VOITH

Welcome to the Next 150 Years

Annual Report 2016

Magazine

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

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 Hydro. 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. And the applications provided by the Digital Solutions Group Division make Voith one of the pacemakers for digital change in the key global industries.

Founded in 1867, Voith employs around 19,000 people, generates €4.3 billion in sales, and operates in over 60 countries around the world.

The Voith Group in Figures

in € millions	2014/15	2015/16
Orders received[1)]	4,389	4,108
Sales[1)]	4,302	4,252
Profit from operations[1) 2)]	270	275
Return on sales in %[1)]	6.3	6.5
Result before taxes[1)]	-23	140
Net result[3)]	-93	29
Cash flow from operating activities	151	58
Total cash flow	-357	203
Investments[1)]	80	121
Research and development[1)]	210	208
in % of sales[1)]	4.9	4.9
Equity	874	799
Equity ratio in %	16.0	14.9
Balance sheet total	5,451	5,359
Employees[1) 4)]	20,223	19,098

1) Excluding the discontinued Group Division Voith Industrial Services; previous year restated.
2) For more information, see section “Notes on segment reporting” in the notes to the financial statements.
3) The figure for the 2015/16 fiscal year contains non-recurring negative effects that primarily result from impairments disclosed on the face of the balance sheet come to a total of €-96 million.
4) Without apprentices.

Welcome to the Next 150 Years

We admit it: we're proud of ourselves. There aren't many companies that have been around as long as we have. When you've endured 150 years of competition, it means you have done many things right. You have captured your customers' enthusiasm again and again, over generations. You have recruited the right employees and retained them. You have always had the right ideas and the right instincts.

With passion, commitment and the loyalty of our employees, we made an ascent no one could have dreamed of: from a small locksmith's shop to an international technology group. Our past gives us strength. And yet we look to the future.

The basis for our success has remained the same for 150 years: sustainable, long-term, value-oriented entrepreneurial thinking. It is with this attitude that we face new challenges today. Our independence is important to us. We are a family-owned business in it for the long haul, a reliable partner for our customers. And that is what we will continue to be.

Voith brings 150 years of experience to the table – 150 years of confidence in our own strengths, in our employees and our technologies, and 150 years of commitment to give our best in everything we do. Our formula for success: the will to change, an international mindset, consistent customer focus and our strong values spanning many generations. In this way, we think of tomorrow without forgetting yesterday.

Welcome to the Next 150 Years!

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Chinese signs
for “future”

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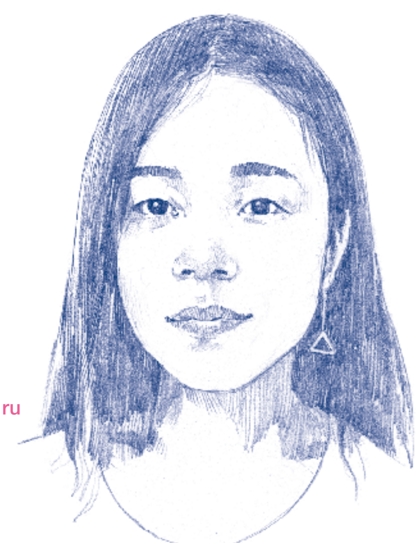
_people

The Future of vocational training

Over a century ago, we were already pioneers in training our workers. Today, modern training centers in Heidenheim and in Kunshan, China, prepare young people to become the future of Voith someday.



Shi Qian ru

Every morning, Shi Qian ru rides her bicycle the three kilometers from her boarding school to the Voith China Training Center in Kunshan. In bad weather the 22-year-old uses her cell phone to get a ride with an Uber driver. When she arrives at the impressive new building, she joins the throng of other trainees milling about the long hallways. They are graduates from universities or from advanced technical training schools from all over the country. In Kunshan, they are trained with the needs of an industrial company in mind. Adapted from the German dual-track training system, the training program in Kunshan follows a year of hands-on experience at one of 12 Voith locations in China.

Shi Qian ru is being trained as a welder. “Yesterday our instructor put us into groups and told us to design a turbine. Each group was responsible for one component based on the knowledge we have been given so far.” The lesson she learned from this exciting experiment: “Even teamwork depends on what each individual is capable of.”

No dividing walls

At the training center in Heidenheim, Erwin Krajewski is on his way to his office. The glass walls in the stairwell allow you to see into the different floors of the big cube made of glass and steel. On the ground floor, modern engine lathes, hydraulic guillotine plate shears and milling machines controlled by computer are installed in a space covering 2,400 square meters. Everything is well lit and clean; the building feels more like an elegant conference center than a workshop.

Erwin Krajewski is Head of Training at Voith in Heidenheim. In his opinion, this building for the Voithians of tomorrow – the opening ceremony was in 2014 – not only exudes style, but also symbolism. “As we planned the new training center, we first thought about arranging the workshops as they had been in the old building. Then we realized that we also needed to use the architecture to set the tone for the future. Dividing walls have no place in our future professional worlds.”

The entire structure is supported by the four striking corner pillars, which also connect to the individual floors. The façade and the few partitions that do exist within the building are made of glass, creating a perception of great transparency. “It is with this openness and permeability that we organize the transfer of knowledge in our training programs,” explains Krajewski. There is room for interaction between professions and areas of expertise and responsibility. We want intersections, not boundaries. And so each trainee gets experience in all specialist fields in their first three months. Administrative assistants work at cutting machines, industrial mechanics deal with cost accounting and aspiring engineers process steel by even using a saw and a file sometimes. Why so much variety? “To give young people a feel for the work others are doing, so that later on they will be able to assess the effects of their own activities on other areas and to gauge where responsibilities overlap or can complement each other.”

This flexibility is firmly established in the curricula of the new training programs, just as social skills and emotional intelligence have also become central. “Thanks to the networked nature of how we work, success will not only be determined by specialist skills, but rather by how well we work together,” says Krajewski.

Indirectly this also speaks to that great driver of transformation with which all trainees will be confronted, regardless of the profession they pursue: digitization. Voith is responding to this as part of its training program as well. “We are setting up small learning factories where components of Industrie 4.0 can be tested, robots can bring parts from A to B and logistics systems can be simulated using components with

4,000

The Voith China Training Center’s area in square meters

“Dividing walls have no place in our future professional worlds.”

Ernst Krajewski

RFID chips,” says Krajewski. Moreover, Voith and other companies were able to get “production technologist” recognized as an official new trade for trainees to learn. Much in the spirit of Industrie 4.0, this profession integrates processes across various divisions in virtual systems.

A confident generation

These digital programs on offer are also vital in terms of competition for the best minds. Krajewski says, “We are currently seeing a very confident generation that demands a great deal and knows what it wants.” The digital component of their work is right at the top of their list of expectations.

Moritz Lankes, for example, would like to work in the newly established Digital Solutions division someday. The young Heidenheim native completed a dual-track degree program at Voith. This model envisions lecture series at the Duale Hochschule Baden-Württemberg (DHBW – Baden-Württemberg Cooperative State University Heidenheim) and phases of practical, hands-on experience in various divisions at Voith. After six semesters, each student graduates from the program with a bachelor’s degree.

Moritz Lankes is studying information systems in this fashion. One sentence is all he needs to explain how this subject led him to a machine and industrial systems manufacturer: “I am fascinated by the connection between software and machines.” As part of his practical work at Voith, he has already programmed software for workload planning. Moritz Lankes can hardly imagine what his working life might be like in the future. “Everything changes so incredibly quickly. I just can’t wait to see the ideas and possibilities we will be working on.” For example, he would be interested in applications that could be generated based on the evaluation of real-time data on the operation of complex industrial systems and machines.

"We learn so much, and the Voith employees absolutely treat us as equals."

Carmen Glagla

"We will do our work attended by robots one day."

Huang Jiafeng

Moritz Lankes

In order to find the best candidates for programs like the dual-track degree program, Voith seeks to establish contact early on with students in the upper high school grades. We maintain networks with contacts to professors all over the world in order to find talent in the various specialized fields.

Carmen Glagla, for example, visited the Voith plant in Heidenheim when she was in the tenth grade. "I liked it here so much that I said to myself, this is where I want to work someday." While her classmates were still mulling over what they wanted to do, Carmen Glagla had already been accepted on a cooperative dual studies program at Cooperative State University Ulm in combination with courses in mechanical engineering at Voith.

She especially likes the practical experience part of the program: "We learn so much, and the Voith employees absolutely treat us as equals. Recently, when the topic of transmissions came up at the cooperative university, we had already held one in our hands, unlike the normal students."

Training Center São Paulo

Together with national educational institutions, Voith developed its own training concept in Brazil. The programs on offer are especially geared toward high school students and are designed to secure the next generation of talent for the industrial-technical professions. The dual-track training programs for mechatronics engineers and industrial or construction mechanics last four years. The Voith Foundation also operates the "Formare" program together with other companies. It provides an opportunity for young people who have hardly any chance of getting good jobs due to their socioeconomic background to take a ten-month course to prepare them for entry into working life.

In addition to the products, Carmen Glagla is also interested in processes. "It fascinates me when processes that are planned across several areas interlock perfectly." She could envisage working on developing and optimizing these types of processes in her work at Voith.

One-stop shop for customers and suppliers

Voith has benefited from the excellent training of its employees for more than 100 years. That alone is enough to justify continuing on this path in the future. And that goes not only for Germany – Voith has been operating a training center in Brazil for some years as well. The newest training center in Kunshan is now also open to customers and business partners. The transfer of knowledge in the Voith world is fully underway across the globe.

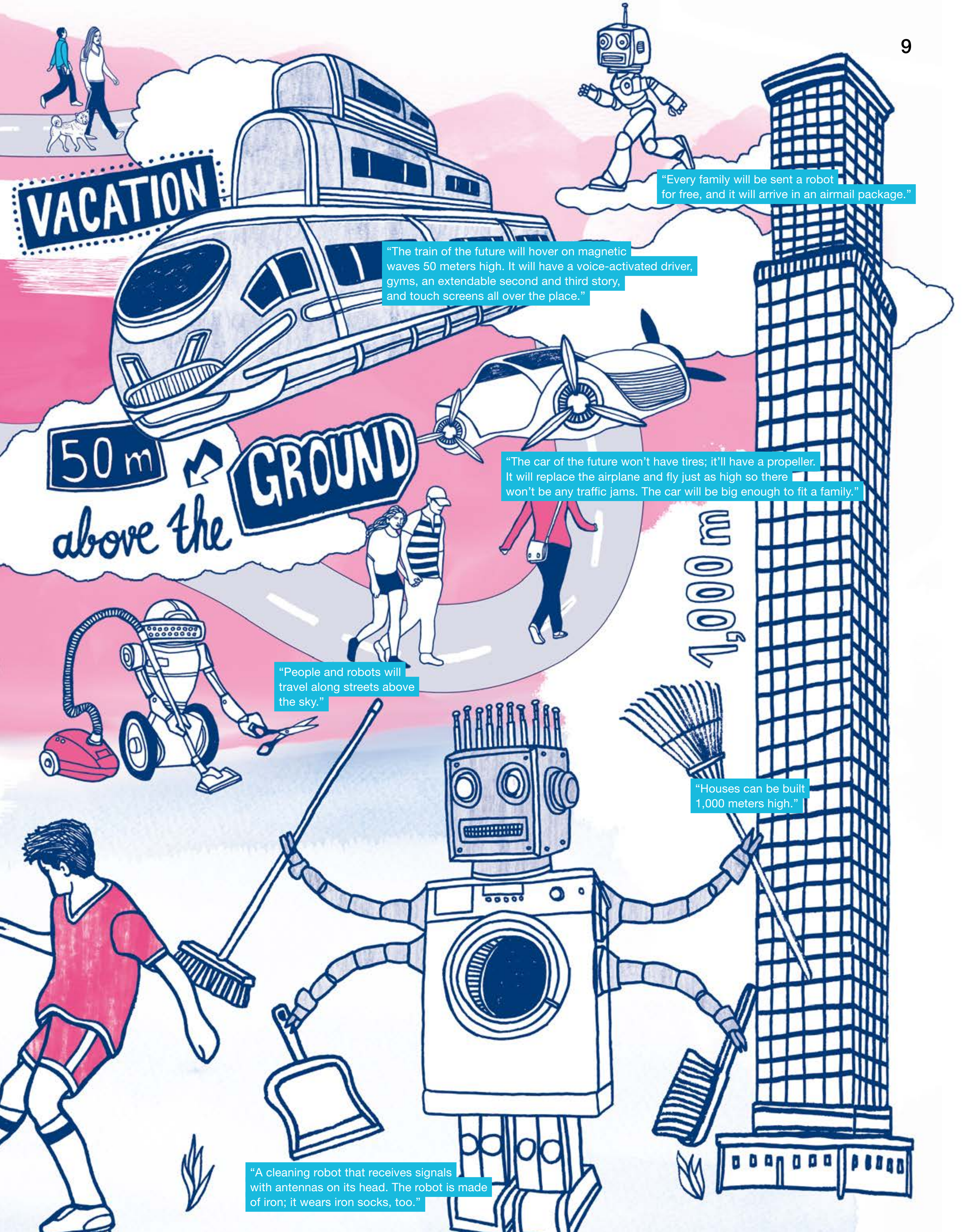
Feeling as though he belongs to this world is one reason the 19-year-old Chinese trainee Huang Jiafeng gives for why he enjoys his mechanic's training in Kunshan so much. The trainee in the Voith Paper division is convinced that one day he will do his work attended by robots. "Human beings will still be needed, though, for very complicated welding work, for example."

Huang Jiafeng and Shi Qian ru take many courses together. Lessons on theory are usually held in the mornings; in the afternoons, they gain practical experience with the machines, the welders, or with pneumatic and hydraulic components. Shi Qian ru says, "I'm especially interested in methods and skills that I can use later in all sorts of areas." She currently still works as a welder at Voith, but her ambitions don't stop there: "I want to improve my English, work at Voith in Germany for a while and earn my degree as an engineer so I can work on designing new products."

_future

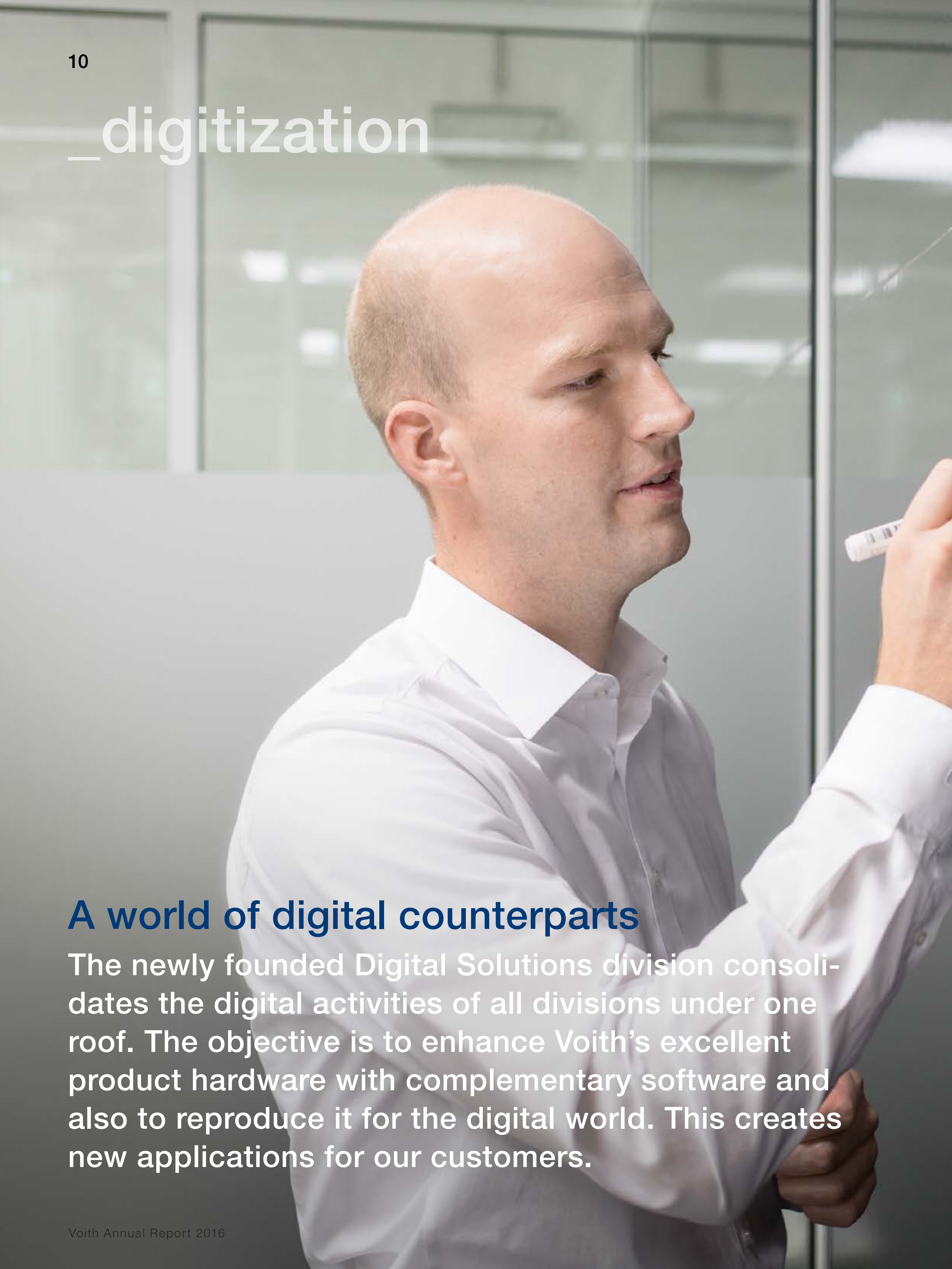
Flying houses and hover buses

What we think of as futuristic now will be reality for our children one day. So we decided to ask them what they think the future will hold. Children from Heidenheim and São Paulo responded. We created this illustration using a selection of their ideas. Will these images soon be our reality? Who knows …



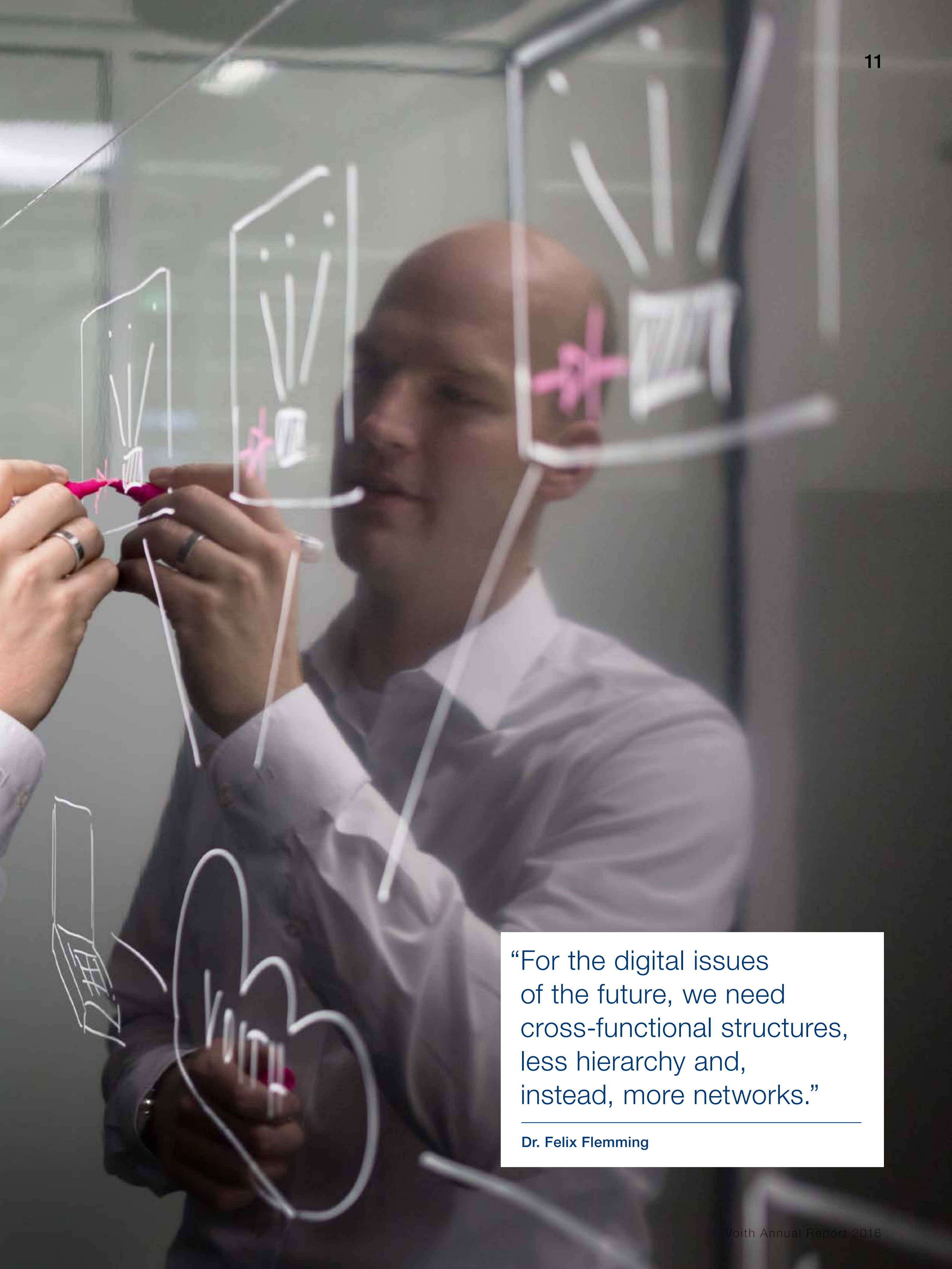
VACATION
“Every family will be sent a robot for free, and it will arrive in an airmail package.”
“The train of the future will hover on magnetic waves 50 meters high. It will have a voice-activated driver, gyms, an extendable second and third story, and touch screens all over the place.”
50 m above the GROUND
“The car of the future won’t have tires; it’ll have a propeller. It will replace the airplane and fly just as high so there won’t be any traffic jams. The car will be big enough to fit a family.”
1,000 m
“People and robots will travel along streets above the sky.”
“Houses can be built 1,000 meters high.”
“A cleaning robot that receives signals with antennas on its head. The robot is made of iron; it wears iron socks, too.”

_digitization



A world of digital counterparts

The newly founded Digital Solutions division consolidates the digital activities of all divisions under one roof. The objective is to enhance Voith's excellent product hardware with complementary software and also to reproduce it for the digital world. This creates new applications for our customers.



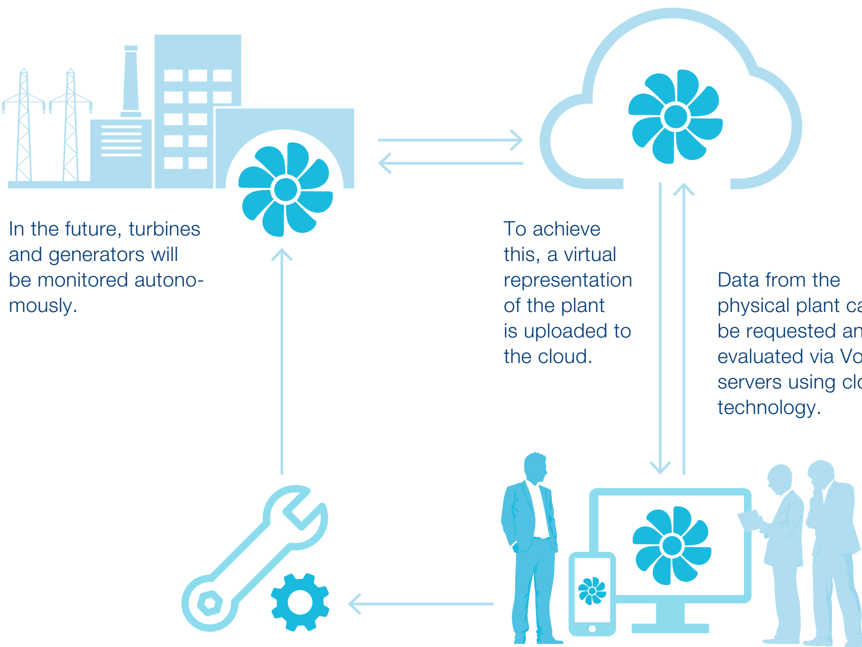
"For the digital issues of the future, we need cross-functional structures, less hierarchy and, instead, more networks."

Dr. Felix Flemming

Voith Digital Solutions brings together expertise in automation, software, IT, digitization, sensor technology and actuator technology. Experienced engineers, data analysts and experts from the sector develop Voith’s digital product portfolio together with our customers. This spans from completed plant components through to engineering services. With Digital Solutions, Voith intends to become the preferred partner for the Internet of Things in mechanical and plant engineering.

Virtual worlds

Voith's products and services will also be represented virtually in the system environments. Digital counterparts of our physical plants and machines will be created. Both systems will interact with each other using cloud technology. As part of this process, the Voith portfolio will include new digital solutions, for example in the areas of maintenance and control. We are developing all these applications on the basis of our domain knowledge in machine and plant engineering. Our goal is to support our customers in optimizing their business processes over the entire life cycle of a given technology.



In the future, turbines and generators will be monitored autono- mously.

To achieve this, a virtual representation of the plant is uploaded to the cloud.

Data from the physical plant can be requested and evaluated via Voith's servers using cloud technology.

Performance deviations can then be corrected using the controls. In more serious cases, a mechanic fixes the problem manually after it has been analyzed virtually.

At the same time, the physical plant's performance is automatically synchronized with its digital counterpart. If there is any indication that maintenance work needs to be done, repair orders are generated.

Specialists who were once accustomed to thinking only about paper machines or hydropower plants now work together on the digitization of all divisions and products. Which is exactly what Dr. Felix Flemming had imagined, when he relocated to the newly founded Digital Solutions division: “After all, for a cloud, it isn’t important whether you develop it from the perspective of a paper factory or a hydropower plant.” Isn’t it an obvious step to combine the digital applications for these divisions as a means of increasing effectiveness?

Voith Hydro
CEO: Uwe Wehnhardt
Sales: € 1,388 million
Orders received: € 1,387 million
Employees: 4,934

Even as a child, Felix Flemming loved working with computers. But he got his start in professional life in the realm of fluid mechanics. At Voith, he was involved with one of the most traditional technologies there is: hydropower.

At Voith Hydro, he was most recently responsible for the global service strategy. Very quietly, a topic began to gain importance for the division – a topic called “big data.” Flemming quickly realized that looking for big data solutions to be applied within the confines of just one division would not lead to much more than a hobby. “But that’s not what this topic was made for,” according to Flemming.

60

The time (in seconds) within which the pumped-storage power plant located in the Scottish town of Foyers and which was modernized by Voith DS needs to be able to feed power into the grid

This is because the expense and effort involved in harnessing huge amounts of data to create applications are enormous. This is not unlike many other undertakings; several divisions often worked on the same topics simultaneously, but not necessarily together. One example Flemming mentions are “user interfaces” used to control plants, which can also be designed with universal applications in mind, as opposed to just one product. Promoting these activities across all divisions in a consolidated fashion was the only logical way for Voith to implement an effective and consistent digital strategy from both an internal and external perspective.

A start-up atmosphere in a former factory building

Today, many employees, who work for Voith Digital Solution at the Heidenheim location, are located in a former factory building. That is the place where Felix Flemming has his office, too. The building still has a bit of the look and feel of its former life as a factory building, but at the same time also houses a modern office environment. There, teams gather at desks pushed together into islands; no walls separate the workspaces; there are a few sofas; the kitchenette is open-plan. The machine manufacturer with its long tradition presents itself here displaying all the cliché elements of a typical start-up, but with a dose of symbolism as well – the world of things defines the space within which digitization will lead to practical applications.

The Digital Solutions division was established at the beginning of 2016. In the spring of 2016, the team moved into the former factory building – now called the “Digital Campus” – located on the Voith grounds. Flemming’s wish has become reality; Vice President Incubation is what it says on his business card. Together with other colleagues he tends to a nursery that brings up many new ideas.

The trend toward automation in hydropower will increase: autonomous machines could support the maintenance of plants

Voith Hydro is one of the world's leading manufacturers of generators, turbines and pumps, as well as electric and mechanical equipment for hydropower plants. Additional specialties include automation via measuring, regulatory and control systems, replacement parts service and maintenance services, as well as plant modernization. Thus, Voith supplies all essential components for large and small hydropower plants in the fields of electricity generation and power storage. Voith Hydro ensures the performance of a plant throughout its entire life cycle.

The security of separation

Smart services for hydropower plants require the establishment of new digital communication channels between plants, factories and the cloud, which are potentially vulnerable to a wide range of hacking attacks. Voith takes these potential security risks extremely seriously in order to prevent unauthorized persons from taking control of a hydropower plant. One of the ways that Voith addresses this risk is through the consequent separation of plant control and smart service communication channels. This ensures that, should a security breach occur within the data collection and distribution network, the integrity of the plant's control systems cannot be compromised at any time. In this sensitive area, Voith has years of experience through the certified **Remote Support Server**, which enables secure access to a large number of paper machines and hydropower plants.

The fact that the three divisions found a sense of togetherness in their creative work so quickly was a bit of a surprise. Barriers were not only to be expected between the specialist fields, but each division also had a unique approach. But in their new habitat, the topics and teams have intermingled without any difficulty. Testaments to heritage were soon only apparent in amusing details; for example, each division set up its own coffee machine in the kitchenette – all lined up next to each other in a pretty little row.

This trio from the early days has long since disappeared. More than 1,500* employees worldwide are currently part of the DS team and are pushing ahead with digitization. Flemming says, "For the digital issues of the future, we need cross-functional structures, less hierarchy and, instead, more networks." In this he fully conforms to the approach of the DS management board. The more colorful the better.

Voith Digital Solutions
CEO: Dr. Roland Münch
Employees: 653*
Responsibilities:
- Development of new digital solutions for the Voith portfolio
- Establishment of new customer service concepts
- Development of new digital platforms
- Combination of sensors with new analytics

It is in this spirit that Digital Solutions works – with a colorful team, international and interdisciplinary. "Even more than before, we also look at our customers' business models so that we can find digital solutions together with them," says Flemming.

The transformation to a digital world impacts automation, the Internet of Things and Industrie 4.0 especially. The contours of the material world will be translated into a vast number of terabytes in order to create, as Flemming puts it, a "digital counterpart" of every product and each plant. The foundation is still the hardware – expertise in manufacturing sophisticated machines and plants.

"Our products of tomorrow – the turbines and generators, the paper machines, the transmissions – will all have a digital copy in the cloud as well." The laws of mechanics are now the power of data. "In the future, the things we do in the material world will leave a digital footprint in the cloud." The trick will be to create applications or even new products using these digital footprints.

Flemming does not gloss over the fact that this vision results in not only enthusiasm, but also apprehension. "We must communicate clearly which data we access and what we do with it." Handling customer data sensitively is also one of the reasons Voith uses its own data center and stores all data on its own servers. "We want the responsibility to lie with us and have everything under our roof," Flemming says. Even as we launch into the future, we still need a healthy dose of the good old Voith mentality. After all, it has proven itself in the past.

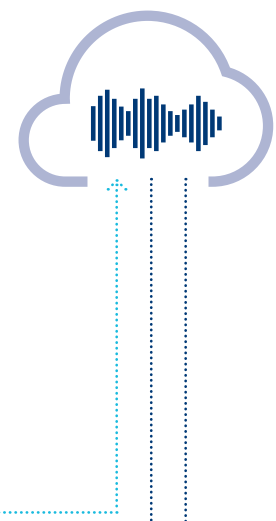
3.5

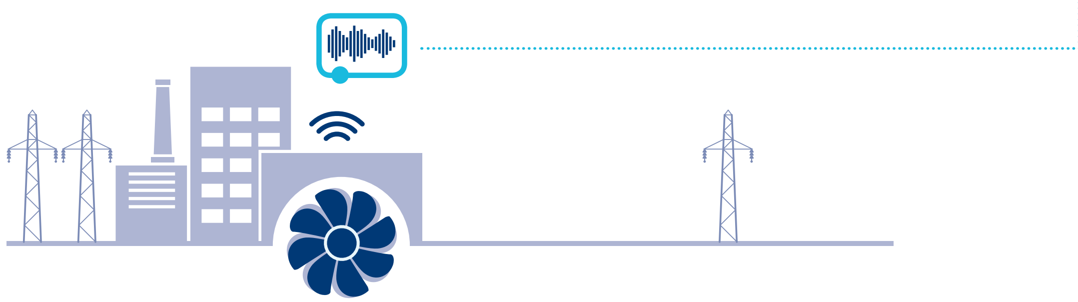
The amount of data (in terabytes) produced by sensors in a single power plant per year

*1,536 employees at the time the report went to print
(653 employees at the reporting date September 30, 2016)

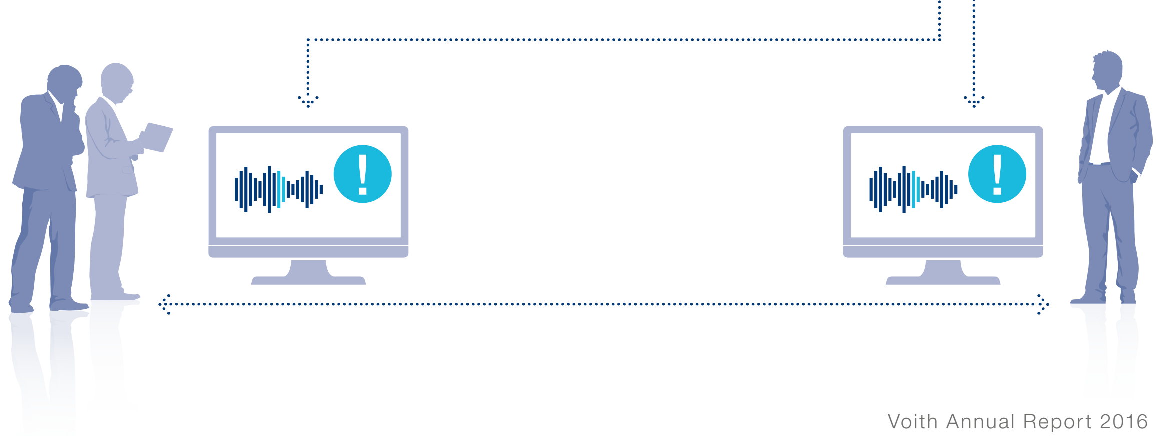
HyGuard™ – blue box with ears

One of the Digital Solutions division’s first projects is an acoustic plant monitoring – HyGuard™ Acoustic. The project is being carried out in cooperation with a partner, who operates many hydropower plants worldwide. There, the microphones of these small boxes are to regularly record the sound of the plants and to detect strange sounds and identify them in the cloud. By doing so, the software can analyze for evidence of errors or wear and tear.





At a fundamental level, the trend toward automation in hydropower will increase. There are concepts for autonomous machines, which could support the maintenance of plants in remote regions. In development, an unlimited number of simulations will allow computers to determine the best design for new turbine buckets. The potential of networking could make it possible to link up many tiny hydropower plants at one location in order to minimize any environmental effects.



_resources

The material dreams are made of

Paper is a fascinating medium. It is versatile in its use and can withstand extreme conditions. Reason enough for people like Manfred Rosenbach to pursue their passion by working on the paper of the future. This traditional material has a whole life ahead of it.

> “Paper is just such an incredibly versatile material, whether used for a little tea filter bag or a tear-proof paper bag for packaging cement. Depending on the application, it can be manufactured to be waterproof, ultrathin or incredibly robust.”

Manfred Rosenbach

Acting as a strong partner, Voith Paper helps set the right course for the future of papermaking. From products, components and plant engineering to digitization and outstanding service, Voith provides the best solution for increasing profitability and efficiency. As technology leader, we are already developing the solutions of the future today and are working with our customers to make papermaking more intelligent and sustainable. In this way, we prepare our customers for the demands of the future of papermaking as no other partner can.

Extraordinary material – remarkable facts

5 years

Amount of time banknotes are in circulation until they are worn out and taken out of circulation.

2 milli-grams

Weight of an A4 sheet of the thinnest paper in the world, in milligrams. A sheet of normal A4 writing paper weights about 80 milligrams.

Cast iron

The material that is comparable to a tear-proof paper designed by Japanese and Swedish researchers in terms of its tensile strength.

18 meters

Wingspan of the world's largest paper airplane, built at the Braunschweig University of Technology.

50 kg

Weight that a typical paper bag for cement can bear without tearing.

200 years

Lifetime of extremely durable, non-buckling paper used in making IDs.

The best awards are always the ones we weren't expecting to receive. It was a surprising phone call that brought Manfred Rosenbach the news that his master's thesis had received an award from the Hanns Voith Foundation for its outstanding quality. At the time, he wasn't even aware that his professor at Technische Universität Darmstadt had submitted his publication.

"I'm fascinated by the medium paper and by the complex technologies involved in its manufacture."

Manfred Rosenbach

The Hanns Voith Foundation has been honoring students who publish top-notch theses since 2013. Rosenbach's thesis dealt with the removal of petroleum from various wastepaper products in the flotation process. To a layman, the topic may sound a bit obscure, but it is a highly relevant aspect of papermaking. "The coldset printing ink in wastepaper contains harmful petroleum," explains Rosenbach. Before the wastepaper can be used to produce new paper, the old ink must be removed. This is accomplished in a process known as flotation. "In this step of the paper preparation process, the ink is released from the fibers using chemicals, is bound to rising air bubbles, and is thus removed from the fibers." The standard flotation process in today's papermaking manages to remove roughly 40 to 45 percent of the petroleum from the wastepaper." In his thesis, Rosenbach investigated whether this proportion could be increased and how it might be accomplished, for example by using other chemicals. The experiment was successful; the engineer increased this proportion up to 80 percent.

Hanns Voith Foundation

Dr. Hanns Voith headed the company for almost 60 years in the first half of the 20th century. In 1953, to mark his 40th work anniversary, he founded the Hanns Voith Foundation in order to particularly support civic engagement in society. Since 2013, the Hanns Voith Foundation has been awarding prizes to students who publish theses of especially high quality.

Thinking outside the box

For his thesis, Rosenbach had examined a chemical component used in wastewater treatment by a small company in the Mosel-Frankish town of Oberhees. "While in search of an appropriate chemical that binds petroleum efficiently without any toxic effects, I came across a small manufacturer of systems for removing fats and oils from wastewater from kitchens and cafeterias," relates Rosenbach. The company Erista uses a compound called Matthrein. "The best part was that

this was a natural product, non-toxic; it's even suitable for use in foods and is approved for use in feed," according to Rosenbach. The company supported the student in his experiments with the compound. Rosenbach's results were very promising. "During the fiber preparation phase, the compound produced a stable foam that absorbed pigments and minerals from the fibers and could then be removed by flotation. And the whole process was completely environmentally friendly."

Extreme material – extreme future

There haven't been any industrial applications yet, but Rosenbach has long since taken his passion and made a career out of it. "I'm fascinated by the medium paper and by the complex technologies involved in its manufacture," says Rosenbach. Being a trainee at the Voith Paper sites in Kunshan and Ravensburg, he was just the right person in the right place just from the beginning. As product manager, among other duties he was the customer contact person for all matters regarding fiber preparation for three years.

It also seemed natural that his path would take him to Voith, given his family history. Rosenbach's father also works at the company. Although the trend toward digitization has seen a reduction in many print products – and some are set to disappear entirely – Rosenbach firmly believes in the future of this material. "Paper is just such an incredibly versatile material, whether used for a little tea filter bag or a tear-proof paper bag for packaging cement. Depending on the application, it can be manufactured to be waterproof, ultrathin or incredibly robust." It's no coincidence that paper is in demand in nearly all sectors – even in aircraft construction and the electronics industry, where it is used in capacitors. In particular, Rosenbach sees continuing potential for growth in the fields of packaging, tissue and specialty paper products.

