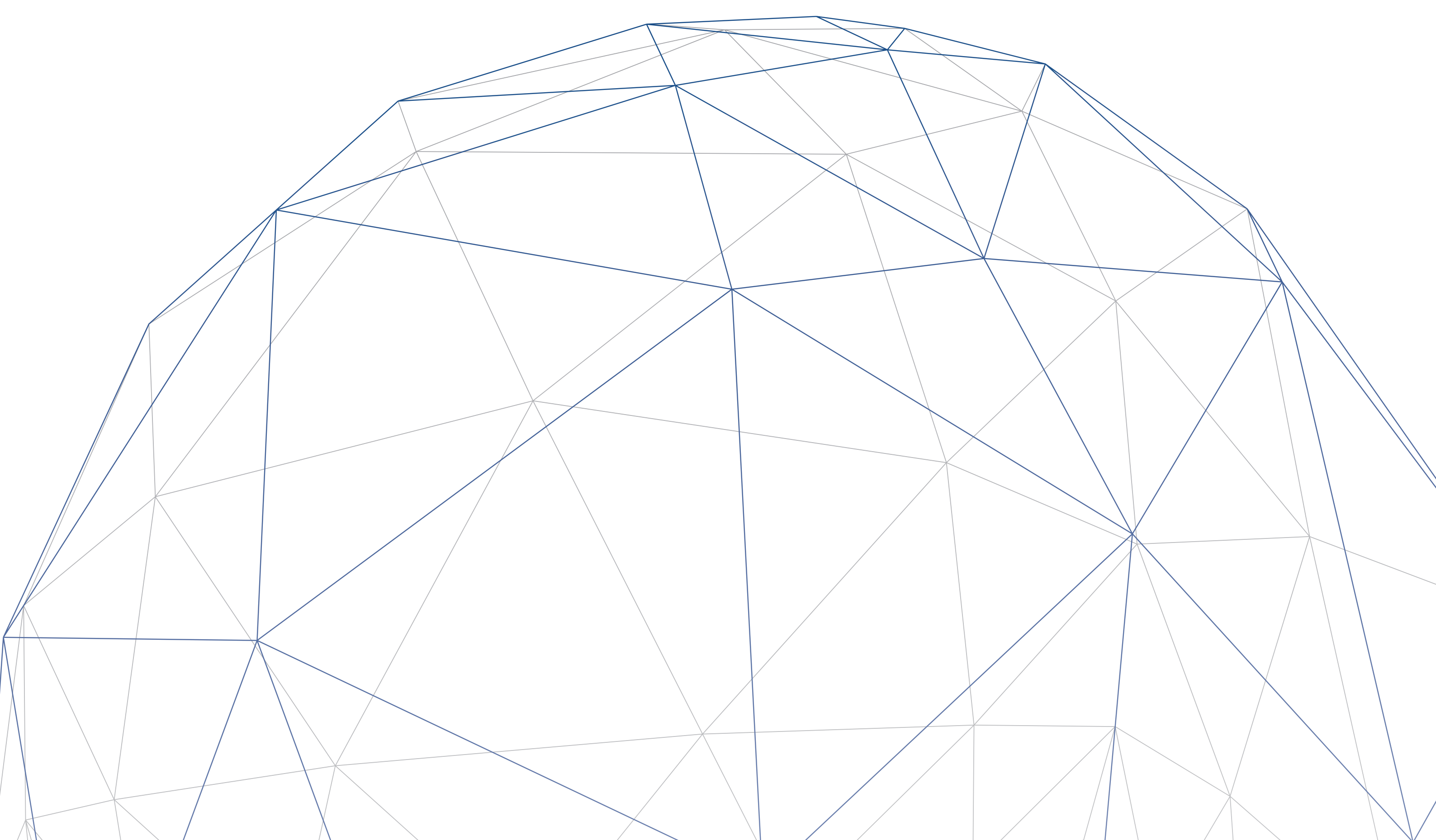
VOITH

# Interim Report 2015



# Voith in figures

| in € millions | 2014-10-01 to 2015-03-31 | 2013-10-01 to 2014-03-31 |
|---|---|---|
| Orders received | 2,370 | 2,779 |
| Sales | 2,663 | 2,604 |
| Profit from operations[1] | 137 | 125 |
| Return on sales in % | 5.1 | 4.8 |
| Result before taxes | -88 | 53 |
| Net result | -131 | 30 |
| Cash flow from operating activities | -143 | 76 |
| Total cash flow | -511 | -20 |
| Investments | 52 | 68 |
| Equity[2] | 829 | 1,031 |
| Equity ratio in % | 14.5 | 18.9 |
| Balance sheet total[2] | 5,717 | 5,453 |
| Employees[2), 3)] | 38,907 | 39,302 |

[1] See “Notes on segment reporting” in the notes to the Group interim financial statements.
[2] Reference date March 31, 2015, compared to September 30, 2014.
[3] Without apprentices.

# Contents

# Foreword

Ladies and gentlemen,

In a market and competitive setting which remains challenging, the overall development of the Voith Group stabilized noticeably in the first six months of the current 2014/15 fiscal year. Adjusted for changes in the scope of consolidation, Group sales rose by a good 5% in the reporting period. Owing to a persistent lack of economic momentum and a continuing weak investment climate and delays in awards of some major projects in many markets, the number of orders received remained subdued. Nonetheless, a satisfactory number of orders were received following the tangible turnaround in the previous year.

Our Group-wide "Voith 150+" success program is beginning to bear fruit. Voith's operative earnings improved more than proportionately to sales. The profit from operations rose by 12% over the adjusted result for the previous year. As anticipated and previously announced, the net result was negative. This was due to the planned special burdens arising from the restructuring of Voith Paper and the streamlining of Group-wide administrative structures as part of the Voith 150+ program. The measures making up our success program are in part designed to make structures and processes more efficient, to optimize the existing product portfolio and to exploit growth potential in highly promising markets.

All four Group Divisions showed themselves in robust health in the first half of the year and, from our current perspective, are again expected to post profit from operations in 2014/15 as a whole. We continue to anticipate that the sales generated by Voith Hydro in 2014/15 will remain at much the same level as last year. We expect

Voith Industrial Services to report continuing moderate organic sales growth and Voith Paper to stabilize sales revenues at a level that is on a par with the previous year. At the present juncture, the target for Voith Turbo must be to achieve reasonably stable sales development over the year as a whole.

In view of the stable development during the first half year, we reaffirm our Group's annual forecast and anticipate sales and orders received remaining at much the same level as in the previous year. Alongside the improvements in the first half year, we also expect to see a slight increase in our profit from operations for 2014/15 as a whole and anticipate the restructuring measures having a further positive and visible impact. Despite positive operative earnings performance, the net result for 2014/15 as a whole will, as previously announced, again be negative owing to the special burden represented by high restructuring expenses.

Our company will continue to focus on promoting and implementing "Voith 150+" as planned throughout the rest of the year. One important aspect of the success program was met in the reporting period: the acquisition of 25.1% of the shares and voting rights in KUKA AG, one of the leading suppliers of robots and automatic production lines and solutions worldwide. We regard this acquisition as a strategic investment. The technologies produced by KUKA are key components for the digital industry of the future, and for the megatrend "Industrie 4.0". In the coming years, our objective will be to add specifically automation and industrial software competence to the Voith Group's existing divisions and to amend our portfolio accordingly. On the basis of this step, we have decided that Voith will focus on its technology and engineering strengths, and have initiated a value maintenance management sales process for the Voith Industrial Services Group Division.

We are making good progress with our current program. This program will put Voith back on track for sustained profitable growth. There is still some way to go. However, we are determined to stay on course and to implement our plans and to put our measures into action step by step.

Best regards

Hubert Lienhard

Dr. Hubert Lienhard
President and CEO

# Group interim management report

for the period from October 2014 to March 2015

01

# 01 Business development and earnings position of the Group

The measures taken in recent years to increase profitability are beginning to take effect: Moderate growth in sales enabled us to achieve a substantial increase in the Voith Group's profit from operations in the first half year of 2014/15. Despite the positive operative performance, net result – as announced and planned – was burdened by provisions for restructuring expenses and was negative. Owing to market developments fewer orders were received during the reporting period, nonetheless we consider ourselves on course to meet our estimates for the year as a whole ("constant development").

## 01.1. Overall assessment

### Improved profitability

In the first half of the 2014/15 year we generated a slight increase in sales while achieving an above-average improvement in operational earnings indicators. We attribute this pleasing development to the ongoing restructuring of the Voith Paper division, the portfolio optimization, and the efficiency improvements introduced under the Group's Voith 150+ success program, which are showing first noticeable results. As a result we were able to improve our return on sales and ROCE. Owing to the timing of project awards in the Voith Hydro division, orders received in the reporting period were, as anticipated, below the previous year's level. As we expect a higher level of orders received for Voith in the second half of the fiscal year as a result of the various projects to be awarded on the hydropower market, we consider ourselves on course to achieve the goals set out in the annual report for ("constant") sales and orders. The Group's net result was negative for the period, as announced in February, despite the positive developments at operating level, and will be negative for the year as a whole. This is due to provisions made for the costs of restructuring at Voith Paper and for redundancy costs in connection with the Group-wide optimization of administrative structures and processes as part of the Voith 150+ program. The personnel measures planned through to the end of the 2015/16 fiscal year are reflected in the interim financial statements for the first half of the 2014/15 fiscal year.

# 01.2. Economic environment

## Weakened trends for emerging markets

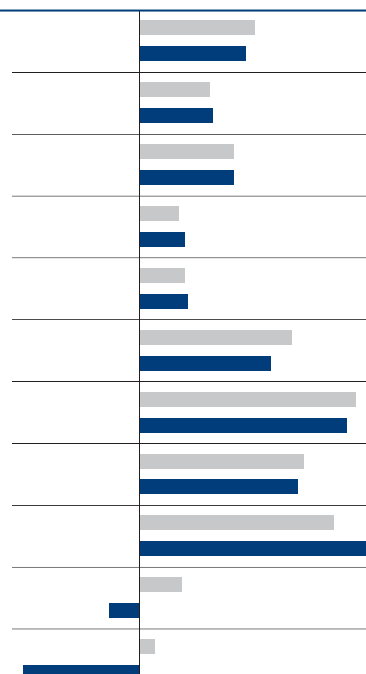
In the first half of the Voith fiscal year 2014/15 global economic trends did not live up to the expectations of economic analysts issued at the end of 2014, the date that our last annual report was published.

On average, global growth in 2015 was at the same low level as in the previous year. For example, the International Monetary Fund (IMF) has reduced its global economic growth forecast for 2015 to +3.5% (estimate at October 2014: +3.8%), and reduced the forecast for 2016 to +3.8% (estimate at October 2014: +4.0%).

The reduced level of growth is attributed to slower growth in emerging markets. According to IMF forecasts, emerging market growth will only amount to 4.3% in 2015. The growth trend in China has slowed more than expected, which particularly affects export-based economies such as Germany's, and manufacturers of capital goods in particular. Although China's expected rate of growth of 6.8% is significantly above the global average, this trend weakens its role as a driver of the global economy and as a demand driver for European manufacturers of capital goods. India is considered to have become stronger since the presentation of our 2014 annual report, and according to IMF it is expected to generate faster growth rates than China, although at lower absolute amounts. The significant fall

**Changed economic climate: Economic growth in 2015**
Real year-on-year change in GDP, 2015

| | | Forecast 2015 acc. IMF |
|---|---|---|
| **World output** | AR 2014[1] | 3.8% |
| | **Interim 2015[2]** | **3.5%** |
| **Advanced economies** | AR 2014[1] | 2.3% |
| | **Interim 2015[2]** | **2.4%** |
| United States | AR 2014[1] | 3.1% |
| | **Interim 2015[2]** | **3.1%** |
| Euro area[3] | AR 2014[1] | 1.3% |
| | **Interim 2015[2]** | **1.5%** |
| Germany | AR 2014[1] | 1.5% |
| | **Interim 2015[2]** | **1.6%** |
| **Emerging market and developing economies** | AR 2014[1] | 5.0% |
| | **Interim 2015[2]** | **4.3%** |
| China | AR 2014[1] | 7.1% |
| | **Interim 2015[2]** | **6.8%** |
| ASEAN-5 | AR 2014[1] | 5.4% |
| | **Interim 2015[2]** | **5.2%** |
| India | AR 2014[1] | 6.4% |
| | **Interim 2015[2]** | **7.5%** |
| Brazil | AR 2014[1] | 1.4% |
| | **Interim 2015[2]** | **-1.0%** |
| Russia | AR 2014[1] | 0.5% |
| | **Interim 2015[2]** | **-3.8%** |



Source: International Monetary Fund (IMF), World Economic Outlook (WEO), April 2015, October 2014
AR = Anual Report; Interim = Interim Report
[1] Anual Report 2014 (IMF, WEO October 2014).
[2] Interim Report 2015 (IMF, WEO April 2015).
[3] Including Germany.

in oil prices and the continuing Ukraine conflict – with the associated economic sanctions applied by the West – have created a recession in Russia as well as a drastic reduction in expected economic progress. The sanctions and the poor economic conditions in Russia have an above average effect on the German mechanical engineering sector. In the short term, it is expected that growth in Brazil will be lower than the pessimistic expectations made for it, and according to forecasts issued by the IMF it may even record a fall in Gross Domestic Product in 2015, reinforced by the lower oil price and severe droughts.

On the other hand, conditions in industrial countries have improved slightly in the reporting period from their low level in the previous year. Oil-importing countries are benefiting from lower oil prices which, owing to the continuing supply glut, have approximately halved since mid-2014. Growth in industrial countries is expected to be 2.4%, above the previous year's level (+1.8%). Economies in the euro zone have benefited from the improvement in export competitiveness on markets worldwide associated with the fall in the euro.

