	Voith Paper Fabric & Roll Systems Inc., Wilson (NC), United States
VPA	Voith Paper Inc., Appleton (WI), United States
VPS	Voith Paper GmbH, St. Pölten, Austria
VPFI	Voith Paper Fabrics Ipoh Sdn. Bhd., Chemor, Perak Darul Ridzuan, Malaysia
VPTA	Voith Paper S.A., Ibarra (Guipúzcoa), Spain
VPRL	Voith Paper Rolls GmbH & Co KG, Laakirchen-Oberweis, Austria

VTA	Voith Turbo GmbH & Co. KG, Heidenheim, Germany
VTSK	Voith Turbo Scharfenberg GmbH & Co. KG, Salzgitter, Germany
VTI	Voith Turbo Inc., York (PA), United States
VTBS	Voith Turbo BHS Getriebe GmbH, Sonthofen, Germany
VTKT	Shanghai Voith Schaku KTK Coupler Technology Co., Ltd., Shanghai, China
VTCN	Voith Turbo Power Transmission (Shanghai) Co., Ltd., Shanghai, China
VTHL	Voith Turbo H + L Hydraulic GmbH & Co. KG, Rutesheim, Germany
VTPA	Voith Turbo Ltda., São Paulo (SP), Brazil
VTGB	Voith Turbo Limited, Croydon, United Kingdom
VTSH	Voith Turbo Schneider Propulsion GmbH & Co. KG, Heidenheim, Germany
VTEA	Voith Turbo Limited, Hong Kong, China
VTAU	Voith Turbo Pty. Ltd., Wetherill Park, N.S.W., Australia
VTZA	Voith Turbo (Pty) Ltd, Witfield (Boksburg), South Africa
VTFV	Voith Turbo SAS, Noisy-le-Grand Cedex, France

An exhaustive list of the companies and other investments included in the consolidated financial statements is included as a section of the consolidated financial statements. Pursuant to Sec. 264b No. 3 HGB and Sec. 264 (3) No. 4 HGB, the consolidated financial statements of Voith GmbH are filed with the Bundesanzeiger.

Significant business combinations in the 2012/13 fiscal year

Acquisition of ThyssenKrupp Services Ltd., United Kingdom

Voith Industrial Services acquired all of the interests and voting rights in ThyssenKrupp Services Ltd. effective January 18, 2013. With this acquisition, Voith Industrial Services consolidated its position as one of the leading service providers for the automotive industry in the United Kingdom. The entity provides facility management services, technical cleaning and process management.

The following amounts resulted from the assets and liabilities acquired from the combination:

Balance sheet item

in € thousands	Acquisition date fair value
Intangible assets	2,925
Other non-current assets	933
Inventories	145
Receivables	5,507
Other assets	560
Cash and cash equivalents	2,225
Provisions	-3,298
Liabilities	-3,391
Net fair value	**5,606**
Goodwill	2,978
Purchase price of the interests purchased	**8,584**
Cash and cash equivalents	-2,225
Cash outflows	**6,359**

Business combinations in the 2013/14 fiscal year

Acquisition of Helix Systems Inc., USA

Voith Industrial Services acquired all of the interests and voting rights in Helix Systems Inc., USA, effective July 31, 2014. The company is being integrated into the Automotive division. With this acquisition, Voith Industrial Services aims to strengthen its position in the growth market of North America, thus expanding its portfolio by adding activities with a technical focus. New customer groups are also to be tapped.

Part of the intangible assets purchased, e.g. the know-how of the employees, could not be recognized, as the recognition criteria were not met, and was therefore subsumed under goodwill. Apart from that, the goodwill stemmed from the aforementioned expected positive effect for the Voith Industrial Services Group Division. Goodwill was not tax deductible.

The following amounts resulted from the assets and liabilities acquired from the combination:

Balance sheet item

in € thousands	Acquisition date fair value
Intangible assets	4,095
Other non-current assets	1,553
Inventories	103
Receivables	5,999
Other assets	215
Cash and cash equivalents	387
Liabilities	-3,929
Deferred tax liabilities	-1,939
Net fair value	**6,484**
Goodwill	4,453
Purchase price of the interests purchased	**10,937**
Cash and cash equivalents	-387
Cash outflows	**10,550**

The purchase price allocation has been completed. Consideration in the form of cash has already been given in full. There are no other purchase price components. No purchase price adjustments are planned.

The fair value of the receivables acquired corresponds to their contractual gross amount. Apart from an amount of €6 thousand all receivables had been settled by the reporting date.

The acquisition-related costs amounted to €238 thousand (recognized as other operating expenses).

In the 2013/14 fiscal year, the entity contributed sales totaling €5,907 thousand and net income of €272 thousand to the Voith Group's consolidated statement of income. If the business combination had already taken place on October 1, 2013, the Group's sales would have been €26,535 thousand higher and the Group's net income for the year would have been €1,351 thousand higher.

Acquisition in the 2012/13 fiscal year of further interests in entities over which the Group already has control

In the 2012/13 fiscal year, Voith Hydro had acquired a further 49% of the interests in VG Power AB, Västerås, Sweden. The Group now wholly owns the company and also holds 100% of the voting rights. The purchase price was €10,300 thousand. Non-controlling interests decreased by €5,384 thousand. The difference compared to the purchase price was offset against the reserves.

Acquisition in the 2013/14 year of further interests in entities over which the Group already has control

Voith Hydro acquired the remaining 20% of the interests in Voith Hydro Ocean Current Technologies GmbH & Co. KG, Germany, in the 2013/14 fiscal year. In addition, Voith Paper acquired the remaining 50% of the interests in Voith EcoSolutions GmbH & Co. KG, Germany. The purchase price for the two transactions totaled €6,825 thousand.

Disposals in the 2013/14 fiscal year

As at September 30, 2014, Voith Industrial Services sold the companies belonging to the DIW Group. The sale is part of the strategic realignment of the Group Division. Furthermore, in the course of streamlining the product portfolio, Voith Industrial Services and Voith Turbo each sold one product segment. In total, goodwill of €19,531 thousand, property, plant and equipment of €3,289 thousand, trade receivables of €35,551 thousand, other current assets of €33,680 thousand as well as provisions of €11,787 thousand, trade payables of €11,004 thousand and other liabilities of €25,077 thousand were sold. A total profit of €40,937 thousand was generated as a result of the disposals. This profit was posted to the non-recurring result and which relates primarily to the sale of the DIW Group. Please also refer to our comments in note 7.

Basis of consolidation

Acquisition accounting is performed using the acquisition method in accordance with IFRS 3 (revised). Accordingly, the consideration transferred to the seller plus any non-controlling interests and the fair value of the previously held equity interests in the acquiree are offset against the fair value of the acquired assets and liabilities as at the acquisition date. Any excess of cost over carrying amount is recognized as goodwill. Any excess of carrying amount over cost is recognized in profit or loss.

Any contingent consideration is recognized at acquisition date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

In the case of business combinations achieved in stages that give rise to control over an entity, or in the case of disposals of shares which result in loss of control, the previously held or remaining equity interests are remeasured at fair value through profit or loss.

A change in the parent's ownership interest in a subsidiary that does not result in a loss of control is accounted for as an equity transaction. This is why business combinations achieved in stages where the Group already has control or disposals of shares without a loss of control have been recognized directly in equity from the 2009/10 fiscal year onwards.

Companies in which Voith GmbH has the power to directly or indirectly exercise a significant influence on financial and operating policy decisions (associates) are accounted for using the equity method, as are joint ventures over which common control is exercised together with other companies. Changes in the share of the associate's/joint venture's equity that are not recognized in profit or loss are likewise recognized directly in equity in the consolidated financial statements. The same accounting policies are used to determine Voith's share in equity of all companies accounted for using the equity method.

Receivables and liabilities between the consolidated entities are netted. Intercompany profits in inventories and non-current assets are eliminated in the consolidated statement of income. Intercompany sales and other intercompany income are netted against the corresponding expense. Deferred tax is recognized for consolidation transactions that are recognized in profit or loss.

Foreign currency translation

The consolidated financial statements are presented in euros, which is Voith GmbH's functional currency. Financial statements prepared by subsidiaries that use a different functional currency are translated as follows:

The equity of foreign entities included in the consolidated financial statements is translated at historical rates. All other items on the balance sheet are generally translated to the presentation currency at the rates applicable as at the reporting date. Goodwill arising from business combinations before transition to IFRS is an exception to this rule and is still translated at historical rates.

In the statement of income, income and expenses are translated at average exchange rates. Retained earnings and losses are translated using the relevant historical exchange rate.

Differences arising from currency translation are netted with other reserves.

Foreign currency transactions in local financial statements are translated at the historical exchange rate at the date of the transaction. At fiscal year-end, the resulting monetary items are measured at the closing rate, and any exchange rate gains or losses are recorded as exchange gains or losses under other operating income/expenses.

Exchange differences arising from loans denominated in foreign currencies (where these are used to hedge a net investment in foreign operations) are recognized under other comprehensive income until the underlying net investment is disposed of. These exchange differences give rise to deferred tax items that are also recognized under other comprehensive income.

Accounting policies

The consolidated financial statements are prepared using the historical cost method. The only exceptions to this rule are derivative financial instruments, available-for-sale financial instruments and assets at fair value through profit or loss. All these exceptions are recognized at fair value. Purchases or sales of financial assets are always recognized as at the settlement date. Regular way purchases or sales of available-for-sale securities are recognized on the trade date.

Consistent accounting policies are used to prepare the separate financial statements for the companies included in the consolidated financial statements. The main accounting policies are listed and explained below.

Income and expenses

Sales (less various cash and other discounts granted to customers) are recognized when products or merchandise have been delivered and/or services rendered and when the risk of ownership has been transferred to the customer. In the case of long-term construction contracts, revenue is recognized using the percentage-of-completion method. A detailed explanation of this method is provided in the notes on “Long-term construction contracts”.

Interest expenses and interest income are recognized as they accrue. The effective interest method, i.e. the imputed interest rate, is used to discount estimated future cash receipts over the expected term to maturity of the financial instrument to the net carrying amount of the financial asset.

Dividend income is recognized when the Group’s right to receive the payment is established.

Operating expenses are recognized as expenditure at the time when a service is used and other sales-related expenses are recognized as incurred. Taxes on income are calculated in accordance with tax law in the countries in which the Group operates.

For all categories of financial instruments recognized in accordance with IAS 39, net gains or losses as defined in IFRS 7 result from the measurement or disposal of financial instruments. At Voith, such income and expense items mainly consist of foreign exchange gains and losses, impairments and gains/losses from the sale of financial instruments. Neither current interest income and expenses nor dividend income are included.

Intangible assets

Intangible assets acquired for a consideration are recognized at acquisition cost and amortized on a straight-line basis over their estimated useful lives.

Internally generated intangible assets are capitalized as development costs based on their production costs, provided that manufacture of these assets meets the recognition criteria stated in IAS 38 and, in particular, it is probable that future economic benefits will flow to the Group. Production costs include all costs that are directly attributable to the development process. These assets are amortized using the straight-line method from the start of production for a defined period, usually between three and five years. If the requirements for capitalization are not satisfied, expenses are recognized in profit or loss in the fiscal year in which they were incurred.

Impairment losses are recorded in accordance with IAS 36 if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use, the present value of expected future cash flows from the use of the asset and the fair value less costs to sell. Should the reasons for impairment losses recognized in previous periods no longer apply, these impairment losses are reversed.

The reversal posted through profit or loss is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in previous years.

Impairment losses are generally shown in the statement of income under depreciation and amortization. Reversals of impairment losses are reported under other operating income. However, significant impairment losses, particularly those associated with the discontinuation of operations, are presented under the non-recurring result.

Borrowing costs that are directly attributable to intangible assets are capitalized as part of the cost of those assets.

Goodwill is subjected to an impairment test at least annually. For impairment testing, goodwill is assigned to essentially four cash-generating units. In line with the management's internal reporting practices, these cash-generating units are identified on the basis of the Group's operating activities. Voith has therefore defined the four segments Voith Hydro, Voith Industrial Services, Voith Paper and Voith Turbo as its cash-generating units.

To determine whether goodwill is impaired, the Voith Group measures the assets of the cash-generating unit against their fair value less the costs needed to make the sale. If there is no active market on which fair value can be measured, it is 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. Key assumptions on which calculations of fair value are based include assumptions about the trend in orders received and sales, growth rates, extrapolated cash flow forecasts beyond the planning horizon, and discount rates. Due account is taken of reasonable assumptions regarding macroeconomic trends and historical developments. Based on the fair value measurement of these assets there was no indication of a need to record an impairment loss on goodwill.

The Board of Management of Voith GmbH assumes that it will continue to see stable business development in the 2014/15 fiscal year. The related assumptions for the four segments are outlined below:

Voith Hydro:
Voith Hydro's orders received were above average in the 2013/14 fiscal year. This was primarily due to major projects being awarded in Pakistan and Canada as well as contracts involving modernization in Russia and the US. Going on the assumption of a stable market volume in hydropower for the coming years, Voith Hydro also expects its orders received to be stable. Sales are stable in line with the orders received. For the terminal value, the Group Division expects to see a slight increase in orders received and sales.

Voith Industrial Services:
In the first 2014/15 budget year, Voith Industrial Services expects to see moderate sales growth. Starting in the 2015/16 fiscal year, it is planning on significant sales growth. In the calculation of its terminal value, it is planning on a rise in sales on the basis of the last budget year.

Voith Paper:
In the 2014/15 and 2015/16 budget years, Voith Paper expects the market volume for the project business to remain unchanged, thereby causing sales to stabilize at the current level. This significantly lower business volume compared to previous years is also expected for the mid-term. For the Products & Services division, Voith Paper plans to see a continued increase in orders received and sales against the background of existing growth potential in North America and Asia. For Fabric & Roll Systems, moderate growth largely in line with market development is expected. For the terminal value, the Group Division expects to see a slight increase in orders received and sales.

Voith Turbo:
The business development plan takes into account the modest development of the markets on the whole, with the Mining & Metals and Power, Oil & Gas divisions expected to recover significantly in the second budget year. In its mid-term planning, Voith Turbo plans to generate higher sales. The plan does not take into account opportunities and risks associated with the geopolitical situation in Ukraine and Russia, the Middle East or Iran.

An increase in margins due to efficiency gains is planned for all Group Divisions.

The cash flow forecast is based on the detailed finance budget for the coming two years and a qualified top-down projection for the years three to five. Cash flows for periods after the fifth fiscal year are extrapolated at a constant growth rate of approximately 1%. These growth rates do not exceed the average long-term growth rates of the business areas in which the corresponding cash-generating unit operates.

The discount rates are derived from a calculation of the weighted average cost of capital, which is itself based on the financing costs of comparable competitors for each of the cash-generating units. The discount rates applied reflect the equity risk specific to each cash-generating unit. After-tax interest rates of 6.8% (previous year: 6.3%) for Voith Hydro, 6.2% (previous year: 5.7%) for Voith Industrial Services, 7.5% (previous year: 6.9%) for Voith Paper and 5.8% (previous year: 6.2%) for Voith Turbo were used to calculate the present value of future net cash inflows.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any impairment losses. The cost of internally produced property, plant and equipment includes all directly attributable production costs and an appropriate share of production overheads. Depreciation is recognized on a straight-line basis over the following useful lives:

Useful life

Buildings	40 to 50 years
Plant and machinery	4 to 15 years
Other equipment, furniture and fixtures	4 to 12 years

Property, plant and equipment are subjected to an impairment test if unusual events or market developments indicate that they may be impaired. To this end, the carrying amount of an asset or cash-generating unit is compared with its recoverable amount, which is defined as the higher of fair value less costs to sell and value in use. Impairment losses are reversed if the fair value of a previously impaired asset subsequently increases again.

The reversal posted through profit or loss is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in previous years.

Impairment losses are generally shown in the statement of income under depreciation and amortization. Reversals of impairment losses are reported under other operating income. However, significant impairment losses, particularly those associated with the discontinuation of operations, are presented under the non-recurring result.

Repair and maintenance costs are recognized as expenses at the time when they are incurred. Any major renewals or improvements are capitalized. Borrowing costs that are directly attributable to property, plant and equipment are capitalized as part of the cost of those assets.

Leased assets

Whether an arrangement is or contains a lease depends on the substance of the arrangement and requires a decision to be made on whether fulfillment of the agreement depends on the use of a particular asset and whether the arrangement conveys the right to use the asset.

Leases that transfer substantially all risks and rewards incidental to use of the leased asset to a Voith Group company (the lessee) are classified as financial leases. In such cases, the lessee recognizes the leased asset at the start of the lease period and writes it down over the asset's useful life. A corresponding liability is recognized and then settled by the lease payments. The interest component is recognized in the interest result. All other leases in which Voith Group companies act as the lessee are stated as operating leases. The lease payments for operating leases are recognized as expenses using the straight-line method over the term of the lease.