Individual preparation and processing

And regardless of which paper product is being made, the first required step is the preparation of the raw material, such as recovered paper or plant-based cellulose from wood or cotton. These days, Rosenbach works with these variables for paper machines at Voith in the US. Following posts in China and Brazil, he now heads project planning at the Appleton location. "We configure systems for fiber preparation according to the customer's specialized needs," says Rosenbach. "It might be a completely new machine, or we might suggest an upgrade to an existing system; it always depends on what the customer wants and needs." One important factor is resource efficiency, especially as regards water and energy consumption. For a few years now, Voith has been offering its BlueLine technology, which reduces the consumption of both resources.

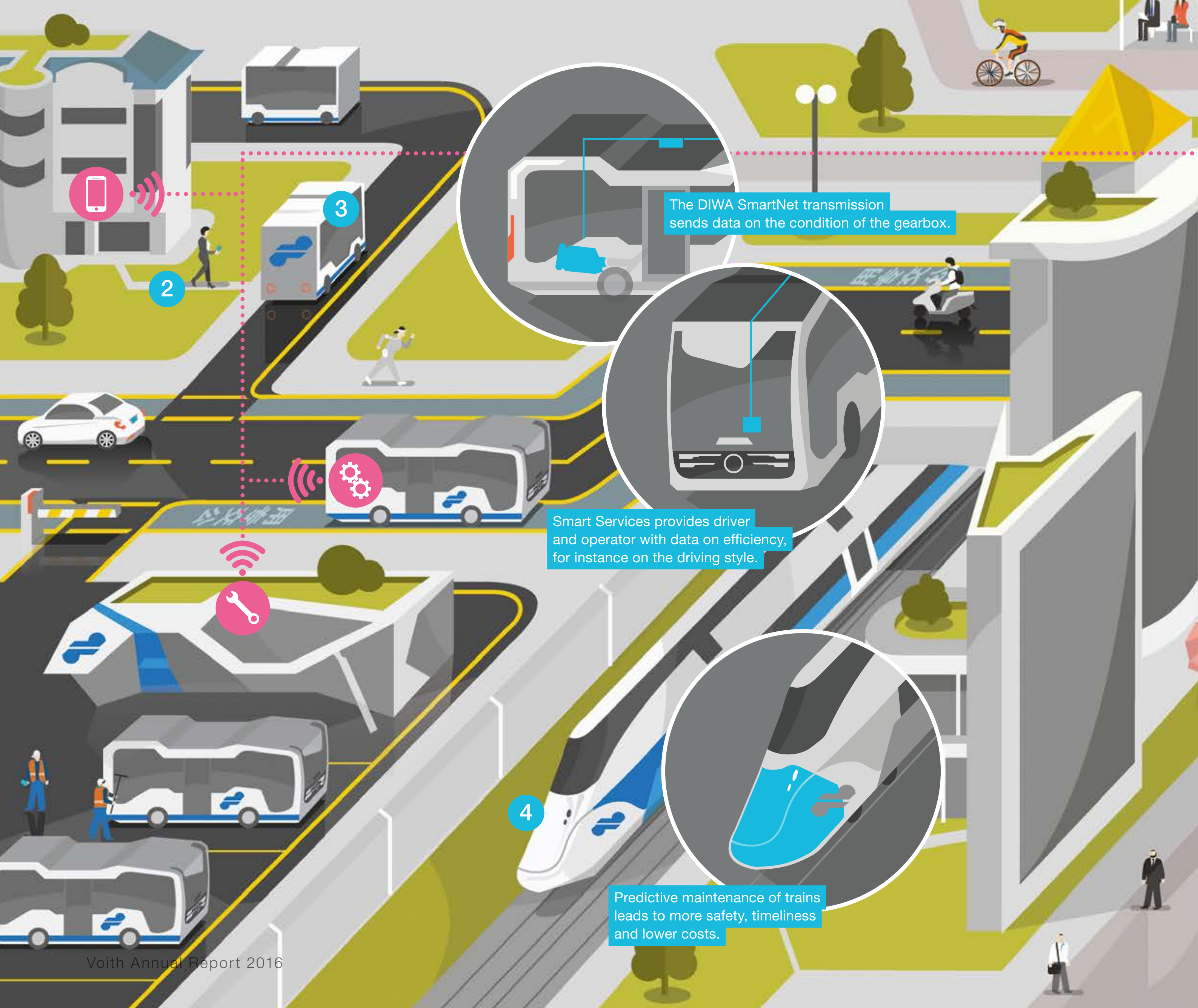
Rosenbach still likes to think about the award he won back then. "Thanks to the award, I met some very interesting people; our paths wouldn't have crossed otherwise." And Voith wouldn't have been able to recruit a talented employee.

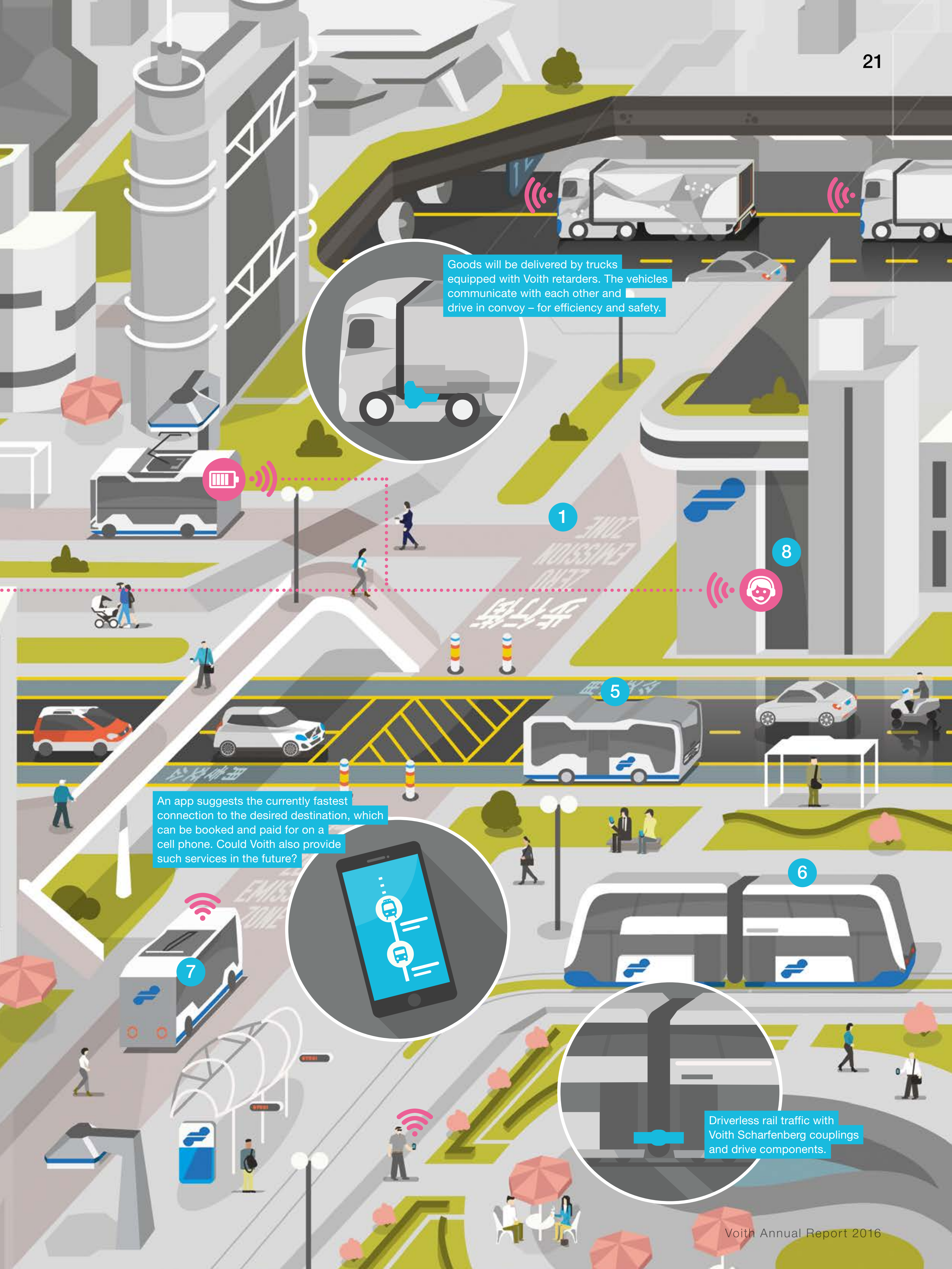
Voith Paper
Chairman of the Management Board:
Bertram Staudenmaier
Sales: € 1,456 million
Orders Received: € 1,463 million
Employees: 6,550

_mobility

On the go in the future

Communicative rail and commercial vehicles, emissions-free zones or individualized schedules? This is what Voith Turbo's experts envision for the future development of urban public transportation.




Goods will be delivered by trucks equipped with Voith retarders. The vehicles communicate with each other and drive in convoy – for efficiency and safety.
1
8
5
An app suggests the currently fastest connection to the desired destination, which can be booked and paid for on a cell phone. Could Voith also provide such services in the future?
6
7
Driverless rail traffic with Voith Scharfenberg couplings and drive components.

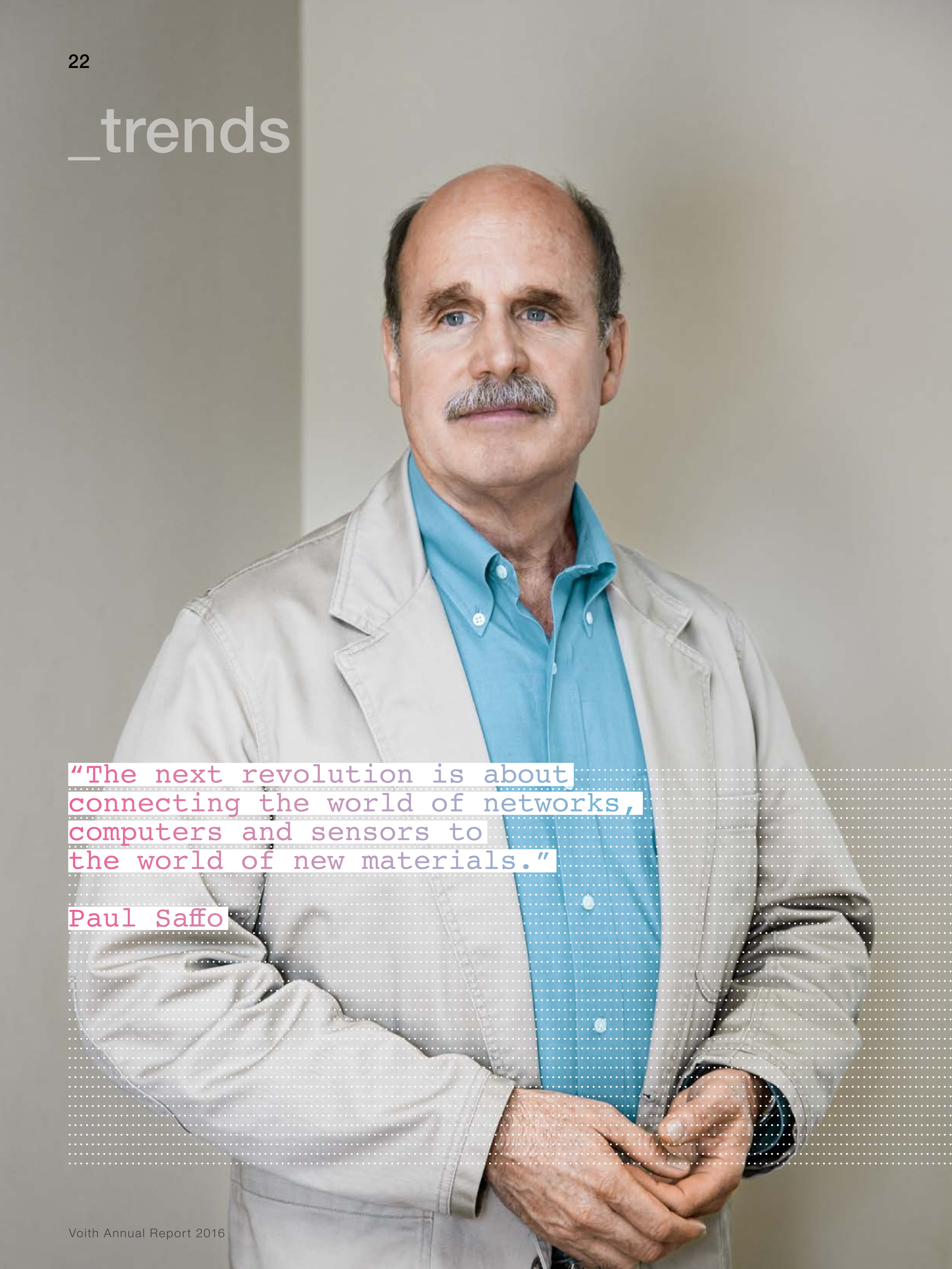
Voith Turbo is divided into the Industry and Mobility business units. As technology leader for drive components, Voith Turbo develops products, which transmit power into controlled movement. For example in the form of transmissions and couplings in mines, in oil and gas production, in wind power, shipping, global mass transportation and high-speed trains. In a digitized world, these components will continue to provide propulsion and traction. They will be intelligently interlinked, in order to allow optimizations for more reliability at lower cost.

Commuting in the city of tomorrow

The year is 2030. In an Asian metropolis, the 25-year-old engineer Xiaomei begins her day. She gets ready for her commute to the office. She has only heard of traffic jams and smog from the stories her parents tell. In her hometown, internal combustion engines have been **banned from city center** 1; efficient public transportation systems have largely replaced individual transportation. Xiaomei logs into her city's system at 7:30 a.m. with her **cell phone** 2. Once she has entered her destination, the system offers her the connection that is currently fastest. She uses her cell phone to book and pay for this transportation. Ten minutes later, a **driverless e-minibus** 3 is waiting in front of her doorstep. It takes her to the express bus line, which runs to the city center. At a different time of day, the **express train** 4 might have been the more convenient option. Now she whizzes the 20 kilometers to the edge of the zero-emissions zone in the **bus** 5, which is equipped with new, efficient transmission technology and uses a separate lane. There, the passengers transfer to small driverless electric vehicles or **streetcars** 6 that transport them to their desired destinations. Naturally, all vehicles offer **Internet access** 7. In addition, those vehicle components requiring periodic maintenance constantly send data on their current condition to the **control centers** 8. In 2030, no one accepts a late train or bus as an excuse for lateness.

Voith Turbo
CEO: Dr. Uwe Knotzer
Sales: € 1,397 million
Orders received: € 1,247 million
Employees: 5,702

_trends



“The next revolution is about connecting the world of networks, computers and sensors to the world of new materials.”

Paul Saffo

“Develop a sense of short-term urgency”

Silicon Valley watcher and tech forecaster Paul Saffo explains why large manufacturers can use their history and culture to their advantage to succeed in the era of digital transformation

Mr. Saffo, you get paid to watch the world change. How do you explain the massive digital transformation that has everybody worried?
When you put a computer into something, whether it’s a car or something else, it becomes a computer. Computers are the dominant gene. Even though the physical object may outwardly look the same, it’s really something fundamentally different. That’s why – from a company perspective – we talk a lot about innovation, but we really should be talking about transformation. Innovation is doing something new; transformation is doing something entirely differently.

Elaborate on the difference between the two, please.
Whenever we have a new technology, we tend to pave an old cowpath, which means doing an old activity in a more efficient way. When I say “pave the cowpath,” I remember my time as a freshman at Harvard. I wondered why Harvard Square was shaped the way it was and why the streets turned the way they did. It turns out that the streets are exactly where the cowpaths were in the 1600s. We got rid of the cows, the horses, the carriages. We replaced them with cars, but we just paved the old paths. Transformation is when technology makes something possible that wasn’t possible before. Computers today are becoming so powerful, and we’ve pretty much paved all the cowpaths we can, that now is the moment we should focus on deep, surprising transformation.

When the topic of innovation comes up, the focus is usually on relatively young companies such as Apple or Google. What meaningful role can old-school manufacturing companies play in this scenario?
For an existing company, successful innovation really has to be transformative – even if it happens gradually, in little steps. You have to admit the world has completely changed and you need to take the best of all your traditions and look at the world with new eyes. It’s ironic that we focus on the start-ups that become successes, when in fact most start-ups fail. But with established companies, we tend to only pay attention to the companies that fail, not the ones that succeed. Even though most big, established companies actually handle this transformation just fine. Big companies get a bad rap because they transform themselves pretty well, but it only becomes news when a big company stumbles and falls.

What is the advantage, or disadvantage, of having a company history that goes back a century or more?
A big company with a long legacy has two powerful advantages. It can tap its culture and history to align people when changing direction. In periods of high uncertainty, having a cohesive corporate culture is the secret to longevity. At the same time, because of its size, it has the luxury of taking the long view that small start-ups can’t, because they’ll die if they don’t get profitable within 3-5 years. A large company is more in danger of being complacent, so it has to develop a sense of short-term urgency or making haste slowly.

What kind of strategies should a large company use or develop to make haste slowly and stay relevant?
First comes a cohesive view of the future, then a vision for the future, and finally a strategy to respond to that. The secret to turning strategy into action is intuition. In periods of rapid change, you can never have 100 percent certainty about the right decision, so you have to take an intuitive leap

of faith. Robust intuition is the secret to successful transformation. While strategy lives in your head, action and intuition live in your heart. I've seen so many companies that understand what's going on and have a strategic plan. But when it comes to action, they hesitate. The ability to move as an organization before you have complete information is also the key to competitive advantage.

Where does this heart reside in a multi-billion-dollar company with multiple layers of management? And how do you listen to it?

Heart can come from two places. Founder-led companies have an intrinsic advantage over companies led by professional management. Employees at a founder-led company know the founders have more at stake than they do and therefore tend to follow their guidance. Effective leadership lives atop culture, and culture lives atop myth. If you can get the right creation myth in an organization, that's the secret to longevity. It's hard to do and easy to lose. And it's very dangerous to tinker with when you make big changes.

Sounds good, but do you have an example how it's done right?

In one sentence: Sacred cows make the best burgers. You need to ask, what is the most important thing that we never touch in this company? Maybe we need to kill that sacred cow. Steve Jobs did that with the iPhone. In 2007, when the iPhone came out, the iPod was experiencing record sales. So what does Jobs do? He puts the entire iPod functionality into the iPhone and all but completely kills iPod sales. He sacrificed his own product and ended up with something much bigger. The danger, for most companies, is that they know a business is about to go, yet they cling to it for just a little longer.

One big buzz word is Industrie 4.0. What are the key transformative changes that will affect how we design and build machinery and equipment?

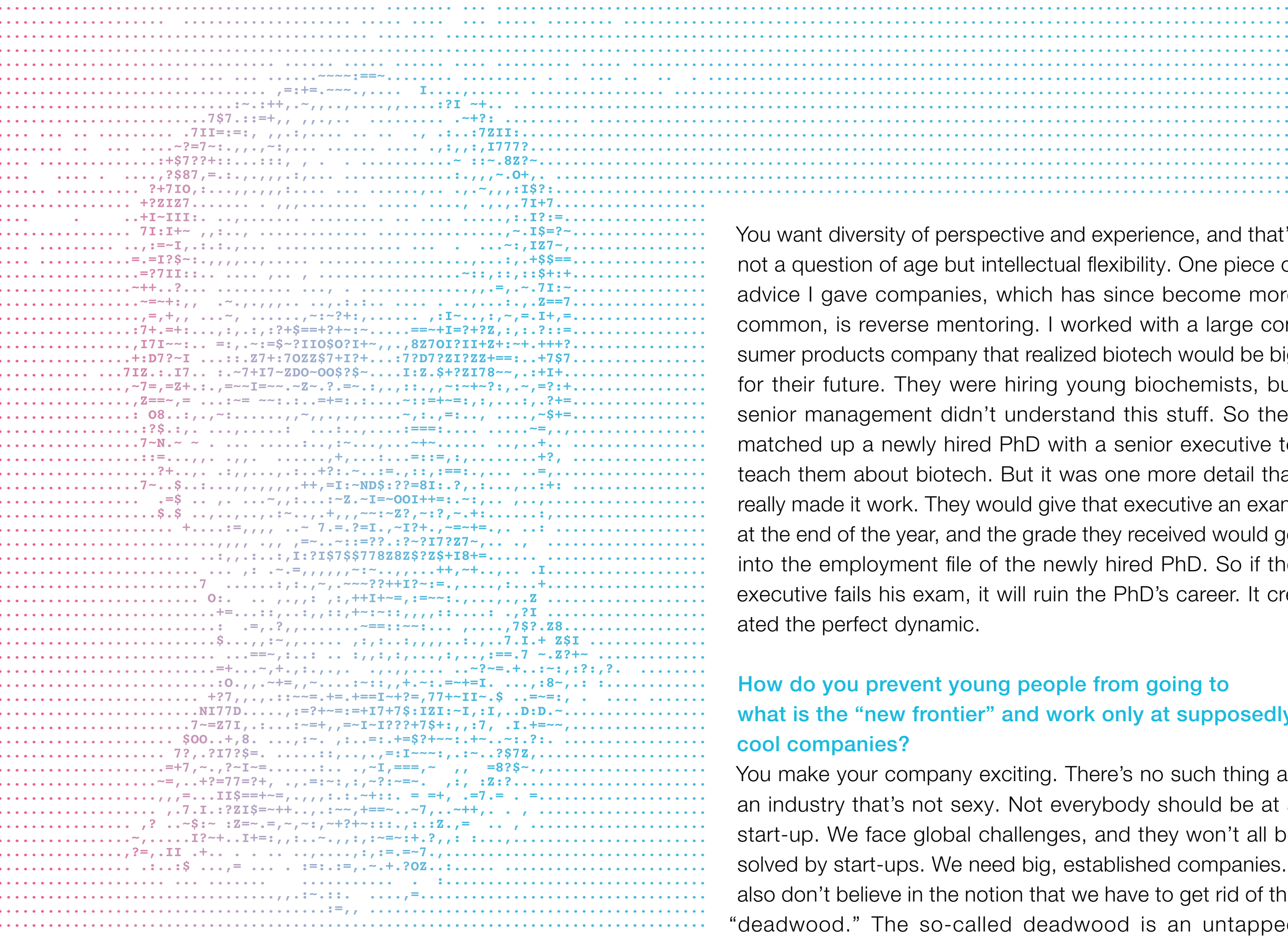
Moore's Law about how electronic components will keep evolving is far from dead. Second, the sensor revolution is huge. The revolution in manufacturing and in devices is about the intersection of processing with sensors and algorithms. The third piece I'd look at is 3D printing, not so much as a tool for making things than as an indicator of a materials revolution. When you 3D print something, it opens you up to using different kinds of materials than in conventional

> "We face global challenges, and they won't all be solved by start-ups. We need big, established companies."
>
> Paul Saffo

machines. That's why the proper term should be additive manufacturing. When you design something that's die-cast, you're actually designing it for two functions: the function of intended use, but also the function of surviving the casting process. The next revolution is about connecting the world of networks, computers and sensors to this world of new materials.

Designing and building a production line or whole plant can take up to a decade. Whoever manages such a project — how can they even know what the world will look like when the equipment comes on line?

It's worse than that. It's not enough for the designer to be a futurist, you need clients who are wise enough to make the right decisions. Which means you need an even tighter partnership between company and customer to explore where the opportunities are and where the transformation occurs. Maybe it's something as simple as making sure the service bays in a building are twice as large, otherwise that piece of capital equipment with an expected 30-year lifetime can't be replaced in ten years. You should design for disassembly when you're building. The trickier thing is chasing efficiency. You want to avoid over-optimizing. The most efficient solution is to find the most efficient solution and then back off a bit, so you leave some slack in the system. Slack gives you options, and soft rather than catastrophic failure. This is



where information technology comes in. Try to get the optimization from the code, not the hardware, because code is easier to change.

Software developers think and work differently. What can engineers who work on large and complex machinery learn from them?

Big companies are already doing that when they substitute electrons for atoms at every opportunity. Make systems as modular as possible, so that instead of upgrading an entire system you can upgrade a module. If you're doing custom products, that also makes it possible to push as much of your customization into the software as possible. That can increase your velocity.

The Boston Consulting Group recently published a global survey about how large companies prepare for Industrie 4.0, and one of the biggest challenges lies in finding and training the right people. What kind of talent should an old-line company look for — the young, disruptive minds?

You want diversity of perspective and experience, and that's not a question of age but intellectual flexibility. One piece of advice I gave companies, which has since become more common, is reverse mentoring. I worked with a large consumer products company that realized biotech would be big for their future. They were hiring young biochemists, but senior management didn't understand this stuff. So they matched up a newly hired PhD with a senior executive to teach them about biotech. But it was one more detail that really made it work. They would give that executive an exam at the end of the year, and the grade they received would go into the employment file of the newly hired PhD. So if the executive fails his exam, it will ruin the PhD's career. It created the perfect dynamic.

How do you prevent young people from going to what is the "new frontier" and work only at supposedly cool companies?

You make your company exciting. There's no such thing as an industry that's not sexy. Not everybody should be at a start-up. We face global challenges, and they won't all be solved by start-ups. We need big, established companies. I also don't believe in the notion that we have to get rid of the "deadwood." The so-called deadwood is an untapped resource. It's a lot easier to retrain and energize someone who's already at the company than take the risk of hiring someone and hope they will become the hot new thing. People give up on existing employees too quickly.

Paul Saffo (62) lives in San Francisco and is one of the most influential forecasters exploring the dynamics of the Silicon Valley. He teaches forecasting at Stanford University and is a non-resident Senior Fellow at the Atlantic Council and a Fellow of the Royal Swedish Academy of Engineering Sciences. Paul is also a member of the Samsung Science Board.

Founding of the Voith Digital Solutions division and the sale of Voith Industrial Services **2016**

Spirit of innovation, passion and courage characterize the remarkable 150-year history of Voith. Thanks to these attributes, Voith has developed from a small locksmith's workshop on the Swabian Jura into an international technology group. Discover the company's most important milestones.

Opening of the new Voith Training Center in Kunshan and Heidenheim **2014**

Opening of Voith Paper City in Kunshan, a production and service center for the paper industry in Asia **2010**

Voith and Siemens set up the joint venture, the Voith Hydro Power Generation, now Voith Hydro, and founds its fourth division Voith Industrial Services **2000**

In the largest acquisition in the company's history, Voith takes over the paper technology business of the British Scapa Group plc. and becomes a leading supplier of wires and felts for the paper industry. **1999**

Voith acquires Scharfenbergkupplung in Salzgitter **1998**

Voith Hydro gets the go-ahead for the delivery of six turbines for one of the world's largest hydropower stations at the Three Gorges Dam in China **1997**

Voith and the Swiss Sulzer Group merge their paper technology activities in the joint venture Voith Sulzer Papiertechnik **1994**

Voith builds the first Vorecon variable-speed planetary gear **1985**

Voith receives an order for the delivery of 12 turbines for Itaipu hydropower station in Brazil, the world's largest hydroelectric plant **1978**

Voith establishes a branch in São Paulo, Brazil **1964**

Voith is among the pioneers of paper recycling. Development of a new flotation deinking process for creating pulp from wastepaper **1960**

Voith opens a satellite plant in Crailsheim for the production of turbo couplings. Export of the first turbo transmission to the United States **1956**

Voith starts with the construction of the first turbo couplings **1929**

When he dies, Friedrich Voith leaves his three sons Walther, Hermann and Hanns an engineering company with 3,000 employees **1913**

Voith delivers turbines for the first Chinese hydropower station, Shi Long Ba. Beginning of systematic Voith vocational training **1910**

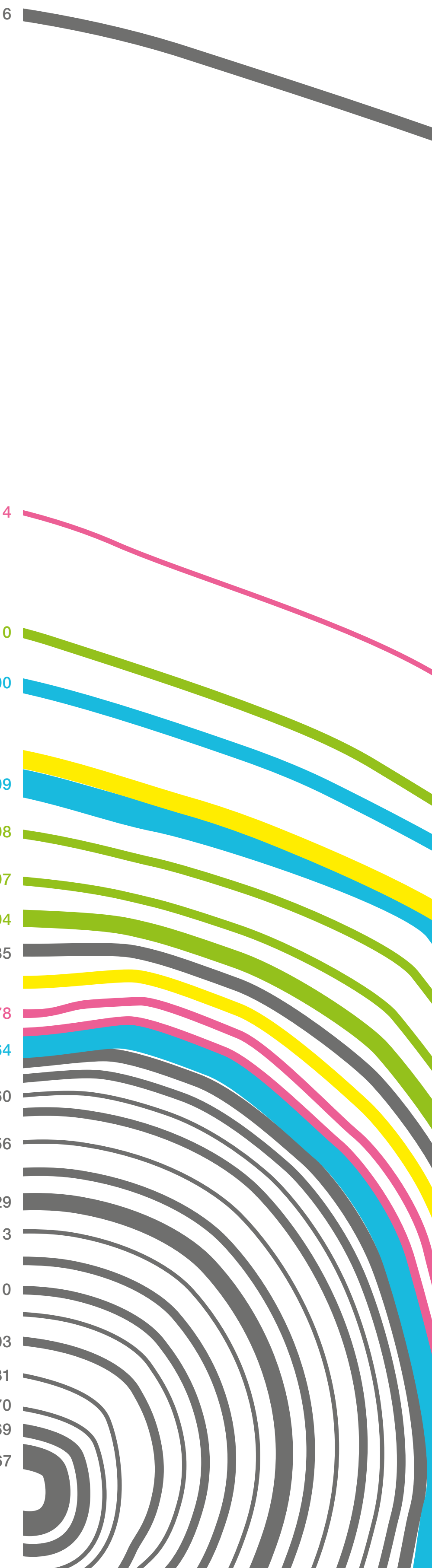
First Voith subsidiary in St. Pölten, Lower Austria. Voith receives an order for the world's largest turbines for the power stations at the Niagara Falls **1903**

Voith produces the first complete paper machine PM1 **1881**

Taking up the construction of water turbines with a 100 hp Henschel-Jonval **1870**

Voith obtains the first patent for a wood grinder **1869**

Johann Matthäus Voith hands over the business to his son Friedrich. January 1 is the official foundation date of J.M. Voith **1867**



Group

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Dr. Hubert Lienhard

Dear reader,

In the 2016 Annual Report that you hold in your hands, the past and the future are closely intertwined. In the financial section, we look back on a fiscal year in which Voith delivered satisfactory results and laid the foundation for the company's further growth in the future. And at the same time, on the occasion of Voith's 150th anniversary, we want to venture a look into the future in the magazine section.

Voith's operating business performed well in the year under review although the economic environment remained challenging. The volume of orders received by the Voith Group fell by 6 percent mainly due to the decline in investment activities in the market for raw materials as well as in the oil & gas market, which seriously affected our Voith Turbo Group Division. The Voith Group's sales stood roughly at the previous-year level. The Group's net result, which had been negative in the previous year due to high restructuring expenses, was positive once again in the 2015/16 fiscal year, as predicted. The three Group Divisions, Voith Hydro, Voith Paper and Voith Turbo, as well as the Group in its entirety, significantly improved their profitability.

At the end of 2016, Voith finds itself at a crossroads. Three years ago, we started our Group-wide success program, Voith 150+. Since then, we have been working hard to improve ourselves. We have optimized our portfolio, improved our processes and structures, and reduced costs. In this past fiscal year, we can see that our efforts have been effective.

As part of Voith 150+, in the past 12 months we have made significant decisions and taken important strategic steps to set the course for the coming years. With the successful sale of our industrial services business, we have put Voith's focus on its expertise in technology and engineering. We have implemented our digital agenda systematically and have consolidated all our expertise in automation and IT in a new Group Division; with more than 1,500* employees Voith Digital Solutions has been operating on the market since April 1, 2016. Our objective is clear. We want to make Voith one of the leading players shaping the digital transformation in our industries and sectors. The liquidity we will gain from the sale of our 25.1 percent share in the robot manufacturer KUKA will contribute to achieving this goal. The funds will flow into the further development and expansion of our entire portfolio and will strengthen Voith even more for future growth.

*1,536 employees at the time the report went to print (653 employees at the reporting date September 30, 2016)

Our digital agenda is key to our future viability and further growth. In this regard, Voith is in a good position – our products occupy key positions in industrial value chains. We possess deep, inimitable specialist and process-specific expertise in our industries, acquired over many years and decades. We will merge this mechanical expertise with the digital world and provide new solutions that create value for our customers.

The future lies ahead of us. We look forward to the coming anniversary year 2017, in which Voith can mark the family-owned company's 150th birthday, and with it, 150 years of new directions and steady endurance, progress and innovation, successes and challenges, change and consolidation. Who would have thought in 1867 that Voith, a small locksmith's workshop, would develop into a company that sets the pace for entire sectors such as paper, energy and transportation, with about 19,000 employees worldwide? That Voith would become a brand that stands for innovation, quality and reliability for customers around the world?

Much has changed in the 150 years since the company's founding. But one thing has remained unchanged and will endure in the future as well – our determination to do our best for our customers. I owe our customers and business partners my heartfelt thanks: thank you for placing your trust in the products and expertise of Voith once again in 2016.

I also wish to thank our employees across the world. In 2016, you have shown, once again, what has remained constant at Voith for 150 years despite all the transformations and changes – your loyalty and dedication to the family-owned Voith business.

Our work over the past years is paying off. Voith looks into the future with confidence and looks forward to celebrating our anniversary year.

I would be glad if you would celebrate together with Voith and continue to favor us in 2017.

Welcome to the Next 150 Years.

Hubert Lienhard

Dr. Hubert Lienhard
President and CEO

“Our digital agenda is a key to our future viability and further growth. In this regard, Voith is in a good position – our products occupy key positions in industrial value chains.”

Dr. Hubert Lienhard

Bertram Staudenmaier
Voith Paper

Uwe Wehnhardt
Voith Hydro

Dr. Uwe Knotzer
Voith Turbo

Dr. Hubert Lienhard
President and CEO

Dr. Roland Münch
Voith Digital Solutions

Dr. Toralf Haag
Finance and Controlling

… among 150 Voith apprentices

“Voith belongs to the few companies that are able to celebrate their 150th anniversary. This makes us proud. Yet it is also an incentive for us, because we will continue to ensure that Voith keeps growing and remains an innovative, future-oriented, attractive company for its customers, business partners and its employees.”

The Corporate Board of Management

Report of the Supervisory Board for the 2015/16 Fiscal Year

Ladies and gentlemen,

In the 2015/16 fiscal year, the work of the Supervisory Board was marked by two specific issues that similarly played a predominant role in the reporting on Voith: the disposal of the Voith Industrial Services Division and the takeover of KUKA AG by the Chinese company Midea, which was ultimately the trigger for the sale of our KUKA shareholding. This distracted the general public from the fact that in the past fiscal year Voith again faced a difficult economic environment which it successfully mastered; this issue was discussed in detail by the Supervisory Board despite the specific topics already mentioned.

On account of a large number of geopolitical risks and uncertainties, the global economic recovery once again fell short of expectations, such as the IMF's forecasts, in the past fiscal year. Only marginal growth was generated in the euro zone despite positive factors such as low energy prices and low interest levels. The run-up to the Brexit referendum and its outcome caused uncertainty in Europe and negatively impacted the investment climate. Brazil, a vital market for Voith, has remained in recession for the second consecutive year due to ongoing political and economic crises. The same applies to Russia, where low commodity prices and to a certain degree also the Western policy of imposing sanctions have left their mark. Even if China ultimately remains the growth driver for the global economy, as around one-third of global economic growth is attributable to China, its growth has slowed significantly due to marked excess capacities and a high level of private indebtedness. Of the advanced economies, the US continues to return above-average growth, but here again it is much weaker than forecast before the start of the year.

Oversight activities of the Supervisory Board

These challenging economic conditions formed the background to the various strategic issues dealt with at the Supervisory Board's meetings. One focal point was placed on the further development of Voith's portfolio in light of the progressing digitalization of industry, coined "Industrie 4.0" in Germany. One clear signal sent to the outside world in the year under review was the creation of the new Voith Digital Solutions Group Division, which comprises the Group's activities in this field.

Another aspect of the realignment of the Group in the past fiscal year that was discussed at several Supervisory Board meetings related to the sale of the Voith Industrial Services Group Division that was closed as at August 31, 2016.

The extreme drop in prices in the areas of oil and gas as well as mining led to a significant decline in investment activities in the industries affected; at Voith Turbo these specifically included the Mining & Metals and Power, Oil & Gas divisions. For this reason, the organizational realignment of the Voith Turbo Group Division was a topic of special importance for the Supervisory Board with the objective of achieving greater proximity to its markets and improving processing times through the new functional organizational structure. The newly created function of a central Chief Technology Officer is intended to reinforce Voith Turbo's technological leadership in order to direct the Group Division back to a growth trajectory.

In the past fiscal year, Voith Paper largely completed the adjustment measures that had become necessary in response to the impact of contracting demand on this Group Division, especially in the area of graphic paper. The market for graphic paper machines appears to have bottomed out or even reached a turning point. As in the previous years, the Supervisory Board dealt extensively with this issue.

Similarly, the Supervisory Board discussed topics pertaining to the Voith Hydro Group Division. In the 2015/16 fiscal year, Voith Hydro was impacted by the uncertainties of the global economic situation in general and those of the energy market in particular. Only a few projects were tendered in those countries and regions in which Voith Hydro has traditionally had a strong presence. The contract awarded for a major project in Canada, however, made a positive contribution. Despite the weak market environment, Voith Hydro was able to maintain its position as the world's foremost provider of hydropower solutions.

Furthermore, the Supervisory Board discussed in great detail various scenarios and strategic options concerning Voith's shareholding in KUKA AG. Great care was taken in weighing up all arguments for and against the sale by the Company of its 25.1 percent shareholding in KUKA AG as part of the takeover bid made by the China-based Midea group. After consideration of the pros and cons of the deal, the Supervisory Board gave its consent to the sale.

The Supervisory Board came together for four meetings held on October 12, 2015, on December 7/8, 2015, on March 18, 2016 and on June 17, 2016. As in previous years, the meetings of the Supervisory Board were characterized by an intense and goal-oriented exchange of opinions with the Company's Board of Management.

The foundation for the discussion of the various topics within the Supervisory Board was in-depth reporting, communicated both orally and in writing, by the Company's Board of Management, among other things on the respective current situation of the Voith Group, on the business planning including the financial and investment planning, on how the economic situation of the Group and its Group Divisions was progressing, on the development of the results of operations and net assets, and an assessment of the business risks. The modifications to the organizational structure within the individual Group Divisions that have become necessary and the forward-looking alignment of the Group in the field of "Industrie 4.0" were discussed in detail. Within this framework, the financial and investment planning for the current and upcoming fiscal years underlying these considerations and plans was passed unanimously at the October meeting of the Supervisory Board.

The Supervisory Board supports and welcomes the efforts on the part of the Board of Management to pursue sustainable and responsible business activities in accordance with the compliance framework. In this context, the Supervisory Board also addressed the Voith Sustainability Report 2015, which it acknowledged and approved. This also applies to the progress made for Voith employees in occupational health and safety that the Supervisory Board considers to be evidence of continuation of the sustainability strategy within the Group. Beyond the Supervisory Board meetings, the Board of Management kept the Chairman of the Supervisory Board informed on an ongoing basis of key developments and decisions, and he discussed important issues with the Chairman of the Board of Management on a regular basis.

Report on the work of the committees

The Personnel Committee met four times in the past fiscal year, on October 12, 2015, on December 7, 2015, and on March 18, 2016 and on June 17, 2016.

There was no need to convene the Mediation Committee (Sec. 27 (3) of the German Codetermination Act (MitBestG)).

The Audit Committee held three meetings, on October 11, 2015, on December 7, 2015 and on June 16, 2016.

At the Audit Committee's meeting on October 11, 2015, held in the presence of the auditors from KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, the Audit Committee addressed material issues pertaining to the financial statements for the 2014/15 fiscal year and various accounting issues. Furthermore, the Audit Committee discussed the refinancing of financing instruments maturing in the foreseeable future.

At its meeting on December 7, 2015, which was held in the presence of the auditor signing the audit of the financial statements, the Audit Committee conducted an in-depth examination of the 2014/15 financial statements of the Group and Voith GmbH, respectively, as well as the report by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, which was appointed auditor of the financial statements. At this meeting with the auditors, the committee discussed individual issues relating to the suggestions for improvement proposed in the management letter to the financial statements, none of which are deemed relevant to this report. The head of the Internal Audit function presented the Group audit report prepared for the fiscal year under review to the Supervisory Board; the report was discussed in detail. Likewise, existing deficits and improvements made since the previous year were discussed.

