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VOITH

2022 Annual Report

Voith at a Glance

in € millions	2020/21	2021/22
Orders received	5,016	5,164
Sales	4,260	4,881
EBIT adjusted[1)]	165	200
Return on sales in %	3.9	4.1
ROCE in %[2)]	9.6	10.5
Result before taxes from continuing operations	80	116
Net result	1	30
Cash flow from operating activities	144	93
Total cash flow	-89	-137
Investments[2)]	133	143
Research and development	192	213
in % of sales	4.5	4.4
Equity	1,015	1,436
Equity ratio in %	19.8	24.1
Balance sheet total	5,114	5,956
Employees[3)]	19,918	21,491

1) For more information, see section "Notes on segment reporting" in the notes to the financial statements.
2) Previous-year figure adjusted.
3) Full-time equivalents; without apprentices; as at September 30.

Annual Report 2022

Group

Group Management Report

Consolidated Financial Statements

Group

Ladies and gentlemen,
dear business partners of the Voith Group,

With the present report, we are looking back on a 2021/22 fiscal year that did not bring about the economic normalization hoped for after the abatement of the Covid-19 pandemic; but rather, in the second half, it saw a dramatic worsening of the crisis-ridden environment. The war in Ukraine changed the world, the full extent of its direct and indirect consequences can only be vaguely discerned.

There has seldom been a time of such uncertainty as today. Concern about a potential shortage of energy in Europe is contributing to this situation, as are the massive rises in energy prices and the associated inflation. Persistent supply bottlenecks and shortages of materials in many sectors and the increasing awareness that we will be facing a recession in some economies round off the challenging overall picture.

"All in all, there is one thing we can establish with certainty today: the Voith Group is in a robust condition with regard to its finances and operations. Our business model has once again proven to be resilient."

Dr. Toralf Haag

Under these circumstances, it was not a given that our overall assessment of the past fiscal year would be positive and that – despite the many imponderables – we can look ahead with an underlying optimism. This achievement was possible only due to the great effort on the part of all Voith colleagues, and I would like to express my sincere gratitude, also in the name of the entire Board of Management, to all of them.

The Voith Group managed well over the 2021/22 fiscal year. Our figures have turned out to be satisfactory, a development to which all three Group Divisions contributed. In some cases, we even exceeded our own forecasts. For instance, the Voith Group continued to grow its orders received in comparison to the very high previous year's level, contrary to the original expectations. Never before have our order books been as well-filled as today. This provides us with a degree of security when looking to the coming months.

Sales rose perceptibly over the past year. This effect came from the high level of orders received in previous years; the phasing out of the Covid restrictions in many countries allowed for better processing of the orders on hand. We increased our earnings appreciably, even though we are not yet where we want to be. The improvement in earnings is attributable firstly to measures to boost efficiency that are increasingly taking effect. Secondly, we have taken successful countermeasures to alleviate the burdens caused by the massive rises in energy, materials and transport costs. At the same time, we continued to invest in further acquisitions as well as in research and development.

All in all, there is one thing we can establish with certainty today: the Voith Group is in a robust condition with regard to its finances and operations. Our business model has once again proven to be resilient. We are benefiting from our broad sectoral and geographical diversification as much as from our increasingly well-established market position in all three Group Divisions. In addition, there are the regional supply chains that provide us with a degree of immunity against global disruptions.

“Our strategy is gaining traction. The distinct alignment to the megatrends of decarbonization and digitalization, and particularly our strategic focus on sustainable technologies, is paying off.”

Dr. Toralf Haag

The fact that we have undergone profitable growth in a very challenging environment shows another aspect: our strategy is gaining traction. The distinct alignment to the megatrends of decarbonization and digitalization, and particularly our strategic focus on sustainable technologies, is paying off.

We are positioning ourselves in our markets as a trailblazer for an industry in the post-carbon age – with increasing success and with growing credibility. One contributing factor is Voith itself having been net climate-neutral at all locations worldwide since the beginning of 2022, as planned. It is, however, of central importance that we underpin this positioning time and time again with innovative technologies and pioneering products for the industry of tomorrow. This is something we succeeded in doing in many instances in our core business once again in the past year, and we will continue following this path. One example that should be mentioned at this point is our “Papermaking for life” sustainability program launched in 2022, with which we intend to set new standards in climate and resource-saving paper production over the coming years. We demonstrated the fact that even products with a long tradition can be reinvented with the Voith Schneider Propeller, which in its electrified version provides green propulsion for ships.

The continuation of our targeted M&A activities contributes to expanding our portfolio of offerings in line with our strategy. For example, Voith has entered the promising off-highway market by acquiring the majority shareholding in Argo-Hytos. In addition, Voith acquired IGW Rail, a globally operating high-tech company that has specialized in gear unit and coupling solutions for the rail vehicle industry, and is a perfect match for our existing range of products and services. Another important milestone was the takeover of the shares in Voith Hydro Holding from the previous joint venture partner, Siemens Energy. This now makes us the sole owner of our hydropower business that is so important for the energy transition.

Alongside enhancing the core business, Voith has identified hydrogen technology, electrical drive systems, cargo rail and energy storage as particular future growth areas. We are making good progress in all these areas. Voith is currently developing, for example, a complete hydrogen tank system that will be easy to integrate into commercial vehicles. With regard to energy storage systems, we are focusing on the development of a redox flow battery that enables stabilization of the performance peaks of solar or wind farms.

Expanding the core business and simultaneously opening up new growth opportunities in the area of sustainable technologies: our strategic agenda will be dominated by these two issues also in the current fiscal year. In addition, the focus will be on further reinforcing our resilience in the operating business and on continuing to achieve profitable growth even in an economic environment that is likely to be even more demanding.

In concrete terms, for the 2022/23 fiscal year we expect the Group's orders received to be on a good level, only slightly down on the high previous-year figure. The high level of orders on hand will be reflected in a continued rise in sales. At the same time, we intend to achieve a perceptible further improvement in our profitability. We are aware that, in light of increasing uncertainty caused by war and inflation, and an anticipated recession, this will not happen by itself but will require a lot of hard work by everyone at Voith. But we are confident that we can achieve these goals. After all, over the past few years, we have put Voith into a good starting position to emerge stronger from these crisis-ridden times.

Thank you for the trust you place in us and we would be pleased for you to continue accompanying us on our way forward.

Sincerely yours,

Dr. Toralf Haag
President & CEO

Dr. Toralf Haag
President and CEO

Stephanie Holdt
Finance and Controlling

Dr. Stefan Kampmann
Innovation & Technology

Andreas Endters
Voith Paper

Dr. Tobias Keitel
Voith Hydro

Cornelius Weitzmann
Voith Turbo

(from top left to bottom right)

The Corporate Board of Management






Report of the Supervisory Board for the 2021/22 Fiscal Year

Ladies and gentlemen,

The economic and global political climate in the 2021/22 fiscal year was characterized by various crises that overlapped. The economic shock triggered by the war in Ukraine at the beginning of 2022 hit into a global economy that had not completely recovered from the recession caused by the Covid-19 pandemic. The increase in prices for energy, raw materials and food fueled inflation that was already at an increased level due to existing supply bottlenecks. Global supply chain disruptions and shortages of raw and other materials as well as intermediate products intensified. New rounds of lockdowns in important ports and production centers in China also played their part. But most of all, the war in Ukraine led to massive upheavals on the energy markets. An impending gas shortage over the upcoming two winters is currently a cause for concern for the European economies and German industry in particular as well as the exorbitant rises in energy and electricity prices.

Voith proved to be in a robust condition, both operatively and financially, in the 2021/22 fiscal year and saw a satisfactory development measured against the extremely challenging general environment. The Company grew in all three Group Divisions constituting the core business and succeeded in increasing Group sales and earnings. Orders received further increased on the very high previous-year level, so that we launched into the new fiscal year with orders on hand at a record level.

A contribution to the overall satisfactory development came just as much from the Company's broad sectoral and geographical positioning and the established market position in the three Group Divisions as it did from the strategic focus area on sustainable technologies – a focus that points the way for the enhancement of today's core business as well as for investments in new business segments and markets. The growing realization that the climate crisis is one of the largest global challenges of the coming decades, along with the current debate about energy security and the expansion of renewable energies, underscore once more: Voith is well-positioned with its contribution to industrial sustainability and is able to exploit enormous growth opportunities in this field.

Oversight activities of the Supervisory Board

The Supervisory Board was informed regularly, promptly and comprehensively by the Board of Management of Voith Management GmbH, the personally liable general partner of Voith GmbH & Co. KGaA, on all material issues and business transactions, including the current business position and financial position of the Group and its Group Divisions, the business planning along with financial and personnel planning as well as the corporate strategy. In this context, the sales and earnings situation of the Group and its Divisions were also presented as were investments and possible risks to which the Company is exposed. Finally, compliance issues were addressed in detail.

In the reporting year, the Supervisory Board came together for four regular meetings, all of which could be held as in-person meetings once again after the long period of Covid-19-related restrictions. Between meetings, there was a regular exchange of information between the Chairman of the Supervisory Board and the Board of Management of the personally liable general partner, Voith Management GmbH. In each case, the Supervisory Board was informed about the most important points arising from this exchange of information at its next meeting.

The Supervisory Board meetings were held on October 8, 2021, December 7, 2021, March 25, 2022, and on June 3, 2022. All Supervisory Board members attended at least half of the Supervisory Board meetings.

The focal point of the first meeting in the reporting year on October 8, 2021, was a debate on the preliminary business figures for the 2020/21 fiscal year then just ended, on the planning for the 2021/22 and 2022/23 fiscal years, and on the Group's financial, investment and personnel planning. Furthermore, the Supervisory Board addressed the proportion of women attained in the two management levels below the Corporate Board of Management and determined the new objective valid for the new determination period (October 1, 2021, to September 30, 2026).

At the second meeting of the Supervisory Board held on December 7, 2021, the Supervisory Board approved the financial statements and the management report of Voith GmbH & Co. KGaA for the 2020/21 fiscal year, as well as the consolidated financial statements and the Group management report following an in-depth consultation and in accordance with the resolution recommended beforehand by its Audit Committee. Furthermore, the Supervisory Board proposed that the general meeting, which is the body with the corresponding competence at a company organized as a partnership limited by shares (KGaA), approve the financial statements and adopted the necessary proposals to the general meeting, including the ones relating to appropriation of the unappropriated retained earnings and election of the independent auditor. The Company's general meeting held the same day approved the financial statements as proposed and, in all other respects, passed resolutions in accordance with the aforementioned proposals.

At its meeting of March 25, 2022, the Supervisory Board dealt with business development over the first quarter of the 2021/22 fiscal year commencing on October 1, 2021, and deliberated on the outlook for this fiscal year. Furthermore, reports were submitted to the Supervisory Board on the field of cybersecurity, the measures initiated by the Company and its Group companies in this context were explained in detail and discussed at length. Continuing on from and supplementing the discussion of the corresponding topic already held at the first meeting of the Supervisory Board in the reporting year, the programs to promote diversity at Voith were presented and discussed at the meeting on March 25, 2022.

At its fourth and last meeting in the reporting year on June 3, 2022, the Board of Management of the personally liable general partner presented a report to the Supervisory Board on the first half of the fiscal year and on expectations for the full 2021/22 fiscal year. Both topics were discussed in detail. Additionally, the Supervisory Board dealt with the Group's positioning in Asia.

There was no indication of any conflicts of interest in the Supervisory Board.

Report on the work of the committees

The Company's Supervisory Board has established an Audit Committee and a Nomination Committee. There were no further Supervisory Board committees in the reporting year. The Audit Committee came together for a total of three meetings, on October 7, 2021, on December 6, 2021, and on June 2, 2022, each of which was held in person. After prior consultation by telephone, the Nomination Committee passed a resolution using the circulation procedure on October 25, 2021, to propose to the general meeting held for this purpose on December 6, 2021, to elect Ms. Isabel Diaz Rohl as a Supervisory Board member representing the shareholders to succeed Dr. Hubert Lienhard.

The Audit Committee held each of its meetings in the presence of the responsible audit partner from the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich. At its meetings on October 7, 2021, and December 6, 2021, the Audit Committee addressed in particular the 2020/21 financial statements for the Group and Voith GmbH & Co. KGaA, including the report by the independent auditor; over and above this, the Audit Committee deliberated on the financial aspects of the 2021/22 planning and issues relating to the effectiveness of the internal control system (ICS) and took receipt of the annual report by the Internal Audit function and of a compliance report. Furthermore, the Audit Committee analyzed and discussed any mandatory changes to governance potentially arising from the German Financial Market Integrity Strengthening Act (FISG) in the future as well as any further desirable adjustments going beyond the same. At its meeting on June 2, 2022, the Audit Committee addressed in particular the Group's six-month financial statements as at March 31, 2022, and dealt with issues of risk management and cybersecurity. In addition, compliance matters including the settlement with the World Bank that was concluded and came into effect in April 2022 were on the agenda at all meetings of the Audit Committee in the reporting year.

Change in the Board of Management of the personally liable general partner and on the Supervisory Board

Ms. Stephanie Holdt was appointed member of the Board of Management of the personally liable general partner, Voith Management GmbH, effective as of April 1, 2022. On May 1, 2022, she assumed the role of CFO from Mr. Egon Krätschmer, who left the Board of Management of the personally liable general partner, Voith Management GmbH, as of April 30, 2022, after more than 40 years in the Company, to enter retirement.

The Supervisory Board would like to thank Mr. Krätschmer for his decades of successful work for the Company and his great dedication to the ongoing development of the Voith Group. The Supervisory Board wishes Mr. Krätschmer all the best for the future.

Dr. Hubert Lienhard resigned from his office as member of the Supervisory Board as of November 20, 2021. On December 6, 2021, the general meeting elected Ms. Isabel Diaz Rohr as successor to Dr. Lienhard pursuant to § 9 (2) sentence 4 of the Company's articles of incorporation and bylaws for the remaining term of office of Dr. Lienhard.

Mr. Ralf Willeck, deputy chairman of the Supervisory Board, resigned from his office as member of the Supervisory Board as of the close of July 31, 2022. Mr. Willeck was a Supervisory Board member representing the employees and as a trade union representative for ten years. As the competent body, Ulm local court appointed Mr. Tobias Bucher pursuant to Sec. 104 of the German Stock Corporation Act (AktG) on September 19, 2022. With his departure from the Supervisory Board, Mr. Willeck likewise left the Supervisory Board's Audit Committee at the close of July 31, 2022. The election of a new deputy chair of the Supervisory Board was held immediately after the end of the reporting year at the first in-person meeting of the Supervisory Board following Mr. Willeck's departure, taking place on October 7, 2022. At that meeting, Mr. Alexander Schlotz, who had already been a member of the Supervisory Board as a representative of the employees, was elected deputy chairman of the Supervisory Board to succeed Mr. Willeck. At the same meeting, the Supervisory Board also elected Alexander Schlotz as successor to Mr. Willeck on the Audit Committee.

To the extent that the independent auditor was consulted in the reporting year as expert at the meetings of the Supervisory Board or Audit Committee, the Board of Management (in the case of the Audit Committee, the CEO and the CFO) of Voith Management GmbH as the personally liable general partner of Voith GmbH & Co. KGaA took part in the meetings pursuant to Section 109 (1) Sentence 3 last clause AktG.

KPMG Wirtschaftsprüfungsgesellschaft, Munich, was appointed independent auditor of the financial statements for the 2021/22 fiscal year at the general meeting on December 7, 2021. The Supervisory Board accordingly engaged the independent auditor.

The general meeting of Voith GmbH & Co. KGaA held on December 7, 2021, exonerated the personally liable general partner and the Supervisory Board for their activities in the 2020/21 fiscal year.

2021/22 financial statements

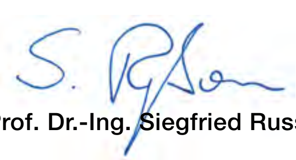
The independent auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, examined and granted its unqualified audit opinion on the accounting records, the annual financial statements and the management report of Voith GmbH & Co. KGaA and the consolidated financial statements and the group management report as at September 30, 2022. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

At its meeting on December 7, 2022, the Audit Committee examined in depth the annual financial statements of Voith GmbH & Co. KGaA and the Group as well as the respective management reports. The responsible audit partner from KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, took part in the meeting of the Audit Committee held on December 7, 2022; at this meeting he reported on the material results of the audit and provided additional information. The CEO and the CFO of Voith Management GmbH as the personally liable general partner of Voith GmbH & Co. KGaA took part in the meeting of the Audit Committee pursuant to Section 109 (1) Sentence 3 last clause AktG. At its meeting on December 8, 2022 in which the responsible audit partner from KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, also took part, the Supervisory Board performed an in-depth examination of the financial statements, the consolidated financial statements and the management reports of its own that did not give rise to any objections, the Supervisory Board agreed with the results of the audit on the part of the independent auditor and approved the financial statements and the consolidated financial statements in accordance with the recommendation of the Audit Committee. The Board of Management of Voith Management GmbH as the personally liable general partner of Voith GmbH & Co. KGaA took part in the meeting of the Supervisory Board pursuant to Section 109 (1) Sentence 3 last clause AktG. The financial statements of Voith GmbH & Co. KGaA were then approved by a resolution of the general meeting on December 8, 2022, with the approval of the personally liable general partner. Furthermore, at its meeting on December 8, 2022, the Supervisory Board followed the proposal of the personally liable general partner made to the general meeting relating to the appropriation of the unappropriated retained earnings.

Finally, the Supervisory Board would like to thank the Board of Management of Voith Management GmbH as the personally liable general partner of Voith GmbH & Co. KGaA, the respective managements of the subsidiaries and the representatives of the workforce for their prudent approach and their successful work in this challenging fiscal year. But our thanks go out most of all to Voith's employees who – even under very difficult conditions for each individual person – continued to contribute to the Company's success with their dedication.

Heidenheim, December 2022

Chairman of the Supervisory Board



Prof. Dr.-Ing. Siegfried Russwurm

The Supervisory Board

Prof. Dr.-Ing. Siegfried Russwurm
Chairman of the Voith GmbH & Co. KGaA Supervisory Board and
Chairman of the Voith Management GmbH Shareholders' Committee

Ralf Willeck*
Deputy Chairman,
First Authorized Representative of the Metal Workers' Union (IG Metall)
(until July 31, 2022)

Walter Beraus*
Secretary of the Metal Workers' Union (IG Metall), Regional Organization Baden-Württemberg

Tobias Bucher*
First Authorized Representative of the Metal Workers' Union (IG Metall), Heidenheim
(from September 19, 2022)

Johannes Hammacher
Member of the Executive Board of JMV Management und Verwaltungs SE

Constanze Hufenbecher
Member of the Board of Management of Infineon Technology AG

Dr. Norbert Kloppenburg
Former Member of the Executive Board of Kreditanstalt für Wiederaufbau

Klaus Lehleiter*
University-qualified engineer,
J.M. Voith SE & Co. KG

Dr. Hubert Lienhard
Former Chairman of the Management Board of Voith Management GmbH
(until November 20, 2021)

Thomas Martin*
Innovation Manager Voith Paper,
J.M. Voith SE & Co. KG

Isabel Diaz Rohr
Member of the Supervisory Board of Palfinger Group
(from December 6, 2022)

Gerd Schaible*
Head of Office of the Corporate Works Council of
Voith GmbH & Co. KGaA

Martin Schily
Member of the Executive Board of JMV Management und Verwaltungs SE

Alexander Schlotz*
Chairman of the Corporate and Joint Works Council

* Elected by the employees.

Group Management Report

I. Background

I.1. Group structure and business activities

Family-owned, global technology group

The Voith Group is a global technology company. With its broad portfolio of systems, products, services and digital applications, Voith sets standards in the energy, paper, raw materials and transport & automotive markets. With locations in over 60 countries, Voith operates around the globe, maintaining an extensive network of production, service and sales units on every continent on the planet.

Voith GmbH & Co. KGaA, based in Heidenheim an der Brenz, Germany, is the operative head organization and parent company of the Group. The central functions are also performed here.

The Board of Management of Voith Management GmbH is responsible for the strategy and operative management of the Voith Group. Voith Management GmbH, which like Voith GmbH & Co. KGaA is 100% family-owned, is the personally liable general partner of, and manages the business of, Voith GmbH & Co. KGaA. The Board of Management of Voith Management GmbH is appointed by the Voith Management GmbH Shareholders' Committee. Oversight of Voith GmbH & Co. KGaA is exercised by the Supervisory Board.

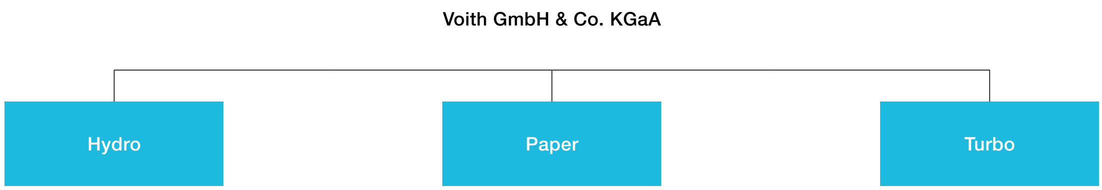
The operating business is structured into three Group Divisions: Hydro, Paper and Turbo. These Group Divisions are managed separately and their respective business results are presented transparently as part of the segment reporting.

The Group Division Hydro is a leading full-line supplier and trusted partner for equipping hydropower plants. Voith Hydro develops customized, long-term solutions and services for large and small hydropower plants all over the world. Its portfolio of products and services covers the entire life cycle and all major components for large and small hydropower plants, from generators, turbines, pumps and automation systems, right through to spare parts, maintenance and training services, and digital solutions for intelligent generation of hydropower.

The Group Division Paper is a leading full-line supplier as well as a pioneer in the paper industry. Through constant innovations Voith Paper is continually optimizing the papermaking process and facilitating resource-saving and efficient production.

The Group Division Turbo is a specialist in intelligent drive technology, systems and customized services. With innovative and smart products, Voith Turbo offers the highest levels of efficiency and reliability. Customers from highly diverse industries, such as oil & gas, energy, mining and mechanical engineering, ship technology, rail and commercial vehicles, rely on the advanced technologies and digital solutions provided by Voith.

Organizational structure
Voith Group Divisions



I.2. Management system

The key financial performance indicators for the Voith Group are the performance of orders received and sales as well as EBIT (earnings before interest and taxes) and ROCE (return on capital employed).

The internal performance indicator EBIT is based on an operating earnings indicator derived from external financial reporting, the operational result. This figure is determined on the basis of operating activities and is calculated from sales less costs before financial result and income taxes. To calculate EBIT, amortization and depreciation on hidden reserves disclosed within the scope of business combinations, restructuring expenses and other extraordinary expenses are added. For reconciliation to EBIT, the operational result is adjusted for these amounts in order to come to a better assessment of the operating activities for internal control purposes.

The return on capital employed (ROCE) is calculated by bringing EBIT and the average capital employed into relation. Capital employed designates the funds tied up within the business with a view to generating sales. This essentially comprises property, plant and equipment and net working capital. Calculating the ratio of a performance indicator from the statement of income (profit from operations) to a figure based on the balance sheet (capital employed) is in compliance with generally accepted standards for holistic business management and with value-based management.

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

The definition of ROCE was amended in the reporting year. The previous-year figures were adjusted accordingly. In the past, it was profit from operations rather than EBIT that was used to calculate ROCE, with profit from operations being EBIT plus operating interest income. Operating interest income was defined as imputed interest effects on the portion of customer advances that is not used to finance inventories and receivables from customer-specific contracts.

The indicators and reports submitted to the Corporate Board of Management of Voith GmbH & Co. KGaA as well as within the Group Divisions and the operating companies are based on these Group performance indicators.

I.3. Group strategy

The basis: Our DNA, our values*

At Voith, business success is defined as a long-term goal. As a family-owned company, Voith understood the importance of the sustainability mindset and of value-driven business long before these concepts became part of the economic debate. In the course of the Company's 155-year history, this approach has enabled Voith to overcome numerous obstacles, to manage effectively through turbulent times and to write industrial history.

Our DNA: Sustainable technologies for future generations.

We develop sustainable technologies to preserve the natural foundation of life for future generations. At the same time we are safeguarding Voith's long-term future. We will achieve this by generating profitable growth to guarantee the stability and financial independence of our Company and, at the same time, by balancing our business success with our responsibility towards society and the environment.

The way we see ourselves is expressed in our corporate values.

Ambitious:
We embrace challenges and set ambitious goals that enable us to continuously grow both as individuals and as an organization.

Innovative:
We turn ambitious ideas into innovative technology. To do so, we listen attentively, have a close look and think in new ways. This enables us to experience firsthand the way the world and our customers are changing, develop solutions that create value added, and set new standards in our markets.

Reliable:
As Voithians, we constantly strive for the trust of our customers and partners by keeping our promises. This allows us to build productive, long-term relationships.

Fair:
In every interaction, we show respect, sincerity, honesty and modesty. This is not a question of mere compliance with rules and regulations but constitutes our underlying philosophy.

Sustainable:
We are mindful of our responsibility to society and the environment in everything we do. With our technical innovations, we want to make a contribution to growth and prosperity worldwide. As a family-owned company we strive for lasting financial independence.

* The content of this section consists of unaudited, voluntary content that was critically read by the independent auditor.

Our strategy for profitable growth

Growth and profitability play a crucial role in safeguarding Voith's future. The last three fiscal years were marked by an exceedingly challenging economic environment and overlapping crises. The disruptions these caused to global markets and supply chains put national economies around the world into a state of emergency; businesses in many industries are undergoing a stress test that is probing the resilience of their business models and organizations. Our established market position in all three Group Divisions, the broad sectoral and geographical diversification and regional supply chains are important factors enabling us to come through these challenging times comparatively well. Over and above this, we are benefiting from a sound balance sheet and from liquidity safeguarded over the long term by appropriate funding lines. In this context, we made a conscious decision to continue investing even in times of crisis: in research and development, business acquisitions, training and the ongoing development of our Company. This enabled Voith to put itself in a good position to come out of these crisis-ridden times not only stronger but to generate sustainable and profitable growth going forward.

The megatrends of decarbonization and digitalization offer immense growth opportunities for Voith. In both the expansion of our core business and in the opening up of new business segments and markets, our strategic focus is on sustainable technologies. We want to be a trailblazer for an industry in the post-carbon age. What drives us forward in this – even more than the current debate about the faster expansion of renewable energies and energy security – is the growing realization that overcoming the climate crisis is one of the largest global challenges. Governments the world over have set specific objectives for achieving carbon neutrality. In this respect, the global economy is facing a tremendous task of transformation. Companies around the world must set the right course today by investing in sustainable technologies – firstly, in order to secure important competitive advantages on the global markets with innovative products and with highly efficient digitalized production and, secondly, to meet regulatory requirements. Digitalization of all areas of life received a further boost from the Covid-19 pandemic. With digital solutions and sustainable technologies we are supporting our customers in their own transformation. We are also continuing to work very hard on digitalizing our own business processes and on making our business activities more sustainable. One important success: since January 1, 2022, our operations have been net climate-neutral in all global locations.

Our objective is to be a pioneer and performance leader for our customers in our strategic business units. We want to be the first point of call for companies in the market segments we serve and set value-adding standards that benefit our customers. We also aspire to grow more strongly in the specified business units compared to the relevant market average and, in each case, to be one of the three largest providers by sales over the medium term.

On the way to this objective, we are focused on the following four strategic pillars:

1. Advancing our corporate culture:
Our corporate culture is based on our values. In order to cope with the upheavals in our industries and play an active role in shaping the outcome, we must constantly advance our culture. We want to achieve a stronger market and customer orientation and develop a distinct culture of innovation. To this end, we must reduce hierarchies and bureaucracy and reinforce cooperation. The skills required for this are described in our new competency model. This has a major influence on the selection and development of our employees and is the basis for all further HR tools. A key role in cultural change is played by our executive managers, who bring an appropriate way of thinking and working to the Company through their role model function and leadership behavior.

2. Leveraging the potential of our core business:
We are one of the largest and most renowned market participants worldwide in our core business. Building on the technological leadership we have in many of the market segments we serve, we intend to leverage the full potential of our current core business: this, firstly, involves an appreciable expansion of the service and aftermarket business in all three Group Divisions. Secondly, the goal is to enhance the core business technologically. In this context, the focus is on environmentally friendly, sustainable solutions that contribute to climate neutrality and resource efficiency, as well as digital, often AI-driven, products and services that boost the efficiency and availability of systems. In this way, we intend to become a trailblazer for the sustainable and digital transformation of our customers and markets. In strengthening our core business, we are building not only on our own expertise in the areas of technology, sales, marketing, organization and management but also on targeted acquisitions that supplement our core business in a meaningful way.

Information on our innovation strategy, particularly with reference to new business segments and markets, can be found in section I.4. **Research and development**.

3. Exploring future growth markets:
Our strategy also includes a clear commitment to opening up new business segments and markets and investing with a focus on sustainable future technologies. Growth areas we are currently addressing include hydrogen technology, electrical drive systems, cargo rail and energy storage. There are many starting points for Voith in this context. With our experts, we are working on strategies and concepts, some of which are cross-divisional projects, in order to develop marketable technologies from innovative ideas.

4. Setting up efficient structures and processes:
In order to position Voith as an independent, successful company in the long term and to secure the financial leeway for necessary investments in the future, we must continually increase our productivity and efficiency. For this, we need an organization that is as lean, agile and efficient as possible, as well as demand and customer-oriented structures and processes throughout the Company. With this objective in mind, several initiatives have been launched over recent years. In the previous year, for instance, we successfully implemented an extensive project for streamlining administrative functions.

We are constantly working to optimize our production network. One further important objective is the standardization and harmonization of our IT system landscape. In particular, we are working to introduce a Group-wide ERP (enterprise resource planning) system that integrates all operating processes on one uniform platform. As part of this complex, multiyear project, all areas of our Company will be gradually transitioned to the new system. For this purpose, the corresponding processes are being analyzed and vital processes are being redefined. We have been greatly committed in the reporting year to further pursuing the project. The new IT system landscape has been successfully deployed and is already in use in one Group Division and in another the basis has been created for implementation to commence in the 2022/23 fiscal year. Over and above this, the topics of occupational safety and quality management remain a top priority. High standards in both areas are imperative for achieving excellence in our business operations and generating excellent commercial results.

I.4. Research and development

Innovation as the basis of future business success

Research and development (R&D) has traditionally played a central role at Voith. Ever since the Company was founded, our engineers have been writing history with their inventions in the field of technology. This is reflected in the strong patent base: Voith holds several thousand active patents worldwide and several hundred more are registered each year. Technological expertise and ability to repeatedly transform this know-how into market-oriented innovations with added value for our customers form the foundation for Voith's strong positioning in the markets and regions we serve.

Information on these two pillars of our Group strategy can be found in section I.3. **Group strategy**.

We consider decarbonization and digitalization of the economy to be an important challenge over the next decade. Consequently, these two megatrends are reflected as central elements in our Group strategy and in our R&D strategy. They point the way for the ongoing technological development of our current core business as well as for R&D investments in new business segments and markets.

One important strategic objective for Voith is to also use existing expertise in the areas of hydropower, paper production, mobility and industrial applications beyond the current product portfolio and, by doing so, to open up new business segments and markets. We have currently defined four growth areas in this context – hydrogen technology, electrical drive systems, cargo rail and energy storage – which we are refining in strategic workstreams. In each workstream our objective is to develop a business model, a technological solution and access to customers in order to subsequently achieve economies of scale in the operating business. The workstreams report directly to the Corporate Board of Management. As they operate in an extremely dynamic regulatory and technological environment, they are managed with an agile approach.

In one strategic workstream, we are working on the use of hydrogen in mobility applications to facilitate the viable deployment of electrical drives in trucks and other heavy-load vehicles. As part of this, and with contributions coming from all Group Divisions, Voith is developing a complete hydrogen tank system that can be easily integrated into vehicles. This is an area where Voith can apply its experience gained over many years with the processing of carbon.