Financial assets and securities

Shares carried under financial assets as other investments are generally recognized at fair value. Where no active market exists for individual companies and it is impracticable to determine their fair value, shares are stated at cost. The carrying amount of such assets is written down if there is objective evidence that they are impaired.

In accordance with IAS 39, loans classified as non-current loans are recognized under other financial assets at amortized cost, adjusted (where necessary) for impairment.

In accordance with IAS 39 distinctions between "held-for-trading", "available-for-sale", "held-to-maturity" and "financial assets at fair value through profit or loss" must be made for securities that are classified as non-current or current assets. The securities held by the Voith Group are normally available for sale. To a small extent, however, the Group also makes use of financial instruments that are held for trading and securities that, upon initial recognition, are designated as at fair value through profit or loss. Certain securities are assigned to this category to eliminate measurement inconsistencies in the accounting for long-term employee benefits.

Where fair values can be obtained, securities are stated at their market value, otherwise they are measured using alternative methods. Where no market value is available and it is impracticable to reliably determine fair value, securities are recognized at cost.

Any gains or losses arising from changes in the fair value of available-for-sale securities, are recognized under other comprehensive income until the asset is derecognized. The carrying amounts of non-current financial assets and available-for-sale securities are regularly tested for objective evidence that they may be impaired. Such evidence can take the form of significant financial difficulty of the debtor or changes in the technological, economic and legal environment. Objective evidence that equity instruments may be impaired is given if there is a prolonged or significant decline in their fair value. The sustainability criterion is met if the impairment lasts longer than 12 months. If the fair value of the investment falls more than 30% below its cost, this is regarded as a significant decline. If this happens, the amounts hitherto recognized under other comprehensive income are recognized in profit or loss.

Fair value

The fair value of investments for which an organized market exists is determined by the quoted market price at the reporting date. Where no active market exists, valuation techniques are used to determine the fair value. The techniques used by Voith for this purpose aim to reflect objective criteria as accurately as possible and to simulate an active market. This is done, for example, by analyzing discounted cash flows, referring to arm's length transactions between knowledgeable, willing and independent partners, and drawing on comparisons with the current fair value of other essentially identical financial instruments.

Inventories

Materials and supplies, merchandise, work in progress and finished goods are all stated under inventories at the lower of cost and net realizable value. In addition to direct costs, cost includes an appropriate portion of necessary materials and production overheads as well as production-related depreciation that can be directly allocated to the production process. The average cost, or cost based on the first-in, first-out (FIFO) method, is capitalized in the balance sheet. Appropriate allowance is made for inventory risks associated with slow-moving stocks, reduced salability, etc. When the circumstances that previously caused inventories to be written down below cost no longer exist, the write-down is reversed.

Long-term construction contracts

Long-term construction contracts are recognized in accordance with the percentage-of-completion (PoC) method. The percentage of completion per contract to be recognized is calculated as the ratio of the actual costs incurred to the anticipated total costs of the project (“cost-to-cost method”). Revenue received is stated as sales and, after deducting customer advances and installments, as trade receivables. If the outcome of a construction contract cannot be estimated reliably, it is not possible to calculate contract revenue and costs based on the percentage of completion. In such cases, revenue is recognized at the amount of costs incurred for the construction contract to date, while the contract costs are immediately recognized in full in the period in which they are incurred. Expected losses on such contracts are based on recognizable risks.

Receivables and other assets

Receivables and other assets (with the exception of derivatives) are stated at nominal value or at cost and are regularly tested for impairment individually. Where objective evidence of possible loss exists (if the debtor is experiencing significant financial difficulty, if it is highly probable that insolvency proceedings will be opened against the debtor, if the debtor defaults on or is delinquent in interest or principal payments, if significant adverse changes in the technological, economic or legal environment occur, if there is a significant or prolonged decline in the fair value of a financial instrument below its cost, or if legal proceedings are opened, for example), then individual allowances are recorded using an allowance account to reflect these factors. To the extent that impairment is derived from historical bad debt rates on a portfolio basis, a drop in the total volume of receivables reduces such allowances and vice versa. Impaired receivables are derecognized when they are assessed as uncollectible. Interest-free or low-interest receivables due in more than one year are discounted.

Derivative financial instruments and hedging

Voith uses a variety of financial derivatives – such as forward exchange contracts and interest rate swaps – to hedge underlying transactions. Essentially, the Group applies fair value hedge accounting of firm commitments to hedge operating business transactions.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for entering into the hedge. This documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value that is attributable to the hedged risk. Such hedges are considered to be highly effective in offsetting the risks from changes in the fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting period for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment that is attributable to a particular risk and could affect profit or loss for the period. In the case of fair value hedges, the carrying amount of a hedged item is adjusted by the profit or loss that is attributable to the hedged exposure. The derivative financial instrument is remeasured at its fair value and any gains or losses arising as a result are recognized in profit or loss.

For fair value hedges relating to hedged items carried at amortized cost, the adjustment to the carrying amount is amortized through profit or loss over the remaining term to maturity.

When an unrecognized firm commitment is designated as a hedged item, the subsequent accumulated change in the fair value of the firm commitment that is attributable to the hedged risk is recognized as an asset or liability and the corresponding gain or loss is recognized in the profit or loss of the period. Changes in fair value of the hedging instrument are also recognized in the profit or loss of the period.

The Group discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, of if the hedge no longer meets the criteria for hedge accounting. Every adjustment to the carrying amount of a hedged financial instrument is released to income using the effective interest method. As soon as there is an adjustment, the reversal may begin, and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Embedded derivatives

When the Group becomes party to the contract, it assesses whether any embedded derivatives should be separated from the host contract. A reassessment is not made unless there is a substantial change in the terms of the contract that significantly modifies the cash flows that would otherwise have been generated from the contract. Where embedded derivatives exist, they are recognized at fair value as financial assets held for trading. Embedded financial derivatives with positive fair values are stated under other financial receivables; those with negative fair values are stated under bonds, bank loans and other interest-bearing liabilities or other financial liabilities.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and checks, cash at banks and cash equivalents. Under this item, cash at banks includes both daily deposits and time deposits with fixed maturities of up to three months.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups held for sale are classified as assets held for sale or correspondingly as liabilities directly associated with assets classified as held for sale if their carrying amount is to be recovered through sale rather than through continuing use. This condition is regarded as met when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. In this case management has decided to sell the asset and it is expected that the sale will take place within 12 months from the date of classification. Non-current assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Assets held for sale are not subject to depreciation and amortization.

Deferred and current taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between tax reporting and reporting for IFRS purposes. Deferred tax assets are also recognized for unused tax losses insofar as it is reasonable to expect that they will be realized in the near future. Deferred taxes that relate to items recognized under other comprehensive income are also themselves recognized in equity. Deferred taxes are calculated based on the tax rates enacted or substantively enacted by the reporting date that apply or are expected to apply in the countries concerned at the time of realization. Deferred tax assets on unused tax losses that are not likely to be realized within a foreseeable period (normally two years) or that are not covered by deferred tax liabilities are either written down or not recognized at all. Deferred tax assets and deferred tax liabilities may be netted if the Group has a legal right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority.

Current taxes are calculated and reported in accordance with the tax laws and regulations valid for each company.

Profit participation rights

According to IAS 32, the conditions pertaining to the issues of profit participation rights amounting to €103,400 thousand require these rights to be reported as a separate component of the Group's equity. Interest is not reported as interest expenses, but is treated in a similar manner to a dividend obligation.

Provisions for pensions and similar obligations

In accordance with IAS 19, provisions for pension obligations are measured based on actuarial methods using the prescribed projected unit credit method for defined benefit plans. This method considers not only the pensions and future claims known at the end of the period under review but also future anticipated increases in salaries and pensions. Defined benefit obligations are measured based on the proportion of future benefits accrued at the reporting date. Measurement includes assumptions about the future development of certain parameters that could affect the actual future benefit amount. The expenses for these benefit plans are divided into service cost and interest cost on the net debt from the obligations and plan assets. The two expense items are recognized in profit or loss. Revaluations of the net debt recognized are disclosed under other comprehensive income net of deferred taxes.

Other provisions

Provisions are formed for all discernible risks and uncertain obligations at the amount that is likely to be realized. These provisions are not netted against recourse claims. Provisions are recognized when the Group has a present obligation to a third party as a result of a past event and it is probable that an outflow of resources will be required whose amount can be estimated reliably. Provisions for warranty claims are based on historical claim trends and estimated future trends. Specific provisions are set up for known claims. Provisions for outstanding expenses, onerous contracts and other business-related obligations are measured based on services still to be rendered, usually at the amount of the costs to sell.

Provisions which do not lead to an outflow of resources in the following year are carried at the discounted settlement amount at the end of the period under review. The discount rate used is derived from market interest rates. The settlement amount also includes the estimated cost increases. If an amount set aside as a provision is expected to be refunded (through an insurance claim, for example), the refund amount is stated separately as an asset only if it is virtually certain. Income from refunds is not netted against expenses.

Liabilities

Current liabilities are stated at the amount needed to settle the obligation. Financial liabilities are measured at their amortized cost. Amortized cost corresponds to the cost of the financial liabilities adjusted for repayments, issue costs and the amortization of any debt discounts or debt premiums. Where liabilities are accounted for as hedged transactions, they are measured taking into account the market value of the hedged risk. Gains and losses are recognized in profit or loss.

Liabilities arising from leases that are classified as finance leases in accordance with the criteria laid out in IAS 17 are recognized at the present value of the minimum lease payments at the start of the lease. Thereafter, they are stated under financial liabilities at their amortized cost. Lease payments are split into an interest component and a principal component. The interest component of each payment is recognized as an expense in profit or loss.

Classification of holders of non-controlling interests in limited partnerships and based on repayment rights and put options

In accordance with IAS 32, financial instruments that entitle the holder to repayment of the capital made available to the company must be classified as liabilities. In companies that operate as limited partnerships, partners have the right under German law to demand repayment of the capital they have made available to the partnership. This right cannot be excluded by the partnership agreement. This provision also extends to other comparable repayment rights of holders of non-controlling interests with a settlement agreement. Put options create a similar obligation pursuant to IAS 32.

a) Put options

Where the right to terminate non-controlling interests exists in the form of a put option, the corresponding non-controlling interests are not derecognized but are treated as a component of equity during the period under review. Accordingly, a share of net income for the year is allocated to holders of non-controlling interests. At every reporting date, it is assumed that the put option will be exercised; the corresponding non-controlling interests are reclassified from equity to financial liabilities. This financial liability is recognized in the amount of the estimated compensation obligation and measured at fair value. The difference between this liability and non-controlling interests as a share of equity is treated as a transaction between owners and recognized from the 2009/10 fiscal year onwards as an increase or decrease in equity. Until the 2008/09 fiscal year transactions were regarded as a business combination achieved in stages and the difference stated as goodwill. By choosing to apply the transitional rule under IAS 27 (2008) the Group retained these amounts.

b) Limited partnerships
The interests held in limited partnerships as well as non-controlling interests with comparable termination rights are treated in the same way as put options. The liability is measured at amortized cost taking account of the attributable share of net income.

Amounts reclassified from equity to financial liabilities totaled €80,262 thousand in the 2013/14 fiscal year (previous year: €69,968 thousand).

If non-controlling interests in limited partnerships are terminated or if corresponding put options are exercised, the financial liabilities recognized prior to termination/exercise of the put options are reclassified as other financial liabilities.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. These financial guarantee contracts are treated as insurance contracts as defined by IFRS 4, i.e. the financial guarantee contracts are recognized as contingent liabilities until utilization becomes probable. When this is the case, the corresponding obligation is recognized.

Exercise of judgment and estimates by management
Some accounting policies require critical estimates that involve complex and subjective assessments and the use of assumptions, some of which are inherently uncertain and subject to change. These critical accounting estimates can vary from period to period and significantly impact a company's financial position and/or earnings. The management explicitly points out that future events will

often deviate from planning assumptions, and that it is normal for estimates to have to be adjusted.

Significant estimates and assumptions have to be made in the following areas of accounting:

Revenue recognition from long-term construction contracts

The Group generally accounts for construction contracts using the PoC method, according to which revenue is recognized based on the percentage of completion. This method involves making a precise estimate of the degree of completion. Accurate estimates of the percentage of completion are of vital importance to this method. Depending on the method used to measure the percentage of completion, the most significant estimates concern the total contract cost, the costs to complete, the total contract revenue, and contract risks.

The management of Voith's operating subsidiaries constantly reviews all estimates that are needed in the accounting for construction contracts and adjusts them as and when necessary.

Such examinations are part of management's normal accounting activities at operating level. For details of carrying amounts, refer to note 14.

Trade and other receivables

Allowances for doubtful receivables require significant judgment on the part of management. They also necessitate an analysis of the individual debtors that covers their creditworthiness, current economic trends and an examination of historic default scenarios. For details of carrying amounts, refer to note 14.

Impairment of goodwill

Determining the recoverable amount of a Group Division to which goodwill was allocated involves estimates by management. To calculate the fair value less costs to sell, planning for the next five years is based on management's expectations adjusted for economic trends and historic developments. Estimates of growth, the weighted average cost of capital and tax rates are likewise based on reliable information that reflects the risks associated with operating business in each given industry or division. For details of carrying amounts, refer to note 10 and the segment reporting.

Development costs

Development costs are capitalized if the requirements of IAS 38 are met. Initial capitalization is based on management's estimate that it can demonstrate technical and economic feasibility. Forecasts of the expected future economic benefit to be gained from assets are essential to the decision whether or not costs are to be capitalized. For details of carrying amounts, refer to note 10.

Pension obligations

Estimates of pension obligations depend significantly on key assumptions about discount factors, expected salary increases, mortality rates and the trend in healthcare costs. The assumptions used to calculate the discount factor reflect the interest rates that can be realized on high-quality fixed-income instruments with appropriate maturities. For details of carrying amounts, refer to note 20.

Other provisions

Recognizing provisions for anticipated losses on contracts, warranty-related costs and litigation involves making significant estimates. Voith recognizes provisions for anticipated losses in all cases where current estimates of the total contract costs exceed expected contract revenues. Onerous contracts are identified by estimating the total costs of the contract, which requires significant judgment. Estimates are also necessary for assessing obligations from warranties and litigation. Provisions for restructuring are based on well-founded plans for expected activities. These plans are reviewed and approved by the Board of Management. For details of carrying amounts, refer to note 21.

Taxes

The Voith Group has business operations in many countries and is subject to many different tax laws. Both current and deferred taxes on income must be calculated for each individual taxable entity. To calculate deferred tax assets on unused tax losses and temporary differences, for example, assumptions must be made about the possibility of realizing sufficient taxable income in the future and the interpretation of complex tax laws and regulations. For details of carrying amounts, refer to note 9.

Adoption of amended and new standards and interpretations

Changes in accounting policies due to first-time adoption of revised and new IFRS and IFRICs

In the 2013/14 year, the following new and revised IAS and IFRS were applied for the first time:

Standard/interpretation	Amendment/new standard or interpretation	Impact
IAS 19 Employee Benefits	See section "Restatement of previous-year amounts" below.	See section "Restatement of previous-year amounts" below.
IFRS 7 Financial Instruments: Disclosures	The amendments require extended disclosures in the notes on rights to set off. In addition to extended disclosures relating to offsetting actually applied in accordance with IAS 32, the amendments introduce disclosures for existing rights to set off irrespective of whether offsetting is actually performed.	No significant impact on the net assets, financial position and results of operations.
IFRS 13 Fair Value Measurement	IFRS 13 defines fair value, provides a framework for measuring fair value in one single IFRS and prescribes disclosures on the measurement of fair value.	No significant impact on the net assets, financial position and results of operations.
Annual Improvements Project (2009–2011)	Amendments to standards IFRS 1, IAS 1, 16, 32 and 34.	No significant impact on the net assets, financial position and results of operations.

Adoption of the following revised and newly issued IFRS and IFRICs was not yet compulsory in the 2013/14 fiscal year and/or they had not yet been endorsed by the European Commission for adoption in the European Union.