At the meeting on June 16, 2016, the Audit Committee reviewed the half-yearly consolidated financial statements as at March 31, 2016 and considered material issues affecting the Group's results of operations, including the development of amounts outstanding and the recoverability of receivables. In addition, the Committee addressed the topic of compliance.

Changes on the Board of Management and Supervisory Board

Carsten J. Reinhardt stood down as member of the Company's Board of Management on October 12, 2015. The Supervisory Board accepted this resignation at its meeting on October 12, 2015. At the same meeting, the Supervisory Board appointed, following the corresponding proposal by the Personnel Committee, Dr. Uwe Knotzer as Mr. Reinhardt's successor as the Board of Management executive responsible for the Voith Turbo Group Division, effective as at October 12, 2015.

The executive Dr. Roland Münch, up to that point the member of the Corporate Board of Management responsible for the Voith Hydro Division, assumed responsibility for the newly created Digital Solutions Group Division. At its meeting on December 7/8, 2015, the Supervisory Board appointed Mr. Uwe Wehnhardt as member of the Company's Board of Management effective from January 1, 2016. As successor to Dr. Münch on the Corporate Board of Management, Mr. Wehnhardt is responsible for the Voith Hydro Group Division.

Furthermore, Dr. Hermann Jung retired from his position as member of the Board of Management effective as at the end of the 2015/16 fiscal year on September 30, 2016. The Supervisory Board appointed Dr. Toralf Haag as successor to Dr. Hermann Jung as member of the Board of Management responsible for finances.

Effective from the close of the shareholders' meeting on February 27, 2016, Mr. Klemens Schweppenhäuser resigned from his office as member of the Supervisory Board representing the shareholders. The shareholders' meeting appointed, at the proposal of JMV GmbH & Co. KG, Mr. Ulrich Freudel as a new member of the Supervisory Board for the remaining period of office of Mr. Klemens Schweppenhäuser.

Effective from midnight of August 31, 2016, Mr. Michael Koob, employee at Voith Industrial Services GmbH, Mainhausen, and employee representative on the Supervisory Board, left the Supervisory Board as a consequence of the sale of the Voith Industrial Services Group Division. The Board of Management has filed an application with Ulm local court for the court to appoint a successor to Mr. Koob as employee representative on the Supervisory Board.

At its meeting on October 12, 2015, the Supervisory Board passed a resolution to reduce the number of members of the Audit Committee to four voting members. In the future, the Chairman of the Supervisory Board will only be a non-voting member of the Audit Committee. At the same time, Mr. Gerold Schaubmayr declared his resignation as member of the Audit Committee. The resignation was accepted by the Chairman of the Supervisory Board and the Chairman of the Audit Committee.

At its meeting on December 7, 2015, the Audit Committee reelected Dr. Alan Hippe as Chairman of the Audit Committee.

The Supervisory Board would like to thank the departing members, Mr. Klemens Schweppenhäuser and Mr. Michael Koob, for the consistently constructive working relationships built on trust. They have accompanied the development of the Company over many years with great dedication and contributed their experience to Voith. The Supervisory Board wishes them all the best for the future.

The Supervisory Board's special thanks go to Dr. Jung, who entered retirement at the end of the 2015/16 fiscal year after more than 30 years of working for Voith, 16 of which as member of the Corporate Board of Management responsible for finances. Dr. Jung exerted a decisive influence on how the Company developed during his years at Voith. The Supervisory Board wishes Dr. Jung all the best for his retirement.

The shareholders' meeting on February 27, 2016 exonerated the Board of Management and the Supervisory Board for their activities in the 2014/15 fiscal year and elected KPMG Wirtschaftsprüfungsgesellschaft, Munich, as auditors for the 2015/16 fiscal year. The Supervisory Board subsequently approved the corresponding request to appoint the auditors.

2015/16 financial statements

The auditor audited the books and records, the separate financial statements and the management report of Voith GmbH, and the consolidated financial statements and the Group management report for the Voith Group as at September 30, 2016 issued an unqualified audit opinion in each case. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs).

At its meeting on December 7, 2016, the Audit Committee examined in depth 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 8, 2016. The member of management of KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, responsible and the lead auditor were present at both meetings to explain the significant audit findings and to provide additional information. Furthermore, as part of its review, the Supervisory Board approved the management report of Voith GmbH and the Group management report and agreed to the Board of Management's proposal to the shareholders' meeting on the appropriation of unappropriated retained earnings.

Finally, the Supervisory Board would like to thank the Board 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 their successful work in the past fiscal year, which brought challenges for all members of Voith's staff.

Heidenheim, December 2016

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

The Supervisory Board

Prof. Dr.-Ing. Dr.-Ing. E.h. Hans-Peter Keitel
Chairman, 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

Uwe Badziong*
Automation Engineer, Voith Digital Solutions, Mönchengladbach/Germany

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

Ton Büchner
CEO and Chairman of the Board of Management AkzoNobel NV, Amsterdam/the Netherlands

Dr. Siegfried Dais
Partner in Robert Bosch Industrietreuhand KG, Stuttgart/Germany

Ulrich Eckelmann*
Trade Union Secretary on the Executive Board of Industrial Union of Metal Workers (IG Metall), Frankfurt/Germany

Ulrich Freudel
Auditor Tax Consultant Mannheim/Germany

Johannes Hammacher
Executive Vice President of the family-owned company 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 (until 2016-08-31)

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

Thomas Martin*
Chairman of the overall works council Voith Paper, Heidenheim/Germany

Dr. Ophelia Nick
Veterinarian, Wülfrath/Germany

Stephan Schaller
President BMW Motorrad, Munich/Germany

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

Martin Schily
Economist Graduate (Diplom-Ökonom), Düsseldorf/Germany

Detlef Schöling**
Chairman of the works council of Voith Dienstleistungen, Heidenheim/Germany

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

Klemens Schweppenhäuser
Partner in Familiengesellschaft J. M. Voith GbR, Mannheim/Germany (until 2016-02-27)

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

* Elected by employees.
** Appointed to the Supervisory Board by court order to succeed Michael Koob, who ceased being member of the Supervisory Board effective 2016-08-31.

Group Management Report

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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 60 countries worldwide. As a family-owned company, Voith focuses on sustainable profitable growth. As part of a far-reaching digital agenda, the new Voith Digital Solutions Group Division was created in the year under review and is currently still being built up.

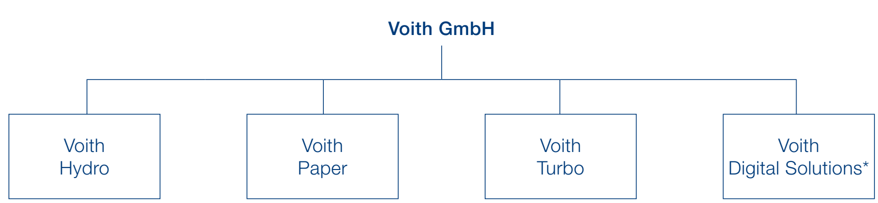
01.1. Group structure and business activities

Family-owned, global technology group

Voith is a global technology group. With its broad portfolio of systems, products and services, Voith serves five essential markets: energy, oil & gas, paper, raw materials and transport & automotive. Voith operates in over 60 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 Board of Management of Voith GmbH is responsible for the 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 the Board of Management.

Organizational structure
Voith Group Divisions



* Being built up, not yet a separate segment.

In the 2015/16 fiscal year, Voith GmbH's operating business was allocated to three segments: Voith Hydro, Voith Paper and Voith Turbo. In each Group Division, legally independent head organizations oversee the activities of the Division's subsidiaries.

Further information on the Voith Digital Solutions Group Division can be found in section 01.4. "Group strategy."

As the newly created Voith Digital Solutions Group Division is still being built up, it is not yet presented as a separate segment. Orders received, sales and the associated result of the new Group Division are attributed to the three existing segments for the time being.

Further information on the sale of Voith Industrial Services can be found in section 04.4. "Financial assets and investments."

A majority interest in the former Voith Industrial Services Group Division was sold effective as at August 31, 2016. Since publication of the intention to sell (already in the 2014/15 fiscal year), it had been treated as a discontinued operation in accordance with International Financial Reporting Standards (IFRS 5).

For this reason, the segments discussed in the following sections refer to the three Group Divisions existing for the entire fiscal year, Voith Hydro, Voith Paper and Voith Turbo, as in the notes to the consolidated financial statements.

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 to 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, as well as training services.

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 economical consumption of energy, water and fiber in order to save resources.

Voith Turbo helps to move millions of people, goods and machines 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 ordinary business operations and is the balance of sales and costs plus operating interest income but before the financial result and income taxes.

The profit from operations is based on an operating earnings indicator derived from external financial reporting, i.e. the operational result before non-recurring items. The operating interest income and several other adjustment items are added to the latter to derive the profit from operations. Operating interest income comprises income received from the long-term financing of receivables from customers or attributable, as imputed interest effect, to that portion of customer advances that is not used to finance inventories and PoC receivables. Other adjustments include one-off effects which are shown as other operating income and expenses in the consolidated statement of income. In relation to ordinary business operations, however, these must be treated as non-recurring effects and the profit from operations is therefore adjusted for these amounts to provide a better basis for the internal control and assessment of business operations.

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

Capital employed designates the funds tied within the business with a view to generating sales. This essentially comprises property, plant and equipment and net working capital.

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

Setting a performance indicator from the statement of income (profit from operations) in relation with an item based on the balance sheet (capital employed) is in compliance with generally accepted standards for holistic 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 performance indicators.

01.3. Values, guidelines, compliance

Voith – Inspiring Technology for Generations

At Voith, we marry the culture of a family-owned business with that of a global player. For several years now, Voith has been undergoing a comprehensive process of transformation that is impacting our portfolio of offerings, our organization and our culture. In the year under review we consequently consolidated the way we have come to see ourselves in a new corporate mission statement.

Our vision: Voith is the technology partner for industrial generations.

We create value for our customers, help them make a positive impact on the world's societies and assure Voith's independence for generations. Our technical, cultural and personal familiarity with our customers' markets make us first in their minds.

In order to achieve our vision, we pursue four principal fields of action that are outlined in our mission statement:
1. We earn our customers' loyalty.
2. We combine global strength with local entrepreneurship.
3. We inspire the best in our people.
4. We strive for excellence in everything we do.

All of our actions are based on our values: we are respectful and reliable, open and ambitious. Our values, and the guidelines derived from them, ensure that Voith acts according to the same business principles and adopts the same philosophy worldwide.

We have summarized this mission statement in our new claim that was presented in October 2016 and will be introduced worldwide in the 2016/17 fiscal year: "Inspiring Technology for Generations".

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 Company. We require each and every employee to comply with the applicable laws and our own internal guidelines (compliance). This applies to all levels of hierarchy throughout the Group. Infringements are met with sanctions. Rules and protocols are continuously updated according to 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 of unfair benefits
- Transparency of donations and sponsorship
- Maintaining own and respecting third-party patents, intellectual property rights and company secrets
- No undue preferential treatment of suppliers and service providers
- Respect for human rights, fair working conditions, and rejection of child and forced labor

The text of the Voith Code of Conduct is available on the Internet:
http://voith.com/de/coc-english.pdf

Each employee is requested to report any suspicion of an infringement of Voith's Code of Conduct. This can be done in person by reporting to the immediate supervisor or the compliance officer or by e-mail, letter, telephone or fax to one of the helpdesks. We also follow up anonymous complaints using a global system for input from whistleblowers. The whistleblower system can also be used by people outside the Company to report infringements of any kind.

Compliance organization

The compliance program and related training measures are coordinated and refined by the Compliance Committee, whose chair reports directly to the CEO. This committee comprises the Head of Corporate Legal Affairs (chair), the Head of Corporate HR Management and the Head of Corporate Internal Audit. There are compliance officers in all units who are responsible for implementing the Code of Conduct in their field of competence.

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 we also provide our employees with training. All Voith employees are required to take part in e-learning programs to ensure that their compliance knowledge is brought up to date every three years as a minimum. Employees without PC access are briefed by compliance officers or by 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 classroom training covering important topics such as corruption, competition issues and export controls. Compliance officers are offered separate, in-depth training.

01.4. Group strategy

Geared towards sustainable profitable growth

At Voith, business success is defined as a long-term goal. Our focus on sustainable growth has shaped the 149-year success story of the Voith Company. Voith's commercial strength is based on four pillars which have been carefully built up over the decades:

1. Our diversified product portfolio which is based on megatrends
2. Our international footprint and local roots
3. Our innovative strength
4. Our financial independence as a family-owned company

Information about Voith's innovation activities is provided in section 05 "Research and development."

Digital transformation takes shape

Building on the foundation of these strategic pillars, we decided in the 2014/15 fiscal year to make substantial investments, both within the Company and through acquisitions, in the key competencies for the megatrend of "Industry 4.0" as part of a far-reaching digital agenda to be implemented over the coming years. Our objective: we intend to play a major role in shaping the digital transformation of the mechanical engineering industry. As we are an established technology leader with extensive domain knowledge and have a large installed base of plant and products critical to the success of our customers, we believe that we will be able to deploy these factors in combination with our digital expertise to harness considerable potential for further development and growth over the coming years. Our knowledge of production processes in industry and the plant required allows us to generate added value for our customers by means of analyzing and interpreting data. This provides us with a competitive edge and an excellent starting position.

In the year under review we reached important milestones in the implementation of our digital strategy. In December 2015 we resolved to create the new Group Division Voith Digital Solutions. The new unit comprises the Group's entire expertise in the fields of automation, IT, software and sensors. The new Group Division takes three strategic directions: firstly, supplementing our existing product portfolio with additional, digital capabilities that offer customers extended functions and added value; secondly, the development of new digital solutions in our traditional core markets; and thirdly, the development of new products and business models for markets and industries to date not covered by Voith. Over the course of the year under review, we started building up the organizational and strategic structures needed for the Group Division. After specifying the direction to be taken, four business lines and five global functional areas were put into place effective as at April 1, 2016, in which around 650 employees had taken up work by the close of the fiscal year. An internal transfer process was deployed to transfer existing products and services, projects and teams from the other three Group Divisions to Voith Digital Solutions. The Group's in-house IT function has also been fully integrated into Voith Digital Solutions. The internal transfer process had been virtually completed in Germany by the close of the year under review but will continue into the year 2017 at an international level. Following completion of the build-up phase in the 2016/17 fiscal year, which also includes external staff recruitment, Voith Digital Solutions is expected have a headcount of around 1,500.

In addition to building up the business with our own resources, we are also proactively looking for external companies that will enhance our digital portfolio, for example in the fields of automation, IT security, software platforms, sensors/robotics, data analysis or industrial software development. We made our first major acquisition already towards the end of 2014 by purchasing a 25.1% shareholding in the listed robotic systems manufacturer KUKA Aktiengesellschaft, Augsburg. Although originally planned as a long-term strategic investment, we made the decision in July 2016 to accept the financially exceedingly attractive public takeover bid submitted by Chinese investor MIDEA and to offer our shares for sale. Assuming the sales process goes according to plan, our investment will have proven to be a great financial success, as the value of our investment has more than doubled within one and a half years, so that we anticipate a cash inflow of €1.15 billion after closing of the sale of shares. The liquidity generated in this way will make a contribution to the further development of the Group's portfolio, for example accelerating Voith's digital transformation, and can be deployed flexibly either to facilitate organic growth or to make attractive acquisitions. Our investment strategy allows us to not only enlarge teams and enhance them with additional specialists but also to purchase specific technologies and skills as well as to make investments in start-ups.

Transformation of the Group under the banner of Voith 150+ concluded

The Group-wide Voith 150+ success program has given us the financial and commercial headroom for this strategic realignment. The declared aim of this program launched in fall 2013 was to secure the long-term competitiveness and capacity for growth of the Voith Group – well beyond the Company's 150th anniversary in 2017. We have put a lot of work into Voith 150+: firstly, to optimize our product and service portfolio, secondly, to increase our efficiency by means of improved structures and processes, and thirdly, to enhance our corporate culture.

We are fully on schedule with regard to implementation of Voith 150+. The transformation of the Group is practically complete. What have we achieved to date?

Portfolio optimization

In order to streamline our existing business, we have disposed of those business fields that proved to be less profitable than anticipated or for strategic reasons no longer fitted into our portfolio. The most far-reaching change related to the Voith Industrial Services Group Division that we put up for sale in February 2015. The background to this was the fundamental strategic decision to focus the Voith Group on its technology and engineering competence for the digital age. Voith Industrial Services' business with technical industrial services that are primarily based on customer process know-how, for instance in the automotive industry, differed fundamentally from the other Group Divisions that have their own underlying portfolio of patents, intellectual property and know-how. We signed an agreement on the planned sale of the Group Division in May 2016 that was executed as at August 31, 2016. Voith retains 20% in the form of a financial investment and will provide support for the transition.

Further details about mergers and acquisitions during the fiscal year can be found in section 04.4. "Financial assets and investments."

In the other Group Divisions, portfolios were subject to targeted streamlining. The measures taken included the sale of business units, the merger, downsizing or closure of locations that failed to return the anticipated level of profitability.

Furthermore, we have undertaken restructuring measures and capacity adjustments. Voith Paper was the Group Division most affected by this. The market for paper machines is experiencing a deep structural transformation and has shrunk permanently. The total of three packages of measures introduced over the last five fiscal years have been fully implemented in the meantime. These led to a total of some 3,000 jobs being cut. We structured the job cuts in a fair and responsible manner in dialog with employee representatives as required by the culture and values of our Company. These sometimes painful, yet necessary cuts have enabled us to perceptibly reduce personnel expenses as well as other operating expenses at Voith Paper. After the slump in profit from operations in the 2013/14 fiscal year, the Group Division returned a clear profit in the year under review. Voith Paper's turnaround is fully on schedule and will be completed in 2016/17.

Optimization of structures and processes

In the year under review, we brought to a conclusion the comprehensive restructuring of our indirect activities that we launched in the 2014/15 fiscal year. This affected, for example, the areas of procurement, IT, finances, controlling, accounting and human resources.

Key elements of the new organizational model are global business service centers that perform recurring tasks, competence centers that process strategic issues, and business partner structures. Four regional global business service centers were set up over the year under review – in Kunshan (Asia-Pacific region), York (North America), São Paulo (South America) and Heidenheim (EMEA) – which involved both internal employee transfers and external recruitment. Standardized administrative tasks for the respective regions, for example the procurement of non-production material, payroll accounting or accounts receivable, accounts payable and general ledger accounting, are now performed at these global business service centers. The indirect activities also maintain a competence center which has Group-wide responsibility for defining Voith's global standards and dealing with individual topics which require specialist knowledge. In addition, business partners were installed at the indirect activities who offer the operating business units customer-oriented support on certain specialist topics on a one-face-to-the-customer basis.

Our announced target of "staff reductions of around 720" was reached by September 30, 2016, one year earlier than originally planned.

Now that we have built up standard administrative structures throughout the Group, our focus in the 2016/17 fiscal year with regard to administration will be placed on harmonizing and optimizing processes across the Group. The objective is to reduce the complexity of procedures and increase the level of standardization in order to increase the speed at which we are able to act worldwide.

Corporate culture

The strategic and operating initiatives described above are supported by the strengthening and enhancement of our corporate culture. In addition to our long-established corporate values, we encourage our employees not only to follow the current values we live, but also to be more proactive, to assume responsibility in the sense of ownership, to contribute their own ideas regardless of hierarchy and to draw direct attention to sources of errors or emerging problem areas. By doing so, we motivate our employees to assume an entrepreneurial mindset and approach.

Various measures were launched and tools rolled out in the 2015/16 fiscal year that will help to refine Voith's corporate culture as planned. For example, we piloted 360-degree feedback as an instrument at senior management level and intend to roll it out at further management levels in the 2016/17 fiscal year. This tool provides executives with structured, anonymous feedback on their management conduct from a wide range of perspectives, namely from their staff, from managers at the same level as well as from their superiors. The feedback not only constitutes a valuable aid in developing individual personalities and in promoting collaboration with the team but also in improving the quality of leadership throughout the Group.

Financial targets of Voith 150+ virtually already reached in the year under review

We had announced that the program would, by the 2016/17 fiscal year, reduce our cost basis by €250 million in comparison to the 2012/13 fiscal year. In addition, our plans were to release around €100 million in liquidity by reducing receivables and inventories in a targeted manner and thereby lowering working capital.

We have already almost reached both targets in the year under review and expect the targets to be met in full in the 2016/17 fiscal year. Consistent implementation of our Voith 150+ success program was a key factor in safeguarding our future in times of shifting markets. Admittedly, the reduction in costs achieved did not bring about a one-to-one increase in results on account of counteracting effects such as high collective wage settlements and excess capacities on our markets that placed a burden on the earnings position. But without the restructuring measures and steps to enhance efficiency described, it would not have been possible for our operating business to generate a profit from operations well into the range of hundreds of millions of euros in the year under review. The situation with regard to our level of cash and cash equivalents is similar – without our proactive working capital management, it would have been some €100 million lower.

01.5. Significant events

Changes on the Corporate Board of Management

Dr. Hermann Jung, who had been the member of the Corporate Board of Management responsible for finances at Voith GmbH, retired from his position as at the end of the 2015/16 fiscal year after more than 31 years of successful work for our Company. Dr. Toralf Haag, his successor, assumed the post of CFO as at October 1, 2016. Dr. Haag is a graduate of Business Administration and holds a PhD. He has held various positions in finance, controlling, M&A and corporate development in Germany and the United States, most recently serving for over ten years as CFO of the Swiss publicly listed chemicals and pharmaceuticals company Lonza Group AG.

Dr. Roland Münch, until December 31, 2015 CEO of Voith Hydro, was appointed CEO of Voith Digital Solutions GmbH effective January 1, 2016. As a long-standing member of the Corporate Board of Management of Voith GmbH, he is changing positions within the Board and will assume the important task of driving our activities in digitization and “Industry 4.0” to success.

Uwe Wehnhardt, who has been with the Voith Group since 2007, most recently as Chief Operating Officer and member of the Board of Management of Voith Hydro Holding GmbH & Co. KG, will succeed Dr. Münch as the head of the Voith Hydro Group Division. Mr. Wehnhardt was appointed CEO of Voith Hydro Holding GmbH & Co. KG and member of the Corporate Board of Management of Voith GmbH effective January 1, 2016.

Carsten J. Reinhardt stood down as member of the Board of Management of Voith Turbo GmbH & Co. KG and member of the Corporate Board of Management of Voith GmbH in October 2016. His successor in both offices is Dr. Uwe Knotzer, who has been with the Voith Group since 2002 and a member of the Board of Management of Voith Paper GmbH & Co. KG since 2012.

02 Business development and earnings position of the Group

Despite an economic environment that remained challenging, Voith's operating business performed well. The Group's sales remained roughly at the previous year's level and the three continuing Group Divisions increased their profit from operations, significantly in some cases. The efficiency gains achieved under the Voith 150+ success program were also reflected at Group level in improved profitability and productivity. The Group's net result was once again clearly positive. Orders received were down on the previous year on account of the sharp decline in investment activities in the markets for raw materials and oil & gas.

02.1. Overall assessment

Sound developments, profitability increased

In the 2015/16 fiscal year (October 1, 2015 to September 30, 2016), Voith brought the transformation of the Group under the banner of the Voith 150+ success program to conclusion and realized the corresponding gains in efficiency; it also made further progress with the Group's strategic focus on its technology and engineering strengths in the digital age: the Voith Industrial Services Group Division was sold and the new Voith Digital Solutions Group Division is at the stage of being built up.

Voith's operating business performed well in the year under review although the economic environment remained challenging. The volume of orders received by the Voith Group fell by 6% mainly due to the decline in investment activities in the market for raw materials as well as in the oil & gas market, which seriously affected our Voith Turbo Group Division. The Voith Group's sales stood roughly at the previous-year level. Orders received and sales were both impacted by negative currency effects. In light of a volatile environment characterized by a low level of global economic growth, a subdued investment climate and great competitive pressure in the vast majority of our target markets, we consider Voith's largely stable performance to be a sign of its special robustness.

In terms of results, we are benefiting from efficiency gains under the banner of the Voith 150+ success program. All three of our traditional Group Divisions, Voith Hydro, Voith Paper and Voith Turbo, succeeded in boosting their profit from operations and their ROCE. In total, the profit from operations of the three traditional

Group Divisions increased by 18%. At the level of the holding company, this positive development was counterbalanced to a certain extent by valuation effects on some foreign currency items as well as the build-up costs for setting up the new Voith Digital Solutions Group Division. For this reason, the Voith Group's profit from operations was, in total, only slightly up on the previous year, as announced. The three Group Divisions, Voith Hydro, Voith Paper and Voith Turbo, as well as the Group in its entirety, significantly improved their profitability. The ROCE (return on capital employed) at Group level rose from 12.2% in the previous year to 12.9% in the 2015/16 fiscal year.

The Group's net result, that had stood at €-93 million in the previous year on account of high restructuring costs, was positive again in the year under review, as forecast, and stood at €29 million. This is all the more remarkable as this figure includes impairment losses on financial assets and a negative net result from discontinued operations in connection with the Voith Industrial Services Group Division that has been sold in the meantime. These non-recurring negative effects that primarily result from impairments disclosed on the face of the balance sheet come to a total of €-96 million.

The aforementioned Group figures for sales, orders received and profit from operations contain the continuing operations, i.e. the Voith Hydro, Voith Paper and Voith Turbo Group Divisions. In contrast, the Voith Industrial Services Group Division, which was sold as at August 31, 2016, was treated as a discontinued operation in this annual report, as was already the case in the previous year, in accordance with International Financial Reporting Standards (IFRS 5). The contribution to profit or loss made by Voith Industrial Services is included in the consolidated statement of income under net result from discontinued operations.

02.2. Economic environment

Global growth roughly at previous-year level

In the 2015/16 fiscal year, global economic trends did not live up to the expectations of economic analysts issued at the end of 2015 when our last annual report was published. In October 2016, the International Monetary Fund (IMF), for example, reduced its global economic growth forecast for 2016 to +3.1% (forecast in October 2015: +3.6%). Global growth for 2016 is thus still expected to be sound overall, but according to recent forecasts the growth rate will be slightly below the previous-year level (2015: +3.2%). For 2017, the IMF has forecast a somewhat higher growth rate of 3.4% (forecast in October 2015: +3.8%). On aggregate, the forecast growth will be driven by the consumer goods sector, while hardly any growth is forecast in the infrastructure and capital goods sector relevant for Voith.

The emerging markets as a whole will continue to grow at a faster rate than the advanced economies (IMF forecast for 2016: +4.2%). In China, the growth dynamics have lessened further owing to massive excess capacities, high levels of private debt and a change in the economic model toward more domestic consumption – a development that is affecting capital goods manufacturers particularly severely. Nevertheless, China accounts for about a third of global economic growth and remains the motor for global growth. India is growing at a faster pace than China, albeit at a significantly lower absolute level. Reforms are slow to get off the ground such that, combined with cumbersome administration, existing potential is not being realized. Brazil is going through a recession for the second year in a row due to unsolved structural problems and a dramatic fall in commodity prices, exacerbated by the consequences of the government crisis, and it became considerably more pronounced over the course of the year. Investment in infrastructure has practically come to a standstill. Contrary to expectations a year ago, it is now considered unlikely that Russia will pull out of recession in 2016, mainly on account of the continuing fall in commodity prices. The poor economic conditions in Russia in general are having a particularly strong effect on exports in the German mechanical engineering sector.

In the advanced econonomies, the economic recovery, driven primarily by the consumer goods sector, has slowed down. Overall, the IMF now forecasts growth of just 1.6% for 2016 (forecast in October 2015: +2.2%). In the United States, GDP rose at a much lower rate than expected a year ago (+1.6%; forecast in October 2015: +2.8%) under the influence of the strong dollar exchange rate in 2016. The euro zone continues to exhibit moderate growth, driven by low energy prices and interest combined with the low euro exchange rate. Despite the historically low level of interest rates, investing activities remain modest. The investment climate across Europe received an additional damper in June 2016 when Britain voted in favor of leaving the EU. In Germany, which is growing at around the average rate of the euro zone countries for 2016, demand for consumer goods and services was an important pillar holding up the economic development. Demand for capital goods, however, tended to be weak. The German mechanical and plant engineering sector is expecting production to stagnate and capacity utilization to accordingly be lower in 2016 .

Voith markets: subdued investment climate prevails

Regarding the five target markets that Voith serves, only the transport & automotive market showed a positive development in key segments. The raw materials market, and in particular the oil & gas market, saw investment decline much more sharply than expected when we published our 2015 annual report. In the markets of energy and paper, the investment climate remained noticeably muted.

Energy: expansion of renewable energies, in particular for solar and wind power

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

According to the most recent figures available, electricity consumption and generation increased only marginally in 2015, especially in the emerging markets, primarily India and China. In an effort to expand their electricity-generating capacity, all regions around the globe are placing great emphasis on renewable energy

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

World output	2015	3.2%
	2016	**3.1%**
Advanced economies	2015	2.1%
	2016	**1.6%**
United States	2015	2.6%
	2016	**1.6%**
Euro area[2)]	2015	2.0%
	2016	**1.7%**
Germany	2015	1.5%
	2016	**1.8%**
Emerging market and developing economies	2015	4.0%
	2016	**4.2%**
China	2015	6.9%
	2016	**6.6%**
ASEAN-5	2015	4.8%
	2016	**4.8%**
India	2015	7.6%
	2016	**7.4%**
Brazil	2015	-3.8%
	2016	**-3.3%**
Russia	2015	-3.7%
	2016	**-0.8%**

Source: International Monetary Fund; World Economic Outlook, Oct. 2016.
[1)] 2015: estimates; 2016: forecasts.
[2)] Including Germany.

sources, in particular solar and wind power. In the meantime, more than half of the new capacity installed worldwide is based on renewable energies (not including hydropower). Investment in renewable energy has therefore risen considerably, driven by major growth in the emerging markets. The largest share of overall investment was attributable to solar energy, followed by wind power. Renewable energy sources now account for some 29% of total existing electricity-generating capacity worldwide. More than half (58%) are hydropower facilities, followed by wind power (23%) and photovoltaics (12%).

The energy industry is currently suffering from the uncertain future of the global economy and regulatory regimes. This has a particularly negative impact on the hydropower market, as hydropower plants take significantly longer to plan and construct than gas or coal-fired power stations, for example. In the year under review, there were again delays in award proceedings for planned hydropower plants, and market volume was below the previous year as a result. With pumped storage technology contributing to grid stability and supply reliability as renewable energies are being expanded, it has gained in importance, in particular in China where several pumped-storage power plants are being built. In Europe, however, the regulatory environment will remain unfavorable for pumped-storage power plants. The market for conventional power plant technology is moving sideways, at a low level.

Oil & gas: low oil price and excess capacity hampering new investments

The oil & gas market comprises three segments: upstream involving the extraction of crude oil and natural gas, midstream involving transport primarily via pipelines and tankers, and downstream consisting of the refining of crude oil and natural gas into the various fuels and raw materials used by the chemicals industry. The Voith Turbo Group Division provides user-specific products and services to all the segments of this market.

The slide in the oil price continued in the 2015/16 fiscal year. The price for a barrel of Brent oil was exposed to much turbulence in the course of the year, fluctuating between USD 53 (October 2015) and USD 28 (January 2016). It even went below the low point reached during the global economic crisis at the end of 2008. At the end of the fiscal year, the price was listed at USD 49, just above the previous-year value. The reason for this sharp decline in oil prices for the second year in a row was the sustained excess supply of oil worldwide, in spite of increased demand. In their struggle for market share, the OPEC countries, above all Saudi Arabia, further increased their extraction volumes over the course of the fiscal year. Output from non-OPEC countries was reduced, by contrast, because the United States and Canada in particular scaled back the comparatively expensive exploitation of their shale oil sources. The low price of oil continued to put pressure on the profits of the large oil companies, leading to a further decline in capital spending worldwide. This was particularly marked in Latin America where the cost of extraction is comparatively high. A large number of extraction projects was either put on hold or canceled.

The gas price (Henry Hub) continued its fall at the start of the year under review to then recover slightly from March 2016 onwards. At the end of the fiscal year in September 2016, it was above the previous-year level, but still 50% below the 2014 level before the price started to fall. As a result, investment on the gas market was in sharp decline as well.

Paper: market for paper machines stabilizes at a low level

The paper market comprises all aspects of the papermaking process, from preparation of recycling paper through to paper production, surface finishing through calendering and coating, rewinding and packaging of paper reels. The Voith Paper Group Division serves this market for all types of paper – newspaper, board and packaging paper, tissue paper as well as specialty papers such as bank notes – with new machines, rebuilds of entire production facilities, automation technology, partial rebuilds, optimization products, services and spare parts, water treatment facilities as well as fabric and roll-cover products.

Global paper production rose slightly in Voith's 2015/16 fiscal year, according to estimates by industry analysts at RISI, albeit at slower rates than assumed at the time our 2015 annual report was published. Future growth projections have also been adjusted downward again. Global paper production is expected to grow at lower annual rates than global gross national product up to 2020. Production of graphic paper has dropped continually since 2010 and is expected to decline further in the years ahead, as demand has fallen with the digitization of everyday life. By contrast, there is growth potential for board and packaging paper for which demand is rising in all regions in the wake of expanding online shopping. The highest growth rates are expected in Asia, but the regions of EMEA and North America are also likely to contribute considerably to this growth. Consumption of tissue paper 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. From a regional perspective, Asia grew most strongly in the year under review in both absolute and relative terms, although expectations for this region were also revised downward substantially.

The market for new paper machines appears to have bottomed out. Manufacturers are investing primarily in new machines and rebuilds for board and packaging paper as well as tissue paper. In Europe, the market situation has improved. In Asia, the excess capacity built up in recent years was reduced by rising demand, and investing activities are therefore expected to increase again in the medium term. In South America, demand remains subdued owing to the deep recession in Brazil. Demand for consumables and spare parts picked up somewhat as volumes of paper production also rose slightly.

Raw materials: continued fall in prices slows investment

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 considered 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 Voith Turbo Group Division.

The level of investment in the mining sector continued to decline significantly in the year under review, halving compared to 2013. The crucial factor here was the dramatic fall in prices for most raw materials, which is putting considerable cost pressure on producers.

According to estimates by industry analysts, the price of iron ore and copper continued to fall considerably on account of ongoing excess capacities in the year under review, albeit not quite as sharply in 2016 as in the previous year. Having fallen notably in the previous two years, the price of coal decreased once more in 2016 and remains under pressure.

Global crude steel production was in decline in the 2015/16 fiscal year, with global capacity utilization still at a low level. Continuing excess capacities have pushed the price of steel down further, particularly in China. However, the price pressure softened somewhat recently, and the price of steel appears to be recovering in the United States.

Transport & automotive: growth overall moderate, but stable

The transport & automotive market includes diverse transport routes and the means of transport used on them for moving people and goods. The Voith Turbo Group Division serves this heterogeneous market, supplying drive components and solutions as well as braking systems for the commercial vehicle industry, the railway industry and also the marine segment.

The market for heavy-duty trucks and buses exhibited slight growth overall in the year under review. Western Europe developed extremely positively, with sales up noticeably in 2016, above all for heavy-duty trucks. The US truck market by contrast started out at a high level based on six consecutive years of growth, only to see a tangible decline in 2016, which is likely to be of a cyclical nature. However, impetus on the North American market stemmed from purchases of new city buses and the service business as well as increasing demand for green technologies such as hybrid and natural gas drives. After two weak years, the market for heavy-duty commercial vehicles in China saw an upward trend. The bus market in China stabilized as well, with increased demand thanks to government subsidies for electric drives and fuel cell drives for buses. Demand in Russia, however, declined further through the crisis. In Brazil, no investments were made in infrastructure and new fleets on account of the political instability and the recession, leading to a veritable slump in the market.

The rail sector, which is dominated by public sector investment in infrastructure, developed solidly in the year under review. The main driver behind this is urbanization in the emerging markets, primarily in China, India and the ASEAN 5 countries, which is linked to high demand for metro systems and local public transport systems. International consolidation and more intensive competition between rail vehicle manufacturers are, however, having a negative effect on their margins. The EMEA region remains a stable core market, despite the decline in investment in large-scale rail projects in the Middle East and Russia due to political instability and the fall in the price of oil.

Despite considerable cooling-off of demand for offshore special ships in the wake of the low oil price, the marine market showed a stable development thanks to projects in the tugs and ferry segment.

02.3. Sales

Sales roughly at previous-year level

In the 2015/16 fiscal year, Voith generated sales of €4,252 million (previous year: €4,302 million, down 1%) from its continuing operations. This was roughly the same level as in the previous year and we were able to match our forecast (2015 annual report: "constant").

The Group's sales were impacted by negative currency effects as a result of the higher euro exchange rate compared to the previous year. Adjusted for currency effects, the Group's sales increased very slightly. All Group Divisions were affected by the currency effects, but not to the same degree.

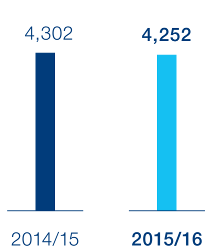
Voith Hydro was able to increase its sales by 6%. However, Voith Paper (down 3%) and Voith Turbo (down 5%) both saw a decline in sales. Group sales do not include the sales of the discontinued Voith Industrial Services Group Division.

Detailed information on the development of sales in each Group Division can be found in section 03 "Business development and earnings position of the Group Divisions."

The three continuing Group Divisions each contributed around one third to the Voith Group's sales. Voith Hydro (previous year: 31%) and Voith Turbo (previous year: 34%) each contributed 33% in the year under review. Voith Paper accounted for a share of 34% of the Group's sales (previous year: 35%).

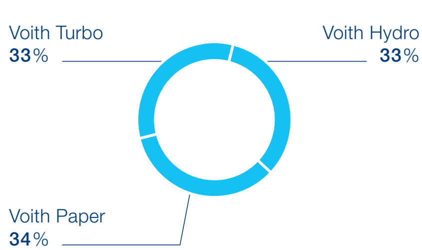
The regional distribution of Group sales was as follows: 12% (previous year: 11%) of the sales of continuing operations were generated in Germany. The Europe excluding Germany region accounted for 28% (previous year: 27%) of Group sales. The Americas (previous year: 29%) and Asia (previous year: 28%) contributed 27% each. A share of 6% (previous year: 5%) was attributable to other regions (in particular Africa and Australia).

Sales Group*
in € millions

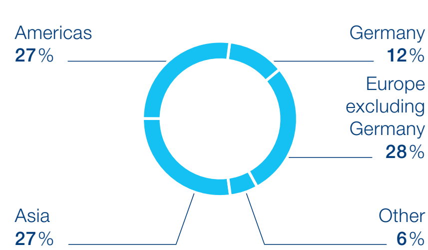


* Excluding the discontinued Group Division Voith Industrial Services.

Sales total €4,252 million*
by Group Division



by region



* Excluding the discontinued Group Division Voith Industrial Services.

02.4. Orders received

Orders received slightly down

In the 2015/16 fiscal year, the Voith Group secured new orders worth €4,108 million in its continuing operations. Orders received were also impacted by negative currency effects. Contrary to expectations (forecast in the 2015 annual report: "constant"), orders received decreased by 6% compared to the previous year (previous year: €4,389 million).

Detailed information on the development of orders received in each Group Division can be found in section 03 "Business development and earnings position of the Group Divisions."

This was due to a further decline in investment on the raw materials market and the oil & gas market, which turned out more severe than expected, considerably affecting orders received at our Voith Turbo Group Division (down 15%). At the Voith Paper (down 3%) and Voith Hydro (down 1%) Group Divisions, orders received remained roughly at previous-year level.

Voith Paper contributed 36% (previous year: 34%) to the Group's orders received. Voith Hydro accounted for 34% (previous year: 32%) and Voith Turbo for 30% (previous year: 34%).

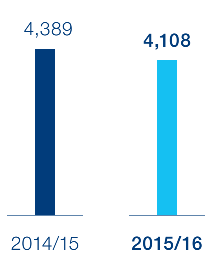
With a share of 32% (previous year: 26%), the Americas were the most important region in terms of orders received in the continuing operations in the year under review. The Europe excluding Germany region accounted for 26% (previous year: 26%) of the Group's orders received. At 23%, Asia's share was down on the previous year (33%). Germany's contribution amounted to 13% (previous year: 12%). All the other regions contributed 6% (previous year: 3%) of new business.