Great importance is also attached to the ongoing development of our electrical drives for a wide range of transportation options such as buses, trucks and ships, and also for industrial applications. With our innovations in this field, we intend to play a role in the shift from fossil to more sustainable drive solutions and to participate in this growing market.

Information on the development status of our CargoFlex automatic freight coupling can be found in section II.4.3. **Voith Turbo**.

Many countries are striving to shift freight transport off the roads and onto rails with the aim of decarbonizing the field of mobility. To this end, it is necessary to significantly increase the degree of automation of rail freight transport. With a view to exploiting the strategic growth area of cargo rail, we are currently developing an automatic freight coupling that includes digital solutions geared at boosting efficiency in rail freight transport.

In order to cover the rise in energy needs associated with the progressing electrification of our society with renewable energies, our electricity grids need to be stabilized with flexible buffer storage systems. Within the scope of the growth area of energy storage, we are currently focusing on the development of a redox flow battery that enables the performance peaks of, for example, solar or wind farms to be stabilized. Compared to other batteries, redox flow technology offers the benefit of slower battery aging which, in turn, makes a longer service life possible. In addition, batteries produced using this technology are recyclable and non-flammable.

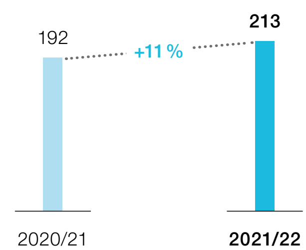
Not only are all strategic growth areas linked to the megatrend of decarbonization, but they are also closely intertwined with the new possibilities of digitalization. In our current core business, digitalization already plays an important role as we develop digital solutions and services for the Industrial Internet of Things (IIoT) that enable customers of our three Group Divisions to make sustained improvements to the efficiency and availability of their systems and applications. Our OnCumulus cloud platform in addition to our software applications and AI-driven solutions form the basis for these services and solutions.

Alongside the digital transformation of our customers, we are also accelerating the digitalization of our Company. Through standardization of our internal digital infrastructure and our digital applications, we are optimizing our processes and facilitating a continuous stream of innovations. This is reflected in internal efficiency gains and an increasingly data-based decision-making process.

As the Voith Group, we continue to invest consistently in the research and development of new solutions – over €1 billion in total over the past five years. Even in times of crisis, we made a conscious decision to maintain our R&D commitment at a high level.

The Voith Group's R&D expenditure developed as follows over the reporting year:

Research and development Group
in € millions



Based on Group sales, the R&D ratio of the Voith Group was 4.4% (previous year: 4.5%). Of the total R&D expenditure of €213 million, €5 million were capitalized (previous year: €6 million). Simultaneously, depreciation and amortization of €9 million (previous year: €8 million) was recognized on capitalized development costs.

Our latest innovations in the reporting year are described in section II.4. Business development of the Group Divisions.

I.5. Sustainability*

Industrial sustainability as a business model

Sustainability is one of our central corporate values and is embedded in our DNA. The commitment to engaging in ecologically sound, socially responsible and fair business activities has its roots in the traditions of Voith as a family-owned company. We have refined our understanding of sustainability over past years: sustainability not only defines the way in which we act as a company. More than ever before, we interpret it to mean how Voith can use technological innovation to help transform the industrial sector in the direction of climate neutrality and conservation of resources while, at the same time, ensuring economic prosperity and thus social stability. Our strategic focus on sustainable technologies points the way for the ongoing development of our product portfolio in the existing core business and for investments in new business segments and markets. In brief: industrial sustainability is our business model. This is enabling us to make a key contribution to a climate-neutral, decarbonized industrial society and is, at the same time, safeguarding our growth.

* The content of this section consists of unaudited, voluntary content that was critically read by the independent auditor.

We are systematically implementing our sustainability strategy and have defined five fields of action to this end: sustainable business management, responsibility for our products, for our supply chain, for the environment and for our employees. We intend to make a demonstrable contribution to the sustainable development of the Company, society and the environment and to set standards throughout the industry with regard to sustainability issues. In our core business, we are addressing the global megatrend of decarbonization with the refinement of hydropower as a regenerative energy source, resource-saving paper production and alternative drive technologies. This means that we are using our technological expertise to support our customers in attaining their sustainability and climate objectives. And we also apply this expertise to ensure that our own business operations as a Company are sustainable. We reached an important sustainability goal in the reporting year: since January 1, 2022, Voith has been net climate-neutral in its operations at all global locations, which means the Company has once again taken on a pioneering role.

Our claim to leadership in terms of sustainability has also been confirmed by an independent body: Voith ranks as one of the three best companies in the world in the mechanical and plant engineering industry in the corporate rating by the renowned rating agency ISS ESG. Our sustainability activities were awarded a B-rating in 2022, as was already the case in the previous year. We have held "prime" status since 2018. The rating is not only an important indicator of the effectiveness of our sustainability measures but also has a positive impact on our financing costs as it is increasingly being used by banks as a criterion in granting credit.

The Group Directive on Sustainability governs the organization, responsibilities and the principles of our actions in this field. Since 2009, Voith has systematically recorded and analyzed environmental data, materials indicators and relevant personnel data. Since 2011, we have published an annual sustainability report that provides information on such issues as environmental, employee and social matters as well as compliance with human rights and the combating of corruption. Comprehensive figures, data, facts and explanations relating to all the aforementioned areas of activity can be found in our sustainability report.

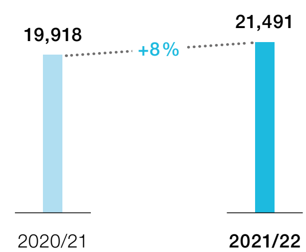
Section I.6. of this management report contains general information on how we fulfill our responsibility towards our employees.

I.6. Employees

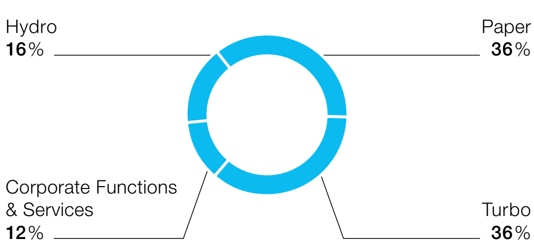
Number and distribution of employees

The number of employees in the Voith Group developed as follows in the 2021/22 fiscal year and were distributed across the various Group Divisions and regions as shown (all figures represent full-time equivalents excluding apprentices, as at September 30 in each case):

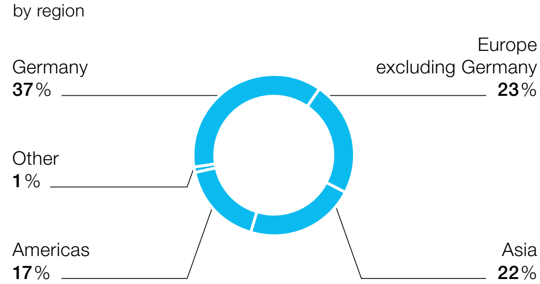
Employees Group
Full-time equivalents as at September 30



Employees total 21,491
by Group Division



by region



The headcount of Voith Group employees rose by 1,573 in the reporting year. Whereas just over 180 jobs at the Group Division Hydro and around 170 jobs at Corporate Functions & Services were cut, the number of employees in the two other Group Divisions of the core business rose, mainly on account of acquisitions.

At Voith Hydro, the number of jobs decreased by 184 to 3,444 as at the end of the 2021/22 fiscal year (previous year: 3,628). This is largely attributable to the fact that fewer casual labors were needed in North America for the assembly and commissioning of hydropower projects. In addition there were further capacity adjustments in South America and Asia.

The headcount at the Group Division Paper was up by 393 persons (September 30, 2022: 7,825 employees) on the previous year (7,432). This was partially due to the first-time consolidation of TSP

OnCare Digital Assets Inc. (123 employees) in the Group Division Paper. This company was previously allocated to Corporate Functions & Services. Furthermore, jobs were created to handle the increase in the volume of business.

At Voith Turbo, the number of employees rose by 1,532 to 7,732 as at September 30, 2022 (previous year: 6,200). This increase is largely attributable to the takeover of Argo-Hytos with around 1,450 full-time equivalents.

In Corporate Functions & Services, i.e. in the Group's holding company, there were 2,490 employees as at the end of the reporting year (previous year: 2,658). The decrease of 168 jobs is mainly due to the reclassification of TSP OnCare Digital Assets as part of the Group Division Paper. Further jobs were cut at Corporate Functions & Services as part of the streamlining of administrative structures.

As far as the regions are concerned, Voith still employs most people in Germany. The second largest region is Europe excluding Germany, closely followed by Asia, with the Americas following behind.

In the 2021/22 fiscal year, global personnel expenses were as follows:
- €1,301 million (previous year: €1,247 million) for wages and salaries
- €243 million (previous year: €232 million) for social security
- €38 million (previous year: €37 million) for post-employment benefits

Priorities of HR work*

Our employees are key to sustainable business success. They are the force behind our innovative drive and, with their ideas, their skills and their personalities, they create competitive advantages for Voith. For this reason, we consider the recruitment and retention of talented individuals and their ongoing development to be an important value driver for our Company.

Information on our corporate culture and Voith values can be found in section I.3. **Group strategy**.

Currently, one central objective of HR work at Voith involves providing effective support for the envisioned refinement of our corporate culture – an important pillar of our corporate strategy. As we see leadership to be a vital aspect in leveraging the corporate culture, we offer our executive managers a wide range of development programs. We train them in line with their duties and their experience background in the application of our management tools and use various educational formats to convey the knowledge, best practices, skills and abilities needed in modern management based on our Voith values.

Talent management and personnel development*

Our personnel development concepts are intended to help us, as an organization, to prepare for a dynamic, complex and networked working world and to empower our employees to actively participate in

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shaping it. Based on our employees' individual training needs, we support them with internal and external training and personal development measures that foster professional, personal and methodological skills and competencies, thus facilitating lifelong learning.

Executive managers play a key role in personnel development. Consequently, we work with a holistic model for leadership. The structures, processes and systems derived from this are designed in such a way that our executive managers and employees are in constant dialog with each other: regularly recurring and ad hoc discussions help to optimize collaboration, boost performance and facilitate learning. Additionally, with our talent management tools, we pursue the goal of recruiting personnel for our key positions from our own ranks over the long term. Thanks to internal talent pools and state-of-the-art means of identifying talent, we are continually refining the ways of matching people with positions.

Employer attractiveness and personnel marketing*

At Voith, fair working conditions and competitive remuneration are standard practice. Voith sees itself as a family-friendly company that supports diverse ways of life. This perception of ourselves has been defined in our Group-wide guidelines for a flexible and family-oriented work culture. It is our declared objective to offer our employees a working environment that adjusts as flexibly as possible to their particular circumstances. This also includes individual working-time models that employees can sign up to in consultation with their line managers. These models range from a combination of "mobile working" and on-site presence, or part-time work and job sharing through to flexible vacation arrangements and sabbaticals. Moreover, we provide support with offers of assistance relating to childcare and caring for relatives. We regularly obtain external confirmation that we are living up to our aspiration to be a fair employer: since 2014, Voith has received the "FairCompany" seal of quality awarded by Handelsblatt newspaper and the Institute for Employment and Employability (IBE).

Given the global shortage of skilled labor, and now a general labor shortage, Voith is constantly working to reinforce its employer brand and strives to make the application and onboarding processes as pleasant and efficient as possible for new employees. When selecting applicants, the crucial factors include, in addition to the required professional qualifications, ways of thinking and working that align with our corporate culture. To ensure both factors are met, we build on personal dialog and additionally deploy objectivized, standardized procedures.

First-class professional training*

In the reporting year, we once again provided a large number of young people with career prospects and maintained a high level of apprenticeships. At the close of the 2021/22 fiscal year, 720 apprentices and students were employed at Voith locations around the globe (previous year: 752, -4%; basis: headcount).

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As a matter of tradition, we attach great importance to first-class vocational training. We received renewed confirmation of this in September 2022 from the survey on “Germany’s Best Training Companies” conducted by Service Value, the Cologne-based analysis institute, in cooperation with “Die Welt” daily newspaper. Voith was awarded a “very high level of attractiveness”, receiving an excellent result of 35th place from just under 1,850 companies listed in the Industry segment. The basis for our success is the focus on interdisciplinary learning and a holistic approach to imparting a combination of both social and professional skills. At our major international locations, we employ training methods based on the German dual system but adapted to local requirements. Voith’s most important training facilities outside of Germany are located in Kunshan, China, and in São Paulo, Brazil.

In the reporting year, the Hanns Voith special technical college was able to look back on over 50 years of success. Each year, some 30 young people with special educational needs start a school year of preparatory vocational training to qualify them for the training and labor market. After the twelve months of vocational preparation, more than 80% of leavers find a job or apprenticeship.

Diversity, inclusion and equal opportunity*

As an employer, Voith sees it as its duty to offer all its employees equal opportunities and to ensure that the workplace is free from discrimination. This stance has been reinforced in the form of a Declaration on Diversity, Inclusion and Equal Opportunities (“D&I Declaration”) signed by the Corporate Board of Management.

Since the 2012/13 fiscal year, there has been a Group-wide diversity and inclusion (D&I) program in place at Voith. “Diversity” stands for the variety of our workforce with regard to the dimensions of gender, age, nationality or ethnic origins, skin color, language, religion, training and professional experience as well as all other individual differences such as family status, social background, beliefs, health status, physical or mental abilities or gender or sexual individuality. We are convinced that these varied dimensions – in conjunction with different experiences, talents and strengths – promote diversity of thought. At Voith, we understand “inclusion” to be a culture of appreciation and mutual respect that facilitates the development of individual potential.

Alongside the awareness of executive managers and employees which is maintained consistently via workshops and related campaigns, the D&I program also involves optimizing our processes with the objective of countering unconscious patterns of thought. In addition, managers have been provided with a D&I toolkit that contains specific suggestions for how to work in and manage teams. As a signatory to and endorser of the Diversity Charter, Voith regularly organizes regional and global D&I days with a wide offering of workshops, discussion forums and keynote speeches.

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As women are still underrepresented in technical professions and courses of studies, technology companies generally employ significantly fewer women than men. The proportion of women in the overall workforce was 18% (previous year: 18%, based on headcount). Our objective is not only to increase the proportion of women overall but also the share of female executives in the Company. The measures we are taking include personnel marketing activities with the aim of positioning Voith as an attractive employer, particularly for women. Internal regional women's networks also make a valuable contribution with various initiatives such as mentoring programs, networking events and training sessions.

Occupational health and safety management*

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

Since the implementation of our global occupational safety program, we have seen great improvements at all our locations: the frequency rate, calculated pursuant to an international standard and documenting the number of accidents per one million working hours, has been reduced appreciably from the baseline of 13.9, or 921 reportable accidents per year in the 2008/09 fiscal year. In the reporting year, the number of accidents per one million working hours stood at 1.6 (previous year: 2.1), which means there was a total of 61 (previous year: 79) accidents. In comparison: the average frequency rate for companies in the German Wood and Metal Trades Association is 21.5. In the reporting year, the severity rate stood at 492 (previous year: 537) hours lost per one million working hours. Although we have achieved a great deal in the past, it is important that we continue to place a strong and uncompromising focus on strict occupational safety measures and constantly draw our employees' attention to this topic.

In the field of occupational safety, we are building on our effective HSE (Health, Safety, Environment) organization. The Group-wide IT system hse+ assists our HSE experts in their work. A corresponding Group directive documents the framework and responsibilities for occupational health and safety; mandatory minimum requirements and standards for the Voith Group are also prescribed in fundamental processes and operating procedures. The success of our occupational safety program stems from the involvement of all employees acting in conjunction with the Corporate Board of Management and executive managers.

In the field of occupational health, we place particular emphasis on prevention. All in all, we pursue a regional approach appropriate to heterogeneous conditions. No matter where our employees work, they should be able to maintain their ability to work and retire in good health at the end of their working lives. Over the first half of the reporting year in particular, the Covid-19 pandemic continued to be a challenge in terms of occupational health and safety. The situation regarding the pandemic was analyzed on an ongoing basis and action was taken at all times with suitable preventive and acute measures depending on the given situation. We continue to monitor developments and are in a position at all times to adapt protective measures to the prevailing conditions.

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II. Economic report

II.1. Overall assessment

Growth in a challenging environment, profitability improved despite massive rise in materials prices

The Voith Group looks back on a challenging 2021/22 fiscal year (October 1, 2021 to September 30, 2022). The war in Ukraine triggered a political and economic shock at the beginning of 2022 that sharply slowed the momentum of economic recovery following the pandemic-related recession of 2020. Global supply chain disruptions and shortages of raw materials and intermediate products intensified. A new round of extensive lockdowns – imposed as part of the zero-Covid policy – at important ports and manufacturing centers in China in the spring of 2022 further aggravated the situation. The increase in prices for energy, raw materials and food fueled inflation that was already higher due to existing supply shortages.

In this environment marked by multiple crises and great volatility, Voith operations and finances proved to be robust. Also benefiting from an acquisition made in the Group Division Turbo in August 2022 and positive currency effects, the Voith Group's key financial performance indicators improved over the 2021/22 fiscal year. The Voith Group's orders received and sales grew in the 2021/22 fiscal year and, even after adjusting for these effects, exceeded our expectations. On the back of a very high previous-year figure, orders received rose by 3% to €5.2 billion. Orders on hand reached an all-time high and stood at €7.0 billion at the end of the fiscal year on September 30, 2022. Sales rose by around €600 million or 15% to €4.9 billion in the reporting year.

Rises in the prices of raw materials, components, intermediate products and energy – which were massive rises in some cases – and increases in transport costs led to an increase in the cost of materials that outstripped the rate of sales growth. It was possible to place a limit on the rise in other cost items by means of measures that increased efficiency and through a very disciplined approach to expenditure.

The earnings indicators in the reporting year reflect an improved profitability. EBIT grew by 21% to €200 million. The return on sales improved to 4.1% (previous year: 3.9%) and ROCE to 10.5% (previous year, adjusted: 9.6%). The higher EBIT translated into the Group net result, at €30 million being up on the previous-year level (€1 million).

All three Group Divisions – Hydro, Paper and Turbo – contributed to the pleasing development at Group level with high, in some cases higher than expected, levels of orders received and sales, as well as positive operating results. The largest contribution to the Group EBIT was made by Voith Paper

(€131 million, +15%). Voith Turbo's EBIT grew 19% to €48 million. At €2 million, the EBIT in the Group Division Hydro fell short of our expectations (previous year: €8 million).

Despite the ongoing challenges of the market environment, we have once again made significant investments for the future over the 2021/22 fiscal year. In this context, the strong orientation of the Voith Group towards industrial sustainability and the ongoing strategic and technological enhancement of the Voith product portfolio are given high priority. For instance, building on an R&D expenditure that increased year-on-year, we not only developed individual product innovations but also performed research into enabling technologies for the development of strategic growth areas; secondly, we are opening up the off-highway sector as a new business segment for our drive systems through Argo-Hytos, a company we acquired in the reporting year. Additionally, we have invested in our own organization: primarily in the digitalization of our business processes, the optimization of our internal structures and the refinement of our corporate culture.

The net assets and financial position of the Voith Group remain very sound. The equity ratio improved to 24.1% (previous year: 19.8%), mainly due to a high level of other comprehensive income from the rise in discount rates for pension provisions and from currency effects. The cash flow from operating activities was clearly positive at €93 million but was down on the previous-year figure (previous year: €144 million) in the light of larger inventories as well as a higher level of trade receivables. Total cash flow was negative at €-137 million (previous year: €-89 million). Our investments in business acquisitions were the main reason for the higher cash outflow.

The net liquidity, defined as the difference between liquid financial assets and interest-bearing financial liabilities (not taking lease liabilities into consideration), remains at a good level even after the high level of acquisition activity and amounted to €-233 million at the end of the reporting year (previous year: €-5 million). Without the acquisition activity, the net liquidity would have deteriorated slightly in comparison to the previous year. The stable liquidity position from our own bank balances and existing loan agreements gives us sufficient leeway to further invest in our future and to advance important strategic topics.

II.2. Macroeconomic and industry-specific environment

Global economic recovery hampered by war in Ukraine, high inflation and persisting supply chain problems

Towards the end of 2021, the global economy was on its way to recovery from the recession triggered by the Covid-19 pandemic, but it was rocked once again in spring 2022 by the outbreak of the war in Ukraine. The conflict and its repercussions are having massive negative economic implications for the region and the world. For instance, the existing supply chain issues are being further amplified, which – particularly in Europe – has already led to impediments to industrial production. Furthermore, prices for energy, raw materials and food were on the rise. The USA, the EU and the UK put severe limits on their oil imports from Russia, whereas Russia imposed massive reductions on its gas supplies to Europe, which resulted in an energy crisis. Some economies in Europe, including Germany, are highly dependent on Russian gas, not only for generating heat and electricity but also as a raw material in manufacturing. This dependence involves the risk of a full-blown gas shortage that could hit both businesses and private households alike.

The rise in the prices of energy, raw materials and foodstuffs is reinforcing the already raised level of inflation caused by supply bottlenecks. In contrast to the original forecasts by central banks, inflation is proving to be more persistent and has reached surprisingly high levels in 2022 – especially in the US and Europe. In this context, a global inflation rate of 8.8% is anticipated for 2022. Inflation reduced real incomes and weighed on macroeconomic demand. Advanced economy central banks reacted with an assertive interest-rate turnaround, and in many emerging markets, too, interest rate hikes, aggressive in some cases, were implemented, with such rises dampening economic development.

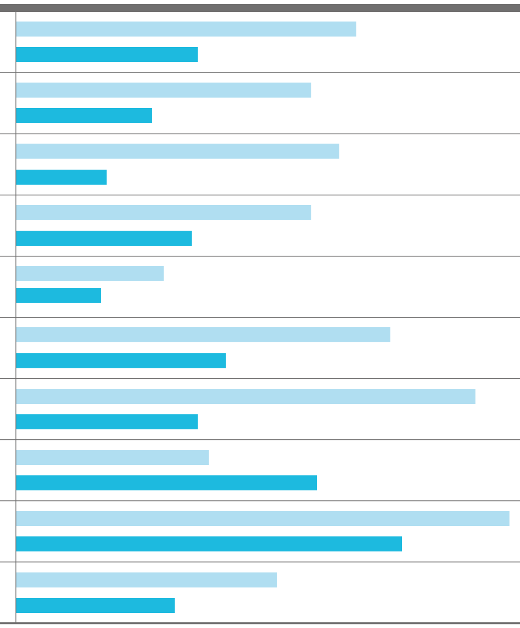
This was aggravated by a new round of extensive lockdowns as part of China's zero-Covid policy that also affected important manufacturing centers and considerably slowed the economic growth of the world's second largest national economy in 2022. Shanghai, for instance, has the largest container port in the world and was in a strict lockdown for eight weeks over the second quarter of 2022. Developments in China had global consequences as, firstly, the lockdowns exacerbated the supply-chain problems and, secondly, the reduction in demand from China for goods and services was also dragging down its international trading partners.

In the light of the various overlapping crises, global economic development in the reporting year was appreciably weaker than was to be expected on the basis of the economic forecasts available at the time of publication of our 2021 annual report. In its World Economic Outlook (WEO) from October 2022, the International Monetary Fund (IMF), for instance, forecasts global economic growth of only 3.2% for the full year 2022. In October 2021, the forecast rate of global growth for 2022 was still at 4.9%.

Whereas the warring countries of Russia and Ukraine entered recession in 2022, the gross domestic products in the regions and countries important for Voith were still on the rise over the reporting period. In this context, the other European economies saw significantly weaker development than expected a year ago on account of the war in Ukraine. For 2021 and 2022, the IWF anticipates the following growth rates:

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

World output	2021	6.0%	
	2022	**3.2%**	
Advanced economies	2021	5.2%	
	2022	**2.4%**	
USA	2021	5.7%	
	2022	**1.6%**	
Euro area[2]	2021	5.2%	
	2022	**3.1%**	
Germany	2021	2.6%	
	2022	**1.5%**	
Emerging market and developing economies	2021	6.6%	
	2022	**3.7%**	
China	2021	8.1%	
	2022	**3.2%**	
ASEAN-5	2021	3.4%	
	2022	**5.3%**	
India	2021	8.7%	
	2022	**6.8%**	
Brazil	2021	4.6%	
	2022	**2.8%**	



Source: International Monetary Fund (IMF); World Economic Outlook, October 2022.
[1] 2021: estimates; 2022: forecasts.
[2] Including Germany.

Of the advanced economies (IMF forecast for 2022: +2.4%), Germany saw a less than average growth rate, especially as industrial production was impeded by the global supply bottlenecks for raw and other materials. In this context, the growth forecast for 2022 has undergone a dramatic downward correction from 4.6% in the IMF publication of October 2021 to the most recent 1.5%. Whereas the reduced growth rates in the euro zone are mainly due to the war in Ukraine, the focus in the USA is on the consequences of the high inflation. Growth expectations for the US economy in 2022 were reduced from the original 5.2% (WEO Oct. 2021) to 1.6%.

In China, growth for 2022 is likely to be appreciably lower than anticipated twelve months ago, mainly due to the new round of lockdowns (WEO Oct. 2021: 5.6%). Aside from the Covid year of 2020, the growth rate of 3.2% forecast for 2022 is the lowest in four decades. India (2022: 6.8%) underwent more dynamic growth than China in the reporting period. Brazil's gross domestic product is expected to grow by 2.8% over the course of 2022.

Mechanical and plant engineering with subdued production

After a situation in 2021 where the German mechanical and plant engineering sector succeeded in increasing its level of orders received by 32% in real terms on the back of strong foreign demand but with production growing by only 6% over the same period due to shortages of materials and skilled personnel, the sector began 2022 with an above-average level of orders on hand, according to data from VDMA, the relevant industry association. The investment climate has become increasingly dampened over the course of 2022. As a consequence, the level of orders received in the German mechanical and plant engineering sector deteriorated, falling to below the previous-year level over the first eight months (January to August) of the calendar year 2022. In parallel with this, the supply-side disruptions – predominantly supply bottlenecks – intensified, meaning that price-adjusted production was slightly down on the previous year's level in the first seven months of 2022, despite the high level of orders on hand.

Turbulence on the five Voith markets

The overlapping crises in the reporting year also impacted the five target markets Voith serves. In particular, Russia's war in Ukraine has caused great turmoil on the markets for oil & gas, energy and raw materials and they will undergo significant upheaval over the medium term. The energy crisis triggered by the conflict is having a negative impact on industry as a whole. The lockdowns in China also had a far-reaching impact, which placed a strain on key segments of the transport & automotive market, among others. Bottom line, the Voith markets developed positively in the main, but were marked by a great degree of volatility.

Energy: war in Ukraine is promoting the expansion of renewable energies

The energy market encompasses the conversion of various primary energy sources such as hydropower and wind, and also coal and gas into electricity, as well as various forms of storage. This market is served by the Group Divisions Hydro and Turbo (division Industry).

Although global electricity consumption continued to rise in all regions, growth slowed over the course of the 2021/22 fiscal year, mainly due to the slowing of economic activity and the rise in electricity prices as a consequence of the Ukraine war. Electricity needs will continue to rise over the medium term due to the increasing electrification of all areas of life.

With regard to electricity generation, coal-fired power plants are currently experiencing an unforeseeable revival – contrary to general efforts to reduce the use of fossil energy sources in order to reach climate targets. Due to the sharp rise in gas prices and to ensure security of supply, coal was employed as a cost-competitive alternative available at short notice. In 2021, the volume of electricity generated from coal increased worldwide by 9%, thus meeting more than half of the additional demand for electricity. The shift from gas to coal continued in 2022. Electricity generation from nuclear power, oil and gas increased only slightly in 2021. Power generation from renewable energies increased over 2021 by 6% on the previous year, thus covering around one-third of additional electricity demand. In 2021, renewable energies represented 28% and hydropower 16% of electricity generation worldwide.

The medium- to long-term trend towards renewable energies continues; according to forecasts by the International Energy Agency (IEA) their share of global power generation will increase from 28% in 2021 to more than 32% by 2024. The share in fossil energy sources is expected to decline from 62% to 58% over the same period, with absolute figures stagnating. Nuclear electricity generation is forecast to see slight growth in absolute terms but a constant share of 10% of global power generation.

Power sector investments rose perceptibly in the reporting year. The largest share of spending related to renewable energies, with photovoltaics predominant among the renewables. In the area of hydropower the market volume may fluctuate sharply from year to year on account of the large volumes of investment of individual hydropower projects. A large portion of total investments in hydropower stemmed from pumped storage projects in China. These, however, are being awarded primarily to local competitors on account of relevant regulations by the Chinese government. In the 2021/22 fiscal year, the volume of contracts awarded relevant to the Group Division Hydro increased slightly in comparison to the previous year. Investment in the reporting year in the market for conventional power plant technology, which is relevant for the Group Division Turbo, stood roughly at the level of the previous year.

Oil & gas: price leaps and great volatility

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

The war in Ukraine set off a shock wave in the oil & gas market in the reporting year. Russia is one of the world's largest exporters of oil and gas, and a large portion of Russian exports previously went to the European Union. In response to the war, long-standing energy partnerships and supply relationships have been terminated and new ones are coming into being. The war in Ukraine has exacerbated the tightening supply of gas underway since mid-2021. While global demand for oil continued to rise, due to oil being used as a substitute for gas, among other factors, there are increasing concerns that supply will fail to match this development. The consequences of these disruptions were price surges and an extremely volatile price development at an appreciably higher level across the board than in the previous year and prior to the outbreak of the Covid-19 pandemic.

Oil and gas prices determine the earnings position of companies active in the oil & gas market and thus also influence Voith Turbo's business in this sector. In view of the very high market prices, investment activity increased overall. Upstream investments increased perceptibly in the reporting year, but they remained appreciably down on the level prior to the outbreak of the Covid-19 pandemic. In the midstream segment, a large number of refineries continued to be closed in advanced economies whereas the plans to expand capacities were pursued in the developing countries of the Middle East and Asia. There was a net reduction in refinery capacities worldwide for the first time in 2021. All in all, investment in refineries is still likely to have risen slightly in the reporting year. As Europe intends to substitute missing gas supplies from Russia in the near term, primarily with liquid gas, demand for liquefied gas has risen on the world market. Investments in LNG liquefaction projects, in particular in the USA, and in the expansion of LNG terminals, primarily in Europe, increased appreciably.

Paper: slight rise in paper production, investment in paper machines remains at a high level

The paper market covers all areas of paper production: from stock preparation and paper production – including surface refinement by calendering and coating – through to reeling paper webs. The Group Division Paper serves this market for all types of paper: board and packaging paper, specialty paper, tissue and graphic paper. Its range of offers includes new lines, rebuilds of entire production facilities, automation technology, digitalization solutions, partial rebuilds, services and spare parts, optimization products, roll covers and fabrics, preparation of primary (pulp) and secondary fiber (wastepaper), and water treatment facilities.

Global paper production rose slightly in the reporting year. For the full year 2022, industry analysts expect a global production volume that exceeds the level of 2019, i.e. prior to the outbreak of the Covid-19 crisis. There was a rise in the production volume for all grades of paper apart from graphic papers. The strongest growth was seen with board and packaging paper also as a consequence of booming e-commerce. Production of tissues increased again after the pandemic-related contact restrictions were successively lifted and demand for tissues for use outside the home rose once again. One exception to the generally rising trend in production is the European market, which is suffering from the consequences of the war in Ukraine, particularly from the energy crisis. In the reporting year, there have already been temporary closures of production facilities on account of the extremely high gas prices and the increase across the board in prices for energy and materials. All in all, European paper production is likely to decrease over the full year 2022. Even in China, where economic activity weakened overall, production came to a standstill at paper factories in 2022. This resulted mainly from the excess capacities built up over the past years with strong investment.