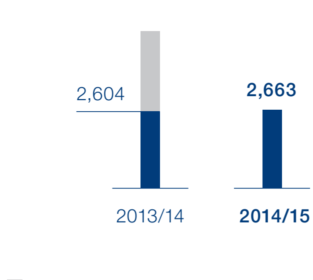
In three target markets served by Voith – energy, paper, and raw materials – the investment climate has remained subdued. The oil & gas market has been weaker than we expected at the time we published our 2014 annual report due to the fall in oil prices. Major segments of the transport & automotive market have been relatively positive.

## 01.3. Sales

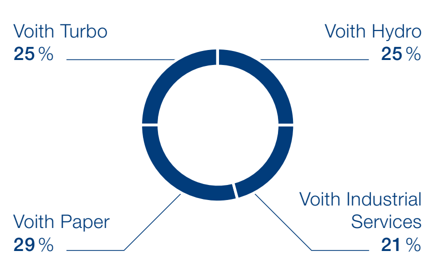
## Group sales up slightly

The Voith Group generated sales of €2,663 million in the first half of the 2014/15 fiscal year, representing 2% growth compared to the same period in the previous year (€2,604 million). After adjusting for changes in the scope of the consolidation (primarily the sale of the DIW Group at September 30, 2014), the growth in sales is 5%. Of this, approximately 2 percentage points are due to positive changes in exchange rates, as a consequence of the lower euro. This affected all four of the

**Sales** Group
in € millions




**Sales** total €2,663 million
by Group Division




First half-year 2014/15

Group Divisions, if not to the same degree. Overall, sales developments were in line with our expectations.

The four Group Divisions report diverging trends. Voith Paper and Voith Industrial Services grew by 15% and 9% respectively (after adjusting for changes in the scope of the consolidation). Voith Hydro and Voith Turbo reported slight falls in sales (-2% in each case).

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

Voith Paper was the largest contributor to Group sales with 29% (previous year: 27%), followed by Voith Hydro and Voith Turbo with 25% each (previous year: 25% and 26% respectively), while Voith Industrial Services' share was 21% (previous year: 22%).

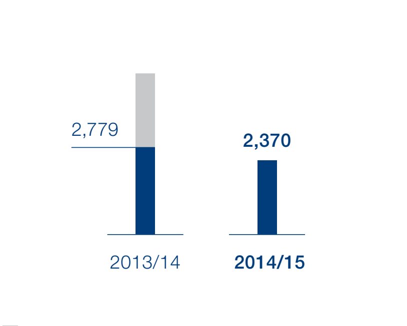
## 01.4. Orders received

## Orders received in the first half year below the previous year level

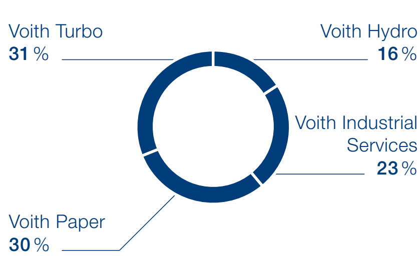
Overall, the Voith Group secured new orders totaling €2,370 million in the first half of the 2014/15 fiscal year (previous year: €2,779 million, -15%). The fall is 13% compared to the same period of the previous year, once adjustments for changes in the scope of the consolidation are taken into account. The fall compared to the same period in the previous year is primarily attributable to the Voith Hydro Group Division, where significantly fewer orders were received than in the extraordinarily strong equivalent period in the previous year owing to the timing of large projects awarded in the reporting period. However, this is not a medium-term trend, but is primarily a result of the cyclical nature of the way in which major hydropower projects are awarded. We expect a stronger second half year for Voith Hydro, and we see the Voith Group as a whole on course to meet our overall estimates for the 2014/15 fiscal year ("constant" development). Voith Paper and Voith Turbo recorded orders received at approximately the same level as in the same period in the previous year. The value of orders received also included the positive effects of changes in exchange rates.

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

**Orders received** Group
in € millions

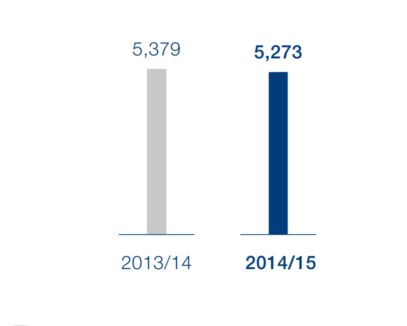



**Orders received** total €2,370 million
by Group Division




First half-year 2014/15

**Orders on hand** Group
in € millions



# 01.5. Results

## Improvements in operational earnings indicators, charges against net result

Although we made significant improvements in operational earnings indicators and were able to improve return on sales in the first half of the 2014/15 fiscal year, the net result is negative, as advised back in February 2015, totaling €-131 million (previous year: €30 million). The net post-tax loss is a result of major expenses incurred in connection with efficiency improvement measures instigated in the reporting period (these are described below under results from non-recurring items).

The Group's total output increased by 2%, consistent with the increase in sales. The increase totaled €56 million, giving rise to a new total of €2,695 million (previous year: €2,639 million). Trends in the total output of the Group Divisions were uneven, as was the case with sales (Voith Industrial Services after adjusting for changes in the scope of the consolidation +4%, Voith Hydro -1%, Voith Paper +13%, and Voith Turbo +3%).

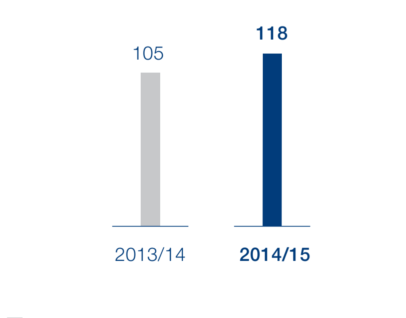
For information on the development of sales, we refer to section 01.3.

Material expenses increased to €1,084 million (previous year: €1,021 million, +6%). The ratio of the cost of material to total output increased to 40.2% (previous year: 38.7%). The increase in the material cost ratio was primarily a result of the increased level of sales at the material intensive business with new machines at Voith Paper. In addition, the disposal of the DIW Group at September 30, 2014 (with a low material ratio) and the associated low proportion of total Group sales attributable to Voith Industrial Services also contributed significantly to the increase in the materials ratio.

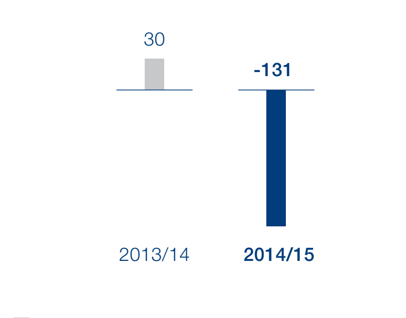
Personnel expenses fell by €33 million to €1,039 million (previous year: €1,072 million, -3%). The changes reflect the lower staff numbers, in particular as a result of the restructuring measures implemented at Voith Paper in previous years. The first notable effects of these measures resulted in increased profitability and contributed significantly to reducing the ratio of personnel expenses to total output to 38.6% (previous year: 40.6%).

Depreciation and amortization totaled €80 million, changing only marginally (previous year: €82 million). The amounts were also practically constant as a proportion of total output at 3.0% (previous year: 3.1%).

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




**Net result** Group in € millions



The balance of other operating expenses and income increased to €374 million (previous year: €358 million). The ratio to total output increased slightly to 13.9% (previous year: 13.6%).

We were able to improve the operational result before non-recurring items by 12% to €118 million (previous year: €105 million). The profit from operations used for internal management purposes amounted to €137 million (previous year: €125 million, +9.6%). As with sales and orders received, this includes positive effects resulting from changes in exchange rates. The return on sales improved to 5.1% (previous year: 4.8%). The ROCE (return on capital employed) increased to 11.0% (previous year: 9.9%).

For detailed information on the development of the profit from operations and the ROCE for each Group Division, see section 03.

The result from non-recurring items in the period totaled €-165 million (previous year: €-20 million) and was primarily the outcome of the following restructuring measures: In February 2015 Voith Paper presented a package of measures designed to concentrate its European activities in a small number of locations and to reduce the size of the workforce further. Current plans envisage cuts of 900 jobs worldwide. We had previously announced in the 2014 annual report that further capacity adjustments would be necessary in this division in order to be successful in the long term given the structural changes in the market. In addition, under the Voith 150+ program we will improve the efficiency of the Group's administrative function by implementing a thorough restructuring program, involving the cutting of 720 jobs across the Group. Of these jobs, 150 affect the Voith Paper division and are included in the reduction of the Voith Paper workforce by 900 as mentioned above. Based on current planning, both measures will be completed by the end of the 2015/16 fiscal year. Further expenses included in the non-recurring result resulted from the sale of subsidiaries.

Further details of both of these measures are provided in section 04, "Employees".

Individual contributions to non-recurring items were made by Voith Industrial Services (€-22 million, previous year: €-7 million), Voith Hydro (€-15 million, previous year: €-5 million), Voith Paper (€-109 million, previous year: €-3 million), Voith Turbo (€-14 million, previous year: €-4 million), and by activities with holding functions (€-5 million, previous year: €-1 million).

The interest result, the net sum of interest expenses and interest income, totaled €-34 million, which was almost unchanged compared to the same period in the previous year (€-35 million).

The other financial result amounted to €-8 million (previous year: €0) and primarily represents impairment charges against securities and charged to the income statement.

Income taxes totaled €-44 million (previous year: €-23 million), including income taxes relating to other periods of €-18 million (previous year: €1 million). There were no tax effects relating to significant amounts of expenses included in non-recurring items in the period.

# 02 Business development and earnings position of the Group Divisions

All four Group Divisions posted clearly positive operating earnings figures, despite uneven performance in terms of sales and orders received. The intensive restructuring of the service portfolio, efficiency improvement measures in Voith Industrial Services and the restructuring of Voith Paper are showing the first tangible signs of success: both Group Divisions have increased their profit from operations. Voith Hydro reported a fall in profit from operations during the reporting period but anticipates for the 2014/15 fiscal year as a whole a constant development as projected. For market reasons, Voith Turbo was unable to match the figures for the same period in the previous year.

## 02.1. Voith Hydro

### Market activity low

For Voith Hydro the first half of the 2014/15 fiscal year was characterized by a market in which, as anticipated, very few major projects were awarded. However, Voith Hydro is on course for the full year 2014/15.

### Sales slightly below the high level of the previous year

Voith Hydro generated sales of €656 million in the first half of the 2014/15 fiscal year, only slightly below the very high level in the previous year, as expected (previous year: €668 million, -2%). This is due to the low level of orders received in the fiscal years 2012/13 and 2011/12, which are reflected in sales with a time delay. We retain our forecast of stable sales for the year as a whole.

### Fall in orders received due to market conditions

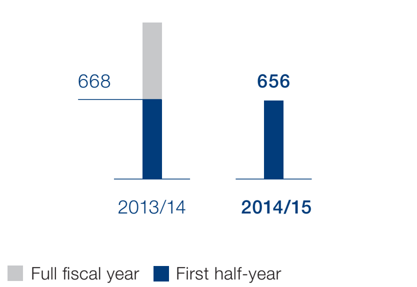
The hydropower market in the reporting period is significantly lower than in the previous year. In any case we expected that the volume of projects awarded in the market in the current year would be lower due to the high volumes of large projects awarded in the 2013/14 fiscal year, and accordingly we forecast a fall in orders received for Voith Hydro. Only a small proportion of the expected market volume has been awarded to date. This is due to the timing of awards for planned major projects, but also partially due to the negative influence of deteriorated economic or political conditions affecting the project award process, for example in Brazil and Russia.

Voith Hydro participated reasonably in the orders received and won new orders to a value of €376 million in the reporting period (previous year: €747 million, -50%). As we expect a number of large projects to be awarded over the course of the remaining part of the year, we expect that Voith Hydro's orders received in the second half of the fiscal year will be higher. Accordingly, the percentage fall in orders received for the full year will be lower than it has been in the current reporting period. Orders on hand remained at a high level at March 31, 2015, amounting to €2,962 million (September 30, 2014: €3,091 million).

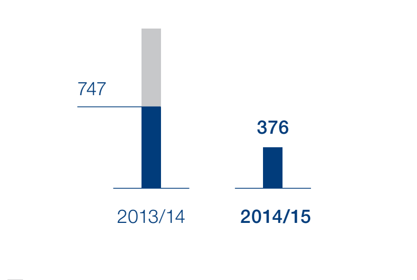
Our orders received in the reporting period were dominated by modernization projects attributable to the large hydro segment. For example, we are engaged to modernize the Polpitiya hydropower plant for the Ceylon Electricity Board (CEB), Sri Lanka's largest energy provider. As part of this order we will replace two 37.5 MW generator-turbine units with two 40 MW units and overhaul the spiral cases and draft tubes, and will also be responsible for the erection and commissioning of the plant. This modernisation will significantly increase the performance of the power plant, which was originally commissioned in 1969. The hydropower market in Southeast Asia, like that in China and Central Asia, is generally gaining in importance.

The hydropower market in Western Europe is slow given the weak economic climate in Western eurozone countries and the unabated growth of wind and solar plants in Germany. However, we were able to win a number of orders in the reporting period in the small hydro segment (power plants with a generating capacity of up to 30 MW per unit) in Italy. These orders, with a total value of €16 million, are for the modernization of three power plants which have been connected to the grid since the early twentieth century. The modernization will enable them to provide electricity from renewable energy sources for many decades to come, demonstrating the long-term profitability of hydropower plants.