As at the end of the fiscal year, orders on hand in the Voith Group were worth €5,307 million (previous year: €5,286 million).

Orders on hand Group*
in € millions

* Excluding the discontinued Group Division Voith Industrial Services.

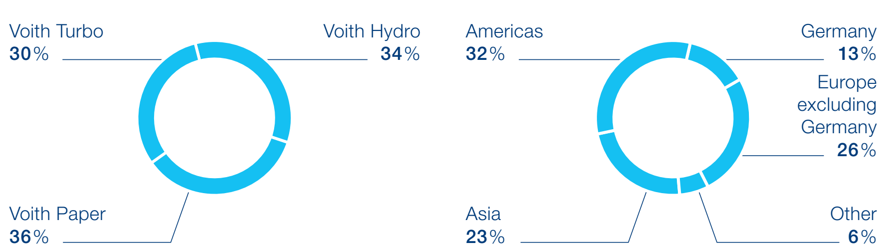
Orders received Group*
in € millions



* Excluding the discontinued Group Division Voith Industrial Services.

Orders received total €4,108 million*
by Group Division

by region



* Excluding the discontinued Group Division Voith Industrial Services.

02.5. Results

Operating result shows stable development, group net result positive once more

The separate income and expense components in the consolidated statement of income contain the continued operations of the Voith Group and are consequently shown after elimination of the relevant share of Voith Industrial Services in the same manner as that applied in the 2015 annual report. The sale of Voith Industrial Services was completed as at August 31, 2016. The total contribution to profit or loss made by this Group Division (including the effect on results of the sale) up to this point is presented in the item net result from discontinued operations.

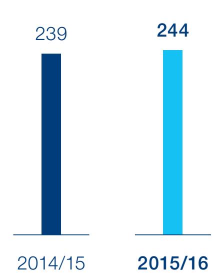
The operating earnings indicators of the three Group Divisions, Voith Hydro, Voith Paper and Voith Turbo, developed well, with profit from operations rising by 18% in total. The profit from operations of the Voith Group also rose slightly as forecast, although at the level of the holding company, valuation effects on foreign currency items as well as the build-up costs for setting up the new Voith Digital Solutions Group Division made themselves felt. The Group's net result, which had been negative in the previous year on account of high restructuring costs, was once again impacted by certain non-recurring effects in the year under review but returned to a positive figure of €29 million.

Total output within the Group fell to €4,252 million (previous year: €4,319 million, down 2%). In percent, the decline in total output was slightly higher than the fall in sales (down 1%). This resulted from the fact that the changes in inventories and other own work capitalized came to €0 in the year under review following €17 million in the previous year. The total output of the Group Divisions developed roughly in line with the respective sales (Voith Hydro up 5%, Voith Paper down 3% and Voith Turbo down 6%).

For information on the development of sales, we refer to section 02.3. "Sales" of this management report.

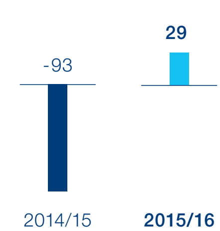
The cost of materials fell to €1,819 million (previous year: €1,833 million, down 1%). The ratio of costs of materials to total output rose slightly to 42.8% (previous year: 42.4%). Shifts in the product mix between material-intensive and less material-intensive business within the Group Divisions made a significant contribution to this effect.

Operational result before non-recurring items Group* in € millions



* Excluding the discontinued Group Division Voith Industrial Services.

Net result Group in € millions



As a consequence of the restructuring measures implemented and the related reduction in the employee headcount, personnel expenses were reduced to €1,401 million (previous year: €1,434 million, down 2%) despite current rises in personnel expenses of 3%. The ratio of personnel expenses to total output improved slightly to 33.0% (previous year: 33.2%).

Depreciation and amortization in the Voith Group fell by €11 million to €131 million (previous year: €142 million, down 8%). Voith Paper alone reduced its level of depreciation and amortization by €7 million specifically on account of the adjustments to production capacities performed in this Group Division. This meant that, as a percentage of total output, depreciation and amortization in the Group was thus reduced to 3.1% (previous year: 3.3%).

The balance of other operating expenses and income stood at €657 million (previous year: €672 million, down 2%). The ratio to total output improved to 15.4% (previous year: 15.6%).

The operational result before non-recurring items rose to €244 million (previous year: €239 million, up 2%). The profit from operations, an indicator used for internal management purposes, came to €275 million (previous year: €270 million, up 2%). On account of this improvement in profit from operations, return on sales increased slightly to 6.5% (previous year: 6.3%). ROCE (return on capital employed) improved to 12.9% (previous year: 12.2%). This means that we have met the target for this profitability indicator expressed in our 2015 annual report ("slight increase").

Detailed information on the development of profit from operations and ROCE by Group Division can be found in section 03 of the management report.

The non-recurring result stood at €-7 million (previous year: €-185 million).

In the previous-year period, the non-recurring result primarily reflected the expenses associated with the packages of measures introduced at Voith Paper (concentration of activities at a small number of locations to adjust the cost structure to the lower market volume) and expenses in connection with the Group-wide Voith 150+ success program (reorganization of indirect activities) which related to all Group Divisions. In addition, the non-recurring result reported in the previous year contained impairment losses on capitalized development costs at Voith Hydro.

In the year under review, the non-recurring result contains individual consequential effects from the packages of measures launched in the previous year. Specifically, expenses that did not qualify for recognition as a provision in the previous year, income from the sale of property and income from the reversal of provisions were realized. In addition, the non-recurring result includes personnel-related expenses arising from a restructuring measure at Voith Turbo introduced in response to the current market weakness in the oil and gas industry as well as in the mining industry and at steel producers. Furthermore, this figure also contains expenses at two Voith Paper subsidiaries mainly in connection with a restatement of a cut-off error.

Further information on the non-recurring effects can be found in note 07 of the notes to the consolidated financial statements.

In detail, the contributions to the non-recurring result were as follows: Voith Hydro €4 million (previous year: €-35 million), Voith Paper €-8 million (previous year: €-128 million), Voith Turbo €-5 million (previous year: €-12 million) and divisions with a holding function €2 million (previous year: €-10 million).

The share of profit/loss from companies accounted for using the equity method of €11 million (previous year: €-1 million) essentially comprises the share in the net result of KUKA Aktiengesellschaft, Augsburg, after deducting expenses from the purchase price allocation.

The balance of interest expenses and interest income amounted to €-78 million (previous year: €-64 million). This figure includes expenses of €6 million in connection with the note loan of €300 million issued in November 2015, as well as interest expenses of €8 million (previous year: €0) arising from the measurement of financial liabilities on account of termination rights of holders of non-controlling interests.

The other financial result amounted to €-29 million (previous year: €-11 million) and includes income from equity investments (€7 million, previous year: €5 million) and impairment losses on securities with a negative effect on profit or loss amounting to €-36 million (previous year: €-16 million).

Income taxes totaled €-51 million (previous year: €-48 million).

The net result from continued operations amounts to €89 million (previous year: €-71 million).

The net result from discontinued operations, which represents the contribution made by Voith Industrial Services to the Voith Group, was €-60 million (previous year: €-22 million). This figure includes the result generated by Voith Industrial Services until the date of sale (eleven months until August 31, 2016) and the effect on results from the sale.

Bottom line, the Group's net result comes to €29 million (previous year: €-93 million).

03

Business development and earnings position of the Group Divisions

The consistent efforts to increase efficiency and, in the case of Voith Paper, also restructuring measures adopted in recent years bore fruit in the year under review: the three continuing Group Divisions increased their profits from operations, significantly in some cases, and improved their profitability. In terms of sales and orders received, developments were not uniform and depended on their respective markets.

03.1. Voith Hydro

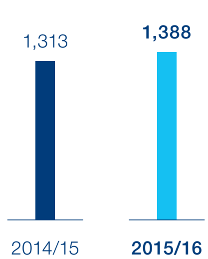
Stable, profitable growth

The Voith Hydro Group Division looks back on a good 2015/16 fiscal year in which sales, orders received and profit from operations exceeded our forecasts. Voith Hydro saw growth in terms of sales and profit from operations. Owing to a lower volume of projects awarded in the market, orders received were, as expected, slightly down on the previous-year figure; the decline was, however, smaller than expected.

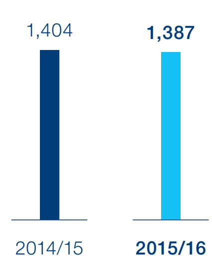
Sales increased by 6%

In the 2015/16 fiscal year, Voith Hydro increased its sales by 6% to €1,388 million (previous year: €1,313 million). This means that we have exceeded the forecast

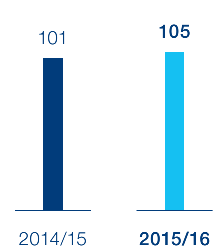
Sales Voith Hydro
in € millions



Orders received Voith Hydro
in € millions



Profit from operations Voith Hydro
in € millions



made in our 2015 annual report ("decreasing slightly") although sales were negatively impacted by currency effects. A strong service business made a special contribution to this pleasing development, but the sales from providing equipment for and modernizing hydropower plants also turned out to be better than expected. The regions with the strongest sales were North and Latin America, followed by Asia.

Orders received higher than expected

The volume of the hydropower market contracted slightly in the 2015/16 fiscal year. This does not represent a mid-term trend but is due solely to the irregular intervals at which major hydropower projects are awarded. In several major projects, the decision on awarding of the project was delayed in the year under review. Voith Hydro received new orders amounting to €1,387 million (previous year: €1,404 million, down 1%). The drop in the level of our orders received was lower than had been anticipated (forecast in the 2015 annual report: "falling tangibly"). Orders on hand improved to €3,315 million as at the end of the fiscal year on September 30, 2016 (previous year: €3,139 million).

The established hydropower markets in the US and Canada developed very positively in the year under review. The level of orders received in North America was dominated by a major contract in Canada: as part of the construction of the new Site C hydroelectric power station we were awarded a contract with a volume of around €320 million for the delivery of turbines and generator units. We also took an above-average share in the high volume of contracts awarded for modernization and services in North America.

In Europe, Voith was awarded contracts in Germany, Spain and the UK for the modernization of hydropower plants as well as services. In Norway, we succeeded in acquiring several major contracts within the scope of new large-scale hydropower plants. All in all, however, the hydropower environment remained difficult in Europe on account of the current energy policy situation, existing excess capacities and low energy prices. In Germany and Austria, the potential for new plants has largely been exhausted, and plans for pumped-storage power plants have been put on the back burner on account of the unfavorable legal framework. However, we succeeded in winning a contract for the first hybrid power plant worldwide; this plant combines pumped-storage technology with wind power and makes it possible to directly balance out fluctuations in supply and demand. For Gaildorf power plant in Germany, Voith is supplying the pump turbines and is participating in this innovative project that represents a milestone in technological achievement in the use of renewable energies. In Eastern Europe, the market volume remained low on account of the poor economic situation and a lack of financing concepts. In Russia, due to the weakness of the ruble and Western sanctions, domestic providers are being given preference when hydropower projects are awarded. Despite the more difficult market conditions, we have received order confirmation for the fourth installment in connection with modernization of Saratovskaya hydropower plant in Russia. Despite gradual economic recovery in the southern countries of Western Europe, these economies did not provide any impetus to the energy market.

In South Africa, Voith benefited from the extension of an existing contract.

Asia remains one of the most important sales markets for Voith Hydro, with the prospering and stable countries of Southeast Asia also gaining in importance alongside China and Japan. Voith was awarded contracts in Vietnam and, for the first time ever, in Bhutan; the latter related to Nikachhu hydropower plant. Bhutan, a country which has enshrined environmental protection in its constitution, relies heavily on hydropower and exports a share of the energy generated in this way to neighboring countries. Japan remained a significant sales market for new small-scale hydropower plants and in the field of modernization. In contrast, there was only a small market volume in India on account of a lack of energy-policy decisions. Following the raising of the embargo on Iran, we succeeded in winning a contract in that country again.

In Brazil, an important hydropower market, the ongoing economic and political crisis has prevented the approval of major infrastructure projects and even the implementation of plants already in planning. We do not anticipate an improvement in the demand situation before the second half of 2017. Individual contracts for new hydropower plants, modernization and small hydro projects were awarded in some of the stable and prospering countries in South America – Peru, Chile and Colombia. Voith took an appropriate share of this market volume.

Rise in profit from operations from an already high level

Due to the positive development of sales, Voith Hydro also exceeded its forecast for profit from operations (“decreasing slightly”). Voith Hydro increased its profit from operations by 5% from an already high level to €105 million (previous year: €101 million). The return on sales stood at 7.6% (previous year: 7.7%). ROCE (return on capital employed) reached 21.3% (previous year: 21.1%), a better level than anticipated (forecast in the 2015 annual report: “remaining constant”).

03.2. Voith Paper

Profitability significantly higher

In a market environment that was difficult at times and did not revive until the second half of the year, Voith Paper reported a slight decline in orders received. The consistent restructuring measures adopted in recent years are bearing fruit: despite a slight fall in sales, Voith Paper significantly increased its profit from operations and improved its profitability.

Slight decline in sales

In the 2015/16 fiscal year, our Voith Paper Group Division generated sales amounting to €1,456 million (previous year: €1,506 million). With a decline of 3% that was caused in part by slightly negative currency effects, we did not quite match our forecast (2015 annual report: “stabilization on a par with the previous year”).

The fall in sales results entirely from the project business (new machines and major rebuilds). It must be considered, however, that the comparative figure from the previous year had been high, driven by isolated high-volume investments. In the business with products, consumables and services, we benefited, as anticipated, from the slight rise in global paper production and achieved a slight rise in sales.

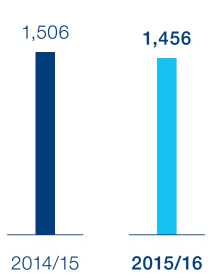
With regard to regional distribution, the Americas, Asia and Europe excluding Germany regions generated roughly the same volume of sales. In Asia, developments were weaker than in the previous year under the influence of excess capacities in China. In contrast, we can report pleasing sales growth in North America and Europe.

Orders received slightly down

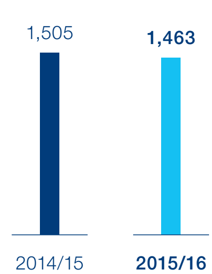
In the 2015/16 fiscal year, our orders received stood at €1,463 million (previous year: €1,505 million, down 3%). This means that we did not quite achieve our forecast (2015 annual report: “stabilization on a par with the previous year”), an outcome to which negative currency effects made a contribution.

The business with products, consumables and services increased, while the project business saw a weaker development than in the previous year. As at the end of the fiscal year on September 30, 2016, orders on hand improved to €988 million (September 30, 2015: €961 million).

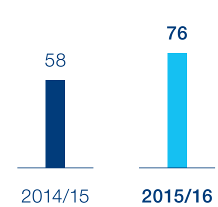
Sales Voith Paper
in € millions



Orders received Voith Paper
in € millions



Profit from operations Voith Paper
in € millions



The largest share of orders received by Voith Paper in the year under review comes from the EMEA region. Some projects were won in South America despite the persistently difficult market environment. In the year under review, Asia stood at the same level as that seen in the previous year.

The production of graphic paper is on decline worldwide, while the board and packaging paper and tissue segments continue to report growth. In all regions, tissue manufacturers made appreciable investments in new tissue machines. In contrast, the market for board and packaging paper essentially focused on the Asia and Europe regions.

In the year under review, Voith Paper succeeded in winning significant contracts for new machines and rebuilds primarily for the manufacture of board and packaging paper and tissue. These included two tissue manufacturing machines each for the customers Suzano in Brazil and Lee & Man Paper Manufacturing in China. But we were also successful in the market segment of specialty papers and even in the area of graphic paper. The machines ordered ranged from a 2 meter wide specialty paper machine through to a 10 m wide copy paper machine.

As in previous years, our European business was marked by rebuild projects. In addition to one order for a new machine, we received rebuild orders from Germany, Finland and Sweden. Outside of Europe, there were once again increasing numbers of orders for new machines. Although demand in Asia – under the influence of excess capacities in China – was subdued overall, we received several orders for new machines for all grades of paper from China, India and Japan. Despite good figures being reported by Latin American paper and pulp manufacturers, the economic and political uncertainty prevailing in Brazil brought about a reluctance to engage in investments. Voith performed successfully in this difficult environment and was awarded, for example, orders for the manufacture of three tissue machines and a major rebuild project. Driven by strong demand for packaging paper, there is a reorientation taking place in North America and manufacturers are once again planning investments in new machines. In the traditionally strong US tissue segment, Voith received an order for a new machine.

Significant increase in profitability

In the 2015/16 fiscal year, Voith Paper increased its profit from operations by 33% to €76 million (previous year: €58 million). This exceeded our expectations (2015 annual report: "noticeable growth") and is the result of the efforts put into restructuring in recent years. The return on sales improved to 5.3% (previous year: 3.8%). It was possible to significantly increase ROCE due to the rise in profit from operations and on the basis of a lower level of capital employed. After 6.8% in the previous year, ROCE stood at 10.2% in the 2015/16 fiscal year, thus in excess of the forecast figure (forecast from 2015 annual report: "high single-digit figure").

03.3. Voith Turbo

Significant increase in profit from operations

In the 2015/16 fiscal year, Voith Turbo suffered downturns in orders received and sales in a market environment that was difficult in many areas. Strengthened by the efficiency programs implemented in recent years and in the absence of the non-recurring effects seen in the previous year, Voith Turbo saw significant growth in terms of profit from operations and improvements in terms of profitability.

New organizational structure with two divisions

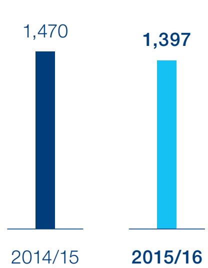
Voith Turbo introduced a new organizational structure effective as at June 1, 2016: the previous Mining & Metals and Power, Oil & Gas divisions were merged to form the Industry division. The former Rail and Commercial Vehicles divisions were brought together as one division under the new name of Mobility. In addition, two overarching functional areas were created to support the two divisions: an integrated purchasing, logistics and production function and research & development. By bundling together competencies that had previously been dispersed throughout the Group Division, Voith Turbo is promoting the sharing of knowledge on processes, methods and tools within the Group Division and is continuing its efforts to become even more effective and customer-focused in the market. In the present annual report, we are reporting on the performance indicators for the Voith Turbo Group Division in its new divisional structure for the first time.

Slight decline in sales

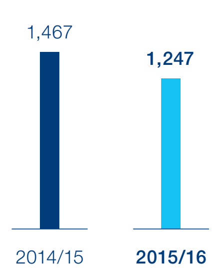
In the 2015/16 fiscal year, Voith Turbo generated sales of €1,397 million (previous year: €1,470 million). With a decline of 5%, which was caused in part by negative currency effects, this figure fell slightly short of budget (forecast in the 2015 annual report: "constant").

This fall in sales resulted from the slump in commodity prices which has been ongoing for several years now and the erosion of the price of oil, both market conditions which have a correspondingly negative impact on our business with mine operators as well as oil companies. This meant that the Industry division experienced a significant fall in sales. In contrast, sales in the Mobility division remained roughly stable.

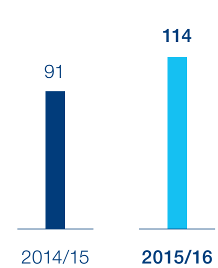
Sales Voith Turbo
in € millions



Orders received Voith Turbo
in € millions



Profit from operations Voith Turbo
in € millions



More than half of sales in the past fiscal year were attributable to Europe (including Germany), where Voith Turbo generated pleasing growth. The Asia-Pacific region accounted for more than one-quarter of sales.

Orders received down on previous year

In the 2015/16 fiscal year, Voith Turbo received new orders worth a total of €1,247 million. Contrary to forecasts, orders received decreased by 15% on the previous year (€1,467 million). On September 30, 2016, Voith Turbo had orders on hand worth €1,004 million (previous year: €1,186 million).

The main reason for the decline in orders received was the fact that mine operators as well as oil companies are continuing to trim their investment budgets due to their exceedingly difficult market environment. As a consequence, there was a significant decline in the Industry division's orders received. The hoped-for market recovery underlying our forecast for Voith Turbo's orders received published in the 2015 annual report ("constant") has not come about to date. For this reason, we had already made the corresponding corrections to our forecast in the six-monthly financial statements published in May 2016.

The Mobility division remained at a high level, but was down on the previous year. The main reason for this is that we were not able to match the exceedingly high level of orders received in the rail segment in the two previous years. In particular on the major Chinese market for rail vehicles demand remained restrained.

Both divisions saw positive developments in the service business: in the Industry division, there is increasing demand for maintenance services on account of the rise in the number of Vorecon variable-speed planetary gears installed. And in the Mobility division, overhauls of commercial and rail vehicles are due at a large number of operators.

Profit from operations increased by 25%

Voith Turbo increased its profit from operations by 25% to €114 million in the 2015/16 fiscal year (previous year: €91 million) despite declining sales. This means that this figure matches the forecast (2015 annual report: "large increase"). This exceptionally positive development arises from the absence of non-recurring effects seen in the previous year and, most of all, from the successful execution of the efficiency programs under the banner of the Voith 150+ program. In the year under review, the return on sales increased from 6.1% to 8.1%. ROCE improved from 12.3% to 15.8% and stood at a figure well into the double digits, as forecast.

04 Net assets and financial position

The structure of the Voith Group's assets, equity and liabilities is healthy. In the year under review, we generated positive figures with regard to both cash flow from operating activities and total cash flow.

04.1. Balance sheet

Measurement-related increase in pension provisions reduces equity

In comparison to September 30, 2015, total assets decreased by €92 million to €5,359 million (previous year: €5,451 million, down 2%), due among other things to the sale of Voith Industrial Services. In the previous year, the assets and liabilities of this Group Division, which has been sold in the meantime, were still included in the balance sheet items assets held for sale and liabilities directly associated with assets held for sale. In addition, the assets in connection with the shareholding in KUKA Aktiengesellschaft were reclassified to the item "assets held for sale" on account of the planned sale within the scope of a public takeover bid. This caused a shift on the assets side from non-current to current assets. Also on the liabilities side a shift from non-current to current liability occurred.

In total, non-current assets were reduced by €482 million to €2,056 million (previous year: €2,538 million, down 19%). The major contribution to this decrease came from the planned sale and consequently the reclassification of the shares in KUKA Aktiengesellschaft, Augsburg, from the balance sheet item "investments accounted for using the equity method" to the item "assets held for sale" (€592 million, previous year: €597 million) described above. On account of measurement-related changes, non-current securities fell by €26 million. In contrast, other financial assets increased by €74 million, due among other things to a higher level of loans (up €50 million).

Current assets increased by €390 million to €3,303 million (previous year: €2,913 million, up 13%). This was in part attributable to the €215 million rise in cash and cash equivalents to €650 million (previous year: €435 million) on account of, among other things, the provisional purchase price payment for Voith Industrial Services contained therein. Furthermore, receivables from customer-specific contracts rose; these contain long-term contracts that are accounted for using the percentage-of-completion method (increase of €150 million; this figure contains €135 million pertaining to Voith Hydro and €15 million to Voith Paper). Assets held for sale increased slightly by €26 million to €609 million. In the previous year, this item exclusively contained the Voith Industrial Services Group Division (€583 million), which was sold as at August 31, 2016. In the year under review, the item mainly consists of the shares in KUKA Aktiengesellschaft, Augsburg, as explained above.

Non-current liabilities declined by €154 million to €1,777 million (previous year: €1,931 million, down 8%). One of the reasons for this change was the reclassification of the bond amounting to €597 million (previous year: €593 million) to current liabilities on account of its maturity in the 2016/17 fiscal year. This was partly offset by the successful placement of a note loan for €300 million; the loan is for general company financing purposes and the refinancing of financial liabilities in particular. In the course of its placement, banks and institutional investors subscribed to note loans in tranches with terms of five, seven and ten years at fixed and variable interest rates. Furthermore, the pension provisions rose by €130 million due to the reduction in the discount rates in Germany, the US and Canada.

Current liabilities rose by €137 million to €2,783 million (previous year: €2,646 million, up 5%). The increase is attributable to the reclassification of the bond explained above. This effect was partly reduced by the repayment of current bank loans (down €251 million). Furthermore, liabilities from customer-specific contracts rose by €72 million (thereof Voith Hydro €61 million) and trade payables by €33 million. The decrease in current other provisions (down €39 million) is essentially attributable to a lower level of provisions for restructuring (down €52 million). Current other liabilities decreased by €26 million, mainly on account of a lower level of customer advances (down €23 million). In the previous year, liabilities directly associated with assets held for sale exclusively represented the liabilities of Voith Industrial Services (€281 million), as did assets held for sale with respect to the Group Division's assets.

The net balance of deferred tax assets and liabilities increased by €68 million, caused among other things by the tax effect on the measurement-related rise in pension provisions.

Further information on the structure of equity and liabilities can be found in section 09.2. of the management report under "Liquidity and financial risks" as well as in note 22 in the notes to the consolidated financial statements.

Equity decreased to €799 million (previous year: €874 million, down 9%). Measurement-related adjustments to pension provisions and dividend payments were the main contributing factor to this change. They were partly offset by the Group's positive net result. The equity ratio fell to 14.9% (previous year: 16.0%).

04.2. Liquidity

Total cash flow positive

In contrast to the consolidated statement of income, the consolidated cash flow statement does not present the effects of continuing operations and discontinued operations separately. The cash inflows and outflows relating to Voith Industrial Services are therefore contained in the individual lines of the cash flow statement.

The cash flow from operating activities amounted to €58 million in the year under review (previous year: €151 million). The year-on-year reduction was mainly due to changes in provisions and accruals (decrease of €74 million in the year under review; previous year: increase of €125 million). In comparison to the previous year, this figure contains a higher level of outflows, essentially relating to provisions for restructuring and warranty provisions. Furthermore, the cash flow from operating activities fell compared to the previous year on account of a smaller contribution from discontinued operations.

The cash flow from investing activities of €120 million (previous year: €-693 million) is marked by two factors: the investments in property, plant and equipment and intangible assets of €-138 million (previous year: €-103 million) and the fact that in the year under review this figure contained the receipts and payments in connection with the sale of Voith Industrial Services. In the previous-year period, it contained the payments in connection with the acquisition of the shares in KUKA Aktiengesellschaft.

The cash flow from financing activities of €25 million (previous year: €185 million) mainly stems from the balance of new borrowed capital net of repayments, which decreased in comparison to the previous-year period.

Total cash flow amounted to €203 million (previous year: €-357 million).

Net debt, measured as the difference between interest-bearing financial liabilities and liquid financial assets, amounted to €-168 million (net asset position). In the previous-year period, this figure stood at €574 million. In the year under review, net debt contains the carrying amount of the investment accounted for using the equity method in KUKA Aktiengesellschaft, which is contained in assets held for sale in the consolidated balance sheet. The financing requirements for the acquisition of the KUKA shares had a significant impact on the previous-year figure.

The net debt indicator is not defined under International Financial Reporting Standards (IFRS) accounting policies, which means that its definition and calculation might diverge from practice at other companies. In contrast to the carrying amounts in the balance sheet, which are based on the effective interest method, the indicator is calculated by measuring financial liabilities at their higher nominal repayment amount.

Development of cash flow
in € millions

	2015/16	2014/15
Cash flow from operating activities	58	151
Cash flow from investing activities	120	-693
Cash flow from financing activities	25	185
Total cash flow	**203**	**-357**

04.3. Capital spending

Increase in capital spending

In the 2015/16 fiscal year, we invested a total of €121 million (previous year: €80 million, up 51%) in improving productivity and in the future strategic alignment of the Voith Group, thus raising our capital expenditure volume again. This does not include the investments made in the discontinued Voith Industrial Services Group Division of €18 million (previous year: €23 million). As a percentage of the Group's sales, our investment ratio came to 2.8% in the year under review (previous year: 1.9%).

The increase in capital expenditures was driven above all by the Voith Turbo Group Division, on account of a major single investment in China. We also perceptibly increased our spending on cross-divisional activities. On the one hand, we invested in a state-of-the-art, connected and robot-assisted "Industry 4.0" production line for series production of carbon fiber composites. On the other, we made our first capital expenditures for setting up the Voith Digital Solutions Group Division.

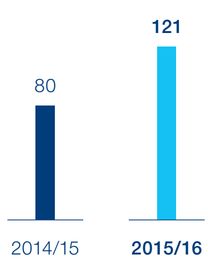
Investment focus on Germany and Asia

The projects mentioned above are the reason why our capital spending in Germany, at €65 million, is almost double that of the previous year (previous year: €35 million). Germany thus accounted for over half of global capital spending (54%, previous year: 43%).

For years, we have sustained a strong commitment in Asia, above all in China. In the 2015/16 fiscal year, we invested a total of €32 million (previous year: €20 million) in this high-growth region. That is 27% of our total investment spending in the year under review (previous year: 26%).

We invested €17 million in the Americas (previous year: €16 million) or 14% (previous year: 20%) of the total volume. In Europe excluding Germany, capital spending came to €6 million (previous year: €8 million), equal to a share of 5% (previous year: 10%).

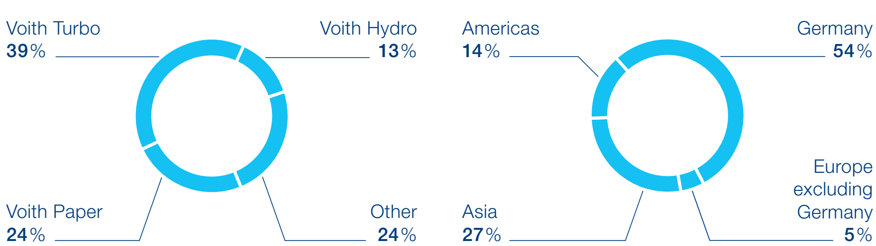
Investments Group*
in € millions



* Excluding the discontinued Group Division Voith Industrial Services.

Investments total €121 million*
by Group Division

by region



* Excluding the discontinued Group Division Voith Industrial Services.

Voith Hydro: stable investment volume

In the year under review, Voith Hydro invested a total of €15 million in the capacities of its value chain, i.e. less than in the previous year (previous year: €19 million, down 18%). As a percentage of sales, this corresponds to an investment ratio of 1.1% (previous year: 1.4%). One of the investment priorities was to expand production capacity in China.

Voith Paper: service center in Chile expanded

At Voith Paper, capital expenditures amounted to €30 million (previous year: €22 million, up 33%). The investment ratio was 2.0% (previous year: 1.5%). A large proportion of Voith Paper's investments were made in the North America and Asia regions. To offer our South American customers the best possible service, we expanded the service center in Chile.

Voith Turbo: new production facility in Shanghai

The Voith Turbo Group Division invested a total of €46 million in property, plant and equipment in the 2015/16 fiscal year (previous year: €29 million, up 61%). This corresponds to an investment ratio of 3.3% (previous year: 2.0%). Voith Turbo's investments were focused primarily on the growing market of China. Among other things, we invested in a new production facility in Shanghai, which was commissioned in October 2016.

New production line for series production of carbon fiber composites

At the end of September 2016, we commissioned a new "Industry 4.0" production line at our cross-divisional Development and Production Center for Composites in Garching near Munich, thereby laying the groundwork for industrial mass production of carbon fiber (CFRP) composites for automotive customers. The new production line is equipped with state-of-the-art systems and processes; all facilities are digitally linked and automated. The new "Carbon 4.0" production provides maximum efficiency and quality and constitutes a technological milestone in carbon fiber composites manufacturing.

Further information about Voith's innovation activities is provided in section 05 "Research and development."

04.4. Financial assets and investments

Details of the Group strategy are provided in section 01.4 of the management report.

Sale of Voith Industrial Services completed successfully

Effective August 31, 2016, we sold the Voith Industrial Services Group Division as announced in the previous year. The new owner took over the majority in the entire Group Division in order to continue operating it under a new brand and with a new company name. With a financial investment of 20%, Voith retains an interest and will provide support for the transition. The background to this was the fundamental strategic decision to focus the Voith Group on its technology and engineering competence for the digital age.

KUKA shares offered for sale in public takeover offer

We are planning to sell our 25.1% shareholding in the publicly listed robotic systems manufacturer KUKA Aktiengesellschaft, Augsburg. In July 2016, we made the decision to accept the financially exceedingly attractive public takeover bid submitted by Chinese investor MIDEA and to offer the shares for sale in the takeover offer. The value of our investment has more than doubled within the one and a half years since we purchased the shares in December 2014. Assuming the sales process goes according to plan, we anticipate a cash inflow of around €1.15 billion after closing of the sale of shares. In the year under review, the investment was accounted for using the equity method in the Voith GmbH consolidated financial statements until June 30, 2016. Due to the planned sale, the investment was then reclassified to securities held for sale.

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 year under review, we invested €208 million, or 4.9% of the Group's sales, in R&D activities.

Innovative strength as key success factor

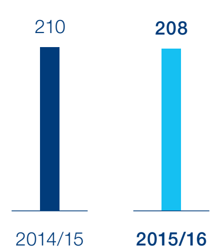
Voith's strong position on its markets and in its regions is largely based on the technological engineering competence it has built up as a result of decades of research and development work. Since the Company was founded, our engineers have been writing history with their inventions in the field of technology. All three of our Group Divisions – Voith Hydro, Voith Paper and Voith Turbo – have a strong intellectual property base. The Voith Group currently has many thousands of active patents around the world, and hundreds more are registered each year.

Technological expertise and the ability to translate our know-how time and again into innovations with added value for our customers are the basis of our future business success. This is why we have always invested in research and development for new solutions, even in difficult economic times – more than €1.1 billion in total over the past five years. In the 2015/16 fiscal year, the Group's R&D spending amounted to €208 million (previous year: €210 million, down 1%). At 4.9%, R&D spending as a percentage of the Group's sales was at the same level as in the previous year (previous year: 4.9%). Of the total R&D spending of €208 million, €7 million was capitalized (previous year: €3 million). Amortization of €7 million was recognized on capitalized development costs in the year under review (previous year: amortization and impairment losses of €33 million).

The majority of the Voith Group's research and development activities is performed by the Group Divisions. Cross-divisional development activities account for a small portion of our R&D expenditure.

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

Research and development*
in € millions



* Excluding the discontinued Group Division Voith Industrial Services.

Aligned with global megatrends

One of Voith's objectives as a supplier to industry is to enable our customers to contribute to sustainable economic development. 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 for the 21st century, they are also the central themes of our research and development strategy at Voith.

In the years ahead we will also concentrate increasingly on consistently exploiting the opportunities offered by digitization and connectivity to develop customer-oriented industrial solutions. Our aim is to create significant added value for our customers with our "Industry 4.0" offerings and to play a leading role in the digital transformation of mechanical and plant engineering. Voith Hydro, Voith Paper and Voith Turbo have in the past driven various projects in these areas, brought some of them to market maturity and already generated sales with some of them. In connection with the implementation of our digital agenda, all digital R&D projects were transferred to the new Voith Digital Solutions Group Division in the year under review.

Further information on our "Industry 4.0" strategy can be found in section 01.4. "Group strategy."

In the year under review, all Group Divisions again made substantial progress with their research and development work.

Voith Hydro: optimum generating station design developed for major Canadian project

In the year under review, Voith Hydro continued to work intensively on the ongoing development of the most established and important form of renewable energy in the world, i.e. hydropower.

As part of our participation in the tendering process for the new Site C hydroelectric power project to be built in Canada, we performed an R&D project in the previous fiscal years that played a key role in securing this major contract for us. In accordance with the customer's specifications we developed an optimum powerhouse design. We defined the size and design of the structure, as well as the capacity and dimensions of the power units that we are to deliver. In a competitive model test conducted at École Polytechnique Fédérale de Lausanne, we were able to prove the offered performance level – an optimum balance of compact outer dimensions and an outstanding high annual energy output – in a direct comparison with the competition which was a major contributor to the success. The systematic investigations as part of the pre-development for Site C have considerably helped to obtain a better understanding of the flows in the draft tube. These findings were incorporated in improved calculation techniques for layout and design of Francis turbines and are today applied in all comparable projects.

In the year under review, one of the topics we worked on was digital solutions for hydropower plants. A focus was placed on our novel facility monitoring system HyGuard, which is currently being tested in a pilot project. Monitoring of noises in a power plant, for example, can help to monitor trends and interpret anomalies. HyGuard Acoustic can also be used in conjunction with other monitoring systems measuring oscillations or temperatures, for example. The development of monitoring systems has in the meantime been transferred to the new Voith Digital Solutions Group Division.

In the year under review, we built a demonstration and test power plant for the StreamDiver on our company premises in Heidenheim, which is to be commissioned at the end of 2016. The StreamDiver is an innovative turbine generator unit for small hydropower plants that reduces the scope and impact of building work on the environment to a minimum, eliminates any threats to the quality of water and minimizes maintenance costs. The innovative power plant concept, also in the form of a container power plant, is even suitable for developing areas for hydropower generation where it has not been possible to date to construct conventional hydropower plants owing, for example, to insufficient heads or for reasons of nature conservation.

Voith Paper: Papermaking 4.0 program refined

With Papermaking 4.0, Voith Paper is making a smart contribution to increasing efficiency, productivity and quality along the paper manufacturing value chain, even in existing facilities. The Papermaking 4.0 innovation program introduced in the previous year has met with great interest on the market worldwide and Voith Paper is currently discussing cooperation with a large number of customers. Meanwhile, the program is being driven forward with the new Voith Digital Solutions Group Division.

In addition, Voith Paper continued to concentrate on resource-saving solutions that also offer customers substantial cost benefits and again launched several products in the 2015/16 fiscal year. One example is the new MultiSeal Plus sealing technology. It improves processes in the dryer section of paper machines. The entire sealing technology is an upgrade for the ProRelease+ web stabilization system and results in better performance and an increase in machine speed. PeakElement is an elastomer component developed by Voith that is available for all Voith press felt designs and improves the efficiency of machines for all paper grades. The use of PeakElement reduces start-up time and energy consumption. Voith Paper has enhanced its CleanWave product range with the new Magma and Magma^{High} dryer fabrics. Magma dryer fabrics are made from hydrolysis-resistant PPS and can be used reliably even in the hottest dryer positions. In addition, Voith Paper expanded its product portfolio in the area of roll covers: the new roll covers, MatchPress for press rolls and MatchFlow for suction press rolls, are tailored to the requirements of small and medium-sized graphic and packaging paper machines. They help to increase production volumes and exhibit reduced wear.

Voith Turbo: central R&D function installed

In the 2015/16 fiscal year, Voith Turbo created a cross-divisional research and development function that combines all R&D activities of the Group Division under central management. By combining competencies that were spread over various divisions, we aim to promote knowledge sharing and create synergies within the Group. The development projects relating to “Industry 4.0” were transferred to the new Voith Digital Solutions Group Division in the course of the year under review.

At Voith Turbo, the strategic focus of R&D work included the development of digital innovations for “Industry 4.0” as well as adding electrical engineering and mechatronics to Voith Turbo’s established core mechanics and hydrodynamics competences.

We launched various new products on the market in both divisions in the year under review. In the Industry division, for example, we expanded our Vorecon portfolio with the new NX series. Vorecon is a variable speed planetary gear used in all areas of the oil and gas industry’s value chain. VoreconNX is specifically designed for use in pipeline compressors, for applications in the power range up to 10 megawatts where it increases efficiency considerably. We also presented the BHS AeroMaXX for the first time. The AeroMaXX technology can be installed on new and existing gear units. The BHS AeroMaXX increases driveline efficiency by 0.5% and reduces oil consumption by 30%. The BHS AeroMaXX is designed for high pitch line velocities in conjunction with medium and high outputs. These include, for example, turbines on generators in central energy supply systems. For mining applications, Voith Turbo has launched several new start-up couplings on the market, including the CPC 1000, which offers operators great added value through increased efficiency, reduced water consumption and improved self-diagnosis.