In line with the global increase in paper production, demand for wear parts revived in the reporting year, and once the restrictions aimed at containing the pandemic had been scaled back in most regions, the service business also recovered perceptibly. The market for new lines and rebuilds remained at a high level but, given the challenging and uncertain environment, investment contracted compared to the previous year that had seen extraordinarily strong investment activity.

Raw materials: ongoing boom in demand and high prices stimulate investment activities

We define raw materials as ores and minerals extracted from the earth, such as copper, iron ore and coal along with other geological materials, for instance sediments used as building materials. By contrast, the raw materials oil and gas are considered separately as part of the oil & gas market. The segment of the raw materials market of relevance for Voith is the mining sector, which is supplied by the Group Division Turbo (division Industry).

The raw materials market continued to be marked by excess demand in the reporting year. The war in Ukraine and its consequences triggered considerable market turbulence and volatile price increases. The lockdowns in China shortened supplies further. In the light of Russia’s preeminent significance as an exporter, the prices of power plant coal skyrocketed since the beginning of 2022 and remained at a similarly high level until the end of the reporting period. The prices of most metals and minerals also rose sharply. According to World Bank forecasts, the increase amounted to 16% in 2022 in comparison to the previous year. The price trajectory is being driven by high energy prices and the war in Ukraine. The prices of copper and iron ore saw very volatile developments. They reached an all-time high in March 2022 but then fell back to a high level in comparison to previous years by the end of Voith’s reporting year. Other metals, predominantly nickel and aluminum, rose even more sharply.

In the light of the booming demand and the high prices, there was a high level of investment activity in the mining industry in the reporting year.

Transport & automotive: commercial vehicle segment in decline, recovery in rail and marine
The transport & automotive market includes diverse transport routes and the means of transport used on them for moving people and goods. The Group Division Turbo (division Mobility) serves this varied market as a specialist for intelligent drive technology, systems and customized services for the commercial vehicle industry, rail sector and marine segment.

The truck market was in decline in the 2021/22 fiscal year. Global production of medium-size (6–15 metric tons) and heavy (> 15 metric tons) trucks fell appreciably in the reporting year. A major factor in this development was the significant decline in demand for trucks on the large Chinese market following the strict Covid-19 lockdowns in spring 2022. In Europe, the war in Ukraine and its implications exacerbated the already existing supply chain problems which led to a slight decline in production. Of the three major truck markets, North America was the only one to return growth. In the bus market, demand rose perceptibly from a low level in 2022 once public transport passenger numbers started to normalize. Contrary to the general growth trend, the Chinese bus market saw a negative development on account of the lockdowns.

Even though the rail market recovered slightly overall in the reporting year after the situation in passenger rail traffic eased noticeably in the third year of the Covid-19 pandemic, there continued to be project delays and postponements. The salient factors were shortages of, and high prices for, raw materials, the global energy crisis and the war in Ukraine along with its consequences.

The market for marine applications was on a recovery trajectory in the reporting year, albeit from a low level. Stimulus for growth was seen in particular with special-purpose vessels for servicing offshore wind turbines.

II.3. Business development of the Group

II.3.1. Material events

Change on the Corporate Board of Management

In spring 2022, Stephanie Holdt was appointed Chief Financial Officer and member of the Voith Group's Corporate Board of Management. She is succeeding Egon Krätschmer who has retired. Stephanie Holdt has more than 20 years' experience in finance and accounting; most recently, she was the Chief Financial Officer and Senior Vice President at a US manufacturer of construction materials based in Chicago.

M&A activities

Effective as of August 2, 2022, we acquired 79.5% of the shares in Argo-Hytos. Argo-Hytos develops and produces components for hydraulic and system solutions with a focus on the off-highway sector (agricultural machinery, construction equipment and vehicles). Prior to the takeover, the family business with some 1,450 employees (full-time equivalents) generated annual sales of around €200 million. Based in Switzerland, the Argo-Hytos Group has operations worldwide with production companies in Germany, Czech Republic, Poland, India and China, as well as numerous own distribution and assembly companies. Argo-Hytos will be fully consolidated within the Voith Group and assigned to the Group Division Turbo. The investment in Argo-Hytos marks our entry into the promising off-highway market.

Furthermore, we signed an agreement in June 2022 to purchase IGW Rail, which came into effect as of October 4, 2022 once all official approvals had been granted, i.e. in the 2022/23 fiscal year. Headquartered in Czech Republic, the company specializes in gear unit and coupling solutions for the rail vehicle industry. IGW Rail has four production facilities in Czech Republic, India, the USA and China, and employs around 500 people. Through the acquisition, Voith becomes one of the world's largest independent manufacturers of rail vehicle gear units and transmissions. IGW Rail will be fully consolidated within the Voith Group and likewise assigned to the Group Division Turbo as of the 2022/23 fiscal year.

More information on these two acquisitions can be found in section II.4.3. Voith Turbo of this management report.

Effective as of March 1, 2022, Voith acquired the remaining 35% shareholding in Voith Hydro Holding GmbH & Co. KG from its previous joint venture partner Siemens Energy. Through the transaction, Voith has become the sole shareholder in the Group Division Hydro that was previously managed as a joint venture. With this step, Voith is continuing its strategy of strengthening the core business in the field of sustainable technologies. Voith and Siemens Energy had founded Voith Siemens Hydro Power Generation GmbH & Co. KG as a joint venture in 2000 with a view to pooling Voith's turbine expertise and Siemens' generator know-how. Today, Voith has gained extensive knowledge and experience itself as a full-line supplier, which means that the original structuring as a joint venture is no longer relevant to the operating activities. The acquisition was made by a company controlled by the ultimate parent company, JMV SE & Co. KG, and thus not included in the present consolidated financial statements. The purchase price was funded by a loan granted to the acquiring company by a company included in the present consolidated financial statements. As the acquiree had already been consolidated in previous years, this acquisition did not have any further impact on the present consolidated financial statements.

II.3.2. Orders received

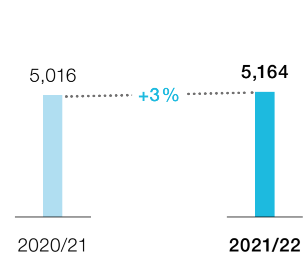
Further growth in orders received from an already high level

The trend in orders received by the Voith Group was considerably better than expected in the 2021/22 fiscal year and, at €5,164 million, orders received were 3% up on the very high previous-year figure (previous year: €5,016 million). In view of the crisis-ridden economic environment marked by market turbulence and uncertainties, we consider this result to be very satisfactory.

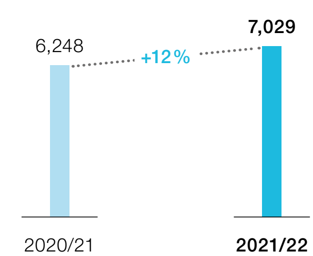
With high levels of orders received, in one case exceeding expectations, all three Group Divisions contributed to the encouraging development at Group level. In addition, there were positive effects from exchange rate fluctuations and acquisitions. Even adjusted for these non-operating effects, which were just over €200 million, the forecast was exceeded (2021 management report: “perceptible decline”).

At €7,029 million as at September 30, 2022 (previous year: €6,248 million), the Voith Group’s orders on hand reached a further all-time high. The sharp rise will be only gradually reflected in sales growth on account of the long project times inherent in the large-scale plant business and the disruptions to the supply chains that still have to be reckoned with.

Orders received Group
in € millions



Orders on hand Group
in € millions

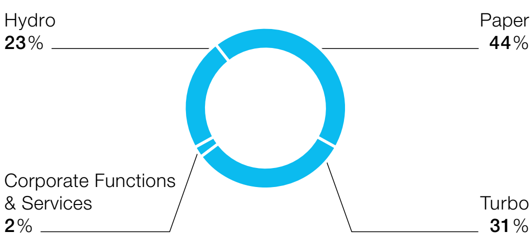


Detailed information on the development of orders received in each Group Division can be found in section II.4. **Business development of the Group Divisions**.

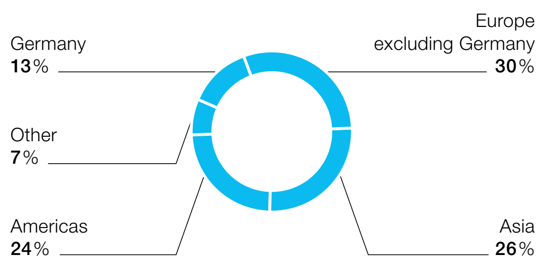
All three Group Divisions operated successfully in a market environment that remained challenging. Voith Hydro (€1,184 million) and Voith Turbo (€1,636 million) increased their orders received by 3% and 8%, respectively. In the Group Division Paper (€2,256 million), orders received fell slightly compared to the very high previous-year figure (-1%).

In the reporting year, orders received were distributed as follows among the Group Divisions and regional markets:

Orders received total €5,164 million
by Group Division



by region



II.3.3. Sales

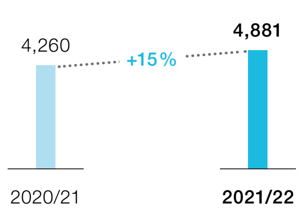
Group sales up by more than €600 million

Group sales grew by €621 million to €4,881 million (previous year: €4,260 million). The 15% increase exceeded our expectations.

The phasing out of pandemic-related travel limitations and limited access to construction sites in most regions, with the exception of the new round of strict lockdowns in China, allowed us to better process the high level of orders received in the previous years and to convert them into the corresponding sales once again. The service business, where revenue is typically recognized quite quickly, also saw a positive development.

There were also positive effects from exchange rate fluctuations and acquisitions that were, however, pushed into the background by the strong operating effect. Even adjusted for these non-operating effects, totaling around €200 million, the sales forecast was exceeded (2021 management report: "slight increase").

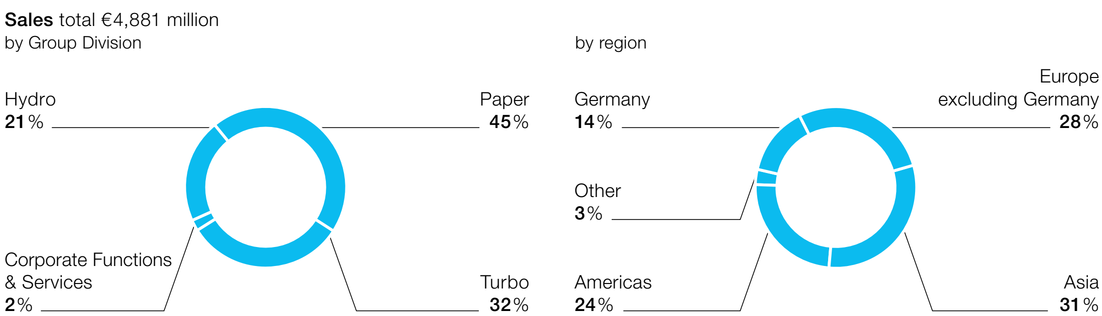
Sales Group
in € millions



Detailed information on the development of sales in each Group Division can be found in section II.4. **Business development of the Group Divisions**.

All three Group Divisions succeeded in increasing their sales. Voith Paper saw the strongest growth (24%) and also made the largest contribution to the Group in absolute terms (€2,196 million). The Group Divisions Hydro (€1,048 million) and Turbo (€1,557 million) grew by 11% and 7%, respectively.

In the reporting year, Group sales were distributed as follows among the Group Divisions and regional markets:



II.3.4. Operating result

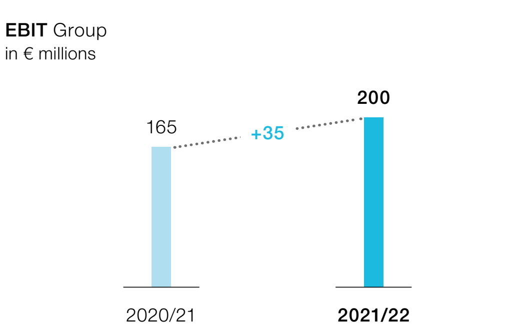
EBIT develops in line with sales trend

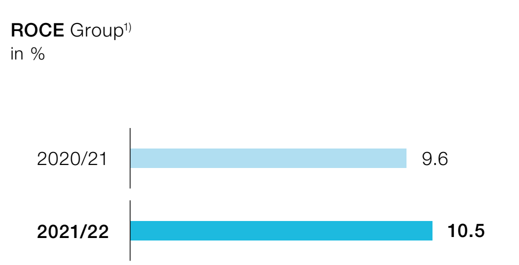
For our definition of EBIT, we refer to section I.2. **Management system**.

EBIT rose by 21% to €200 million and was in line with our expectations (forecast in 2021 management report: “appreciable increase”). Supply chain difficulties and in some cases massive rises in materials prices and transport costs required significant countermeasures.

Detailed information on the development of EBIT in each Group Division can be found in section II.4 **Business development of the Group Divisions**.

A large contribution to the Group EBIT came from the Group Division Paper (€131 million), which increased its operating result by 15%. In the Group Division Turbo, EBIT rose by 19% to €48 million. At Voith Hydro, the operating result contracted from €8 million in the previous year to €2 million.





[1)] Previous-year figure adjusted.

The return on sales stood at 4.1% (previous year: 3.9%). The ROCE improved from 9.6% (adjusted) in the previous year to 10.5% in the reporting year, thus falling short of our expectations (forecast in 2021 management report: “appreciable increase”).

The improvement in the return on sales and ROCE means we are on the right path, but we had anticipated greater progress already for the reporting year. The main reason for profitability not yet improving as significantly as set out in our original planning was the increased costs of procurement as a consequence of the supply chain problems and price increases triggered by the pandemic and exacerbated by the war in Ukraine. The development of EBIT furthermore reflects significant investments in the future. For instance, we made a conscious decision to increase our R&D expenditure in the reporting year back to the high level of the 2018/19 fiscal year despite the challenging environment and in doing so not only drove forward individual product innovations but also the development of fundamental technologies aimed at exploiting strategic growth areas. Furthermore, we invested in our organization. For example, we were greatly committed to further pursuing the multiyear project to introduce a standardized Group-wide ERP system.

II.4. Business development of the Group Divisions

II.4.1. Hydro

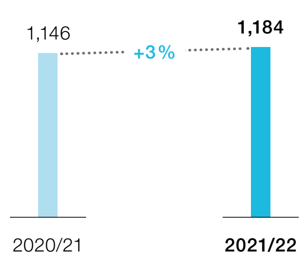
Growth in sales and orders received, EBIT has fallen

The Group Division Hydro looks back on a challenging 2021/22 fiscal year in which the aftermath of the Covid-19 pandemic continued to be felt. Operating successfully in a market environment that has recovered slightly, Voith Hydro was able to increase orders received and sales. The operating result fell short of expectations, however. EBIT declined on account of unexpectedly sharp increases in materials and transport costs and the processing of orders posted in weak market phases under high price pressure.

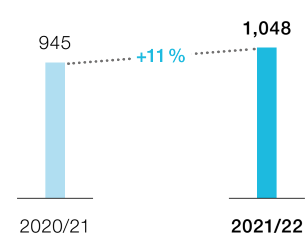
Key financial performance indicators

The Group Division Hydro's key financial performance indicators for the 2021/22 fiscal year are as follows:

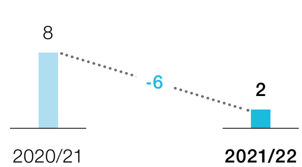
Orders received Hydro
in € millions



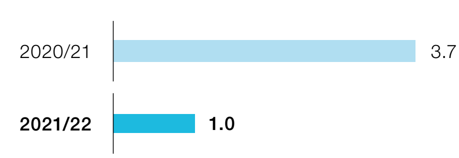
Sales Hydro
in € millions



EBIT Hydro
in € millions



ROCE Hydro[1)]
in %



[1)] Previous-year figure adjusted.

Hydropower market showing slight signs of recovery

In the 2021/22 fiscal year, the market environment for the Group Division Hydro remained challenging, despite the slight signs of recovery: catch-up effects in the awarding of hydropower projects that had been postponed in previous years on account of the pandemic were evident in some regions, but the war in Ukraine, the instability of the global supply chains and the general economic slowdown ran counter to any substantial market recovery. Even though the level of contracts awarded prevailing prior to the Covid-19 crisis has not quite been reached in the light of strained government budgets and difficulties with the funding of private projects, the global volume of contracts awarded relevant to Voith increased on the previous year.

Orders received above expectations

At €1,184 million, Voith Hydro's level of orders received in the reporting year was 3% up on the high previous-year figure that was marked by two major projects. Adjusted for currency effects, the development was stable. We exceeded the forecast published in the 2021 management report ("slight decline"). As at September 30, 2022, orders on hand rose to €3,538 million (previous year: €3,194 million).

The orders received in the reporting year were shaped by modernization projects. Among other factors, a major project in the USA contributed to the good developments. Here we were awarded a ten-year contract to modernize the turbines and generators at the Fort Randall dam. As part of the project scope, Voith will manufacture eight new Francis turbine runners and overhaul the stators of the eight generators. This hydropower plant located on the Missouri River in South Dakota is one of the largest in the USA and has been generating electricity since 1954. In North America, we additionally received various medium-size and smaller-scale orders which allowed us to maintain our strong position on this large hydropower market that is marked by modernization projects.

We also performed well on the fiercely competitive European market. For example, as part of the refurbishment of the Ffestiniog pumped storage power plant in Wales that has been underway since 2017, we won a further extensive contract following successful completion of the first phase of the project. For Statkraft, the largest European generator of renewable energy, we have taken on the modernization work for Hammarforsen hydropower plant in Sweden.

In Africa, substantial contracts began to be awarded again following the sharp decline in awards in the previous year caused by the Covid-19 pandemic. Voith was able to secure an extensive modernization order and a follow-up contract within the scope of an important new-build project. In the Australian state of Tasmania, we received an order to modernize a hydropower complex with a total of three power plants.

Service activities increased after the Covid-19-related travel limitations were gradually phased out in most regions.

Slight rise in sales

In the reporting year, Voith Hydro's sales grew by 11%, or 6% after adjusting for currency effects. The sales trend was within our expectations (forecast in 2021 management report: "slight increase").

The Group Division's sales continued to be impacted by the effects of the Covid-19 pandemic, albeit not so strongly as in the previous year. For instance, construction site closures in China, the state-imposed lockdown of our production facility in Shanghai and delays in the supply chain led to postponements in project and revenue recognition. A negative impact also came from growth being subdued since the beginning of the pandemic in the small-hydropower segment and in the service business, which typically involves revenue from orders being recognized quite quickly.

Looking at the regional distribution of sales, more than one-third of sales was attributable to the Americas, followed by Asia. A good quarter of sales was generated in Europe (including Germany).

Fall in operating result

Earnings in the Group Division Hydro fell short of our expectations, essentially due to the processing of orders that were posted in weak market phases under high price pressure and as a consequence of the rises in materials and transport costs turning out to be higher than anticipated. With additional impacts as a result of negative currency effects and impairment of receivables in Central America, Voith Hydro's EBIT fell to €2 million (previous year: €8 million). This meant that the return on sales dropped to 0.2% (previous year: 0.8%) and ROCE to 1.0% (previous year, adjusted: 3.7%). Our forecasts published in the 2021 management report predicted a "significant increase" for both EBIT and ROCE.

Events of strategic importance for Voith Hydro

As a result of the majority stake in Green Highland, a Scottish hydropower service provider, acquired towards the end of 2021, Voith Hydro is expanding its business in the field of maintenance, operation and development of hydropower facilities. Green Highland specializes in small hydropower projects with a total output of up to 20 MW and supports plant owners by performing not only monitoring and maintenance activities but also the technical, commercial and administrative management of the plants.

Innovations

In the reporting year, Voith set new technical standards in pumped storage technology: the world's first two power units with a capacity of 350 MW at a rated speed of 600 revolutions per minute were successfully commissioned at the Changlongshan pumped storage plant in China in 2022. These are reversible power units with a rated head of 710 meters. Raising the speed from 500 r/min – as has been usual to date with units of this kind – to 600 r/min enables higher efficiency on the one hand, but on the other it also increases the energy density and thus the mechanical load on the units. Designing and manufacturing machines with such parameters is highly complex.

With Voith's involvement, further progress was made in the reporting year under the XFLEX HYDRO project funded by the EU's Horizon 2020 research and innovation program. The objective of the project is to safeguard power grid stability with flexible hydropower technologies and thus contribute to a secure and resilient post-carbon power supply. Within the scope of the project, the 19 consortium partners, which include hydropower operators and equipment manufacturers, research centers and consultancies, contribute their expertise under the leadership of the Swiss Federal Institute of Technology of Lausanne (EPFL). What makes this project exceptional is the ability not only to explore innovative technologies in laboratory tests and computer simulations but also to test them at full-scale. In the reporting year, Voith worked together with energy supplier EDP to refine various technologies and to test them in Portugal's Frades II pumped storage power plant. Upon project completion in February 2023, firstly a road map for the introduction of the innovative technologies at European power plants will be presented, and secondly, impact assessments will be drafted outlining the challenges for governments and business.

In cooperation with digital specialist Ray Sono, which is also part of the Voith Group, Voith Hydro launched Hydro Pocket, a digital service product for station management in the small hydropower segment. Hydro Pocket, a cloud-based solution for small and medium-sized hydropower plants, offers operators greater efficiency, flexibility and security. Thanks to the transparent view of assets and assistance in the form of intelligent analysis methods, maintenance and repair planning can be optimized and faults or unplanned downtime can be reduced.

II.4.2. Paper

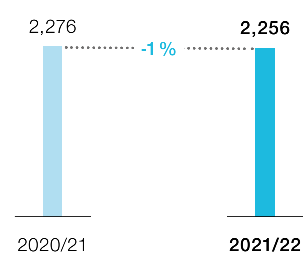
Appreciable sales growth, high profitability, record level of orders on hand

In the light of ongoing strong investment activity in the paper machine market, the Group Division Paper's orders received in the reporting year were nearly at the high level seen in the previous year. Orders on hand rose to an all-time high of €1,878 million. Sales grew by 24% and were above target. Despite the challenging business environment involving conditions such as a massive increase in materials prices and transport costs, Voith Paper succeeded in further increasing EBIT – starting from an already high level.

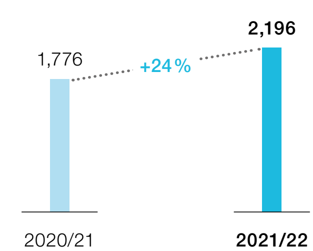
Key financial performance indicators

The Group Division Paper's key financial performance indicators for the reporting year are as follows:

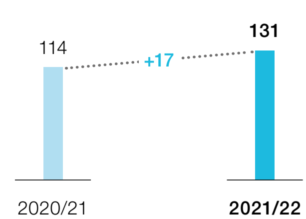
Orders received Paper
in € millions



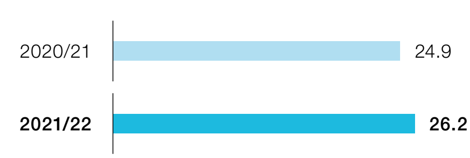
Sales Paper
in € millions



EBIT Paper
in € millions



ROCE Paper[1)]
in %



[1)] Previous-year figure adjusted.

Orders received remain at a very high level

In the 2021/22 fiscal year, the Group Division Paper generated orders received of €2,256 million (-1%), just under the previous year's record figure. As at the end of the fiscal year on September 30, 2022, orders on hand increased to €1,878 million (September 30, 2021: €1,741 million), thus reaching an all-time high.

Voith Paper operated successfully in a market environment that remained positive. The business with consumables, spare parts and services expanded, driven by high demand for paper and board, in particular. In addition, paper manufacturers increased their inventories as a precautionary measure. In the project business (new lines and rebuilds), the volume of orders was down on the previous year that had seen extraordinarily strong investment activity but, in comparison with preceding years, remained at a high level. Several major orders also contributed to this. Furthermore, orders received in the reporting year contain positive currency effects. Adjustment for currency effects results in a decline of 5% in comparison to the previous year. The development is in line with our business planning (forecast in 2021 management report: “perceptible decline”).

Orders received in the project business were dominated by new lines and rebuilds for the production of board and packaging paper. For example, we received an extensive order from Norske Skog, one of Europe’s leading producers of printing papers, to rebuild a newsprint machine for the production of recycled containerboard. Likewise in the area of packaging paper, we were commissioned by a number of customers from Asia to build a total of four new lines. For these, the most recent solutions from our Papermaking 4.0 portfolio are being used. Investments were also made in the segment of specialty papers and non-wovens. In the growing US paper market, for instance, we were awarded a contract for the manufacture of a new line for the production of glass fibers. No major investments were made in the area of graphic paper machines.

Sales up 24%

Sales increased appreciably to €2,196 million. At 24%, the growth rate exceeded our expectations (forecast in the 2021 management report: “perceptible increase”). The good sales trend reflects the high level of orders on hand at the end of the previous fiscal year as well as the high volume of orders received in the reporting year. Both the project business and the business with consumables, spare parts and services contributed to the greatly encouraging development. Sales benefited from positive currency effects but these were negligible in the light of the appreciable growth of the operating business.

The strongest sales region in the reporting year was Asia, followed by Europe (including Germany) and North America.

Rise in operating result

The Group Division Paper was able to increase its EBIT by 15% to €131 million in the reporting year. The “perceptible increase” forecast in the 2021 management report was achieved. The return on sales fell to 6.0% (previous year: 6.4%), essentially due to pandemic-related project delays as well as increased materials and transport costs. Starting from a very good level in the previous year (adjusted: 24.9%), the ROCE improved slightly once again, albeit not quite as strongly as originally expected (forecast in 2021 management report: “perceptible increase”). It stood at 26.2% in the reporting year.

Material events

After the takeover of the company BTG in the 2019/20 fiscal year, we merged and integrated the two product portfolios of Voith Paper and BTG as they complemented each other to a great extent. In the summer of 2022, for example, we were able to present to the professional community the Papermaking 4.0 digitalization and automation portfolio and demonstrate our expertise as full-line supplier for pulp and paper production. Papermaking 4.0 aims at enabling paper manufacturers worldwide to use digitalization and automation to achieve significant productivity and cost advantages. The two established data platforms, Voith OnCumulus and BTG dataPARC were merged to form an integrated, hybrid system solution by the name of dataPARC cloud. dataPARC cloud combines the respective strengths of Voith's cloud solution OnCumulus and BTG's on-premise installation. On this basis, the Papermaking 4.0 portfolio offers a wide range of solutions from the areas of Availability, Efficiency and Operations.

In the service field, we are pooling our expertise with that of BTG and Toscotec, subsidiaries we acquired in the 2019/20 fiscal year, and are restructuring our offering. In spring 2022, for instance, we presented a joint, modular service portfolio for one of the most important components of tissue machines, the Yankee cylinder. As part of the new ProServices by Voith, BTG and Toscotec, we provide tissue manufacturers with dedicated R&D, Application and Operations teams and a central point of contact. With the help of eight different measurement and diagnostic tools that can be combined with each other, these ensure that the Yankees are always in perfect condition, which is of key importance for ensuring smooth and efficient tissue production.

Innovations

As an important component in the Voith Group's sustainability strategy, the Group Division Paper introduced the "Papermaking for Life" sustainability program in spring 2022. As part of this innovation offensive, over the coming years we will invest some €100 million per year in the research and development of new solutions for the most sustainable and efficient paper production. This is intended to achieve, by 2030, 100% CO_2-neutral paper production, 90% fresh water savings and an increase in the paper recycling rate to 90%. In line with the goals of the Paris Agreement, paper manufacturers worldwide are facing the challenge of producing more sustainably. As a global technology company, Voith is taking on a leading role in supporting customers in this path.

In the reporting year, too, the Group Division Paper launched numerous innovations on the market such as the modular InduraClean heavyweight cleaning system. The system provides improved cleaning performance as part of the stock preparation process and belongs to the BlueLine portfolio. InduraClean contains an improved cleaner bank, which can be combined with various cleaners to attain the best possible cleaning result. Depending on requirements, the focus of the modular technology can be placed on increased production volume, energy reduction or improved separation efficiency.

We also introduced the new quality measurement and control system OnQuality 4.0 in the reporting year. Building on the existing Voith OnQuality.Scanners and OnQuality.Sensors already installed in more than 750 plants, OnQuality 4.0 constitutes the next level of digitalization of the paper mill and enables significant savings in resources, scrap and costs. The new system consists of all the important elements required for perfect quality measurement and control: virtual sensors use artificial intelligence to predict in real time quality parameters such as tensile strength that can otherwise only be measured in the laboratory; the cloud platform stores all relevant data and enables users to perform in-depth analyses; with just a few clicks, personalized dashboards and reports can be intuitively created and viewed on mobile devices such as smartphones or tablets.

Further innovations in the field of consumables, products and services included, for example, the QualiFlex QView press sleeve for board and packaging paper machines. The latest addition to the Qualiflex family makes cracks inside the press sleeve visible at an early stage, allowing predictive maintenance to be implemented. The EdgeSaver edge trim concept is a new product augmenting our portfolio for stabilizing the web edge in the headbox area. The EdgeSaver can be mounted to paper machines from all manufacturers and not only saves virgin fiber but also reduces energy consumption in paper production while at the same time improving the paper quality.

One of our most recent developments won an international industrial design award in the reporting year: the InfibraFiner was awarded silver in the Focus Open 2022 International Design Award. The InfibraFiner represents the latest generation of Voith refiners and is part of Voith's successful BlueLine product family. The committee was impressed by the design, innovative strength and future viability of the solution, as well as its direct customer added value. The InfibraFiner arose from our Papermaking Vision design study presented in the previous year. This holistic concept takes into account all aspects of paper production and aims to simplify maintenance and operation of the equipment, reduce interfaces by means of a higher degree of networking, and further increase efficiency, safety and sustainability. Correspondingly, the focus of the InfibraFiner's configuration was on optimized user interfaces and a "clean design".

We also communicated our successes and the leading role in the digitalization of the paper industry with the "Paper is on" campaign. The "Paper is on" campaign enables Voith to highlight the focus topics of the digital product portfolio Papermaking 4.0: full-line supplier, efficiency, sustainability, cloud solutions, automation and innovation. Testimonials from long-standing customers were a central component of this campaign as they emphasized the successful implementation of the digital solutions and the resulting efficiency gains and resource savings.

II.4.3. Turbo

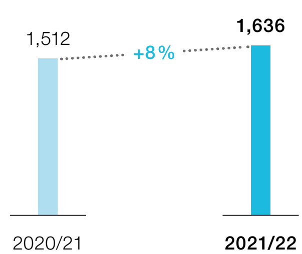
Growth in orders received, sales and EBIT

The Group Division Turbo saw a robust development over the reporting year and was able to increase the level of orders received and sales. This development was driven by the recovery of business in the division Industry, but the division Mobility also operated successfully in an environment that remained challenging. The operating result was also up on the previous-year level but fell behind expectations. With the takeover of the company Argo-Hytos in August 2022, Voith is entering the promising off-highway market (agricultural machinery, construction machinery and vehicles).

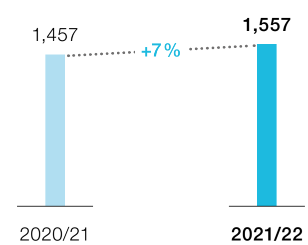
Key financial performance indicators

The Group Division Turbo's key financial performance indicators developed as follows in the 2021/22 fiscal year:

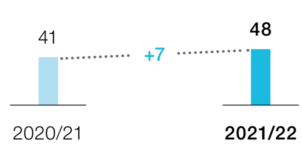
Orders received Turbo
in € millions



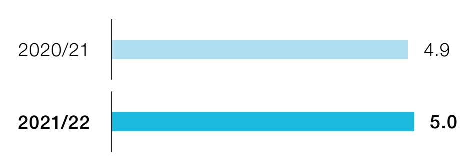
Sales Turbo
in € millions



EBIT Turbo
in € millions



ROCE Turbo[1]
in %



[1] Previous-year figure adjusted.