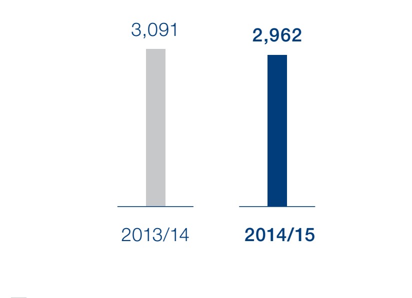
**Sales** Voith Hydro
in € millions



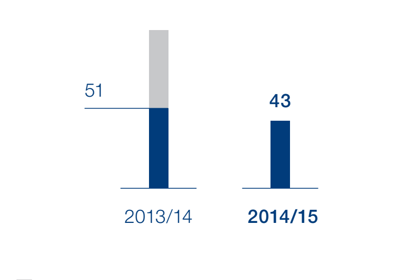

**Orders received** Voith Hydro
in € millions




**Orders on hand** Voith Hydro
in € millions




**Profit from operations** Voith Hydro
in € millions



Voith Hydro also won orders in the challenging European pumped storage segment. The Société Electrique de L'Our S.A. placed an order with us to modernize four motor-generators at the Vianden pumped storage plant in Luxembourg, which is marketed by the utility RWE Génération. The power plant, which is located directly on the German-Luxembourg border, feeds its electricity directly into the German grid and can be used for flexible electricity storage purposes and to stabilize and regulate the network as part of the energy turnaround.

In Russia, due to the weakness of the ruble, domestic providers are being given preference when hydropower projects are awarded. Despite the difficult conditions we have been able to win one project.

The USA and Canada as established hydropower markets continue to show potential for modernization. While renewable energies are being driven back in the USA by gas power plants due to the boom in shale gas, new hydroplants are planned in Canada as a result of progressive energy policies.

Political instability and the weak economic climate in Brazil are acting as a brake on infrastructure projects and are having a negative effect on hydropower tenders.

## Profit from operations down

Voith Hydro generated a profit from operations of €43 million in the first half of the fiscal year 2014/15 (previous year: €51 million, -15%), in line with our expectations. We retain our forecast that profit from operations for the year as a whole will remain stable. Return on sales was 6.6% (previous year: 7.6%). The lower return on sales in the reporting period was due to the timing of individual projects, and includes effects which will approximately balance themselves out over the year as a whole. The ROCE was 17.5% (previous year: 22.7%).

02.2. Voith Industrial Services

## Portfolio optimization and efficiency improvement measures take effect

The intensive restructuring of the service portfolio and the efficiency improvement measures are showing the first signs of success. Adjusted for changes in the scope of consolidation, Voith Industrial Services was able to increase sales and profit from operations in the first half of the 2014/15 fiscal year.

Voith Industrial Services has three active divisions following the disposal of the Industries division (DIW Group) at September 30, 2014: Automotive, Energy-Petro-Chemicals, and Engineering Services.

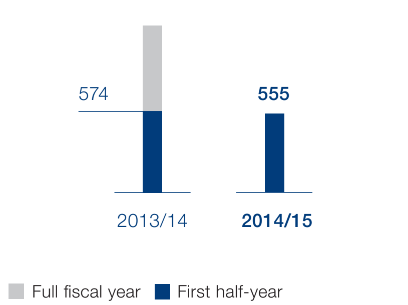
## Organic sales growth

Voith Industrial Services generated sales of €555 million (previous year: €574 million, -3%). Adjusted for changes in the scope of consolidation (the disposal of the DIW Group at September 30, 2014, the acquisition of Helix Systems at July 31, 2014), Voith Industrial Services sales increased by 9%, primarily driven by the Automotive division. Owing to the short throughput times of service contracts, Voith Industrial Services does not record the volume of orders on hand, which means that orders received are identical to sales.

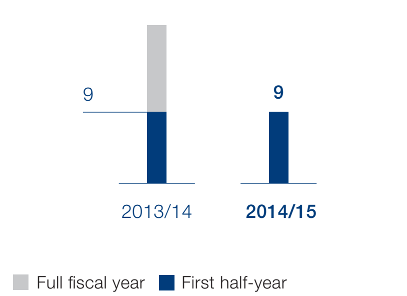
## Growth at all three divisions

In the Automotive division, Voith Industrial Services' largest division by sales, we succeeded in increasing sales once again following four years of strong volume growth. In Europe we benefited from our focus on premium manufacturers whose exports to the Americas and Asia remain at a high level. The increase at the Automotive division benefited from the continued good business performance in China. We have successfully integrated the US company Helix Systems Inc. which we acquired in the previous year, providing an excellent basis to build on the technical portfolio. In other respects the performance in North America was stable. Production levels in the Automotive sector in Brazil are falling due to

**Sales** Voith Industrial Services
in € millions




**Profit from operations** Voith Industrial Services
in € millions



recession. Despite this, it was still possible to generate orders from new customers and diversify the customer portfolio further. Voith Industrial Services reacted quickly to the changed market conditions and amended structures accordingly. Business with Western manufacturers in Mexico performed well. There were early signs of an upswing for the Automotive sector in India.

Sales in the Energy-Petro-Chemicals division in the first half of the 2014/15 fiscal year were above the level of the same period in the previous year. The market environment for maintenance services in the downstream segment for the Western European oil and gas industry, the core business of this division, is currently challenging due to the low oil prices. This increasingly difficult environment is exacerbated in Germany by the energy turnaround. All thermal power station operators are drastically reducing their service and maintenance input owing to the significantly shorter operational lives. A large turnaround project in Norway and a chemical industry capacity enlargement project in Germany contribute to the positive trends given these market conditions. At the same time, activities in the location business are being driven forward.

In the Engineering Services division, which offers contract engineering for the aerospace, automobile, commercial and rail vehicle industries, sales increased in the period under review following a decline in the previous year. Business with rail vehicle manufacturers developed positively, primarily driven by the market in Asia. Voith Industrial Services was awarded two major projects in China and Taiwan in the reporting period. Demand for engineering sources for the aerospace sector, represented by the P3 Voith Aerospace joint venture, is low. This is due to the lack of new developments made by the leading aerospace manufacturers.

## Profit from operations showing first benefits of the efficiency program

In the first half of the 2014/15 fiscal year Voith Industrial Services generated a profit from operations of €9 million, at the same level as in the previous year (previous year: €9 million). After adjusting for changes in the scope of the consolidation we improved the Voith Industrial Services profit from operations by 61 %. The improvement in results was driven by the efficiency programs in Energy-Petro-Chemicals and Engineering Services, and the improvement in the order position for contract engineering services for manufacturers in the rail vehicle and automobile industries. The return on sales in the reporting period was 1.6 % (previous year: 1.5 %; adjusted: 1.1 %). The ROCE was 7.3 % (previous year: 7.3 %; adjusted: 5.1 %). We expect a slight improvement in the second half of the fiscal year, during which the benefits of the efficiency improvement measures will be even more apparent.

# 02.3. Voith Paper

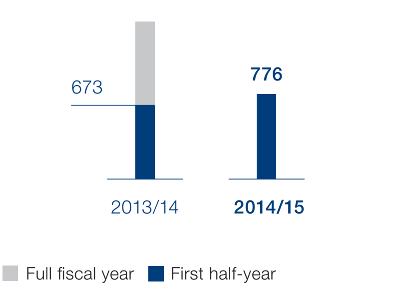
## Restructuring measures show first noticeable effects

Voith Paper sees itself confronted with continued difficult market conditions. However, it has been able to emerge from the trough, due to the restructuring measures taken in previous years. In the first half of the 2014/15 fiscal year, sales were up, orders received have been stabilized, and we recorded a significant improvement in profit from operations, which was positive.

## Sales grown by 15%

In the first half of the 2014/15 fiscal year we generated sales of €776 million (previous year: €673 million). The 15% increase is primarily attributable to project business (new machines and major rebuilds). In the previous year these were slightly improved due to a few specific investments, enabling us to record a slight increase in orders received for the first time in three years. Sales in our business with products, consumables, and services also increased slightly. Asia remained our largest region in terms of sales. The pleasing growth rate recorded in the reporting period cannot be continued into the second half of the fiscal year as it results from a few individual projects. We retain our forecast that sales for the year as a whole will remain stable.

**Sales** Voith Paper
in € millions

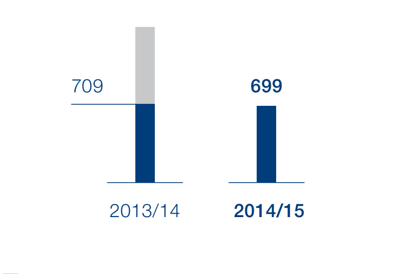



## Orders received almost at the same level as the previous year

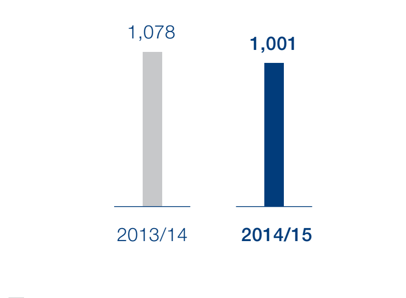
We were able to stabilize orders received at a low level in the reporting period. In the first half of the 2014/15 fiscal year new orders received totaled €699 million, which, in continued difficult market conditions, was almost at the level of the previous year (previous year: €709 million, -1%). Orders on hand decreased to €1,001 million as at March 31, 2015 (September 30, 2014: €1,078 million).

While we were able to generate a slight increase in orders for the products, consumables, and services business, the project business was lower than in the

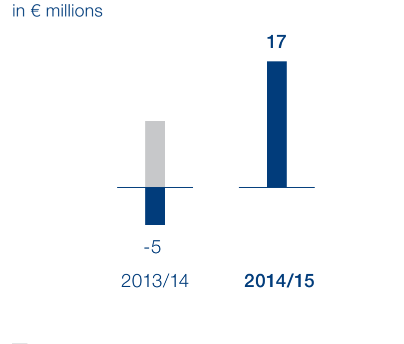
**Orders received** Voith Paper
in € millions




**Orders on hand** Voith Paper
in € millions




**Profit from operations** Voith Paper
in € millions



previous year and fell behind our expectations. Paper manufacturers remained cautious about making investments in new machines. In Brazil the stagnation continued due to the unfavorable political and economic climate. In Europe, too, we received fewer orders than in the same period in the previous year. A light market recovery is noticeable in North America. A large proportion of our orders received in the reporting period was again generated in Asia.

Orders for new machines were obtained in the reporting period for the manufacture of board and packaging paper, whereby primarily medium-sized machines were in demand. We likewise received an order for a new tissue machine from South America. We also received a number of large rebuild orders in the board and packaging paper sector.

The production of graphic paper is declining worldwide, while the board and packaging paper and tissue sectors are recording growth in some regions. Also, even though the production of paper worldwide is increasing again, this low level of growth is for the most part being absorbed by the use of existing production capacity. Accordingly there is a low level of interest among paper manufacturers for investments in new plant.

## Significant improvement of profit from operations

In the first half of the 2014/15 fiscal year we generated a profit from operations of €17 million (previous year: €-5 million). This pleasing result is due to the increased level of sales and also to the restructuring efforts made in recent years which resulted in noticeable reductions of personnel and other operating costs. Return on sales was 2.2% (previous year: -0.8%). The ROCE improved to 3.9% (previous year: -1.2%).

# 02.4. Voith Turbo

## Challenging first half year

In a market which is in part a difficult one, Voith Turbo was not quite able to maintain sales and orders received at the same levels as the same period of the previous year. The profit from operations also declined in the reporting period.

## Sales slightly below the same period in the previous year

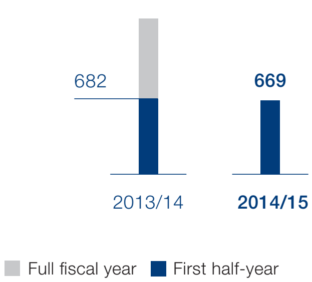
Voith Turbo's sales in the reporting period totaled €669 million (€682 million, -2%). Within this total, growth was recorded in the Commercial Vehicles and Rail divisions, while sales in the Power, Oil & Gas and Mining & Metals divisions were lower than in the previous year. We expect the second half of the fiscal year to be somewhat stronger and we maintain our sales forecast for Voith Turbo for the year as a whole ("constant trend").

## Orders received almost at the same level as the previous year

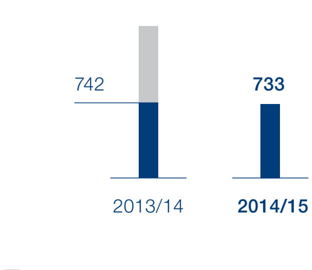
In the first half of the 2014/15 fiscal year Voith Turbo received new orders totaling €733 million (previous year: €742 million, -1%), almost matching the figures for the same period in the previous year. A positive trend was seen in orders received in the Commercial Vehicles division, which were even slightly ahead of the previous year's high level. Orders received by the Power, Oil & Gas and Rail divisions were stable. In the Mining & Metals division orders received declined in a market which continues to be weak. Orders on hand at March 31, 2015 amounted to €1,310 million, slightly above the level at the end of the previous fiscal year (September 30, 2014: €1,210 million).

The Commercial Vehicles division has developed well in what is generally a positive environment. In particular we are continuing to have export success with the DIWA automatic transmissions for buses, and we were able to record a series of attractive orders here, for example in Azerbaijan, Russia, and Hong Kong. The

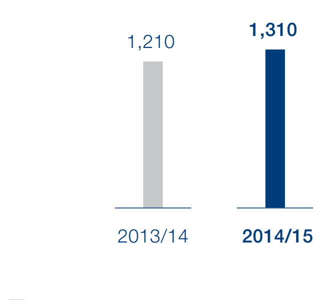
**Sales** Voith Turbo
in € millions



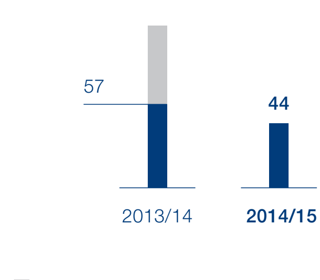

**Orders received** Voith Turbo
in € millions




**Orders on hand** Voith Turbo
in € millions




**Profit from operations** Voith Turbo
in € millions



service business also contributed to the good level of orders received in this division. The Russia/Ukraine crisis and the pessimistic economic climate had a negative effect on our business in Eastern Europe.