In the Mobility division, we presented the new compact S111 hydrodynamic turbo transmission for special-purpose rail vehicles. The S111 even turns special-purpose vehicles in the lower power range into robust, long-lived and maintenance-friendly working machines and has been designed specifically for the Chinese market. The diesel-electric RailPack 400DE drive system was another product that we introduced in the year under review. Voith RailPacks are end-to-end drive systems comprising the engine and drives. RailPacks are available as diesel-mechanical, diesel-hydraulic and now also as diesel-electric variants. The Voith-patented “bionic toothing” makes it possible to realize considerable cost and weight benefits in rail vehicle components. Voith Turbo is already using this innovative toothing geometry for wheelset transmissions for high-speed trains, for example, and will in future also apply it in other components of its product portfolio.

Milestone in industrial series production of carbon fiber composites

We research and develop industrial production processes for CFRP (carbon fiber-reinforced plastic) composites at our cross-divisional Development and Production Center for Composites opened in 2011. 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. This is a long-term 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.

In the year under review, Voith Composites laid the groundwork at its Garching plant for large-scale production of carbon fiber-reinforced components for automotive customers. This is a milestone in the industrial mass production of CFRP components. The framework for large-scale production was put in place as a result of the development partnership that has existed between Voith Composites and automotive manufacturer Audi since 2011. The partners had agreed to develop carbon fiber-reinforced components and produce them in a highly automated manufacturing procedure for use in large-scale production. We have ambitious growth targets and want to expand our CFRP production together with further customers from the automotive sector.

One unique characteristic of “Carbon 4.0” production is the Voith-patented direct fiber placement procedure that integrates several process steps into one and a digitally linked and automated production system. This significantly increases efficiency and manufacturing quality.

06

Sustainability

For us, sustainable business and the pursuit of corporate success go hand in hand. We aim to create 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 based on our understanding of sustainability: the obligation to leave a minimum ecological footprint, to act fairly, and to return a profit over the long term. Our motto is for Voith to make a measurable contribution to sustainable development.

The organization, responsibilities and the principles of our actions are embedded in the Group Directive on Sustainability, which came into effect in December 2015. Six defined fields of action integrate sustainability management into the Group. These include sustainable business management, the pursuit of profitable growth, responsibility for products and supply chains, for the environment, for our employees and social responsibility. Information on the field of action regarding profitable growth can be found in sections 02, 03, 04, 09 and 10 of this management report. How Voith meets its responsibility to its employees is described in detail in section 07 of this management report. The other fields of action are described in this section 06.

Voith began implementing sustainability management throughout the Group in 2008. Since 2009, Voith has recorded and analyzed all relevant environmental data, materials indicators and selected personnel data. Over several years, we have built up powerful IT systems to integrate this data across Group Divisions and regions and to use it as a basis to provide our sustainability experts and executives worldwide with highly standardized and automated processes for their day-to-day work. In the 2014/15 fiscal year, for example, we implemented the integrated IT systems hse+ for occupational health and safety and environmental protection issues and pep. for human resources. Both systems were successively expanded to include additional functions. Each year since 2011, we have published an extensive sustainability report, which 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.

Further information on pep. can be found in section 07 “Employees.”

The Voith Sustainability Report 2015 is available on the Internet at: **http://voith.com/en/Voith-sustainability-report-2015.pdf**

Our most important stakeholders are Voith's owners and supervisory bodies, customers, employees, works council, suppliers and investors, the local population at the locations, business associations, public authorities and academia, and policy-makers.

In order to focus our sustainability management and reporting on the issues that matter most, we conduct stakeholder surveys at regular intervals that are fed into detailed materiality analyses. The most recent survey was held in spring 2016. The findings of the materiality analysis based on this survey will be fed into the refinement of our sustainability strategy. We hope to receive important input from the new Advisory Board formed in the year under review, which comprises leading sustainability experts. The Advisory Board met for the first time at the beginning of 2016 and will provide us with ongoing support and advice in the future.

Responsibility for the environment

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

For us, responsibility for the environment involves two issues: firstly, it means avoiding risks by complying with the Company's policy and government legislation on environmental matters and minimizing the damage to the environment caused by our business operations "Eco Standards". Secondly, it relates to exploiting opportunities and potential to maximize efficiency by improving the energy and resource efficiency of our production locations "Ecological Business Management" (EBM) and promoting energy and resource-efficient innovation with regard to our products and services "Eco Technologies".

On the basis of the 2011/12 fiscal year, the Corporate Board of Management defined three central goals in the area of environmental protection. Within six years, by the 2017/18 fiscal year, we want to achieve the following:

- Cut our sales-related energy consumption by 20%
- Reduce our volume of waste by 25%
- Lower freshwater consumption by 10%

We are currently on track to reach our targets but we must make further efforts to consistently pursue the course to achieve the reductions.

In the year under review, we intensified our internal communications activities, introducing various newsletters on occupational health and safety and environmental protection, as well as ecological business management that are sent out on a regular basis.

Our commitment to the environment has been recognized in a number of awards that we received over the past years. In the year under review we took second place in the ener.CON Award 2016. The award acknowledged the ecological and economic success we have achieved so far in reducing energy and freshwater consumption as well as the volume of waste. Furthermore, within the scope of the German Awards for Excellence awarded by Deutsche Gesellschaft zur Zertifizierung von Managementsystemen (DQS), we received an accolade in two categories: “Energy Efficiency” and “Water Footprint”. As grounds for their decisions, both juries emphasized our green controlling approach. This is a solution derived from conventional financial controlling processes, which makes business and ecological efficiency potential measurable and controllable. In addition, we have recently been nominated for the Baden-Württemberg Environmental Prize which will be awarded in November 2016.

Responsibility for products and supply chains

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 products and services should make a contribution to the conservation of resources and environmental protection throughout the entire value chain, from the manufacturing process through to their use.

A Group-wide management system for technical risks and quality (TRQM) is used to manage targets, processes and methods for the development and production phase. This is supplemented by policies specific to each Group Division. As part of a Group-wide operational excellence initiative, we are constantly optimizing the quality of our products and processes. Virtually all Voith locations have been certified under the international quality management standard ISO 9001.

Product ownership as we understand it involves constant customer dialog based on mutual trust. Our customers’ expectations are integrated in our product development, and we support our customers with special training offers and advice on the most economical operation of our products.

Our understanding of corporate responsibility also extends to our suppliers. The quantity and broad spectrum of procured goods and services make it a challenging task to ensure our supply chains are sustainable.

We have integrated social, ecological and economic aspects in our General Terms and Conditions of Purchase. Not only do our direct suppliers agree to comply with these General Terms and Conditions of Purchase, they also undertake to pass on these requirements to any subsuppliers. Furthermore, we request self-assessments from our suppliers and service providers on a regular basis and have the suppliers with the strongest sales evaluated by our staff in the departments responsible once a year. The results are stored in our central supplier management database. Long-term relationships of trust with our suppliers help us to minimize risks in the procurement process. In this context, we work with a preferred supplier and a blocked supplier concept. Social, ecological and economic aspects are included in both concepts.

In the 2015/16 fiscal year, a study conducted by ETH Zurich helped us identify the most significant economic, social and ecological risks in our supply chain. These risks have been included in a risk map that we will use in the future to derive needs-based strategies and concepts for our supplier management, the self-assessment and supplier evaluation prioritizing Voith's key product groups and regions).

Social responsibility

We support local institutions and make a contribution to the development of society at all Voith locations around the world. The type and scope of our commitment as well as eligibility criteria have been documented in the Group Directive on Donations and Sponsorship since 2008. As part of our commitment to society, we support activities and organizations in the fields of education, social welfare, sports and culture. And, quite apart from all of the above, Voith takes action where it perceives an urgent humanitarian need.

Voith is one of the initiators of the "Wir zusammen" (We Together) integration initiative of German industry launched in February 2016; this initiative is implementing a wide range of projects with the aim of pressing forward with the long-term integration of refugees in Germany. Voith's own involvement takes the form of mentoring in vocational training to make it easier for refugees to integrate into the labor market. Up to eight refugees a year can take part in an eleven-month initial qualification program after successfully completing a practical training course at the Heidenheim location. In addition to in-company training and vocational tuition, this program includes additional offerings such as in-house German classes and intercultural training. Depending on each candidate's suitability and development, the objective is to prepare them for regular vocational training or alternatively to provide them with the basic qualifications for a job. Four young men from Syria, Eritrea and the Gambia started the course to obtain entry-level qualifications at Voith as part of this program on October 1, 2016.

07

Employees

Qualified, motivated and dedicated employees are the foundation and motor of our success. We endeavor to offer our employees who meet our high demands challenging tasks, individual development opportunities and an attractive workplace. We take into account each of our employee's personal situations and enable them to pursue a wide range of different career options. At the close of the 2015/16 fiscal year, the Voith Group had around 19,100 employees.

Major changes in the work force structure

The major transformation of the Group under the banner of the Voith 150+ success program had a strong influence on the size, composition and organization of our human resources. The principal developments of the year under review were:

- Voith Paper completed the third package of measures as part of the restructuring activities conducted over a period of several years. In the 2014/15 and 2015/16 fiscal years, a total of around 830 jobs (FTEs) were cut.
- In the course of reorganization of the indirect functions, a total of around 450 jobs were either transferred from the Group Divisions to the Group's holding company or created there; this process had already started at the end of the previous year. A more efficient organization also made it possible to save about 720 jobs on balance throughout the Group. A large part of the job cuts already took place in the previous year.
- The reorganization and job cuts as part of the Voith 150+ program have thus practically been completed. In the 2016/17 fiscal year, there will be a small number of further job reductions, for which the contractual agreements have already been signed and the effects accounted for.
- The new Voith Digital Solutions Group Division is in the phase of being set up, which started in the second half of the 2015/16 fiscal year. In this context, employees are currently being transferred to the new Group Division from other Group Divisions and the Group's holding company and new employees are being recruited. The transfer process started in the year under review and will continue into the year 2017. As at September 30, 2016 Voith Digital Solutions already had around 650 employees.

Further information about the Group's transformation as part of the Voith 150+ program and on Voith's digital strategy can be found in section 01.4. "Group strategy."

- Since the sale of the Voith Industrial Services Group Division as at August 31, 2016, its around 17,600 employees are no longer part of the Voith Group. Voith Industrial Services was already no longer included as a continuing operation in the 2015 annual report and its employees were accordingly not included in the Group's headcount.

Headcount down by around 1,100

As at September 30, 2016, the Voith Group had 19,098 employees (full-time equivalents without apprentices). Overall, this is 1,125 or 6% fewer jobs than one year previously (September 30, 2015: 20,223). This decrease in headcount is mainly due to the job cuts described above.

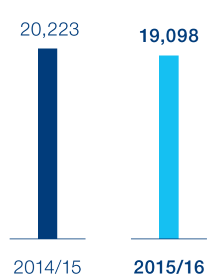
In the year under review, 1,189 jobs were cut at Voith Paper, some through redundancies, others by transfer to the Group's holding company or the Voith Digital Solutions Group Division. At the end of the year under review, the Voith Turbo Group Division had 552 fewer employees than one year previously. This decrease is partly attributable to market-driven capacity adjustments in the Industry division, but partly also to the transfer of jobs within the Group. At Voith Hydro, the number of job cuts was lower (down 254), and most of these were transfers to Voith Digital Solutions or administrative functions relocated to the Group's holding company. As at September 30, 2016 the new Voith Digital Solutions Group Division had 653 employees. The Group's holding company had 217 more employees at the end of the year under review than in the previous year. This increase is attributable to the centralization of indirect functions. By contrast, the transfer of the IT department, previously assigned to the Group's central functions, to the Voith Digital Solutions Group Division reduced the headcount.

The centralization of the indirect functions as part of the Voith 150+ program is described in section 01.4. "Group strategy."

34% of employees with Voith Paper

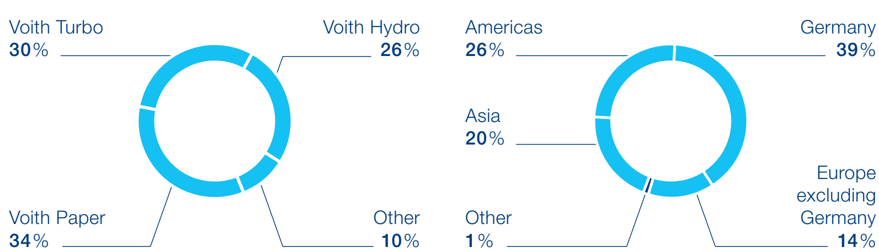
As in the previous year, Voith Paper was the largest Group Division in terms of headcount, with 34% of the total number of employees. A total of 6,550 people were working there at the end of the year under review (previous year:

Employees Group*



* Excluding the discontinued Group Division Voith Industrial Services.

Employees total 19,098*
by Group Division
by region



* Excluding the discontinued Group Division Voith Industrial Services.

7,739 employees). Voith Turbo had 5,702 employees (previous year: 6,254) or 30% of the Group's headcount. With 4,934 people, Voith Hydro employed 26% of the Group's total workforce (previous year: 5,188 employees). The remaining employees were attributable to the Group's holding company (1,259, previous year: 1,042) and Voith Digital Solutions (653, previous year: 0).

About 40% of the workforce based in Germany

The regional focus of the job cuts was in Germany, where headcount as at September 30, 2016 was down 765 FTEs or 9% to 7,363 employees. In the Americas, Voith had 4,925 employees at the end of the year under review, 166 less than in the previous year. In Asia, headcount was 3,884 (down 176). A total of 18 jobs were cut in Europe excluding Germany (2,760 employees) and other regions (166 employees).

The regional distribution of employees is practically unchanged compared to the previous year. Most of Voith's workforce continues to be based in Germany, with a share of 39% of the Group's total workforce (previous year: 40%). The Americas were still the second most important region with a 26% share (previous year: 25%). A share of 20% (previous year: 20%) of our staff was employed in Asia. The region of Europe excluding Germany accounted for 14% of the total workforce as in the previous year (previous year: 14%). Employees working in other regions made up 1% (previous year: 1%) of the workforce.

First-class professional training

We train young people in around 40 technical, commercial and trade professions. In the year under review, we once again provided a large number of young people with career prospects and increased the number of apprenticeships compared to the previous year. At the close of the 2015/16 fiscal year, 869 apprentices and students were employed at Voith locations around the globe (previous year: 896).

As a matter of tradition, we set great store by first-class vocational training. We place great value on interdisciplinary learning and a holistic approach of imparting a combination of both social and professional skills. The high quality of our training is repeatedly demonstrated in Germany by the excellent performance of Voith apprentices at state and federal level. In the 2015/16 fiscal year, 52% of our apprentices in Heidenheim received a final grade of 1.9 or higher (equivalent to good).

As pacemaker and trailblazer in the field of education and training in Germany, we are committed to this topic also at our international locations. The largest Voith training facility outside Germany is the Kunshan Training Center in China, opened in 2014. At that facility, we employ training methods based on the German dual system, enhanced with Chinese values and culture. The fact that the dual system can be successfully put into long-term practice outside Germany is demonstrated by our experiences from Brazil. In Brazil's São Paulo, where Voith opened its first plant back in 1964 and since then has been involved in a large number of the country's infrastructure projects, we have been training young people for many years now. In cooperation with local training institutions, we have developed a training concept for a four-year apprenticeship program aimed at young people of 15 years and older that regularly provides excellently qualified young technicians.

Graduates from technical and business management disciplines are offered demanding entry-level positions within the Company. Recruited from around the world, the participants gain practical experience and attend training sessions, are supported by a mentor and work in various Group Divisions and regions.

Needs- and goal-oriented personnel development

Lifelong learning is a core topic at Voith. We not only require our employees to be willing to keep on learning over the entire span of their careers but also assist them in doing so. Our goal: we always seek to have the right employee with the right qualifications and appropriate competencies at the right place in the Company. Our leadership concept, which includes numerous leadership tools, provides the operative framework for this purpose. The key elements are two formal meetings which are held with every employee once a year. While the target setting meetings focus on the individual's personal contribution to the achievement of corporate goals, the performance review meetings concentrate on work tasks and the working environment, the relationship between the employee and supervisor and the employee's own personal development perspectives. The outcome of these meetings is entered in our People Excellence Platform ("pep."), an IT-based personnel information system, with the findings of the management review process so that development measures can be defined and implemented in line with needs in the Company and the requirements of any function or position to which an employee may aspire.

Based on our employees' individual training needs, we offer them access to internal and external training and personal development measures that foster professional, personal and methodological skill sets. The range of topics covered by Voith training includes occupational health and safety, environmental protection, technology, IT, quality, languages, economics as well as management and personality development. We provide special training to employees from specific departments as well as project managers in the Voith Management School. Our executives also take part in standard development programs to create a common understanding of leadership in all Group Divisions and regions. Executives at top management level also take part in our Voith Academy.

In the year under review, around 42,500 employees from throughout the Group participated in our internal and external training measures.

Occupational health and safety management

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

The Group Directive on Health, Safety and Environmental Protection (HSE) prescribes mandatory minimum requirements and standards for the Voith Group and contains standard operating procedures. In accordance with the new organizational model, we have also restructured occupational health and safety and environmental protection at Voith. In this context, we have created a global competence center and four regional service units for occupational health and safety and environmental protection. All employees are covered by Voith's occupational safety program. Information and goals are cascaded from the Board of Management through the respective executives down to employee level. Supervisors train their staff and address safety issues at regular meetings. This process is supported by central training documents.

Since implementation of our global occupational safety program, we have seen great improvements at all our locations. The frequency rate, calculated pursuant to an international standard and documenting the number of accidents per one million working hours, has been reduced significantly from the baseline of 13.9 seen in the 2008/09 fiscal year. In the meantime, it has fallen below the threshold of 2.0 and stood at 1.6 in the year under review. This means we have established ourselves as one of the world's best companies in our industries with regard to occupational safety. We have also achieved a significant improvement in what is known as the severity rate, which stood at 289 hours lost per one million working hours in the year under review. The fact that both the number and the severity of accidents have been significantly reduced is an important indicator of the effectiveness of our programs. We intend to maintain on a permanent basis what we have already achieved and constantly improve on it in the future. Our success has also been confirmed by external opinions – for example we achieved a top score of A+ for our accident rate in the oekom research rating.

We also wish to take systematic and preventive action to improve the health of our employees – a task which is growing in importance, particularly bearing in mind the aging workforces at our European and North American locations. It is our intention that our employees should 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 preventive health care, support in the event of sickness and combating stress as well as corporate culture and leadership.

Diversity and equal opportunity

Voith employs men and women that are at different stages of their lives, come from more than 90 nations, and bring their own individual experiences with them. As an employer, Voith sees it as its duty to offer all its employees equal opportunities and to ensure that the workplace is free from discrimination. Furthermore, studies have proven that diversity enriches the corporate culture, encourages team creativity and innovative drive, and contributes to the economic success of companies.

For this reason, we launched our Diversity & Inclusion (D&I) program across the Group in the 2012/13 fiscal year. At Voith we understand “diversity” to be differences among our employees or within individual organizational units with regard to five factors, namely: gender, age, nationality/ethnic background, educational background/professional experience and individual differences such as beliefs or physical abilities. For us, “inclusion” means promoting a work culture of mutual respect that is open to differing ideas and perspectives. The overarching objective is to incorporate a wide range of insights, backgrounds and approaches into the solution of complex customer requirements.

While the program is coordinated by our central HR function, the respective focus is placed by the regional management as the challenges faced differ from one region to another. We have already trained the majority of executives and raised awareness for these issues in the regions Asia-Pacific, North and South America. In the EMEA region, the D&I program for this target group is scheduled to be implemented in full in the 2016/17 fiscal year.

Even if we at Voith have our eyes set firmly on all five dimensions, newly introduced legislation currently puts the gender dimension at the center of public debate in Germany. In the past, women have been underrepresented in technical apprenticeships and in technical subjects at college and university level and still are. This leads to a situation where technology companies, especially in the B2B field, employ significantly more men than women in general. This is one of the reasons why the proportion of women in Voith’s overall workforce stood at only 17 % as at September 30, 2016 (previous year: 17 %; based on headcount).

Since we started addressing the topic of diversity and inclusion in a systematic manner, we have identified need for action in this respect. Furthermore, the new German Act on Equal Participation of Women and Men in Management Positions (FührposGleichberG) obliges us to define and publish specific targets for the management holding company Voith GmbH relating to the composition of the Supervisory Board and Corporate Board of Management and the composition of the two levels of management immediately below the Corporate Board of Management. On the basis of the figures as at September 30, 2015, the following targets and deadlines have been set for Voith GmbH, that should be met by June 30, 2017:

Proportion of women in the management holding company Voith GmbH*

in %	Baseline as at 2015-09-30	Target quota as at 2017-06-30
Supervisory Board	15	15
Corporate Board of Management	0	0
First level of management below the Corporate Board of Management	21	25
Second level of management below the Corporate Board of Management	18	20

* Based on headcount.

In the light of the terms of existing contracts, the Supervisory Board is not providing for any changes with regard to the target proportion of women on the Supervisory Board or the Corporate Board of Management. For the first two levels of management immediately below the Corporate Board of Management, the Corporate Board of Management is aiming to achieve a slight increase in the proportion of women.

In order to achieve these targets, we have passed resolutions on specific measures in addition to the awareness program that has been running for some time now. These measures relate primarily to the selection procedure used in the recruitment of new employees and filling internal vacancies. The decisive factors in the selection of suitable candidates will, however, remain the qualifications, performance and personality of the candidates concerned.

Family and career

The work-life balance is one of the key factors in achieving an increase in the proportion of women in companies. Regardless of gender, most people consider a working environment to be attractive if it can be adapted flexibly to the respective situation in life. For this reason, we support our employees in combining family life with work.

We offer a wide range of working time models, such as part-time or a combination of home office and presence at the Company. We offer places at various childcare facilities for employees' children up to the age of ten at several of our locations in Germany. 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.

Employees in Germany can also obtain information by telephone or e-mail about issues such as caring for family members – an issue which, owing to demographic trends, is growing in importance for many employees. This service, and the arrangement of childminding, au-pair and other childcare services, is offered in cooperation with an external consultancy firm. Our employees can find additional practical information on childcare, nursing care and careers on our Germany-wide intranet platform.

IT systems in HR boost process efficiency

Functioning processes and informed decision-making depend to a great extent on highly efficient integrated human resources IT systems. Back in the 2014/15 fiscal year we implemented the pep. (People Excellence Platform) personnel information system throughout the Group, which had taken several years to develop. pep. contains basic information on all members of staff worldwide and maps all relevant HR processes. In the 2015/16 fiscal year, we expanded our integrated HR IT system further. Building on the data contained in pep, the HRcockpit reporting tool now provides our HR specialists and executives with up-to-date key performance indicators for their respective areas of responsibility, such as the churn rate or manager-to-employee ratios. Furthermore, we have created various self-service offerings. For example, employees can now call up their salary statements or the number of vacation days left; executives are able to use pep. to manage the budgeted positions within their area of responsibility and to create the basis for recruitment initiatives and succession planning, for example.

The integration of all HR data and processes in a single system and the efficient tools which can now be used by our executives and HR experts are a huge step forward for Voith. We have already started to benefit from the boost to process efficiency. In the future, we intend to exploit to an even greater extent the information base that has been greatly improved in terms of quantity and quality to be able to analyze complex factors and to create a basis for decision-making for future planning. Our medium-term objective is to identify human resources needs in advance on the basis of job profiles as part of strategic personnel planning and to use the same to derive measures such as training and development programs, recruitment initiatives or redeployments.

Award for exemplary employee development received in China

In Germany, Voith has repeatedly received prizes and seals of approval in recent years distinguishing the Company as an attractive, fair employer that offers its employees excellent training and development opportunities and promotes a work-life balance. Now, for the first time, our commitment has also been acknowledged in China with a renowned prize. In July 2016, we won the Most Valuable Case Award as part of the China Learning & Development Value Awards. The awards conferred by the Human Resources Excellence Center every two years acknowledge exemplary performance in the field of human resources. Voith received an award for its concept of lifelong learning that is also put into practice in China. The jury not only recognized our training center in Kunshan but also our systematic further training offers and cooperation programs with local technical universities as well as, from a general perspective, the wide range of possibilities for development open to Voith employees during their careers as specialist staff and executives. The jury also highlighted Voith's local roots and its commitment to the entire region around the Yangtze River which is manifested, for example, in the fact that the Kunshan Training Center not only trains specialist staff for Voith but also for customers and cooperation partners.

08 Subsequent events

No significant developments have occurred since the close of the 2015/16 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 involves 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. Risks to the Group's ability to continue as a going concern 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 compliance with legal requirements, it should also contribute to increasing the value of the Group and its companies by reducing potential risks and their probability of occurrence. At the same time, the system is intended to produce a state of equilibrium between correctly assessed risks and the exploitation of opportunities. Standardized risk controlling matrices on the basis of the Group-wide guideline governing internal control systems (ICS) have been implemented in the Group Divisions. 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 ordinary business operations, 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.

Decentralized 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
- Liquidity and financial risks
- Infrastructure risks

2. Risks to performance
- Contractual risks
- Technical risks

Voith has a decentralized 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, 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 potential impact and their probability of occurrence. Wherever possible, the potential impact is quantified as a cost factor. The worst-case scenario and a realistic scenario are analyzed for each identified risk to performance in order to assess the potential risk, and its impact on the financial situation of the Group is examined. This involves monthly reporting to the Group's management of those individual risks with a maximum impact of >€5 million or a realistic impact of >€2 million, including the measures taken to mitigate this risk such as existing insurance policies, recognized provisions or recorded depreciation.

- Risk management: Analysis and assessment of the identified risks gives Voith's management the data it needs to decide whether the risks should be avoided, reduced by suitable actions, transferred 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 helps the Corporate Board of Management to analyze risks and make well-founded decisions.

09.2. Risks

In the following, we describe risks that could have a substantially negative effect on our net assets, financial position and earnings position and lead to failure to meet forecasts or targets. The order of the risks within the six risk categories presented below reflects how we currently estimate the importance of these risks for the Voith Group. Unless stated otherwise, the following risks relate to all the Group Divisions. Additional risks of which we are currently not aware 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. This demand is in turn 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 substantially short of expectations, it is highly probable that this would have negative effects on Voith's net assets, financial position and earnings position. Economists see significant risks for the projected global economic development.

One risk for the global economy, for example, is posed by the British vote to leave the European Union (Brexit) in June 2016. Due to the uncertainty about the terms and conditions of Brexit, investments are currently being put on hold throughout Europe. The extent to which economic growth in Europe will weaken as a result of Brexit and what damage this will do to the global economy as a whole will depend on the duration of this uncertainty and the extent to which Brexit impacts economic and political relations in Europe in particular.

There is still a need to closely monitor developments in China and Brazil, whose economies are forecast to grow again after the recession from 2017 onwards, as is assumed in our planning.

If one of the many current geopolitical crises were to escalate into a global conflict, this could disrupt international trade, drastically raise energy prices and unsettle the global investment climate. This would also have a direct negative effect on our business with local companies.

An increase in prime rates in the US dollar region could lead to further capital outflows from emerging markets and, in combination with other encumbering factors such as low raw material prices and falling exports, accelerate the weakening of economic growth in various emerging markets, which could potentially spill over into the global economy.

Alongside the expansion of destructive ISIS influence to large parts of the Middle East and its impact on the economic situation in the regions affected, the potential expansion of Islamist terror to Europe presents a relevant risk for the global economy.

A more medium-term risk for the world's economy is the as yet unresolved crisis in the euro zone. The high level of sovereign debt and the structural reforms urgently needed in several countries to increase international competitiveness continue to pose challenges. In our view, low energy prices and euro exchange rates will only compensate for the weaknesses in the euro zone in the short term. In the medium to long term, sharpening political differences within the European Union could impair trade within the EU and weaken the economic area as a whole. This would impair the earnings position of the Voith Group, which generates a large share of its sales in Europe (excluding Germany).

Another macroeconomic risk that is, however, less serious compared to the above-mentioned risks, is the increased exchange rate volatility. On the one hand, more pronounced fluctuations lead to translation risks that make it more difficult to forecast our business performance. On the other, a rising exchange rate of the euro against key currencies, as we saw in the first half of the 2015/16 fiscal year, impairs the competitive position of our products on the global market and hampers exports to regions outside the euro zone.

Various market risks could have a negative impact on Voith's earnings position should they eventuate.

Two fundamental market risks are associated with development of raw material prices, on the one hand, and the price of crude oil on the other. The fall in market prices had a strong negative effect on the earnings position of raw materials producers and oil groups in the past two fiscal years, noticeably decimating their investment spending. We have not assumed any major market recovery for the 2016/17 fiscal year. If prices were to fall further or remain as low as they are now for a long period of time, our customers' investment propensity would be likely to decline further. This could jeopardize the achievement of our targets for the 2016/17 fiscal year and have a negative impact on the earnings position of our Voith Turbo Group Division with its Industry division beyond the 2016/17 fiscal year.

Uncertainties regarding energy policies, to which Voith Turbo and Voith Hydro in particular will have to adjust, are affecting the power generation market worldwide. For Voith Hydro, stepped-up shale gas extraction could in the medium to long term lead to partial displacement of new investments and modernization of existing hydropower plants in North America, which would diminish this Group Division's earnings position.

The Voith Group has analyzed the scenarios described above. The Board of Management of Voith GmbH is ready to take decisive action should economic conditions change.

Further information on our "Industry 4.0" strategy can be found in section 01.4. "Group strategy."

Management risks

Voith has set itself the aim of playing a major role in digitizing mechanical and plant engineering and will make substantial investments over the next few years, both within the Company and through acquisitions, in the key competencies for the megatrend of "Industry 4.0". We are currently setting up the new Voith Digital Solutions Group Division. It is intended not only to develop new digital products and business models for our traditional core markets, but also to open up customer industries to date not covered by Voith with new products from Voith. As is always the case with such major processes, there is the general risk of the strategic changes not being implemented within the planned time period or not leading to the desired outcome. Should the investments and start-up costs for the new Group Division not be covered by corresponding sales in the near future, this would have a negative effect on the earnings position, net assets and financial position of the Voith Group and limit headroom for further growth. We are highly aware of this risk as well as of the associated opportunities. Consistent project controlling is in place. The enhancement of the Voith product portfolio with "Industry 4.0" applications enjoys the utmost attention from the Corporate Board of Management of Voith GmbH.

Beyond the risk described above, there are currently no indications of specific risks arising from the Group's management, e.g. from the reporting system, the corporate image or a 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 that 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 and increased to €770 million in 2014 under an amend-and-extend agreement, was extended a second time for one year in August 2016 and now runs until 2021 with €715 million available in the final year of the agreement. 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 was extended in May 2015 until 2020 under an amend-and-extend agreement. One borrower withdrew from the agreement in connection with the sale of the Voith Industrial Services Group Division, which reduced the total volume slightly from CNY 2.1 billion to CNY 2.03 billion. A good 45% of the credit line is available as at the reporting date. This facility secures the finance for future investments and for the operating business in the same currency as the operating business on the local market. These instruments will allow for long-term growth in a changing global market environment. Voith has given high priority to the availability of liquidity from existing loan agreements. Risks of termination are minimized by monitoring compliance with the terms and conditions of the respective contracts on an ongoing basis. As in previous years, all contractual terms and conditions were complied with in the 2015/16 fiscal year.

The Ba1 rating given by Moody's was confirmed in September of this year with "outlook stable."

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. Price losses are recognized in profit or loss only if there is objective evidence of a prolonged or significant decline in the investment's fair value. The criterion of a prolonged decline is met if the decline lasts longer than twelve months. The decline is regarded as significant if the fair value of the investment falls more than 30% below its cost. It should be noted that all investment decisions are based on thorough analysis of fundamental data. Any open share price risks 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 earnings position. 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 net result due to currency translation of the financial statements prepared in foreign currency. This could further have an impact on our competitive position as competitors could benefit from cost advantages in weaker currencies. Moreover, interest rate risks are hedged using suitable instruments in order to maintain interest and financing security in the long term.

To hedge existing transactions such as future cash flows in different currencies or floating-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 rate risks. The instruments used and the hedging strategies are formally designated and documented at the inception of the hedge in line with the Company's risk management objective. The risks are constantly monitored and, if necessary, the hedging instruments are adjusted.

To guard against political and economic risks associated with goods 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.

Adequate provisions have been recognized and contingent liabilities have been disclosed in the notes to cover the potential financial burden of tax risks. Neither Voith GmbH nor any of its Group companies are involved in any further current or foreseeable taxation proceedings that could materially influence their economic situation.

There are no indications of particular liquidity or financial risks. For more information, please refer to the notes to the consolidated financial statements. The related reporting as well as reporting on financial instruments (Sec. 315 (2) No. 1 German Commercial Code (HGB)) is provided there in the section "Other notes."

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. There are currently no indications of particular risks relating to the Group's infrastructure.

Our successful business activities are underpinned by state-of-the-art and secure information technology. This is why we have our own IT function, which was transferred to the Voith Digital Solutions Group Division in the year under review and ensures that reliable data processing services are provided from our own computer center. These experts manage the whole IT infrastructure for the 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 is certified under this standard. Our primary objective when it comes to managing IT risks is to ensure 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 have built redundancy capacity into the core systems of our IT landscape at two computer centers. At the 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 have IT tools of varying complexity such as encryption technology, which we use to securely store 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. If we were 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 provide ongoing further training and to retain experienced employees at Voith as well as to remain an employer of choice for new, qualified candidates on the labor market. We compete with other international players and act with foresight in order to ensure we have a sufficient number of such employees. 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. We are also extending our Group-wide personnel information system in the direction of strategic personnel planning in order to identify requirements in advance and to take suitable measures to cover them.

Further information on our personnel information system can be found in section 07 “Employees.”

At Voith, we base all our actions on trust and integrity. The 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 and the compliance officers in the Group Divisions of each Group company. As part of a structured process covering all locations worldwide, compliance officers draw up a risk control matrix for their specific area of responsibility, which also includes potential corruption risks. The findings for all units are aggregated and form the basis for internal compliance reviews. We place great value on functioning compliance management, as issues ranging from non-compliant behavior through to illegal acts committed by employees could be damaging for our reputation and lead to sanctions, penalties and ultimately to a fall in earnings.

Further information on compliance management in the Voith Group can be found in section 01.3. “Values, guidelines, compliance.”

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 policies is a top priority for us. Such risks occurring could also result in production outages, claims for damages being filed and a loss of reputation. To avoid environmental and health risks, all production processes are subject to the group directives on health, safety and environmental protection and on quality and risk management. Since the 2009/10 fiscal year, environmentally relevant data have been systematically recorded and analyzed. Integrated management systems monitor compliance with these directives and ensure that both production and products consistently meet the same high quality and environmental standards. Environmental risks can thus be identified at an early stage and appropriate countermeasures initiated. Adequate provisions have been recognized for any 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 the Voith Hydro and Voith Paper Group Divisions. Such contracts are associated with a host of risks and we attach great importance to managing these risks. For example, the profit 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 provisions to ensure that legal requirements are observed. If not met, these requirements could lead to contractual penalties, claims for damages, payment refusals or contract terminations. Project management and controlling, as it has been implemented, continuously reviews whether the projects are 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 such as 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 losses and/or liability risks. Appropriate provisions are recognized 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 to use state-of-the-art production technologies and service processes. Our earnings position 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 05 "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

Detailed information on sustainability in our supply chains can be found in section 06 "Sustainability."

early stage. Our dual sourcing strategy prevents 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 products and services should default. Moreover, in the 2015/16 fiscal year Voith once again used all the means at its disposal to contain the risks posed by cost increases by concluding fixed-price contracts. We have integrated environmental and social standards in our General Terms and Conditions of Purchase. We review compliance with these standards on the basis of voluntary disclosures made by our suppliers and by means of audits conducted on our suppliers' production materials.

Our customers' satisfaction is key to achieving sales success and maintaining or increasing our market share. In the medium 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.

As part of our regular internal reporting on performance risks we monitor the theoretical maximum risks associated with specific risk positions as well as the risks deemed to be realistic after careful assessment. Maximum risks are considered in the light of whether they constitute risks jeopardizing the Group's ability to continue as a going concern. There were no risks to the Group's ability to continue as a going concern at the reporting date. The risks which may be realistically expected are considered for profit planning purposes and in order to assess the need to recognize provisions in the balance sheet. In total, provisions and allowances amounting to €273 million were recognized in the balance sheet for significant performance risks (maximum risk: €403 million).

09.2.3. Overall risk

To the best of our knowledge, there are no risks which, either individually or collectively, 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 business performance by actively managing opportunities. The identification of opportunities and their strategic and financial assessment plays an important role in the strategy 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 that could have a positive impact on our net assets, financial position and earnings position and lead to overachievement of forecasts or targets. The order of the opportunities presented below reflects how we currently estimate the importance of these opportunities to be for the Voith Group. Unless stated otherwise, the following opportunities relate to all the Group Divisions.

Opportunities associated with the global economy

Given the slow recovery of the economy and unremitting uncertainties, we currently expect the 2016/17 fiscal year to be shaped by a persistently subdued investment climate. If important sales regions and, as a result, the global economy recover more quickly and durably than currently anticipated and if investor trust stabilizes, this could have a positive impact on Voith's net assets, financial position and earnings position. If this scenario were to occur, all Group Divisions would stand to benefit, albeit with different time lags. We consider this to be the most significant opportunity for Voith. The development in China and Brazil will need to be monitored particularly closely. Should Brazil recover from the political and economic crisis by government reshuffle, this could have a direct positive effect on the economy in Latin America and also on our own business. If this opportunity materializes, we do not expect to feel any tangible effects until the second half of the 2016/17 fiscal year at the earliest.

Growing service business from postponed spending on new equipment

In the currently subdued investment climate, spending on new equipment and machines is being postponed in many industries. Owing to the extended service life of existing equipment, customers are increasingly tending to make more intensive use of our range of services, such as maintenance, performance-enhancing components and spare parts. This offers opportunities in all Group Divisions for our service activities, which might grow more strongly than currently anticipated.

Expansion of our portfolio with product innovations

We are constantly working on developing new technologies, products and solutions as well as improving existing ones. In the year under review, we once again launched numerous new products on the market in our Voith Hydro, Voith Paper and Voith Turbo Group Divisions. In the best-case scenario, this will not only allow us to secure our market position but also to generate sales and win market shares that have not yet been integrated in our business plan, especially if innovations are recognized as value adding by our customers much faster than currently assumed.

For information on current product innovations, see section 05 "Research and development."

Further information on our “Industry 4.0” strategy can be found in section 01.4. “Group strategy.”

We gear our development activities toward global megatrends as well as current technology trends and new industry-specific requirements, for example those that are regulatory in nature. In the years ahead we will be focusing on offerings and solutions for “Industry 4.0” in particular.

Growth through acquisitions

As part of our digital agenda, we are working intensively on strengthening our portfolio of products and services in areas such as automation, IT and sensor technology, also by means of strategic acquisitions. Even in the short term, potential “Industry 4.0” acquisitions offer opportunities for additional earnings not provided for in the business plan; in the mid-term they can help improve our position in certain markets or tap promising new customer industries for Voith. If we succeed in playing a major role in the digitization of plant and mechanical engineering worldwide and positioning ourselves as a leading supplier, this would offer the opportunity of establishing a strong fourth mainstay and a new, profitable source of earnings for the Voith Group.

New sales markets for existing products and services

In addition to expanding our portfolio of offerings, we evaluate market opportunities for our existing products and services in all of our Group Divisions in those regions where they have been underrepresented to date or have no presence at all. We will also seek to transfer our already successful products to new fields of application or sales areas. The resulting additional sales potential has not yet been integrated in our business plan.

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

Proper and reliable financial reporting

As a company that raises funds on the capital markets, Voith GmbH is required by Sec. 315 (2) No. 5 German Commercial Code (HGB) to describe the key elements of its internal control and risk management system for the Group’s 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 control and risk management system with regard to the Group’s financial reporting process. All levels of the Group (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 applicable for the Voith GmbH consolidated financial statements is ensured by Group accounting guidelines. Amendments to 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 organized on a decentralized basis. 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 those line items that, from a Group perspective, are significant and 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 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 controlling activities comprise analytical procedures as well as the practice of having significant and complex business transactions processed and controlled by different people. Complex accounting issues (e.g. financial instruments) are referred to corporate departments or external experts (e.g. relating to pensions). The activities and controls for these issues 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 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 systems-based and manual controls.