Standard/interpretation	Amendment/new standard or interpretation	Effective date
IFRS 9 Financial Instruments	Regulations for the recognition and the measurement, derecognition and hedge accounting of financial instruments.	Periods beginning on or after January 1, 2018.
IFRS 10 Consolidated Financial Statements	IFRS 10 creates a uniform definition for control and thus a uniform basis for the existence of a parent-subsidiary relationship and the related demarcation of the consolidated Group. The new standard replaces IAS 27 (2008) "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities".	Periods beginning on or after January 1, 2014.
IFRS 11 Joint Arrangements	IFRS 11 governs the accounting treatment of situations where a company exercises joint control over a joint venture or a joint operation. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" as the relevant rules for accounting for joint ventures to date.	Periods beginning on or after January 1, 2014.
IFRS 12 Disclosure of Interests in Other Entities	The objective of IFRS 12 is to prescribe disclosures on information that provides the users of financial statements with a basis for assessing the nature of interests in other entities (e.g. subsidiaries, associates) and the related risks and effects of these interests on the Group's net assets, financial position and results of operations.	Periods beginning on or after January 1, 2014.
IFRS 15 Revenue from Contracts with Customers	Combination of revenue recognition rules previously contained in various standards and interpretations.	Periods beginning on or after January 1, 2017.
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	Clarification of acceptable methods of depreciation and amortization.	Periods beginning on or after January 1, 2016.
Additions to IAS 32 Financial Instruments: Presentation	Supplement to provisions on offsetting financial assets and liabilities.	Periods beginning on or after January 1, 2014.
Amendment to IAS 36 Impairment of Assets	Amendment of disclosures on the carrying amount for non-financial assets as a consequence of the new IFRS 13.	Periods beginning on or after January 1, 2014.
Amendment to IAS 39 Financial Instruments: Recognition and Measurement	Novation of derivatives and continuation of hedge accounting.	Periods beginning on or after January 1, 2014.
IFRIC 21 Levies	Accounting treatment of levies raised by public authorities.	Periods beginning on or after January 1, 2014.
Annual Improvements Project (2010–2012)	Amendments to standards IFRS 2, 3, 8 and 13, IAS 7, 16, 24 and 38.	Periods beginning on or after July 1, 2014.
Annual Improvements Project (2011–2013)	Amendments to standards IFRS 1, 3 and 13 and IAS 40.	Periods beginning on or after July 1, 2014.
Annual Improvements Project (2012–2014)	Amendments to standards IFRS 5 and 7, IAS 19 and 34.	Periods beginning on or after January 1, 2016.

All revised and newly issued IFRS and IFRICs subject to mandatory adoption from the 2014/15 fiscal year onwards are not expected to have any significant impact on the net assets, financial position and results of operations of the Voith Group. The impact of revised or newly issued standards and interpretations that will be subject to mandatory adoption at a later date for the Voith Group is currently being investigated.

At present, the Voith Group does not plan to early adopt the new or amended standards and interpretations.

Restatement of previous-year amounts

(1) Amendments to IAS 19

The most significant amendment to IAS 19 is that in future cumulative actuarial gains and losses will be recognized under other comprehensive income. The corridor method to smooth unexpected fluctuations in pension obligations and the corresponding plan assets has been eliminated, including the recognition in profit or loss of actuarial gains and losses exceeding the 10% corridor. As Voith used the corridor method in the past, there will be larger fluctuations in other comprehensive income and consequently in equity in the future. The net interest approach is also being introduced. According to this, the net defined benefit liability is discounted with the discount rate used in the measurement of the defined benefit obligation. This calculation assumes a return on plan assets at the discounted interest rate instead of the expected return. Due to the clarifications presented in the revised IAS 19, enhancements of post-employment benefits in connection with measures stemming from termination benefits are accounted for in the same way as defined benefit plans. These benefits will therefore be presented under provisions for pensions and similar obligations in future and no longer under other provisions. Any resulting actuarial gains or losses are recorded under other comprehensive income. As a result of the amended definition of termination benefits under IAS 19, the top-up amounts agreed in “Altersteilzeit” (German special phased retirement scheme) agreements from now on constitute other non-current employee benefits. In future, this will mean a pro rata accumulation of top-up amounts over the active service period of the employees taking part in the phased retirement scheme. This results in a reduction in provisions for phased retirement schemes.

(2) Owing to non-compliance in the 2013/14 fiscal year with the accounting policies relating to the accounting for inventories, trade receivables and provisions in previous years at a subsidiary, a need for corrections to these balance sheet items was determined.

(3) The restatement of previous-year figures relates to taxes issues stemming from corporate income tax and trade tax. Findings of the tax field audit for the years 2002 to 2006 were corrected in the subsequent years 2007 to 2013 in the 2013/14 fiscal year. Previous assessments were revised and corrections for the years 2007 to 2013 made in the 2013/14 fiscal year. This results in tax backpayments, causing tax liabilities to increase. Furthermore, the decrease in allocable unused tax losses means that an impairment loss has to be charged on the deferred tax assets recognized thereon.

Voith has restated the published previous-year figures pursuant to IAS 8 to reflect the effects from the amendments to IAS 19 as well as from the findings described above. In detail, the following changes were made in the comparative periods:

Impact on the consolidated balance sheet

	2012-10-01 Before restatement	2012-10-01 Restatement (1)	2012-10-01 Restatement (2)	2012-10-01 Restatement (3)	2012-10-01 After restatement
Non-current assets					
Other financial assets	36,857	0	-850		36,007
Deferred tax assets	145,505	25,682		-22,163	149,024
Total non-current assets	182,362	25,682	-850	-22,163	185,031
Current assets					
Inventories	860,220		-1,276		858,944
Trade receivables	1,213,821		-7,773		1,206,048
Total current assets	2,074,041	0	-9,049	0	2,064,992
Total assets	2,256,403	25,682	-9,899	-22,163	2,250,023
Equity	1,383,538	-137,742	-10,688	-41,334	1,193,774
Non-current liabilities					
Provisions for pensions and similar obligations	430,022	225,884			655,906
Other provisions	206,348	-23,767			182,581
Bonds, bank loans and other interest-bearing liabilities	1,000,722	-7,197			993,525
Deferred tax liabilities	125,098	-31,901			93,197
Total non-current liabilities	1,762,190	163,019		0	1,925,209
Current liabilities					
Provisions for pensions and similar obligations	26,887	405			27,292
Other provisions	313,092		789		313,881
Income tax liabilities	103,443			19,171	122,614
Total current liabilities	443,422	405	789	19,171	463,787
Total equity and liabilities	3,589,150	25,682	-9,899	-22,163	3,582,770

	2013-09-30 Before restatement	2013-09-30 Restatement (1)	2013-09-30 Restatement (2)	2013-09-30 Restatement (3)	2013-09-30 After restatement
Non-current assets					
Other financial assets	27,862		-850		27,012
Deferred tax assets	146,207	26,119		-20,494	151,832
Total non-current assets	174,069	26,119	-850	-20,494	178,844
Current assets					
Inventories	738,642		-1,228		737,414
Trade receivables	1,201,161		-7,778		1,193,383
Total current assets	1,939,803	0	-9,006	0	1,930,797
Total assets	2,113,872	26,119	-9,856	-20,494	2,109,641
Equity	1,318,765	-123,711	-10,520	-44,800	1,139,734
Non-current liabilities					
Provisions for pensions and similar obligations	432,857	214,433	0		647,290
Other provisions	254,137	-39,274			214,863
Bonds, bank loans and other interest-bearing liabilities	863,851	-5,870			857,981
Deferred tax liabilities	101,551	-19,482			82,069
Total non-current liabilities	1,652,396	149,807	0	0	1,802,203
Current liabilities					
Provisions for pensions and similar obligations	26,521	23	0		26,544
Other provisions	334,121		664		334,785
Income tax liabilities	79,514			24,306	103,820
Total current liabilities	440,156	23	664	24,306	465,149
Total equity and liabilities	3,411,317	26,119	-9,856	-20,494	3,407,086

Impact on the consolidated statement of income

	2012/13 Before restatement	2012/13 Restatement (1)	2012/13 Restatement (2)	2012/13 Restatement (3)	2012/13 After restatement
Changes in inventories and other own work capitalized	4,904		48		4,952
Personnel expenses	-2,154,455	10,810	125		-2,143,520
Other operating expenses	-1,056,973	-9,635	-5		-1,066,613
Interest expenses	-88,524	6,213			-82,311
Income taxes	-27,009	-2,154		-3,466	-32,629
Net income	63,301	5,234	168	-3,466	65,237
Net income attributable to shareholders of the parent company	45,055	5,078	168	-3,466	46,835
Net income attributable to holders of non-controlling interests	18,246	156			18,402

Impact on the consolidated statement of comprehensive income

	2012/13 Before restatement	2012/13 Restatement (1)	2012/13 Restatement (2)	2012/13 Restatement (3)	2012/13 After restatement
Net income	63,301	5,234	168	-3,466	65,237
Items that will not be recycled through profit or loss in later accounting periods:					
Remeasurement of defined benefit plans	0	16,217			16,217
Taxes on components that will not be recycled through profit or loss in later accounting periods	0	-8,484			-8,484
Items that will be recycled through profit or loss in later accounting periods:					
Gains/losses on currency translation	-64,963	2,388			-62,575
Other comprehensive income	-85,635	10,121	0	0	-75,514
Total comprehensive income	-22,334	15,355	168	-3,466	-10,277
Total comprehensive income attributable to shareholders of the parent company	-30,602	13,851	168	-3,466	-20,049
Total comprehensive income attributable to holders of non-controlling interests	8,268	1,504			9,772

Had items been accounted for pursuant to the unrevised version of IAS 19, provisions for pensions and similar obligations would have been €329 million lower, other provisions €39 million higher, the item bonds, bank loans and other interest-bearing liabilities €9 million higher and equity after considering deferred taxes €210 million higher in the consolidated balance sheet as at September 30, 2014. In the consolidated statement of income, the operational result would have been €2 million higher, interest expenses €8 million higher and net income €4 million lower.

Notes to the consolidated statement of income

01. Sales

in € thousands	2013/14	2012/13
Sale of goods	3,051,531	3,470,565
Rendering of services	2,293,579	2,257,652
	5,345,110	5,728,217

02. Changes in inventories and other own work capitalized

in € thousands	2013/14	2012/13*
Changes in inventories of finished goods and work in progress	6,766	-14,923
Other own work capitalized	9,290	19,875
	16,056	4,952

* Previous year restated (refer to “Restatement of previous-year amounts”).

03. Other operating income

in € thousands	2013/14	2012/13
Income from the utilization of contract-specific provisions	89,382	109,886
Income from the reversal of provisions and accruals	69,750	49,985
Foreign exchange gains	70,550	57,405
Recovered bad debts	5,524	6,777
Gains on the disposal of intangible assets and property, plant and equipment	1,760	3,131
Rental and lease income	5,172	4,382
Income from insurance indemnification payments	19,349	19,117
Other income	65,761	50,467
	327,248	301,150

04. Cost of material

in € thousands	2013/14	2012/13
Cost of material and supplies and of purchased merchandise	1,541,141	1,752,951
Cost of purchased services	570,900	586,098
	2,112,041	2,339,049

05. Personnel expenses

in € thousands	2013/14	2012/13*
Wages and salaries	1,744,109	1,752,596
Social security, pension and other benefit costs	379,796	390,924
	2,123,905	2,143,520

* Previous year restated (refer to "Restatement of previous-year amounts").

Number of employees

	Annual average		As at the reporting date	
	2013/14	2012/13	**2014-09-30**	2013-09-30
Wage earners	24,833	25,267	22,016	25,344
Salaried employees	17,854	17,813	17,286	17,790
	42,687	43,080	**39,302**	43,134
Apprentices and interns	1,294	1,201	1,275	1,201
	43,981	44,281	**40,577**	44,335

Number of employees by region

	Annual average		As at the reporting date	
	2013/14	2012/13	**2014-09-30**	2013-09-30
Germany	17,097	17,424	14,434	17,327
Rest of Europe	8,333	8,346	7,544	8,580
Americas	11,538	11,491	11,594	11,580
Asia	5,520	5,594	5,543	5,426
Other	199	225	187	221
	42,687	43,080	**39,302**	43,134

06. Other operating expenses

in € thousands	2013/14	2012/13*
Increase in provisions and accruals	187,576	172,416
Other selling expenses	342,361	341,411
Other administrative expenses	250,851	262,671
Foreign exchange losses	56,919	73,919
Rent for buildings and machinery	78,703	76,233
Bad debt allowances	11,880	8,894
Losses on the disposal of intangible assets and property, plant and equipment	3,457	3,686
Other expenses	130,346	127,383
	1,062,093	1,066,613

* Previous year restated (refer to “Restatement of previous-year amounts”).

07. Non-recurring result

Voith defines expenses and income arising from major restructuring activities, measures addressing personnel capacity as well as the discontinuation of operations as extraordinary issues and records them under the non-recurring result.

The non-recurring result in the 2012/13 previous-year period of €-156 million included the following measures:

At Voith Paper, various restructuring measures were concluded in previous years on account of the recession in the paper machine market. These measures affected the headquarters in Heidenheim and other locations. Expenses totaling €64 million from these measures are considered in the non-recurring result for the 2012/13 fiscal year, primarily personnel-related expenses.

In the 2012/13 fiscal year, Voith Turbo accounted for non-recurring expenses of €73 million. Measures to reduce the headcount to improve the cost structures beyond Voith Paper were initiated at the headquarters in Heidenheim. Furthermore, expenses in connection with the planned discontinuation of business activities as well as the closure of locations were included in the non-recurring result.

At Voith Hydro expenses totaling €4 million were incurred that were posted to the non-recurring result. In addition to personnel-related expenses associated with the planned job cuts in Heidenheim, non-recurring items included other expenses related to the relocation of business activities and the related closure of a foreign location.

Voith Industrial Services accounted for non-recurring expenses of €9 million. The most significant component in this regard were expenses associated with the planned discontinuation of operations and the related sale of a subsidiary. However, it also included expenses connected to the changes made to the organizational structure and adjustments of capacity.

Some of the entities entrusted with shared services for the Group as a whole were also affected by the job cuts in Heidenheim and accounted for non-recurring expenses of €6 million in the 2012/13 fiscal year.

The non-recurring result in the 2013/14 fiscal year comes to €4 million.

Of this total, Voith Paper contributed €-8 million in connection with the restructuring measures initiated at the headquarters in Heidenheim and various other locations in previous years. This amount primarily relates to personnel-related and other expenses that did not qualify for recognition as a provision in the previous year as well as to income from reversals of provisions from measures that had already ended.

Voith Turbo's non-recurring result (€-16 million) mainly contains follow-on effects based on the measures introduced in previous years. In detail, these include personnel-related expenses, impairment of property, plant and equipment and inventories as well as additional expenses and income in connection with the changes at the headquarters in Heidenheim, the closure of locations as well as the discontinuation, relocation and sale of business activities.

Structural or market-related capacity adjustment measures at Voith Hydro at various locations abroad of €-6 million contributed to the non-recurring result. This amount largely contains personnel-related expenses.

Voith Industrial Services contributed €34 million to the non-recurring result. This contains expenses and income in connection with the sale of companies as well as personnel-related and other expenses from structural or market-related restructuring measures.

in € thousands	2013/14	2012/13
Personnel expenses	-30,704	-96,477
Depreciation and amortization of non-current assets	-2,773	-34,740
Cost of material/Change in inventories	-8,815	-9,272
Other expenses in connection with the sale of business activities	-9,356	0
Sundry other expenses	-12,547	-21,005
Income from the reversal of provisions	15,750	4,357
Other income in connection with the sale of business activities	48,043	0
Sundry other income	3,944	1,377
	3,542	-155,760

The personnel expenses presented mostly comprise measures to adjust personnel capacity such as early retirement and other termination benefits.

08. Other financial result

in € thousands	2013/14	2012/13
Gains/losses from investments	-56	8,509
Impairment of other investments and loans	-729	-1,328
Impairment of securities	-40,976	-23
Income from securities and loans	723	1,886
	-41,038	9,044

The impairment losses recognized on other investments and loans mainly concern available-for-sale financial instruments that are measured at amortized cost.

The impairment of securities are impairment losses recognized on available-for-sale securities listed on the market, the fair value of which decreased significantly.

09. Income taxes

in € thousands	2013/14	2012/13*
Current taxes	-84,855	-59,943
Deferred taxes	6,359	27,314
	-78,496	-32,629

* Previous year restated (refer to “Restatement of previous-year amounts”).

Current taxes include domestic income taxes and comparable foreign income taxes that are calculated in accordance with the local tax laws valid for each subsidiary.

For individual Group companies, deferred tax items are recognized for temporary differences between carrying amounts for tax reporting and the carrying amounts recognized under IFRS, as well as for consolidation measures recognized in profit or loss. Deferred tax assets are also recognized for unused tax losses that can be reasonably expected to be realized in the near future. The average income tax rate for German companies is 29.84 % (previous year: 29.84 %).

Deferred taxes are calculated at the tax rates valid in the respective countries.

In the period under review, deferred tax expenses arising from temporary differences amounted to €12,875 thousand (previous year restated: tax income of €33,742 thousand).

The deferred tax income from unused tax losses came to €19,235 thousand in the 2013/14 fiscal year. This amount essentially comprises impairment losses of €4,446 thousand recorded on deferred tax assets recognized in the 2012/13 fiscal year, reductions of €4,342 thousand in deferred tax assets on unused tax losses due to adjustments to the tax losses brought forward from the previous year, income of €20,405 thousand from the recognition of new deferred tax assets on the unused tax losses of the period under review, expenses of €5,709 thousand from the utilization of unused tax losses recognized in the previous year as well as income of €13,512 thousand from the recognition of previously unrecognized unused tax losses.