Orders received up 8%

The Group Division Turbo boosted its orders received by 8% to €1,636 million. Although the Covid-19-related lockdowns in China, the war in Ukraine and the global supply chain disruptions had a negative impact on our business, investment activities nevertheless remained high in some of the market segments and regions served by Voith Turbo. Both divisions operated successfully in this challenging environment and contributed to the positive development of orders received.

Voith Turbo also benefited from positive currency effects and the majority shareholding in Argo-Hytos acquired in August 2022 as the orders received by this company over two months were consolidated in our 2021/22 financial statements. After adjusting for these effects – around €60 million in total – the orders received by the Group Division rose by 4% and were thus at the upper end of our expectations (forecast in the 2021 management report: “slight increase”). At €1,583 million, orders on hand at the end of the 2021/22 fiscal year appreciably exceeded the previous-year level (September 30, 2021: €1,285 million).

The division Mobility was able to slightly increase its volume of orders received. In the commercial vehicle segment, the business with DIWA transmissions for buses saw growth at a low level, whereas unit sales of retarders for trucks weakened in comparison to the previous year. Alongside supply-side restrictions, such as shortages of materials and supply difficulties, the main factor in the development of the truck market was a significant decline in demand for trucks on the large Chinese market as a consequence of the strict Covid-19 lockdowns in that country. The business in the rail segment recovered slightly, even though there continued to be delays in the awarding of projects in the reporting year. In the marine segment, Voith experienced encouraging demand for the electric Voith Schneider Propeller (eVSP).

Detailed information on the development of the markets relevant for Voith Turbo for energy, raw materials, transport & automotive can be found in section II.2. **Macroeconomic and industry-specific environment**.

The division Industry’s volume of orders received increased perceptibly in the 2021/22 fiscal year. The sales markets served by the division Industry – raw materials and energy – remained at a high level in the reporting year. Even though the war in Ukraine and the lockdowns in China exacerbated supply chain problems, materials shortages and price volatility, investment activities continued to rise in some customer industries relevant to the division Industry in the 2021/22 fiscal year. The business with the mining and steel industry and the unit sales of components and solutions in the area of wind power of ELIN Motoren, the subsidiary acquired two years ago, enjoyed a particularly good development.

Strong industrial business brings about sales growth

The Group Division Turbo’s sales rose by 7% to €1,557 million. The division Industry’s appreciable growth was the main contribution to this increase. Despite the massive impediments caused by the lockdowns in China, the division Mobility’s development was more or less stable. As the travel limitations were gradually phased out in most other regions, the service business, where revenue is typically recognized quite quickly, returned to a positive development in the reporting year.

After adjusting for effects amounting to €70 million – the consolidation effect in connection with Argo-Hytos and positive currency effects – the Group Division’s sales rose by 2% and were thus at the upper end of our expectations (forecast in the 2021 annual report: “stable development”).

The strongest sales region in the reporting year was Europe (including Germany) where we achieved a pleasing rise in sales. Although sales in China were in decline due to the lockdowns, Asia remained the second most important region. In North and South America, sales noticeably gained in momentum.

Operating result below expectations

The EBIT of the Group Division Turbo increased by 19% to €48 million (previous year: €41 million).

Over the two months of its consolidation within the Group, the newly acquired company Argo-Hytos made a positive contribution to the operating result of the Group Division Turbo. Adjusted for M&A and currency effects, Voith Turbo's EBIT remained roughly at the previous-year level; the appreciable increase forecast in the 2021 management report was not achieved. The background to this is the more than expected increase in materials and transport costs and changed sales mix. The return on sales increased slightly to 3.1 % (previous year: 2.8 %). ROCE was only slightly up on the previous-year figure due to an increase in the capital employed; the forecast appreciable increase was not achieved.

Material events

With the takeover of the majority shareholding in Argo-Hytos, Voith is entering the promising off-highway market. Based in Switzerland, this company develops and produces hydraulic components and system solutions with a focus on agricultural machinery, construction equipment and vehicles. The company will be continued as an independent brand with the addition of "a Voith Company". The majority shareholding in Argo-Hytos was acquired effective as of August 2, 2022, and has been fully consolidated in the Group Division Turbo as of this date. For Voith Turbo, the acquisition forms the basis for Off-Highway, the new third division (in addition to Mobility and Industry).

Information on the acquisitions can also be found in section II.3.1. of this management report.

Furthermore, we signed an agreement in the reporting year to purchase IGW Rail that came into effect as of October 4, 2022 once all official approvals had been granted. IGW Rail is a globally operating high-tech company that has specialized in customized gear unit and coupling solutions for the rail vehicle industry. With its product range, IGW covers all types of rail vehicle, from heavy locomotives to light rail, and from trams and subways to high-speed trains. As Voith also supplies a wide range of components for these rail vehicle markets, the acquisition perfectly complements Voith's existing activities. As of the 2022/23 fiscal year, IGW Rail will be fully consolidated in the Group Division Turbo.

Innovations

R&D work in the Group Division Turbo over the reporting year continued to concentrate on the electrification of power trains and on the digitalization of our product portfolio.

One core innovation in the division Mobility in recent years is the Voith Electrical Drive System (VEDS), an electrical drive concept introduced in 2019. In the reporting year, we presented VEDS HD+, our first electrical drive for heavy-duty commercial vehicles. The new VEDS HD+ complements the VEDS portfolio that previously consisted of an HD (heavy duty) variant for double-decker and articulated buses as well as trucks over 26 metric tons and an MD (medium duty) variant for solo buses and trucks weighing up to 19 metric tons. The outstanding efficiency of the VEDS was confirmed in the reporting year by the independent UTAC institute. According to assessments by this renowned test center, the StreetDeck Electroliner of our customer Wrightbus is currently the most efficient e-double-decker in the world. The VEDS plays a significant role in this success. With Paul Nutzfahrzeuge and Ford Otokar, we succeeded in winning the first customers for the VEDS in the truck segment in the reporting year.

After many years of being nothing more than a niche drive concept, the hydrogen-based version of e-mobility has been increasingly attracting the attention of politicians and industry because for many commercial vehicle applications in the off-road and heavy-duty sectors, hydrogen has clear advantages over other energy sources in terms of technology and operating costs. At the IAA Transportation, the world's leading trade show for heavy commercial vehicles, held in the reporting year, we presented for the first time a modular overall system for heavy-duty commercial vehicles with hydrogen drives: the new

Plug & Drive H_2 storage system reflects Voith's expertise as a system provider. In line with this holistic approach, customers receive everything from a single source, from the tank nozzle to the fuel cell inlet, including a patented installation system to accommodate the H_2 tanks. The Plug & Drive H_2 storage system is primarily designed for heavy-duty commercial vehicles, construction vehicles and similar applications, where the use of battery-electric concepts does not make sense from an economical or technical perspective.

We also gained our first customers for our DIWA NXT automatic transmission launched in the previous year. Bus manufacturer Iveco, for example, is building on the DIWA NXT automatic transmission in its newest generation of hybrid buses, available either as natural gas or XTL renewable gas versions. Compared to the previous generation, the new generation delivers a significant reduction in energy costs and CO_2 emissions, while optimizing total cost of ownership.

For rail, too, Voith is driving forward important innovations, and offers sustainable, efficient solutions both for passenger transport and cargo rail traffic. One of our lighthouse projects is the CargoFlex, a digital automatic freight coupler that we introduced in 2019 and have been continually refining since then.

We achieved further market successes with the electric Voith Schneider Propeller (eVSP), our most important innovation in recent years for the marine segment. In the meantime, the first wind farm maintenance vessels equipped with eVSPs have been commissioned and are operating successfully. Orders were received for further vessels with eVSPs in the reporting year. The fully electric and emissions-free propulsion system can be deployed in various applications, for example in supply and service vessels for offshore wind turbines, in ferries, yachts or special purpose vessels.

The division Industry also brought numerous innovations to market in the 2021/22 fiscal year. Among others, the TurboBelt TPXL coupling family was extended to include further coupling variants. The fill-controlled TurboBelt TPLX turbo coupling is suitable for a wide range of applications, for example in underground and open-cast mining, for linking production to a port facility and in belt conveyor systems. The coupling variants presented in the reporting year were developed for various performance classes of conveyor systems.

More than one million Voith hydrodynamic turbo couplings are in use worldwide. In numerous branches of heavy industry such as mining, petrochemicals, steel or thermal power plants, they ensure smooth starting up of plants and machinery, and at the same time protect them from potential damage even under extreme conditions. With the new TurboGuide Mobile, launched in October 2021, Voith has offered its customers an app providing an efficient, intuitive but comprehensive interface for the management of constant-fill fluid couplings. App users can conveniently view all relevant data on the filling quantity of the coupling on their smartphone or tablet. Moreover, the app provides troubleshooting functions as well as access to operating manuals, tutorials and the Voith Turbo Webshop.

Hydrogen as an energy carrier of the future is playing an increasingly important role. There is also considerable potential for industrial applications. We have systematically analyzed the possibilities of existing products with regard to suitability for hydrogen applications and furthermore identified growth areas outside our existing product portfolio. Various forward-looking projects in the area of hydrogen infrastructure were subsequently launched by the division Industry before the end of the reporting year.

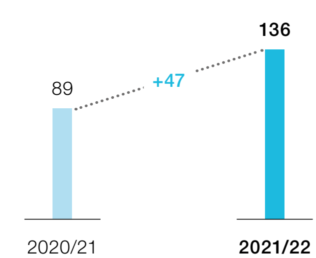
II.5. Economic position

II.5.1. Earnings position

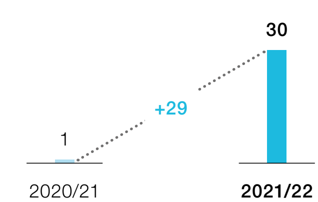
Appreciable increase in operational result and Group net result

The Voith Group's statement of income for the reporting year is marked by perceptible growth in total output and changes to the cost structure. Whereas the ratio of cost of materials to total output increased due to increases in materials prices – which were massive in some cases – as a consequence of the intensified supply-chain problems and general inflation, it was possible to put a limit on the rise in the other cost items by means of measures that increased efficiency and through a very disciplined approach to expenditure. All in all, we succeeded in increasing the operational result significantly. The Group net result was likewise up on the previous year's level.

Operational result Group
in € millions



Net result Group
in € millions



Total output in the Voith Group stood at €4,963 million (previous year: €4,340 million). The total output (+14%) thus developed virtually in parallel with sales (€4,881 million, +15%).

Cost of materials rose by 22% to €2,404 million (previous year: €1,978 million). The ratio of cost of materials to total output increased to 48.4% (previous year: 45.6%). The increase in this ratio was essentially due to higher prices for raw materials, intermediate products and components as well as a rise in transport costs.

All other cost items rose at a slower rate than total output. Personnel expenses stood at €1,582 million (previous year: €1,516 million; +4%). In light of an appreciable increase in total output, the ratio of personnel expenses to total output consequently fell to 31.9% (previous year: 34.9%).

Depreciation and amortization amounted to €180 million (previous year: €170 million, +6%). The ratio of depreciation and amortization to total output decreased slightly to 3.6% (previous year: 3.9%).

The net balance of other operating expenses and income as well as impairment losses on trade receivables and contract assets, net, increased to €-661 million (previous year: €-587 million, +13%). In addition to increased logistics costs, this development was mainly caused by an increase in additions to provisions of €45 million to €245 million (previous year: €200 million, +23%), mainly order-related provisions as well as lower income from the utilization of order-related provisions of €95 million (previous year: €129 million, -27%).

Detailed information on the development of EBIT can be found in section II.3.4. **Operating result**.

The operational result rose by €47 million to €136 million (previous year: €89 million, +52%). EBIT, the important financial indicator for the Group, is obtained by eliminating non-recurring items and performing other adjustments. In the reporting year, EBIT was increased by €35 million to €200 million (previous year: €165 million, +21%).

At €-4 million, the share of profit/loss from companies accounted for using the equity method was up on the previous-year figure (previous year: €-6 million).

The balance of interest expenses and interest income stood at €-37 million (previous year: €-22 million). The deterioration in the interest result is essentially attributable to an interest expense from the measurement of financial liabilities on account of termination rights of non-controlling interests of €11 million (previous year: €4 million interest income). The other financial result rose to €21 million (previous year: €19 million, +11%).

The result before taxes increased by €36 million to €116 million (previous year: €80 million, +45%).

Income taxes totaled €87 million (previous year: €74 million). The tax rate decreased to 75% (previous year: 92%). The drop is primarily attributable to extraordinarily high impairments of deferred tax assets in the previous year.

At €30 million, the Group net result was appreciably up on the previous year (€1 million). A negative net result of €-5 million from discontinued operations had weighed on the previous-year figure. These activities were abandoned in the reporting year so that no further net result from discontinued operations was incurred.

II.5.2. Net assets position

Asset situation stable

In comparison to September 30, 2021, total assets increased by €842 million to €5,956 million (previous year: €5,114 million, +16%). The rise is essentially due to an increase in inventories and trade receivables as well as intangible assets and other financial assets.

In total, non-current assets increased by €422 million to €2,693 million (previous year: €2,271 million, +19%). The rise in intangible assets is mainly attributable to an increase in goodwill of €114 million to €868 million (+15%). The main reason for this increase is the acquisition of the majority shareholding in Argo-Hytos in the reporting year. In addition, other financial assets increased by €129 million to €185 million (+232%). One primary factor in this change is the granting of a loan to an entity controlled by JMV SE & Co. KG, the ultimate parent company, for funding the acquisition of the remaining 35% shareholding in Voith Hydro Holding GmbH & Co. KG from the previous joint venture partner, Siemens Energy.

Current assets grew by €420 million to €3,263 million (previous year: €2,843 million, +15%). Inventories rose by €197 million to €879 million (+29%) whereas trade receivables increased by €138 million to €882 million (+19%) in line with the greater volume of business. In addition, contract assets increased by €141 million to €715 million (+25%) on account of the growth in sales. In contrast, cash and cash equivalents dropped by €99 million to €412 million (-19%). Further details on the development of cash and cash equivalents can be found in the following section on the financial position.

II.5.3. Financial position

Financial position remains sound

Non-current liabilities decreased slightly by €25 million to €1,682 million (previous year: €1,707 million; -1%). Whereas pension provisions saw a drop of €254 million to €545 million (-32%), bank loans increased by €161 million to €629 million (+34%). The rise in bank loans is due, among other factors, to the financing of the business combinations performed in the reporting year. The decrease in pension provisions is primarily attributable to significantly higher discount rates in comparison to the previous year.

Current liabilities rose by €446 million to €2,838 million (+19%), mainly on account of the increase in trade payables of €159 million to €729 million (+28%) and in contract liabilities of €69 million to €1,008 million (+7%). In addition to this, there was an increase in bank loans of €115 million to €194 million (+146%). The main reason for the growth in the current liabilities is the increase in net working capital and the financing of the investments and business combinations.

The net balance of deferred tax assets and liabilities decreased by €39 million. The reduction is mainly due to the increase in deferred tax liabilities of the German Group companies.

Equity increased to €1,436 million (previous year: €1,015 million, +42%). The sharp increase in equity mainly stemmed from other comprehensive income of €423 million. Other comprehensive income contains a positive effect due to actuarial gains arising in particular from the increase in the discount rate for pension provisions. The opposite effect came from the increase in the pension trend. In addition, other comprehensive income benefited from currency translation effects of €157 million. The equity ratio improved to 24.1% (previous year: 19.8%).

Cash flow from operating activities remains clearly positive

The main components of the cash flow statement in the reporting year break down as follows:

Development of cash flow
in € millions

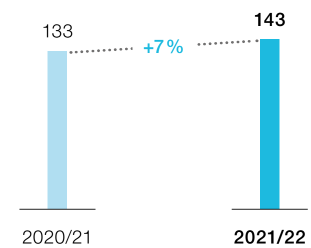
	2021/22	2020/21
Cash flow from operating activities	93	144
Cash flow from investing activities	-401	-85
Cash flow from financing activities	171	-148
Total cash flow	**-137**	**-89**

The cash flow from operating activities was clearly positive in the 2021/22 fiscal year at €93 million. This figure was €51 million down on the previous year (€144 million). Payments to increase inventories as well as a higher level of trade receivables and contract assets were the main factors in this decline. In contrast, the increase in trade payables and additionally the rise in net income had the opposite effect.

The cash flow from investing activities amounted to €-401 million in the reporting period (previous year: €-85 million). The sharp increase in cash outflows is mainly attributable to our M&A activity in the reporting year. Payments of €192 million were made for the acquisition of consolidated companies in the 2021/22 fiscal year, whereas payments of only €17 million were incurred in this respect in the previous year. The business combinations in the reporting year comprise the acquisition of the majority shareholding in Argo-Hytos and the remaining shares in Suzlon Generators Limited. In addition, payments for investments increased from €43 million to €139 million. The main reason for this rise was the granting of a loan to a company that is controlled by the ultimate parent company, JMV SE & Co. KG, and that is not included in the present consolidated financial statements, in order to finance the acquisition of the remaining 35% shareholding in Voith Hydro Holding GmbH & Co. KG. On balance, the purchase and sale of securities gave rise to payments of €3 million (previous year: net proceeds of €75 million). The securities were mainly term deposits with individual maturities of more than 90 days. Net receipts and payments for property, plant and equipment, and intangible assets amounted to €-94 million (previous year: €-106 million).

In the 2021/22 fiscal year, we invested a total of €143 million (previous year, adjusted: €133 million) in property, plant and equipment, and intangible assets. The rights of use under leases amounting to €27 million (previous year: €21 million) were taken into account here pursuant to IFRS 16. Since the reporting year, remeasurements of rights of use under lease agreements have been disclosed pursuant to IFRS 16 as part of investments, therefore the previous-year figure was restated accordingly.

Investments Group[1]
in € millions

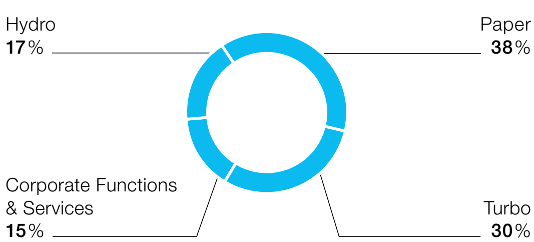


[1] Previous-year figure adjusted.

As a percentage of the Group's sales, our investment ratio came to 2.9% in the reporting year (previous year, adjusted: 3.1%).

The investments broke down as follows across the various Group Divisions:

Investments total €143 million
by Group Division



Moderate increase in financial liabilities

There are two tranches totaling €59 million outstanding from the note loan issued in 2015. In this context, one tranche of €38 million is repayable in November 2022 and another final tranche of €21 million in November 2025. The note loan issued in 2020 amounting to €400 million has maturity dates in 2025, 2027 and 2030.

Follow-on financing for the syndicated euro loan dating from 2018 was successfully obtained at the beginning of October 2022. The syndicate was expanded from eleven to twelve participating banks, the volume was increased from €550 million to €600 million. The credit line has not been drawn on and is available as a strategic liquidity reserve until 2027, plus two renewal options until 2029. It contains an option to increase the volume of the facility up to a maximum of €800 million subject to the banks' consent.

The revolving syndicated loan in China, which was refinanced in 2019, will be available until June 2024; it is for an amount of €202 million. This facility is currently not being utilized.

In July 2020, bilateral confirmed cash lines totaling €375 million had been entered into with four partner banks with terms of two to three years. These were successfully extended in the past fiscal year and augmented with two further cash lines with two new banks to the current total of €525 million. At the reporting date, €50 million of these credit lines had been utilized.

In July and August 2022, confirmed loans of €100 million each were utilized at two banks from new credit facilities. These loans are due in 2024 and 2027.

In addition, Voith uses free bilateral bank credit lines for low-interest financing of fluctuations in working capital. These long-term and diversified instruments facilitate sustainable growth. The availability of a stable liquidity position from its own bank balances and existing loan agreements is given top priority by Voith – especially in the light of the imponderables arising from the situation of multiple crises.

Payments for dividends amounted to €-32 million (previous year: €-31 million).

The cash flow from financing activities increased by €318 million to €171 million (previous year: €-147 million).

Total cash flow stood at €-137 million (previous year: €-89 million).

Net liquidity remains at a good level

The net liquidity of the Voith Group, defined as the difference between liquid financial assets and interest-bearing financial liabilities (not taking lease liabilities into consideration), remains at a good level even after the high level of acquisition activity. At the end of the reporting year, it amounted to €-233 million (previous year: €-5 million). Without the acquisition activity, the net liquidity would have deteriorated slightly in comparison to the previous year. The net liquidity indicator is not defined under International Financial Reporting Standards (IFRS) accounting policies, which means that its definition and calculation may differ from the practice in other companies.

Fundamentals and objectives of financial management

The key objective of liquidity and financial management is to make sure at all times that the Voith Group is able to continue as a going concern and to ensure the financial independence of the family-owned business.

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

III. Risks and opportunities

III.1. Risk and opportunities management

Geared towards increasing the value of the Company

Entrepreneurial activity involves making decisions under conditions of uncertainty. Risk is therefore an integral part of entrepreneurial activity. To safeguard against risks that could jeopardize the Group or its companies as a going concern, Voith operates a consistent and binding Group-wide risk management system.

All the elements of risk management have been brought together in a risk management system. This is not only geared to compliance with legal requirements, it should also contribute to increasing the value of the Group and its companies by reducing potential risks and their probability of occurrence. At the same time, the system is intended to produce a state of equilibrium between correctly assessed risks and the exploitation of opportunities.

Voith distinguishes between five risk types:
1. Strategic risks
2. Financial risks
3. Operating risks (process risks, infrastructure risks, production risks)
4. Performance risks (contractual risks and technical risks)
5. Compliance risks

Risk management at Voith is organized on a decentralized basis but is monitored and coordinated centrally. Responsibilities are clearly defined for the differentiated risk profiles at all levels of the Group.

The risk management process itself breaks down into four stages:

- Risk identification: Voith constantly monitors macroeconomic developments, developments in specific industries and internal business processes that could affect the situation of the Group. A risk catalog helps identify individual risks. For this purpose, risks are collated in all functional areas and documented in a Group-wide internal database.

- Risk analysis and assessment: The risks identified in this way are assessed in terms of extent of damage and their probability of occurrence. Wherever possible, the potential impact is quantified as a cost factor. In order to assess the potential risk, the worst-case scenario and an expected-case scenario are analyzed for each identified performance risk, and their respective impact on the financial situation of the Group is examined. Multiplying this figure by the probability of occurrence provides the aggregate risk.

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

- Risk monitoring and reporting: Voith has a multitiered set of controlling and reporting tools that help the Corporate Board of Management analyze risks and make well-founded decisions. Those performance risks that involve either a maximum risk potential ≥ €5 million or a maximum risk potential of ≥ €2 million and a probability of occurrence of ≥ 50% are reported to the Corporate Board of Management on a quarterly basis. The reporting additionally includes the measures taken in this context to mitigate the risk such as existing insurance policies, recognized provisions or recorded depreciation. Furthermore, the general risk situation, also with regard to other risk types, is regularly placed on the agenda of the advisory committees of all business units. Risks to the Group's ability to continue as a going concern are reported to the next highest organizational level through to the Corporate Board of Management even between scheduled meetings. Risks to the Group's ability to continue as a going concern are defined as aggregate risk potential (gross, before consideration of measures to mitigate risk) in relation to the respective business unit that exceeds either 50% of equity or 10% of sales.

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

III.2. Accounting-related internal control system

Proper and reliable financial reporting

The key elements of the internal control and risk management system for the Group's financial reporting process are described in the following. The aim of the accounting-related internal control and risk management system is to guarantee that accounts are prepared correctly and reliably and to ensure that consolidated and single-entity financial statements comply with the applicable regulations.

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

The Corporate Board of Management bears overall responsibility for the internal control and risk management system with regard to the Group's financial reporting process. All levels of the Group are integrated through a strictly defined management and reporting organization.

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

Accounting is organized on a decentralized basis but is monitored and coordinated centrally. Accounting entries are recorded in the separate financial statements of the subsidiaries of Voith GmbH & Co. KGaA. There are internal controls in place in the Voith risk control matrix for those line items that, from a Group perspective, are significant and exposed to an elevated risk of misstatement; these controls were developed at corporate headquarters and must be applied by the subsidiaries when preparing their end-of-year financial reporting. The controls address the significant accounting-related risks for the specified line items of the financial reporting and contain corresponding instructions on controlling activities, responsibilities and documentation duties. Among other elements, the controlling activities comprise analytical procedures as well as the practice of having significant and complex business transactions processed and controlled by different people. Complex accounting issues (e.g. financial instruments) are referred to corporate departments or external experts (e.g. relating to pensions). The activities and controls for these issues are also considered in the risk control matrix.

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

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

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

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

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

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

III.3. Risks

In the sections that follow, we describe risks that could have a substantially negative effect on our net assets, financial position and earnings position and lead to failure to meet forecasts or targets. The order of the risks within the five risk categories presented below reflects how we currently estimate the importance of these risks for the Voith Group. Unless stated otherwise, the following risks relate to all Group Divisions.

III.3.1. Strategic risks

In the “strategic risks” risk categories, we examine not only risks arising from Group strategy and coordination as well as technology, human resources and IT risks but also external risks from the macroeconomic, market and competitive situation as well as the political environment.

Risks from the macroeconomic, market and political environment

Our economic environment is determined by global demand for capital goods. This demand is in turn influenced by the global macroeconomic environment. If economic development were to fall perceptibly short of expectations, it is highly probable that this would have negative effects on Voith’s business position, net assets, financial position and earnings position.

We based our planning for the 2022/23 fiscal year on the assumption that global economic growth will decline further on account of the energy crisis triggered by the war in Ukraine, the ongoing impact of the Covid-19 pandemic and the high level of inflation. Some countries, most of all Germany, will probably enter recession in 2023. In this context, the environment will remain marked by high volatility and considerable uncertainties. Various risks call into question whether the forecast economic growth can actually be achieved.

One significant risk to the macroeconomic environment and Voith’s earnings position is the war in Ukraine and its consequences. This risk has an influence on energy supplies and prices, the availability and prices of raw materials and intermediate products, the functioning of supply chains and the level of transport costs. A further escalation of the conflict would probably have a negative impact on global trade and might cause a new round of price shocks. After a situation where Russia has already cut gas deliveries to European countries significantly and the shortfall in volume cannot yet be made up from other sources, a complete suspension of supplies in combination with an especially hard winter could give rise to real supply bottlenecks and distribution would have to come under government control. As gas is not only converted into electricity but also serves as a raw material for a number of branches of industry, this would cause damage especially to highly industrialized economies such as Germany. For the paper industry, a gas shortage constitutes a serious threat as many processes in the production of paper and pulp are gas-based – a specific risk affecting the Group Division Paper. With its focus on energy efficient, resource-saving technologies, Voith meets the sector's requirements and considers itself to be well positioned in the competitive environment.

A further risk stems from the further course of the Covid-19 pandemic. While the pandemic currently seems to be under control in light of the virus strains with milder symptoms having now become predominant, a new round of lockdowns is possible, especially in China due to the zero-Covid strategy in place in that country. The consequences would not only be further impediments to the supply chains that have been hard hit since 2020 and, associated with this, shortages and higher prices for goods, and transport cost increases. Travel and contact limitations could also complicate construction site activities, commissioning and service activities as well as production at our manufacturing locations, or those of our suppliers, which might lead to delays in revenue recognition.

Persistent inflation is cutting into real incomes and weighing on consumer demand. It constitutes a challenge that requires central banks around the world to act sensitively: excessive countermeasures could push many economies into a protracted recession; insufficient tightening of monetary policy would lead to inflation becoming entrenched, which would require even stronger interest rate hikes with the corresponding discouragement of investment.

Further potential reasons for global economic growth falling below expectations include financial market risks, additional geopolitical flash points, such as those between Iran and Saudi Arabia or between China and Taiwan, and a general continuation of geopolitical fragmentation.

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

A high degree of uncertainty is generally detrimental to the investment climate. Decisions on the awarding of plant engineering contracts could be postponed.

If important sales markets for Voith were to collapse because of the economy cooling off appreciably more sharply than expected, this would have negative effects on Voith's earnings position. This relates primarily to markets and segments that react especially sensitively to economic developments, such as the truck market and mining. Falling demand would make it more difficult to achieve the targets for orders received and sales.

For some time now, the Group Division Paper has been observing a rise in competitive and price pressure, especially in China. This pressure might increase more sharply than assumed in the planning, through M&A activities by competitors, for instance. In the other Group Divisions, the competitive and price pressure might similarly rise due to cyclical weakness in demand. This would, in all probability, have negative implications for our earnings margin.

Risks from Group strategy and coordination

Despite the exceedingly challenging economic environment and the overlapping crises seen over the past three fiscal years, we have continued to consistently pursue our group strategy described in section I.3. This strategy involves massive forward-looking investments into the ongoing development of our Company, into research and development, business acquisitions and training. In the past three fiscal years alone, we have invested around three-quarters of a billion euros in company acquisitions and more than half a billion euros in our own development of innovations. The megatrends of decarbonization and digitalization point the way not only for the expansion of our product portfolio in the existing core business but also for opening up new business segments and markets. We believe that this alignment provides us with decisive competitive advantages and open up growth potential. As is always the case with such major transformation processes, there is the general risk of the strategic changes not being implemented within the planned time period or not leading to the desired outcome. We are aware of this risk as well as of the associated opportunities. The alignment of our business model to industrial sustainability and the ongoing strategic and technological development of the Voith range of products enjoy the utmost attention from the Corporate Board of Management, which is reflected among other things in the "Innovation & Technology" portfolio that is organized at this level.

Human resources risks

One of the central challenges for Voith is the ability to recruit a sufficient number of qualified employees and retain them within the Company. The corporate targets will be jeopardized if qualitative and quantitative bottlenecks in the availability of staff occur. In this respect, we compete with other international players. With regard to personnel marketing, we are building on the strong Voith brand and are constantly taking new directions in the field of recruitment. Competitive compensation schemes, a family-friendly HR policy and flexible working models along with international career development prospects enable us to offer an attractive work environment. Through a wide range of training and development programs as well as a culture of lifelong learning, we make it possible for the people employed at Voith to continually improve their qualifications in order to meet the demands of a constantly changing working world.

Further information can be found in section I.6. **Employees**.

Innovation-related risks

Innovation-related risks are a key risk area for a technology group like Voith. The future profitability of the Company hinges on its ability to develop marketable products and services and to use state-of-the-art production technologies and service processes. Our earnings position could be negatively impacted by investments in technology that do not work out as planned or fail to find the level of market acceptance expected or that are overtaken by new disruptive technologies. Voith invests large sums of money in further improving and refining existing technologies, and in researching and developing new products, systems and services. The strengthening of our market orientation and our innovative drive is a declared objective in the advancement of our corporate culture. Our aim is to identify disruptive technologies at an early stage, get involved in them from the very beginning and take an active role in shaping the future of our markets.

Information on our innovation strategy can be found in section I.4. **Research and development**.

IT risks

In the area of IT risks, we monitor risks arising from the IT infrastructure and information security risks. The latter relate not only to Voith's own business operations but also to products and solutions developed for customers.

Our successful business activities are underpinned by state-of-the-art and secure information technology. For this reason, we have our own central IT function within the Group that safeguards reliable information processing on an ongoing basis. The IT specialists in this function manage the entire IT infrastructure for the Group and the specific application systems used by each Group Division. We employ a hybrid IT infrastructure: one part of our systems, applications and data is hosted in in-house computer centers, another part is kept in a cloud.

Our information security management is based on the international standard ISO/IEC 27001, and thus meets the most stringent standards. Our central computer center operations in Heidenheim are certified under this standard; this standard applies to all computer centers on an internal basis on which a Group directive also builds.