The proper functioning of the controls defined in the accounting-related internal 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. System access controls based on authorization concepts as well as programmed plausibility checks in those IT systems used for the financial reporting ensure that processes are complete and accurate.

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

Compliance with the rules of the accounting-related internal control system is tested by the external auditors on a sample basis in the course of their audit of the consolidated and separate financial statements. Any deficiencies or flaws that appear are recorded in a management letter along with suggested improvements.

10 Forecast report

With strengthened operative earnings power, the Voith Group is on its way into the age of “Industry 4.0”. Against the backdrop of a persistently subdued investment climate we expect sales to remain stable with orders received increasing slightly in the 2016/17 fiscal year. The three traditional Group Divisions seen as a total are expected to increase their profit from operations and achieve satisfactory profitability levels typical for their industries, so that we will be able to shoulder the build-up costs for the new Voith Digital Solutions Group Division from current operations. The Group’s net result will be a clearly positive figure.

10.1. Business environment

Global economic recovery remains fragile

For more information on the risks and opportunities for the global economy, see sections 09.2. and 09.3. of this management report.

Economic analysts anticipate somewhat stronger worldwide economic growth over the next two years than during the year under review. For example, in its latest release the International Monetary Fund (IMF) has forecast global growth rates of between 3.4% and 3.6% for the calendar years 2017 and 2018 compared with a rate of 3.1% in 2016. These forecasts, which we consider to be rather optimistic, are associated with considerable risks and the economic recovery therefore remains fragile overall. We deem the chances of a better-than-expected development to be low.

The emerging markets are forecast to develop much better in the next two years than in the year under review. The IMF, for example, has forecast growth rates of between 4.6% and 4.8% for the emerging markets as a whole for the calendar years 2017 and 2018 compared with a rate of 4.2% in 2016. Despite its slower pace of economic growth, China remains the growth driver for the global economy. However, an increasing number of economic indicators suggest that China’s economic climate could cloud over, which would probably affect export-oriented economies like Germany. India continues to grow at a faster pace than China, albeit at a lower absolute level. Should India succeed in improving the legal and structural framework for businesses and realizing potential accordingly, it could in the medium term take China’s place as growth driver. Russia is expecting to see its first year of growth in 2017 after a two-year period of recession. However, it can be expected to take several years until Russia’s economic power returns to pre-recession levels. Brazil is also forecast to experience a low level of growth again after two years of recession; the high level of inflation and the unclear

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

World output	2017	3.4%
	2018	3.6%
Advanced economies	2017	1.8%
	2018	1.8%
United States	2017	2.2%
	2018	2.1%
Euro area[2)]	2017	1.5%
	2018	1.6%
Germany	2017	1.4%
	2018	1.4%
Emerging market and developing economies	2017	4.6%
	2018	4.8%
China	2017	6.2%
	2018	6.0%
ASEAN-5	2017	5.1%
	2018	5.2%
India	2017	7.6%
	2018	7.5%
Brazil	2017	0.5%
	2018	1.5%
Russia	2017	1.1%
	2018	1.2%

Source: International Monetary Fund; World Economic Outlook, Oct. 2016.
1) Forecasts.
2) Including Germany.

way out of the political and economic crisis continue to present challenges. For Southeast Asia, we expect sound growth.

For the advanced economies, the IMF has forecast economic growth at a rate of 1.8% for 2017 and for 2018. This is driven by slightly above-average growth in the United States. For the euro zone, growth forecasts were revised downward following the Brexit vote. On aggregate, the euro zone will see only marginal growth and remain susceptible to setbacks in spite of the influence of factors comparable to an economic stimulus package such as low interest rates, the weak euro exchange rate and low energy prices. The low, in some cases even negative, interest rates could turn into a risk for banks, with direct impact on lending and, as a result, the real economy. The persistent high levels of sovereign debt in many euro zone countries are a further burden. After years of low-interest policy without any visible success, the limits of conventional monetary policy have been reached in the industrialized countries; any unconventional measures adopted could have implications that are currently impossible to foresee.

Investing activities in the Voith markets predominantly modest

The market environment for capital goods remains difficult. In four of our five target markets – energy, oil & gas, paper, raw materials – we can see little stimulus for growth and an ongoing subdued investment climate for the 2016/17 fiscal year. However, we are optimistic about the transport & automotive market.

As global energy needs continue to rise, electricity-generating capacities will be expanded further. This involves all regions placing greater emphasis on renewable energy sources. The generally positive outlook for hydropower as a renewable energy will be hampered in the short and medium term by global uncertainties and the regulatory framework that makes it difficult to obtain financing for large projects.

We do not expect to see a recovery in the oil & gas market before the end of the 2016/17 fiscal year. The balance of supply and demand on the oil market expected for 2017 and related upward price trends are likely to lead to resumption of shale oil production activities and thus broader supply, thereby preventing a sustained price increase. We only expect investment spending to increase in the medium term, assuming the oil price stabilizes above USD 50 per barrel of Brent oil.

Consumption of paper will rise slightly, although there will be huge differences between the various grades of paper and regions. We expect the market for new paper machines to recover gradually in the 2016/17 fiscal year. Demand for consumables and services is also expected to rise somewhat.

Investing activities of mining operators are likely to remain curbed by the continuing fall in prices and existing excess capacities for important raw materials. The growing backlog in investment in the industry should, however, contribute to renewed growth in demand for mining equipment in the medium term.

We continue to be optimistic about Voith's most important segments of the transport & automotive market. The commercial vehicles segment is expected to continue to grow with impetus coming from the EMEA region and Asia. We expect the rail segment to generate solid growth.

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

10.2. Future development of the Company

Profit from operations of the core business to continue to rise perceptibly

Voith has brought the transformation of the Group under the banner of the Voith 150+ success program to conclusion, realized a strategic realignment on its technology and engineering strengths and is well on its way into the age of “Industry 4.0” with strengthened operational earnings power. In the 2016/17 fiscal year – after 150 years in business – Voith intends to drive forward the digital transformation of its own portfolio of products and services with the aim of playing a major role in digitizing mechanical and plant engineering worldwide in the years ahead.

We will once again focus on profitability and productivity in the 2016/17 fiscal year. All Group Divisions will achieve satisfactory levels of profitability typical for the industry. While the market environment will remain challenging in parts, all Group Divisions are forecast at a minimum to hold the level of orders received stable or even slightly raise it. The same applies for the sales development of the Voith Hydro and Voith Paper Group Divisions. We are only expecting to see a decrease in sales at Voith Turbo, the extent of which will depend on market developments for oil & gas and raw materials.

The Voith Hydro Group Division expects market performance to be stable in general over the next few years, but it could see volatile developments in both directions from one year to the next on account of the high volume of individual large projects. Growing economic and political uncertainties can repeatedly result in delays in the award of contracts, over which we have no influence. Therefore, we take a conservative approach to planning. For the 2016/17 fiscal year, we assume that orders received and sales at Voith Hydro will roughly remain at the same level as in the year under review. For profit from operations and our profitability indicator ROCE, we have budgeted a stable development at the high level achieved.

In the Voith Paper Group Division, we now want to prove, after the encouraging developments of the past two years, that we have accomplished a turnaround. For the 2016/17 fiscal year, we expect to see slight growth in sales, with good service business contributing to this alongside the fulfillment of existing contracts in the project business. Our profit from operations will benefit from further cost savings as a result of restructuring and productivity increases and is forecast to rise noticeably. We also expect to see a marked improvement in ROCE. With regard to the order situation, we project that the market as a whole will remain challenging but stable. Our business will benefit from increasing demand for board and packaging paper as well as tissue. However, at the same time, the trend for graphic paper continues to point downward. Negative developments in the short term due to the continuing economic crisis in Brazil are likely to be more than offset by growth in Europe and Asia and we therefore expect a slightly higher level of orders received for the 2016/17 fiscal year.

At Voith Turbo, the lower levels of orders received in the two previous years on account of the market situation will leave their mark on sales and profit from operations in the 2016/17 fiscal year. In our planning, we have assumed a further slight to considerable decrease in sales at Voith Turbo. The reduced sales volume, changed sales mix and high price pressure will affect the profit from operations, which is therefore likely to fall perceptibly and at a higher rate than sales. The exact magnitude of the fall in sales and profit from operations will depend on further developments on the raw materials and oil & gas markets, which have a decisive influence on Voith Turbo's Industry division. There will also be a noticeable fall in ROCE compared to the year under review, yet it will still be well into the double digits. Voith Turbo expects to record slight growth in orders received in the 2016/17 fiscal year.

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

In the 2016/17 fiscal year, we forecast that sales for the Voith Group will match the level in the year under review. Our sales projections are based on the high level of orders on hand as at September 30, 2016 and a slightly rising level of orders received in the new fiscal year. The profits from operations of the Voith Hydro, Voith Paper and Voith Turbo Group Divisions will increase on aggregate – a result of our extensive efficiency enhancement and restructuring measures as part of the Voith 150+ program. Our positive core business will enable us to shoulder the start-up costs for the new Voith Digital Solutions Group Division from current operations. The Voith Group's profit from operations will therefore be clearly positive, yet slightly lower on account of these planned, high costs. Similarly, the profitability indicator ROCE is likely to see a slight decrease in the Group. We plan to return to a clearly positive net result again in the 2016/17 fiscal year. Among other things, the expected effect on results from the planned sale of shares in KUKA Aktiengesellschaft will contribute to this.

One condition for these forecasts coming true is that the oil and raw materials prices will at a minimum remain stable and that there are no major unplanned negative developments on the other Voith markets caused by political conflicts or decisions. As a general rule, forecasts are always subject to considerable uncertainty. A host of macroeconomic and industry-specific factors can influence, positively or negatively, the development of individual Group Divisions or the entire Group. For information on the significant risks and opportunities that could lead to a negative/positive forecast deviation, we refer to sections 09.2 and 09.3 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 a fundamentally healthy company. Our robust financial constitution provides us with the headroom we need to implement the decisions we regard to be expedient. 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 through this challenging decade of the 21st century. Voith is excellently equipped to meet the challenges ahead: 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 statement of income

for the period from October 1, 2015 to September 30, 2016

in € thousands	Note	2015/16	2014/15
Sales	(1)	4,252,407	4,302,299
Changes in inventories and other own work capitalized	(2)	-443	16,654
Total output		**4,251,964**	4,318,953
Other operating income	(3)	387,782	362,837
Cost of materials	(4)	-1,818,642	-1,832,900
Personnel expenses	(5)	-1,401,682	-1,433,859
Depreciation and amortization		-130,715	-141,747
Other operating expenses	(6)	-1,045,013	-1,035,070
Operational result before non-recurring items		**243,694**	238,214
Non-recurring result	(7)	-7,285	-184,846
Operational result		**236,409**	53,368
Share of profit/loss from companies accounted for using the equity method		10,642	-1,423
Interest income		11,056	10,564
Interest expenses		-88,740	-74,553
Other financial result	(8)	-29,271	-10,680
Result before taxes from continuing operations		**140,096**	-22,724
Income taxes	(9)	-50,653	-47,886
Net result from continuing operations		**89,443**	-70,610
Net result from discontinued operations		**-60,045**	-22,051
Net result		**29,398**	-92,661
Net result attributable to shareholders of the parent company		26,377	-102,859
Net result attributable to holders of non-controlling interests		3,021	10,198

Consolidated statement of comprehensive income

for the period from October 1, 2015 to September 30, 2016

in € thousands	2015/16	2014/15
Net result	**29,398**	-92,661
Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods:		
Remeasurement of defined benefit plans	-135,984	8,976
Taxes on components of other comprehensive income that will not be recycled through profit or loss in later accounting periods	38,168	-1,705
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	10,166	-859
Gains/losses on cash flow hedges	-4,247	-4
Gains/losses on currency translation	6,805	-18,107
Gains/losses on net investment in foreign operations	4,577	-2,735
Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods	1,198	1,146
Other comprehensive income	**-79,317**	-13,288
Total comprehensive income	**-49,919**	-105,949
Total comprehensive income attributable to shareholders of the parent company	-54,409	-115,419
Total comprehensive income attributable to non-controlling interests	4,490	9,470
	-49,919	-105,949

Consolidated balance sheet

as at September 30, 2016

Assets

in € thousands		Note	**2016-09-30**	2015-09-30
A.	**Non-current assets**			
I.	Intangible assets	(10)	450,750	458,974
II.	Property, plant and equipment	(11)	1,040,677	1,058,902
III.	Investments accounted for using the equity method	(12)	15,307	617,882
IV.	Securities	(16)	84,859	111,206
V.	Other financial assets		109,584	36,045
VI.	Other financial receivables	(15)	88,631	52,735
VII.	Other assets	(15)	17,060	21,524
VIII.	Deferred tax assets	(9)	248,693	180,803
Total non-current assets			**2,055,561**	2,538,071
B.	**Current assets**			
I.	Inventories	(13)	567,233	610,501
II.	Trade receivables	(14)	690,632	664,858
III.	Receivables from customer-specific contracts	(14)	426,720	276,773
IV.	Securities	(16)	33,126	62,187
V.	Current income tax assets		54,688	63,949
VI.	Other financial receivables	(15)	172,480	130,294
VII.	Other assets	(15)	99,816	86,478
VIII.	Cash and cash equivalents	(17)	649,672	434,953
			2,694,367	2,329,993
IX.	Assets held for sale	(18)	609,365	582,961
Total current assets			**3,303,732**	2,912,954
Total assets			**5,359,293**	5,451,025

Equity and liabilities

in € thousands	Note	2016-09-30	2015-09-30
A. Equity			
I. Issued capital		120,000	120,000
II. Revenue reserves		532,060	624,938
III. Other reserves		1,440	-15,565
IV. Profit participation rights		6,600	6,600
Equity attributable to shareholders of the parent company		**660,100**	735,973
V. Profit participation rights		96,800	96,800
VI. Other interests		42,034	41,470
Equity attributable to non-controlling interests		**138,834**	138,270
Total equity	(19)	**798,934**	874,243
B. Non-current liabilities			
I. Provisions for pensions and similar obligations	(20)	852,803	722,673
II. Other provisions	(21)	221,304	234,774
III. Income tax liabilities		326	325
IV. Bonds, bank loans and other interest-bearing liabilities	(22)	563,929	841,642
V. Other financial liabilities	(24)	28,831	48,454
VI. Other liabilities	(24)	59,079	32,282
VII. Deferred tax liabilities	(9)	51,199	50,851
Total non-current liabilities		**1,777,471**	1,931,001
C. Current liabilities			
I. Provisions for pensions and similar obligations	(20)	29,969	28,604
II. Other provisions	(21)	268,306	307,065
III. Income tax liabilities		72,511	74,229
IV. Bonds, bank loans and other interest-bearing liabilities	(22)	768,544	377,985
V. Trade payables	(23)	430,779	397,928
VI. Liabilities from customer-specific contracts	(14)	118,188	46,128
VII. Other financial liabilities	(24)	270,425	282,979
VIII. Other liabilities	(24)	824,166	850,410
		2,782,888	2,365,328
IX. Liabilities directly associated with the assets classified as held for sale	(18)	0	280,453
Total current liabilities		**2,782,888**	2,645,781
Total equity and liabilities		**5,359,293**	5,451,025

Consolidated statement of changes in equity

in € thousands	Issued capital	Revenue reserves	Gains/losses on available-for-sale financial assets	Cash flow hedges	Currency translation
				Equity attributable to shareholders of the parent company	
2015-10-01	**120,000**	**624,938**	**3,992**	**-1,067**	**-9,410**
Net result		26,377			
Other comprehensive income		-97,791	9,976	-2,943	5,395
Total comprehensive income	**0**	**-71,414**	**9,976**	**-2,943**	**5,395**
Allocation of profit participation rights		-5,590			
Changes in non-controlling interests as a result of changes in group structure		-1,967			
Share of net result attributable to profit participation rights					
Dividends		-15,000			
Non-controlling interests – put options		-1,029			
Other adjustments		2,122			
2016-09-30	**120,000**	**532,060**	**13,968**	**-4,010**	**-4,015**

in € thousands	Issued capital	Revenue reserves	Gains/losses on available-for-sale financial assets	Cash flow hedges	Currency translation
				Equity attributable to shareholders of the parent company	
2014-10-01	120,000	737,573	4,491	-1,063	10,808
Net result		-102,859			
Other comprehensive income		9,935	-499	-4	-20,218
Total comprehensive income	0	-92,924	-499	-4	-20,218
Allocation of profit participation rights		-5,590			
Changes in non-controlling interests as a result of changes in group structure					
Share of net result attributable to profit participation rights					
Dividends		-15,000			
Non-controlling interests – put options		2,276			
Other adjustments		-1,397			
2015-09-30	120,000	624,938	3,992	-1,067	-9,410

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to non-controlling interests: Profit participation rights	Other interests	Total	Total equity
-9,080	**6,600**	**735,973**	**96,800**	**41,470**	**138,270**	**874,243**
		26,377		3,021	3,021	29,398
4,577		-80,786		1,469	1,469	-79,317
4,577	**0**	**-54,409**	**0**	**4,490**	**4,490**	**-49,919**
	363	-5,227	5,227		5,227	0
		-1,967		-1,099	-1,099	-3,066
	-363	-363	-5,227		-5,227	-5,590
		-15,000		-4,120	-4,120	-19,120
		-1,029		1,077	1,077	48
		2,122		216	216	2,338
-4,503	**6,600**	**660,100**	**96,800**	**42,034**	**138,834**	**798,934**

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to non-controlling interests: Profit participation rights	Other interests	Total	Total equity
-7,306	6,600	871,103	96,800	63,400	160,200	1,031,303
		-102,859		10,198	10,198	-92,661
-1,774		-12,560		-728	-728	-13,288
-1,774	0	-115,419	0	9,470	9,470	-105,949
	363	-5,227	5,227		5,227	0
		0		-26,409	-26,409	-26,409
	-363	-363	-5,227		-5,227	-5,590
		-15,000		-9,195	-9,195	-24,195
		2,276		5,849	5,849	8,125
		-1,397		-1,645	-1,645	-3,042
-9,080	6,600	735,973	96,800	41,470	138,270	874,243

Consolidated cash flow statement

in € thousands	2015/16	2014/15
Result before taxes from continuing and discontinued operations	92,044	-39,701
Depreciation and amortization	167,850	227,991
Interest expenses/income	76,989	65,149
Other non-cash items	7,597	26,581
Gains/losses from the disposal of property, plant and equipment and intangible assets	-14,493	-6,305
Gains/losses from the disposal of consolidated companies	52,522	16,756
Gains/losses from investments	-7,100	-4,077
Changes in provisions and accruals	-74,109	125,476
Change in net working capital	-134,198	-140,172
Interest paid	-53,002	-49,501
Interest received	10,189	8,930
Dividends received	14,108	13,500
Tax paid	-80,725	-93,379
Cash flow from operating activities	**57,672**	151,248
Investments in property, plant and equipment and intangible assets	-138,470	-103,011
Proceeds from the disposal of property, plant and equipment and intangible assets	32,861	27,148
Investments in financial assets	-6,294	-613,578
Subsequent purchase payments for earlier acquisitions	0	169
Acquisitions of consolidated subsidiaries	0	-3,000
Receipts and payments in connection with the disposal of consolidated subsidiaries	193,043	5,015
Proceeds from the disposal of financial assets	11,594	4,164
Changes in investments in securities	27,498	-9,857
Cash flow from investing activities	**120,232**	-692,950
Dividends paid	-24,710	-29,785
Acquisition of non-controlling interests	-3,066	0
New bonds, bank loans and overdrafts	411,925	294,142
Repayment of bonds, bank loans and overdrafts	-347,158	-75,099
Changes in other interest-bearing financial receivables and liabilities	-12,190	-4,592
Cash flow from financing activities	**24,801**	184,666
Total cash flow	**202,705**	-357,036
Exchange rate movements and valuation changes	12,014	-14,925
Reclassification to assets held for sale	0	6,091
Cash and cash equivalents at the beginning of the period	434,953	800,823
Cash and cash equivalents at the end of the period	**649,672**	434,953

Notes to the consolidated financial statements for the 2015/16 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 an der Brenz, is the ultimate parent company of the Voith Group. The Board of Management of Voith GmbH authorized the consolidated financial statements for presentation to the Supervisory Board on November 30, 2016.

The consolidated financial statements of Voith GmbH for the 2015/16 fiscal year were prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) pursuant to EU Regulation (EC) No. 1606/2002 in conjunction with Sec. 315a HGB. 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 that are domiciled in the EU to prepare their consolidated financial statements solely on the basis of IFRS as endorsed by the EU. Voith GmbH has issued debt securities that are traded on the Luxembourg stock exchange, a regulated market. 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). Minor rounding differences may occur.

The Voith Group is divided into three segments: Voith Hydro, Voith Paper and Voith Turbo. The Voith Industrial Services Group Division was sold, effective August 31, 2016. Accordingly, Voith Industrial Services is reported as a discontinued operation. Details of the business activities pursued by the Group's segments are provided in the explanatory notes to the segment reporting.

Consolidated group

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 in other countries as at September 30 of each fiscal year. The financial statements of the subsidiaries are prepared for the same period as their parents' financial statements, using consistent accounting policies.

Subsidiary companies are consolidated in full from the date on which the Group obtains control. They are no longer included in the consolidation as soon as the parent company ceases to have control. For four companies (previous year: 4) control over companies included in the consolidation is obtained due to the fact that the Group has a majority of voting rights in the relevant decision-making bodies.

The following companies are included in the consolidated financial statements:

	2016-09-30	2015-09-30
Voith GmbH and its fully consolidated subsidiaries:		
· Germany	29	43
· Other countries	112	128
Total number of fully consolidated companies	**141**	171
Companies accounted for using the equity method:		
· Germany	4	6
· Other countries	11	12
Total number of companies accounted for using the equity method	**15**	18

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

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

VZ Voith GmbH, Heidenheim, Germany

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
VHFK Voith Fuji Hydro K. K., Kawasaki-shi, Kanagawa, Japan
VHV Voith Hydro AB, Västerås, Sweden

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 & Co. KG, 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
VPFI	Voith Paper Fabrics Ipoh Sdn. Bhd., Chemor, Perak Darul Ridzuan, Malaysia
VPTA	Voith Paper S.A., Ibarra (Guipúzcoa), Spain

VTA	Voith Turbo GmbH & Co. KG, Heidenheim, 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
VTPL	Voith Turbo sp. z o.o., Wola Krzysztoporska, Poland
VTCN	Voith Turbo Power Transmission (Shanghai) Co., Ltd., Shanghai, China
VTIP	Voith Turbo Private Limited, Hyderabad (A.P.), India
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
VTAU	Voith Turbo Pty. Ltd., Wetherill Park, N.S.W., Australia

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. The consolidated financial statements of Voith GmbH are filed with the Bundesanzeiger pursuant to Sec. 264b No. 3 HGB and Sec. 264 (3) No. 4 HGB.

Non-controlling interests are held in the following material subsidiary:

Voith Hydro Holding GmbH & Co. KG, Heidenheim, Germany

	2016-09-30	2015-09-30
Non-controlling shareholding, in %	35	35

The voting share capital of Voith Hydro Holding GmbH & Co. KG held is equal to the percentage of share capital held.

The following table shows the financial data of material subsidiary companies in which non-controlling interests are held (the figures are those of the Voith Hydro Holding GmbH & Co. KG segment):

Voith Hydro Holding GmbH & Co. KG, Heidenheim, Germany

in € thousands	2016-09-30	2015-09-30
Sales	1,391,547	1,316,066
Net result	50,419	17,080
Net result attributable to non-controlling interests	15,686	4,513
Other comprehensive income	-2,605	-11,824
Total comprehensive income	47,814	5,256
Total comprehensive income attributable to non-controlling interests	14,770	754
Current assets	1,194,842	1,060,980
Non-current assets	294,011	305,910
Current liabilities	1,086,551	966,223
Non-current liabilities	171,647	210,796
Net assets	230,655	189,871
Net assets attributable to non-controlling interests	67,661	59,654
Cash flow from operating activities	-4,154	34,837
Cash flow from investing activities	-9,641	-25,503
Cash flow from financing activities	9,925	20,761
Total cash flow	-3,870	30,095
Net foreign exchange difference	4,223	-8,973
Reclassification to assets held for sale	0	6,091
Net increase/decrease in cash and cash equivalents	353	27,213

Business combinations in the 2014/15 fiscal year

In the 2014/15 fiscal year Voith Turbo had acquired under an asset deal assets from a business unit of Maschinenfabrik Hese GmbH, Gelsenkirchen, a company in insolvency proceedings.

The acquisition enabled Voith Turbo to expand its activities in the raw materials exploitation and mining sector. Given Voith's worldwide marketing activities we saw opportunities for increased marketing of Hese technology-based products. In addition, we expected to benefit from the know-how of the Hese employees that have joined us.

The assets acquired were allocated the following fair values at the acquisition date:

Balance sheet item

in € thousands	Acquisition date fair value
Intangible assets	1,420
Other non-current assets	250
Inventories	13
Net fair value	**1,683**
Goodwill	1,317
Purchase price of the interests purchased	**3,000**

Part of the intangible assets purchased, e.g. the know-how of the employees, could not be recognized in the financial statements because the recognition criteria were not met. Accordingly, they were subsumed under goodwill. Apart from that, goodwill stemmed from the expected positive effect for the Voith Turbo Group Division described above.

Business combinations in the 2015/16 fiscal year

There were no business combinations in the 2015/16 fiscal year.

Acquisition in the 2015/16 fiscal year of further interests in companies over which the Group already has control

The remaining 20% of the shares in Voith Turbo Co., Ltd., Seoul, Republic of Korea, were acquired in the 2015/16 fiscal year. The purchase price amounted to €3,066 thousand.

Disposals in the 2014/15 fiscal year

As part of the planned portfolio streamlining, the Voith Turbo Group Division had disposed of its shareholding in a subsidiary in the 2014/15 fiscal year. This disposal resulted in the sale of non-current assets totaling €1,075 thousand, current assets of €3,819 thousand, non-current liabilities of €245 thousand and current liabilities of €2,444 thousand. The purchase price was €955 thousand. As a result of this disposal, a reduction of €1,081 thousand has been shown in non-controlling interests in equity and a loss of €169 thousand has been recorded which was included in the operational result before non-recurring items.

Sale of Voith Industrial Services in the 2015/16 fiscal year

An announcement was made in February 2015 of the Voith group's intention to concentrate its focus on its technology and engineering competency and to dispose of the Voith Industrial Services segment. Accordingly, Voith Industrial Services had been reported as held for sale and as a discontinued operation since the 2014/15 fiscal year. Voith Industrial Services was sold, effective August 31, 2016. The purchase price for 100% amounted to €310 million. Voith retained a 20% shareholding in the Voith Industrial Services companies sold. The carrying amounts of the major groups of assets and liabilities that were derecognized were as follows: goodwill of €196 million, other intangible assets of €7 million, property, plant and equipment of €80 million, deferred tax assets of €9 million, other non-current assets of €10 million, inventories of €54 million, trade receivables and receivables from customer-specific contracts of €200 million, cash and cash equivalents of €42 million, other current assets of €24 million, non-current pension obligations of €23 million, deferred tax liabilities of €8 million, other non-current provisions and liabilities of €10 million, current pension obligations of €2 million, other current provisions of €36 million, trade payables and payables and liabilities from customer-specific contracts of €58 million, other current liabilities of €116 million. The carrying amount of the assets and liabilities held for sale attributable to Voith Industrial Services as at September 30, 2015 is presented in note 18.

The net result from discontinued operations included in the statement of income includes the following:

in € thousands	2015/16	2014/15
Sales	908,456	1,044,506
Changes in inventories and other own work capitalized	1,095	-4,202
Other operating income	26,057	20,861
Operating expenses	-908,284	-1,028,937
Operational result before non-recurring items	**27,324**	32,228
Non-recurring result	-17,298	-45,729
Operational result	**10,026**	-13,501
Financial result	-1,160	-3,476
Operational and financial result before taxes	**8,866**	-16,977
Tax on operational and financial result	-17,117	-5,074
Gain/loss on sale	-51,794	0
Tax on gain/loss on sale	0	0
Net result	**-60,045**	-22,051

Cash flow from discontinued operations:

in € thousands	2015/16	2014/15
Cash flow from operating activities	-44,905	8,945
Cash flow from investing activities	-17,561	-18,256

Voith Industrial Services had already sold its entire shareholding in P3 Voith Aerospace Holding GmbH and its subsidiaries on April 30, 2015. The purchase price amounted to €18,560 thousand. The major groups of assets disposed of pertained to goodwill of €31,092 thousand, intangible assets of €6,840 thousand, other non-current assets of €3,847 thousand, inventories of €12,022 thousand, trade receivables of €20,783 thousand and other current assets of €21,596 thousand. The major groups of liabilities disposed of were non-current liabilities of

€2,532 thousand and current liabilities of €33,149 thousand. As a result of the disposal, a reduction of €25,352 thousand has been shown in non-controlling interests in equity and a loss of €16,587 thousand has been recorded in the net result of discontinued operations (in the above table, included in non-recurring result for the 2014/15 fiscal year.

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 deemed to be an asset or liability are recognized either in profit or loss in accordance with IAS 39 or in 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 a 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. Accordingly, 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 without affecting the result for the period 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 companies are eliminated on consolidation. 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 companies 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 exchange 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 historical exchange rates. At fiscal year-end the resulting monetary items are measured at the closing rate, and any exchange rate gains or losses are recorded as foreign exchange gains or losses under other operating income/expenses.

Currency translation 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 currency translation 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, which are recognized at fair value.

Consistent accounting policies are used to prepare the separate financial statements for the companies included in the consolidated financial statements. Significant accounting policies are described below.

Income and expenses

Sales (adjusted for customer bonuses, cash discounts and other rebates) 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. Revenue earned under long-term contracts, which is primarily relevant for Voith Paper and Voith Hydro, is recognized in proportion to the completion of the contract performance obligations ("percentage of completion"). Please refer to the explanations on accounting for long-term 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 monetary 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, that the generation of future economic benefits is probable. The production costs include all costs which are directly attributable to the development process and a proportionate share of overheads. These assets are amortized using the straight-line method from the date of completion, i.e. the start of production, over a defined period, which is 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 increased carrying amount of the asset due to reversal should not be more than what the recoverable amount or amortized historical cost would have been if the impairment loss had not 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 tested for impairment at least annually. For impairment testing, goodwill is assigned to essentially four groups of cash-generating units. In line with the management's internal reporting practices, these are identified on the basis of the Group's operating activities. Voith has therefore defined the three segments Voith Hydro, Voith Paper and Voith Turbo as the relevant groups of cash-generating units.

The Voith Group generally determines whether goodwill is impaired by reference to the value in use. This is based on 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 value in use 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 the stable sales and orders received will continue in the 2016/17 fiscal year. Based on this, the following assumptions apply to the three segments:

Voith Hydro:
Voith Hydro saw a high level of orders received in the 2015/16 fiscal year. The awarding of a large number of medium-sized hydropower projects and two major orders from Canada and Russia contributed to this effect. Based on the assumption of a stable market volume in hydropower for the coming years, Voith Hydro also expects its level of 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 Paper:
In the 2016/17 and 2017/18 budget years, Voith Paper expects a moderately increasing market volume in the project business and accordingly that sales will see a moderate increase. For the Products & Services division, Voith Paper plans to achieve a continued increase in orders received and sales against the background of existing growth potential in North America and Asia. For Fabric & Roll Systems, Voith expects a virtually unchanged market volume in which slight growth is anticipated through the winning of market shares. For the terminal value, the Group Division expects to see a slight increase in orders received and sales.

Voith Turbo:
Our planning provides for a situation where sales once again experience a slight to significant decline in the first budget year (2016/17). The lower sales volume, the shift in the sales mix and immense pressure on prices will filter through to the net result, which means that profit from operations is likely to fall significantly and at a faster rate than sales. In the second planning year (2017/18), we expect (presupposing a sustained recovery in the markets) a slight increase in sales and a significant rise in the level of income.

The cash flow forecast is based on the detailed finance budget for the coming two years and a qualified top-down projection for 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 industrial sectors 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. The present values of future net cash inflows are determined using after-tax interest rates of 6.6% for Voith Hydro (previous year: 4.6%), 7.5% for Voith Paper (previous year: 5.5%) and 6.5% for Voith Turbo (previous year: 4.3%). Extrapolated from these amounts the pre-tax rates for which IAS 36 disclosures are required are 8.7% for Voith Hydro (previous year: 5.6%), 10.4% for Voith Paper (previous year: 7.1%) and 9.2% for Voith Turbo (previous year: 5.9%).

No impairment requirements arise if, for sensitivity purposes, a 1 percentage point increase in the discount rate or a 5% reduction of the future cash flows is assumed.

Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost less depreciation and after deduction of 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

The carrying amount of property, plant and equipment is tested for impairment if unusual events or market developments give rise to indications of impairment. 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.

Leases

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 the 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 accounted for 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 instruments

A financial instrument is any contract that simultaneously gives rise to a financial asset of one party to the contract and a financial liability or equity instrument of the other party to the contract. Financial assets and liabilities are only recognized in the consolidated balance sheet when Voith is a contract party to a financial instrument.

The Group classifies non-derivative financial assets into the following categories: "loans and receivables," "available-for-sale financial assets" and "financial assets at fair value through profit or loss."

The Group classifies non-derivative financial liabilities as other financial liabilities ("financial liabilities measured at amortized cost").

The derivative financial assets and liabilities are classified as "held for trading" unless they are designated as hedging instruments and are effective for that purpose.

Loans and receivables

The Group recognizes loans and receivables at the date they are originated. Such assets are initially recognized at fair value plus directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest rate method.

Available-for-sale financial assets

Shareholdings in businesses accounted for as financial assets and reported within other investments are measured at fair value on initial recognition. Subsequent to initial recognition, such investments are stated at cost if no active market exists for individual companies and it is impracticable to determine their fair value at reasonable cost. In cases in which there is objective evidence of impairment, the carrying amount is reduced by the amount of any impairment.

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

The securities held by the Voith Group are normally available for sale. In the case of customary purchases and sales these are accounted for on the trading date, and are subsequently measured at fair value, whereby the change in fair value is not recognized in the statement of income.

Any gains or losses arising from changes in the fair value of available-for-sale financial assets are recognized in 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 sustained or significant decline in their fair value. The criterion of a prolonged decline is met if the decline lasts longer than twelve months. The decline is regarded as significant if the fair value of the investment falls more than 30% below its cost. If this happens, the amounts hitherto recognized under other comprehensive income are recognized in profit or loss.

Financial assets at fair value through profit or loss
A financial asset is measured at fair value through profit or loss if it is held for trading purposes or if it is designated to be measured at fair value through profit or loss on initial recognition. Attributable transaction costs are recognized in the statement of income at the date they are incurred.

Financial liabilities measured at amortized cost
Non-derivative financial liabilities are measured on initial recognition at fair value less attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest rate method.

Financial assets and liabilities held for trading
All derivative financial instruments are recognized at fair value on the trading date. Gains and losses on financial assets and liabilities that are held for trading are recognized in the statement of income.

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 financial instruments which are identical in all significant aspects.

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 hedging relationships are considered to be highly effective in offsetting the risks of fair value changes. Their effectiveness is assessed on an ongoing basis to determine whether they have been highly effective throughout the financial reporting periods for which the hedge was 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, and the difference is reported in profit or loss. 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, or 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. The reversal may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses.

Embedded derivatives

When the Group becomes party to a contract, it assesses whether any embedded derivatives should be separated from the host contract. Embedded derivatives can arise, for example, in cases where commercial agreements include requirements that payments are made in non-trading currencies. 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 there are embedded derivatives for which separate recognition is required, such derivatives 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.

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 assigned to the category “loans and receivables” and are measured at their nominal or acquisition cost. They are regularly tested for impairment on an individual basis. Where objective evidence of possible loss exists (for example, 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 in arrears with 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), 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 fall 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.

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.

Discontinued operations and non-current assets held for sale

Non-current assets and disposal groups held for sale are classified as non-current assets held for sale or as liabilities directly associated with assets held for sale, respectively, 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 twelve 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.

Discontinued operations are recognized as soon as any component of an entity with business activities and cash in- and outflows that can be clearly distinguished from the rest of the entity for operational and accounting purposes is classified as held for sale or has already been disposed of, and such business division either (1) represents a separate major line of business or a geographical area of operations, and (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (3) is a subsidiary exclusively acquired with a view to resale. The net result of discontinued operations is reported separately from income and expenses from continuing operations in the consolidated statement of income. Figures shown for previous years are presented on a comparable basis. Cash in- and outflows from discontinued and continuing operations are not presented separately in the consolidated cash flow statement, and figures shown for previous years in the cash flow statement are not restated. Figures disclosed in the notes to the consolidated financial statements for items in the consolidated statement of income relate to continuing operations. Information on discontinued activities is provided in the section “Disposals and discontinued operations.” In order to present the financial effects of discontinued operations, the sales and expenses from intragroup transactions have been eliminated with the exception of sales and expenses which are expected to continue after the sale of the discontinued operations.

Deferred and current taxes

Deferred tax assets and liabilities are recognized for temporary differences between the amounts carried in the tax accounts and the amounts reported for IFRS purposes (temporary concept) in accordance with IAS 12. 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 are presented on a net basis 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

The profit participation rights amounting to €103,400 thousand are reported as a separate component of the Group’s equity, in accordance with IAS 32. Interest is not reported as interest expenses, but is treated in a similar manner to a dividend obligation.

Provisions for pensions and similar obligations

Provisions for pension obligations are measured based on actuarial valuation methods using the prescribed projected unit credit method for defined benefit plans as required by IAS 19. This method considers not only the pensions and future claims known at the end of the year 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. Both expense items are recognized in the statement of income. Revaluations of the net debt recognized are disclosed under other comprehensive income net of deferred taxes.

Other provisions

Provisions are recognized 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 year 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 and subsequently 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 the statement of income.

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

In accordance with IAS 32, financial instruments that entitle the holder to repayment of the capital made available to the partnership 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 sale rights for the holder of the put pursuant to IAS 32.

a) Put options

Where the right to terminate on the part of 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 year under review. Based on this, a share of net income for the year is allocated to holders of non-controlling interests. At each reporting date, it is assumed that the put option will be exercised and 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 the share of equity attributable to non-controlling interests is treated as a transaction between owners and has been recognized from the 2009/10 fiscal year onwards as a change in equity without any effect on the statement of income. Until and including the 2008/09 fiscal year such transactions were regarded as a business combination achieved in stages and the difference stated as goodwill. The Group elected to retain these amounts under the transitional arrangements provided for under IAS 27 (2008).

Amounts reclassified from equity to financial liabilities totaled €9,891 thousand in the 2015/16 fiscal year (previous year: €12,170 thousand).

b) Limited partnerships

Up to and including the 2014/15 fiscal year, the interests held in limited partnerships as well as non-controlling interests with comparable termination rights were treated in the same way as put options. The liability was measured at amortized cost taking account of the attributable share of total comprehensive income. The accounting treatment was changed in the 2015/16 fiscal year; the liability continues to be measured in a similar manner to amortized cost. It is no longer treated as a component of equity during the year under review. From now on, the measurement-related changes in the liability are recognized in the interest result in the consolidated statement of income. No adjustments were made to previous-year figures (insignificant effect on earnings position, no effect on net assets and financial position.

If the non-controlling interests in limited partnerships are terminated or if the respective comparable termination rights or 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 disclosed as contingent liabilities until utilization becomes probable. When this is the case, the corresponding obligation is recognized.

Exercise of judgment and estimates by management

The presentation of net assets, financial and earnings position in the consolidated financial statements requires the exercise of judgment by management. Management has exercised judgment in the following instances:

- Income taxes: management must exercise judgment in determining current and deferred taxes, as deferred taxes are recognized to the extent that their realization is probable
- Determining the requirement for, and measuring the amount of, impairment of intangible assets and property, plant and equipment
- Determining the requirement for allowances against doubtful receivables
- Sales revenues from construction contracts: determining the percentage of completion and estimation of whether a contract is associated with the inflow of future economic benefits
- Measurement of provisions and assessment of the likelihood of their utilization

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. Accurate estimates of the percentage of completion are of vital importance under this method. Depending on the method used to measure the percentage of completion, the most significant estimates concern the total contract cost, the remaining costs to complete the contract, 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. We refer to note 14 for details of the carrying amounts.