The Mining & Metals division recorded lower orders received in a persistently very weak market environment. Price falls continued in an overheated raw materials market, and this has now affected copper as well as coal and iron ore. This led to cost pressure and a lower level of investment activity among mine operators and mining companies, with projects postponed or canceled completely, particularly in important markets such as China and Australia. Demand from the machine tool market was also weak.

In the Power, Oil & Gas division orders received were stable, driven by export demand from North America. While the demand for power plant technology remained weak in the core markets – in China due to the deterioration in growth prospects and in India due to political decisions that remain unresolved – the business for combined power plants in North America developed well. Our pipeline business in the USA developed well as a consequence of the expansion of the infrastructure for the transport of shale gas. On the other hand, the upstream sector suffered under the low oil price, particularly in the offshore sector. This led to more difficult price negotiations with equipment suppliers and to project delays, and had a negative effect on our business with oil and gas equipment and for offshore special ships. The market for petrochemical plant and associated equipment remained weak.

In the Rail division our orders received were, as expected, slightly lower than in the same period of the previous year, although still at a high level. The global market for rail vehicles continued to be positive, with the exception of the Russian market. At the same time, competition among train manufacturers became even fiercer, thus generating pressure on prices accordingly. We won new orders for metro and special rail vehicles in particular, for example in the United Kingdom, Poland, and China. Demand in Germany remained cautious. The service business for replacement parts and maintenance developed well.

## Profit from operations down

Voith Turbo generated a profit from operations of €44 million in the first half of the fiscal year 2014/15 (previous year: €57 million), below our own expectations. The 24% decline is due to the fall in sales, in particular in the service business of the Power, Oil & Gas division, and to the recording of additional provisions against risks. The efficiency programs launched have had a positive effect on results, but were not wholly able to compensate for the effect on results of the lower sales and the additional charges. As a result the return on sales fell to 6.5% (previous year: 8.3%). The ROCE was 11.8% (previous year: 14.7%).

# 03 Net assets and financial position

The Voith Group continues to display a robust structure of assets and equity and liabilities. Owing to the negative net result and valuation adjustments to pension provisions, the equity ratio has fallen to 14.5%. Cash flow was negative owing to the strategic acquisition of 25.1% in KUKA AG.

## 03.1. Balance sheet

### Negative net result and valuation-driven increases in pension provisions reduced equity ratio

The balance sheet total increased by €264 million to €5,717 million (previous year: €5,453 million, +5%), driven in particular by increased levels of bank borrowings and the effect of changes in exchange rates due to the weakness of the euro.

Non-current assets increased by a total of €583 million to €2,986 million (previous year: €2,403 million, +24%). A significant proportion of this change resulted from the acquisition of a 25.1% shareholding in KUKA Aktiengesellschaft, Augsburg, which largely explains the increase in the amount recorded in the balance sheet for investments accounted for using the equity method (€+527 million). The €40 million fall in intangible assets is primarily due to the reclassification of assets to assets held for sale (€-38 million). The €41 million increase in property, plant, and equipment is primarily due to changes in currency exchange rates (€+57 million).

Current assets fell to €2,731 million (previous year: €3,050 million, -11%). Trade receivables and inventories increased by a total of €69 million in the first half year; this increase is largely recorded in the Voith Turbo division. The decrease in cash and cash equivalents (€-495 million) was due to the acquisition of the KUKA shareholding.

Non-current liabilities increased significantly by €283 million to €2,278 million (previous year: €1,995 million, +14%). The increase in pension provisions (€+116 million) as a consequence of yet another reduction of the discounting rate contributed to this. In addition, other provisions increased (€+100 million), for the most part due to the recording of new restructuring provisions. Furthermore, long-term bond liabilities, bank liabilities, and other interest-bearing liabilities increased (€+47 million) as a result of long-term borrowings taken out under a syndicated loan in China, as well as valuation adjustments made to bond liabilities.

Current liabilities increased by €184 million, rising from €2,427 million to €2,611 million (+8%). The short-term bank liabilities contributed significantly to this (€+231 million) with short-term loans taken out for working capital purposes, including in China where we are disadvantaged by our customers' long target payment dates. Current other provisions (€+8 million) include, amongst other items, a reduction in the level of contract-specific provisions (€-18 million) and an increase in restructuring provisions (€+33 million). The reduction in current other liabilities (€-124 million) is primarily due to lower down-payments received on account of orders from customers (€-139 million).

As at the previous reporting date, the items "Assets held for sale" and "Liabilities directly associated with assets classified as held for sale" contain the assets and liabilities of one of Voith Hydro's subsidiaries which is due to be sold, as well as the assets and liabilities of P3 Voith Aerospace Holding GmbH, a wholly consolidated subsidiary, and a Voith Paper investment accounted for using the equity method, which are also held for sale.

The net balance of deferred tax assets and liabilities increased by €38 million, driven by the increase in the pension provisions resulting from valuation adjustments.

Equity fell to €829 million (previous year: €1,031 million, -20%). This fall was primarily the result of the negative net result, valuation changes to pension provisions, and dividend payments made. The net effect of changes in currency exchange rates had a positive effect on equity. The equity ratio fell as a result to 14.5% (previous year: 18.9%).

## 03.2. Liquidity

## Overall cash flow negative due to the acquisition of the KUKA shareholding

The cash flow from operating activities amounted to €-143 million (previous year: €76 million) in the first half of the 2014/15 fiscal year, primarily as a result of the significant increase in current assets in the period (increase of €+222 million, previous

| Development of cash flow<br>in € millions | First half-year<br>2014/15 | First half-year<br>2013/14 |
|---|---|---|
| Cash flow from operating activities | -143 | 76 |
| Cash flow from investing activities | -557 | -39 |
| Cash flow from financing activities | 189 | -57 |
| **Total cash flow** | **-511** | -20 |

year: fall of €19 million), in turn due to the lower level of down-payments received on account of orders from customers.

The cash flow from investing activities of €-557 million (previous year: €-39 million) is mainly the result of payments for financial assets of €-529 million (previous year: €-3 million), mostly in connection with the acquisition of the shareholding in KUKA Aktiengesellschaft.

The cash flow from financing activities amounting to €189 million (previous year: €-57 million) primarily results from additional bank loans as previously described.

The overall cash flow was €-511 million (previous year: €-20 million).

Net debt, measured as the difference between interest-bearing financial liabilities and liquid financial assets, amounted to €733 million (September 30, 2014: €-40 million). This is mainly due to the lower level of cash and cash equivalents following the acquisition of the KUKA Aktiengesellschaft shareholding, and to additional bank liabilities for working capital purposes.

## 03.3. Investments and R&D expenses

### Further investments in productivity

We used the high level of investment in recent years to modernize and greatly expand the infrastructure of the Voith Group, thereby creating a sound basis to reach our mid-term targets. This enabled us to make further reductions in the level of new investments in the reporting period, as planned. In the first half of the 2014/15 fiscal year we invested €52 million (previous year: €68 million, -24%) in the Voith Group. The most significant additions to property, plant, and equipment were made in the Voith Turbo and Voith Industrial Services divisions. The investment ratio, as a percentage of Group sales, amounted to 1.9% (previous year: 2.6%). Regionally, investments were focused on Germany and China. As a result of the high level of investments in previous years, depreciation amounted to €80 million (previous year: €82 million, -2%).

Research and development expenses in the reporting period totaled €103 million (previous year: €112 million, -8%). The ratio of research and development to sales was therefore 3.9% (previous year: 4.3%).

# 03.4. Financial investments and participating interests

## Strategic shareholding in KUKA AG

We have made a significant step forward with the Voith 150+ success program in the reporting period. Voith GmbH acquired a 25.1 % shareholding and voting rights in KUKA AG, Augsburg in the first half of 2014. The KUKA Group is one of the leading suppliers of robots and automatic production lines and solutions worldwide. For Voith, this is one of the largest M&A investments made in recent years. KUKA AG had Group sales of €2,096 million and an EBIT of €142 million in 2014. The investment is accounted for using the equity method in the Voith GmbH consolidated financial statements.

We regard the shareholding in KUKA AG as a strategic investment. Digitization and automation will change industrial production processes fundamentally in the coming years. Robots are a key component for the digital industry of the future, and for the megatrend "Industrie 4.0". In the coming years, it is our objective to make targeted additions to the automation and industrial software competence of Voith's existing activities which are primarily at home in the mechanical engineering sector, and to amend our portfolio accordingly. The acquisition of the KUKA shareholding is a first and important step in this direction.

## Sales process for Voith Industrial Services initiated

On the basis of this step, the management of Voith GmbH decided in February to focus the Group on its technology and engineering strengths, and initiated a value maintenance management sales process for the Voith Industrial Services division. The business model of Voith Industrial Services is based on providing an intensive personal service; this is performed generally at the customer's premises and requires specific knowledge of the customer's processes. Accordingly this does not fit with the future focus of the business.

04

# Employees

The number of employees working for the Voith Group fell by around 400 to around 38,900 in the reporting period, primarily owing to the restructuring of Voith Paper. Most employees continue to work in Voith Industrial Services, which is the most personnel-intensive division. Cuts of a further 1,470 jobs are planned by the end of the 2014/15 fiscal year.

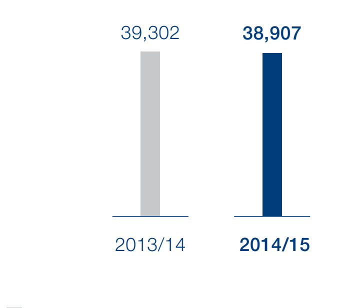
## Headcount down again

As at March 31, 2015, we employed 38,907 full-time equivalents (excluding apprentices) in the Voith Group. Overall, this is 395 or 1 % fewer jobs than at the end of the last fiscal year (September 30, 2014: 39,302).

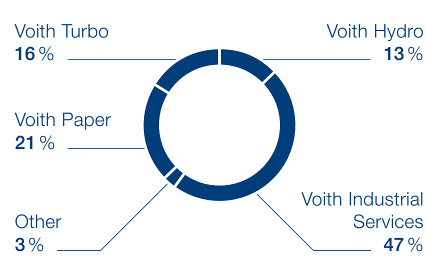
This decrease in jobs is largely due to the restructuring of Voith Paper. A total of 399 jobs at Voith Paper were cut in the first six-month period of 2014/15. These job cuts affected all regions, but hit the new machine business hardest of all.

The number of employees at Voith Industrial Services increased in the first half year of 2014/15 by 31 overall. This was due to substantial job creation in the Automotive division, particularly in the growth markets of China and India, which is in line with the good business development of the division. In contrast, jobs were cut in the Energy-Petro-Chemicals and Engineering Services divisions. The employees working in the sold Industries division were no longer included in the comparative figures for September 30, 2014.

**Employees** Group




**Employees** total 38,907 by Group Division




First half-year 2014/15

The headcount in the Group Divisions Voith Hydro (+10 jobs) and Voith Turbo (-11 jobs) was much the same as in the previous year. In Voith Turbo, this all but constant overall development was the outcome of job cuts driven by restructuring measures in the Commercial Vehicles and Mining & Metals divisions on the one hand, and recruitment of new employees to meet orders in the Rail division on the other.

## Voith Industrial Services remains the Group Division with the most employees

There were only minor changes in the relative number of employees in each Group Division during the period under review. Voith Industrial Services accounts for 47% of the total headcount (previous year: 47%), once again making it the largest Group Division in terms of total staff numbers. 18,390 people were working there at the end of the period under review (previous year: 18,360). Voith Paper employed 8,020 staff (previous year: 8,419) as at March 31, 2015, or 21% of the Group's headcount which was unchanged on the previous year. With 6,264 staff members (previous year: 6,275), Voith Turbo again made up 16% of the Group's headcount. With 5,229 people, Voith Hydro employed 13% of the Group's total workforce (previous year: 5,219 employees).

## Further job cuts at Voith Paper unavoidable

In order to adjust the cost structure of Voith Paper to the permanent contraction in market volume and, against the background of increasingly fierce competition and high pressure on prices, to ensure it can continue to operate successfully in the future, Voith Paper submitted a package of measures in February 2015 involving the concentration of its European activities at just a few locations as well as further job cuts. Current plans envisage cuts of 900 jobs worldwide. Current planning envisages these measures being implemented by the end of the 2015/16 fiscal year.

## Concentration of worldwide administrative functions with the target of reducing staff by 700

As announced in February, in the next few months we will continue to systematically implement the measures under our Group-wide Voith 150+ success program. We aim to streamline our administrative processes by taking steps that include establishing four Shared Service Centers in which scalable, standardizable administrative functions will be consolidated across Group Divisions. This planned administrative restructuring will enable around 720 jobs in the Group to be cut. 150 of these jobs are in Voith Paper and are already included in the figures referred to above (900 jobs to go at Voith Paper). Under current planning these measures will be implemented by September 30, 2016.

# 05 Subsequent events

With effect from April 30, 2015 Voith Industrial Services sold its shareholding interest in P3 Voith Aerospace GmbH & Co. KG to the other shareholder, P3 Ingenieurgesellschaft mbH. P3 Voith Aerospace is one of Germany's largest engineering services providers in the aerospace industry. The company was previously fully consolidated in the Group's financial statements of Voith GmbH.

No additional significant developments have occurred since the close of the first half of the 2014/15 fiscal year (March 31, 2015).

# 06 Risks and opportunities

Our assessment of the risk and opportunities situation has only altered slightly since publication of the annual report. There continue to be no risks to the Voith Group's ability to continue as a going concern. The most significant risks which could cause the results to deviate negatively from those forecast/targeted continue to be external. The risks are matched by opportunities that could have a positive influence on business development.