Our primary objective regarding the management of IT risks is to ensure the availability of our IT infrastructure and IT applications used. Outages of basic systems owing to technical faults, attacks or force majeure would result in business processes being massively disrupted or coming to a complete standstill. In order to prevent such business interruptions, we have built redundant capacity into the core systems of our IT landscape at two computer centers. At the application level, we address not only the risk of outages but also the risk of defective software and the risk of attacks by third parties, such as those involving ransomware. Applications are consistently implemented with the “security by design” and “privacy by design” approach, which means that security and data protection requirements are already taken into consideration at the development phase in order to prevent later security vulnerabilities and data protection issues. In addition, there are dedicated vulnerability tests and simulated hacks.

In order to maintain the confidentiality of our data, these must be categorized by each and every employee according to the confidentiality levels defined in a Group directive. Depending on the respective level of confidentiality, we have auxiliary IT tools such as encryption technology, which we use to securely store and transfer data. This also ensures that our intellectual property is protected to the fullest extent possible. In addition to these technical measures, we train and inform our employees about how to securely handle confidential data by means of e-learning programs and awareness campaigns.

The measures necessary to contain the Covid-19 pandemic have been placing increased demands on our information technology since the 2020/21 fiscal year. As early as at the beginning of the Covid-19 pandemic, we succeeded in aligning the global IT infrastructure to a large share of mobile working. A fast, stable IT infrastructure, in addition to data and system security, safeguards ongoing business operations and unhindered communications even in times of limited personal contacts.

The cybersecurity of our products and solutions for customers is of utmost importance. The machinery, plants, systems and components in our product portfolio contain digital components that are exposed to cyber threats through increasing interconnectivity. Governments, our customers and business partners all around the world are facing the task of managing the digital transformation and are demanding cybersecurity concepts for software-based components and solutions over the entire product life cycle. If Voith were not in a position to meet the regulatory, statutory and customer requirements relating to the cybersecurity of its products, there would be a risk, in addition to liability risks, of not being considered in calls for tender.

Over the 2021/22 fiscal year, we significantly expanded our cybersecurity management system for the development of digital products and solutions. Notably, certification according to the internationally recognized standard IEC 62443-4-1 was attained for the processes involved in the secure development of digital products. One important component of this standard is a risk-based approach. Accordingly, a threat analysis and a risk assessment are performed for each product which are used to determine product-related security requirements that are then fulfilled by appropriate measures. With the IEC 62443-4-1 standard, we meet the highest quality and security standards and consider ourselves to be in a good position. Going forward, it is imperative to address the most recent developments and to adapt the product development processes to the resulting requirements.

With a view to completing the networking of our IT infrastructure, we are currently working towards introducing a Group-wide ERP (enterprise resource planning) system to integrate all business processes on a uniform platform. This is a complex multiyear project that involves risk during the implementation phase. Apart from this, there are currently no specific IT risks.

III.3.2. Financial risks

Voith’s diversified financing structure is designed to safeguard long-term stability. By virtue of the ability to access borrowed capital from unused lines of credit, Voith is currently not exposed to any concrete liquidity risks and has sufficient liquidity reserves at its disposal to be able to meet all payment obligations at all times. In the past fiscal year, Voith had increased its confirmed credit lines once again in light of the imponderables regarding the prevailing environment of multiple crises, thus maintaining the high level of precaution against increased liquidity requirements seen in the previous year. Most of these facilities are still available for utilization. Voith also obtained early follow-on financing for its syndicated euro loan at the beginning of October 2022, increasing the volume slightly.

As a company with global operations, Voith remains exposed to the risk of fluctuating exchange rates, which could have a negative impact on the business position, net assets, financial position and earnings position. To contain risks arising from cash flows in different currencies (mainly the US dollar but also currencies such as the Chinese renminbi (yuan), Brazilian real or Indian rupee), there are consistent currency management procedures in place throughout the Group. All Group companies are required to hedge foreign currency items whenever these occur. Revaluation of the euro against various other currencies could have negative effects on sales and net result due to currency translation of the financial statements prepared in foreign currency. This could further have an impact on our competitive position as competitors could benefit from cost advantages in weaker currencies. Moreover, interest rate risks are hedged using suitable instruments in order to maintain interest and financing security in the long term.

To hedge existing transactions such as future cash flows in different currencies or floating-rate financing, Voith uses a variety of derivative financial instruments, in particular forward exchange contracts to manage currency risks and interest rate swaps to manage interest rate risks. The instruments used and the hedging strategies are formally designated and documented at the inception of the hedge in line with the Company's risk management objective. The risks are constantly monitored and, if necessary, the hedging instruments are adjusted.

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

Counterparty risks with financial partners are monitored constantly. For more information, please refer to the notes to the consolidated financial statements. The related reporting as well as reporting on financial instruments (Sec. 315 (2) No. 1 German Commercial Code (HGB)) is provided there in the section "Other notes".

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

There are no indications of particular liquidity or financial risks.

III.3.3. Operating risks

In the "operating risks" risk category, we monitor process, infrastructure and production risks.

Procurement risks

The most important operating risks currently stem from the area of procurement. Collaboration with suppliers in the global procurement markets generally involves risks with regard to potential supply disruptions, unforeseen cost increases and non-compliance with environmental and social standards. To secure our supplies, we have embedded effective measures in the relevant purchasing processes – supplier selection, order processing and delivery date tracking. In addition, we have a multiple source policy in place in order to circumvent the risks of supply outages and supplier insolvency at a global level. Once again in the 2021/22 fiscal year, we additionally used master agreements and long-term price agreements in contracts with significant procurement volumes to prevent any unplanned cost increases. We have integrated compliance with current national environmental and social standards in our General Terms and Conditions of Purchase.

Our attention is currently focused on the massive price increases for energy, raw materials and components in combination with their limited availability. A new round of pandemic-related lockdowns or a further escalation of the war in Ukraine could exacerbate the existing problems with global supply chains and have a three-fold negative impact on Voith's earnings position: if materials that are required for our production or directly on our construction sites are temporarily unobtainable, our deliveries or commissioning work would have to be postponed, which could delay revenue recognition or lead to considerable contractual penalties; if we were not able to pass on the rising materials and transport costs completely to our customers as part of our order origination process, this would weaken our profitability; and if, in the case of contracts already concluded, the costs were to rise more strongly than assumed in the price calculation, the calculated margin of individual orders would not be attained. The latter risk relates most notably to the large plant business with long project times, particularly in the Group Division Hydro.

We respond to the challenges described with further diversification and localization of the supply chains and intensified risk management and date tracking with regard to our suppliers. We, therefore, consider ourselves to be in a good starting position to identify any further possible disruptions in the supply chains at an early stage and counter them with flexible alternative solutions.

Increases in the price of energy do not constitute a significant risk for Voith. Firstly, the share of the costs of energy and electricity in the total cost of materials at Voith, as a mechanical and plant engineering company, is comparatively small. Secondly, we have secured our electricity and gas needs, specifically in Germany, by means of forward contracts for the 2022/23 fiscal year. In Germany energy prices are particularly high in an international comparison and the gas supply situation is critical.

However, we are able to counter worldwide inflationary trends only to a limited extent with procurement strategies. When concluding new contracts, we consequently ensure that our price calculation is as forward-looking as possible and the contractual arrangement addresses the risk of price increases. In the case of contracts that have already been concluded, we perform new calculations and, in some cases, we enter into renegotiations with our customers.

Environmental and health risks

The business activities of an industrial company generally give rise to risks for people and the environment. Such risks occurring could also result in damages being filed and a loss of reputation. Industrial safety as well as compliance with environmental legislation and corporate policies is a top priority for us. All production processes are subject to the Group directives on health, safety and environmental protection and on quality and risk management. Integrated management systems monitor compliance with these directives and ensure that both production and products consistently meet the same high quality and environmental standards. Environmental risks can thus be identified at an early stage and appropriate countermeasures initiated. Insurance policies have been taken out or adequate provisions have been recognized for any residual risks. In this respect, we consider environmental and health risks arising from Voith's business activities to be well under control with regard to probability of occurrence and amount of potential damage in particular.

III.3.4. Risks to performance

Long-term contracts, especially for major projects, form a key component of our plant engineering business at the Group Divisions Hydro and Paper. Such contracts are associated with a host of significant risks and we attach great importance to managing these. These firstly include contractual penalties and claims for damages through to withholding of payments and contract terminations arising from unexpected technical problems or unforeseeable developments at the project locations or failure to meet specified deadlines. Secondly, cost overruns or reduction of productivity within the scope of fixed price contracts may lead to a fall in earnings margins. Project management and controlling, as it has been implemented, continuously reviews whether the projects are indeed performing in line with the plans. Any deviations are addressed at an early stage and any risk allowances necessary are recognized. Liability and property insurance in line with standard industry practice is taken out to cover potential losses and/or liability risks. Appropriate provisions are recognized for special risks arising from existing contracts if these risks can be reliably quantified.

As part of our regular internal reporting on performance risks, we monitor the maximum risk potential associated with specific risk positions as well as the risk potential deemed to be realistic after careful assessment. The maximum risk potential is considered in the light of whether they constitute risks jeopardizing the Group's ability to continue as a going concern. There were no risks to the Group's ability to continue as a going concern at the reporting date. The realistic risk potential is considered for profit planning purposes and in order to assess the need to recognize provisions in the balance sheet. As at the reporting date, provisions and allowances totaling €316 million (previous year: €323 million) were recognized in the balance sheet for significant performance risks (maximum risk: €462 million; previous year: €452 million).

III.3.5. Compliance risks

At Voith, we base all our actions on trust and integrity. We require each and every employee to comply with the applicable laws and our own internal guidelines (compliance). This applies to all levels of hierarchy throughout the Group. Voith's Code of Conduct contains rules that govern conduct towards third parties such as business partners, competitors, political parties and authorities as well as between employees within the Company. Non-compliant behavior, or even illegal acts committed by employees – for example cartel infringements, corruption, economic crime, money laundering or manipulation of financial reporting – can be damaging to our reputation and can lead to sanctions, penalties and ultimately to a fall in earnings. Even compliance infringements on the part of business partners can also have negative consequences. For this reason, we place great value on a well-functioning compliance management. Compliance with these principles is monitored by the Group's Compliance Committee, whose chair reports directly to the Corporate Board of Management, and by the compliance officers in the Group Divisions and in each Group company. All employees are required to report any infringement of the Voith Code of Conduct. Our whistleblower system is also accessible to people outside the Company. In addition, we perform random internal compliance reviews in areas where potential corruption risks have been identified within the scope of the risk management process. Infringements are consistently met with sanctions. To avoid compliance infringements on the part of third parties, corresponding regulations are enshrined in our general terms and conditions and are also a constituent part of other contractual arrangements. We perform a compliance due diligence check on important suppliers before our cooperation starts.

In the 2021/22 fiscal year, Voith Hydro entered into a settlement agreement with the World Bank on bringing to a conclusion proceedings against two companies in the Group Division that have been running since 2018 and were already addressed in the consolidated financial statements in past years. These proceedings centered on infringements by individual managerial employees of Voith Hydro Shanghai Ltd. and Voith Hydro GmbH & Co. KG of World Bank regulations and compliance rules in place throughout the Voith Group in connection with two projects financed by the World Bank in Asia and Africa over the period between 2012 and 2016. Voith is giving highest priority to investigating these incidents. For this reason, the Company is cooperating fully with the World Bank and is actively assisting with investigations on-site. Alongside the temporary debarment of two Voith Hydro subsidiaries from projects financed by the World Bank, the settlement agreement also included Voith making a settlement payment to the countries concerned. Immediately after the incidents became known, Voith took the necessary personnel-related measures and furthermore began working in collaboration with an internationally renowned compliance expert to tighten the already very strict compliance rules throughout the entire Company.

III.3.6. Overall risk

To the best of our knowledge, there are no risks which, either individually or collectively, could jeopardize the ability of the Voith Group to continue as a going concern. Of all the risks facing the Voith Group, external risks could have the strongest negative impact on business development. Compared with the previous year, the overall risk potential has risen slightly. We are convinced that, in light of our strong diversification, the established market position in all three Group Divisions, our financial strength, and the instruments used to control risks, our Group is able to bear the risks associated with our business activities.

III.4. Opportunities

In the following, we describe significant opportunities that could have a positive impact on our business position, net assets, financial position and earnings position, and lead to forecasts or targets being exceeded. The order of the opportunities presented below reflects how we currently estimate the importance of these opportunities for the Voith Group. Unless stated otherwise, the following opportunities relate to all the Group Divisions.

Growing our service business

We are generally working towards expanding the service business and increasing its share of sales. In the light of the overlapping crises, investment in new equipment and machines was postponed in several industries. With respect to the extended service life of existing equipment, customers are increasingly tending to make more intensive use of our range of services, such as maintenance, performance-enhancing components and spare parts. This offers opportunities in all Group Divisions for our service activities, which might grow more strongly than currently anticipated.

Expansion of our portfolio with product innovations

We are constantly working on developing new technologies, products and solutions as well as improving existing ones. We again launched numerous new products in the market for all Group Divisions in the reporting year. In the best-case scenario, this will not only allow us to secure our market position but also to generate sales and to gain market share that has not yet been integrated in our business plan, especially if innovations are recognized as value adding by our customers much faster than currently assumed. We see opportunities particularly in products aimed at climate neutrality and resource efficiency, such as products for sustainable paper production or for sustainable passenger and goods transport, such as electrical drives. The Covid-19 pandemic further accelerated the digitalization of many industries. This offers growth potential for Voith with new digital solutions relating to the Industrial Internet of Things.

Opportunities associated with the global economy

If the economic environment in important sales regions proves to be better over the short to medium term than currently assumed, it is likely to have a positive impact on Voith's business position, net assets, financial position and earnings position. The extent and the duration of the economic slowdown depend to a large degree on factors that are hard to predict: primarily, on the development of the geopolitical conflict over Ukraine and the further course of the Covid-19 pandemic and, specifically, the countermeasure strategies applied. The decisive factor will be how quickly the diverse market imbalances and supply chain disruptions are resolved and the currently high rates of inflation can be brought down to a healthier level. Global economic developments which exceed current expectations would benefit all Group Divisions, albeit with different degrees of delay.

Growth through acquisitions

Alongside organic growth, we also strive for growth through business acquisitions and equity investments. Potential acquisition targets are profitable businesses with viable technology and above-average potential for growth, that complement our business in the existing markets or expand it with new activities. We use structured M&A processes to continually screen potential target companies for their suitability. Even in the short term, acquisitions offer opportunities for additional earnings not provided for in the business plan; in the midterm they can help improve our position in existing markets or open up promising new industries for Voith. In addition, acquisitions may offer potential synergies.

New sales markets for existing products and services

As well as expanding our portfolio of offerings, we also evaluate market opportunities for our existing products and services in all of our Group Divisions in those regions where they have been underrepresented to date or have no presence at all. Africa, for instance, offers great potential, especially for the Group Divisions Hydro and Turbo. However, as the continent is struggling severely with the consequences of the Covid-19 pandemic and the markets there are proving to be generally volatile and difficult to predict, we have made conservative assumptions in this respect for our business planning. We also seek to transfer our already successful products to new fields of application or sales areas. Another approach that offers new growth opportunities especially for the Group Division Turbo consists of more intense marketing of complete systems. This means that various components, some of which can also be purchased from subcontractors, are combined in one system with an optimized setup. The resulting additional sales potential has not yet been integrated in our business plan.

Increasing investments in the oil & gas market due to a sustained higher oil price

Industry analysts currently assume that the oil price will remain at a relatively high level over the short term, which provides scope for investment, but it will fall below 80 US dollars per barrel of Brent crude oil over the medium term. Should the oil price remain permanently at a high level, oil companies might increase their investments and expenditure on service activities more sharply than expected. This would improve Group Division Turbo's order situation.

Expectations on volume awarded in the hydropower market exceeded

On account of the scale of many hydropower projects, the annual volume awarded on the market is exposed to volatile fluctuations. In the event that some of the major projects currently on hold are awarded in the 2022/23 fiscal year, this would lead to an unexpected upward spike and improve the Group Division Hydro's order situation.

IV. Forecast report

IV.1. Business environment

Global economic downturn expected

At the beginning of the 2022/23 fiscal year, the global economy remains in a downturn and is confronted by major challenges and uncertainties. There is a series of factors overshadowing the outlook. These include, but are not limited to, the war in Ukraine and its consequences, the extraordinarily high inflation rates worldwide and the associated restrictive monetary policy on the part of most central banks, the Covid-19 pandemic that has not yet been overcome, and ongoing disruptions to supply chains. All sales regions relevant to Voith are affected by at least some of these growth-inhibiting factors.

Global economic growth is expected to remain slow over the coming two years. In its latest release from October 2022, the IMF forecasts global economic growth of 3.2% in 2022 to be followed by a slowing of the growth rate to 2.7% the following year. For 2024, economic growth is projected to be only at the level of 2022 (IMF forecast: +3.2%).

An overview of the growth rates expected by the IMF in 2023 and 2024 for regions and countries most important to Voith is presented below:

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

World output	2023	2.7%
	2024	**3.2%**
Advanced economies	2023	1.1%
	2024	**1.6%**
USA	2023	1.0%
	2024	**1.2%**
Euro area[2]	2023	0.5%
	2024	**1.8%**
Germany	2023	-0.3%
	2024	**1.5%**
Emerging market and developing economies	2023	3.7%
	2024	**4.3%**
China	2023	4.4%
	2024	**4.5%**
ASEAN-5	2023	4.9%
	2024	**4.9%**
India	2023	6.1%
	2024	**6.8%**
Brazil	2023	1.0%
	2024	**1.9%**

Source: International Monetary Fund (IMF); World Economic Outlook, October 2022.
[1] Forecasts.
[2] Including Germany.

Germany, our most important market, is expected to enter recession over the full year 2023, particularly as industrial production is severely hit by the critical energy supply and the rise in the prices of raw materials, intermediate products and components. A technical recession, meaning that the gross domestic product will contract in at least two consecutive quarters, will be seen in many other economies in Voith's 2022/23 fiscal year. With regard to the euro zone as a whole and for the USA, the forecast for 2023 is stagnation with very low growth rates of 0.5% (euro zone) and 1.0% (USA).

Even if the trend in most emerging markets will probably turn out to be slightly more dynamic than in advanced economies, the diverse crises are also leaving their mark on the former. In China, for example, the forecast growth rate remains at a low level in comparison to the years prior to the outbreak of the Covid-19 pandemic on account of the strict zero-Covid policy and an impending real estate crisis. The growth rates for India are expected to be in excess of 6%. Brazil's gross domestic product is forecast to grow by only 1.0% (2023) and 1.9% (2024). At the same time, the Brazilian economy is already weakened by many years of economic and political crisis.

The material risks to global economic development can be found in section III.3. **Risks**.

All in all, the economic environment remains volatile. The already very subdued forecasts are, according to the IMF's own statements, subject to great uncertainty with the balance of risks currently tilted to the downside. These risks most notably include Russia completely stopping its gas supplies to Europe, a deterioration in the Covid-19 pandemic and protracted high inflation rates caused by further shocks from energy or food prices or insufficient monetary policy measures.

Divergent developments in the Voith markets

In light of the economic downturn, the mechanical and plant engineering segment is likely to be faced with increasing reluctance to invest over Voith's 2022/23 fiscal year, but it does have a high volume of orders on hand. Over the short term, supply-side burdens such as supply chain problems, shortages of materials and labor as well as rising energy and raw materials costs are the greatest challenges. A decline in production in real terms is expected for the German mechanical and plant engineering industry in 2023.

Of the five Voith markets, it will primarily be, in our estimation, important segments of the transport & automotive market and the paper machine market that will feel the brunt of the economic slowdown. The raw materials, oil & gas and energy markets should benefit from the current high prices on these markets, but they will probably continue to be marked by a great degree of volatility.

The medium- to long-term growth trajectory of the energy market is characterized by rising needs worldwide, which necessitate increasing investments in the creation of additional power generation capacities. At the same time, there is a transition to low-emissions energies underway, particularly in Western industrial countries and China. Alongside climate change and the objective of decarbonization, the driving factors include Europe's efforts to become independent of Russia. For hydropower, being a sustainable form of energy generation, the energy transition also provides potential. Over the medium term, hydropower will play a significant role in the energy mix and continue to grow. As part of the great expansion of wind and solar energy, the demand for pumped storage power plants for safeguarding grid stability and supply reliability is also growing. Over the short term, the volume of contracts awarded in the hydropower market may be exposed to volatile fluctuations from year to year that are difficult to predict. In the field of conventional energies, growth is expected most of all with nuclear electricity generation.

The oil & gas market will most probably continue to be characterized by high volatility over the 2022/23 fiscal year. According to forecasts by industry experts, the prices of oil and gas will decline a little again in comparison to the reporting year but will remain at a high level on account of the market turbulence. The high profits of oil and gas producers in 2022 provide more scope for investments over the short term. On the other hand, global efforts to reduce fossil energies with a view to limiting CO_2 emissions is dampening the sector's willingness to invest.

On account of an expected slight increase in global paper production, we are anticipating a rising demand for consumables and spare parts and a further recovery in the service business on the paper market, subject to the assumption that contact restrictions will not be imposed again in most regions. Investment in new lines is currently restrained by the present economic and geopolitical crises. The focus of investment activities is increasingly being placed on rebuilds, specifically to convert graphic machines to plants for manufacturing board and packaging papers.

With regard to the raw materials market, we assume that prices will calm down again somewhat, but will remain at a high level. In this light, investment activity in the mining industry is expected to remain high. In our assessment, the focal point of investment will be on efficiency-boosting and sustainable technologies that will be, however, subject to high price pressure. Over the medium to long term, worldwide efforts to achieve climate neutrality are likely to cause a sharp rise in the demand for raw materials such as aluminum, copper and nickel.

The picture for the transport & automotive market is varied. In light of the economic slowdown and the significant rise in fuel costs, our outlook for the commercial vehicle segment is subdued. Industry experts expect the truck market and the bus market to expand slightly over 2023 in comparison to the previous year, but not to return to the level prior to the outbreak of the Covid-19 pandemic until 2025. An economic downswing would, however, have a short-term negative impact on unit sales figures in the commercial vehicle segment. The global rail market will in all probability continue to expand over the coming years, benefiting from the global climate protection efforts and the trend towards urbanization. Additional opportunities stem from digitalization of rail traffic and harmonization of European railroad systems. In the marine segment, we anticipate an ongoing recovery in demand: growth potential is offered by the maritime energy transition, subsidized by governments in some cases, that will lead to modernization of fleets and new build programs – with a focus on low-consumption vessel propulsion systems.

IV.2. Future development of the Voith Group

Increase in profitability

Over the last three years, which were marked by crises, Voith has demonstrated the resilience of its business model and its organization. We made a conscious decision to continue investing even in times of crisis: in research and development, business acquisitions, training and in the ongoing strategic and organizational development of our Company. By doing so, Voith has put itself into a good starting position to generate sustainable and profitable growth in the future.

Our strategic focus on sustainable technologies will continue to point the way not only for the enhancement of our current core business but also for investments in new business segments and markets over the coming years. This involves a great deal of commitment to research and development and targeted business acquisitions going forward.

Our Group forecasts for the four key financial performance indicators in the 2022/23 fiscal year are as follows:

Voith Group	2021/22 in € millions	2022/23 Forecast
Orders received	5,164	Slight decline
Sales	4,881	Slight increase
EBIT	200	Perceptible increase
ROCE	10.5%	Perceptible improvement

We assume that the level of orders received by the Voith Group will remain at a good level in the 2022/23 fiscal year but will lag slightly behind the high value seen in the reporting year. Our forecast is based on the assumption that all three Group Divisions will continue to face a challenging market environment and that the paper market in particular will start to normalize after two years with extraordinarily strong investment activity. The high level of orders on hand at the end of the reporting year will be reflected gradually in increasing sales over the coming years. In the 2022/23 fiscal year, we anticipate slight growth in Group sales, essentially due to a good development at Voith Turbo. On account of the long project times in the large-scale plant business, there will be a time lag before the high level of orders on hand currently prevailing in the Group Divisions Hydro and Paper will be reflected in sales and earnings. In all Group Divisions, we expect growth stimulus to come from the service business. We intend to further improve our profitability. Over the last few years, we have worked very hard on optimizing our structures and processes. The efficiency gains brought about by this are now becoming increasingly apparent. These will be countered by increases, considerable in some cases, in the costs of materials, personnel and energy. For the 2022/23 fiscal year, our business planning provides for a perceptible increase in EBIT. All three Group Divisions are expected to contribute to this improvement in earnings. In line with the development of the operating result, our planning also sees ROCE improving.

The key performance indicators of the Voith Group and the Group Division Turbo are benefiting from positive consolidation effects in connection with the acquisitions of Argo-Hytos in August 2022 and IGW Rail in October 2022: in the 2022/23 fiscal year the financial figures for IGW Rail will be consolidated in our consolidated financial statements for the first time and those of Argo-Hytos for the first time for a twelve-month period. All forecasts are stated before taking account of currency effects and the effect of any new M&A activities.

It should be noted that all forecasts involve a significant degree of uncertainty. Revenue recognition might well continue to be impeded by delivery delays, materials shortages or travel limitations as a consequence of potential further lockdowns in countries with a zero-Covid strategy, such as China, and also in connection with the war in Ukraine – disruptions that might impact our customers' operations in addition to our own. In the event that the cost of materials, personnel and energy were to rise more sharply than currently anticipated, this would place an additional burden on results. Economic development in regions important to Voith falling noticeably short of expectations, due for example to new exogenous shocks, would call in question our ability to reach our target level of orders received. A recession in the countries important for Voith could have a considerable impact on sales, earnings and orders received. Our forecasts are based on the assumption that there will be no further escalation of the stress factors and no additional serious political or economic turbulence.

Our forecasts for the Group Division Hydro are as follows:

Group Division Hydro	2021/22 in € millions	2022/23 Forecast
Orders received	1,184	Stable development
Sales	1,048	Stable development
EBIT	2	Perceptible increase
ROCE	1.0%	Perceptible improvement

Investment in the hydropower market is likely to remain dominated by Chinese pumped storage projects, the majority of which are being implemented by Chinese competitors. However, we do expect ongoing strong demand for pumped storage power facilities also outside of China, due to their role as enablers of grid stabilization. Furthermore, we have identified potential mainly in modernization projects and in the service business. Within the scope of our business planning for the 2022/23 fiscal year, we assume that the volume of contracts awarded in the hydropower market relevant to Voith will remain roughly at the level of the reporting year. For Voith Hydro, we anticipate that orders received will reach approximately the good level seen in the reporting year. In the event that the contract for a major order that is expected for the next two years is finalized in the 2022/23 fiscal year already, the level of orders received would rise very appreciably in comparison to the reporting year. The recent slight increase in the level of orders received will be reflected only gradually in sales growth on account of the long project times inherent in the hydropower sector. In the 2022/23 fiscal year, we anticipate a stable development. For EBIT and ROCE, our business planning provides for a perceptible improvement starting from the very low levels seen in the reporting year. Both key performance indicators are, however, expected to be below the Group's average in the 2022/23 fiscal year.

For the Group Division Paper we forecast the following developments:

Group Division Paper	2021/22 in € millions	2022/23 Forecast
Orders received	2,256	Slight decline
Sales	2,196	Slight decline
EBIT	131	Slight increase
ROCE	26.2%	Slight improvement

After paper manufacturers made extraordinarily high investments once again in the reporting year, specifically with regard to the production of board and packaging paper, we expect the paper machine market to normalize in the 2022/23 fiscal year: investments in new plants are likely to decline in light of the large number of crises and uncertainties, whereas demand for rebuilds should remain high. In line with the probable further increase in paper production and on account of the lifting of Covid-related travel limitations, we see a slight increase in demand for consumables and services. The orders received in the Group Division Paper are likely to remain at a very good level in the 2022/23 fiscal year, but will probably decrease slightly on the extremely high figure seen in the reporting year. With regard to Voith Paper's sales, our business planning provides for a slight decline on the high reporting-year level. We intend to achieve another slight increase in EBIT and, in doing so, bring about a slight improvement in ROCE starting from the current high level.

Our forecasts for the Group Division Turbo are as follows:

Group Division Turbo	2021/22 in € millions	2022/23 Forecast
Orders received	1,636	Perceptible increase
Sales	1,557	Perceptible increase
EBIT	48	Perceptible increase
ROCE	5.0%	Perceptible improvement

We assume that the markets relevant for the Group Division Turbo will continue to stabilize in the 2022/23 fiscal year, especially in China. Voith Turbo will see a positive consolidation effect, as IGW Rail, that was acquired in October 2022, will be included in the Voith Group for the first time, and Argo-Hytos, that was acquired in August 2022, will be included for a full twelve-month period for the first time. All in all, we forecast a perceptible increase in orders received in comparison to the previous year. In light of the high volume of orders on hand at the end of the reporting year, we also anticipate a perceptible increase in sales. All three divisions, Mobility, Industry and Off-Highway, are expected to contribute to this growth. In an environment that remains very volatile, the successful implementation of our programs to boost efficiency in addition to the growth in volume will have a positive impact on the earnings side. The opposite will come from increases in the costs of materials, personnel and energy. From today's perspective, we forecast a perceptible improvement in EBIT and ROCE. Even without taking account of the acquisitions of Argo-Hytos and IGW Rail, our business planning assumes that EBIT and ROCE will increase perceptibly; orders received and sales would probably see a stable development without the consolidation effect.

The above forecast report shows the Voith Corporate Board of Management's perspective on the future course of business and reflects the state of knowledge at the time of reporting. The actual development may deviate – positively or negatively – from these forecasts. Concerning the opportunities and risks already known for the forecast development of business operations, we refer to section III. Risks and opportunities of this management report.

As a company, we see ourselves equipped in the best possible way for coming challenges. Thanks to its broad sectoral and geographical positioning, the established market position in all three Group Divisions as well as a sound balance sheet, Voith is extremely resilient. Voith has a product portfolio that is fit for the future, an efficient organization and an outstanding, dedicated workforce. Our Company is in a good strategic position, and the reliable long-term access to capital provides us with the necessary entrepreneurial scope needed to make important investments for the future and to implement the decisions we deem suitable to enable us to continue along our path of sustainable profitable growth.

Heidenheim an der Brenz, November 29, 2022

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Stephanie Holdt
Dr. Stefan Kampmann
Andreas Endters
Dr. Tobias Keitel
Cornelius Weitzmann

Consolidated Financial Statements

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Consolidated statement of income

for the period from October 1, 2021 to September 30, 2022

in € thousands	Note	2021/22	2020/21
Sales	(1)	4,881,346	4,260,350
Changes in inventories and other own work capitalized	(2)	81,580	79,516
Total output		**4,962,926**	**4,339,866**
Other operating income	(3)	482,820	332,108*
Cost of materials	(4)	-2,404,314	-1,977,789
Personnel expenses	(5)	-1,581,749	-1,516,003
Depreciation and amortization		-179,968	-169,863
Impairment losses on trade receivables and contract assets, net		-15,403	10,508*
Other operating expenses	(6)	-1,128,793	-929,664*
Operational result		**135,519**	**89,163**
Share of profit/loss from companies accounted for using the equity method		-3,622	-6,470
Interest income		12,299	9,675
Interest expenses		-49,006	-31,331
Other financial result	(7)	21,164	19,057
Result before taxes from continuing operations		**116,354**	**80,094**
Income taxes	(8)	-86,704	-73,577
Net result from continuing operations		**29,650**	**6,517**
Net result from discontinued operations		**0**	**-5,230**
Net result		**29,650**	**1,287**
· Net result attributable to shareholders of the parent company		19,190	-9,059
· Net result attributable to holders of non-controlling interests		10,460	10,346

* As of the 2021/22 fiscal year, the line item “Impairment losses on trade receivables and contract assets, net” will be reported separately. Previous-year figures were adjusted accordingly.