Trade and other receivables

Determining allowances for doubtful receivables requires significant judgment on the part of management as well as an analysis of the individual debtors that covers their creditworthiness, current economic trends and an examination of historic default scenarios. We refer to note 14 for details of the carrying amounts.

Impairment of goodwill

Determining the recoverable amount of a Group Division to which goodwill was allocated involves estimates by management. The value in use is measured based on planning for the first five years, which is based on taking management's expectations and adjusting them 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. We refer to note 10 and to the segment reporting for details of the carrying amounts.

Development costs

Development costs are capitalized if the recognition criteria described in IAS 38 are met. Initial capitalization is based on management's estimate that the technical and economic feasibility is demonstrated; the forecast of the expected future economic benefit to be gained from assets is essential to the decision whether or not costs are to be capitalized. We refer to note 10 for details of the carrying amounts.

Pension obligations

Estimates of pension obligations depend significantly on key assumptions including discount factors, expected salary increases, mortality rates and healthcare trends. 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. We refer to note 20 for details of the carrying amounts.

Other provisions

Recognizing provisions for anticipated losses on contracts, warranty-related costs and litigation involves the use of 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 detailed plans for expected activities which are reviewed and approved by the Board of Management. We refer to note 21 for details of the carrying amounts.

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. We refer to note 9 for details of the carrying amounts.

Adoption of amended and new standards and interpretations

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

The IAS and IFRS standards revised as part of the Improvement Cycles (2010–2012 and 2011–2013) were adopted in the 2015/16 fiscal year. None of the IAS and IFRS standards adopted had a significant effect on the net assets, financial and earnings position of the Group.

The adoption of the following revised and newly issued IFRS and IFRICs was not yet mandatory in the 2015/16 fiscal year, and/or they had not yet been endorsed by the European Commission for adoption in the European Union.

Standard/interpretation	Amendment/new standards for interpretation	Mandatory effective date
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	Clarification of the classification and measurement of transactions involving share-based payments.	Periods beginning on or after January 1, 2018
Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	The objective of the amendment is to reduce the effects of the different effective dates of IFRS 9 Financial Instruments and the successor standard to IFRS 4.	Periods beginning on or after January 1, 2018
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 15 Revenue from Contracts with Customers incl. amendment of the effective date	Combination of revenue recognition rules previously contained in various standards and interpretations.	Periods beginning on or after January 1, 2018
Clarifications of IFRS 15 Revenue from Contracts with Customers	The amendments are aimed at providing transition relief in the case of modified agreements and agreements concluded.	Periods beginning on or after January 1, 2018
IFRS 16 Leases	IFRS 16 governs the recognition, measurement, presentation and disclosure of leases in financial statements.	Periods beginning on or after January 1, 2019
Amendments to IAS 1: Disclosure Initiative	Initiative to research various possibilities in order to examine ways in which existing disclosure requirements made by IFRS users can be improved and simplified.	Periods beginning on or after January 1, 2016
Amendments to IAS 7: Disclosure Initiative	Project as part of the disclosure initiative for IAS 7 Statement of Cash Flows to improve information provided to users of financial statements about an entity's financing activities and liquidity.	Periods beginning on or after January 1, 2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	Clarification of the accounting for deferred tax assets for unrealized losses in the case of assets accounted for at fair value.	Periods beginning on or after January 1, 2017
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Amendment of IFRS 10 and IAS 28 to the effect that a presentation of the results of a disposal of business activity can be reported in full irrespective of whether or not the business activity belongs to a subsidiary.	Application date postponed indefinitely
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
Amendments to IFRS 11 Joint Arrangements	Clarification of the accounting for the acquisition of interests in a joint activity.	Periods beginning on or after January 1, 2016
Improvements to IFRS (2012–2014)	Amendments to standards IFRS 5 and 7, IAS 19 and 34.	Periods beginning on or after January 1, 2016

None of the revised and newly issued IFRS and IFRICs subject to mandatory adoption from the 2016/17 fiscal year onwards are expected to have any significant impact on the net assets, financial and earnings position of the Voith Group. The impact of revised or newly issued standards and interpretations that will be subject to mandatory adoption by the Voith Group at a later date is currently being investigated. The Corporate Board of Management assumes, in the case of IFRS 16 Leases being applied, a slight increase in EBIT, total assets and cash flow from operating activities.

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

Notes to the consolidated statement of income

01. Sales

in € thousands	2015/16	2014/15
Sale of goods	3,042,443	3,124,158
Rendering of services	1,209,964	1,178,141
	4,252,407	4,302,299

02. Changes in inventories and other own work capitalized

in € thousands	2015/16	2014/15
Changes in inventories of finished goods and work in progress	-8,531	11,940
Other own work capitalized	8,088	4,714
	-443	16,654

03. Other operating income

in € thousands	2015/16	2014/15
Income from the utilization of contract-specific provisions	119,060	90,560
Income from the reversal of provisions and accruals	52,476	66,929
Foreign exchange gains	123,599	138,171
Recovered bad debts	11,203	6,120
Gains on the disposal of intangible assets and property, plant and equipment	5,558	2,806
Rental and lease income	3,063	4,178
Income from insurance indemnification payments	28,049	9,963
Other income	44,774	44,110
	387,782	362,837

04. Cost of materials

in € thousands	2015/16	2014/15
Cost of materials and supplies and of purchased merchandise	1,455,089	1,494,510
Cost of purchased services	363,553	338,390
	1,818,642	1,832,900

05. Personnel expenses

in € thousands	2015/16	2014/15
Wages and salaries	1,154,826	1,188,172
Social security, pension and other benefit costs	246,856	245,687
	1,401,682	1,433,859

Number of employees

	Annual average		As at the reporting date	
	2015/16	2014/15	**2016-09-30**	2015-09-30
Direct production employees	24,752	26,936	9,420	26,272
Administration staff/indirect production	10,964	11,430	9,678	11,204
	35,716	38,366	**19,098**	37,476
Apprentices and interns	1,055	1,142	1,055	1,142
	36,771	39,508	**20,153**	38,618

Number of employees by region

	Annual average		As at the reporting date	
	2015/16	2014/15	**2016-09-30**	2015-09-30
Germany	12,557	13,904	7,363	13,379
Europe excluding Germany	6,917	7,457	2,760	7,259
Americas	9,970	10,789	4,925	10,370
Asia	6,101	6,034	3,884	6,293
Other	171	182	166	175
	35,716	38,366	**19,098**	37,476

06. Other operating expenses

in € thousands	2015/16	2014/15
Increase in provisions and accruals	231,060	213,185
Other selling expenses	289,141	311,621
Other administrative expenses	227,557	228,505
Foreign exchange losses	121,820	128,832
Rent for buildings and machinery	47,852	50,052
Bad debt allowances	23,325	16,710
Losses on the disposal of intangible assets and property, plant and equipment	1,347	1,796
Other expenses	102,911	84,369
	1,045,013	1,035,070

07. Non-recurring result

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

In the previous-year period, the non-recurring result of €-185 million primarily reflected the following measures:

The non-recurring result included personnel-related expenses associated with excellence initiatives as part of the Group-wide Voith 150+ success program (reorganization of indirect activities involving standardized administrative functions being combined across the divisions and 720 job cuts) affecting all Group Divisions.

In the 2014/15 fiscal year, Voith Paper presented a package of measures involving the concentration of its activities at just a few locations, as well as 900 further job cuts worldwide in response to increased competitive and price pressures and in order to adjust the cost structure to the permanent lower market volumes. Of these employees, 150 were included in the Voith 150+ program and were already included in the 720 job cuts referred to above. The measures taken resulted in personnel-related expenses in connection with the planned job cuts, impairment losses recognized on property, plant and equipment, and other expenses incurred as a result of relocating business activities. This was partially offset by other income resulting from gains on the sale of property and from the reversal of provisions made for measures taken in previous years. Overall, the non-recurring result at Voith Paper totaled €-128 million in the previous-year period.

The non-recurring result at Voith Turbo included various consequential effects associated with restructuring activities initiated in previous years, as well as the personnel-related expenses associated with the Voith 150+ program. Among other things this related to the relocation of activities, write-downs of current assets, gains from the disposal of assets and income from the reversal of provisions. In total, Voith Turbo had contributed €-12 million to the non-recurring result.

For Voith Hydro, impairment losses were recognized on capitalized development costs and presented in the non-recurring result. The background to this was that the expectations for tidal power stations in the Ocean Energies division had not been met owing to limited government spending capacities. The plan, therefore, was to continue operating this business unit on a considerably scaled-down basis. In total, with the personnel-related expenses arising from Voith 150+, the non-recurring result at Voith Hydro had amounted to €-35 million.

The areas with holding function had contributed a total of €-10 million to the non-recurring result. These included personnel-related expenses as a consequence of the Voith 150+ program as well as measures relating to the central location administrative functions adopted as a result of the restructuring activities at Voith Paper described above.

In the year under review the non-recurring result totaled €-7 million and included the following measures:

The implementation of the Group-wide Voith 150+ success program described above made it possible to cut around 720 jobs throughout the Group. The reorganization and planned job cuts have thus practically been completed. All Group Divisions recorded income from the reversal of provisions and to a small extent consequential expenses in the 2015/16 fiscal year, which were reflected in the non-recurring result.

Voith Paper completed the third package of measures as part of the restructuring activities conducted over a period of several years. In the 2014/15 and 2015/16 fiscal years, a total of around 830 jobs (FTEs) were cut. The non-recurring result includes miscellaneous expenses in connection with restructuring measures initiated in previous years that were not eligible for provisioning in previous years. On the other hand, it comprises gains on the sale of property and income from the reversal of provisions. In addition, expenses of €18 million are attributable to the restatement of a cut-off error in the year under review at two Asian subsidiaries. Overall, the non-recurring result at Voith Paper, including consequential effects from the Voith 150+ program, totaled €-8 million.

At Voith Turbo, the non-recurring result includes consequential effects from the Voith 150+ program as well as personnel-related expenses arising from a measure introduced in the 2015/16 fiscal year in response to the current slump seen in the oil and gas industry, the mining industry and at steel producers. Overall, Voith Turbo's non-recurring result was €-5 million.

At Voith Hydro (€+4 million) and for the areas with holding function (€+2 million), the non-recurring result mainly related to the consequential effects from the Voith 150+ success program described.

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

in € thousands	2015/16	2014/15
Personnel expenses	-22,296	-146,722
Depreciation and amortization of non-current assets	-515	-54,121
Cost of materials/change in inventories	0	-2,426
Sundry other expenses	-24,187	-8,489
Gain on the disposal of property, plant and equipment	10,244	6,470
Income from the reversal of provisions	27,704	10,829
Sundry other income	1,765	9,613
	-7,285	-184,846

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	2015/16	2014/15
Gains/losses from investments	6,781	4,070
Impairment of other investments and loans	-231	-137
Impairment of securities	-36,219	-15,608
Income from securities and loans	398	995
	-29,271	-10,680

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

The impairments of securities are impairment losses recognized on available-for-sale financial assets with market quotations, the fair value of which has decreased significantly.

09. Income taxes

in € thousands	2015/16	2014/15
Current taxes	-80,534	-67,998
Deferred taxes	29,881	20,112
	-50,653	-47,886

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.

Deferred taxes are recognized for temporary differences between carrying amounts for tax reporting and carrying amounts recognized under IFRS at the individual Group companies 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. The deferred tax income from temporary differences amounted to €29,111 thousand (previous year: tax income of €24,349 thousand).

The deferred tax income from unused tax losses amounted to €770 thousand in the 2015/16 fiscal year. This primarily includes the impairment of deferred tax assets of €901 thousand which were recognized in the 2014/15 fiscal year, a reduction of deferred tax assets on unused tax losses of €3,237 thousand as a result of adjustments of unused tax losses from the previous year, income of €7,151 thousand from the initial recognition of deferred tax assets on unused tax losses, expenses of €11,964 thousand from the utilization of tax losses recognized in the previous year and income of €6,703 thousand from the initial recognition of previously unrecognized tax losses.

The deferred tax expense from unused tax losses amounted to €4,237 thousand in the 2014/15 fiscal year. This primarily includes the impairment of deferred tax assets of €3,690 thousand which were recognized in the 2013/14 fiscal year, a reduction of deferred tax assets on unused tax losses of €13,228 thousand as a result of adjustments of unused tax losses from the previous year, income of €8,993 thousand from the initial recognition of deferred tax assets on unused tax losses, expenses of €5,001 thousand from the utilization of tax losses recognized in the previous year and income of €9,199 thousand from the initial recognition of previously unrecognized tax losses.

In addition, the current income tax charge was reduced by the use of previously unrecognized deferred tax assets on unused tax losses of €3,968 thousand (previous year: €5,210 thousand).

As at September 30, 2016, no deferred tax assets were recognized on German trade tax losses of €615,723 thousand (previous year: €603,384 thousand), German corporate income taxes of €85,870 thousand (previous year: €46,028 thousand) or on interest expenses currently not deductible under German tax law of €151,554 thousand (previous year: €23,382 thousand) as it is not likely that the unused tax losses can be utilized in the near future.

In addition, no deferred tax assets were recorded on unused tax losses for foreign federal tax of €48,791 thousand (previous year: €51,518 thousand) or foreign state taxes of €106,773 thousand (previous year: €105,561 thousand), also due to the fact that the utilization of the losses is not probable in the near future.

Further changes in unused tax losses may arise as a result of the current external tax audit of the companies in Germany and abroad.

In Germany, unused tax losses can be carried forward indefinitely. Outside Germany, tax losses can usually be carried forward for a limited period of no more than five to ten years.

	2016-09-30		2015-09-30	
in € thousands	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	4,274	42,657	6,490	59,572
Property, plant and equipment	1,892	37,988	3,046	42,776
Financial assets and securities	637	17,560	288	18,283
Inventories and receivables	29,102	32,329	38,784	56,563
Other assets	9,959	15,099	11,950	6,046
Pension provisions	154,820	11,378	122,764	12,441
Financial liabilities	8,098	2,707	13,025	2,363
Other provisions and liabilities	118,667	4,674	106,230	12,852
Tax effect on distributable earnings of Group companies		5,182		5,734
Impairment of deferred tax assets on temporary differences	-4,730		-4,120	
Unused tax losses	44,349		42,485	
Netting	-118,375	-118,375	-150,662	-150,662
Total	**248,693**	**51,199**	190,280	65,968

Disclosure in the balance sheet

in € thousands				
Continuing operations	248,693	51,199	180,803	50,851
Discontinued operations	0	0	9,477	15,117

For details of the origin of deferred taxes on items recorded directly in equity, please refer to note 19.

Reconciliation of deferred tax assets and liabilities:

in € thousands	2016-09-30	2015-09-30
Balance, October 1	**129,952**	107,148
thereof: deferred tax assets	180,803	183,878
thereof: deferred tax liabilities	-50,851	-76,730
Deferred tax income/(-expense) reported in the income statement in the reporting period	29,881	23,251[1]
Deferred tax income/(-expense) reported in other comprehensive income in the reporting period	38,926	143[1]
Discontinued operations	-2,699	5,639
Reclassifications held for sale	-3,216	0
Business acquisitions and disposals	0	-945
Currency	4,650	-5,284
Balance, September 30	**197,494**	129,952
thereof: deferred tax assets	248,693	180,803
thereof: deferred tax liabilities	-51,199	-50,851

[1] In the previous year, including discontinued operations.

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. The expected tax expense was 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	2015/16	2014/15
Result before income taxes	140,096	-22,724
Expected tax expenses (+)/tax income (-)	41,805	-6,781
Deviations from expected tax rates	-8,314	14,502
Effect of changes in tax rates	271	208
Tax-free income	-11,712	-6,648
Non-deductible expenses	29,267	39,944
Taxes relating to other periods	-6,049	-5,405
Change in impairments of deferred tax assets	7,144	13,978
Other tax effects	-1,759	-1,912
Income taxes	**50,653**	47,886
Effective tax rate (in %)	**36.2**	-210.7

No deferred tax was recorded on temporary differences on investments in subsidiaries of €916,400 thousand (previous year: €927,427 thousand) as the criteria specified in IAS 12.39 were met.

When distributions by foreign subsidiaries to Germany are made, 5% of the distribution is 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 company.

Notes to the consolidated balance sheet

10. Intangible assets

Development of intangible assets from 2014-10-01 to 2015-09-30

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 2014-10-01	247,561	663,784	122,202	2,432	1,035,979
Business combinations	1,537	1,316	0	0	2,853
Currency translation differences	1,168	5,661	-55	1	6,775
Additions	5,232	0	3,674	542	9,448
Capitalized interest	0	0	24	0	24
Disposals	-22,859	-31,092	-29,858	-17	-83,826
Other adjustments	729	-20	0	0	709
Transfers	2,277	0	26,350	-61	28,566
Reclassification to assets held for sale	-44,986	-199,656	-1,428	-63	-246,133
Cost 2015-09-30	190,659	439,993	120,909	2,834	754,395
Accumulated amortization and impairments 2014-10-01	-173,095	-54,179	-95,851	0	-323,125
Business combinations	0	0	0	0	0
Currency translation differences	589	0	44	0	633
Amortization	-15,265	0	-8,551	0	-23,816
Impairment losses	-4,974	0	-24,561	0	-29,535
Disposals	15,770	0	29,849	0	45, 619
Transfers	-937	0	-2,635	0	-3,572
Reclassification to assets held for sale	37,884	0	569	0	38,453
Other adjustments	-78	0	0	0	-78
Accumulated amortization and impairments 2015-09-30	-140,106	-54,179	-101,136	0	-295,421
Carrying amount 2015-09-30	50,553	385,814	19,773	2,834	458,974

Development of intangible assets from 2015-10-01 to 2016-09-30

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 2015-10-01	**190,659**	**439,993**	**120,909**	**2,834**	**754,395**
Business combinations	0	0	0	0	0
Currency translation differences	712	184	-26	0	870
Additions	3,378	0	7,053	189	10,620
Capitalized interest	0	0	28	0	28
Disposals	-2,470	0	-2,639	-3	-5,112
Other adjustments	0	0	0	0	0
Transfers	3,419	0	-820	-2,831	-232
Reclassification to assets held for sale	0	0	0	0	0
Cost 2016-09-30	**195,698**	**440,177**	**124,505**	**189**	**760,569**
Accumulated amortization and impairments 2015-10-01	**-140,106**	**-54,179**	**-101,136**	**0**	**-295,421**
Business combinations	0	0	0	0	0
Currency translation differences	-1,572	0	25	0	-1,547
Amortization	-11,112	0	-6,539	0	-17,651
Impairment losses	-21	0	-122	0	-143
Disposals	2,356	0	2,639	0	4,995
Transfers	-52	0	0	0	-52
Reclassification to assets held for sale	0	0	0	0	0
Other adjustments	0	0	0	0	0
Accumulated amortization and impairments 2016-09-30	**-150,507**	**-54,179**	**-105,133**	**0**	**-309,819**
Carrying amount 2016-09-30	**45,191**	**385,998**	**19,372**	**189**	**450,750**

The impairment losses of €24,561 thousand recognized on capitalized development costs in the intangible assets development schedule in the 2014/15 fiscal year primarily related to Voith Hydro's tidal power business unit. The background to this was that the expectations for tidal power stations in the Ocean Energies division had not been met owing to limited government spending capacities. The plan, therefore, was to continue operating this business unit on a considerably scaled-down basis.

Impairment losses of €4,741 thousand had to be recognized on intangible assets in the 2014/15 fiscal year in connection with the termination of business activities at one of Voith Paper's business units.

The impairment losses for the 2014/15 fiscal year described above are presented in the non-recurring result in the statement of income.

An interest rate of 4.4% was used to calculate capitalized interest (previous year: 4.4%).

11. Property, plant and equipment

Development of property, plant and equipment from 2014-10-01 to 2015-09-30

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 2014-10-01	876,289	1,546,701	572,547	32,793	3,028,330
Business combinations	0	147	103	0	250
Currency translation differences	5,497	13,584	-11	708	19,778
Additions	4,749	24,959	29,971	33,838	93,517
Capitalized interest	0	0	0	524	524
Disposals	-28,241	-55,138	-49,458	-172	-133,009
Transfers	2,428	13,528	3,976	-21,528	-1,596
Reclassification to assets held for sale	-17,382	-44,013	-64,425	-6,452	-132,272
Other adjustments	-20	-363	14,407	150	14,174
Cost 2015-09-30	843,320	1,499,405	507,110	39,861	2,889,696
Accumulated depreciation and impairments 2014-10-01	-362,653	-1,047,871	-427,856	0	-1,838,380
Business combinations	0	0	0	0	0
Currency translation differences	-3,020	-11,902	280	0	-14,642
Depreciation	-19,751	-70,459	-43,003	0	-133,213
Impairment losses	-10,769	-13,788	-841	0	-25,398
Disposals	20,296	53,314	37,995	0	111,605
Transfers	0	843	-425	0	418
Reclassification to assets held for sale	4,855	20,046	43,444	0	68,345
Reversal of impairment losses	0	90	126	0	216
Other adjustments	18	81	156	0	255
Accumulated depreciation and impairments 2015-09-30	-371,024	-1,069,646	-390,124	0	-1,830,794
Carrying amount 2015-09-30	472,296	429,759	116,986	39,861	1,058,902

Development of property, plant and equipment from 2015-10-01 to 2016-09-30

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 2015-10-01	**843,320**	**1,499,405**	**507,110**	**39,861**	**2,889,696**
Business combinations	0	0	0	0	0
Currency translation differences	108	3,531	1,598	-830	4,407
Additions	2,851	27,429	27,564	52,115	109,959
Capitalized interest	0	0	0	223	223
Disposals	-39,401	-109,371	-33,491	-1,403	-183,666
Transfers	7,043	11,860	3,243	-21,912	234
Reclassification to assets held for sale	0	0	0	0	0
Other adjustments	0	0	0	0	0
Cost 2016-09-30	**813,921**	**1,432,854**	**506,024**	**68,054**	**2,820,853**
Accumulated depreciation and impairments 2015-10-01	**-371,024**	**-1,069,646**	**-390,124**	**0**	**-1,830,794**
Business combinations	0	0	0	0	0
Currency translation differences	134	-2,914	-1,279	0	-4,059
Depreciation	-18,018	-62,307	-32,584	0	-112,909
Impairment losses	-486	-45	-12	0	-543
Disposals	28,494	107,734	31,600	0	167,828
Transfers	-1,331	1,588	-205	0	52
Reclassification to assets held for sale	0	0	0	0	0
Reversal of impairment losses	0	249	0	0	249
Other adjustments	0	0	0	0	0
Accumulated depreciation and impairments 2016-09-30	**-362,231**	**-1,025,341**	**-392,604**	**0**	**-1,780,176**
Carrying amount 2016-09-30	**451,690**	**407,513**	**113,420**	**68,054**	**1,040,677**

An amount of €481 thousand of the impairment losses totaling €543 thousand recognized on property, plant and equipment in the 2015/16 fiscal year was attributable to the Voith Paper segment (incurred in connection with the ongoing restructuring measures, reported under non-recurring result in the statement of income).

Of the total impairment losses of €25,398 thousand recognized on property, plant and equipment in the 2014/15 fiscal year, an amount of €23,838 thousand was attributable to the Voith Paper segment. The future service potential of property, plant and equipment at the production locations was examined systematically as part of the restructuring measures initiated in previous years and an impairment loss recognized where appropriate and reported in the statement of income under non-recurring result.

The other adjustments to other equipment, furniture and fixtures of €14,407 thousand in the 2014/15 fiscal year included items of equipment that were previously reported under inventories but which are now intended to be used in the long term.

An interest rate of 6.0% was used to calculate capitalized interest (previous year: 6.0%).

The prepayments and assets under construction include buildings of €23,076 thousand (previous year: €7,488 thousand), plant and machinery of €41,832 thousand (previous year: €27,708 thousand), non-production-related equipment of €3,120 thousand (previous year: €4,611 thousand) and other property, plant and equipment of €26 thousand (previous year: €54 thousand).

12. Investments accounted for using the equity method

Associates

The following table summarizes the financial information for associates (all amounts relate to the Group's proportionate share of the respective associates):

in € thousands	**2016-09-30**	2015-09-30
Carrying value of the investments in associates	1,467	5,975
Share of:		
Net result of continuing operations	-128	1,646
Other comprehensive income	0	1,841
Total comprehensive income	**-128**	3,487

Joint ventures

The Group has interests in joint ventures which are not individually material. The following table summarizes the financial information for these joint ventures (all amounts relate to the Group's proportionate share of the respective joint ventures):

in € thousands	**2016-09-30**	2015-09-30
Carrying value of the joint ventures	13,840	15,152
Share of:		
Net result of continuing operations	-1,159	957
Other comprehensive income	-154	125
Total comprehensive income	**-1,313**	1,082

In some cases, the companies accounted for under the equity method have fiscal reporting periods which do not end on September 30. Accordingly, some companies prepare interim financial statements as at September 30. For other companies the effects of the different reporting periods are not significant for the Voith Group's earnings and net assets position.

13. Inventories

Inventories consist of the following items:

in € thousands	2016-09-30	2015-09-30
Raw materials and supplies	197,530	210,797
Work in progress	169,257	181,006
Finished goods and merchandise	126,988	141,561
Prepayments	73,458	77,137
	567,233	610,501

Write-downs of inventories recognized as expenses amounted to €16,652 thousand (previous year: €2,474 thousand). Obligatory reversals of write-downs totaling €6,172 thousand (previous year: €4,548 thousand) were made. These amounts are recognized in the cost of materials totaling €8,182 thousand (previous year: €-3,834 thousand (income)) and in the net result of discontinued operations totaling €2,298 thousand (previous year: €1,761 thousand).

14. Trade receivables and receivables from customer-specific contracts

Trade receivables consist of the following items:

in € thousands	2016-09-30	2015-09-30
Trade receivables	739,124	703,053
Bad debt allowances	-48,492	-38,195
Receivables from customer-specific contracts	426,720	276,773
	1,117,352	941,631

Trade receivables are classified as current assets. As at September 30, 2016, the volume of receivables that is not expected to be realized within one year is €4,189 thousand (previous year: €6,802 thousand).

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

in € thousands	2016-09-30	2015-09-30
Impairment at the beginning of the fiscal year	**-38,195**	-35,534
Additions	-23,313	-14,639
Utilization	4,925	3,405
Reversal	8,393	6,364
Changes in consolidated group/exchange differences	-302	-447
Reclassification to assets held for sale	0	2,656
Impairment at the end of the fiscal year	**-48,492**	-38,195

The total reversal of €8,393 thousand (previous year: €6,364 thousand) includes reversals of specific bad debt allowances of €8,393 thousand (previous year: €6,364 thousand) and reversals of portfolio-based allowances of €0 (previous year: €0). Additions of €23,313 thousand (previous year: €14,639 thousand) consist of additions to specific bad debt allowances of €22,962 thousand (previous year: €14,391 thousand) and portfolio-based allowances of €351 thousand (previous year: €248 thousand).

Credit insurance is used to manage default risk in trade receivables. For this purpose, Hermes cover is used to secure receivables from foreign customers in particular.

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

in € thousands	2016-09-30	2015-09-30
Costs incurred and recognized profits less recognized losses to date on current customer-specific projects	4,700,803	5,021,211
Progress billings to date	-3,372,238	-3,417,258
Future receivables from customer-specific construction contracts before advances received	**1,328,565**	1,603,953
Advances received (progress billings)	-1,020,032	-1,373,308
	308,533	230,645
Thereof receivables from construction contracts	426,721	276,773
Thereof liabilities from construction contracts	-118,188	-46,128

Other liabilities include further advances received on customer-specific contracts of €603,005 thousand (previous year: €609,528 thousand), for which no production costs have been incurred to date.

Sales from customer-specific contracts totaled €2,204,026 thousand (previous year: €2,210,100 thousand).

An amount of €21,754 thousand (previous year: €17,494 thousand) from progress billings has been retained by customers as the amounts are payable only on fulfillment of agreed contractual conditions.

15. Other financial receivables and other assets

Other financial receivables

in € thousands	Current	Non-current	2016-09-30	Current	Non-current	2015-09-30
Derivatives used to hedge operational transactions	35,908	14,185	50,093	10,804	2,461	13,265
Derivatives used to hedge financial transactions	557	5,847	6,404	10,134	7,623	17,757
Financial receivables	79,806	160	79,966	11,288	188	11,476
Sundry financial assets	56,209	68,439	124,648	98,068	42,463	140,531[1)]
	172,480	**88,631**	**261,111**	130,294	52,735	183,029

[1)] Includes assets totaling €42,267 thousand (previous year: €7,549 thousand) which are no financial instruments and which are accordingly excluded from the disclosures made in the section "Additional information on financial instruments."

Other assets

in € thousands	Current	Non-current	2016-09-30	Current	Non-current	2015-09-30
Prepaid expenses	22,398	11,022	33,420	22,049	15,340	37,389
Other taxes (without income tax)	77,418	6,038	83,456	64,429	6,184	70,613
	99,816	**17,060**	**116,876**	86,478	21,524	108,002

Sundry financial assets totaling €42,291 thousand at the reporting date (previous year: €7,663 thousand) are used as collateral for 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 €9,039 thousand (previous year: €9,611 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	2016-09-30	2015-09-30
Checks	21	39
Cash on hand	297	626
Cash equivalents	10,708	19,829
Cash at bank	638,646	414,459
	649,672	434,953

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 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 held for sale

As at September 30, 2016, this item mainly includes the carrying amount of the investment accounted for using the equity method in KUKA Aktiengesellschaft. At the start of July 2016, Voith decided to accept the public takeover bid submitted by Chinese investor MIDEA and to offer the shares for sale in the public takeover offer by MIDEA. Accordingly, the shares were accounted for using the equity method for the last time as at June 30, 2016 and then transferred to assets held for sale. As at September 30, 2015 the assets and liabilities of Voith Industrial Services, which has meanwhile been sold, were presented here (discontinued operations, for further details see the section "Disposals and discontinued operations").

The carrying amounts of the major groups of assets and liabilities held for sale are as follows:

Assets

in € thousands	2016-09-30	2015-09-30
A. Non-current assets		
Goodwill		199,656
Other intangible assets		8,024
Property, plant and equipment	1,141	63,927
Investments	608,224	18,075
Securities		6,467
Other financial assets		599
Other financial receivables		22,798
Other assets		315
Deferred tax assets		9,477
	609,365	329,338
B. Current assets		
Inventories		35,004
Trade receivables		177,928
Receivables from customer-specific contracts		17,318
Securities		17
Current income tax assets		4,853
Other financial receivables		10,698
Other assets		7,805
Cash and cash equivalents		
	0	253,623
Assets held for sale	**609,365**	582,961

Liabilities

in € thousands	2016-09-30	2015-09-30
A. Non-current liabilities		
Provisions for pensions and similar obligations		20,755
Other provisions		30,409
Income tax liabilities		335
Bonds, bank loans and other interest-bearing liabilities		129
Other financial liabilities		3,996
Deferred tax liabilities	0	15,116
	0	70,740
B. Current liabilities		
Provisions for pensions and similar obligations		1,316
Other provisions		38,945
Income tax liabilities		3,593
Bonds, bank loans and other interest-bearing liabilities		178
Trade payables		67,341
Liabilities from customer-specific contracts		770
Other financial liabilities		61,481
Other liabilities		36,089
	0	209,713
Liabilities directly associated with assets held for sale	**0**	280,453

19. Equity

Issued capital

Unchanged since September 30, 2006, the issued capital in Voith GmbH of €120,000 thousand is 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, the valuation of net investments in foreign operations, gains/losses from available-for-sale financial assets recognized directly in equity without effect on profit or loss and cash flow hedges pursuant to IAS 39.

The statement of comprehensive income shows the individual components of other comprehensive income. Other comprehensive income consists of:

in € thousands	**2015/16**	2014/15
Remeasurement of defined benefit plans	**-135,984**	8,976
· Gains/losses in the current period	-135,984	8,976
Gains/losses on available-for-sale securities	**10,166**	-859
· Gains/losses in the current period	10,166	-859
· Transfers to profit and loss	0	0
Gains/losses on cash flow hedges	**-4,247**	-4
· Gains/losses in the current period	-4,247	-4
· Transfers to profit and loss	0	0
Gains/losses on currency translation	**6,805**	-18,107
· Gains/losses in the current period	-2,563	-18,107
· Transfers to profit and loss	9,368	0
Gains/losses from currency translation of net investments in foreign operations	**4,577**	-2,735
· Gains/losses in the current period	4,577	-2,735
· Transfers to profit and loss	0	0
Tax on components of other comprehensive income	**39,366**	-559
Other comprehensive income	**-79,317**	-13,288

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

	2016			2015		
in € thousands	Before taxes	Deferred taxes	After taxes	Before taxes	Deferred taxes	After taxes
Remeasurement of defined benefit plans	-135,984	38,168	-97,816	8,976	-1,705	7,271
Gains/losses on available-for-sale securities	10,166	-105	10,061	-859	331	-528
Gains/losses on cash flow hedges including share of associates	-4,247	1,303	-2,944	-4	0	-4
Gains/losses on currency translation	6,805	0	6,805	-18,107	0	-18,107
Gains/losses from currency translation of net investments in foreign operations	4,577	0	4,577	-2,735	815	-1,920
Other comprehensive income	**-118,683**	**39,366**	**-79,317**	-12,729	-559	-13,288

Profit participation rights

Profit participation rights with a nominal volume of €103,400 thousand (previous year: €103,400 thousand) qualify as equity under the IAS 32 criteria. The rights are lower-ranking bearer profit participation rights with variable compensation, no bullet maturity and no right of termination on the part of the creditors. Profit participation rights of €96,800 thousand were issued by a subsidiary of Voith GmbH. Profit participation rights of €6,600 thousand were issued by Voith GmbH. Subject to the approval of the appropriate governing body, profits totaling €5,590 thousand (previous year: €5,590 thousand) are scheduled to be distributed on the sum total of these rights for the 2015/16 fiscal year.

Non-controlling interests

The majority of non-controlling interests are held by the co-owners of the subsidiaries 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 is attributable to non-controlling interests.

Appropriation of retained earnings at Voith GmbH

The Board of Management proposes to pay a dividend of €0.15 per share (€18,000 thousand in total) out of the net income of Voith GmbH and to carry forward the remaining €56,465 thousand. Dividend payments 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 its capital with the aim of maximizing the return on capital. The Group's managed capital consists of equity and interest-bearing financial liabilities.

in € thousands	2016-09-30	2015-09-30
Equity	798,934	874,243
Interest-bearing financial liabilities	1,332,473	1,219,627
	2,131,407	2,093,870

Year on year, equity fell by 8.6%, primarily due to the effects of remeasurements of pension obligations and dividend payments. Interest-bearing financial liabilities increased by 9.3%. The composition of interest-bearing financial liabilities is described in note 22.

The articles of incorporation and bylaws of Voith GmbH do not prescribe 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 in the respective countries and are usually based on the length of employee service and the 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 on either 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 2016, they amounted to €87,126 thousand for the Voith Group as a whole (previous year: €86,887 thousand).

The majority of the pension plans are defined benefit plans that take the form of provisions-based or externally 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 fiscal year. Pension provisions are measured 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 based 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 in the respective countries. The features of the material defined benefit plans at Voith are described below.

a) Pension plans in Germany and Austria
The pension plans in Germany generally include retirement, invalidity and surviving dependents' benefits. Traditionally, the pension commitments are measured on the beneficiary's final salary. In recent years, these benefits have been increasingly replaced by capital savings models. Under capital savings models, the amount of the benefit is measured as 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 have introduced capital savings models to satisfy their obligation to pay an employer contribution.

In accordance with the German Company Pensions Act, current benefit payments are regularly reviewed with regard to the increase 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 ultimately only involve the risk of 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. The plan assets of German companies take the form of insurance policies. They do not include any financial instruments issued by companies 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 obligations result primarily from a severance benefit scheme ("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. A few years ago, the nature of these benefits changed for new hires to post-employment benefits on account of new statutory requirements. 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 dependents' benefits on the basis of individual commitments and a pension plan closed to new hires a long time ago at the St. Pölten location.

b) Pension plans in the United States and Canada
The companies of the Voith Holding Inc. Group in the United States 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 benefit payment). The pensions are primarily based on the final average salary or the length of service (i.e. the product of a fixed dollar amount and the number of years of service) and are paid monthly for life. Moreover, there are two unfunded supplementary plans for benefits paid to a small group of former employees beyond the normal upper limit for pension plans required by law. These plans have also been frozen and no active employees currently participate in these plans. Finally, there is a plan for post-employment 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 companies 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 trustee of the master trust only acts on 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 funding requirement for the pension plans is based on the relevant US laws, including the Employee Retirement Income Security Act (ERISA) as amended. An annual assessment of the minimum funding requirement is made by the plan's actuary on the basis of these laws. In the past, Voith paid into the plans to maintain a funded status 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 plan deficit from the previous year. If the employer's contribution exceeds the minimum funding requirement or if the plan assets exceed the liabilities, the surplus may be offset against future minimum funding requirements.

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 lifelong monthly pensions.

The plan assets of the defined benefit plans are invested in insurance policies with an insurer who manages the plan assets as trustee. The companies 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 and its representatives have a fiduciary duty as the managers of the plan assets to act solely in the best interests of the beneficiaries.