## Risk management aligned toward increasing the value of the Company

Entrepreneurial activity includes making decisions under conditions of uncertainty. 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. It should contribute to increasing the value of the Group and its companies by reducing potential risks and the probability of their occurring. At the same time, the system is intended to produce a state of equilibrium between correctly assessed risks and the exploitation of opportunities.

To the best of our knowledge at the time this report went to press, there are no risks to the Voith Group's ability to continue as a going concern. For our assessment of the risk situation we refer in all cases to our 2014 annual report in which we describe risks which could have a significantly negative effect on our net assets, financial position and results of operations and which could cause the results to deviate negatively from those forecast/targeted.

The probability that two particular market risks will arise has increased since publication of our annual report; we are closely observing these risks which we consider to be significant. First, the low price of crude oil could reduce oil companies' demand for investment and services which would lead to a deterioration in the financial position of our Voith Turbo and Voith Industrial Services Group Divisions. This would be all the more probable if the price of oil were to fall even further or to remain at its currently low level for a long period of time. Second, owing to persistently low prices of raw materials, mine operators and mining companies might decide to hold back on their investment activities – a risk which affects our Voith Turbo Group Division.

The location risk represented by the spread of the Ebola epidemic in Africa, as described in the 2014 annual report, and its potentially negative impact on Voith Hydro, has dwindled in importance. We now regard the probability of occurrence of this risk as remote.

In terms of financial and liquidity risks it is important to note that the investment grade rating given by the Moody's agency was downgraded from "Baa2" to "Baa3 (negative outlook)" in December. Further downgrading could raise financing costs and have a negative effect on the net assets, financial position and results of operations.

As well as risks we also perceive a number of opportunities which could have positive effects on our net assets, financial position and results of operations, and cause the results to deviate positively from those forecast/targeted. We also refer in all cases to the annual report as regards the assessment of our opportunity situation. We consider all the significant opportunities described in that report as continuing to apply. The continuing low euro exchange rate represents a new opportunity, which could have a positive impact on our net assets, financial position and results of operations. If the euro persists at its currently weak exchange rate this could have a positive effect on our forecast results. A lower euro exchange rate would, in particular, make our products more competitive on the global market and positively influence our results.

# 07 Forecast report

Based on developments during the reporting period we confirm the Group's annual forecast. Against the backdrop of the economy recovering slightly but with the investment climate remaining gloomy, we expect both the sales and orders received to remain constant throughout the 2014/15 fiscal year. At the same time, we aim to improve our profitability and increase the profit from operations. As announced previously, the Group's net result will be negative owing to provisions made for restructuring expenses.

## 07.1. Business environment

### Global economic recovery remains fragile

The available economic indicators suggest that the second half of Voith's 2014/15 fiscal year will see a continuation of moderate global economic recovery. Nonetheless, due to the high level of uncertainty, the environment remains difficult for capital goods. Consumer goods and industrial services will probably continue to benefit from the generally positive trend.

After worldwide economic growth of 3.4% in 2014 the International Monetary Fund (IMF) is forecasting rates of global growth of between 3.5% and 3.8% for 2015 and 2016 respectively. Important exceptions to this positive trend are Brazil and Russia where, in both countries, the economy is expected to contract in 2015 and, according to the IMF, will only return to positive rates of growth in 2016 (Brazil) or 2017 (Russia). The slowdown in the rate of growth of the Chinese economy will also almost certainly make itself felt in export-oriented economies like Germany's. The IMF forecasts rates of growth for the emerging markets as a whole of between 4.3% in 2015 and 4.7% in 2016.

The IMF also projects the economic growth of the advanced economies improving from 1.8% in 2014 to 2.4% in both 2015 and 2016. This is based on the assumption that oil importing countries continue to benefit from the low oil prices resulting from a market glut. The low energy prices in the USA due to production of its own shale gas and oil are responsible for the re-industrialization of the country and are expected to generate GDP growth exceeding the average for the advanced economies. However, the strong dollar has to some extent taken the momentum out of the highly positive recent prospects for growth in the USA.

Overall economic recovery remains fragile and subject to considerable risks. In the short term these risks include, above all, a potential escalation of one or more geopolitical conflicts, such as the Russia/Ukraine conflict or the extremely unstable situation in the Near and Middle East. There is also the threat posed by an exit from the euro zone by Greece, which would have a highly unpredictable impact on the currency union. In China there is a risk that high levels of corporate debt or the possible overheating of the real estate market could provoke turbulence on financial markets with negative effects for the real economy. In the medium term, high levels of sovereign debt in many countries and the failure to implement reforms in the euro zone could act as a burden on further economic development. Low energy prices and euro exchange rates will only compensate for the weaknesses in the euro zone in the short term. We see few chances for better-than-anticipated development.

We still see little stimulus for growth and an ongoing gloomy climate for capital investments in our target energy and raw materials markets. Willingness to commit to investments in the oil & gas market may be expected to fall further in light of the continuing low oil prices forecast by market analysts. The market appears to have bottomed out with regard to investing activities in the paper market. We continue to be optimistic about the key segments of the transport & automotive market.

The forecast for our business is based on the assumption of there being no major economic or political turbulences.

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

| | | |
|---|---|---|
| **World output** | 2015 | 3.5 % |
| | **2016** | 3.8 % |
| **Advanced economies** | 2015 | 2.4 % |
| | **2016** | 2.4 % |
| United States | 2015 | 3.1 % |
| | **2016** | 3.1 % |
| Euro area[2)] | 2015 | 1.5 % |
| | **2016** | 1.6 % |
| Germany | 2015 | 1.6 % |
| | **2016** | 1.7 % |
| **Emerging market and developing economies** | 2015 | 4.3 % |
| | **2016** | 4.7 % |
| China | 2015 | 6.8 % |
| | **2016** | 6.3 % |
| ASEAN-5 | 2015 | 5.2 % |
| | **2016** | 5.3 % |
| India | 2015 | 7.5 % |
| | **2016** | 7.5 % |
| Brazil | 2015 | -1.0 % |
| | **2016** | 1.0 % |
| Russia | 2015 | -3.8 % |
| | **2016** | -1.1 % |

Source: International Monetary Fund, World Economic Outlook, Apr. 2015
[1)] Forecasts.
[2)] Including Germany.

## 07.2. Future development of the Company

### Group’s annual forecast confirmed

On the basis of developments during the period under review and provided that the delayed projects are in fact awarded to Voith Hydro in the second half of the year, we can confirm the outlook for the 2014/15 fiscal year which we published with the annual report in December 2014. For the whole of 2014/15 we forecast that Group sales will remain at the same level as the previous year adjusted for changes in the scope of consolidation. Our sales projections are based on the high level of orders on hand and a stable development of new business throughout the year as a whole. On the basis of the operative earnings performance in the first half year of 2014/15 we are confident that the profit from operations and consequently also the ROCE of the Voith Group will grow modestly over the year as a whole, as the measures introduced under Voith 150+ show further positive effects. Despite positive operative earnings performance the net result for 2014/15 as a whole – burdened by the provisions for restructuring expenses described in section 01.5. – will be negative.

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

### All four Group Divisions return a profit

In terms of their sales and orders received, the developments in all four Group Divisions will differ depending on their respective markets. Nonetheless, all Group Divisions, including Voith Paper, will post a clear profit from operations. This confirms our assessment that our portfolio adjustments, restructuring efforts and measures to improve efficiency are taking effect and our Voith 150+ program is progressing well.

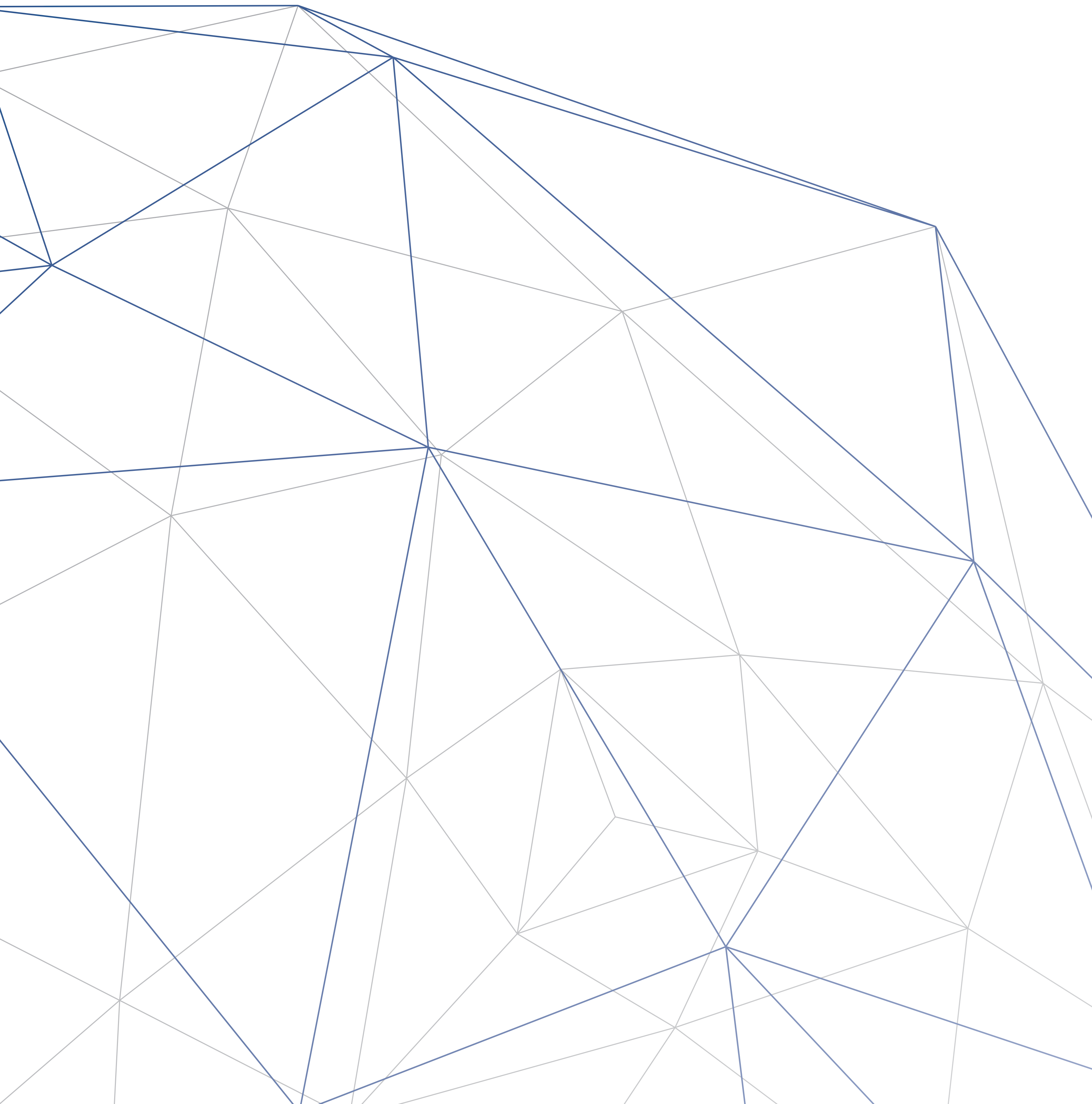
We continue to anticipate that the sales and profit from operations generated by Voith Hydro in 2014/15 will remain at much the same level as in the previous year. According to our current planning ROCE will continue to be high without quite matching last year’s figures, due to higher net working capital. Owing to the uneven distribution of the volume of project awards over the year as a whole, as described above, we expect more orders to be received in the second half of the year and a lower percentage decline over the whole year than in the first half year. If that market expectation is met, despite the major market-driven reduction in the reporting period, we remain on track for the year as a whole and confirm the orders received projected in the 2014 annual report ("noticeable decline"). Overall, the current decline in orders is not a mid-term trend but is due solely to the irregular award of major hydropower projects.

At Voith Industrial Services we continue to expect moderate organic sales growth in the 2014/15 fiscal year, adjusted for the Industries division sold as at September 30, 2015 and the P3 Voith Aerospace joint venture sold as at April 30, 2015. We anticipate that the positive effects from the portfolio adjustment and the initiated efficiency enhancement measures will have a stronger impact on the profitability of Voith Industrial Services in the second half of the year. For this reason, we continue to assume that the profit from operations adjusted for the described changes in the consolidated group will outpace sales in 2014/15 as a whole. ROCE will improve modestly year on year.

We reaffirm our projection for Voith Paper for the current fiscal year. We assume that revenues throughout 2014/15 will stabilize at a level that is on a par with the previous year. The cost savings achieved from previous restructuring measures are expected to have further positive effects in the second half of the year and we anticipate a noticeable increase in profit from operations in the 2014/15 fiscal year and corresponding improvements in the return on sales and ROCE compared with the previous year. We still have reason to believe that the paper machine market will stabilize at the level it has now reached and that we will be able to increase the number of orders received slightly over the year as a whole. Nonetheless, competition and price pressure remains intense. Bearing in mind the permanently lower market volume, further restructuring measures will be necessary in Voith Paper in order to achieve sustained improvements in results. The package of measures introduced by us during the reporting period will begin contributing to an improvement in profit from operations – depending of how quickly the measures are implemented – from the 2015/16 fiscal year onwards at the earliest.

Refer to section 04 "Employees" for the planned package of measures.

Voith Turbo expects somewhat higher sales in the second half of the year compared to the figures for the reporting period. As a result, at the present juncture the target of reasonably stable sales development would appear to be achievable over the entire year. We also continue to expect orders received to remain constant as forecast in the annual report. With regard to profit from operations, it will probably not be possible to compensate in full during the second half year for the downward trend which became apparent during the first half of the fiscal year, despite the initiated efficiency program. If the general situation on the oil and raw materials markets does not improve, we expect profit from operations to decrease slightly and, from our current perspective, do not anticipate achieving the projected profit ("increase slightly") published in the annual report. As announced in the annual report, ROCE is projected to remain at much the same level as in the previous year.