The deferred tax expense from unused tax losses came to €6,428 thousand (restated) in the 2012/13 fiscal year. This amount essentially comprises impairment losses of €1,072 thousand recorded on deferred tax assets recognized in the 2011/12 fiscal year, reductions of €12,685 thousand (restated) in deferred tax assets on unused tax losses due to adjustments to the tax losses brought forward from the previous year, income of €3,214 thousand from the recognition of new deferred tax assets on the unused tax losses of the period under review, expenses of €8,530 thousand (restated) from the utilization of unused tax losses recognized in the previous year as well as income of €11,891 thousand from the recognition of previously unrecognized unused tax losses.

In addition, there was a reduction of €3,107 thousand (previous year: €7 thousand) in current income taxes from the use of previously unrecognized deferred tax assets on unused tax losses.

As at September 30, 2014, unused tax losses of €4,008 thousand (previous year: €477 thousand) for German trade and corporate income taxes, plus another €603,145 thousand (previous year: €458,077 thousand) for German trade tax, plus €145,026 thousand (previous year: €106,722 thousand) for previously non-deductible interest expenses under German law, were not recognized as deferred tax assets as there was no reasonable expectation that the related deferred tax assets would be realized in the near future.

Due to the non-usability of tax losses, no deferred tax assets were recognized on unused tax losses of €75,467 thousand relating to federal taxes levied by foreign governments (previous year: €47,885 thousand) as well as on unused tax losses of €115,479 thousand relating to state taxes levied by foreign governments (previous year: €84,506 thousand).

Owing to the ongoing tax field audit of the companies in Germany and abroad, further changes may be made to the unused tax losses.

In Germany, unused tax losses do not expire. Outside Germany, unused tax losses can normally be realized within no more than five to ten years.

in € thousands	2014-09-30 Deferred tax assets	2014-09-30 Deferred tax liabilities	2013-09-30* Deferred tax assets	2013-09-30* Deferred tax liabilities
Intangible assets	6,801	68,918	7,893	68,749
Property, plant and equipment	8,646	46,312	11,487	50,911
Financial assets and securities	4,872	8,045	1,071	3,716
Inventories and receivables	54,026	67,714	37,415	66,622
Other assets	3,312	24,880	9,506	19,839
Pension provisions	120,649	11,541	86,154	6,483
Financial liabilities	15,615	3,437	8,617	8,099
Other provisions and liabilities	100,256	21,463	116,762	11,911
Tax effect on distributable earnings of Group entities	0	0	0	1,000
Impairments of deferred tax assets on temporary differences	-7,327		-4,703	
Unused tax losses	52,608		32,891	
Netting	-175,580	-175,580	-155,261	-155,261
Disclosure in the balance sheet	**183,878**	**76,730**	151,832	82,069

* Previous year restated (refer to “Restatement of previous-year amounts”).

As far as the origin of the deferred taxes relating to other comprehensive income is concerned, refer to note 19.

Reconciliation of expected and effective tax expense:

The income of Voith GmbH and its subsidiaries in Germany is subject to corporate income tax and trade tax. Profits earned outside Germany are taxed at the current rates valid in the countries concerned. Expected tax expenses were calculated based on a tax rate of 29.84 % (previous year: 29.84 %) that takes into account the legal structure of the Voith Group relevant for tax purposes.

in € thousands	2013/14	2012/13*
Profit before income tax	119,292	97,866
Expected tax expenses	35,597	29,203
Deviations from expected tax rates	2,658	-3,817
Effect of changes in tax rates	-39	-210
Tax-free income	-12,790	-3,783
Non-deductible expenses	36,734	20,999
Taxes relating to other periods	-3,687	-15,768
Change in impairments of deferred tax assets	23,046	4,681
Other tax effects	-3,023	1,324
Income taxes	**78,496**	32,629
Effective tax rate (%)	**65.8**	33.3

* Previous year restated (refer to “Restatement of previous-year amounts”).

No deferred taxes were recognized on temporary differences of €771,471 thousand (previous year: €734,422 thousand) arising on investments in subsidiaries, since the criteria specified in IAS 12.39 were met.

5% of distributions by foreign subsidiaries to Germany are subject to German taxation. In addition, withholding taxes and dividend-related taxes abroad may also be incurred. Further income tax implications must also be observed in the case of distributions from subsidiaries abroad to another foreign entity. The potential tax effects were not calculated because it is impracticable to do so.

Notes to the consolidated balance sheet

10. Intangible assets

Development of intangible assets from October 1, 2012 to September 30, 2013

in € thousands	Franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets	Goodwill	Development costs	Prepayments	Total
Cost 2012-10-01	233,744	676,749	133,255	20	1,043,768
Changes in the consolidated Group	2,996	3,691	0	0	6,687
Currency translation differences	-4,123	-3,413	-63	0	-7,599
Additions	8,724	0	19,498	1,177	29,399
Capitalized interest	0	0	72	0	72
Disposals	-5,437	-664	-13	-42	-6,156
Other adjustments	343	0	0	26	369
Transfers	1,032	0	-793	130	369
Reclassification to assets held for sale	0	-1,027	0	0	-1,027
Cost 2013-09-30	237,279	675,336	151,956	1,311	1,065,882
Accumulated amortization and impairments 2012-10-01	-145,849	-54,179	-73,110	0	-273,138
Currency translation differences	3,094	0	39	0	3,133
Amortization	-20,245	0	-10,700	0	-30,945
Impairment losses	-96	-1,027	-7,685	0	-8,808
Disposals	5,353	0	0	0	5,353
Transfers	-72	0	471	0	399
Reclassification to assets held for sale	0	1,027	0	0	1,027
Other adjustments	-244	0	0	0	-244
Accumulated amortization and impairments 2013-09-30	-158,059	-54,179	-90,985	0	-303,223
Carrying amount 2013-09-30	79,220	621,157	60,971	1,311	762,659

Development of intangible assets from October 1, 2013 to September 30, 2014

in € thousands	Franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets	Goodwill	Development costs	Prepayments	Total
Cost 2013-10-01	**237,279**	**675,336**	**151,956**	**1,311**	**1,065,882**
Changes in the consolidated Group	4,114	4,453	0	0	8,567
Currency translation differences	1,742	3,480	-96	1	5,127
Additions	8,488	0	3,650	2,365	14,503
Capitalized interest	0	0	13	0	13
Disposals	-3,857	-19,485	-6,971	-16	-30,329
Other adjustments	43	0	0	0	43
Transfers	101	0	0	-1,223	-1,122
Reclassification to assets held for sale	-349	0	-26,350	-6	-26,705
Cost 2014-09-30	**247,561**	**663,784**	**122,202**	**2,432**	**1,035,979**
Accumulated amortization and impairments 2013-10-01	**-158,059**	**-54,179**	**-90,985**	**0**	**-303,223**
Changes in the consolidated Group	-19	0	0	0	-19
Currency translation differences	-503	0	69	0	-434
Amortization	-19,441	0	-12,672	0	-32,113
Impairment losses	-144	0	-1,492	0	-1,636
Disposals	4,000	0	6,594	0	10,594
Transfers	802	0	0	0	802
Reclassification to assets held for sale	314	0	2,635	0	2,949
Other adjustments	-45	0	0	0	-45
Accumulated amortization and impairments 2014-09-30	**-173,095**	**-54,179**	**-95,851**	**0**	**-323,125**
Carrying amount 2014-09-30	**74,466**	**609,605**	**26,351**	**2,432**	**712,854**

Impairment losses of €5,600 thousand were recognized in the previous year on capitalized development costs and other intangible assets in association with the planned discontinuation of a product group in the Rail division at Voith Turbo (presented in the statement of income under the non-recurring result). The recoverable amount used in the impairment test equates with the value in use; a discount rate of 6.2% was applied. Impairment losses of €1,027 thousand were recorded in the previous year on goodwill with regard to the planned sale of a subsidiary in the Voith Industrial Services segment (reported under the non-recurring result, see note 18 for more information). In addition, further impairment losses of €2,181 thousand were recognized on capitalized development costs at Voith Turbo in the previous year on the basis of updated economic feasibility studies.

Impairment losses totaling €1,636 thousand were recognized on intangible assets in the 2013/14 fiscal year on the basis of updated economic feasibility studies. These mainly related to development costs recognized at Voith Paper.

Capitalized interest is based on an interest rate of 4.4% (previous year: 4.4%).

11. Property, plant and equipment

Development of property, plant and equipment from October 1, 2012 to September 30, 2013

in € thousands	Land and buildings including buildings on third-party land	Plant and machinery	Other equipment, furniture and fixtures	Prepayments and assets under construction	Total
Cost 2012-10-01	801,642	1,440,418	565,296	159,208	2,966,564
Changes in the consolidated Group	0	15	1,169	27	1,211
Currency translation differences	-19,204	-45,041	-9,558	-6,044	-79,847
Additions	14,774	35,604	49,119	63,466	162,963
Capitalized interest	757	1,320	0	2,231	4,308
Disposals	-7,719	-38,951	-22,146	-1,632	-70,448
Transfers	43,558	69,752	-2,015	-111,664	-369
Reclassification to assets held for sale	-8,234	-1,332	-335	-1,212	-11,113
Other adjustments	-202	221	394	0	413
Cost 2013-09-30	825,372	1,462,006	581,924	104,380	2,973,682
Accumulated depreciation and impairments 2012-10-01	-334,551	-978,818	-401,484	0	-1,714,853
Currency translation differences	5,829	29,138	6,420	0	41,387
Depreciation	-18,604	-80,480	-46,861	0	-145,945
Impairment losses	-13,398	-4,547	-5,018	0	-22,963
Disposals	5,331	33,860	20,177	0	59,368
Transfers	37	-2,116	1,680	0	-399
Reclassification to assets held for sale	5,176	1,011	198	0	6,385
Other adjustments	268	450	-293	0	425
Accumulated depreciation and impairments 2013-09-30	-349,912	-1,001,502	-425,181	0	-1,776,595
Carrying amount 2013-09-30	475,460	460,504	156,743	104,380	1,197,087

Development of property, plant and equipment from 1 October 2013 to 30 September 2014

in € thousands	Land and buildings including buildings on third-party land	Plant and machinery	Other equipment, furniture and fixtures	Prepayments and assets under construction	Total
Cost 2013-10-01	**825,372**	**1,462,006**	**581,924**	**104,380**	**2,973,682**
Changes in the consolidated Group	492	469	1,272	31	2,264
Currency translation differences	12,729	26,506	3,811	4,172	47,218
Additions	23,981	39,543	34,466	21,423	119,413
Capitalized interest	78	32	0	1,280	1,390
Disposals	-14,444	-51,880	-50,159	-1,630	-118,113
Transfers	27,124	69,449	1,405	-96,856	1,122
Reclassification to assets held for sale	0	0	-236	0	-236
Other adjustments	957	576	64	-7	1,590
Cost 2014-09-30	**876,289**	**1,546,701**	**572,547**	**32,793**	**3,028,330**
Accumulated depreciation and impairments 2013-10-01	**-349,912**	**-1,001,502**	**-425,181**	**0**	**-1,776,595**
Changes in the consolidated Group	-15	-134	-562	0	-711
Currency translation differences	-4,400	-19,045	-3,131	0	-26,576
Depreciation	-18,722	-73,726	-46,160	0	-138,608
Impairment losses	-590	-356	-168	0	-1,114
Disposals	12,913	48,244	44,695	0	105,852
Transfers	-1,123	-1,901	2,222	0	-802
Reclassification to assets held for sale	0	0	205	0	205
Reversal of impairments	138	1,083	495	0	1,716
Other adjustments	-942	-534	-271	0	-1,747
Accumulated depreciation and impairments 2014-09-30	**-362,653**	**-1,047,871**	**-427,856**	**0**	**-1,838,380**
Carrying amount 2014-09-30	**513,636**	**498,830**	**144,691**	**32,793**	**1,189,950**

For individual product areas of the Voith Turbo segment that each constitute a cash-generating unit, impairment losses had to be recognized in previous years on account of the planned discontinuation of business activities/the closure of the locations concerned. In detail, impairment losses of €1,075 thousand were recorded on machinery at one cash-generating unit as well as €7,849 thousand on shared assets (land and buildings). The recoverable amount used for the calculation corresponded to the fair value less costs to sell in each case. In the 2013/14 fiscal year, additional impairment losses of €285 thousand were recognized in these product areas. Due to the usability of individual assets at other locations, impairment losses of €935 thousand on individual assets were reversed.

Impairment losses totaling €10,279 thousand were also recognized in the previous year on individual assets (land, plant and machinery and other equipment, furniture and fixtures) of a product group of the Rail division at Voith Turbo due to the plans to discontinue operations. The recoverable amount used for the calculation corresponded to the fair value less costs to sell in each case. The assets were valued on the basis of valuations by independent experts or offers made by third parties based on the sales markets. In the 2013/14 fiscal year, the realignment of the locations concerned and the resulting reassessment of the impairment of individual assets resulted in additional impairment losses of €244 thousand as well as reversals of impairment losses of €781 thousand.

Impairment losses were also needed at Voith Paper in the previous year in association with the downsizing of capacity described earlier in this report, involving an impairment loss of €1,148 thousand on plant. The recoverable amount used for the calculation corresponded to the fair value less the costs to make the sale. This valuation was based on the price that could be obtained for the plant on the sales market.

Impairment losses of €2,772 thousand were recorded in the previous year on land and buildings with regard to the planned sale of a subsidiary in the Voith Industrial Services segment (see note 18 for more information).

The impairment losses and reversals of impairment losses described above were presented in the statement of income for the year under review and the previous-year period under the non-recurring result.

Due to the reassessment of the useful lives of certain items of machinery, depreciation increased by €4,616 thousand in the previous year. This depreciation charge was reported in the statement of income under the non-recurring result.

Capitalized interest is mostly based on an interest rate of 6.0% (previous year: 6.0%).

Of the prepayments and assets under construction, €3,895 thousand relates to buildings (previous year: €40,365 thousand), €26,126 thousand to plant and machinery (previous year: €59,144 thousand) and €2,772 thousand to non-production equipment (previous year: €4,871 thousand).

12. Investments accounted for using the equity method/other financial assets

Development of financial assets from October 1, 2012 to September 30, 2013

in € thousands	Investments accounted for using the equity method	Other investments	Long-term loans	Total
Opening balance 2012-10-01*	37,360	56,853	8,211	102,424
Currency translation differences	-2,551	0	-300	-2,851
Additions	9,044	7,794	839	17,677
Disposals	-6,624	-11,237	-1,363	-19,224
Transfers	667	-667	0	0
Other adjustments	1,653	-1,268	0	385
Closing balance 2013-09-30*	39,549	51,475	7,387	98,411
Accumulated amortization and impairments 2012-10-01	-1,278	-28,507	-550	-30,335
Currency translation differences	0	-35	20	-15
Impairment losses	-608	-2,036	-742	-3,386
Accumulated amortization and impairments 2013-09-30	-1,886	-30,578	-1,272	-33,736
Carrying amount 2013-09-30*	37,663	20,897	6,115	64,675

* Previous year restated (refer to "Restatement of previous-year amounts").

Development of financial assets from October 1, 2013 to September 30, 2014

in € thousands	Investments accounted for using the equity method	Other investments	Long-term loans	Total
Opening balance 2013-10-01*	**39,549**	**51,475**	**7,387**	**98,411**
Currency translation differences	1,123	0	0	1,123
Additions	7,352	4,033	3,703	15,088
Disposals	-3,939	-1,332	-3,334	-8,605
Reclassification to assets held for sale	0	-25	0	-25
Other adjustments	0	-375	0	-375
Closing balance 2014-09-30	**44,085**	**53,776**	**7,756**	**105,617**
Accumulated amortization and impairments 2013-10-01	**-1,886**	**-30,578**	**-1,272**	**-33,736**
Currency translation differences	0	0	-22	-22
Impairment losses	-879	-744	0	-1,623
Reversal of impairments	0	0	15	15
Disposals	0	3,570	0	3,570
Accumulated amortization and impairments 2014-09-30	**-2,765**	**-27,752**	**-1,279**	**-31,796**
Carrying amount 2014-09-30	**41,320**	**26,024**	**6,477**	**73,821**

* Previous year restated (refer to "Restatement of previous-year amounts").

Investments accounted for using the equity method of €41,320 thousand (previous year: €37,663 thousand) include investments in associates and shares in joint ventures (none of which are listed companies).