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

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

	Defined benefit obligation		Fair value of plan assets		Net carrying amount from defined benefit plans	
in € thousands	**2016-09-30**	2015-09-30	**2016-09-30**	2015-09-30	**2016-09-30**	2015-09-30
Germany + Austria	842,953	713,393	-31,106	-27,933	811,847	685,460
USA + Canada	218,695	207,938	-159,082	-149,999	59,613	57,939
Other	32,575	29,526	-21,263	-21,648	11,312	7,878
Total	**1,094,223**	950,857	**-211,451**	-199,580	**882,772**	751,277

Movements in the net liability from defined benefit plans from October 1, 2014 to September 30, 2015:

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2014-10-01	983,622	-203,514	780,108
Current service cost	20,625	-	20,625
Past service cost from plan curtailments	-8,025	-	-8,025
Interest expenses (+)/interest income (-)	27,687	-7,782	19,905
Remeasurements:			
Losses (+)/gains (-) from changes in demographic assumptions	-53	-	-53
Losses (+)/gains (-) from changes in financial assumptions	-24,159	-	-24,159
Losses (+)/gains (-) from experience adjustments	-508	-	-508
Remeasurement of plan assets (without amounts included in interest result)	-	15,744	15,744
Employer contributions to the fund	-	-11,679	-11,679
Employee contributions to the fund	-	403	403
Benefits paid	-45,069	19,393	-25,676
Changes to the Group's structure	0	0	0
Other	3,029	13	3,042
Currency translation differences on foreign plans	19,555	-15,934	3,621
Reclassified to liabilities held for sale	-25,847	3,776	-22,071
2015-09-30	950,857	-199,580	751,277

Movements in the net liability from defined benefit plans from October 1, 2015 to September 30, 2016:

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2015-10-01	**950,857**	**-199,580**	**751,277**
Current service cost	17,826	-	**17,826**
Past service cost from plan curtailments	-7,157	0	**-7,157**
Interest expenses (+)/interest income (-)	26,099	-7,273	**18,826**
Remeasurements:			
Losses (+)/gains (-) from changes in demographic assumptions	855	-	**855**
Losses (+)/gains (-) from changes in financial assumptions	141,198	-	**141,198**
Losses (+)/gains (-) from experience adjustments	958	-	**958**
Remeasurement of plan assets (without amounts included in interest result)	-	-7,027	**-7,027**
Employer contributions to the fund	-	-12,508	**-12,508**
Employee contributions to the fund	-	-433	**-433**
Benefits paid	-40,180	13,393	**-26,787**
Changes to the Group's structure	0	0	**0**
Other	-4,858	505	**-4,353**
Currency translation differences on foreign plans	-588	1,472	**884**
Addition to termination benefits in acc. with IAS 19.159 et seq.	9,213	-	**9,213**
2016-09-30	**1,094,223**	**-211,451**	**882,772**

Movements on the net liability under defined benefits plans in Germany + Austria and USA + Canada from October 1, 2014 to September 30, 2015:

Germany + Austria

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2014-10-01	748,642	-25,541	723,101
Current service cost	19,217	-	19,217
Past service cost from plan curtailments	-7,738	-	-7,738
Interest expenses (+) / interest income (-)	18,911	-655	18,256
Remeasurements:			
Losses (+) / gains (-) from changes in demographic assumptions	54	-	54
Losses (+) / gains (-) from changes in financial assumptions	-20,543	-	-20,543
Losses (+) / gains (-) from experience adjustments	246	-	246
Remeasurement of plan assets (without amounts included in interest result)	-	128	128
Employer contributions to the fund	-	-2,859	-2,859
Employee contributions to the fund	-	0	0
Benefits paid	-25,772	712	-25,060
Changes to the Group's structure	0	0	0
Other	1,608	0	1,608
Currency translation differences on foreign plans	0	0	0
Reclassified to liabilities held for sale	-21,232	283	-20,949
2015-09-30	713,393	-27,932	685,461

USA + Canada

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2014-10-01	201,815	-154,618	47,197
Current service cost	690	-	690
Past service cost from plan curtailments	-288	-	-288
Interest expenses (+) / interest income (-)	7,557	-6,214	1,343
Remeasurements:			
Losses (+) / gains (-) from changes in demographic assumptions	0	-	0
Losses (+) / gains (-) from changes in financial assumptions	-3,794	-	-3,794
Losses (+) / gains (-) from experience adjustments	-462	-	-462
Remeasurement of plan assets (without amounts included in interest result)	-	15,479	15,479
Employer contributions to the fund	-	-7,435	-7,435
Employee contributions to the fund	-	491	491
Benefits paid	-17,677	17,653	-24
Changes to the Group's structure	0	0	0
Other	640	533	1,173
Currency translation differences on foreign plans	19,977	-15,888	4,089
Reclassified to liabilities held for sale	-520	0	-520
2015-09-30	207,938	-149,999	57,939

Movements on the net liability under defined benefits plans in Germany + Austria and USA + Canada from October 1, 2015 to September 30, 2016:

Germany + Austria

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2015-10-01	**713,393**	**-27,932**	**685,461**
Current service cost	15,871	-	**15,871**
Past service cost from plan curtailments	-6,291	0	**-6,291**
Interest expenses (+) / interest income (-)	17,135	- 699	**16,436**
Remeasurements:			
Losses (+) / gains (-) from changes in demographic assumptions	0	-	**0**
Losses (+) / gains (-) from changes in financial assumptions	123,334	-	**123,334**
Losses (+) / gains (-) from experience adjustments	1,851	-	**1,851**
Remeasurement of plan assets (without amounts included in interest result)	-	-594	**-594**
Employer contributions to the fund	-	-2,589	**-2,589**
Employee contributions to the fund	-	0	**0**
Benefits paid	-26,611	712	**-25,899**
Changes to the Group's structure	0	0	**0**
Other	-4,942	-4	**-4,946**
Currency translation differences on foreign plans	0	0	**0**
Addition to termination benefits in acc. with IAS 19.159 et seq.	9,213	0	**9,213**
2016-09-30	**842,953**	**-31,106**	**811,847**

USA + Canada

in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total
2015-10-01	**207,938**	**-149,999**	**57,939**
Current service cost	1,083	-	**1,083**
Past service cost from plan curtailments	-770	0	**-770**
Interest expenses (+) / interest income (-)	8,097	-5,870	**2,227**
Remeasurements:			
Losses (+) / gains (-) from changes in demographic assumptions	583	-	**583**
Losses (+) / gains (-) from changes in financial assumptions	13,204	-	**13,204**
Losses (+) / gains (-) from experience adjustments	-354	-	**-354**
Remeasurement of plan assets (without amounts included in interest result)	-	-5,014	**-5,014**
Employer contributions to the fund	-	-8,929	**-8,929**
Employee contributions to the fund	-	-433	**-433**
Benefits paid	-11,185	11,104	**-81**
Changes to the Group's structure	0	0	**0**
Other	-581	420	**-161**
Currency translation differences on foreign plans	680	-361	**319**
Reclassified to liabilities held for sale	0		**0**
2016-09-30	**218,695**	**-159,082**	**59,613**

Costs for defined benefit plans break down as follows:

in € thousands	2016-09-30	2015-09-30
Current service cost	17,826	20,061
Past service costs	-7,157	-7,803
Interest expenses from pension obligations and plan assets	18,826	19,352

Current service cost and past service cost are stated under personnel expenses. Interest expenses on the obligation and interest income on plan assets are stated in the interest result. Past service cost includes the effects of the fall in the discount rates for the capital savings plans.

The fund assets consist of the following components:

	Quoted prices in an active market		No quoted prices in an active market		Total	
in € thousands	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2016-09-30	2015-09-30
Equity instruments	40,025	37,947	0	63	40,025	38,010
Debt instruments	118,371	110,516	0	0	118,371	110,516
Real estate	8,663	7,307	2,566	2,336	11,229	9,643
Cash and cash equivalents	9,280	11,277	13	0	9,293	11,277
Other[1]	128	1,050	32,405	29,084	32,533	30,134
	176,467	168,097	**34,984**	31,483	**211,451**	199,580

[1] Primarily employer's pension liability insurance.

The calculation of pension provisions is based on the following assumptions:

	Germany + Austria		USA	
in %	2016-09-30	2015-09-30	2016-09-30	2015-09-30
Discount rate	1.33 %	2.42 %	3.20 %	4.05 %
Pension increases	1.33 %	1.5 %	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. These vary depending on the economy and other factors in the respective country.

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

		2016-09-30		2015-09-30	
		in € thousands	in %	in € thousands	in %
Discount rate	up 0.50 % points	-77,377	-7.1 %	-63,224	-6.6 %
	down 0.50 % points	87,451	8.0 %	71,147	7.5 %
Pension increases	up 0.25 % points	10,548	1.0 %	16,904	1.8 %
	down 0.25 % points	-10,014	-0.9 %	-15,156	-1.6 %
Life expectancy	+ 1 year	34,610	3.2 %	27,944	2.9 %

The sensitivity analyses presented here show 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 in 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), primarily on account of discounting the obligation to net present value. If a number of assumptions are changed simultaneously, the total impact does not necessarily equate to the sum of the effects attributable to the individual assumptions changed. In addition, the sensitivity of the DBO to a change in an assumption is only a reflection of the specific magnitude of the change. If an assumption changes by a different magnitude than that assumed here, the impact on the DBO will not necessarily be linear.

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 United States pursue an investment strategy that is oriented towards the obligations from the pension plans and not primarily towards 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 achieved, the goal is to maintain this funded status.

The main factors influencing the funded status 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 is based on an individual limited risk strategy. 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 asset 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, the asset managers, the pension committee and the Group treasury are structured efficiently and functionally at Voith. 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 a predefined schedule.

Future cash flows

Contributions of €9,064 thousand are expected to be paid into the plans in the next reporting period.

The weighted average term of the DBO is 13 years.

21. Other provisions

Provisions consist of the following:

in € thousands	At 2015-09-30	Change in the consolidated Group	Utilization	Additions	Reversals	Transfers	Discounting effect	Currency translation differences	At 2016-09-30
Personnel-related provisions	73,939	0	-11,185	23,781	-9,420	0	364	291	77,770
Other tax provisions	6,238	0	-1,318	2,351	-1,800	-26	0	36	5,481
Warranty provisions	220,607	0	-97,424	125,880	-36,427	-18,189	0	3,712	198,159
Other contract-related provisions	56,652	-63	-21,321	58,427	-9,810	-3,346	-836	1,045	80,748
Other provisions	184,403	0	-67,793	29,114	-30,818	10,577	245	1,724	127,452
	541,839	**-63**	**-199,041**	**239,553**	**-88,275**	**-10,984**	**-227**	**6,808**	**489,610**

	2016-09-30		2015-09-30	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year
Personnel-related provisions	18,172	59,598	19,584	54,355
Other tax provisions	4,760	721	6,043	195
Warranty provisions	116,038	82,121	127,845	92,762
Other contract-related provisions	78,351	2,397	54,301	2,351
Sundry other provisions	50,985	76,467	99,292	85,111
	268,306	**221,304**	307,065	234,774

Other provisions include restructuring provisions and provisions for personnel adjustments totaling €89 million (previous year: €170 million).

Refund claims totaling €19.4 million (previous year: €22.2 million) associated with other provisions were capitalized.

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 recorded based on past experience or on the basis of individual assessments and represent the legal and contractual warranty obligations as well as goodwill commitments to customers. The provisions generally represent amounts that will be payable within the next two fiscal years. 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 commission provisions. In these cases, the amount and timing of future expenses are dependent on completion of the orders concerned. Among other items, other provisions cover the obligations related to personnel adjustments and restructuring (see note 7 for more details). Most of the underlying measures will be settled by contract within the next two fiscal years.

22. Bonds, bank loans and other interest-bearing financial liabilities

Financial liabilities include the following:

in € thousands	Current	Non-current	2016-09-30	Current	Non-current	2015-09-30
Bonds	597,059	59,558	656,617	79,367	654,523	733,890
Bank loans	86,659	419,780	506,439	258,340	114,107	372,447
Financial liabilities from leases	288	797	1,085	306	997	1,303
Notes payable	332	0	332	274	0	274
Derivatives used to hedge financial transactions	15,475	6,074	21,549	0	0	0
Other loans and borrowings	68,731	77,720	146,451	39,698	72,015	111,713
	768,544	**563,929**	**1,332,473**	377,985	841,642	1,219,627

Other loans and borrowings contain obligations from the classification of non-controlling interests in limited partnerships based on termination rights of holders of non-controlling interests and put options.

The Voith Group's current and non-current bonds and its bank loans are denominated in the following currencies:

in € thousands	2016-09-30	2015-09-30
Euro	910,357	804,322
Chinese renminbi	186,616	128,198
US dollar	59,629	142,760
UK sterling	0	12,334
Other currencies	6,454	18,723
	1,163,056	1,106,337

Notes on net debt

Net debt as defined in the Company includes the following:

in € thousands	2016-09-30	2015-09-30
Bank loans	506,439	372,447
Bonds	659,558	740,637
Other interest-bearing financial liabilities	169,417	113,597
Securities	-709,494	-179,877
Cash and cash equivalents	-649,672	-434,953
Other realizable financial receivables and loans	-143,961	-38,208
	-167,713	573,643

Net debt as the difference between financial liabilities and realizable financial assets is an important indicator for banks, analysts and rating agencies. This net debt indicator is not defined under International Financial Reporting Standards (IFRS) accounting policies, which means that its definition and calculation might diverge from practice at other companies. In contrast to the carrying amounts in the balance sheet, which are based on the effective interest method, the indicator is calculated by measuring financial liabilities at their higher nominal repayment amount. The bonds are included here at an amount which is €3 million (previous year: €7 million) higher than the carrying amount in the balance sheet. The securities presented in this table include the carrying amount of the investment in KUKA Aktiengesellschaft accounted for using the equity method, which is reported within assets held for sale in the consolidated balance sheet.

23. Trade payables

Trade payables of € 17,396 thousand (previous year: € 9,162 thousand) are due after more than one year.

24. Other financial liabilities/ other liabilities

Other financial liabilities

in € thousands	Current	Non-current	2016-09-30	Current	Non-current	2015-09-30
Derivatives used to hedge operational transactions	18,632	3,217	21,849	72,395	34,752	107,147
Personnel-related liabilities	101,979	137	102,116	104,144	115	104,259
Sundry financial liabilities	149,814	25,477	175,291	106,440	13,587	120,027
	270,425	**28,831**	**299,256**	282,979	48,454	331,433

Personnel-related liabilities at fiscal year-end included outstanding annual bonus payments and outstanding payments for wages, salaries and social security contributions.

Other liabilities

in € thousands	Current	Non-current	2016-09-30	Current	Non-current	2015-09-30
Tax liabilities	52,222	26,667	78,889	51,375	174	51,549
Advances received	704,430	0	704,430	727,076	0	727,076
Deferred income	2,061	5,569	7,630	5,113	5,563	10,676
Other liabilities	65,453	26,843	92,296	66,846	26,545	93,391
	824,166	**59,079**	**883,245**	850,410	32,282	882,692

Tax liabilities principally relate to sales taxes (VAT).

Notes on segment reporting

Information on the segment data

The business is managed according to the different products and business segments and corresponds to the structure of internal reporting to the Board of Management of Voith GmbH.

The Voith Industrial Services Group Division was sold, effective August 31, 2016, and is consequently not included in segment reporting. Due to the intended sale, the previous-year segment reporting had already been adjusted for this division.

Segment information is generally based on 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 reported 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 is thus a key management indicator. It is essentially an operating earnings indicator derived from external reporting, comprising 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 are shown as other operating income and expenses in the consolidated statement of income. In relation to ordinary business activities, however, these are treated as non-recurring effects and are consequently eliminated as such when determining the profit from operations so as to facilitate a better assessment of business activities for internal control purposes.

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, 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 fiscal year, as at the reporting date for the previous six-monthly financial statements and as at the end of the previous year. In contrast to the requirements of IAS 21, the assets and liabilities of foreign subsidiaries are translated at the average exchange rate for the year under review. Owing to the use of averages, 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 in calculating capital employed.

Capital expenditures relate to 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 registered office. 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 of the segments presented

Voith Hydro – is one of the world's leading full-line suppliers of equipment, technologies and services for hydropower plants. Its 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 and services including spare parts and maintenance as well as training offers. Voith Hydro is a joint venture with Siemens, in which Voith holds a majority 65% of all shares and voting rights.

Voith Paper – serving as partner to the paper industry and assuming a pioneering role, Voith Paper provides technologies and products for the entire paper manufacturing process – from fiber through to finished rolls 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 that 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 – is the specialist 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

in € millions	Voith Hydro 2015/16	Voith Hydro 2014/15	Voith Paper 2015/16	Voith Paper 2014/15	Voith Turbo 2015/16	Voith Turbo 2014/15
Sales with third parties	1,388	1,313	1,456	1,506	1,397	1,470
Sales with other segments	4	3	23	22	5	5
Segment sales, total	1,392	1,316	1,479	1,528	1,402	1,475
Profit from operations	105	101	76	58	114	91
Depreciation and amortization[2]	23	25	54	61	42	44
Capital spending[3]	15	19	30	22	47	29
Segment goodwill	15	15	222	222	141	141
Average capital employed	493	478	748	843	719	738
ROCE	21.3 %	21.1 %	10.2 %	6.8 %	15.8 %	12.3 %
Employees[4]	4,934	5,188	6,550	7,739	5,702	6,254

[1] Sub-total of Voith Hydro, Voith Paper and Voith Turbo.

[2] Depreciation and amortization does not include depreciation and amortization recorded in the non-recurring result as it is not included in profit from operations.

[3] Without additions due to business combinations and financial assets.

[4] Statistical headcount on reporting date.

As the earnings components “Operating interest income” and “Other adjustments” are not shown directly in the consolidated statement of income, these two items are presented separately in the reconciliation of the profit from operations by segment to result before taxes presented below.

Total Core Business[1]		Reconciliation		Total	
2015/16	2014/15	**2015/16**	2014/15	**2015/16**	2014/15
4,241	4,289	11	13	4,252	4,302
32	30	- 32	-30	0	0
4,273	4,319	- 21	-17	4,252	4,302
295	250	- 20	20	275	270
119	130	12	12	131	142
92	70	29	10	121	80
378	378	8	8	386	386
1,960	2,059	177	155	2,137	2,214
15.1 %	12.1 %			12.9 %	12.2 %
17,186	19,181	1,912	1,042	19,098	20,223

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

in € millions	**2015/16**	2014/15
Profit from operations	**275**	270
Operating interest income	-32	-32
Other adjustments	0	0
Non-recurring result	-7	-185
Share of profits from associates	11	-1
Interest result	-78	-64
Other financial result	-29	-11
Result before taxes from continuing operations	**140**	-23

Segment information by region

External sales (registered office of customer)

in € millions		2015/16	2014/15
Germany		519	462
Other countries		3,733	3,840
	thereof Europe	1,166	1,146
	thereof Americas	1,163	1,259
	thereof Asia	1,145	1,230
	· of which China	570	673
	thereof others	259	205
Total		**4,252**	4,302

Non-current assets

in € millions		2015/16	2014/15
Germany		658	533
Other countries		833	985
	thereof Europe	158	252
	thereof Americas	303	347
	· of which USA	194	247
	thereof Asia	369	383
	· of which China	329	341
	thereof others	3	3
Total		**1,491**	1,518

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 addition, there are risks in connection with the recognition of transfer prices outside Germany amounting to €5 million (previous year: €4 million) and risks from legal disputes of €36 million (previous year: €33 million). A successful outcome is currently expected in both cases.

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

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

Contingent liabilities

The contingent liabilities listed below are stated at face value. No provisions were recognized for these contingencies, as the probability of occurrence is regarded as low:

in € thousands	2016-09-30	2015-09-30
Guarantee obligations	693	25,258
Warranties	328	1,717
	1,021	26,975

Most of the guarantee obligations expire in 2018.

Other financial obligations

In addition to liabilities, provisions and contingent liabilities, the Voith Group also has other financial obligations, in particular arising from rental and lease agreements for buildings, land, plant, machinery and other non-production-related tools and equipment.

in € thousands	2016-09-30	2015-09-30
Purchase commitments for capital expenditures	13,087	12,696
Obligations arising from non-cancelable operating leases	129,227	144,326
Other	3,551	1,531
	145,865	158,553

Assets leased under operating leases led to cash outflows totaling €70,025 thousand (previous year: €74,922 thousand). These payments mostly related to leased passenger vehicles, machinery and buildings. The majority of leases run for between 1 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	2016-09-30	2015-09-30
Nominal value of future minimum lease payments		
· Due in less than one year	39,845	47,580
· Due between one and five years	74,911	72,650
· Due in more than five years	14,471	24,096
	129,227	144,326

Future minimum lease payments include €0 (previous year: €624 thousand) from sale-and-leaseback transactions.

The future minimum lease payments from non-cancelable operating leases are partially offset by an immaterial amount of cash inflows expected from non-cancelable subleases.

Additional information on financial instruments

Carrying amounts, amounts recognized in the balance sheet and fair values by measurement category.

in € thousands	IAS 39 measure-ment category	Carrying amount 2015-09-30	Amount recognized in the balance sheet in accordance with IAS 39				Amount rec-ognized in the balance sheet in accordance with IAS 17	Fair value 2015-09-30
			Amortized cost	Cost	Fair value through equity	Fair value through profit or loss		
Assets:								
Cash and cash equivalents	LaR	434,953	434,953					434,953
Trade receivables	LaR	664,858	664,858					664,858
Receivables from construction contracts	LaR	276,773	276,773					276,773
Other financial assets and securities		209,438						
· Financial investments	LaR	60,004	60,004					60,004
· Loans	LaR	5,861	5,861					5,861
· Investments	AfS	30,184		30,184				[1]
· Securities	AfS	113,389			113,389			113,389
Derivative financial instruments		31,022						
· Forward exchange contracts	FAHfT	7,245				7,245		7,245
· Interest rate/currency swaps	FAHfT	6,919				6,919		6,919
· Forward exchange contracts (fair value hedges)	n. a.	6,020				6,020		6,020
· Interest rate hedges (fair value hedges)	n. a.	10,838				10,838		10,838
Other receivables		144,458						
· Financial receivables	LaR	11,476	11,476					11,476
· Sundry financial assets	LaR	132,982	132,982					132,982
Liabilities:								
Trade payables	FLAC	397,928	397,928					397,928
Bonds/bank loans/notes	FLAC	1,106,611	1,106,611					1,149,358
Financial liabilities from leases	n. a.	1,303					1,303	
Derivative financial instruments		107,147						
· Forward exchange contracts	FLHfT	6,722				6,722		6,722
· Forward exchange contracts (fair value hedges)	n. a.	100,425				100,425		100,425
Other loans and borrowings	FLAC	111,713	102,315		9,398			417,059
Sundry financial liabilities	FLAC	224,286	224,286					224,286
IAS 39 measurement categories:								
Loans and receivables (LaR)	LaR	1,586,907	1,586,907					
Available for sale (AfS)	AfS	143,573		30,184	113,389			
Financial assets held for trading (FAHfT)	FAHfT	14,164				14,164		
Financial liabilities measured at amortized cost (FLAC)	FLAC	1,840,538	1,831,140		9,398			
Financial liabilities held for trading (FLHfT)	FLHfT	6,722				6,722		

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

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

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

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

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

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

in € thousands	2015-09-30	Level 1	Level 2	Level 3
Assets				
Securities	113,389	113,389	0	0
Derivative financial instruments	31,022	0	31,022	0
Liabilities				
Derivative financial instruments	107,147	0	107,147	0
Liabilities arising from the acquisition of investment shareholdings	9,398	0	0	9,398

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

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

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

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

No reclassifications were made between the levels of the fair value hierarchy in the 2015/16 fiscal year.

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

The fair value of the investment allocated to level 3 of the fair value hierarchy was determined by an impartial appraiser on the basis of an income-based measurement technique and contains parameters that cannot be observed on the market. On account of contractual subordination, the economic value of Voith's investment does not correspond to the proportionate market value of the equity. For this reason, the fair value is based on an options pricing model (binomial model), the input parameters incorporated as of the reporting date being the business value of the investment (€141.7 million), capital market interest rates that reflect the term to maturity and the risk profile (-0.27 % per annum) and share price volatilities of a peer group (27.5 %).

The value of the embedded call option accounted for separately is determined indirectly from the difference in carrying amount of the investment with and without the option. In the event of the call option being exercised by the majority owner, Voith can, depending on the timing of the exercise of the call option generate a gain on sale of initially €32.5 million up to a maximum of €40.2 million. In economic terms, the call option limits the maximum revenue Voith can generate from the investment to the option's strike price. As of the reporting date, Voith is not aware of any issues that indicate a material change in the fair value of the investment and the option liability since the date of initial measurement.

If the business value of this investment were to increase (decrease), this would lead to an increase (decrease) in the value of the investment and the option liability at Voith. An increase in volatility of the business value of this investment would lead to an increase in the value of the investment and a decrease in the option liability. Increasing (decreasing) interest rates would lead to an increase (decrease) in the value of the investment and the option liability.

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

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

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

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

The market value of the bond amounting to €622 million (previous year: €636 million) is equal to its nominal value multiplied by the quoted price at the end of the reporting period (fair value hierarchy level 1).

The market value of the note loan of €310 million taken out in the fiscal year is calculated in the same way as the market values of unlisted bonds, bank loans and other financial liabilities as the present value of the payments associated with the liabilities, based on the effective yield curve and peer companies' credit spread curve determined for different currencies (fair value hierarchy level 2).

The market value of other financial liabilities totaling €263 million (previous year: €374 million) was determined 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 (fair value hierarchy level 3).

Net gains and losses for each measurement category of financial instruments:

2015/16

in € thousands	Impairments	Other net gains/losses	Total
Loans and receivables (LaR)	-12,121	19,427	7,306
Available-for-sale financial assets	-36,644	293	-36,351
Financial assets held for trading	0	-26,609	-26,609
Financial liabilities measured at amortized cost	0	5,784	5,784

2014/15

in € thousands	Impairments	Other net gains/losses	Total
Loans and receivables (LaR)	-9,147	99,577	90,430
Available-for-sale financial assets	-15,759	862	-14,897
Financial assets held for trading	0	-1,160	-1,160
Financial liabilities measured at amortized cost	0	-53,540	-53,540

See note 19 for more information on net gains and losses through equity from financial assets included in the available-for-sale category.

Impairment losses recognized on loans and receivables primarily relate to trade receivables. In the category "available-for-sale financial assets," impairment losses primarily relate to securities that have seen a significant decline in fair value.

All interest income and interest expenses for financial assets or financial liabilities relate to those assets or liabilities that are not measured at fair value through profit or loss.

Offsetting of financial instruments

The following table shows the volume that can potentially be offset under master netting agreements. The agreements do not meet the criteria required for net presentation in the balance sheet due to the fact that the Group does not have a present legal right to offset the amounts recognized, as the right to offset is conditional on the occurrence of future events.

in € thousands	Gross presentation balance sheet **2016-09-30**	Volume that can potentially be offset under master netting agreements	Potential net amount
Assets			
Derivative financial instruments	56,497	25,624	30,873
Liabilities			
Derivative financial instruments	43,398	25,624	17,774

in € thousands	Gross presentation balance sheet 2015-09-30	Volume that can potentially be offset under master netting agreements	Potential net amount
Assets			
Derivative financial instruments	31,022	20,450	10,572
Liabilities			
Derivative financial instruments	107,147	20,450	86,697

Risk management

Principles of financial risk management

The Voith Group is a global business and is exposed to risks arising from changes in interest rates and exchange rates in the course of its ordinary business activities which affect its liabilities, assets and transactions. These risks could affect its net assets, financial and earnings position. 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 Corporate Board of Management. Long-term refinancing is obtained 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. Counterparty default risks associated with term deposits are limited by selecting solvent banking partners and by spreading cash across multiple counterparties. For banks, 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 of these 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 stems from counterparty risks, manufacturing risks and political export-related risks. Handling of these risks is governed by rules that are binding throughout the Voith Group. The maximum risk of default is limited to the carrying amount of trade receivables, which is €690,632 thousand (previous year: €664,858 thousand). The maximum default risk for receivables from construction contracts is €426,720 thousand (previous year: €276,773 thousand). On account of the collateral held, the maximum default risk for trade receivables is reduced by €102,085 thousand (previous year: €126,804 thousand) and that for receivables from construction contracts by €72,400 thousand (previous year: €58,904 thousand).

All orders above a defined contract value are subject to general risk assessment requirements. Without special permission from the relevant decision-making bodies, Group companies do not accept unsecured orders from customers whose credit rating is below a defined threshold and who cannot furnish an adequate guarantor.

Political export-related risks classified as Euler Hermes country category 3 or higher must always be hedged, unless approval is issued by the decision-making bodies in individual cases. Further risk assessment is also activated for orders upward of defined contract 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 Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative financial 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:

2016-09-30			Thereof not impaired but past due at the reporting date by:		
in € thousands	Gross value	Thereof neither impaired nor past due	less than 90 days	between 90 and 180 days	more than 180 days
Trade receivables	**739,124**	486,522	97,032	53,772	50,575
Other financial assets and securities	**419,346**	153,849			
Other financial receivables	**164,574**	157,141	2,501	516	2,219

2015-09-30			Thereof not impaired but past due at the reporting date by:		
in € thousands	Gross value	Thereof neither impaired nor past due	less than 90 days	between 90 and 180 days	more than 180 days
Trade receivables	703,053	439,448	144,672	42,821	40,147
Other financial assets and securities	348,077	109,056			
Other financial receivables	150,478	141,060	919	1,396	881

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 and extended until 2020 by amend procedure in 2015 secures the finance for future investments and for the operating business in the same currency on the local market. This loan was drawn on during the year under review as planned. The syndicated euro loan arranged in 2011 and increased to €770 million in 2014 under an amend-and-extend agreement, was extended a second time for one year in August 2016 and now runs until 2021 with €715 million available in the final year of the agreement. No financial covenants were arranged. 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, through private placements and individual bank loans.

The credit facilities and the bond placed on the capital markets are subject to the customary market conditions and contractual terms and conditions based on Voith's rating. As in previous years, all contractual terms and conditions were complied with in the 2015/16 fiscal year. The Ba1 rating given by Moody's was confirmed in September of this year with "outlook stable."

The liquidity of Group companies is ensured by means of cash pools, intercompany loans and the allocation of external bank credit lines to individual operating units. 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 for financial instruments:

in € thousands	**2016-09-30**	**Cash flows < 1 year**	**Cash flows 1–5 years**	**Cash flows > 5 years**
Trade payables	430,779	413,383	17,647	0
Bonds/bank loans/notes	1,163,388	735,076	372,981	157,285
Financial liabilities from leases	1,085	316	775	78
Other loans and borrowings	146,451	69,321	134	77,586
Sundry financial liabilities	277,408	251,794	25,342	272
Derivative financial instruments	43,398			
· Outflows		252,256	99,382	4,734
· Inflows		-211,754	-70,961	-5,429
	2,062,509	**1,510,392**	**445,300**	**234,526**

in € thousands	2015-09-30	Cash flows < 1 year	Cash flows 1–5 years	Cash flows > 5 years
Trade payables	397,928	388,981	9,446	1
Bonds/bank loans/notes	1,106,611	375,647	826,190	0
Financial liabilities from leases	1,303	341	816	265
Other loans and borrowings	111,713	40,287	123	71,892
Sundry financial liabilities	224,286	210,585	13,242	460
Derivative financial instruments	107,147			
· Outflows		276,866	109,095	0
· Inflows		-218,025	-96,014	-3,449
	1,948,988	1,074,682	862,898	69,169

Solvency is ensured and liquidity managed using cash equivalents and short-term securities which can be transformed into cash at any time.

Derivatives include cash outflows for 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 presented on a net basis.

There are no expectations that cash flows presented in the maturity analysis could be incurred significantly earlier, or that there will be significant changes to the cash flow amounts.

Financial market risk

Foreign exchange risk:
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.

Most currency hedging is undertaken by Voith Finance GmbH and its Regional Treasury and Finance Center. Transaction risks arising from the international delivery of goods and services are mainly limited by forward exchange contracts. In general, all foreign currency transactions at the Voith Group must be hedged. Major balance sheet items and orders upward of a value of USD 1 million are hedged individually within the framework of hedge accounting.

In the project business, both the hedge relationship and the risk management objectives and strategies must be documented in respect of the underlying hedged item or transactions before external hedges are entered into.

Hedges must be highly effective to be in compliance with the Voith Group's risk management strategy. Where hedges are demonstrated to be 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 software tool is used for central scheduling, monitoring and documentation of all foreign currency hedges entered into by Voith Finance or Group companies.

Changes in the US dollar exchange rate are significant for the Voith Group. Based on the balance sheet items described above, the effects on the Group's results and consolidated equity are as follows: if the US dollar rises by 5%, the Group's result before taxes increases by €6,666 thousand (previous year: increase of €9,064 thousand) and equity (including the effect from the result before taxes) by the same amount, as in the previous year. If, by contrast, the US dollar falls by 5%, the result before taxes decreases by €6,666 thousand (previous year: decrease of €9,064 thousand) with a corresponding effect on equity (including the effect from the result before taxes), as in the previous year.

Interest rate risk:
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 items are essentially cash at banks that is invested in the money market and/or is used to fund the existing cash pools. 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 a bond placed on the capital market, a private placement in the United States, a note loan and 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 floating-rate portion of the note loan was swapped for a fixed rate. The bond bears a fixed interest rate.

The carrying amounts of the Group's significant financial instruments that are exposed to interest rate risks are grouped by their contractually agreed maturities in the following table:

2016-09-30 in € thousands	Less than 1 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	649,672	0	0	0	0	0	**649,672**
Bonds	0	0	59,558	0	0	0	**59,558**
Bank loans	86,659	0	0	120,812	0	0	**207,471**
Fixed interest rate							
Bonds	597,059	0	0	0	0	0	**597,059**
Bank loans	0	0	0	151,992	0	146,976	**298,968**

2015-09-30 in € thousands	Less than 1 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	434,953	0	0	0	0	0	434,953
Bonds	79,367	0	0	61,270	0	0	140,637
Bank loans	258,086	0	0	0	114,107	0	372,193
Fixed interest rate							
Bonds	0	593,253	0	0	0	0	593,253
Bank loans	254	0	0	0	0	0	254

If the market rate of interest had been 100 bps higher (lower) at September 30, 2016, gains/losses from the significant floating-rate financial instruments would have been €3.8 million higher (lower) (previous year: €0.6 million lower (higher)). Equity would have changed accordingly. This effect chiefly originates from euro-denominated floating-rate financial instruments of €3.3 million (previous year: €-0.6 million).

If the market rate of interest had been 100 bps higher (lower) as at September 30, 2016, the fair value of the significant fixed-rate financial instruments would have been €4.5 million lower (higher) (previous year: €8.5 million).

Interest rate swaps have been concluded to hedge the floating-rate portion of the note loan. Taking into account the hedge and a change in interest rates of +100/-100 bps, equity would change by €+5.1 million/€-0.9 million.

Risks relating to securities and stock prices:

The Voith Group holds stocks and other securities in the available-for-sale category of €87 million (previous year: €113 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.

It should be noted that all existing stock price risks are analyzed continuously and suitable counteraction is 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. The Group had insignificant amounts of commodity contracts during the fiscal year.

Hedge relationships:

The following items are used to hedge foreign exchange and interest rate risks:

2016-09-30	Nominal values[1]		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)	599,233	284,771	32,826	13,869	12,876	2,686
Forward exchange contracts (cash flow hedges)	4,212	0	5	0	885	0
Interest rate swaps (fair value hedges)	0	52,758	0	5,841	0	0
Interest rate swaps (cash flow hedges)	0	139,000	0	0	0	3,367
Other derivatives	237,233	110,136	3,634	322	20,346	3,238
Total	**840,678**	**586,665**	**36,465**	**20,032**	**34,107**	**9,291**

2015-09-30	Nominal values[1]		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)	470,531	253,130	4,222	1,798	66,186	34,239
Interest rate swaps (fair value hedges)	76,130	53,739	3,253	7,585	0	0
Other derivatives	299,206	90,936	13,463	701	6,209	513
Total	845,867	397,805	20,938	10,084	72,395	34,752

[1] 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 2015/16 fiscal year, a gain of €120,542 thousand was recorded on derivative financial instruments classified as fair value hedges (previous year: a loss of €82,608 thousand). Since the hedges have been classified as highly effective, measurement of the hedged transactions at the reporting date produced an offsetting gain/loss in the same amount.

There were no effects on profit or loss from ineffective hedges in the 2015/16 and 2014/15 fiscal years.

Changes in the value of derivative financial instruments that do not meet the requirements for hedge accounting under IAS 39 are recognized as income or expenses in profit or loss at the reporting date.

Cash flow hedges:
As at September 30, 2016, the Group had interest rate hedges to hedge future cash flows for servicing interest payments on the note loan. The Group also held forward exchange contracts to hedge forecast sales and purchase transactions.

The main terms and conditions of the hedging instruments were negotiated in line with the terms and conditions agreed for the hedged transactions. The transactions underlying the forward exchange contracts are expected to be carried out within one year.

Hedge relationships designed to hedge cash flows from forecast payment transactions for the note loan and forecast sales transactions were classified as highly effective. Accordingly, an unrealized loss of €4,247 thousand was recognized within consolidated equity in other reserves as at September 30, 2016.

No hedged transactions were realized in the course of the year under review by transfer of the relevant accumulated losses from other reserves to profit or loss.

Research and development costs

In the 2015/16 fiscal year, research and development costs totaled €207,758 thousand (previous year: €210,045 thousand).

Of these, development costs of €7,081 thousand (previous year: €3,698 thousand) were capitalized in the balance sheet. The remaining costs of €135,185 thousand (previous year: €135,777 thousand) include amortization of these capitalized development costs as well as activities for non-customer-specific new developments and improvements and development activities of €65,492 thousand (previous year: €70,570 thousand) capitalized for customer-specific contracts.

Transactions with related parties and individuals

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 companies and individuals (family members who are shareholders and members of the Supervisory Board and of the Board of Management).

In the 2007/08 fiscal year, one subsidiary of Voith GmbH was sold to family shareholders in a transaction under common control. That 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 €967 thousand (previous year: €967 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 goods and service transactions with related parties (entities and individuals) are shown in the table below:

in € thousands	2015/16	2014/15
Liabilities to family shareholders	13,470	19,476
Services purchased from associates	1,208	1,984
Services rendered to associates	50	284
Receivables from associates	3,420	2,815
Liabilities to associates	852	828
Services purchased from other investments	5,216	7,793
Services rendered to other investments	13,304	15,686
Receivables from other investments, including advances paid	11,834	13,085
Impairment of receivables from other investments	-64	-81
Liabilities to other investments, including advances received	11,614	10,580
Services purchased from joint ventures	3,456	3,727
Services rendered to joint ventures	474	766
Receivables from joint ventures	153	252
Liabilities to joint ventures	746	1,355
Services purchased from the ultimate parent company	11,852	10,896
Services rendered to the ultimate parent company	854	782
Receivables from the ultimate parent company	190	196
Liabilities to the ultimate parent company	6,337	5,770

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.

No guarantees were issued in favor of an associate or a joint venture in the 2015/16 fiscal year (previous year: €11,836 thousand and €1,462 thousand, respectively). Guarantees in favor of other investees amounted to €554 thousand (previous year: €543 thousand).

The Group has obligations under outstanding orders with the ultimate parent amounting to €5,399 thousand (previous year: €4,242 thousand). There are no obligations to associates in the current or previous fiscal year under outstanding orders.

No capital increases were performed in favor of joint ventures (previous year: €2,567 thousand).

The investment in KUKA Aktiengesellschaft, Augsburg, was included in the analysis of transactions with related parties as an associate for the first time in the 2014/15 fiscal year. The reportable transactions and balances in the current reporting period were not significant.

Remuneration of governing bodies

The compensation for members of the Board of Management of Voith GmbH, including pension expenses, totaled €13,469 thousand in the fiscal year (previous year: €10,848 thousand). This amount includes short-term benefits totaling €7,003 thousand (previous year: €6,237 thousand), post-employment benefits of €1,175 thousand (previous year: €2,504 thousand) and termination benefits pursuant to IAS 24 of €5,291 thousand (previous year: €2,107 thousand), for which provisions of €6,656 thousand (previous year: €5,114 thousand) have been recognized (excluding pension obligations). In accordance with Sec. 314 HGB, the termination benefits amounted to €6,680 thousand (previous year: €2,107 thousand).

The compensation under commercial law corresponds to the aforementioned short-term benefits.

The present value of all defined benefit obligations (DBO) in respect of current members of the Board of Management totals €41,866 thousand at the reporting date (previous year (adjusted)*: €35,208 thousand). The present value of defined benefit obligations of past members of the Board of Management totaled €52,181 thousand (previous year (adjusted)*: €45,919 thousand). Plan assets for current members of the Board of Management total €15,812 thousand (previous year:

* From the 2015/16 fiscal year onwards, the obligations toward former members of the Board of Management with vested entitlements are presented under obligations toward former members of the Board of Management. In the previous year, this figure was presented under active members. The figures for the previous year have been adjusted accordingly.

€13,775 thousand). Plan assets for former members of the Board of Management total €15,233 thousand (previous year: €14,099 thousand). These amounts are included in note 20.

The members of the Supervisory Board received compensation of €527 thousand (previous year: €545 thousand).

Pension and other payments to former members of the Board of Management amounted to €3,109 thousand (previous year: €2,658 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 2015/16 fiscal year:

in € thousands	2015/16	2014/15
Annual audit	3,035	2,378
Other assurance or valuation services	83	261
Tax advisory services	107	136
Other services	394	210
	3,619	2,985

Subsequent events

There were no significant events after the end of the 2015/16 fiscal year.

Heidenheim an der Brenz, November 30, 2016

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Hermann Jung (until September 30, 2016)
Dr. Toralf Haag (since October 1, 2016)
Bertram Staudenmaier
Dr. Roland Münch
Carsten J. Reinhardt (until October 19, 2015)
Dr. Uwe Knotzer (since October 19, 2015)
Uwe Wehnhardt (since January 1, 2016)

The German language consolidated financial statements of Voith GmbH as at September 30, 2016 as authorized for issue and the unqualified audit opinion issued thereon by KPMG Wirtschaftsprüfungsgesellschaft, Munich will be filed in German at the Bundesanzeiger [Federal German Gazette]. They can be viewed 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 30, 2016

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Hermann Jung (until September 30, 2016)
Dr. Toralf Haag (since October 1, 2016)
Bertram Staudenmaier
Dr. Roland Münch
Carsten J. Reinhardt (until October 19, 2015)
Dr. Uwe Knotzer (since October 19, 2015)
Uwe Wehnhardt (since January 1, 2016)

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Voith records all CO_2 emissions produced in the course of printing and processing the annual report. By making a proportionately equal investment in a Gold Standard climate project, the corresponding CO_2 emissions will be saved in the future and the carbon footprint left by the Voith annual report compensated for in this way.

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