Consolidated statement of comprehensive income

for the period from October 1, 2021 to September 30, 2022

in € thousands	2021/22	2020/21
Net result	**29,650**	**1,287**
Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods:		
Remeasurement of defined benefit plans	262,736	25,068
Taxes on components of other comprehensive income that will not be recycled through profit or loss in later accounting periods	-977	-111,891
Components of other comprehensive income that will be recycled through profit or loss in later accounting periods:		
Gains/losses on financial assets and marketable securities	-3,075	423
Gains/losses on cash flow hedges	14,822	-570
Gains/losses on currency translation	144,248	39,503
Gains/losses on net investment in foreign operations	12,345	4,828
Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods	-7,216	-453
Other comprehensive income	**422,883**	**-43,092**
Total comprehensive income	**452,533**	**-41,805**
· Total comprehensive income attributable to shareholders of the parent company	440,876	-52,677
· Total comprehensive income attributable to holders of non-controlling interests	11,657	10,872
	452,533	**-41,805**

Further information can be found in section 19.

Consolidated balance sheet

as at September 30, 2022

Assets

in € thousands		Note	2022-09-30	2021-09-30
A.	**Non-current assets**			
I.	Intangible assets	(9)	1,159,589	975,224
II.	Property, plant and equipment	(10)	1,081,034	1,019,772
III.	Investments accounted for using the equity method	(11)	43,583	48,758
IV.	Securities		10,985	12,779
V.	Other financial assets	(16)	184,581	55,622
VI.	Other financial receivables	(15)	73,224	47,913
VII.	Other assets	(15)	41,633	18,544
VIII.	Deferred tax assets	(8)	98,167	92,410
Total non-current assets			**2,692,796**	**2,271,022**
B.	**Current assets**			
I.	Inventories	(12)	878,631	681,444
II.	Trade receivables	(13)	882,037	744,140
III.	Contract assets	(14)	715,432	573,952
IV.	Securities	(16)	58,595	51,337
V.	Current income tax assets		51,006	33,996
VI.	Other financial receivables	(15)	102,322	95,127
VII.	Other assets	(15)	153,538	138,854
VIII.	Cash and cash equivalents	(17)	411,892	511,165
			3,253,453	**2,830,015**
IX.	Assets held for sale	(18)	9,704	12,503
Total current assets			**3,263,157**	**2,842,518**
Total assets			**5,955,953**	**5,113,540**

Equity and liabilities

in € thousands		Note	2022-09-30	2021-09-30
A.	**Equity**			
I.	Issued capital		120,000	120,000
II.	Revenue reserves		1,178,451	925,988
III.	Other reserves		-13,782	-181,385
IV.	Profit participation rights		6,600	6,600
Equity attributable to shareholders of the parent company			**1,291,269**	**871,203**
V.	Profit participation rights		96,800	96,800
VI.	Other interests		48,011	46,774
Equity attributable to non-controlling interests			**144,811**	**143,574**
Total equity		(19)	**1,436,080**	**1,014,777**
B.	**Non-current liabilities**			
I.	Provisions for pensions and similar obligations	(20)	545,223	799,529
II.	Other provisions	(21)	116,499	139,651
III.	Income tax liabilities		313	99
IV.	Bank loans and other interest-bearing liabilities	(22)	839,009	632,548
V.	Other financial liabilities	(24)	38,421	36,194
VI.	Other liabilities	(24)	44,315	45,417
VII.	Deferred tax liabilities	(8)	98,501	53,517
Total non-current liabilities			**1,682,281**	**1,706,955**
C.	**Current liabilities**			
I.	Provisions for pensions and similar obligations	(20)	32,867	33,180
II.	Other provisions	(21)	325,425	287,411
III.	Income tax liabilities		52,011	37,185
IV.	Bank loans and other interest-bearing liabilities	(22)	262,119	155,061
V.	Trade payables	(23)	729,446	569,575
VI.	Contract liabilities	(14)	1,008,444	938,859
VII.	Other financial liabilities	(24)	280,385	233,490
VIII.	Other liabilities	(24)	146,895	137,047
Total current liabilities			**2,837,592**	**2,391,808**
Total equity and liabilities			**5,955,953**	**5,113,540**

Consolidated statement of changes in equity

in € thousands	Equity attributable to shareholders of the parent company				
	Issued capital	Revenue reserves	Financial assets and marketable securities	Cash flow hedges	Currency translation
2021-10-01	**120,000**	**925,988**	**-47,593**	**-290**	**-101,429**
Net result		19,190			
Other comprehensive income		254,083	-2,770	14,800	143,228
Total comprehensive income	**0**	**273,273**	**-2,770**	**14,800**	**143,228**
Allocation of profit participation rights		-5,590			
Share of net result attributable to profit participation rights					
Dividends		-20,000			
Non-controlling interests – put options		3,823			
Other adjustments		957			
2022-09-30	**120,000**	**1,178,451**	**-50,363**	**14,510**	**41,799**

in € thousands	Equity attributable to shareholders of the parent company				
	Issued capital	Revenue reserves	Financial assets and marketable securities	Cash flow hedges	Currency translation
2020-10-01	**120,000**	**1,040,815**	**-47,601**	**103**	**-140,510**
Net result		-9,059			
Other comprehensive income		-86,850	8	-393	39,081
Total comprehensive income	**0**	**-95,909**	**8**	**-393**	**39,081**
Allocation of profit participation rights		-5,590			
Share of net result attributable to profit participation rights					
Dividends		-20,000			
Non-controlling interests – put options		6,148			
Other adjustments		524			
2021-09-30	**120,000**	**925,988**	**-47,593**	**-290**	**-101,429**

Further information can be found in section 19.

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to non-controlling interests			
			Profit participation rights	Other interests	Total	Total equity
-32,073	**6,600**	**871,203**	**96,800**	**46,774**	**143,574**	**1,014,777**
		19,190		10,460	10,460	29,650
12,345		421,686		1,197	1,197	422,883
12,345	**0**	**440,876**	**0**	**11,657**	**11,657**	**452,533**
	363	-5,227	5,227		5,227	0
	-363	-363	-5,227		-5,227	-5,590
		-20,000		-5,904	-5,904	-25,904
		3,823		-4,524	-4,524	-701
		957		8	8	965
-19,728	**6,600**	**1,291,269**	**96,800**	**48,011**	**144,811**	**1,436,080**

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to non-controlling interests			
			Profit participation rights	Other interests	Total	Total equity
-36,609	**6,600**	**942,798**	**96,800**	**43,871**	**140,671**	**1,083,469**
		-9,059		10,346	10,346	1,287
4,536		-43,618		526	526	-43,092
4,536	**0**	**-52,677**	**0**	**10,872**	**10,872**	**-41,805**
	363	-5,227	5,227		5,227	0
	-363	-363	-5,227		-5,227	-5,590
		-20,000		-4,571	-4,571	-24,571
		6,148		-3,501	-3,501	2,647
		524		103	103	627
-32,073	**6,600**	**871,203**	**96,800**	**46,774**	**143,574**	**1,014,777**

Consolidated cash flow statement

in € thousands	2021/22	2020/21
Result before taxes from continuing and discontinued operations	116,354	74,864
Depreciation and amortization	174,451	152,948
Interest expenses/income	36,707	21,656
Other non-cash items	-2,612	16,876
Gains/losses from the disposal of property, plant and equipment and intangible assets	-9,067	-482
Gains/losses from investments	-5,049	-55
Changes in provisions and accruals	-10,212	-7,587
Change in net working capital	-134,500	-47,201
Interest paid	-19,308	-17,484
Interest received	7,963	6,088
Dividends received	6,190	1,387
Taxes paid	-68,357	-57,416
Cash flow from operating activities	**92,560**	**143,594**
Investments in property, plant and equipment and intangible assets	-116,244	-112,139
Proceeds from the disposal of property, plant and equipment and intangible assets	22,276	6,148
Investments in financial assets	-138,771	-42,556
Acquisitions of consolidated subsidiaries minus cash and cash equivalents	-192,095	0
Payments in connection with the acquisition of consolidated companies in the previous year	0	-17,289
Proceeds from the disposal of financial assets	26,891	5,491
Proceeds from the disposal of securities	208,847	283,494
Payments for the acquisition of securities	-212,133	-208,049
Cash flow from investing activities	**-401,229**	**-84,900**
Dividends paid	-32,248	-30,582
Acquisition of non-controlling interests	-15,334	-21,202
New bank loans and overdrafts	328,791	42,313
Repayment of bank loans and overdrafts	-69,491	-108,849
Changes in other interest-bearing financial receivables and liabilities	-40,372	-28,954
Cash flow from financing activities	**171,346**	**-147,274**
Total cash flow	**-137,323**	**-88,580**
Exchange rate movements and valuation changes	38,050	17,979
Cash and cash equivalents at the beginning of the period	511,165	581,766
Cash and cash equivalents at the end of the period	**411,892**	**511,165**

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

Notes to the consolidated financial statements for the 2021/22 fiscal year

General information

Voith GmbH & Co. KGaA (Voith), which has its headquarters at St. Pöltener Str. 43, Heidenheim an der Brenz, is registered at the commercial register in Ulm, Germany (HRB 735450) and is the parent company of the Voith Group. The Board of Management of Voith Management GmbH (commercial register number HRB 735126) is responsible for the strategy and operative management of the Voith Group. Voith Management GmbH is the personally liable shareholder (general partner) of, and responsible for, the management of the business of Voith GmbH & Co. KGaA.

Voith GmbH & Co. KGaA prepares its own consolidated financial statements as at September 30, 2022, in accordance with IFRS as endorsed by the EU, and a Group management report. JMV SE & Co. KG, as the ultimate parent company, prepares consolidated financial statements as at September 30, 2022, in accordance with IFRS as endorsed by the EU, and a Group management report for the largest consolidated group of companies. Both sets of consolidated financial statements are published in the Bundesanzeiger (German Federal Gazette). The Board of Management of Voith Management GmbH authorized the consolidated financial statements for presentation to the Supervisory Board on November 29, 2022.

The preparation of the consolidated financial statements for the 2021/22 fiscal year in accordance with IFRS as endorsed by the EU, and in accordance with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), was undertaken on a voluntary basis because Voith does not participate in capital markets as defined by EU Regulation (EC) No. 1606/2002. In preparing these consolidated financial statements, Voith has applied all pronouncements which are mandatory for listed companies issued by the International Accounting Standards Board (IASB) as well as the additional requirements of German commercial law pursuant to Sec. 315e HGB (German Commercial Code). The consolidated financial statements have been prepared in euros. Except where explicitly stated otherwise, all amounts are stated in thousands of euros (€ thousand). Minor rounding differences may occur.

The Voith Group is divided into three segments: Hydro, Paper and Turbo. Details of the business activities pursued by the Group's segments are provided in the explanatory notes on segment reporting.

Consolidated group

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

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

The following companies are included in the consolidated financial statements:

	2022-09-30	2021-09-30
Voith GmbH & Co. KGaA and its fully consolidated subsidiaries:		
· Germany	25	24
· Other countries	133	116
	158	**140**
Associates and joint ventures:		
· Germany	4	4
· Other countries	5	6
	9	**10**

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

VZ	Voith GmbH & Co. KGaA, Heidenheim an der Brenz, Germany
VZB	J.M. Voith SE & Co. KG, Heidenheim an der Brenz, Germany
VZUS-VO	Voith US Inc., Appleton (WI), USA
VHH	Voith Hydro GmbH & Co. KG, Heidenheim an der Brenz, Germany
VHY	Voith Hydro Inc., York (PA), USA
VHP	Voith Hydro Ltda, São Paulo (SP), Brazil
VHPO	Voith Hydro GmbH & Co. KG, St. Pölten, Austria
VHM	Voith Hydro Inc., Brossard (QC), Canada
VHS	Voith Hydro Shanghai Ltd., Shanghai, China
VHFK	Voith Fuji Hydro K.K., Kawasaki-shi, Kanagawa, Japan
VHN	Voith Hydro Private Limited, New Delhi, India

VPP	Voith Paper Máquinas e Equipamentos Ltda., São Paulo (SP), Brazil
VPIT	Voith IHI Paper Technology Co., Ltd., Tokyo, Japan
VPC	Voith Paper (China) Co., Ltd., Kunshan, Jiangsu, China
VPFI	Voith Paper Fabrics Ipoh Sdn. Bhd., Chemor, Perak Darul Ridzuan, Malaysia
VPTA	Voith Paper S.A., Ibarra (Guipúzcoa), Spain
VPTI	Toscotec S.p.A., Marlia (LU), Italy
VPBE	BTG Eclépens S.A., Eclépens, Switzerland
VTKT	Shanghai Voith Schaku KTK Coupler Technology Co., Ltd., Shanghai, China
VTCN	Voith Turbo Power Transmission (Shanghai) Co., Ltd., Shanghai, China
VTPA	Voith Turbo Ltda., São Paulo (SP), Brazil
VTGB	Voith Turbo Limited, Croydon, United Kingdom
VTAU	Voith Turbo Pty. Ltd., Smithfield (N.S.W.), Australia
VTIV	Voith Turbo S.r.l., Reggio Emilia, Italy
VTEM	ELIN Motoren GmbH, Preding/Weiz, Austria
VTYD	ARGO-HYTOS GmbH, Kraichtal-Menzingen, Germany

An exhaustive list of the companies and other investments included in the consolidated financial statements can be found in the consolidated financial statements. The consolidated financial statements of Voith GmbH & Co. KGaA are filed with the Bundesanzeiger pursuant to Sec. 264b No. 4 HGB and Sec. 264 (3) No. 5 HGB.

Non-controlling interests are held in the following significant subsidiary companies:

Voith Hydro Holding GmbH & Co. KG, Heidenheim an der Brenz, Germany

	2022-09-30	2021-09-30
Non-controlling shareholdings, in %	35	35

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

The following table shows the financial data of significant subsidiary companies with non-controlling shareholders (the figures are those of the Voith Hydro Holding GmbH & Co. KG segment):

Voith Hydro Holding GmbH & Co. KG, Heidenheim an der Brenz, Germany

in € thousands	2022-09-30	2021-09-30
Sales	1,052,240	946,828
Net result	-36,159	-19,456
Net result attributable to non-controlling interests	-14,860	-11,290
Other comprehensive income	72,593	19,553
Total comprehensive income	36,434	97
Total comprehensive income attributable to non-controlling interests	11,199	-3,473
Current assets	1,091,895	872,490
Non-current assets	273,435	243,128
Current liabilities	1,107,038	864,637
Non-current liabilities	126,839	149,661
Net assets	131,453	101,320
Net assets attributable to the non-controlling interests	33,431	22,232
Cash flow from operating activities	48,952	-62,650
Cash flow from investing activities	-3,689	-12,449
Cash flow from financing activities	-48,392	60,862
Total cash flow	**-3,129**	**-14,237**
Net foreign exchange difference	2,541	1,035
Net increase/decrease in cash and cash equivalents	-588	-13,202

Business combinations in the 2021/22 fiscal year

ARGO-HYTOS

On August 2, 2022, Voith acquired 79.5% of the shares in ARGO-HYTOS Group AG and its 19 subsidiaries (Argo-Hytos). Voith gained control through the acquisition of the majority of shares and voting rights. Based in Baar, Switzerland, this company develops and produces components for hydraulics and system solutions with a focus on the off-highway sector (agricultural machinery, construction equipment and vehicles).

As a components and system supplier, Argo-Hytos serves customers in the field of mobile working machinery and of general mechanical engineering. The family business with more than 1,600 employees has more than 70 years' experience in fluid and motion control and filtration technology in mobile and industrial hydraulics. Argo-Hytos has become an innovation leader particularly in the area of mobile hydraulics. It owns a number of patents and, in many cases, has set new standards in its industry. With production companies in Germany, Czech Republic, Poland, India and China, as well as numerous own international distribution and assembly companies, the Argo-Hytos Group has operations worldwide.

Under the terms of the business combination, Voith agreed to acquire the remaining 20.5% of the shares at a later date, where the non-controlling shareholder has fixed exercise periods within which he is able to sell his shares to Voith (put option). Over and above this, Voith has the right to acquire the non-controlling interest within fixed exercise periods (call option). The accounting treatment of the put option gives rise to an obligation of €46.2 million that is reported in non-current financial liabilities. The amount of this obligation was determined using discounted earnings indicators on the basis of the contractually agreed terms, an assumption as to the expected exercise date, and an interest rate of 8.9%.

The company and its 19 subsidiaries have been fully consolidated since August 1, 2022, and are allocated to the Group Division Turbo.

The business combination is presented using the anticipated acquisition method in combination with the full goodwill method.

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €84.2 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately. The goodwill is not tax-deductible.

Since August 1, 2022, Argo-Hytos has contributed an additional €36.5 million to the Group's sales. The share in net result for the same period amounted to €1.5 million (this figure includes depreciation and amortization of the assets identified within the scope of the purchase price allocation of €1.9 million).

If Argo-Hytos had been included in the Group for the whole fiscal year, it would have generated additional sales of €186.1 million and a net result of €10.8 million.

in € thousands	Acquisition date fair value
Intangible assets	72,682
Property, plant and equipment	55,985
Inventories	55,140
Receivables and other assets	47,189
Cash and cash equivalents	22,012
Pension obligations	-5,283
Other liabilities and accruals	-46,373
Liabilities to banks	-17,185
Option – financial liability	-46,222
Deferred tax liabilities	-13,436
Net fair value of equity	**124,509**
Goodwill	-84,232
Purchase price of the interests acquired	**208,741**
Cash and cash equivalents	-22,012
Cash outflows	**186,729**

The purchase price of the interests acquired was paid by means of the outflow of cash and cash equivalents (€204.2 million) and the taking out of a loan (€4.5 million).

There are no significant differences between the gross value and the fair value of the receivables.

Suzlon Generators Ltd.

At the beginning of April 2022, Voith acquired the remaining 75% of the shares in the Indian company Suzlon Generators Ltd. Before the share purchase, the company was operated jointly with the Indian partner Suzlon Energy and accounted for as an associate.

Suzlon Generators specializes in the manufacture of generators for onshore wind turbines. With the acquisition, Voith is expanding its expertise in the wind generator business.

The remeasurement of the 25% shareholding in Suzlon Generators previously accounted for using the equity method gave rise to a gain of €1.6 million that was recognized in the Group's statement of income in the item "Share of profit/loss from companies accounted for using the equity method". The remeasured 25% shareholding and the purchase price for the 75% shareholding acquired in the 2021/22 fiscal year are listed in the table shown below.

The company has been fully consolidated since April 1, 2022, and is allocated to our Group Division Turbo. Until March 31, 2022, the 25% shareholding was accounted for using the equity method.

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €4.1 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Since April 1, 2022, Suzlon Generators Ltd. contributed an additional €5.8 million to the Group's sales. The share in net result for the same period was €-0.2 million.

If the company had been included in the Group for the whole fiscal year, they would have generated additional sales of €13.3 million and a net result of €-1.8 million.

in € thousands	Acquisition date fair value
Property, plant and equipment	4,321
Receivables	1,469
Other assets	1,870
Cash and cash equivalents	670
Other liabilities and accruals	-3,705
Deferred tax liabilities	-651
Net fair value	**3,974**
Goodwill	4,074
Fair value of the 100% shareholding held by Voith	**8,048**
thereof: fair value of the 25% shareholding already held	2,012
Purchase price of the 75% shareholding newly acquired	**6,036**
Cash and cash equivalents	-670
Cash outflows	**5,366**

Business combinations in the 2022/23 fiscal year

At the beginning of October 2022, Voith acquired 100% of the shares and voting rights of IGW Rail and thus gained control of the company. Based in Brno, Czech Republic, this is a high-tech company with worldwide operations at four production locations and around 500 employees; it has specialized in customized gear unit and coupling solutions for the rail vehicle industry.

With IGW Rail's product and service portfolio, Voith is further expanding its range of offerings and is strengthening its position as global provider of rail vehicle components.

The acquired units will be fully consolidated from October 1, 2022, and are allocated to the Group Division Turbo.

The purchase price was €48 million and was paid in cash.

A breakdown of the difference, resulting from the acquisition, between the purchase price and the acquired net assets of €14 million prior to remeasurement was not yet available at the time of preparation of the present consolidated financial statements and will be performed in the 2022/23 fiscal year. It is currently not possible to make the other disclosures pursuant to IFRS 3.B64 as the allocation process is still ongoing.

Discontinued operations in the 2021/22 fiscal year

The decision was made in the 2020/21 fiscal year to abandon the business operations of merQbiz LLC. They were closed down before the end of that fiscal year.

Otherwise, there were no further discontinued operations in the 2021/22 fiscal year.

In the 2020/21 fiscal year, the following items were disclosed in the statement of income in the net result from discontinued operations relating to merQbiz LLC:

in € thousands	2021/22	2020/21
Income	0	446
Expenses	0	-5,676
Operational result before taxes	**0**	**-5,230**
Income taxes	0	0
Net result	**0**	**-5,230**

There were no impairment losses as a consequence of the application of the provisions of IFRS 5.15 in the previous year.

Cash flow from discontinued operations:

in € thousands	2021/22	2020/21
Cash flow from operating activities	0	-3,865
Cash flow from investing activities	0	791

Basis of consolidation

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

Any contingent consideration is recognized at acquisition date fair value. Subsequent changes to the fair value of the contingent consideration, which represents an asset or liability, are recognized either in profit or loss or in other comprehensive income in accordance with IFRS 9. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

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

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

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

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

Foreign currency translation

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

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

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

Differences arising from currency translation are netted with other reserves.

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

Exchange rate gains or losses resulting from long-term loans and liability balances, both between Group companies and on external balances, as well as valuation effects arising from their associated hedging instruments, are reported within financial results in the statement of income.

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

Accounting policies

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

Sales

In accordance with IFRS 15, revenue is recognized upon transfer of control of the goods or services to the customer. The amount of revenue is determined on the basis of the transaction price taking account of variable consideration. The latter is only included in determining the transaction prices if it is highly probable that there will be no subsequent sales reversals. The “most likely amount” method is generally chosen for estimating such variable consideration. The performance obligations identified are realized both over time and at a point in time.

Specifically in the case of construction contracts for customer-specific plant and equipment at Voith Paper and Voith Hydro, revenue is recognized over time if the transaction meets the criteria of IFRS 15.35. Such contracts are consequently recognized in accordance with the percentage-of-completion (PoC) method. The percentage of completion per contract to be recognized is calculated as the ratio of the actual costs incurred to the anticipated total costs of the project (“cost-to-cost method”). If the outcome of a construction contract cannot be estimated reliably, it is not possible to calculate contract revenue and costs based on the percentage of completion. In such cases, revenue is recognized at the amount of costs incurred for the construction contract to date, with the contract costs being recognized immediately and in full in the period in which they are incurred. Expected losses on such contracts are based on recognizable risks. In the case of contracts that are presented using the PoC method, there is essentially only one performance obligation. In addition, revenue is recognized over time in the case of service contracts and customer-specific products from the Group Divisions Turbo and Paper. In the latter case, the criterion of no alternative use will, in some instances, only be met at a later point in time, therefore recognition over time is not performed until this criterion is met.

For all other products, revenue is recognized at the point in time at which the customer obtains control. This is generally the case when merchandise has been delivered or services performed and the risk of ownership has been transferred to the customer. If, in the case of consignment warehouse agreements, control has already been transferred upon warehousing at the customer’s premises, revenue is recognized at this point in time.

Voith uses the practical expedients pursuant to IFRS 15.129 and does not adjust transaction prices for significant financing components, as the period between transfer of the goods or provision of the service and payment by the customer is less than one year. Furthermore, the costs of obtaining a contract are not capitalized and amortized over the life of the contract as the amortization period would be less than one year. In the case of contracts with a term of less than one year, the transaction prices for obligations not yet fulfilled are not disclosed in accordance with the practical expedients of IFRS 15.

Other income and expenses

Interest expenses and income are recorded as they arise (using the effective interest method, i.e. the effective interest rate at which the estimated future cash flows from the asset are discounted to the financial asset’s net book value over the expected term to maturity of the financial instrument).

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

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

For all measurement categories recognized in accordance with IFRS 9, net gains or losses as defined in IFRS 7 result from the measurement or disposal of financial instruments. At Voith, such income and expense items mainly consist of foreign exchange gains and losses, impairments, and gains/losses from the sale of financial instruments. Neither current interest income and expenses nor dividend income are included.

Intangible assets

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

Useful life

Customer relationships	5 to 17 years
Technology	5 to 19 years
Development costs	1 to 5 years

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

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

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

Impairment losses are generally shown in the statement of income under depreciation and amortization. Reversals of impairment losses are reported under other operating income. Borrowing costs that are directly attributable to intangible assets are capitalized as part of the cost of those assets.

Goodwill is tested for impairment at least annually. For impairment testing, goodwill is assigned to essentially three groups of cash-generating units. In line with the management's internal reporting practices, these are identified on the basis of the Group's operating activities. Voith has therefore defined the segments Hydro, Paper and Turbo as relevant groups of cash-generating units. Goodwill recognized on acquisition of some ventures that to date have been treated as own cash-generating units will be tested for impairment on a stand-alone basis at the level of the respective unit. The units Ray Sono AG, Pilotfish Networks AB and FlowLink Systems Private Ltd. come into this category.

The Voith Group generally determines whether goodwill is impaired by reference to the fair value less costs to sell. This is based on the discounted cash flow projections taken from the latest business planning prepared by management. The planning assumptions are adjusted to reflect the current information available. Key assumptions on which calculations of fair value are based include assumptions about the trend in orders received and sales, growth rates, extrapolated cash flow forecasts beyond the planning horizon, and discount rates. Due account is taken of reasonable assumptions regarding macroeconomic trends and historical developments. Based on the value in use measurement of these assets there was no indication of a need to record an impairment loss on goodwill.

For the purposes of the impairment tests the following assumptions were made concerning the cash-generating units:

Voith Hydro:
Following a higher than expected level of orders received in the reporting year, a stable development is anticipated for the 2022/23 fiscal year. The backlog of orders on hand will be gradually reduced over the course of the 2022/23 fiscal year, which will result in a stable sales development.

Voith Paper:
After a sharp increase in the reporting year, a slight decline in orders received is expected for the 2022/23 fiscal year. The Group Division Paper anticipates a slight decline in sales for the 2022/23 fiscal year.

Voith Turbo:
Following a rise in orders received in the reporting year, a perceptible increase in orders received is expected for the 2022/23 fiscal year. In light of the high level of orders on hand, Voith Turbo expects a perceptible increase in sales for the 2022/23 fiscal year. The increases are to a great extent a result of the acquisition of Argo-Hytos and IGW Rail.

Ray Sono AG:
Perceptible growth in orders received and sales is anticipated over the planning years.

FlowLink Systems Private Ltd.:
Stable orders received are expected for the 2022/23 fiscal year and moderate growth in sales for the planning years.

Pilotfish Networks AB:
The planning years are expected to see a rising level in orders received and sales.

The cash flow forecast is based on the detailed finance budget for the coming two years and a qualified top-down projection for years three to five. Cash flows for periods after the fifth fiscal year are extrapolated at a constant growth rate of approximately 1% (Ray Sono AG: 2%). These growth rates do not exceed the average long-term growth rates of the business segment in which the corresponding cash-generating unit operates.

The discount rates are arrived at by determining the weighted average cost of capital, which is based on the financing costs of comparable competitors for each of the cash-generating units. The discount rates used reflect the specific equity risk associated with the respective cash-generating units. The present values of future net cash inflows are determined using after-tax interest rates of 5.3% for Voith Hydro (previous year: 5.3%), 6.3% for Voith Paper (previous year: 6.3%), 6.6% for Voith Turbo (previous year: 6.4%), and 6.3% (previous year: 6.2%) for Ray Sono AG, FlowLink Systems Private Ltd. and Pilotfish Networks AB. The rates extrapolated from the after-tax rates for which IAS 36 disclosures are required are 6.9% for Voith Hydro (previous year: 7.1%), 8.6% for Voith Paper (previous year: 8.5%), 9.2% for Voith Turbo (previous year: 9.0%), 8.3% for Ray Sono AG (previous year: 8.0%), 8.6% for Flow Link Systems Private Limited (previous year: 8.3%), and 7.6% for Pilotfish Networks AB (previous year: 7.4%).

The potential changes in the discount rate of +1 percentage point and in the anticipated future cash flow of -5% assumed by the management for the segments Voith Paper and Voith Hydro as well as FlowLink Systems Private Ltd., Pilotfish Networks AB do not give rise to any impairment. For the segment Voith Turbo, an increase in the discount rate of more than 1.01 percentage points or alternatively a decrease in future cash flows of more than 16.7 percentage points would result in a need to record an impairment loss. For Ray Sono AG, an increase in the discount rate of more than 0.94 percentage points or alternatively a decrease in future cash flows of more than 18.7 percentage points would result in a need to record an impairment loss.

The brands acquired in the 2019/20 fiscal year as part of the acquisition of BTG and Toscotec are classified as intangible assets with an indefinite useful life. The brands are tested for impairment in a similar procedure and as at the same measurement date (March 31) as with the impairment test of the goodwill.

On the basis of an analysis of all relevant factors for determining the useful life of the BTG and Capstone brands (legal, contractual and economic as well as the competitive situation), it is not possible to identify a limit on the period in which cash flows from the BTG and Capstone brands can be expected. The carrying amount of the brand BTG as at the reporting date is €44.6 million (€38.8 million as at the acquisition date) and the brand Capstone is €3.3 million (€2.9 million as at the acquisition date). The changes since the acquisition date are exclusively attributable to exchange rate differences.

For the purpose of impairment testing, the BTG and Capstone brands were allocated to the “BTG” and “Capstone” cash-generating units. As part of impairment testing, the recoverable amount was determined by establishing the value in use on the basis of the present value of future cash flows based on a 5-year financial planning. This planning is used to derive cash flows for the following years with different growth rates being applied. A growth factor of 1% is applied for the terminal value. To determine the present values of future net cash inflows, an after-tax interest rate of 6.3% was used for BTG and Capstone (previous year: 6.3%). The discount factor (before taxes) for the future cash flows is 8.5% (previous year: 8.5%) for BTG and 8.0% (previous year: 8.0%) for Capstone, respectively, for the 2021/22 fiscal year.

On the basis of an analysis of all relevant factors for determining the useful life of the Toscotec brand (legal, contractual and economic as well as the competitive situation), it is not possible to identify a limit on the period in which cash flows from the Toscotec brand can be expected. As at the reporting date, the carrying amount came to €24.7 million, unchanged from the acquisition date.

For the purpose of impairment testing, the Toscotec brand was allocated to the “Toscotec” cash-generating unit. As part of impairment testing, the recoverable amount was determined by establishing the value in use on the basis of the present value of future cash flows based on a 5-year financial planning. This planning is used to derive cash flows for the following years with different growth rates being applied. A growth factor of 1% is applied for the terminal value. To determine the present values of future net cash inflows, an after-tax interest rate of 6.3% was used for Toscotec. The discount factor (before taxes) for the future cash flows is 8.6% (previous year: 8.1%) for the 2021/22 fiscal year.

Within the scope of the acquisition of Argo-Hytos, the brand identified as part of the purchase price allocation was classified as an intangible asset with an indefinite useful life.

On the basis of an analysis of all relevant factors for determining the useful life of the Argo-Hytos brand (legal, contractual and economic as well as the competitive situation), it is not possible to identify a limit on the period in which cash flows from the Argo-Hytos brand can be expected. As at the reporting date, the carrying amount came to €34.8 million (€34.1 million at the acquisition date). The changes since the acquisition date are exclusively attributable to exchange rate differences.