# Group interim financial statements

for the period from October 2014 to March 2015

02

# Consolidated statement of income

## for the period from October 1, 2014 to March 31, 2015

| in € thousands | 2014-10-01 to 2015-03-31 | 2013-10-01 to 2014-03-31 |
|---|---|---|
| Sales | 2,662,682 | 2,603,952 |
| Changes in inventories and other own work capitalized | 32,483 | 35,413 |
| **Total output** | **2,695,165** | 2,639,365 |
| Other operating income | 215,957 | 149,863 |
| Cost of material | -1,084,032 | -1,021,461 |
| Personnel expenses | -1,038,940 | -1,072,253 |
| Depreciation and amortization | -80,254 | -82,291 |
| Other operating expenses | -590,365 | -508,053 |
| **Operational result before non-recurring itims** | **117,531** | 105,170 |
| Non-recurring result | -164,887 | -20,184 |
| **Operational result** | **-47,356** | 84,986 |
| Income from companies accounted for using the equity method | 1,296 | 3,226 |
| Interest income | 6,348 | 6,188 |
| Interest expenses | -39,684 | -41,495 |
| Other financial result | -8,448 | 159 |
| **Result before taxes** | **-87,844** | 53,064 |
| Income taxes | -43,578 | -23,401 |
| **Net result** | **-131,422** | 29,663 |
| Net result attributable to shareholders of the parent company | -138,238 | 19,265 |
| Net result attributable to holders of non-controlling interests | 6,816 | 10,398 |

# Consolidated statement of comprehensive income

## for the period from October 1, 2014 to March 31, 2015

| in € thousands | 2014-10-01 to 2015-03-31 | 2013-10-01 to 2014-03-31 |
|---|---|---|
| **Net result** | **-131,422** | 29,663 |
| Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods: | | |
| Remeasurement of defined benefit plans | -118,352 | 3,899 |
| Taxes on components of other comprehensive income that will not be recycled through profit or loss in later accounting periods | 26,164 | -1,508 |
| 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 | 214 | -23,994 |
| Gains/losses on cash flow hedges | 0 | -312 |
| Gains/losses on currency translation | 53,095 | -18,839 |
| Gains/losses from the currency translation of net investments in foreign operations | -2,138 | -1,315 |
| Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods | -25 | 7 |
| **Other comprehensive income** | **-41,042** | -42,062 |
| **Total comprehensive income** | **-172,464** | -12,399 |
| · Total comprehensive income attributable to shareholders of the parent company | -185,860 | -19,006 |
| · Total comprehensive income attributable to holders of non-controlling interests | 13,396 | 6,607 |
| | **-172,464** | -12,399 |

# Consolidated balance sheet

**as at March 31, 2015**

| in € thousands | | 2015-03-31 | 2014-09-30 |
|---|---|---|---|
| **A.** | **Non-current assets** | | |
| I. | Intangible assets | 673,305 | 712,854 |
| II. | Property, plant and equipment | 1,231,374 | 1,189,950 |
| III. | Investments accounted for using the equity method | 567,979 | 41,320 |
| IV. | Securities | 127,600 | 134,176 |
| V. | Other financial assets | 39,664 | 32,501 |
| VI. | Other financial receivables | 106,031 | 75,160 |
| VII. | Other assets | 28,303 | 32,868 |
| VIII. | Deferred tax assets | 212,014 | 183,878 |
| **Total non-current assets** | | **2,986,270** | 2,402,707 |
| **B.** | **Current assets** | | |
| I. | Inventories | 747,003 | 734,421 |
| II. | Trade receivables | 1,192,217 | 1,136,574 |
| III. | Securities | 31,952 | 49,552 |
| IV. | Current income tax assets | 57,039 | 74,527 |
| V. | Other financial receivables | 154,087 | 111,978 |
| VI. | Other assets | 130,477 | 112,616 |
| VII. | Cash and cash equivalents | 306,432 | 800,823 |
| | | **2,619,207** | 3,020,491 |
| VIII. | Assets held for sale | 111,858 | 30,012 |
| **Total current assets** | | **2,731,065** | 3,050,503 |
| **Total assets** | | **5,717,335** | 5,453,210 |

| in € thousands | | 2015-03-31 | 2014-09-30 |
|---|---|---|---|
| **A.** | **Equity** | | |
| I. | Issued capital | 120,000 | 120,000 |
| II. | Revenue reserves | 489,956 | 737,573 |
| III. | Other reserves | 48,015 | 6,930 |
| IV. | Profit participation rights | 6,600 | 6,600 |
| **Equity attributable to shareholders of the parent company** | | **664,571** | 871,103 |
| V. | Profit participation rights | 96,800 | 96,800 |
| VI. | Other interests | 67,150 | 63,400 |
| **Equity attributable to holders of non-controlling interests** | | **163,950** | 160,200 |
| **Total equity** | | **828,521** | 1,031,303 |
| **B.** | **Non-current liabilities** | | |
| I. | Provisions for pensions and similar obligations | 867,778 | 752,425 |
| II. | Other provisions | 295,048 | 194,931 |
| III. | Income tax liabilities | 1,431 | 965 |
| IV. | Bonds, bank loans and other interest-bearing liabilities | 945,890 | 899,282 |
| V. | Other financial liabilities | 49,586 | 18,348 |
| VI. | Other liabilities | 51,490 | 52,690 |
| VII. | Deferred tax liabilities | 66,850 | 76,730 |
| **Total non-current liabilities** | | **2,278,073** | 1,995,371 |
| **C.** | **Current liabilities** | | |
| I. | Provisions for pensions and similar obligations | 28,176 | 27,683 |
| II. | Other provisions | 303,471 | 294,656 |
| III. | Income tax liabilities | 78,288 | 90,847 |
| IV. | Bonds, bank loans and other interest-bearing liabilities | 318,887 | 96,547 |
| V. | Trade payables | 571,049 | 525,025 |
| VI. | Other financial liabilities | 305,241 | 297,758 |
| VII. | Other liabilities | 963,713 | 1,087,753 |
| | | **2,568,825** | 2,420,269 |
| VIII. | Liabilities directly associated with the assets classified as held for sale | 41,916 | 6,267 |
| **Total current liabilities** | | **2,610,741** | 2,426,536 |
| **Total equity and liabilities** | | **5,717,335** | 5,453,210 |

# Consolidated statement of changes in equity

| in € thousands | Equity attributable to shareholders of the parent company<br>Issued capital | Revenue reserves | Available-for-sale financial assets | Cash flow hedges | Currency translation |
|---|---|---|---|---|---|
| **2014-10-01** | **120,000** | **737,573** | **4,491** | **-1,063** | **10,808** |
| Net result | | -138,238 | | | |
| Other comprehensive income | | -88,707 | 149 | | 43,260 |
| **Total comprehensive income** | **0** | **-226,945** | **149** | **0** | **43,260** |
| Allocation of reserves to profit participation rights | | -5,590 | | | |
| Share of income attributable to profit participation rights | | | | | |
| Dividends | | -15,000 | | | |
| Adjustments to the group of consolidated companies affecting non-controlling interests | | | | | |
| Non-controlling interests – put options | | -1,187 | | | |
| Other adjustments | | 1,105 | | | |
| **2015-03-31** | **120,000** | **489,956** | **4,640** | **-1,063** | **54,068** |

| in € thousands | Equity attributable to shareholders of the parent company<br>Issued capital | Revenue reserves | Available-for-sale financial assets | Cash flow hedges | Currency translation |
|---|---|---|---|---|---|
| 2013-10-01 | 120,000 | 832,485 | 38,122 | -1,040 | -1,787 |
| Net result | | 19,265 | | | |
| Other comprehensive income | | 2,879 | -24,124 | -312 | -15,859 |
| Total comprehensive income | 0 | 22,144 | -24,124 | -312 | -15,859 |
| Allocation of reserves to profit participation rights | | -5,501 | | | |
| Acquisition of non-controlling interests | | 771 | | | |
| Share of income attributable to profit participation rights | | | | | |
| Dividends | | -15,000 | | | |
| Contributions from holders of non-controlling interests | | -1,564 | | | |
| Non-controlling interests – put options | | -738 | | | |
| Other adjustments | | -483 | | | |
| 2014-03-31 | 120,000 | 832,114 | 13,998 | -1,352 | -17,646 |

| | | | Equity attributable to holders of non-controlling interests | | | |
|---|---|---|---|---|---|---|
| Net investment in foreign operations | Profit participation rights | Total | Profit participation rights | Other interests | Total | Total equity |
| **-7,306** | **6,600** | **871,103** | **96,800** | **63,400** | **160,200** | **1,031,303** |
| | | -138,238 | | 6,816 | 6,816 | -131,422 |
| -2,324 | | -47,622 | | 6,580 | 6,580 | -41,042 |
| **-2,324** | **0** | **-185,860** | **0** | **13,396** | **13,396** | **-172,464** |
| | 363 | -5,227 | 5,227 | | 5,227 | 0 |
| | -363 | -363 | -5,227 | | -5,227 | -5,590 |
| | | -15,000 | | -3,222 | -3,222 | -18,222 |
| | | 0 | | -1,080 | -1,080 | -1,080 |
| | | -1,187 | | -3,183 | -3,183 | -4,370 |
| | | 1,105 | | -2,161 | -2,161 | -1,056 |
| **-9,630** | **6,600** | **664,571** | **96,800** | **67,150** | **163,950** | **828,521** |

| | | | Equity attributable to holders of non-controlling interests | | | |
|---|---|---|---|---|---|---|
| Net investment in foreign operations | Profit participation rights | Total | Profit participation rights | Other interests | Total | Total equity |
| -6,858 | 6,600 | 987,522 | 96,800 | 58,147 | 154,947 | 1,142,469 |
| | | 19,265 | | 10,398 | 10,398 | 29,663 |
| -855 | | -38,271 | | -3,791 | -3,791 | -42,062 |
| -855 | 0 | -19,006 | 0 | 6,607 | 6,607 | -12,399 |
| | 363 | -5,138 | 5,138 | | 5,138 | 0 |
| | | 771 | | -3,024 | -3,024 | -2,253 |
| | -363 | -363 | -5,138 | | -5,138 | -5,501 |
| | | -15,000 | | -2,954 | -2,954 | -17,954 |
| | | -1,564 | | 1,809 | 1,809 | 245 |
| | | -738 | | 528 | 528 | -210 |
| | | -483 | | -349 | -349 | -832 |
| -7,713 | 6,600 | 946,001 | 96,800 | 60,764 | 157,564 | 1,103,565 |

# Consolidated cash flow statement

| in € thousands | 2014-10-01 to 2015-03-31 | 2013-10-01 to 2014-03-31 |
|---|---|---|
| Result before taxes | -87,844 | 53,064 |
| Depreciation and amortization | 113,100 | 84,172 |
| Interest expenses/income | 33,336 | 35,307 |
| Other non-cash items | 22,502 | 5,231 |
| Gains/losses from the disposal of property, plant, equipment and intangible assets | 1,102 | 4,011 |
| Gains/losses from the disposal of consolidated companies | 169 | 0 |
| Gains/losses from investments | -146 | -40 |
| Changes in other provisions and accruals | 57,505 | -89,284 |
| Change in net working capital | -222,437 | 18,729 |
| Interest paid | -7,340 | -10,979 |
| Interest received | 3,549 | 6,339 |
| Dividends received | 1,353 | 1,174 |
| Tax paid | -57,727 | -31,894 |
| **Cash flow from operating activities** | **-142,878** | 75,830 |
| Investments in property, plant, equipment and intangible assets | -51,814 | -67,578 |
| Proceeds from the disposal of property, plant, equipment and intangible assets | 6,123 | 2,616 |
| Investments in financial assets | -529,581 | -3,207 |
| Subsequent purchase payments for earlier acquisitions | 169 | 0 |
| Receipts and payments in connection with the disposal of consolidated subsidiaries | -3,868 | 4,663 |
| Proceeds from the disposal of financial assets | 535 | 957 |
| Changes in investments in securities | 21,642 | 24,137 |
| **Cash flow from investing activities** | **-556,794** | -38,412 |
| Dividends paid | -23,003 | -22,517 |
| Acquisition of non-controlling interests | 0 | -6,825 |
| Disposal of non-controlling interests | 0 | 245 |
| New bonds, bank loans and overdrafts | 256,509 | 53,375 |
| Repayment of bonds, bank loans and overdrafts | -28,119 | -69,901 |
| Changes in other interest-bearing financial receivables and liabilities | -16,851 | -11,422 |
| **Cash flow from financing activities** | **188,536** | -57,045 |
| **Total cash flow** | **-511,136** | -19,627 |
| Exchange rate movements and valuation changes | 19,126 | -16,699 |
| Reclassification to assets held for sale | -2,381 | 0 |
| Cash and cash equivalents at the beginning of the period | 800,823 | 900,967 |
| **Cash and cash equivalents at the end of the period** | **306,432** | 864,641 |

# Basis of the interim consolidated financial statements and accounting policies

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

The interim consolidated financial statements for the first half of the 2014/15 fiscal year were prepared in accordance with the International Financial Reporting Standards (IFRS) for interim financial reporting as endorsed by the European Union. In comparison to the full annual report as at September 30, 2014, the interim consolidated financial statements are condensed in scope.

The unaudited interim consolidated financial statements do not include all of the information and disclosures required for consolidated financial statements and must therefore be read in conjunction with the consolidated financial statements for the year ending September 30, 2014. The interim financial statements are presented in euros and the figures have been rounded using standard commercial principles.