The carrying amount of shares in associates accounted for using the equity method comes to €28,192 thousand (previous year: €27,343 thousand). The profit from associates accounted for using the equity method comes to €4,503 thousand (previous year: €5,417 thousand). The following table summarizes the financial information of the most significant investments in associates (before adjusting to the relative shareholding held by Voith).

in € thousands	2014-09-30	2013-09-30
Equity	90,068	83,516
Liabilities	144,985	140,294
Total equity and liabilities	**235,053**	223,810
Sales	610,656	655,644
Net income for the year	9,892	14,809

The following table summarizes the financial information for material joint ventures, after adjusting to the relative shareholding held by the Voith Group in the respective joint venture:

in € thousands	2014-09-30	2013-09-30
Non-current assets	5,965	3,914
Current assets	9,792	9,206
Non-current liabilities	2,483	1,408
Current liabilities	6,273	5,834
Income	16,207	19,417
Expenses	16,110	19,827

13. Inventories

Inventories consist of the following items:

in € thousands	2014-09-30	2013-09-30*
Raw materials and supplies	219,218	241,689
Work in progress	252,403	269,796
Finished goods and merchandise	156,504	141,098
Prepayments	106,296	84,831
	734,421	737,414

* Previous year restated (refer to “Restatement of previous-year amounts”).

Write-downs of inventories amounted to €28,049 thousand (previous year: €25,126 thousand) and were recognized as expenses. Prescribed reversals of write-downs totaling €6,625 thousand (previous year: €7,114 thousand) were recorded. These amounts are included in the cost of material.

14. Trade receivables

Trade receivables consist of the following items:

in € thousands	2014-09-30	2013-09-30*
Trade receivables	848,054	967,125
Bad debt allowances	-35,534	-41,190
Receivables from customer-specific contracts	324,054	267,448
	1,136,574	1,193,383

* Previous year restated (refer to "Restatement of previous-year amounts").

Trade receivables are classified as current assets. As at September 30, 2014, the volume of receivables that was not expected to be realized within one year was €6,291 thousand (previous year: €14,482 thousand).

Movements in the allowance account for the impairment of trade receivables were as follows:

in € thousands	2014-09-30	2013-09-30*
Impairment at the beginning of the fiscal year	**-41,190**	-43,918
Additions	-10,352	-8,434
Utilization	9,990	3,314
Reversal	5,209	6,166
Changes in consolidated group/exchange differences	809	1,682
Impairment at the end of the fiscal year	**-35,534**	-41,190

* Previous year restated (refer to "Restatement of previous-year amounts").

Reversals totaling €5,209 thousand (previous year: €6,166 thousand) consist of the reversal of specific bad debt allowances of €4,239 thousand (previous year: €5,511 thousand) and portfolio-based allowances of €970 thousand (previous year: €655 thousand). As in the previous year, additions of €10,352 thousand (previous year: €8,434 thousand) are solely attributable to additions of specific bad debt allowances.

Credit insurance is used to manage default risk in trade receivables. Hermes cover is used to secure receivables from foreign customers.

Future receivables from customer-specific construction contracts recognized using the percentage-of-completion method are determined as follows:

in € thousands	2014-09-30	2013-09-30
Aggregate amount of costs incurred and recognized profits less recognized losses to date	4,760,164	5,097,724
Progress billings to date	-2,955,688	-3,549,803
Gross amount due from customers	**1,804,476**	**1,547,921**
Advances received (“progress billings”)	-1,515,172	-1,324,033
	289,304	223,888
Thereof receivables from construction contracts	300,073	240,174
Thereof liabilities from construction contracts	-10,769	-16,286

Receivables from customer-specific service contracts total €23,981 thousand (previous year: €27,274 thousand). Liabilities from service contracts total €1,940 thousand (previous year: €1,816 thousand).

Further advances received for customer-specific contracts amounting to €754,262 thousand (previous year: €758,998 thousand) for which no contract costs have been incurred to date are included in sundry other liabilities. This includes €13,284 thousand (previous year: €10,208 thousand) of advances received for customer-specific service contracts.

Sales relating to customer-specific contracts totaled €2,334,476 thousand (previous year: €2,442,598 thousand). This includes €245,273 thousand from service contracts (previous year: €173,402 thousand).

Of the progress billings, an amount of €12,442 thousand (previous year: €9,227 thousand) is retained by customers.

15. Other financial receivables and other assets

Other financial receivables

in € thousands	Current	Non-current	2014-09-30	Current	Non-current	2013-09-30
Derivatives used to hedge operational transactions	5,832	1,153	6,985	13,279	1,870	15,149
Derivatives used to hedge financial transactions	53	12,191	12,244	6,058	16,426	22,484
Financial receivables	41,794	108	41,902	35,368	50	35,418
Sundry financial assets	64,299	61,708	126,007	59,528	53,119	112,647
	111,978	**75,160**	**187,138**	114,233	71,465	185,698

Other assets

in € thousands	Current	Non-current	2014-09-30	Current	Non-current	2013-09-30
Prepaid expenses	29,492	17,766	47,258	27,892	12,225	40,117
Other taxes (without income tax)	83,124	15,102	98,226	149,435	15,522	164,957
	112,616	**32,868**	**145,484**	177,327	27,747	205,074

At the reporting date, other assets totaling €38,416 thousand (previous year: €33,618 thousand) served to secure liabilities and contingent liabilities. They may be drawn on if the underlying obligations are not fulfilled or if the contingent liabilities are realized.

16. Securities

Non-current securities totaling €15,843 thousand (previous year: €14,282 thousand) are used to cover future pension obligations. Further information on securities can be found in the section “Additional information on financial instruments”.

17. Cash and cash equivalents

This item mainly consists of time deposits held at banks.

in € thousands	2014-09-30	2013-09-30
Checks	36	112
Cash on hand	688	620
Cash equivalents	13,507	15,885
Cash at banks	786,592	884,350
	800,823	900,967

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. These deposits earn interest at the respective short-term deposit rates.

18. Assets held for sale and liabilities directly associated with assets classified as held for sale

Due to the decision to concentrate on traditional areas within the hydropower industry, the area of tidal power within the Ocean Energies division at Voith Hydro is up for sale, hence the assets held for sale as well as the liabilities. The sale is planned for the 2014/15 fiscal year. The assets held for sale of €30,012 thousand relate to intangible assets of €23,756 thousand, property, plant and equipment and financial assets totaling €54 thousand, cash and cash equivalents of €6,091 thousand and other assets totaling €111 thousand. Liabilities directly associated with assets classified as held for sale of €6,267 thousand comprise trade payables of €88 thousand, provisions of €632 thousand and other liabilities of €5,547 thousand.

The assets held for sale in the previous year of €11,436 thousand as well as the liabilities in connection with assets held for sale of €5,400 thousand are attributable to the planned sale of a company at Voith Industrial Services, which was completed in the 2013/14 fiscal year.

19. Equity

Issued capital

Since September 30, 2006, issued capital in Voith GmbH of €120,000 thousand has, without change, been held by company shareholders (until September 30, 2010: ordinary shareholders) in the form of 120,000,000 company shares (until September 30, 2010: 30,149,100 ordinary shares).

Revenue reserves and other reserves

The revenue reserves and other reserves consist of retained earnings generated by Voith GmbH and its consolidated subsidiaries as well as the effects of the remeasurement of defined benefit plans, the currency translation of foreign subsidiaries, gains/losses from available-for-sale securities and cash flow hedges pursuant to IAS 39, and gains and losses on hedges of net investments as defined by IAS 21.

The statement of comprehensive income shows the gains and losses on individual components of other comprehensive income. Other comprehensive income consists of:

in € thousands	2013/14	2012/13*
Remeasurement of defined benefit plans	**-122,796**	16,217
· Gains/losses in the current period	-122,796	16,217
Gains/losses on available-for-sale financial assets	**-33,395**	-20,226
· Gains/losses in the current period	-33,395	-20,226
· Transfers to profit and loss	0	0
Gains/losses on cash flow hedges	**-34**	-409
· Gains/losses in the current period	-34	-409
· Transfers to profit and loss	0	0
Gains/losses on currency translation	**15,665**	-62,575
· Gains/losses in the current period	15,665	-62,575
· Transfers to profit and loss	0	0
Gains/losses from currency translation of net investments in foreign operations	**-1,144**	-2,023
· Gains/losses in the current period	-1,144	-2,133
· Transfers to profit and loss	0	110
Share of associates in other comprehensive income (cash flow hedges)	**0**	94
Tax on components of other comprehensive income	**31,925**	-6,592
Other comprehensive income	**-109,779**	-75,514

* Previous year restated (refer to “Restatement of previous-year amounts”).

Deferred taxes on the components of other comprehensive income are as follows:

in € thousands	2014 Pre-tax	2014 Deferred taxes	2014 After tax	2013* Pre-tax	2013* Deferred taxes	2013* After tax
Remeasurement of defined benefit plans	-122,796	31,435	-91,361	16,217	-8,484	7,733
Gains/losses on available-for-sale financial assets	-33,395	-161	-33,556	-20,226	1,256	-18,970
Gains/losses on cash flow hedges including associates	-34	11	-23	-315	139	-176
Gains/losses on currency translation	15,665		15,665	-62,575		-62,575
Gains/losses from currency translation of net investments in foreign operations	-1,144	640	-504	-2,023	497	-1,526
Other comprehensive income	**-141,704**	**31,925**	**-109,779**	-68,922	-6,592	-75,514

* Previous year restated (refer to "Restatement of previous-year amounts").

Profit participation rights

Pursuant to the criteria defined in IAS 32, the Group's profit participation rights, with a nominal volume of €103,400 thousand (previous year: €103,400 thousand) constitute Group equity. The rights in question are lower-ranking bearer profit participation rights with variable compensation, no bullet maturity and no right of termination on the part of the creditors. Subject to the approval of the appropriate governing body, profits totaling €5,501 thousand are scheduled to be distributed for the total amounts for the 2013/14 fiscal year.

Holders of non-controlling interests

The major portion of non-controlling interests is held by the co-owners of the subsidiaries P3 Voith Aerospace Holding GmbH, Rif Roll Cover Srl, Italy, Voith Fuji Hydro K.K., Japan, Voith IHI Paper Technology Co., Ltd., Japan, Voith Hydro Shanghai Ltd., China, Voith Paper Fabrics India Ltd., India, and PT. Voith Paper Rolls Indonesia, Indonesia. Of the profit participation rights totaling €103,400 thousand, €96,800 thousand relates to holders of non-controlling interests.

Appropriation of net income at Voith GmbH

The Board of Management proposes to pay a dividend of €0.13 per share (€15,000 thousand in total) out of the unappropriated retained earnings of Voith GmbH, and to carry forward the remaining €141,062 thousand. The dividend distributed in the fiscal year amounted to €15,000 thousand (previous year: €15,000 thousand). The distribution per share in the fiscal year amounted to €0.13 per share (previous year: €0.13 per share).

Additional disclosures on capital management

Voith is a family-owned company. As such, it is obliged to maintain a robust and sustainable financial profile that enables the Group to meet its earnings and growth targets.

Voith manages capital with the aim of maximizing the return on capital. Equity and interest-bearing financial liabilities are those elements of Group capital that are of relevance to capital management activities.

in € thousands	2014-09-30	2013-09-30*
Equity	1,031,303	1,139,734
Interest-bearing financial liabilities	995,829	1,166,495
	2,027,132	2,306,229

* Previous year restated (refer to "Restatement of previous-year amounts").

Year on year, equity fell by 9.5% in the period under review. The net income for the year and currency effects made a positive contribution to the development of equity. Dividends, effects from marking securities to market as well as the remeasurement of pension obligations were the main factors that reduced equity. The interest-bearing financial liabilities fell by 14.6%, primarily as a result of the repayment of financial liabilities. For details on the composition of interest-bearing financial liabilities, refer to note 22.

The articles of association of Voith GmbH do not set forth any specific capital requirements.

20. Provisions for pensions and similar obligations

Provisions for pensions are recognized for benefit obligations in the form of retirement, invalidity and surviving dependents' benefits payable under pension plans. The benefits provided by the Group vary according to local legal, tax and economic conditions and are usually based on the length of employee service and level of remuneration.

The Group's post-employment benefits include both defined benefit plans and defined contribution plans. In the case of defined contribution plans, the Company pays contributions to state or private pension schemes based either on legal or contractual requirements or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the Company. Current contributions are recognized as pension expenses in the period concerned. In 2014, they amounted to €128,010 thousand for the Voith Group as a whole (previous year: €131,832 thousand).

The majority of the pension plans are defined benefit plans that take the form of unfunded or funded schemes.

The pension provisions for defined benefit plans are determined in accordance with IAS 19 using the internationally recognized projected unit credit method. For this purpose, the future obligations are measured on the basis of the pro rata employee benefit obligations earned at the end of the period under review. Pension provisions are calculated taking into account development assumptions for those factors which affect the benefit amount. All defined benefit plans require actuarial valuations. These are prepared annually by qualified actuaries.

The amount of the individual pension benefit contribution is generally measured on the wage or salary level and/or position in the corporate hierarchy as well as the length of service. The features and related risks of the defined benefit plans available to employees vary according to local legal, tax and economic conditions. The features of the defined benefit plans that are most significant for Voith are described below:

a) Pension plans in Germany and Austria
The pension plans in Germany include old age, disability and surviving dependants' pensions. Traditionally, the pension commitments are measured on the beneficiaries' final salary. In recent years, these benefits have been increasingly replaced by capital savings models. Under the capital savings models, the amount of the benefit is measured from the sum of the annual savings modules. The individual modules are measured from the defined salary-based contribution using a variable conversion factor for age and interest rates for a defined retirement age.

Numerous group companies convert the right to a pension benefit into capital savings models.

Current benefits are reviewed in accordance with the terms and conditions of the German Law on the Improvement of Company Pension Plans which considers the rise in the consumer price index.

In comparison to the older final-salary-based pension commitments, which involve a relatively high risk of extra funding requirements arising from salary trends, from external input parameters (e.g. the income threshold for the statutory pension insurance scheme) and from the adjustment of current pensions, the current capital savings models only bear a risk from a change in the interest rates used in the calculation.

Pension provisions are recognized for all pension commitments. Funding is therefore only obtained in exceptional cases. Insurance cover forms the plan assets of German companies. The plan assets of the Group companies do not include any financial instruments issued by entities of the Voith Group.

For mortality and invalidity, the RT 2005G mortality tables by Heubeck are used. Employee turnover probabilities were calculated specifically for the Group.

In Austria the focus of the obligations is on a scheme locally referred to as severance benefits ("Abfertigungen"). Benefits become due upon termination of the employment relationship (provided the employee is not culpable for the termination), i.e. also upon retirement. Austrian severance benefits all qualify as capital savings. For a number of years, the nature of these benefits for new hires has changed to that of a pension benefit on account of a change in the law. These qualify as defined contribution plans and are organized via legally independent employee welfare funds. The employer's obligation is limited to payment of the contribution. In addition, obligations exist for retirement, invalidity and surviving dependants' benefits on the basis of individual commitments and a pension plan entered into a long time ago for new hires at the St. Pölten location.

b) Pension plans in the US and Canada

The entities of the Voith Holding Inc. Group in the US have a number of defined benefit plans. The plans are closed to new entrants who are offered defined contribution plans instead. All of the pension plans are frozen. No new participants are accepted and no further provisions will be recognized for future benefit payments or future service cost (apart from a small group of participants in a plan for whom only salary rises are still considered in the calculation of the final average pension). The pensions are primarily based on the final average salary payment or the length of service (i.e. the product of a fixed dollar amount and the number of years of service) and will be paid monthly for life. Moreover, there are two unfunded supplementary plans for benefits paid to a small group of former employees that go beyond the normal upper limit for pension plans laid down in the law. These plans have also been frozen and no active employees currently participate in these plans. Finally, there is a plan for post-retirement medical benefits for a group of plan participants who met the age and length of service criteria when the plan was closed to new participants. This plan is unfunded. These defined benefit plans give rise to actuarial risks for the Voith Holding Inc. Group, arising from such factors as the investment risk, interest rate risk, longevity risk, and the risk of a rise in the costs of medical care.

The plan assets for defined benefit plans are invested in a master trust. The entities in the Voith Holding Inc. Group paying the contributions have assigned the responsibility for overseeing the investment of plan assets to an investment committee. According to a trust agreement and US law, the members of the investment committee have a fiduciary duty to act solely in the best interests of the beneficiaries. The committee has drawn up an investment guideline that lays down the investment goals and procedures that must be followed. The trustees of the master trust only act at the express instructions of the investment committee or an authorized representative of the investment committee. The trustee is responsible for the safe custody of the plan assets, but is not generally empowered with decision-making authority.

The legal and regulatory framework for calculating the minimum pension obligation for the plans is based on the relevant US laws including the Employee Retirement Income Security Act (ERISA) as amended. An annual assessment of the minimum pension obligation is made by the plan's actuary on the basis of these laws. In the past, Voith paid into the plans to maintain a funding level of at least 80%, as required by local law. The annual employer's contributions correspond to the net present value of the benefit obligation accumulated in the year plus the amortization of any lack of funding from the previous year. If the employer's contribution exceeds the minimum pension obligation or if the plan assets exceed the liabilities, the surplus may be offset against future obligations to cover the minimum pension obligation.