For the purpose of impairment testing, the Argo-Hytos brand was allocated to the “Argo-Hytos” cash-generating unit. As part of impairment testing, the recoverable amount was determined by establishing the value in use on the basis of the present value of future cash flows based on a 5-year financial planning. This planning is used to derive cash flows for the following years with different growth rates being applied. A growth factor of 1% is applied for the terminal value. To determine the present values of future net cash inflows, an after-tax interest rate of 6.6% was used for Argo-Hytos. The discount factor (before taxes) for the future cash flows is 8.9% for the 2021/22 fiscal year.

The impairment testing performed did not lead to any need to recognize impairment losses on the brands.

The potential changes in the discount rate of +1 percentage point and in the anticipated future cash flows of -5 percentage points assumed by management for all brands capitalized does not result in a need to record an impairment loss.

Property, plant and equipment

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

Useful life

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

The carrying amount of property, plant and equipment capitalized is tested for impairment if unusual events or market developments give rise to indications of impairment. To this end, the carrying amount of an asset or cash-generating unit is compared with its recoverable amount, which is defined as the higher of fair value less costs to sell and value in use. Impairment losses are reversed if the fair value of a previously impaired asset subsequently increases again.

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

Impairment losses are generally shown in the statement of income under depreciation and amortization.

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

Leases

IFRS 16 defines a lease as a contract (or part of a contract) that conveys the right to use an identifiable asset (the underlying asset) for an agreed period of time in exchange for consideration. In this context, a contract is an agreement between two or more parties (lessor and lessee) that creates enforceable rights and obligations. In accordance with IFRS 16, the Voith Group, acting as lessee, generally recognizes all leases in the form of a right of use and a corresponding liability. The lease liability is recognized at the present value of future lease payments taking into account extension, termination and purchase options that are reasonably certain to be exercised. The right of use is calculated with the amount of the lease liability plus all lease payments made upon or prior to provision of the leased asset and initial direct costs and estimated costs for the disassembly, disposal or restoration of the leased asset, less all incentive payments received from the lessor. The right of use is amortized on a straight-line basis and the lease liability is accreted applying the effective interest method taking account of the incremental borrowing rate of the lessee and the lease payments. To determine its incremental borrowing rate, the Voith Group obtains interest rates from various external sources of finances and makes certain adjustments to take into account the terms of the lease and the type of asset. Lease payments are split into a principal component and interest payments. In the cash flow statement, the interest component is disclosed in the cash flow from operating activities, whereas the repayments of lease liabilities are shown as part of the cash flow from financing activities.

The Voith Group makes use of the simplifications contained in IFRS 16 for short-term and low-value leases (up to USD 5 thousand). Payments under such leases are recognized as expenses directly in the statement of income. The provisions of IFRS 16 on the accounting treatment of leases are not applied to leases for intangible assets. Similarly, leases within the Group are not accounted for in accordance with IFRS 16 so that for the segment reporting pursuant to IFRS 8 the lease payments under these lease arrangements will continue to be recorded in profit or loss over the term of the lease using the straight-line method. At every reporting date, the carrying amounts of rights of use under lease arrangements are assessed for any indication of impairment. If there are any such indications, an impairment test will be performed.

Financial instruments

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

For the classification of financial instruments, the Group distinguishes between the following measurement categories: measured at amortized cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVTPL).

Financial assets (debt instruments) – measured at amortized cost (“AC”)

The Group recognizes debt instruments at the date they are originated. Such assets are initially recognized either at fair value plus directly attributable transaction costs or, in the case of trade receivables, at the transaction price. Subsequent to initial recognition, they are measured at amortized cost (AC) to the extent that the objective of the business model is to hold the financial assets in order to realize the contractual cash flows. In this respect, the cash flow condition (“SPPI criterion”) is met when the contractual terms of the financial asset give rise to cash flows at determined points in time that constitute solely payments of principal and interest (SPPI).

Financial assets (equity instruments) – measured at fair value through other comprehensive income ("FVOCI")

Generally speaking, equity instruments are to be measured at fair value through profit or loss upon initial recognition. During first-time recognition, it is possible to exercise an irrevocable option of classifying equity instruments as measured at fair value through other comprehensive income. Equity instruments may be classified as measured at fair value through other comprehensive income only if they are neither held for trading nor constitute contingent consideration as part of a business combination (OCI option). Voith exercised the OCI option for equity instruments held as a strategic investment in order to supplement the Group's business operations. These are measured at fair value through other comprehensive income. Furthermore, the Group holds financial assets to cover future pension obligations. These pension funds are not held for trading. Consequently, Voith also exercised the OCI option for these instruments, with the underlying financial assets being measured at fair value through other comprehensive income (FVOCI). There is no intention to generate short-term gains on disposal of any material amount from such instruments. For this reason, fluctuations in the measurement of investments and the financial assets used for securing pensions should not have any effect on the statement of income. Changes in the market value arising from subsequent measurement and accumulated gains/losses in the event of derecognition at a later date are posted directly in equity and are never reclassified with an effect on profit or loss.

Financial assets (equity instruments) – measured at fair value through profit or loss ("FVTPL")

Voith decided not to exercise the OCI option for financial assets that are not held as a strategic investment. These equity instruments are held with a view to generating income from the financial instruments. For this reason, gains and losses from the disposal of shares and fluctuations in the measurement of the investments are to be recorded in the statement of income.

Financial liabilities – measured at amortized cost ("AC")

Non-derivative financial liabilities are measured on initial recognition at fair value less attributable transaction costs. Subsequent to initial recognition, the Group classifies them as other financial liabilities measured at amortized cost.

Derivative financial instruments – measured at fair value through profit or loss ("FVTPL")

All derivative financial instruments are recognized at fair value on the trading date. The derivative financial instruments are classified as held for trading and thus assigned to the measurement category "FVTPL" (measured at fair value through profit or loss) unless they are designated as being a hedging instrument and are effective as such.

Fair value

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

Derivative financial instruments and hedging

Voith uses a variety of financial derivatives – such as forward exchange contracts and interest rate swaps – to hedge underlying transactions. Essentially, the Group applies fair value hedge accounting of firm commitments to hedge operating business transactions. The Group continues to use the provisions of IAS 39 for the recognition of hedges.

At the inception of a hedge relationship, the Group formally designates and documents both the underlying transaction and the hedging instrument as well as the risk management objective and strategy for entering into the hedge. This documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value that is attributable to the hedged risk. Such hedging relationships are considered to be highly effective in offsetting the risks of fair value changes. Currency hedges are used in line with the contracts in question (term, volume). Their effectiveness is assessed on an ongoing basis to determine whether they have been highly effective throughout the financial reporting periods for which the hedge was designated.

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

Fair value hedges

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

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

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

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

Cash flow hedges

Hedging transactions are classified as cash flow hedges when the transactions hedge the risk of changes in cash flows which can be attributed to a risk affecting a recognized asset, a recognized liability or a planned transaction, and could affect profit or loss for the period. The effective portion of the gain or loss on a hedging instrument is recognized directly in equity, whereas the ineffective portion is recorded in the statement of income.

The amounts recorded in equity are reclassified to the statement of income in the period in which the hedged transaction affects the profit or loss for the period, e.g. in which the hedged financial income or expense is recorded or in which a planned sale or purchase is made. If the underlying hedged transaction is the acquisition of a non-financial asset or a non-financial liability, the amounts recorded in equity are included in the initial carrying amount of the non-financial asset or a non-financial liability.

If the planned transaction is no longer expected to occur, the amounts recorded previously in equity are transferred to the profit or loss for the period. When the hedging instrument expires, is sold, terminated, or is exercised without a hedging instrument being replaced or rolled over into another hedging instrument or when the Group ceases to designate a hedging instrument as such, the amounts previously recorded remain as a separate item in equity until the planned transaction occurs. If the planned transaction is no longer expected to occur, the amount is recognized in profit or loss.

Embedded derivatives

Pursuant to IFRS 9, embedded derivatives where the underlying is a financial asset covered by the standard are never accounted for separately. Instead, the hybrid financial instrument as a whole is assessed with regard to classification.

In the event of there being embedded derivatives for which separate recognition is required, such derivatives are classified as held for trading and thus assigned to the measurement category “FVTPL” (measured at fair value through profit or loss). Embedded financial derivatives with positive fair values are stated under other financial receivables; those with negative fair values are stated under bank loans and other interest-bearing liabilities or other financial liabilities.

Inventories

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

Contract assets and contract liabilities

Contract assets constitute an entity's right to consideration in exchange for goods already transferred or services already performed. In the Voith Group, contract assets essentially consist of long-term projects at Voith Hydro and Voith Paper, which are recognized over time in accordance with IFRS 15.35. Contract assets are disclosed at the percentage of completion to be recognized less any customer payments already received.

The customer payments are contractually agreed and are generally dependent on project progress and/or predetermined milestones.

If customer payments exceed the performance already completed, the resulting balance is disclosed under contract liabilities. Furthermore, contract liabilities include advances received from customers for products where revenue is recognized at a specific point in time.

Receivables and other assets

Receivables and other assets (with the exception of derivatives) are assigned to the measured at amortized cost ("AC") measurement category and are initially recognized either at fair value plus directly attributable transaction costs or, in the case of trade receivables, at the transaction price. Subsequent to initial recognition they are measured at amortized cost. They are regularly tested for impairment on an individual basis. Where objective evidence of a potential loss exists (for example, if the debtor is experiencing significant financial difficulty, if it is highly probable that insolvency proceedings will be opened against the debtor, if the debtor defaults on or is in arrears with interest or principal payments, if significant adverse changes in the technological, economic or legal environment of the contracting partner occur, if there is a significant or prolonged decline in the fair value of a financial instrument below its cost, or if legal proceedings are opened), individual allowances are recorded using an allowance account to reflect these factors. Furthermore, the estimated aggregate credit losses are calculated using a forward-looking credit risk management system based on CDS spreads. In doing so, the receivables are segmented according to common default risk features. A decline in the volume of receivables brings about a corresponding decrease in such provisions and vice versa. Impaired receivables are derecognized when they are assessed as uncollectible. Interest-free or low-interest receivables due in more than one year are discounted.

Cash and cash equivalents

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

Discontinued operations and non-current assets held for sale

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

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

Deferred and current taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences (temporary concept). Deferred tax assets are also recognized for tax losses carried forward, interest carryforwards and tax credits insofar as it is reasonable to expect that they will be realized in the near future. Taxes that relate to items recognized under other comprehensive income are also themselves recognized in equity. Deferred taxes are calculated based on the tax rates enacted or substantively enacted by the reporting date that apply or are expected to apply in the countries concerned at the time of realization. Deferred tax assets on tax losses carried forward, interest carryforwards and tax credits that are not likely to be realized or that are not covered by deferred tax liabilities are either written down or not recognized at all. Deferred tax assets and deferred tax liabilities are presented on a net basis if the Group has a legal right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority. No deferred taxes are recognized in connection with the first-time recognition of goodwill or in the case of initial recording of an asset or a liability for transactions that do not constitute business combinations and do not have any effect on the reported or taxable earnings.

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

Profit participation rights

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

Provisions for pensions and similar obligations

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

Other provisions

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

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

Liabilities

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

Liabilities arising from leases are recognized at the present value of the minimum lease payments at the start of the lease and subsequently stated under financial liabilities at their amortized cost. Lease payments are split into an interest component and a principal component. The interest component of each payment is recognized as an expense in the statement of income.

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

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

a) Put options

Where the right to terminate on the part of non-controlling interests exists in the form of a put option, the corresponding non-controlling interests are not derecognized but are treated as a component of equity during the reporting year. Based on this, a share of net result for the year is allocated to holders of non-controlling interests. At each reporting date, it is assumed that the put option will be exercised and the corresponding non-controlling interests are reclassified from equity to financial liabilities. This financial liability is recognized in the amount of the estimated compensation obligation and measured at fair value. The difference between this liability and the share of equity attributable to non-controlling interests is treated as a transaction between owners and has been recognized from the 2009/10 fiscal year onwards as a change in equity without any effect on the statement of income. Up until and including the 2008/09 fiscal year, such transactions were regarded as a business combination achieved in stages and the difference stated as goodwill. The Group elected to retain these amounts under the transitional arrangements provided for under IAS 27 (2008).

Two material options were exercised in the current fiscal year. By doing so, Voith acquired 100% of the shares in the companies. A total of €15,092 thousand was paid for exercising the put options.

Amounts reclassified from equity to financial liabilities totaled €77,494 thousand in the 2021/22 fiscal year (previous year: €38,507 thousand).

b) Limited partnerships
Liabilities from interests held in limited partnerships as well as non-controlling interests with comparable termination rights are measured at amortized cost. The measurement-related changes in the liability are recognized in the interest result in the consolidated statement of income.

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

Financial guarantee contracts

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

Exercise of judgment and estimates by management

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

- Income taxes: management must make assessments on whether deferred tax assets are impaired and on risks from uncertain tax items
- Determining the requirement for, and measuring the amount of, impairment of intangible assets and property, plant and equipment
- Determining the requirement for allowances against doubtful receivables
- Sales recognized in accordance with the percentage-of-completion method: determining the percentage of completion
- Measurement of provisions and assessment of the likelihood of their utilization

Some accounting policies require critical estimates that involve complex and subjective assessments and the use of assumptions, some of which are inherently uncertain and subject to change. These critical accounting estimates can vary from period to period and significantly impact a company's financial position and/or earnings. The management explicitly points out that future events will often deviate from planning assumptions, and that it is normal for estimates to have to be adjusted.

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

Revenue recognition over time in the case of long-term projects
Specifically in the case of long-term projects involving customer-specific plant and equipment, revenue is recognized over time using the PoC method if the criteria of IFRS 15.35 are met.

Accurate estimates of the percentage of completion are of vital importance under this method. Depending on the method used to measure the percentage of completion, the most significant estimates concern the total contract cost, the remaining costs to complete the contract, the total contract revenue and contract risks.

The management of operating subsidiaries review all estimates that are needed for revenue recognition over time using the PoC method on an ongoing basis and make adjustments as and when necessary.

Such examinations are part of management's normal accounting activities at operating level. We refer to notes 1 and 14 for details of the carrying amounts.

Trade and other receivables
Determining allowances for doubtful receivables requires significant judgment on the part of management as well as an analysis of the individual debtors that covers their creditworthiness, current and future economic trends and an examination of historic default scenarios. We refer to note 13 for details of the carrying amounts.

Impairment of goodwill
Determining the recoverable amount of a Group Division to which goodwill was allocated involves estimates by management. The value in use is measured based on planning for the first five years, which is based on taking management's expectations and adjusting them for economic trends and historic developments. Estimates of growth, the weighted average cost of capital and tax rates are likewise based on reliable information that reflects the risks associated with operating business in each given industry or division. We refer to note 9 and to the segment reporting for details of the carrying amounts.

Development costs
Development costs are capitalized if the recognition criteria described in IAS 38 are met. Initial capitalization is based on management's estimate that the technical and economic feasibility is

demonstrated; the forecast of the expected future economic benefit to be gained from assets is essential to the decision whether or not costs are to be capitalized. We refer to note 9 for details of the carrying amounts.

Pension obligations

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

Other provisions

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

Taxes

The Voith Group has business operations in many countries and is subject to many different tax laws. Both current and deferred taxes on income must be calculated for each individual taxable entity. To calculate deferred tax assets on tax losses carried forward and temporary differences, for example, assumptions must be made about the possibility of realizing sufficient taxable income in the future and the interpretation of complex tax laws and regulations. We refer to note 8 for details of the carrying amounts.

In the event that it is unlikely that amounts reported in the tax returns can be realized (uncertain tax items), tax liabilities are recognized. The amount is determined from the best possible estimate of the expected tax payment (anticipated value or most probable value of the uncertain tax item). Tax receivables from uncertain tax items are recognized when it is probable that they will materialize. Only in cases where there is a tax loss carried forward or an unused tax credit is no tax liability or tax receivable recognized for these uncertain tax items, and instead the deferred tax assets are adjusted for the as yet unused tax losses carried forward and tax credits.

Determining fair values

Within the scope of business combinations, purchase price allocations are subject to not insignificant estimates. The specification of planning values and discount rates should be specifically mentioned in this context. The specification of useful lives is, however, also subject to not inconsiderable assumptions.

Adoption of amended and new standards and interpretations

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

The following new and revised IAS and IFRS standards were applied for the first time in the 2021/22 fiscal year:

Standard/interpretation	Amendment/new standard or interpretation
Amendments to IFRS 4 Insurance Contracts	Extension of the period (in line with the amendment to IFRS 17) for the temporary exemption of certain insurance companies from the application of IFRS 9.
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2	Phase 2 addresses in particular details on classification and measurement of financial instruments and additional aspects of hedge accounting. Other requirements and standards with measurement and provisions requirements were modified.

All IAS and IFRS standards applied for the first time had no significant effect on the net assets, financial position and earnings position of the Group.

The adoption of the following revised and newly issued IFRS and IFRIC was not yet mandatory in the 2021/22 fiscal year, and/or they had not yet been endorsed by the European Commission for adoption in the European Union.

Standard/interpretation	Amendment/new standard or interpretation	Mandatory effective date
Amendments to IFRS 3 Business Combinations	The amendment updated an obsolete reference to the conceptual framework without modifying the provisions in the standard in any significant manner.	Periods beginning on or after January 1, 2022
Amendments to IFRS 16 Leases	The amendment relates to the accounting treatment of lease liabilities from sale-and-leaseback transactions.	Periods beginning on or after January 1, 2024
IFRS 17 Insurance Contracts, including amendments to IFRS 17	IFRS 17 establishes principles for the identification, recognition, measurement, presentation and disclosure in the notes of insurance contracts. The amendments to IFRS 17 primarily included a deferral of the effective date.	Periods beginning on or after January 1, 2023
Amendments to IFRS 17 Insurance Contracts	First-time application of IFRS 17 and IFRS 9 – Comparative information: The minor (“narrow scope”) amendment to IFRS 17 introduced the option to apply a “classification overlay approach” if certain criteria are met. This can increase the informative value of the comparative information on financial instruments in the year prior to the first-time application of IFRS 17.	Periods beginning on or after January 1, 2023
Amendments to IAS 1 Presentation of Financial Statements	Improvement in consistency regarding the classification of liabilities as current or non-current. Specifically, the intention is to provide rules on the classification of liabilities with an uncertain settlement date.	Periods beginning on or after January 1, 2024
Amendments to IAS 1 Presentation of Financial Statements, Practice Statement 2 and Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Clarification that in future information only has to be provided on “material” and no longer on “significant” accounting policies. Furthermore, the term “accounting estimate” used in IAS 8 has been redefined.	Periods beginning on or after January 1, 2023
Amendments to IAS 12 Income Taxes	The amendments relate to an exemption from the initial recognition exemption in closely specified cases. These lead to a situation where deferred taxes, for instance on leases recognized at the lessee and on decommissioning obligations, must be recognized.	Periods beginning on or after January 1, 2023
Amendments to IAS 16 Property, Plant and Equipment	The amendment governs the handling of any proceeds stemming from the sale of items that are produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended.	Periods beginning on or after January 1, 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	The amendment governs which costs an entity must take into account for the fulfilling of a contract when it is assessing whether a contract is onerous.	Periods beginning on or after January 1, 2022
Improvements to IFRS (2018–2020)	Amendments to standards IFRS 1, IFRS 9, IFRS 16 and IAS 41.	Periods beginning on or after January 1, 2022

None of the revised and newly issued IFRS and IFRIC that are subject to mandatory adoptions as of the 2022/23 fiscal year will have any significant effect on the net assets, financial position and earnings position of the Voith Group. The impact of revised or newly issued standards and interpretations that will be subject to mandatory adoption by the Voith Group at a later date is currently being investigated.

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

Notes to the consolidated statement of income

01. Sales

in € thousands	2021/22			2020/21		
	Over time	At a point in time	Total	Over time	At a point in time	Total
Voith Hydro	1,047,848	0	1,047,848	944,846	0	944,846
Voith Paper	1,373,749	822,503	2,196,252	1,073,872	701,788	1,775,660
	2,421,597	**822,503**	**3,244,100**	**2,018,718**	**701,788**	**2,720,506**

Sales of €1,556,507 thousand (previous year €1,457,274 thousand) at Voith Turbo and the other sales of €80,739 thousand (previous year: €82,570 thousand) were mainly recognized at a specific point in time.

Sales of €1,397,603 thousand (previous year: €1,834,060 thousand) are expected in future periods from currently not, or only partially, completed performance obligations.

02. Changes in inventories and other own work capitalized

in € thousands	2021/22	2020/21
Changes in inventories of finished goods and work in progress	70,446	71,377
Other own work capitalized	11,134	8,139
	81,580	**79,516**

03. Other operating income

in € thousands	2021/22	2020/21*
Income from the use of order-related provisions	94,658	128,858
Income from the reversal of provisions and accruals	74,111	52,703
Foreign exchange gains	199,752	64,816
Gains on the disposal of intangible assets and property, plant and equipment	12,472	3,102
Rental and lease income	2,083	2,407
Income from insurance indemnification payments	17,937	23,574
Other income	81,807	56,648
	482,820	**332,108**

04. Cost of materials

in € thousands	2021/22	2020/21
Cost of raw materials and supplies and of purchased merchandise	1,943,511	1,600,050
Cost of purchased services	460,803	377,739
	2,404,314	**1,977,789**

05. Personnel expenses

in € thousands	2021/22	2020/21
Wages and salaries	1,300,560	1,247,368
Social security, pension and other benefit costs	281,189	268,635
	1,581,749	**1,516,003**

The costs of post-employment benefits total €37,779 thousand (previous year: €36,942 thousand).

* See statement of income.

Number of employees

	Annual average		As at the reporting date	
	2021/22	2020/21	2022-09-30	2021-09-30
Direct production employees	10,326	10,353	10,943	10,272
Administration staff/indirect production	9,813	9,839	10,548	9,646
	20,139	**20,192**	**21,491**	**19,918**
Apprentices and interns	720	752	720	752
	20,859	**20,944**	**22,211**	**20,670**

Number of employees by region

	Annual average		As at the reporting date	
	2021/22	2020/21	2022-09-30	2021-09-30
Germany	7,498	7,494	7,863	7,360
Europe excluding Germany	4,299	4,187	5,002	4,139
Americas	3,532	3,689	3,643	3,622
Asia	4,648	4,661	4,823	4,635
Other	162	161	160	162
	20,139	**20,192**	**21,491**	**19,918**

06. Other operating expenses

in € thousands	2021/22	2020/21*
Increase in provisions and accruals	245,343	200,189
Other selling expenses	286,289	226,979
Other administrative expenses	266,173	237,743
Foreign exchange losses	192,226	70,455
Rental and lease expenses	23,961	24,022
Losses on the disposal of intangible assets and property, plant and equipment	3,404	3,585
Other expenses	111,397	166,691
	1,128,793	**929,664**

* See statement of income.

07.

Other financial result

in € thousands	2021/22	2020/21
Gains/losses from investments	5,049	55
Reversal of impairment/impairment of other investments and loans	5,517	19,304
Income from securities and loans	507	347
Currency gains on long-term financing positions	29,590	3,170
Currency losses on long-term financing positions	-18,750	-4,046
Measurement of derivatives used to hedge financial transactions	-749	227
	21,164	**19,057**

Gains/losses from investments and reversal of impairment/impairment of other investments and loans relate to financial instruments in the "at fair value through profit or loss" (FVTPL) measurement category.

The currency gains and losses on long-term financing positions result from currency gains and losses on long-term intragroup and external loans and liability balances. The measurement effects of derivatives used to hedge financial transactions relate to the hedging instruments associated with these long-term financing positions.

08.

Income taxes

in € thousands	2021/22	2020/21
Current taxes	-63,472	-59,168
thereof taxes from previous periods	5,249	-2,720
Deferred taxes	-23,232	-14,409
	-86,704	**-73,577**

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

Deferred taxes are recognized for temporary differences between carrying amounts for tax reporting and carrying amounts recognized under IFRS at the individual Group companies as well as for consolidation measures. Deferred tax assets are also recognized for tax losses carried forward that can be reasonably expected to be realized in the near future. The average income tax rate for German companies is 29.125% (previous year: 29.840%).

Deferred taxes are calculated at the tax rates prevailing in the respective countries. The deferred tax expense from temporary differences amounted to €26,516 thousand (previous year: tax expense of €22,981 thousand).

The deferred tax income from tax losses carried forward amounted to €3,284 thousand in the 2021/22 fiscal year. This primarily includes the impairment of deferred tax assets of €2,833 thousand which were recognized in the 2020/21 fiscal year, a decrease in deferred tax assets on tax losses carried forward of €1,534 thousand as a result of adjustments of tax losses carried forward from the previous year, income of €2,195 thousand from the initial recognition of deferred tax assets on tax losses carried forward, expenses of €3,803 thousand from the utilization of tax losses recognized in the previous year and income of €9,497 thousand from the initial recognition of previously unrecognized tax losses.

The deferred tax income from tax losses carried forward amounted to €8,572 thousand in the 2020/21 fiscal year. This primarily includes an increase in deferred tax assets on tax losses carried forward of €226 thousand as a result of adjustments of tax losses carried forward from the previous year, income of €3,828 thousand from the initial recognition of deferred tax assets on tax losses carried forward, expenses of €2,541 thousand from the utilization of tax losses recognized in the previous year and income of €6,941 thousand from the initial recognition of previously unrecognized tax losses.

In addition, the current income tax charge was reduced by the use of deferred tax assets on tax losses of €3,651 thousand unrecognized in the previous year (previous year: €4,812 thousand).

As at September 30, 2022, no deferred tax assets were recognized on German trade tax losses of €935,378 thousand (previous year: €968,295 thousand), German corporate income taxes of €548,371 thousand (previous year: €448,896 thousand) and interest carryforwards under German tax law of €36,950 thousand (previous year: €17,715 thousand) as it is not likely that these tax losses carried forward can be utilized in the near future.

In addition, no deferred tax assets were recorded on tax losses carried forward for foreign federal tax of €255,897 thousand (previous year: €176,017 thousand) or foreign state taxes of €57,916 thousand (previous year: €78,698 thousand) due to the fact that the utilization of the losses is not probable in the near future.

No deferred tax assets were recognized on temporary differences of €204,028 thousand (previous year: €427,642 thousand) as utilization of the losses is not probable in the near future. The decrease arises from the reduction in the temporary differences mainly in the provisions for pensions.

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

in € thousands	2021-10-01 Net	Recognized in consolidated statement of income	Recognized in other comprehensive income	Business combinations	Currency	2022-09-30 Net	Deferred tax assets	Deferred tax liabilities
Intangible assets	-79,508	3,978	0	-15,778	1,579	-89,729	9,223	-98,952
Property, plant and equipment	-45,189	982	0	-3,159	-1,527	-48,893	5,470	-54,363
Financial assets and securities	-1,984	3,392	-2,910	0	2	-1,500	25	-1,525
Inventories and receivables	-63,096	-29,446	0	1,883	3,417	-87,242	59,070	-146,312
Other assets	-18,596	-10,535	-4,254	-27	-1,248	-34,660	7,536	-42,196
Pension provisions	17,551	-10,053	-977	656	512	7,689	9,171	-1,482
Financial liabilities	35,125	-2,577	-52	1,792	-56	34,232	41,690	-7,458
Other provisions and liabilities	137,914	14,901	0	546	4,296	157,657	187,742	-30,085
Tax effect on distributable earnings of Group companies	-5,491	2,842	0	0	0	-2,649	0	-2,649
Tax losses carried forward	62,167	3,284	0	0	-690	64,761	64,761	0
Netting	0					0	-286,521	286,521
	38,893	**-23,232**	**-8,193**	**-14,087**	**6,285**	**-334**	**98,167**	**-98,501**

	2020-10-01				2021-09-30		
in € thousands	Net	Recognized in consolidated statement of income	Recognized in other comprehensive income	Currency	Net	Deferred tax assets	Deferred tax liabilities
Intangible assets	-80,400	846	0	46	-79,508	7,949	-87,457
Property, plant and equipment	-29,298	-15,611	0	-280	-45,189	3,257	-48,446
Financial assets and securities	-953	-431	-599	-1	-1,984	266	-2,250
Inventories and receivables	-34,882	-28,756	0	542	-63,096	36,360	-99,456
Other assets	-9,735	-8,389	21	-493	-18,596	7,979	-26,575
Pension provisions	137,095	-7,702	-111,891	49	17,551	18,894	-1,343
Financial liabilities	2,925	32,185	0	15	35,125	40,895	-5,770
Other provisions and liabilities	130,202	4,888	125	2,699	137,914	160,823	-22,909
Tax effect on distributable earnings of Group companies	-5,480	-11	0	0	-5,491		-5,491
Tax losses carried forward	53,076	8,572	0	519	62,167	62,167	0
Netting	0				0	-246,180	246,180
	162,550	**-14,409**	**-112,344**	**3,096**	**38,893**	**92,410**	**-53,517**

Reconciliation of expected and effective tax expense:

The income of Voith GmbH & Co. KGaA and its subsidiaries in Germany is subject to corporate income tax and trade tax as well as the solidarity surcharge. Profits earned outside Germany are taxed at the prevailing rates in the countries concerned. The expected tax expense was calculated based on a tax rate of 29.125% (previous year: 29.840%) that takes into account the legal structure of the Voith Group relevant for tax purposes.

in € thousands	2021/22	2020/21
Result before income taxes	116,354	80,094
Expected tax expense (+)/tax income (-)	33,888	23,900
Deviations from expected tax rates	-8,840	-11,271
Effect of changes in tax rates	-1,093	-141
Tax-free income	-10,430	-11,643
Non-deductible expenses	20,952	20,432
Taxes relating to other periods	-8,861	3,853
Change in impairments of deferred tax assets	61,996	49,100
Other tax effects	-908	-653
Income taxes	**86,704**	**73,577**
Effective tax rate (in %)	**74.5**	**91.9**

The non-deductible expenses contain withholding taxes of €8,936 thousand (previous year: €11,886 thousand).

No deferred tax liabilities were recorded on temporary differences in connection with investments in subsidiaries of €93,733 thousand (previous year adjusted on account of amended calculation logic: €22,312 thousand), as the criteria specified in IAS 12.39 were met.

When distributions by foreign subsidiaries are made in Germany, 5% of the distribution is subject to German taxation. In addition, withholding taxes and dividend-related taxes abroad may also be incurred. Further income tax implications must also be observed in the case of distributions from subsidiaries abroad to another foreign company.

Notes to the consolidated balance sheet

09. Intangible assets

Development of intangible assets from 2021-10-01 to 2022-09-30

in € thousands	Franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets	Goodwill	Development costs	Prepayments	Total
Cost 2021-10-01	**395,459**	**808,081**	**169,582**	**0**	**1,373,122**
Business combinations	71,243	88,306	1,254	185	160,988
Currency translation differences	10,324	25,276	-83	0	35,517
Additions	12,634	653	5,441	5	18,733
Disposals	-7,143	0	-715	0	-7,858
Other adjustments	3	0	-13	0	-10
Transfers	1,262	0	-576	0	686
Cost 2022-09-30	**483,782**	**922,316**	**174,890**	**190**	**1,581,178**
Accumulated amortization and impairment 2021-10-01	**-211,358**	**-54,179**	**-132,361**	**0**	**-397,898**
Currency translation differences	-2,778	0	125	0	-2,653
Amortization	-18,753	0	-8,684	0	-27,437
Impairment losses	0	0	-979	0	-979
Disposals	7,116	0	264	0	7,380
Other adjustments	-2	0	0	0	-2
Accumulated amortization and impairment 2022-09-30	**-225,775**	**-54,179**	**-141,635**	**0**	**-421,589**
Carrying amounts 2022-09-30	**258,007**	**868,137**	**33,255**	**190**	**1,159,589**

The franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets contain brands with an indefinite useful life of €107.5 million (previous year: €67.0 million), thereof addition from business combinations in 2021/22 of €34.1 million.