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

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

The following new and revised IAS and IFRS standards were applied for the first time in the first half of the 2014/15 fiscal year:

| Standard/interpretation | Amendment/new standard or interpretation |
|---|---|
| IFRS 10 Consolidated Financial Statements | IFRS 10 creates a uniform definition for control and thus a uniform basis for the existence of a parent-subsidiary relationship and the related demarcation of the consolidated Group. The new standard replaces IAS 27 (2008) "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". |
| IFRS 11 Joint Arrangements | IFRS 11 governs the accounting treatment of situations where a company exercises joint control over a joint venture or a joint operation. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" as the relevant rules for accounting for joint ventures to date. |
| IFRS 12 Disclosure of Interests in Other Entities | The objective of IFRS 12 is to prescribe disclosures on information that provides users of financial statements with a basis for assessing the nature of interests in other entities (e.g. subsidiaries, associates) and the related risks and effects of these interests on the Group's net assets, financial position, and results of operations. |
| Amendments to IAS 32 Financial Instruments: Presentation | Amendments to provisions on offsetting financial assets and liabilities. |
| Amendment to IAS 36 Impairment of Assets | Amendment of disclosure requirements in respect of the carrying amounts of non-financial assets as a consequence of the new IFRS 13. |
| Amendment to IAS 39 Financial Instruments: Recognition and Measurement | Novation of derivatives and continuation of hedge accounting. |
| IFRIC 21 Levies | Accounting treatment of levies raised by public authorities. |

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

## Basis of consolidation

The following companies are included in the consolidated financial statements:

| in € thousands | 2015-03-31 | 2014-09-30 |
|---|---|---|
| Voith GmbH and its fully consolidated subsidiaries: | | |
| Germany | 55 | 56 |
| Other countries | 134 | 139 |
| **Total number of fully consolidated companies** | **189** | 195 |
| Companies accounted for using the equity method: | | |
| Germany | 7 | 6 |
| Other countries | 13 | 13 |
| **Total companies accounted for using the equity method** | **20** | 19 |

There were no new companies fully consolidated for the first time in this reporting period.

Intercompany mergers between Group companies in Germany and other countries reduced the number of fully consolidated companies.

The investment in KUKA Aktiengesellschaft, located in Augsburg, Germany, which was acquired in early December has been included for the first time. The investment is accounted for using the equity method. Voith holds 25.1% of the share capital, and as a result has significant influence.

### Business combinations

There were no business combinations in the first half of the current or previous fiscal years.

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

There were no acquisitions of further interests in companies over which the Group already has control in the first half of the 2014/15 fiscal year. In the first half of the 2013/14 fiscal year Voith Hydro acquired the remaining 20% of the interests in Voith Hydro Ocean Current Technologies GmbH & Co. KG, Germany. In addition, Voith Paper acquired the remaining 50% of the interests in Voith EcoSolutions GmbH & Co. KG, Germany. The purchase price for the two transactions totaled €6,825 thousand.

### Disposals of shareholdings

As part of the planned process of streamlining its portfolio, the Voith Turbo segment disposed of its shareholding in a subsidiary in the first half of the 2014/15 fiscal year. Under this transaction the Group disposed of non-current assets totaling €1,075 thousand, current assets of €3,819 thousand, non-current liabilities of €2,450 thousand, and non-current liabilities of €2,444 thousand. The purchase price was €955 thousand. A loss of €169 thousand resulted from the sale. The loss is reported within operating results.

There were no disposals of shareholdings in the first half of the 2013/14 fiscal year.

# Notes on segment reporting

The structure of the segments and the methods used to calculate the segment information have remained unchanged since September 30, 2014.

When calculating the profit from operations, the following profit/loss components were taken into consideration. These components remain unchanged compared to the last consolidated financial statements:

## Operating interest income

Operating interest income is defined as interest received by the Company on the long-term financing of receivables from customers, or as the imputed interest effect attributable to that portion of customer advances that is not used to finance inventories and PoC receivables.

## Other adjustments

Other adjustments contain effects which, based on their operating character, are normally shown as other operating income and expenses in the consolidated statement of income. In determining the profit from operations, these adjustments are eliminated as non-recurring effects so as to facilitate a better assessment of the operating activities by segment.

The capital employed as at the March 31, 2015 reporting date is an average value derived from the values as at the end of the period under review and as at the end of the previous period. The capital employed on the reporting date of September 30, 2014 is an average value derived from the values as at the reporting date of September 30, 2014, the reporting date for the previous half-yearly financial statements, and as at the end of the previous period under review as at September 30, 2013.

# Segment information by business segment

| in € millions | Voith Hydro 2014/15 | Voith Hydro 2013/14 | Voith Industrial Services 2014/15 | Voith Industrial Services 2013/14 | Voith Paper 2014/15 | Voith Paper 2013/14 |
|---|---|---|---|---|---|---|
| External sales | 656 | 668 | 555 | 574 | 776 | 673 |
| Sales with other segments | 2 | 2 | 5 | 13 | 12 | 9 |
| Total segment sales | 658 | 670 | 560 | 587 | 788 | 682 |
| Profit from operations | 43 | 51 | 9 | 9 | 17 | -5 |
| Average capital employed | 493 | 463 | 250 | 242 | 861 | 891 |
| Employees[2] | 5,229 | 5,219 | 18,390 | 18,360 | 8,020 | 8,419 |

[1] Subtotal for Voith Hydro, Voith Industrial Services, Voith Paper and Voith Turbo.
[2] Statistical number of persons employed at the balance sheet date compared to September 30, 2014.

The two defined earnings components, "Operating interest income" and "Other adjustments", are not shown directly in the consolidated statement of income. Accordingly they are presented separately below in the reconciliation of the profit from operations by segment to result before taxes.

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

| in € millions | 2014/15 | 2013/14 |
|---|---|---|
| **Profit from operations** | **137** | 125 |
| Operating interest income | -17 | -20 |
| Other adjustments | -3 | 0 |
| Non-recurring result | -165 | -20 |
| Income from companies accounted for using the equity method | 1 | 3 |
| Interest result | -33 | -35 |
| Other financial result | -8 | 0 |
| **Result before taxes** | **-88** | 53 |

| | Voith Turbo | | Total core business[1] | | Reconciliation | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2014/15** | 2013/14 | **2014/15** | 2013/14 | **2014/15** | 2013/14 | **2014/15** | 2013/14 |
| | 669 | 682 | 2,656 | 2,597 | 7 | 7 | 2,663 | 2,604 |
| | 3 | 3 | 22 | 27 | -22 | -27 | 0 | 0 |
| | 672 | 685 | 2,678 | 2,624 | -15 | -20 | 2,663 | 2,604 |
| | 44 | 57 | 113 | 112 | 24 | 13 | 137 | 125 |
| | 737 | 752 | 2,341 | 2,348 | 148 | 154 | 2,489 | 2,502 |
| | 6,264 | 6,275 | 37,903 | 38,273 | 1,004 | 1,029 | 38,907 | 39,302 |

# Notes to the statement of income and the balance sheet

The following notes are restricted to those matters that provide useful additional information for understanding the amounts reported in the statement of income and the balance sheet.

## Selected notes to the statement of income

### Other operating income

| in € thousands | 2014/15 | 2013/14 |
|---|---|---|
| Income from the utilization of contract-specific provisions | 51,669 | 49,981 |
| Income from the reversal of provisions and accruals | 24,149 | 29,660 |
| Foreign exchange gains | 101,202 | 27,079 |
| Recovered bad debts | 2,633 | 2,746 |
| Gains on the disposal of intangible assets and property, plant and equipment | 887 | 564 |
| Rental and lease income | 2,934 | 2,375 |
| Income from insurance indemnification payments | 4,423 | 3,812 |
| Other income | 28,060 | 33,646 |
| | **215,957** | 149,863 |

### Other operating expenses

| in € thousands | 2014/15 | 2013/14 |
|---|---|---|
| Increase in provisions and accruals | 90,540 | 78,294 |
| Other selling expenses | 166,459 | 170,952 |
| Other administrative expenses | 136,231 | 119,071 |
| Foreign exchange losses | 71,623 | 33,231 |
| Rent for buildings and machinery | 38,448 | 38,871 |
| Bad debt allowances | 13,261 | 4,199 |
| Losses on the disposal of intangible assets and property, plant and equipment | 694 | 821 |
| Other expenses | 73,109 | 62,614 |
| | **590,365** | 508,053 |

## Non-recurring result

The result from non-recurring items in the reporting period totaled €-165 million and primarily reflects the following measures:

In response to increased competitive and price pressures and in order to adjust the cost structure to the permanent lower market volumes, Voith Paper presented a package of measures in February 2015 involving the concentration of its European activities at just a few locations as well as further job cuts. Current plans envisage cuts of 900 jobs worldwide. Based on current planning the measures should be implemented by the end of the 2015/16 fiscal year.

In addition, among other things, as part of our Group-wide success program Voith 150+ scalable administrative activities worldwide will be combined into four shared service centers, in which standardized administrative functions will be combined across divisions. This planned administrative restructuring will enable around 720 jobs in the Group to be cut. 150 of these jobs are in Voith Paper and are already included in the figures referred to above (900 jobs to go at Voith Paper). Based on current planning, these measures will also be completed by the end of the 2015/16 fiscal year.

Further expenses were also incurred in connection with the planned sale of shareholdings and due to adjustments to the purchase prices of sales of shareholdings already completed.

Individual contributions to non-recurring items were made by Voith Industrial Services (€-22 million), Voith Hydro (€-15 million), Voith Paper (€-109 million), Voith Turbo (€-14 million), and by activities with holding functions (€-5 million).

The non-recurring result in the same period of the 2013/14 fiscal year amounted to €-20 million, which included expenditure of €-3 million at Voith Paper, and activities with holding functions of €-1 million in connection with subsequent costs of restructuring plans initiated in previous years. Non-recurring results further included structural and market-driven capacity adjustments at Voith Hydro (€-5 million) and Voith Industrial Services (€-7 million) as well as losses on disposal of a business activity incurred by Voith Turbo (€-4 million).

The results of non-recurring items include the following:

| in € thousands | **2014/15** | 2013/14 |
|---|---|---|
| Personnel expenses | -136,428 | -13,578 |
| Depreciation and amortization of non-current assets | -7,378 | -1,872 |
| Other expenses | -2,295 | -3,317 |
| Impairment charges and other expenses in connection with company disposals | -20,047 | -4,462 |
| Income from the reversal of provisions and other income | 1,261 | 3,045 |
| | **-164,887** | -20,184 |

## Other financial result

| in € thousands | **2014/15** | 2013/14 |
|---|---|---|
| Gains/losses from investments | 146 | 40 |
| Impairment of securities and other investments | -8,768 | -9 |
| Other financial result | 174 | 128 |
| | **-8,448** | 159 |

## Income taxes

Income taxes totaled €-44 million (previous year: €-23 million) including income taxes relating to other periods of €-18 million (previous year: €1 million). There were no tax effects relating to significant amounts of expenses included in non-recurring items in the period.

## Selected notes to the balance sheet

### Intangible assets

In the first half of the 2014/15 fiscal year an amount of €4 million (previous year: €7 million) was invested in intangible assets. Amortization amounted to €13 million (previous year: €14 million) and impairment losses to €5 million (previous year: none). €38 million (previous year: none) was reclassified to assets held for sale as a result of the planned sale of P3 Voith Aerospace Holding GmbH.

### Property, plant and equipment

Investments in property, plant and equipment amounted to €47 million in the first six months of the 2014/15 fiscal year (previous year: €61 million). Depreciation amounted to €67 million (previous year: €68 million) and impairment losses to €2 million (previous year: €2 million). An amount of €2 million (previous year: none) was reclassified to assets held for sale as a result of the planned sale of P3 Voith Aerospace Holding GmbH.

### Investments accounted for using the equity method

Investments accounted for using the equity method include the investment in KUKA Aktiengesellschaft, Augsburg, Germany for the first time. The investment was acquired in early December 2014.

KUKA Aktiengesellschaft and its subsidiaries are among the leading suppliers of robots and automated production equipment and solutions worldwide.

#### Summary figures for KUKA Aktiengesellschaft

| in € millions | 2015-03-31 |
|---|---|
| Stock market value (share) | 642.8 |
| Equity method – result[1)] | -2.7 |
| Dividend paid to the Group | 0 |

1) Including amortization of share of assets revalued to fair value under the preliminary purchase price allocation.

The significant financial information is provided in summary form in the table below. The data is obtained from the quarterly financial statements published by KUKA Aktiengesellschaft as of March 31, 2015.

### Summary income statement data

| in € millions | 2015-03-31 |
|---|---|
| Sales | 719.8 |
| Result of continuing operations after tax | 15.3 |
| Result of discontinued operations after tax | - |
| Other comprehensive income | 48.6 |
| **Total comprehensive income** | **63.9** |

### Summary balance sheet data and reconciliation to carrying value under the equity method

| in € millions | 2015-03-31 |
|---|---|
| Non-current assets | 854.8 |
| Current assets | 1,305.1 |
| Non-current liabilities | -359.1 |
| Current liabilities | -1,202.3 |
| Equity (including non-controlling interests) | 598.5 |

| in € millions | 2015-03-31 |
|---|---|
| Share of equity attributable to the Group (excluding non-controlling interests) | 147.0 |
| Goodwill arising under the equity method, including share of fair value adjustments | 382.4 |
| Carrying amount under the equity method | 529.4 |

## Inventories

Inventories consist of the following items:

| in € thousands | 2014/15 | 2013/14 |
|---|---|---|
| Raw materials and supplies | 246,445 | 219,218 |
| Work in progress | 261,441 | 252,403 |
| Finished goods and merchandise | 155,802 | 156,504 |
| Prepayments | 83,315 | 106,296 |
| | **747,003** | 734,421 |

### Assets and liabilities held for sale

The tidal power products section of the Ocean Energies division of the Voith Hydro segment was reported here in the previous year, as the sale of this business is planned; accordingly we refer to the presentation in the last annual report for more details. The carrying values presented there have not changed significantly.

In addition, an investment which has to date been accounted for under the equity method by Voith Paper has now been reclassified as held for sale, as it is planned to dispose of this investment within the next year. The carrying value of this investment is €10 million.