The Voith Group maintains two active defined benefit plans in Canada. Both plans are closed to new entrants who participate in various defined contribution plans instead. The benefits paid under both of these plans take the form of life-long monthly pensions.

The plan assets of the defined benefit plans are invested in insurance policies with an insurer which manages the plan assets on trust. The entities in the Group paying the contributions have assigned the responsibility for overseeing the investment of plan assets to the managers and directors of various companies acting as representatives of the Company. According to Canadian law at both federal and provincial level, the Company as the manager of the plan assets and its representatives have a fiduciary duty to act solely in the best interests of the beneficiaries.

The legal and regulatory framework used to calculate the minimum pension obligation for pension plans is based on the laws applying in the Province of Ontario and at federal level in Canada, including the applicable versions of the Ontario Pension Benefits Act and the Ontario Income Tax Act as well as the associated laws and regulations. Based on these laws, either an annual or a three-yearly assessment of the minimum pension obligation for the plans is made by the plan's actuary.

The following contributions to post-employment defined benefit pension plans were recorded in the consolidated financial statements:

	Defined benefit obligation		Fair value of plan assets		Net carrying amount from defined benefit plans	
in € thousands	**2014-09-30**	2013-09-30	**2014-09-30**	2013-09-30	**2014-09-30**	2013-09-30
Germany + Austria	748,642	640,439	-25,541	-23,361	723,101	617,078
USA + Canada	201,815	179,284	-154,618	-132,690	47,197	46,594
Other	33,165	30,179	-23,355	-20,017	9,810	10,162
Total	**983,622**	849,902	**-203,514**	-176,068	**780,108**	673,834

Development of net debt from defined benefit plans for the period from October 1, 2012 to September 30, 2013:

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2012-10-01	861,023	-177,825	683,198
Current service cost	18,406	-	18,406
Interest expenses (+)/interest income (-)	28,344	-6,213	22,131
Plan settlements	-4,084		-4,084
Remeasurements:			
Losses (+)/gains (-) from changes in demographic assumptions	2,642	-	2,642
Losses (+)/gains (-) from changes in financial assumptions	-20,503	-	-20,503
Losses (+)/gains (-) from experience adjustments	3,610	-	3,610
Remeasurement of plan assets (income less interest income)	-	-303	-303
Employer contributions to the fund	-	-13,085	-13,085
Benefits paid	-36,942	11,933	-25,009
Other	-3,503	187	-3,316
Addition to termination benefits pursuant to IAS 19.159 et seq.	15,348	0	15,348
Currency translation differences	-14,439	9,238	-5,201
2013-09-30	849,902	-176,068	673,834

Development of net debt from defined benefit plans for the period from October 1, 2013 to September 30, 2014:

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2013-10-01	**849,902**	**-176,068**	**673,834**
Current service cost	18,307	-	**18,307**
Past service cost	-4,474	-	**-4,474**
Interest expenses (+)/interest income (-)	30,654	-7,149	**23,505**
Plan settlements	286	0	**286**
Remeasurements:			
Losses (+)/gains (-) from changes in demographic assumptions	13,108	-	**13,108**
Losses (+)/gains (-) from changes in financial assumptions	112,853	-	**112,853**
Losses (+)/gains (-) from experience adjustments	11,697	-	**11,697**
Remeasurement of plan assets (income less interest income)	-	-15,355	**-15,355**
Employer contributions to the fund	-	-20,799	**-20,799**
Employee contributions to the fund	-	-31	**-31**
Benefits paid	-56,113	25,738	**-30,375**
Changes in the consolidated Group	-4,499	0	**-4,499**
Other	-515	113	**-402**
Currency translation differences	12,416	-9,963	**2,453**
2014-09-30	983,622	-203,514	**780,108**

Costs for defined benefit plans break down as follows:

in € thousands	**2014-09-30**	2013-09-30*
Current service cost	18,307	18,406
Past service costs	-4,474	0
Interest expenses from pension obligations and plan assets	23,505	22,131
Gains (-)/losses (+) on plan settlements	286	-4,084

* Previous year restated (refer to “Restatement of previous-year amounts”).

Current service cost and past service cost as well as the effects of plan curtailments or settlements that relate to defined benefit obligations are stated under personnel expenses. Interest expenses on pension obligations and plan assets are stated in the interest result.

The fund assets consist of the following components:

in € thousands	Market price listing in an active market		No market price listing in an active market		Total	
	2014-09-30	2013-09-30	2014-09-30	2013-09-30	2014-09-30	2013-09-30
Equity instruments	55,944	58,544	182	515	56,126	59,059
Debt instruments	95,299	76,265	1,620	341	96,919	76,606
Real estate	5,705	5,761	2,167	1,975	7,872	7,736
Cash and cash equivalents	12,305	4,558	0	0	12,305	4,558
Other	3,680	3,870	26,612	24,239	30,292	28,109
	172,933	148,998	**30,581**	27,070	**203,514**	176,068

The Voith Group's calculation of pension provisions is based on the following assumptions:

in %	Germany and Austria		USA	
	2014-09-30	2013-09-30	2014-09-30	2013-09-30
Discount rate	2.5%	3.5%	3.9%	4.5%
Pension increases	2.0%	2.0%	0%	0%

The inputs used in the calculation of the defined benefit obligation include assumed discount rates, wage and salary trends, as well as mortality rates, varying from province to province, depending on the economy and other factors of the respective province.

Changes to the relevant actuarial assumptions would have had the following impact on the defined benefit obligation:

2014-09-30		in € thousands	in %
Discount rate	up 0.50% points	-65,861	-6.7%
	down 0.50% points	72,651	7.4%
Pension increases	up 0.25% points	15,720	1.6%
	down 0.25% points	-16,188	-1.6%
Life expectancy	up one year	29,215	3.0%

The sensitivity analyses presented here present the effect of changes to one assumption with no change in the other assumptions, i.e. possible correlations between the individual assumptions are not considered.

Increases or decreases of the discount rate, the wage and salary trends and the mortality rates do not have the same impact in absolute terms on the defined benefit obligation (DBO) on account of discounting the obligation to net present value. If a number of assumptions are simultaneously changed, the total impact does not necessarily equate to the sum of the changes to the individual assumptions. In addition, the sensitivity of the DBO to a change in an assumption is only a reflection of the specific size of the change. If the change to the assumption differs to the amount assumed here, this does not necessarily translate to the DBO in linear fashion.

Asset liability matching strategies

Due to the treasury guidelines of the Voith Group, which rule out any speculative transactions, the funded pension plans in the US pursue an investment strategy which is oriented towards the obligations from the pension plans and not primarily on maximizing the value of the securities portfolios. The goal of the investment strategy is to close any gaps in funding between the defined benefit obligation and the plan assets. If this is attained, the goal is to maintain this status.

The main factors influencing the funding status of pension plans include the development of interest rates and pricing risks inherent in the plan assets. In 2011 Voith installed a dynamic pension management with the involvement of international asset management experts and insurers. A new standard asset allocation is ratified each year by the Voith Pension Committee along the latest efficiency curves between income and risk. This takes account of an individually limited risk strategy (low, medium, high). However, a fixed percentage of the funding gap is always set as an upper risk limit.

The pension committee ratified an investment guideline that allows the external asset manager to use all defined investment classes from 0–100% for tactical purposes. This allows the asset manager to react ad hoc to market turbulence. In the mid-term, the portfolio will move towards the standard allocation depending on the residual risk budget. The success of such dynamic risk management is reviewed regularly by the pension committee and must be measured against a standard asset allocation without dynamic risk management.

The interfaces between the actuaries, asset managers, pension committee and group treasury are structured efficiently and functionally. In addition to a monthly comparison of the data and the reporting, the persons involved exchange information on the evolution of the pension strategy on the basis of predefined schedule.

Future cash flows

The contributions that are expected to be paid into the plans in the following reporting period amount to €11,659 thousand (previous year: €17,694 thousand).

The weighted average term of the DBO is 13 years.

21. Other provisions

The development of provisions is shown below:

in € thousands	2013-09-30*	Change in the consolidated Group	Utilization	Additions	Reversals	Transfers	Discounting effect	Currency translation differences	2014-09-30
Personnel-related provisions	88,323	-4	-17,379	20,489	-8,954	0	564	936	83,975
Other tax provisions	10,296	-21	-5,435	3,069	-480	-241	0	228	7,416
Warranty provisions	187,726	0	-62,362	103,987	-30,538	237	475	1,558	201,083
Other contract-related provisions	84,164	-553	-34,195	40,364	-22,750	-1,015	18	420	66,453
Sundry other provisions	179,139	-1,457	-59,607	30,726	-20,503	840	779	743	130,660
	549,648	**-2,035**	**-178,978**	**198,635**	**-83,225**	**-179**	**1,836**	**3,885**	**489,587**

* Previous year restated (refer to “Restatement of previous-year amounts”).

	2014-09-30		2013-09-30*	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year
Personnel-related provisions	22,768	61,207	23,141	65,182
Other tax provisions	7,126	290	9,608	688
Warranty provisions	144,022	57,061	127,076	60,650
Other contract-related provisions	61,446	5,007	66,745	17,419
Sundry other provisions	59,294	71,366	108,215	70,924
	294,656	**194,931**	334,785	214,863

* Previous year restated (refer to “Restatement of previous-year amounts”).

Refund claims totaling €18.5 million (previous year: €11.8 million) for other provisions were capitalized in the period under review.

Personnel-related provisions mainly comprise the phased retirement scheme and long-service bonuses. In the case of provisions for phased retirement, the amount and maturity of the future payments to be made to the beneficiaries are uncertain. Warranty provisions are accrued for statutory and contractual obligations as well as for non-contractual warranty. Other contract-related provisions include obligations for services still to be rendered on customer orders, or parts of orders, that have been billed, obligations for service and maintenance contracts and for commission provisions. In these cases, the amount and timing of future expenses hinge on completion of the orders concerned. Among other items, other provisions cover the obligations related to changes in the size of the workforce and restructuring (see note 7 for more details). Most of the underlying measures will be completed within the next two fiscal years in keeping with the contracts.

22. Bonds, bank loans and other interest-bearing financial liabilities

Financial liabilities include the following items:

in € thousands	Current	Non-current	2014-09-30	Current	Non-current	2013-09-30*
Bonds	0	715,894	715,894	138,994	707,885	846,879
Bank loans	42,029	101,333	143,362	112,540	77,732	190,272
Financial liabilities from leases	424	1,417	1,841	681	1,675	2,356
Notes payable	3,745	0	3,745	335	0	335
Other financial liabilities	50,349	80,638	130,987	55,964	70,689	126,653
	96,547	**899,282**	**995,829**	308,514	857,981	1,166,495

* Previous year restated (refer to “Restatement of previous-year amounts”).

Other financial liabilities contain obligations from the classification of holders of non-controlling interests in limited partnerships based on repayment rights and put options.

Financial liabilities totaling €1,748 thousand (previous year: €382 thousand) are secured by other assets.

The Voith Group’s current and non-current bonds and its bank loans are denominated in the following currencies:

in € thousands	2014-09-30	2013-09-30
Euro	590,254	598,720
US dollar	128,778	269,102
Chinese renminbi	119,172	131,040
Swedish krona	8,745	25,361
Other currencies	12,307	12,928
	859,256	1,037,151

Notes on net debt

Net debt as the difference between financial liabilities and realizable financial assets is an important indicator for banks, analysts and rating agencies. This indicator is not covered by the accounting policies based on the International Financial Reporting Standards (IFRS) and its definition and calculation may diverge from the practice of other companies.

In contrast to the carrying amount in the balance sheet, which is based on the effective interest method, the indicator is calculated by measuring financial liabilities at their higher nominal repayment amount.

Net debt as defined in the Company includes the items:

in € thousands	2014-09-30	2013-09-30
Bank loans	143,362	190,272
Bonds[1)]	726,209	860,541
Other interest-bearing financial liabilities	136,573	135,214
Securities	-183,728	-273,637
Cash and cash equivalents	-800,823	-900,967
Other realizable financial receivables and loans	-61,927	-66,752
	-40,334	-55,329

[1)] Based on measurement at the repayment amount, bonds are included at an amount which is €10 million higher (previous year: €14 million) than the carrying amount in the balance sheet.

23. Trade payables

in € thousands	2014-09-30	2013-09-30
Trade payables	512,317	544,881
Liabilities from construction contracts	12,708	18,102
	525,025	562,983

€8,592 thousand (previous year: €2,289 thousand) of trade payables is due in more than one year.

24. Other financial liabilities/other liabilities

Other financial liabilities

in € thousands	Current	Non-current	2014-09-30	Current	Non-current	2013-09-30
Derivatives used to hedge operational transactions	15,963	4,137	20,100	12,854	3,137	15,991
Personnel-related liabilities	129,024	2,640	131,664	130,209	6,566	136,775
Sundry financial liabilities	152,771	11,571	164,342	174,905	8,373	183,278
	297,758	**18,348**	**316,106**	317,968	18,076	336,044

At fiscal year-end, personnel and social security liabilities included outstanding annual bonus payments and unpaid wages, salaries and social security contributions.

Other liabilities

in € thousands	Current	Non-current	2014-09-30	Current	Non-current	2013-09-30
Tax liabilities	67,631	22,791	90,422	76,428	22,357	98,785
Advances received	926,299	0	926,299	913,177	0	913,177
Deferred liabilities	6,210	5,125	11,335	6,505	12,507	19,012
Sundry other liabilities	87,613	24,774	112,387	89,401	23,312	112,713
	1,087,753	**52,690**	**1,140,443**	1,085,511	58,176	1,143,687

Tax liabilities principally relate to sales tax (VAT).

Notes on segment reporting

Information on the segment data

Business is managed according to the different products and industries and corresponds to the structure of internal reporting to the management of Voith GmbH. The structure of the segments has remained unchanged compared to September 30, 2013.

Segment data is essentially compiled using the same presentation and measurement methods as the consolidated financial statements. Intercompany sales are effected at market prices and intersegment transactions and business are all undertaken in accordance with the accounting policies used for the consolidated financial statements.

In the Voith Group, the key indicator to assess and manage the individual segments is return on capital employed (ROCE). The calculation of ROCE is defined as profit from operations in relation to the average capital employed.

The operational result is the basis for calculating ROCE and thus a key management indicator. Basically, it is an operational indicator derived from external reporting, the operational result before non-recurring items. In line with the calculation of profit from operations, the following profit/loss components are taken into consideration:

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, based on their operating character, are normally shown as other operating income and expenses in the consolidated statement of income. In determining the profit from operations, these adjustments are eliminated as non-recurring effects so as to facilitate a better assessment of the operating activities by segment.

Capital employed is defined as operating net assets. It is the aggregate of property, plant and equipment and intangible assets (excluding goodwill), inventories, trade receivables, other non-interest-bearing assets and income tax assets as well as prepaid expenses less trade payables, non-interest-bearing liabilities and income tax liabilities as well as deferred income and advances received, which are deducted up to the amount of inventories and PoC receivables.

The capital employed on the reporting date is an average value derived from the values as at the end of the period under review, the reporting date for the previous six-monthly financial statements and as at the end of the previous period under review. In contrast to the provisions of IAS 21, the assets and liabilities of foreign subsidiaries are translated at the average exchange rate for the period under review. Owing to the use of averages, the capital employed cannot be reconciled to the figures in the consolidated balance sheet on any given reporting date.

Consolidation entries were taken into account in full when the capital employed was calculated.

Capital expenditures concern intangible assets (excluding goodwill) and property, plant and equipment. Additions due to business combinations are not included.

Sales are broken down regionally, based on the customer's domicile. Non-current assets, consisting of property, plant and equipment, goodwill and other intangible assets are allocated based on the location of the asset.

Information on the activities in the segments

Voith Hydro – is one of the world's leading full-line suppliers of equipment, technologies and services for hydropower plants. The product portfolio covers all components for large and small hydropower plants: generators for all turbine types, Francis, Pelton, Kaplan, bulb and pump turbines, pumps, electrical and mechanical power plant equipment, automation systems, as well as services including spare parts and maintenance. Voith Hydro is a joint venture with Siemens, in which Voith holds the majority with 65% of all shares and voting rights.

Voith Industrial Services – is one of the leading providers of technical services for key industries such as automotive, energy, chemical and petrochemical and provides engineering services, particularly for the road & rail sector.

Voith Paper – as a partner and pioneer for the paper industry Voith Paper provides technologies and products for the entire paper manufacturing process – from fiber through to the finished roll of paper. All over the world, producers of paper, board and tissue have for many years put their trust in the expertise and competence of this system provider. Voith Paper's innovative strength is evident in customer-oriented solutions which optimize the paper manufacturing process. Voith Paper focuses on developing resource-saving products, thus ensuring maximum efficiency in the consumption of energy, water and fibers. Furthermore, Voith Paper offers a broad service portfolio for all sections of the paper manufacturing process.

Voith Turbo – specializes in mechanical, hydrodynamic and electronic drive and braking systems for road, rail, marine and industrial applications. Voith Turbo crafts customized solutions ranging from individual machines to end-to-end process solutions.

Operating and reportable segments as defined in IFRS 8 are identical.

Segment information by business segment

	Voith Hydro		Voith Industrial Services		Voith Paper	
in € millions	**2013/14**	2012/13	**2013/14**	2012/13	**2013/14**	2012/13
External sales	1,313	1,388	1,178	1,185	1,430	1,639
Sales with other segments	4	5	27	27	22	29
Total segment sales	1,317	1,393	1,205	1,212	1,452	1,668
Profit from operations	101	106[2]	20	30	9	86
Depreciation and amortization of property, plant and equipment and intangible assets[3]	30	28	18	18	67	69
Investments[4]	22	33	31	19	29	67
Segment goodwill	15	15	225	236	222	222
Average capital employed	463	505	242	238	891	943
ROCE	21.8%	20.9%[2]	8.5%	12.6%	1.0%	9.1%
Employees[5]	5,219	5,323	18,360	21,032	8,419	9,223

[1] Subtotal for Voith Hydro, Voith Industrial Services, Voith Paper and Voith Turbo.

[2] Previous year restated (refer to “Restatement of previous-year amounts”).

[3] Excluding depreciation and amortization included in the non-recurring result, as not included in profit from operations.

[4] Excluding additions due to new acquisitions and financial assets.

[5] Statistical number of persons employed at fiscal year-end.

The two defined earnings components “Operating interest income” and “Other adjustments” are not shown directly in the consolidated statement of income and are therefore disclosed separately in the following reconciliation of the profit from operations to income before taxes.

	Voith Turbo		Total Core Business[1]		Reconciliation		Total	
	2013/14	2012/13	**2013/14**	2012/13	**2013/14**	2012/13	**2013/14**	2012/13
	1,409	1,500	5,330	5,712	15	16	5,345	5,728
	5	5	58	66	-58	-66	0	0
	1,414	1,505	5,388	5,778	-43	-50	5,345	5,728
	111	110[2]	241	332[2]	29	18	270	350[2]
	43	49	158	164	12	11	170	175
	31	51	113	170	21	22	134	192
	140	140	602	613	8	8	610	621
	752	797[2]	2,348	2,483[2]	154	157	2,502	2,640[2]
	14.7%	13.9%[2]	10.3%	13.4%[2]			10.8%	13.3%[2]
	6,275	6,485	38,273	42,063	1,029	1,071	39,302	43,134

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

in € millions	**2013/14**	2012/13*
Profit from operations	**270**	350
Operating interest income	-40	-37
Other adjustments	-11	-3
Non-recurring result	4	-156
Share of profits from associates	5	4
Interest result	-68	-69
Other financial result	-41	9
Income before taxes	**119**	98

* Previous year restated (refer to "Restatement of previous-year amounts").

Segment information by region

External sales (registered office of customer)

in € millions		2013/14	2012/13
Germany		1,078	1,149
Other countries		4,267	4,579
	of which Europe	1,505	1,566
	of which Americas	1,529	1,514
	of which Asia	1,071	1,312
	· thereof China	605	738
	of which others	162	187
Total		**5,345**	5,728

Non-current assets

in € millions		2013/14	2012/13
Germany		891	968
Other countries		1,012	992
	of which Europe	269	276
	of which Americas	379	378
	· thereof USA	232	218
	of which Asia	361	335
	· thereof China	317	291
	of which others	3	3
Total		**1,903**	1,960

Other notes

Contingent liabilities, contingent assets and other financial obligations

Appropriate provisions have been recognized in the relevant Group companies to cover potential obligations arising from taxation, legal and arbitration proceedings.

In the previous year, possible tax risks existed outside Germany concerning the tax recognition of expenses amounting to a maximum of €13 million. Due to developments in the period under review, the probability of occurrence of the risk is, in the meantime, regarded as remote.

In connection with the recognition of transfer prices outside Germany, there are additional risks of €5 million (previous year: €5 million) and of €19 million (previous year: €23 million) for legal disputes. A successful outcome is currently expected in both cases.

Owing to failure, caused by an end customer, to comply with specific rules concerning the receipt of tax incentives outside Germany, the recognition of tax privileges was disputed by the tax authorities in previous years. The risk amounted to a maximum of €9 million as at September 30, 2013. The proceedings were concluded in the first half of the 2013/14 fiscal year and resulted in €5 million being paid to the tax authorities.

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

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

From the Voith Group's perspective, the Group's potential rights to offset tax liabilities due to the tax authorities come to €0 (previous year: €9 million) outside Germany. There are potential VAT credits of €3 million in Germany (previous year: €8 million).

Contingent liabilities

The contingent liabilities listed below are stated at face value. No provisions were made to cover these contingencies, as the risk of their realization is regarded as low:

in € thousands	**2014-09-30**	2013-09-30
Guarantee obligations	17,740	36,649
Warranties	3,625	362
	21,365	37,011

Most of the guarantee obligations expire in 2022.

Other financial obligations

In addition to liabilities, provisions and contingent liabilities, the Voith Group also has other financial obligations, in particular those arising from rental and lease agreements for buildings, land, plant, machinery and other non-production-related tools and equipment.

in € thousands	**2014-09-30**	2013-09-30
Purchase commitments for capital expenditures	16,008	25,898
Obligations arising from non-cancelable operating leases	137,945	140,440
Other	1,305	910
	155,258	167,248

Assets leased under operating leases led to cash outflows totaling €78,703 thousand (previous year: €76,233 thousand). These payments mostly related to leased passenger vehicles, machinery and buildings. The majority of leases run for between one and 15 years. Some companies have the option of extending their rental contracts.

The total of future minimum lease payments for non-cancelable operating leases is shown below, broken down by maturity:

in € thousands	**2014-09-30**	2013-09-30
Nominal value of future minimum lease payments		
· Due in less than one year	50,734	50,814
· Due between one and five years	66,194	69,895
· Due in more than five years	21,017	19,731
	137,945	140,440

Future minimum lease payments include €1,620 thousand (previous year: €2,065 thousand) from sale and leaseback transactions.

Compared to the future minimum lease payments, an immaterial amount of cash inflows is expected from non-cancelable subleases of assets.

Additional information on financial instruments

Carrying amounts, amounts recognized in the balance sheet and fair values by measurement category.

			Amount recognized in the balance sheet in accordance with IAS 39					
in € thousands	IAS 39 measurement category	Carrying amount 2014-09-30	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 2014-09-30
Assets:								
Cash and cash equivalents	LaR	800,823	800,823					800,823
Trade receivables	LaR	812,520	812,520					812,520
Receivables from construction contracts	LaR	324,054	324,054					324,054
Other financial assets and securities		216,229						
· Financial assets, loans and receivables	LaR	43,675	43,675					43,675
· Available-for-sale financial assets	AfS	160,489		26,024	134,465			134,465[1]
· Financial assets held for trading	FAHfT	5,878				5,878		5,878
· Financial assets at fair value through profit or loss	FAfvtpl	6,187				6,187		6,187
Derivative financial instruments		19,229						
· Derivatives not used for hedging	FAHfT	2,961				2,961		2,961
· Derivatives used for hedging	n.a.	16,268				16,268		16,268
Other receivables		129,603						
· Financial receivables	LaR	41,902	41,902					41,902
· Sundry financial assets	LaR	87,701	87,701					87,701
Liabilities:								
Trade payables	FLAC	512,317	512,317					512,317
Bonds/bank loans/notes	FLAC	863,001	863,001					948,435
Financial liabilities from leases	n.a.	1,841					1,841	
Derivative financial instruments		20,100						
· Derivatives not used for hedging	FLHfT	2,872				2,872		2,872
· Derivatives used for hedging	n.a.	17,228				17,228		17,228
Other financial liabilities	FLAC	130,987	115,171		15,816			283,764
Sundry financial liabilities	FLAC	296,005	296,005					296,005
IAS 39 measurement categories:								
Loans and receivables (LaR)	LaR	2,110,675	2,110,675					
Available for sale (AfS)	AfS	160,489		26,024	134,465			
Financial assets held for trading (FAHfT)	FAHfT	8,839				8,839		
Financial assets at fair value through profit or loss (FAfvtpl)	FAfvtpl	6,187				6,187		
Financial liabilities measured at amortized cost (FLAC)	FLAC	1,802,310	1,786,494		15,816			
Financial liabilities held for trading (FAHfT)	FLHfT	2,872				2,872		

[1] Available-for-sale financial assets (AfS) include investments whose fair value could not be determined reliably.

in € thousands	IAS 39 measurement category	Carrying amount 2013-09-30*	Amount recognized in the balance sheet in accordance with IAS 39*: Amortized cost	Cost	Fair value through equity	Fair value through profit or loss	Amount recognized in the balance sheet in accordance with IAS 17	Fair value 2013-09-30*
Assets:								
Cash and cash equivalents	LaR	900,967	900,967					900,967
Trade receivables	LaR	925,935	925,935					925,935
Receivables from construction contracts	LaR	267,448	267,448					267,448
Other financial assets and securities		300,649						
· Financial assets, loans and receivables	LaR	53,796	53,796					53,796
· Available-for-sale financial assets	AfS	241,831		20,897	220,934			220,934[1]
· Financial assets at fair value through profit or loss	FAfvtpl	5,022				5,022		5,022
Derivative financial instruments		37,633						
· Derivatives not used for hedging	FAHfT	8,063				8,063		8,063
· Derivatives used for hedging	n. a.	29,570			162	29,408		29,570
Other receivables		114,473						
· Financial receivables	LaR	35,418	35,418					35,418
· Sundry financial assets	LaR	79,055	79,055					79,055
Liabilities:								
Trade payables	FLAC	544,881	544,881					544,881
Bonds/bank loans/notes	FLAC	1,037,486	1,037,486					1,132,419
Financial liabilities from leases	n. a.	2,356					2,356	
Derivative financial instruments		15,991						
· Derivatives not used for hedging	FLHfT	3,141				3,141		3,141
· Derivatives used for hedging	n. a.	12,850			183	12,667		12,850
Other financial liabilities	FLAC	126,653	113,508		13,145			337,761
Sundry financial liabilities	FLAC	320,053	314,053		6,000			320,053
IAS 39 measurement categories:								
Loans and receivables (LaR)	LaR	2,262,619	2,262,619					
Available for sale (AfS)	AfS	241,831		20,897	220,934			
Financial assets held for trading (FAHfT)	FAHfT	8,063				8,063		
Financial assets at fair value through profit or loss (FAfvtpl)	FAfvtpl	5,022				5,022		
Financial liabilities measured at amortized cost (FLAC)	FLAC	2,029,073	2,009,928		19,145			
Financial liabilities held for trading (FAHfT)	FLHfT	3,141				3,141		

[1] Available-for-sale financial assets (AfS) include investments whose fair value could not be determined reliably.
* Previous year restated (refer to “Restatement of previous-year amounts”).

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

in € thousands	2014-09-30	Level 1	Level 2	Level 3
Assets				
Other financial assets and securities	146,530	146,530	0	0
Derivative financial instruments	19,229	0	19,229	0
Liabilities				
Derivative financial instruments	20,100	0	20,100	0
Liabilities from the acquisition of shares	15,816	0	0	15,816

in € thousands	2013-09-30	Level 1	Level 2	Level 3
Assets				
Other financial assets and securities	225,956	225,956	0	0
Derivative financial instruments	37,633	0	37,633	0
Liabilities				
Derivative financial instruments	15,992	0	15,992	0
Liabilities from the acquisition of shares	19,145	0	0	19,145

The three-level fair value hierarchy divides the input factors used in the measurement techniques to measure the fair value into three levels.

Level 1:
Input factors on the basis of quoted market prices in active markets for identical assets or liabilities for the company on the measurement date.

Level 2:
Other inputs than those of level 1 that are observable for the financial asset or liability, either directly or indirectly.

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

No reclassifications were made between the fair value hierarchies in the 2013/14 fiscal year.

The fair values of derivative financial instruments allocated to level 2 of the fair value hierarchy are taken from the daily observable market prices and interest curves. In addition, since October 1, 2013, fair value measurement includes the risk of both counterparty default and default on the part of the holder in accordance with IFRS 13 Fair Value Measurement. Input factors that take account of counterparty credit risk can be obtained from observable credit default swaps (CDS) from the institutes participating in the respective transaction. At Voith the market CDS rate was used to calculate the Group's own credit risk.

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

The fair values of financial assets and financial liabilities measured at cost or amortized cost, which need to be measured 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 fair values on the reporting date.

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

The fair value of the bond is equal to the nominal value multiplied by the quoted price at the end of the reporting period (fair value hierarchy level 1).

The market values of unlisted bonds, bank loans and other financial liabilities are calculated as the present value of the payments associated with the liabilities, based on the applicable term structure of interest rates and Voith GmbH's credit spread curve determined for different currencies (level 2 of the fair value hierarchy).

The market value of other financial liabilities is 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 (fair value hierarchy level 3).

Net gains or losses for each measurement category of financial instrument:

2013/14

in € thousands	Impairments	Other net gains/losses	Total
Loans and receivables (LaR)	-5,877	15,994	10,117
Available-for-sale financial assets	-42,358	730	-41,628
Held-for-trading financial assets	212	-4,680	-4,468
Financial liabilities measured at amortized cost	0	-3,132	-3,132

2012/13

in € thousands	Impairments	Other net gains/losses	Total
Loans and receivables (LaR)	-2,859	-20,115	-22,974
Available-for-sale financial assets	-2,956	1,233	-1,723
Financial assets at fair value through profit or loss	0	179	179
Held-for-trading financial assets	0	1,878	1,878
Financial liabilities measured at amortized cost	0	9,099	9,099

For more information on the net gains and losses through equity from available-for-sale financial assets, see note 19.

All interest income and interest expenses for financial assets or financial liabilities relate to those that are not measured at fair value through profit or loss.

Risk management

Principles of financial risk management

The Voith Group is a global player. In the course of ordinary business, some of its liabilities, assets and transactions are exposed to risks arising from changes in interest rates and exchange rates. These risks could affect its net assets, financial position and results of operations. The aim of financial risk management is to manage and limit these risks.

The principles of the Group's financial policy are laid down by the Voith GmbH Board of Management and monitored by the Supervisory Board. Voith Finance GmbH, a wholly owned subsidiary of Voith GmbH, implements the financial policy and regularly reports to the Chief Financial Officer on the financial position of the Group and current risk exposures. Certain financial transactions require special approval by the Group's management. Long-term refinancing is undertaken by Voith GmbH.

Simple derivative financial instruments are used to limit the risks arising both from operating business and from the resultant financing requirements. These instruments are used in accordance with clearly defined, consistent, Group-wide guidelines. Compliance with these guidelines is verified on an ongoing basis. Hedge transactions and cash investments are placed only with financial institutions that have first-class credit ratings.

Credit risk

The Voith Group does business only with recognized, creditworthy third parties. We verify the creditworthiness of customers who wish to do credit-based business with us.

Cash and cash equivalents:

For the purposes of internal risk management, cash and cash equivalents consist essentially of cash and short-term securities. Default risks associated with term deposits are limited by selecting solvent banking partners and by spreading cash across multiple counterparties. A ratings-based limit (derived from credit default swaps/rating) is monitored constantly. In addition, the Voith Group invests in securities and monitors the associated risks centrally. Securities may only be traded by Group companies with the approval of Voith Finance GmbH.

Trade receivables:

Credit risk arising from the delivery of goods and services expresses itself in terms of counterparty risk, manufacturing risks and political export-related risks. Handling of these risks is governed by binding rules throughout the Voith Group. The maximum risk of default is limited to the carrying amount of the trade receivables, which is €812,520 thousand (previous year adjusted: €925,935 thousand). The maximum default risk for receivables arising from long-term construction contracts is €324,054 thousand (previous year: €267,448 thousand). On account of the collateral held, the maximum default risk for trade receivables is reduced by €116,548 thousand (previous year: €132,302 thousand) and by €75,512 thousand (previous year: €117,529 thousand) for receivables from long-term construction contracts.

All orders above a defined value are subject to general risk assessment requirements. Without special permission from the relevant governing bodies, Group companies do not accept unsecured orders from customers whose credit rating falls below a defined threshold and who cannot furnish an adequate guarantor.

Political export risks must always be hedged for risks classified as Euler Hermes country category 3 or higher unless approval is issued by the decision-making bodies. Further risk assessment is also activated for orders upward of defined values. Necessary credit insurance is obtained via export credit agencies (ECAs), on the private insurance market or by means of bank products.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group’s exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. For details of financial guarantees, please refer to the discussion of contingent liabilities. This kind of loss can occur if individual business partners fail to meet their contractual obligations. As a rule, no collateral exists for such an eventuality.