Also, as at March 31, 2015 Voith plans the sale of P3 Voith Aerospace Holding GmbH, which is attributed to the Voith Industrial Services segment. Due to the planned sale, reclassifications have been made to assets held for sale of goodwill (€31 million), intangible assets (€7 million), other non-current assets (€3 million), inventories (€12 million), trade receivables (€21 million), and other current assets (€17 million). On the liabilities side, non-current liabilities of €2 million and current liabilities of €33 million have been reclassified to liabilities directly associated with assets classified as held for sale.

Impairments totaling €17 million have been recorded within non-recurring items in connection with the planned disposals.

### Equity

A dividend of €0.13 per share was distributed from the unappropriated retained earnings of Voith GmbH. This equates to €15,000 thousand (previous year: €15,000 thousand). Distributions totaling €5,590 thousand were made to holders of profit participation capital (previous year as at March 31, 2014: €5,501 thousand). Dividends totaling €3,222 thousand were distributed to other holders of non-controlling interests (previous year as at March 31, 2014: €2,954 thousand).

### Provisions for pensions and similar obligations

The increase in provisions for pensions and similar obligations is primarily the result of changes in actuarial assumptions. The Voith Group's calculation of pension provisions is based on the following assumptions:

| | Germany and Austria | | USA | |
|---|---|---|---|---|
| in % | **2015-03-31** | 2014-09-30 | **2015-03-31** | 2014-09-30 |
| Discount rate | 1.43 % | 2.50 % | 3.60 % | 3.90 % |
| Pension increases | 1.70 % | 2.00 % | 0 % | 0 % |

### Bonds, bank loans and other interest-bearing financial liabilities

Financial liabilities include the following items:

| in € thousands | **Current** | **Non-current** | **2015-03-31** | Current | Non-current | 2014-09-30 |
|---|---|---|---|---|---|---|
| Bonds | 0 | 739,398 | 739,398 | 0 | 715,894 | 715,894 |
| Bank loans | 272,828 | 120,387 | 393,215 | 42,029 | 101,333 | 143,362 |
| Financial liabilities from leases | 379 | 1,237 | 1,616 | 424 | 1,417 | 1,841 |
| Notes payable | 339 | 0 | 339 | 3,745 | 0 | 3,745 |
| Other financial liabilities | 45,341 | 84,868 | 130,209 | 50,349 | 80,638 | 130,987 |
| | **318,887** | **945,890** | **1,264,777** | 96,547 | 899,282 | 995,829 |

# Other notes

## Contingent liabilities, contingent assets, and other financial obligations

There are risks in connection with the recognition of transfer prices in foreign jurisdictions amounting to €5 million (previous year: €5 million) and amounting to €14 million in connection with legal disputes (previous year: €19 million). A successful outcome is currently expected in both cases.

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

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

Guarantee obligations amount to €31,219 thousand (previous year: €17,740 thousand).

Moreover, other financial obligations are as follows:

| in € thousands | **2015-03-31** | 2014-09-30 |
|---|---|---|
| Purchase commitments for capital expenditures | 16,314 | 16,008 |
| Obligations arising from non-cancelable operating leases | 126,624 | 137,945 |
| Other | 1,207 | 1,305 |
| | **144,145** | 155,258 |

## Additional information on financial instruments

| in € thousands | IAS 39 measurement category | Carrying amount 2015-03-31 | Amount recognized in the balance sheet in accordance with IAS 39: Amortized cost | Cost | Fair value through equity | Fair value through profit or loss | Amount recognized in the balance sheet in accordance with IAS 17 | Fair value 2015-03-31 |
|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | |
| Cash and cash equivalents | LaR | 306,432 | 306,432 | | | | | 306,432 |
| Trade receivables | LaR | 866,758 | 866,758 | | | | | 866,758 |
| Receivables from construction contracts | LaR | 325,459 | 325,459 | | | | | 325,459 |
| Other financial assets and securities | | 199,216 | | | | | | |
| · Financial assets, loans and receivables | LaR | 32,525 | 32,525 | | | | | 32,525 |
| · Available-for-sale financial assets | LaR | 159,321 | | 33,405 | 125,916 | | | 125,916[1] |
| · Financial assets at fair value through profit or loss | FAfvtpl | 7,370 | | | | 7,370 | | 7,370 |
| Derivative financial instruments | | 23,527 | | | | | | |
| · Derivatives not used for hedging | FAHfT | 5,810 | | | | 5,810 | | 5,810 |
| · Derivatives used for hedging | n.a. | 17,717 | | | | 17,717 | | 17,717 |
| Other receivables | | 201,547 | | | | | | |
| · Financial receivables | LaR | 53,304 | 53,304 | | | | | 53,304 |
| · Sundry financial assets | LaR | 148,243 | 148,243 | | | | | 148,243 |
| **Liabilities:** | | | | | | | | |
| Trade payables | FLAC | 513,483 | 513,483 | | | | | 513,483 |
| Bonds/bank loans/notes | FLAC | 1,132,952 | 1,132,952 | | | | | 1,203,542 |
| Financial liabilities from leases | n.a. | 1,616 | | | | | 1,616 | |
| Derivative financial instruments | | 87,303 | | | | | | |
| · Derivatives not used for hedging | FLHfT | 6,435 | | | | 6,435 | | 6,435 |
| · Derivatives used for hedging | n.a. | 80,868 | | | | 80,868 | | 80,868 |
| Other financial liabilities | FLAC | 130,209 | 113,258 | | 16,951 | | | 281,354 |
| Sundry financial liabilities | FLAC | 267,523 | 267,523 | | | | | 267,523 |
| **IAS 39 measurement categories:** | | | | | | | | |
| Loans and receivables (LaR) | LaR | 1,732,721 | 1,732,721 | | | | | |
| Available for sale (AfS) | AfS | 159,321 | | 33,405 | 125,916 | | | |
| Financial assets held for trading (FAHfT) | FAHfT | 5,810 | | | | 5,810 | | |
| Financial assets at fair value through profit or loss (FAfvtpl) | FAfvtpl | 7,370 | | | | 7,370 | | |
| Financial liabilities measured at amortized cost (FLAC) | FLAC | 2,044,167 | 2,027,216 | | 16,951 | | | |
| Financial liabilities held for trading (FAHfT) | FLHfT | 6,435 | | | | 6,435 | | |

[1] Available-for-sale financial assets (AfS) include investments whose fair value could not be determined reliably.

| in € thousands | IAS 39 measure-ment category | Carrying amount 2014-09-30 | Amount recognized in the balance sheet in accordance with IAS 39 | | | | Amount recognized in the balance sheet in accordance with IAS 17 | Fair value 2014-09-30 |
|---|---|---|---|---|---|---|---|---|
| | | | Amortized cost | Cost | Fair value through equity | Fair value through profit or loss | | |
| **Assets:** | | | | | | | | |
| Cash and cash equivalents | LaR | 800,823 | 800,823 | | | | | 800,823 |
| Trade receivables | LaR | 812,520 | 812,520 | | | | | 812,520 |
| Receivables from construction contracts | LaR | 324,054 | 324,054 | | | | | 324,054 |
| Other financial assets and securities | | 216,229 | | | | | | |
| · Financial assets, loans and receivables | LaR | 43,675 | 43,675 | | | | | 43,675 |
| · Available-for-sale financial assets | AfS | 160,489 | | 26,024 | 134,465 | | | 134,465[1] |
| · Financial assets held for trading | FAHfT | 5,878 | | | | 5,878 | | 5,878 |
| · Financial assets at fair value through profit or loss | FAfvtpl | 6,187 | | | | 6,187 | | 6,187 |
| Derivative financial instruments | | 19,229 | | | | | | |
| · Derivatives not used for hedging | FAHfT | 2,961 | | | | 2,961 | | 2,961 |
| · Derivatives used for hedging | n.a. | 16,268 | | | | 16,268 | | 16,268 |
| Other receivables | | 129,603 | | | | | | |
| · Financial receivables | LaR | 41,902 | 41,902 | | | | | 41,902 |
| · Sundry financial assets | LaR | 87,701 | 87,701 | | | | | 87,701 |
| **Liabilities:** | | | | | | | | |
| Trade payables | FLAC | 512,317 | 512,317 | | | | | 512,317 |
| Bonds/bank loans/notes | FLAC | 863,001 | 863,001 | | | | | 948,435 |
| Financial liabilities from leases | n.a. | 1,841 | | | | | 1,841 | |
| Derivative financial instruments | | 20,100 | | | | | | |
| · Derivatives not used for hedging | FLHfT | 2,872 | | | | 2,872 | | 2,872 |
| · Derivatives used for hedging | n.a. | 17,228 | | | | 17,228 | | 17,228 |
| Other financial liabilities | FLAC | 130,987 | 115,171 | | 15,816 | | | 283,764 |
| Sundry financial liabilities | FLAC | 296,005 | 296,005 | | | | | 296,005 |
| **IAS 39 measurement categories:** | | | | | | | | |
| Loans and receivables (LaR) | LaR | 2,110,675 | 2,110,675 | | | | | |
| Available for sale (AfS) | AfS | 160,489 | | 26,024 | 134,465 | | | |
| Financial assets held for trading (FAHfT) | FAHfT | 8,839 | | | | 8,839 | | |
| Financial assets at fair value through profit and loss (FAfvtpl) | FAfvtpl | 6,187 | | | | 6,187 | | |
| Financial liabilities measured at amortized cost (FLAC) | FLAC | 1,802,310 | 1,786,494 | | 15,816 | | | |
| Financial liabilities held for trading (FAHfT) | FLHfT | 2,872 | | | | 2,872 | | |

[1] Available-for-sale financial assets (AfS) include investments whose fair value could not be determined reliably.

The fair value hierarchy of the financial assets and liabilities in the above table that are valued at fair value for accounting purposes was as follows:

| in € thousands | **2015-03-31** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Assets** | | | | |
| Other financial assets and securities | 133,286 | 133,286 | 0 | 0 |
| Derivative financial instruments | 23,527 | 0 | 23,527 | 0 |
| **Liabilities** | | | | |
| Derivative financial instruments | 87,303 | 0 | 87,303 | 0 |
| Liabilities arising from the acquisition of investment shareholdings | 16,951 | 0 | 0 | 16,951 |

| in € thousands | 2014-09-30 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Other financial assets and securities | 146,530 | 146,530 | 0 | 0 |
| Derivative financial instruments | 19,229 | 0 | 19,229 | 0 |
| **Liabilities** | | | | |
| Derivative financial instruments | 20,100 | 0 | 20,100 | 0 |
| Liabilities arising from the acquisition of investment shareholdings | 15,816 | 0 | 0 | 15,816 |

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

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

Level 2:
Other inputs than those of level 1 that are observable for the financial asset or liability, either directly or indirectly.

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

No reclassifications were made between the fair value hierarchies in the first half of the 2014/15 fiscal year.

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

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

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

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

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

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

## Related parties

As in previous periods, transactions with related parties are conducted on arm's length conditions. The following table shows the most significant transactions for deliveries and services with related entities and individuals:

| in € thousands | 2015-03-31 | 2014-09-30 |
|---|---|---|
| Liabilities to family shareholders | 13,332 | 17,743 |
| Receivables from associates, incl. advances paid | 2,972 | 3,152 |
| Liabilities to associates | 1,623 | 1,755 |
| Receivables from other investments, incl. advances paid | 11,597 | 16,448 |
| Impairment of receivables from other investments | -286 | -102 |
| Liabilities to other investments, including advances received | 24,752 | 27,989 |
| Receivables from joint ventures | 5,453 | 4,382 |
| Liabilities to joint ventures | 599 | 768 |
| Receivables from the ultimate parent company | 176 | 165 |
| Liabilities to the ultimate parent company | 5,116 | 4,852 |

| in € thousands | 2014/15 | 2013/14 |
|---|---|---|
| Services purchased from associates | 1,334 | 4,638 |
| Services rendered to associates | 321 | 49 |
| Services purchased from other investments | 3,240 | 1,097 |
| Services rendered to other investments | 7,093 | 9,103 |
| Services purchased from joint ventures | 1,871 | 2,306 |
| Services rendered to joint ventures | 283 | 59 |
| Services purchased from the ultimate parent company | 5,269 | 5,170 |
| Services rendered to the ultimate parent company | 354 | 348 |

Guarantees were issued in favor of one associate, one joint venture, and other investments amounting to €11,836 thousand (previous year: €11,836 thousand), €1,812 thousand (previous year: €1,545 thousand), and €875 thousand (previous year: €1,364 thousand) respectively.

Obligations from outstanding orders payable to the ultimate parent amount to €2,443 thousand (previous year: €4,344 thousand) and those to associates amount to €3,430 thousand (previous year: €4,681 thousand).

Capital increases of €169 thousand were carried out in favor of joint ventures (previous year: €1,255 thousand).

KUKA Aktiengesellschaft, Augsburg, as an associated company, has been included as a related party for the first time. Reportable transactions and balances were insignificant in the reporting period.

## Significant events subsequent to the reporting date

With effect from April 30, 2015 Voith Industrial Services sold its shareholding interest in P3 Voith Aerospace Holding GmbH to another shareholder, P3 Ingenieurgesellschaft mbH. P3 Voith Aerospace is one of Germany's largest engineering services providers in the aerospace industry. The company was previously fully consolidated in the Group's financial statements of Voith GmbH.

No further significant developments have occurred since the end of the first half of the 2014/15 fiscal year.

Heidenheim, May 12, 2015

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Hermann Jung
Bertram Staudenmaier
Dr. Roland Münch
Carsten J. Reinhardt

# Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for the interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in accordance with German accepted accounting principles, and the interim Group management report includes a fair view of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Heidenheim, May 12, 2015

Voith GmbH
The Board of Management

Dr. Hubert Lienhard
Dr. Hermann Jung
Bertram Staudenmaier
Dr. Roland Münch
Carsten J. Reinhardt

## Imprint

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