The Voith Group is not exposed to any material concentration of risks. Corporate policy is to avoid concentration of credit risk in a single financial institution. Instead, the Group invests with a variety of creditworthy financial institutions. The Group's customer structure is not materially concentrated in any particular geographic region. The Group tests doubtful accounts for impairment considering certain customers, historical trends, branches of industry and various other information.

The following credit risks are inherent in financial assets:

2014-09-30			Thereof not impaired but past due at the reporting date by:		
in € thousands	**Gross value**	Thereof not impaired or past due	less than 90 days	between 90 and 180 days	more than 180 days
Trade receivables	**848,054**	566,490	168,139	27,490	52,617
Other financial assets and securities	**339,254**	212,464			
Other financial receivables	**132,788**	123,727	2,034	1,136	1,980

2013-09-30*			Thereof not impaired but past due at the reporting date by:		
in € thousands	Gross value	Thereof not impaired or past due	less than 90 days	between 90 and 180 days	more than 180 days
Trade receivables	967,125	649,763	198,850	21,736	55,349
Other financial assets and securities	332,499	300,649			
Other financial receivables	117,536	109,483	1,929	788	2,527

* Previous year restated (refer to "Restatement of previous-year amounts").

The carrying amounts of cash and cash equivalents, receivables from construction contracts and derivatives are neither impaired nor past due.

Liquidity risk

To ensure that it can always meet its financial obligations, the Voith Group has negotiated sufficient cash lines and syndicated credit facilities with its banking partners.

The syndicated loan placed in China in 2012 secures the finance for future investments in the same currency as the operating business on the local market. This loan was drawn on during the period under review, as planned. The syndicated euro loan arranged in 2011 was increased in August of this year under an amend-and-extend agreement, and now runs until 2019 with the option of extending for another two years – no financial covenants were agreed. It has not been drawn on and is available as a strategic liquidity reserve if needed, as are available bilateral lines of credit from banks. To safeguard internal and external growth, the Voith Group procures long-term funding on the capital markets by issuing bonds, private placements and individual bank loans.

The credit facilities and the bond placed on the capital markets are subject to the customary market conditions based on Voith's rating and its contractual terms and conditions. As in the previous years, all contractual terms and conditions were complied with in the 2013/14 fiscal year. A "negative outlook" was added in December 2013 to the investment grade "Baa2" rating issued by Moody's, which was confirmed again in September 2014.

Cash pools, intercompany loans and the allocation of external bank credit lines to individual operating units protect Group companies' liquidity. Voith Finance GmbH produces monthly finance status reports for the entire Group. Balances of central bank and cash pool accounts and bank guarantees are available on a daily basis.

The table below lists the undiscounted, contractually agreed cash outflows from financial instruments:

in € thousands	2014-09-30	Cash flows < 1 year	Cash flows 1–5 years	Cash flows > 5 years
Trade payables	512,317	503,725	8,283	0
Bonds/bank loans/notes	863,001	86,502	884,964	0
Financial liabilities from leases	1,841	475	1,087	452
Other financial liabilities	130,987	51,040	6,444	74,195
Sundry financial liabilities	296,005	281,795	13,730	482
Derivative financial instruments	20,100			
· Outflows		266,018	64,917	0
· Inflows		-252,275	-71,931	-2
	1,824,251	**937,280**	**907,494**	**75,127**

in € thousands	2013-09-30*	Cash flows < 1 year	Cash flows 1–5 years	Cash flows > 5 years
Trade payables	544,881	542,591	2,432	0
Bonds/bank loans/notes	1,037,486	288,301	845,235	44,930
Financial liabilities from leases	2,356	748	1,210	638
Other financial liabilities	126,653	56,942	6,455	64,233
Sundry financial liabilities	320,053	305,114	14,709	271
Derivative financial instruments	15,991			
· Outflows		126,296	62,110	0
· Inflows		-114,114	-61,587	0
	2,047,420	1,205,878	870,564	110,072

* Previous year restated (refer to “Restatement of previous-year amounts”).

Solvency is ensured and liquidity can be managed using current securities and cash equivalents which can be transformed into cash at any time.

Derivatives include cash outflows on derivative financial instruments with negative market values for which gross cash settlement has been agreed. The cash outflows for these financial derivatives are matched by corresponding cash inflows which are shown separately in the table above under inflows and outflows (gross). On the other hand, where a net cash settlement is effected, cash outflows are netted with cash inflows.

Financial market risks

Foreign exchange risks:

Global production and trading activities expose the Voith Group to risks arising from fluctuations in exchange rates. Foreign exchange risks exist in particular wherever receivables, liabilities, cash and cash equivalents and orders received (firm commitments/forecast transactions) are or will be denominated in a currency other than the functional currency of the Group company concerned.

For the Voith Group, the foreign exchange risk relates mainly to the US dollar. Changes in the exchange rate affect both earnings and Group equity. If the US dollar rises by 5%, this increases our pre-tax profit by €6,908 thousand (previous year: increase of €6,174 thousand) and equity (including the effect from pre-tax profit) by €6,929 thousand (previous year: increase of €6,272 thousand). If, by contrast, the US dollar falls by 5%, this decreases our pre-tax profit by €6,193 thousand (previous year: decrease of €5,549 thousand) and equity (including the effect from pre-tax profit) by €6,212 thousand (previous year: decrease of €5,638 thousand).

Most currency hedging is undertaken by Voith Finance GmbH and the Regional Treasury and Finance Center. Transaction risks arising from the international delivery of goods and services are mainly limited by forward exchange contracts. Essentially, all foreign currency transactions at the Voith Group must be hedged.

Major items on the balance sheet and orders (upward of a value of USD 1 million) are hedged individually within the framework of hedge accounting.

Before external hedges are agreed, in the context of project business, both the hedge relationship and the objectives of and strategies for risk management must be documented in respect of the underlying (hedged) transactions.

Hedges must be highly effective if they are to satisfy the Voith Group's risk management strategy. Where hedge relationships are verifiably effective, the transactions qualify for hedge accounting. As a result, fluctuations in the exchange rate do not affect profit or loss, nor do they influence project costing.

In the Voith Group, derivative financial instruments are traded externally by Voith Finance GmbH on behalf of Group companies. Group companies in countries subject to foreign exchange restrictions hedge their currency risks locally. The Group-wide treasury management tool is used for central scheduling, monitoring and documentation of all foreign currency hedges entered into by Voith Finance or Group companies.

Interest rate risks:
The Voith Group's exposure to interest rate risks arising from external refinancing is analyzed and managed centrally by Voith Finance GmbH. Medium- to long-term assets and liabilities with fixed interest rates are the main source of interest rate risks at the Group, as changes in market rates of interest can cause the value of a financial instrument to fluctuate. Risks to the market value of fixed-interest receivables and liabilities are hedged on a case-by-case basis. Risks to market value are hedged by interest rate swaps and combined interest rate and currency swaps, which usually qualify for hedge accounting.

The relevant asset positions are essentially cash at banks that is invested in the money market and/or are used to fund the existing cash pool. The Group companies that participate in the cash pool operate a daily zero-balancing policy and therefore have no exposure to external interest rate risks.

On the cost side, interest rate risks arise from bonds placed on the capital market and a US private placement as well as a variety of bank loans. The fixed interest rate on the US private placement was swapped for a floating rate and the resulting cash flow risk hedged by interest rate caps accordingly. The other bonds are subject to a fixed rate of interest.

The carrying amounts of the Group's key financial instruments that are exposed to interest rate risks are grouped by contractually defined maturity in the following table:

2014-09-30 in € thousands	Less than one year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Floating interest rate							
Cash and cash equivalents	800,823	0	0	0	0	0	**800,823**
Bonds	0	72,354	0	0	53,855	0	**126,209**
Bank loans	39,251	0	101,130	0	0	0	**140,381**
Fixed interest rates							
Bonds	0	0	589,685	0	0	0	**589,685**
Bank loans	2,778	203	0	0	0	0	**2,981**

2013-09-30 in € thousands	Less than one year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Floating interest rate							
Cash and cash equivalents	900,967	0	0	0	0	0	900,967
Bonds	138,994	0	70,120	0	0	51,427	260,541
Bank loans	73,465	0	0	77,411	0	0	150,876
Fixed interest rates							
Bonds	0	0	0	586,338	0	0	586,338
Bank loans	39,075	198	123	0	0	0	39,396

If the market rate of interest had been 100 bps higher (lower) at September 30, 2014, earnings from the significant floating rate financial instruments would have been €5.3 million higher (lower) (previous year: €4.9 million). Equity would have changed accordingly. This effect chiefly originates from floating-rate financial instruments denominated in euro currency of €5.3 million (previous year: €4.0 million).

If the market rate of interest had been 100 bps higher (lower) as at September 30, 2014, the fair value of the significant fixed rate financial instruments would have been €17.9 million lower (higher) (previous year: €23.6 million).

Risks relating to securities and stock prices:
The Voith Group holds stocks and other available-for-sale securities of €134 million (previous year: €221 million). Stock price risks are reflected in the balance sheet and not in the consolidated statement of income, unless the criteria for impairment are met. A 10% change in the underlying stock prices would cause equity to change by 10% of the carrying amount of the stocks concerned.

There is no risk to stocks and other securities at fair value through profit or loss.

It should be noted that all existing stock price risks are analyzed continuously and suitable counteraction taken accordingly.

Commodity price risk:
The Voith Group is exposed to risks arising from changes in commodity prices, as these also affect most of the semi-finished goods that it needs. Voith's Corporate Purchasing regularly reviews the nature, volume and scheduling of the Group's materials requirements. On request by Corporate Purchasing, and in consultation and agreement with Group companies, suitable forward commodity contracts can be arranged by Voith Finance GmbH to limit any latent commodity price risks. No forward commodity contracts were in place during the fiscal year. In addition, increases in the price of materials can be passed on to customers to some extent.

Hedge relationships:
The following items are used to hedge foreign exchange and interest rate risks:

2014-09-30	Nominal values*		Positive market values		Negative market values	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Forward exchange contracts (fair value hedges)	427,785	191,119	3,665	1,091	13,166	4,062
Interest rate swaps (fair value hedges)	0	114,787	0	11,512	0	0
Other derivatives	139,906	120,544	2,220	741	2,797	75
Total	**567,691**	**426,450**	**5,885**	**13,344**	**15,963**	**4,137**

2013-09-30	Nominal values*		Positive market values		Negative market values	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Forward exchange contracts (fair value hedges)	299,078	125,013	7,734	1,084	9,820	2,847
Forward exchange contracts (cash flow hedges)	11,060	0	162	0	183	0
Interest rate swaps (fair value hedges)	132,978	107,121	6,057	14,533	0	0
Other derivatives	302,497	136,662	5,383	2,680	2,851	290
Total	745,613	368,796	19,336	18,297	12,854	3,137

* Nominal value refers to the volume of the hedged transactions in the local currency, translated at the closing rate.

Fair value hedges:
The Group uses fair value hedges primarily to hedge interest rate and foreign exchange risks.

In the 2013/14 fiscal year, a loss of €17,700 thousand (previous year: a loss of €12,800 thousand) was recorded for derivative financial instruments classified as fair value hedges. Since the hedges were classified as highly effective, measurement of the hedged transactions at the reporting date produced a contrary grain/loss in the same amount.

There were no effects on earnings from ineffective hedges in the 2013/14 and 2012/13 fiscal years.

Changes in the value of financial derivatives that do not meet the requirements defined for hedge accounting by IAS 39 are recognized in profit or loss at the reporting date.

Research and development costs

In the 2013/14 fiscal year, research and development costs totaled €215,992 thousand (previous year: €242,129 thousand).

Of this amount, €3,663 thousand (previous year: €19,570 thousand) was capitalized as development costs in the balance sheet. The remaining expenses consist of €141,273 thousand (previous year: €152,182 thousand), which includes both amortization on these capitalized development expenses and activities for non-customer-specific new developments and improvements, as well as €71,056 thousand (previous year: €70,377 thousand) for development activities capitalized in the context of customer-specific orders.

Related parties

In the course of its ordinary business activities, Voith GmbH maintains relationships both with the subsidiaries listed in these consolidated financial statements and with other related entities and individuals (family members who are shareholders, and members of the Supervisory Board and the Board of Management).

In the 2007/08 fiscal year, one subsidiary of Voith GmbH was sold to family shareholders in the context of a transaction under common control. This company, JMV GmbH & Co. KG, Heidenheim, is now the ultimate parent company of the Voith Group.

All business transactions with related parties are conducted at arm's length conditions.

Members of the Board of Management or members of the Supervisory Board of Voith GmbH and family member shareholders also serve on the supervisory boards of other companies with which Voith maintains relationships in the course of its ordinary business activities. Any transactions involving these companies are conducted at arm's length conditions.

A total of €973 thousand (previous year: €923 thousand) was paid at customary market rates to members of the Supervisory Board and former members of the Board of Management for consulting and other services.

The majority of intercompany deliveries and services to related parties (entities and individuals) are shown in the table below:

in € thousands	2013/14	2012/13
Liabilities to family shareholders	17,743	27,915
Services purchased from associates	6,417	14,977
Services rendered to associates	203	682
Receivables from associates	3,152	3,452
Liabilities to associates	1,755	3,410
Services purchased from other investments	3,292	3,113
Services rendered to other investments	18,425	17,601
Receivables from other investments, incl. advances paid	16,448	8,651
Impairment of receivables from other investments	-102	-412
Liabilities to other investments, including advances received	27,989	25,215
Services purchased from joint ventures	4,783	4,863
Services rendered to joint ventures	576	596
Receivables from joint ventures	4,382	192
Liabilities to joint ventures	768	827
Services purchased from the ultimate parent company	10,287	10,022
Services rendered to the ultimate parent company	656	709
Receivables from the ultimate parent company	165	144
Liabilities to the ultimate parent company	4,852	4,345

Liabilities to family shareholders include current floating-rate clearing accounts and pension obligations.

For more information on the profit participation rights of €103,400 thousand (previous year: €103,400 thousand) granted to family shareholders, please refer to note 19.

Guarantees of €11,836 thousand (previous year: €11,836 thousand) were issued in favor of one associate, €1,545 thousand (previous year: €1,693 thousand) in favor of one joint venture and €1,364 thousand (previous year: €378 thousand) in favor of other investments.

Obligations from outstanding orders payable to the ultimate parent amount to €4,344 thousand (previous year: €4,634 thousand) and those payable to associates amount to €4,681 thousand (previous year: €2,230 thousand).

Capital increases of €1,255 thousand (previous year: €1,781 thousand) were carried out in favor of joint ventures.

Remuneration of governing bodies

Total compensation for members of the Board of Management of Voith GmbH, including pension expenses, came to €8,564 thousand in the period under review (previous year: €7,870 thousand). This amount includes long-term benefit components totaling €3,583 thousand (previous year: €1,975 thousand). These long-term benefit components include service costs totaling €1,495 thousand (previous year: €2,193 thousand).

The members of the Supervisory Board received compensation of €529 thousand (previous year: €573 thousand).

The present value of all defined benefit obligations in respect of current members of the Board of Management was €46,754 thousand at the reporting date (previous year: €32,440 thousand). The present value of all defined benefit obligations in respect of former members of the Board of Management was €27,912 thousand (previous year: €22,412 thousand). Plan assets of €16,212 thousand (previous year: €13,955 thousand) have been formed for current members of the Board of Management. Plan assets of €8,997 thousand (previous year: €9,034 thousand) have been formed for former members of the Board of Management. These amounts are included in note 20.

Pension and other payments to former members of the Board of Management amounted to €1,595 thousand (previous year: €1,528 thousand).

Auditor's fees and services

The following fees (including reimbursement of expenses) were paid to the independent auditor for the services rendered in the 2013/14 fiscal year.

in € thousands	**2013/14**	2012/13
Annual audit	1,645	1,826
Other assurance or valuation services	74	105
Tax advisory services	172	122
Other services	83	377
	1,974	2,430

Subsequent events

After the end of the period under review, the fair value of non-current securities accounted for in the “available for sale” category decreased by €18 million as of November 20, 2014.

Heidenheim an der Brenz, November 20, 2014

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Hermann Jung
Dr. Hans-Peter Sollinger (until June 30, 2014)
Martin Hennerici
Bertram Staudenmaier
Dr. Roland Münch
Carsten J. Reinhardt

The consolidated financial statements of Voith GmbH as at September 30, 2014 as authorized for issue and the unqualified audit opinion issued thereon by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, were filed in German at the Bundesanzeiger [Federal German Gazette] (available at www.bundesanzeiger.de).

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group 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.

Heidenheim an der Brenz, November 20, 2014

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Hermann Jung
Dr. Hans-Peter Sollinger (until June 30, 2014)
Martin Hennerici
Bertram Staudenmaier
Dr. Roland Münch
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