Development of intangible assets from 2020-10-01 to 2021-09-30

in € thousands	Franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets	Goodwill	Development costs	Prepayments	Total
Cost 2020-10-01	**386,425**	**805,630**	**163,431**	**33**	**1,355,519**
Business combinations	0	0	0	0	0
Currency translation differences	1,595	2,451	123	0	4,169
Additions	10,189	0	6,030	8	16,227
Disposals	-3,059	0	0	0	-3,059
Other adjustments	0	0	-2	0	-2
Transfers	309	0	0	-41	268
Cost 2021-09-30	**395,459**	**808,081**	**169,582**	**0**	**1,373,122**
Accumulated amortization and impairment 2020-10-01	**-190,255**	**-54,179**	**-124,280**	**0**	**-368,714**
Currency translation differences	-695	0	-53	0	-748
Amortization	-23,257	0	-8,028	0	-31,285
Impairment losses	-138	0	0	0	-138
Disposals	2,986	0	0	0	2,986
Other adjustments	1	0	0	0	1
Accumulated amortization and impairment 2021-09-30	**-211,358**	**-54,179**	**-132,361**	**0**	**-397,898**
Carrying amounts 2021-09-30	**184,101**	**753,902**	**37,221**	**0**	**975,224**

The franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets contain brands with an indefinite useful life of €67.0 million.

10. Property, plant and equipment

Development of property, plant and equipment from 2021-10-01 to 2022-09-30

in € thousands	Land and buildings, including buildings on third-party land	Plant and machinery	Other equipment, furniture and fixtures	Prepayments and assets under construction	Rights of use	Total
Cost 2021-10-01	**862,955**	**1,509,075**	**534,108**	**49,377**	**155,963**	**3,111,478**
Business combinations	29,163	7,130	11,466	2,795	9,752	60,306
Currency translation differences	44,311	95,915	11,870	3,501	3,225	158,822
Additions	6,073	29,797	22,391	39,250	20,186	117,697
Capitalized interest	0	0	0	127	0	127
Remeasurements	0	0	0	0	6,343	6,343
Disposals	-8,069	-84,182	-26,439	-1,328	-12,188	-132,206
Transfers	7,514	19,383	6,102	-31,087	-2,598	-686
Reclassification to assets held for sale	-14,265	-94	-2,246	0	0	-16,605
Other adjustments	-55	-45	-61	308	97	244
Cost 2022-09-30	**927,627**	**1,576,979**	**557,191**	**62,943**	**180,780**	**3,305,520**
Accumulated depreciation and impairment 2021-10-01	**-416,430**	**-1,183,846**	**-434,674**	**-240**	**-56,516**	**-2,091,706**
Currency translation differences	-20,785	-74,629	-9,667	0	-1,874	-106,955
Depreciation	-18,830	-57,665	-31,682	0	-31,329	-139,506
Impairment losses	-7,597	-4,462	-90	0	0	-12,149
Disposals	1,193	79,072	24,962	0	11,676	116,903
Transfers	-677	-843	655	0	865	0
Reclassification to assets held for sale	6,028	89	1,915	0	0	8,032
Reversal of impairment losses	0	3	11	0	103	117
Other adjustments	24	169	585	0	0	778
Accumulated depreciation and impairment 2022-09-30	**-457,074**	**-1,242,112**	**-447,985**	**-240**	**-77,075**	**-2,224,486**
Carrying amounts 2022-09-30	**470,553**	**334,867**	**109,206**	**62,703**	**103,705**	**1,081,034**

Development of property, plant and equipment from 2020-10-01 to 2021-09-30

in € thousands	Land and buildings, including buildings on third-party land	Plant and machinery	Other equipment, furniture and fixtures	Prepayments and assets under construction	Rights of use	Total
Cost 2020-10-01	**830,210**	**1,463,158**	**525,169**	**43,408**	**147,566**	**3,009,511**
Business combinations	0	0	0	0	0	0
Currency translation differences	15,182	28,186	4,488	557	1,182	49,595
Additions	5,053	26,642	22,631	35,595	14,826	104,747
Capitalized interest	0	0	0	116	0	116
Remeasurements	0	0	0	0	7,936	7,936
Disposals	-2,011	-28,020	-23,993	-2,427	-5,831	-62,282
Transfers	14,533	19,123	5,840	-27,798	-11,966	-268
Reclassification to assets held for sale	0	0	0	0	0	0
Other adjustments	-12	-14	-27	-74	2,250	2,123
Cost 2021-09-30	**862,955**	**1,509,075**	**534,108**	**49,377**	**155,963**	**3,111,478**
Accumulated depreciation and impairment 2020-10-01	**-393,294**	**-1,135,875**	**-422,506**	**-240**	**-29,531**	**-1,981,446**
Currency translation differences	-5,094	-19,971	-3,495	0	-709	-29,269
Depreciation	-18,708	-54,561	-31,986	0	-31,928	-137,183
Impairment losses	-100	-390	-294	0	-473	-1,257
Disposals	1,279	26,980	23,538	0	5,606	57,403
Transfers	-513	-29	23		519	0
Reclassification to assets held for sale	0	0	0	0	0	0
Reversal of impairment losses	0	0	0	0	0	0
Other adjustments	0	0	46	0	0	46
Accumulated depreciation and impairment 2021-09-30	**-416,430**	**-1,183,846**	**-434,674**	**-240**	**-56,516**	**-2,091,706**
Carrying amounts 2021-09-30	**446,525**	**325,229**	**99,434**	**49,137**	**99,447**	**1,019,772**

The Voith Group exercised the call option for the leased property in Mergelstetten effective as at March 31, 2021. In the statement of changes in fixed assets, this transaction is disclosed in the transfers between right of use and land and buildings, including buildings on third-party land.

The impairment losses are included in the consolidated statement of income item "Depreciation and amortization". Impairment losses include impairments on land and buildings of €5,824 thousand and on technical plant and machinery of €4,198 thousand, which had to be recognized on account of the impairment of a production plant in the Group Division Hydro as a consequence of the deterioration in the prospects for the future of this cash-generating unit.

An interest rate of 1.6% was used to calculate capitalized interest (previous year: 1.3%).

The prepayments and assets under construction include buildings of €2,621 thousand (previous year: €5,604 thousand), plant and machinery of €54,046 thousand (previous year: €41,245 thousand) and non-production-related equipment of €6,036 thousand (previous year: €2,286 thousand).

As at September 30, 2022, the carrying amounts of the rights of use under leases contained land and buildings of €68,682 thousand (previous year: €71,209 thousand), plant and machinery of €7,625 thousand (previous year: €485 thousand), leased vehicles of €16,304 thousand (previous year: €15,296 thousand) and other of €11,094 thousand (previous year: €12,457 thousand).

The depreciation on the rights of use under leases break down as follows: €18,794 thousand (previous year: €18,705 thousand) on land and buildings, €374 thousand (previous year: €394 thousand) on plant and machinery, €9,824 thousand (previous year: €10,648 thousand) on leased vehicles and €2,337 thousand (previous year: €2,181 thousand) on other.

11. Investments accounted for using the equity method

Associates

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

in € thousands	2022-09-30	2021-09-30
Carrying amount of the investments in associates	38,600	44,180
Share of:		
Net result of continuing operations	-5,480	-5,984
Other comprehensive income	527	684
Total comprehensive income	**-4,953**	**-5,300**

The net result of continuing operations includes income from associates of €680 thousand (previous year: €1,425 thousand) and expenses of €6,160 thousand (previous year: €7,409 thousand). In the 2021/22 fiscal year, a loss of €1,872 thousand was not disclosed in the statement of income for the first time.

Joint ventures

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

in € thousands	2022-09-30	2021-09-30
Carrying amount of the interests in joint ventures	4,983	4,578
Share of:		
Net result of continuing operations	268	-843
Other comprehensive income	137	-8
Total comprehensive income	**405**	**-851**

For one joint venture, a loss of €1,402 thousand was not disclosed in the statement of income.

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

12. Inventories

in € thousands	2022-09-30	2021-09-30
Raw materials and supplies	338,991	264,660
Work in progress	234,546	184,780
Finished goods and merchandise	203,034	136,871
Prepayments	102,060	95,133
	878,631	**681,444**

Write-downs of inventories recognized as expenses amounted to €3,712 thousand (previous year: €9,432 thousand). Obligatory reversals of write-downs totaling €6,139 thousand (previous year: €9,451 thousand) were made. These amounts are recognized in the cost of materials.

13. Trade receivables

Trade receivables consist of the following items:

in € thousands	2022-09-30	2021-09-30
Trade receivables	924,270	777,931
Bad debt allowances	-42,233	-33,791
	882,037	**744,140**

Trade receivables are classified as current assets. As at September 30, 2022, the volume of receivables that is not expected to be realized within one year is €11,183 thousand (previous year: €8,053 thousand).

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

in € thousands	2022-09-30	2021-09-30
Impairment at the beginning of the fiscal year	**-33,791**	**-45,577**
Additions	-18,311	-10,266
Utilization	6,720	10,295
Reversal	5,691	10,415
Changes in consolidated group/exchange differences	-2,857	-1,334
Expected credit losses	315	2,676
Impairment at the end of the fiscal year	**-42,233**	**-33,791**

The total reversal of €5,691 thousand (previous year: €10,415 thousand) is comprised exclusively of reversals of specific bad debt allowances, as was the case in the previous year. Additions of €18,311 thousand (previous year: €10,266 thousand) consist of additions to specific bad debt allowances of €16,694 thousand (previous year: €10,160 thousand) and of expected credit losses of €1,617 thousand (previous year: €106 thousand).

14. Contract assets and contract liabilities

Notes on material changes in contract assets and contract liabilities:

in € thousands	2022-09-30	2021-09-30
Contract assets at the beginning of the fiscal year	**573,952**	**539,446**
Exchange rate differences	32,730	12,944
Change as a result of project progress, taking account of customer payments received	487,818	389,433
Reclassification from contract assets to trade receivables	-427,317	-408,058
Impairments	-2,541	540
Other changes	50,790	39,647
Contract assets at the end of the fiscal year	**715,432**	**573,952**
Contract liabilities at the beginning of the fiscal year	**938,859**	**845,256**
Exchange rate differences	42,499	19,674
Business combinations	540	0
Sales included in contract liabilities at the beginning of the period	-395,045	-198,426
Increase as a result of customer payments received less figure recognized as sales over the period	368,798	346,767
Other changes	52,793	-74,412
Contract liabilities at the end of the fiscal year	**1,008,444**	**938,859**

15. Other financial receivables and other assets

Other financial receivables

in € thousands	Current	Non-current	2022-09-30	Current	Non-current	2021-09-30
Derivatives used to hedge operational transactions	31,029	19,201	50,230	21,126	12,357	33,483
Derivatives used to hedge financial transactions	112	14,609	14,721	101	0	101
Financial receivables	20,275	372	20,647	20,657	1,405	22,062
Sundry financial assets*	50,906	39,042	89,948	53,243	34,151	87,394
	102,322	**73,224**	**175,546**	**95,127**	**47,913**	**143,040**

Other assets

in € thousands	Current	Non-current	2022-09-30	Current	Non-current	2021-09-30
Prepaid expenses	34,039	8,249	42,288	30,529	7,174	37,703
Other taxes (without income taxes)	119,499	33,384	152,883	108,325	11,370	119,695
	153,538	**41,633**	**195,171**	**138,854**	**18,544**	**157,398**

16. Other financial assets and securities

The increase in other financial assets mainly results from a new loan to a related company of €121 million.

Further information on the other financial assets and securities can be found in the section “Additional information on financial instruments”.

* Includes assets totaling €24,933 thousand (previous year: €19,943 thousand) which are not financial instruments and which are accordingly excluded from the disclosures made in the section “Additional information on financial instruments”.

17. Cash and cash equivalents

in € thousands	2022-09-30	2021-09-30
Cash on hand	106	127
Cash equivalents	4,865	2,271
Cash at bank	406,921	508,767
	411,892	**511,165**

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

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

On account of foreign exchange controls in one country, the Group currently has no access to cash and cash equivalents of €7,563 thousand.

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

All the assets held for sale of €9,704 thousand (previous year: €12,503 thousand) comprise property, plant and equipment (previous year: €3 thousand). In the previous year, the balance sheet item mainly contained investments of €12,500 thousand.

19. Equity

Issued capital

The share capital of Voith GmbH & Co. KGaA of €120,000 thousand comprises 108,000 thousand ordinary shares with a nominal value of €1.00 each and 12,000 thousand preference shares with a nominal value of €1.00 each.

Revenue reserves and other reserves

The revenue reserves and other reserves consist of retained earnings generated by Voith GmbH & Co. KGaA and its consolidated subsidiaries as well as the effects of the remeasurement of defined benefit plans, the currency translation of foreign subsidiaries, the valuation of net investments in foreign operations, gains/losses on financial assets and marketable securities recognized directly in equity without effect on profit or loss and cash flow hedges pursuant to IAS 39.

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

in € thousands	2021/22	2020/21
Remeasurement of defined benefit plans	**262,736**	**25,068**
· Gains/losses in the current period	262,736	25,068
Gains/losses on the valuation of financial assets and marketable securities	**-3,075**	**423**
· Gains/losses in the current period	-3,075	423
· Transfers to profit and loss	0	0
Gains/losses on cash flow hedges	**14,822**	**-570**
· Gains/losses in the current period	14,415	-500
· Transfers to profit and loss	407	-70
Gains/losses on currency translation	**144,248**	**39,503**
· Gains/losses in the current period	144,248	39,503
· Transfers to profit and loss	0	0
Gains/losses from the currency translation of net investments in foreign operations	**12,345**	**4,828**
· Gains/losses in the current period	12,345	4,828
· Transfers to profit and loss	0	0
Tax on components of other comprehensive income	**-8,193**	**-112,344**
Other comprehensive income	**422,883**	**-43,092**

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

	2021/22			2020/21		
in € thousands	Before taxes	Deferred taxes	After taxes	Before taxes	Deferred taxes	After taxes
Remeasurement of defined benefit plans	262,736	-977	261,759	25,068	-111,891*	-86,823
Gains/losses on the valuation of financial assets and marketable securities	-3,075	291	-2,784	423	-307	116
Gains/losses on cash flow hedges	14,822	-4,306	10,516	-570	146	-424
Gains/losses on currency translation	144,248	0	144,248	39,503	0	39,503
Gains/losses from the currency translation of net investments in foreign operations	12,345	-3,201	9,144	4,828	-292	4,536
Other comprehensive income	**431,076**	**-8,193**	**422,883**	**69,252**	**-112,344**	**-43,092**

Profit participation rights

Profit participation rights with a nominal volume of €103,400 thousand (previous year: €103,400 thousand) qualify as Group equity under the IAS 32 criteria. The rights are lower-ranking bearer profit participation rights with variable compensation, no fixed maturity date and no right of termination on the part of the creditors. Profit participation rights of €96,800 thousand were issued by a subsidiary of Voith GmbH & Co. KGaA. Profit participation rights of €6,600 thousand were issued by Voith GmbH & Co. KGaA. Subject to the approval of the appropriate governing body, profits totaling €5,590 thousand (previous year: €5,590 thousand) are scheduled to be distributed on the sum total of these rights for the 2022/23 fiscal year.

Non-controlling interests

The majority of non-controlling interests are held by the co-owners of the subsidiaries Shanghai CRRC Voith Transmission Technology Co., Ltd., China, Rif Roll Cover Srl, Italy, Voith Fuji Hydro K.K., Japan, Voith IHI Paper Technology Co., Ltd., Japan, Voith Hydro Shanghai Ltd., China and Voith Paper Fabrics India Ltd., India. Of the profit participation rights totaling €103,400 thousand, €96,800 thousand is attributable to non-controlling interests.

Appropriation of retained earnings at Voith GmbH & Co. KGaA

The Board of Management proposes to pay a dividend of €0.17 per share (€20,000 thousand in total) out of the unappropriated retained earnings of Voith GmbH & Co. KGaA and to carry forward the remaining amount. Of the total dividends proposed, €2,000 thousand is attributable to preference shares. Dividend payments in the fiscal year amounted to €20,000 thousand (previous year: €20,000 thousand). The distribution per share in the fiscal year amounted to €0.17 per share (previous year: €0.17 per share).

* The previous year includes impairments of deferred tax assets on temporary differences in pension provisions recorded directly in equity.

Additional disclosures on capital management

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

Voith manages its capital with the aim of maximizing the return on capital. The Group's managed capital consists of equity and interest-bearing financial liabilities.

in € thousands	2022-09-30	2021-09-30
Equity	1,436,080	1,014,777
Interest-bearing financial liabilities	1,101,128	787,609
	2,537,208	**1,802,386**

Equity increased by 41.5% compared to the previous year. Both the positive effects from the measurement of pension obligations and the currency translation of the foreign subsidiaries were the main contribution to this development. Interest-bearing financial liabilities increased by 39.8%. The composition of interest-bearing financial liabilities is described in note 22.

The articles of incorporation and bylaws of Voith GmbH & Co. KGaA do not prescribe any specific capital requirements.

20. Provisions for pensions and similar obligations

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

The Group's post-employment benefits include both defined benefit plans and defined contribution plans. In the case of defined contribution plans, the Company pays contributions to state or private pension schemes based on either legal or contractual requirements or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the Company. Current contributions are recognized as pension expenses in the period concerned and are €104,809 thousand for the Voith Group as a whole (previous year: €105,307 thousand).

The majority of the pension plans are defined benefit plans that take the form of provisions-based or externally funded schemes.

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

The amount of the individual benefit payments is generally measured based on the wage or salary level and/or position in the corporate hierarchy, as well as the length of service. The features and related risks of the defined benefit plans available to employees vary according to local legal, tax and economic conditions in the respective countries. The features of the material defined benefit plans at Voith are described below.

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

Numerous Group companies have introduced capital savings models to satisfy their obligation to pay an employer contribution.

In accordance with the German Company Pensions Act, current benefit payments are regularly reviewed with regard to the increase in the consumer price index.

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

Pension provisions are recognized for all pension commitments. Funding is therefore only obtained in exceptional cases. The plan assets of German companies take the form of insurance policies. They do not include any financial instruments issued by companies of the Voith Group.

For mortality and invalidity, the RT 2018G mortality tables by Heubeck are used. Employee turnover probabilities were calculated specifically for the Group.

In Austria, the obligations result primarily from a severance benefit scheme ("Abfertigungen"). Benefits become due upon termination of the employment relationship (provided the employee is not culpable for the termination), i.e. also upon retirement. Austrian severance benefits all qualify as capital savings. A few years ago, the nature of these benefits changed for new hires to post-employment benefits on account of new statutory requirements. These qualify as defined contribution plans and are organized via legally independent employee welfare funds. The employer's obligation is limited to payment of the contribution. In addition, obligations exist for retirement, invalidity and surviving dependents' benefits on the basis of individual commitments and a pension plan, which closed to new hires a long time ago, at the St. Pölten location.

b) Pension plans in the United States and Canada
The companies of the Voith Group in the USA previously had four defined-benefit pension plans that were terminated over the fiscal year. Plan participants who had not yet retired were offered flat-rate payments instead of monthly benefit payments in line with tax regulations. On May 4, 2022, the Voith Group entered into a binding agreement with Legal and General America on the purchase of the outstanding liabilities for the remaining participants including those who are already in the payout phase. Both were treated as buyouts that, seen together, led to a loss of around €1 million and are reflected in the statement of income. An arrangement was achieved where the value of the buyout of €94,551 thousand was lower than the value of the assets held in the plan, meaning that no further contributions were necessary. Although some adjustments to the final price are still expected, it is assumed that there will be a surplus of assets. These excess assets are accounted for as securities and are based on management's assessment of the excess assets, which will be available for other purposes.

The plans were already closed to new entrants in previous years; instead, new entrants were admitted to defined contribution pension plans. All of the pension plans have been frozen. No new participants have been accepted and no further provisions will be recognized for future benefit payments or future service cost (apart from a small group of participants in a plan for whom only cost of living increases are still considered in the calculation of the final average benefit payment). The pensions were primarily based on the final average salary or the length of service (i.e. the product of a fixed dollar amount and the number of years of service) and were paid monthly for life.

Finally, there is a plan for post-employment medical benefits for a group of plan participants who met the age and length of service criteria when the plan was closed to new participants. This plan is unfunded. These defined benefit plans give rise to actuarial risks for the Voith Group in the USA, arising from such factors as the investment risk, interest rate risk, longevity risk and the risk of a rise in the costs of medical care.

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

The plan assets of the defined benefit plans are invested by an Outsourced Investment Management team who manage the plan assets as trustee. The Group companies paying the contributions have assigned the responsibility for overseeing the investment of plan assets to an investment committee. According to Canadian law at both federal and provincial level, the Company and its representatives have a fiduciary duty as the managers of the plan assets to act solely in the best interests of the beneficiaries.

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

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

	Defined benefit obligation		**Fair value of plan assets**		**Net carrying amount from defined benefit plans**	
in € thousands	2022-09-30	2021-09-30	2022-09-30	2021-09-30	2022-09-30	2021-09-30
Germany and Austria	574,486	814,807	-25,223	-25,003	549,263	789,804
USA and Canada	34,401	171,964	-21,055	-158,335	13,346	13,629
Other	69,788	81,338	-54,307	-52,062	15,481	29,276
	678,675	**1,068,109**	**-100,585**	**-235,400**	**578,090**	**832,709**

Movements in the net liability from defined benefit plans:

in € thousands	2022-09-30 Present value of defined benefit obligations	2022-09-30 Fair value of plan assets	2022-09-30 Total	2021-09-30 Present value of defined benefit obligations	2021-09-30 Fair value of plan assets	2021-09-30 Total
Balance, October 1	**1,068,109**	**-235,400**	**832,709**	**1,097,888**	**-239,251**	**858,637**
Current service cost	19,286	-	19,286	16,612	-	16,612
Past service cost from plan curtailments (income)	-4,379	0	-4,379	-900	0	-900
Interest expenses (+) / interest income (-)	14,258	-3,731	10,527	14,256	-4,253	10,003
Remeasurements:						
Losses (+) / gains (-) from changes in demographic assumptions	353	-	353	-4,361	-	-4,361
Losses (+) / gains (-) from changes in financial assumptions	-287,368	-	-287,368	-27,265	-	-27,265
Losses (+) / gains (-) from experience adjustments	7,412	-	7,412	5,018	-	5,018
Remeasurement of plan assets (without amounts included in interest result)	-	24,538	24,538	-	3,778	3,778
Employer contributions to the fund	-	-3,507	-3,507	-	-3,788	-3,788
Employee contributions to the fund	-	-1,575	-1,575	-	-1,318	-1,318
Benefits paid	-179,148	146,622	-32,526	-44,797	13,603	-31,194
Change to the Group's structure	5,283	0	5,283	-184	131	-53
Other	-2,999	4,654	1,655	2,742	-506	2,236
Currency translation differences on foreign plans	36,495	-32,186	4,309	4,520	-3,796	724
Addition to termination benefits in accordance with IAS 19.159 et seq.	1,373	-	1,373	4,580	-	4,580
Balance, September 30	**678,675**	**-100,585**	**578,090**	**1,068,109**	**-235,400**	**832,709**

Movements in the net liability from defined benefit plans:

Germany and Austria

	2022-09-30			2021-09-30		
in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
Balance, October 1	**814,807**	**-25,003**	**789,804**	**836,250**	**-24,693**	**811,557**
Current service cost	15,875	-	15,875	12,943	-	12,943
Past service cost from plan curtailments (income)	-693	0	-693	-39	0	-39
Interest expenses (+) / interest income (-)	10,580	-333	10,247	9,590	-288	9,302
Remeasurements:						
Losses (+) / gains (-) from changes in demographic assumptions	0	-	0	0	-	0
Losses (+) / gains (-) from changes in financial assumptions	-236,245	-	-236,245	-20,773	-	-20,773
Losses (+) / gains (-) from experience adjustments	4,748	-	4,748	3,945	-	3,945
Remeasurement of plan assets (without amounts included in interest result)	-	-638	-638	-	-634	-634
Employer contributions to the fund	-	0	0	-	0	0
Employee contributions to the fund	-	0	0	-	0	0
Benefits paid	-33,177	1,373	-31,804	-31,748	1,344	-30,404
Change to the Group’s structure	2,412	0	2,412	-184	0	-184
Other	-5,108	-622	-5,730	243	-732	-489
Currency translation differences on foreign plans	0	0	0	0	0	0
Addition to termination benefits in accordance with IAS 19.159 et seq.	1,287	0	1,287	4,580	0	4,580
Balance, September 30	**574,486**	**-25,223**	**549,263**	**814,807**	**-25,003**	**789,804**

USA and Canada

	2022-09-30			2021-09-30		
in € thousands	Present value of defined benefit obligations	Fair value of plan assets	Total	Present value of defined benefit obligations	Fair value of plan assets	Total
Balance, October 1	**171,964**	**-158,335**	**13,629**	**181,506**	**-165,036**	**16,470**
Current service cost	329	-	329	492	-	492
Past service cost from plan curtailments	-903	0	-903	0	0	0
Interest expenses (+)/interest income (-)	3,262	-2,845	417	3,949	-3,575	374
Remeasurements:						
Losses (+)/gains (-) from changes in demographic assumptions	28	-	28	-1,592	-	-1,592
Losses (+)/gains (-) from changes in financial assumptions	-29,262	-	-29,262	-5,106	-	-5,106
Losses (+)/gains (-) from experience adjustments	1,506	-	1,506	1,281	-	1,281
Remeasurement of plan assets (without amounts included in interest result)	-	21,273	21,273	-	3,443	3,443
Employer contributions to the fund	-	-1,316	-1,316	-	-1,972	-1,972
Employee contributions to the fund	-	-11	-11	-	29	29
Benefits paid	-143,040	143,040	0	-11,420	11,420	0
Other	537	5,177	5,714	-734	235	-499
Currency translation differences on foreign plans	29,980	-28,038	1,942	3,588	-2,879	709
Balance, September 30	**34,401**	**-21,055**	**13,346**	**171,964**	**-158,335**	**13,629**

Costs for defined benefit plans break down as follows:

in € thousands	2022-09-30	2021-09-30
Current service cost	19,286	16,612
Past service cost	-4,379	-900
Interest expenses from pension obligations and plan assets	10,527	10,003

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

The plan assets consist of the following components:

	Quoted prices in an active market		No quoted prices in an active market		Total	
in € thousands	2022-09-30	2021-09-30	2022-09-30	2021-09-30	2022-09-30	2021-09-30
Equity instruments	5,012	5,776	0	0	5,012	5,776
Debt instruments	4,756	149,449	0	0	4,756	149,449
Real estate	1,028	1,025	0	0	1,028	1,025
Cash and cash equivalents	401	2,829	0	0	401	2,829
Other*	16,117	5,783	73,271	70,538	89,388	76,321
	27,314	**164,862**	**73,271**	**70,538**	**100,585**	**235,400**

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

	Germany and Austria		USA	
in %	2022-09-30	2021-09-30	2022-09-30	2021-09-30
Discount rate	4.07	1.35	5.07	2.44
Pension increases	2.00	1.60	0	0

The inputs used in the calculation of the defined benefit obligation (DBO) include assumed discount rates, wage and salary trends, as well as mortality rates. These vary depending on the state of the economy and other factors in the respective country.

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

		2022-09-30		2021-09-30	
		in € thousands	in %	in € thousands	in %
Discount rate	up 0.50% points	-39,703	-5.9	-75,177	-7.0
	down 0.50% points	44,130	6.5	85,153	8.0
Pension increases	up 0.25% points	11,283	1.7	17,746	1.7
	down 0.25% points	-10,844	-1.6	-16,944	-1.6
Life expectancy	+ 1 year	18,182	2.7	35,331	3.3

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

* Primarily employer's pension liability insurance.

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

Future cash flows

Contributions of €3,861 thousand are expected to be paid into the plans in the next reporting period.

The weighted average term of the DBO is 13 years.

21. Other provisions

The provisions consist of the following:

in € thousands	At 2021-09-30	Change in scope of consoli-dation	Utilization	Additions	Reversals	Transfers	Discounting effect	Currency translation differences	At 2022-09-30
Personnel-related provisions	81,772	174	-11,151	9,034	-10,031	0	121	586	70,505
Warranty provisions	187,327	1,088	-57,778	101,580	-24,120	-1,812	-1,552	7,675	212,408
Other order-related provisions	110,824	56	-21,888	49,730	-31,853	-1,215	-68	5,459	111,045
Other provisions	47,139	337	-12,844	17,008	-4,429	-774	-642	2,171	47,966
	427,062	**1,655**	**-103,661**	**177,352**	**-70,433**	**-3,801**	**-2,141**	**15,891**	**441,924**

	2022-09-30		2021-09-30	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year
Personnel-related provisions	23,986	46,519	20,625	61,147
Warranty provisions	169,832	42,576	136,844	50,483
Other order-related provisions	108,214	2,831	107,787	3,037
Other provisions	23,393	24,573	22,155	24,984
	325,425	**116,499**	**287,411**	**139,651**

Other provisions include restructuring provisions and provisions for personnel adjustments totaling €20.2 million (previous year: €24.2 million).

No refund claims associated with other provisions were capitalized (previous year: €16.9 million).

Personnel-related provisions mainly comprise the phased retirement scheme ("Altersteilzeit") and long-service bonuses. In the case of provisions for phased retirement, the amount and maturity of the future payments to be made to the beneficiaries are uncertain. Warranty provisions are recorded based on past experience or on the basis of individual assessments and represent the legal and contractual warranty obligations as well as goodwill commitments to customers. The provisions generally represent amounts that will be payable within the next two fiscal years. Other contract-related provisions include obligations for services still to be rendered on customer orders or parts of orders that have been billed, obligations for service and maintenance contracts, and commission provisions. In these cases, the amount and timing of future expenses are dependent on completion of the orders concerned.

22. Bank loans and other interest-bearing liabilities

Financial liabilities include the following:

in € thousands	Current	Non-current	2022-09-30	Current	Non-current	2021-09-30
Bank loans	193,968	628,552	822,520	78,768	467,956	546,724
Financial liabilities from leases	30,070	71,640	101,710	25,527	72,662	98,189
Notes payable	0	0	0	1	0	1
Derivatives used to hedge financial transactions	332	0	332	291	0	291
Other interest-bearing liabilities	37,749	138,817	176,566	50,474	91,930	142,404
	262,119	**839,009**	**1,101,128**	**155,061**	**632,548**	**787,609**

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

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

in € thousands	2022-09-30	2021-09-30
Euro	813,856	518,497
US dollar	3,019	338
Swedish krona	0	24,233
Canadian dollar	0	2,808
Other currencies	5,645	848
	822,520	**546,724**

23. Trade payables

Trade payables of €266 thousand (previous year: €484 thousand) are due after more than one year.

24. Other financial liabilities and other liabilities

Other financial liabilities

in € thousands	Current	Non-current	2022-09-30	Current	Non-current	2021-09-30
Derivatives used to hedge operational transactions	38,705	15,574	54,279	21,178	11,845	33,023
Personnel-related liabilities	101,363	2,981	104,344	100,490	499	100,989
Sundry financial liabilities	140,317	19,866	160,183	111,822	23,850	135,672
	280,385	**38,421**	**318,806**	**233,490**	**36,194**	**269,684**

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

Other liabilities

in € thousands	Current	Non-current	2022-09-30	Current	Non-current	2021-09-30
Tax liabilities	61,784	11,635	73,419	58,511	9,788	68,299
Prepaid expenses	5,722	4,637	10,359	3,211	3,806	7,017
Other liabilities	79,389	28,043	107,432	75,325	31,823	107,148
	146,895	**44,315**	**191,210**	**137,047**	**45,417**	**182,464**

Tax liabilities principally relate to sales taxes (VAT).

Notes to the consolidated cash flow statement

			Non-cash changes				
in € thousands	2021-10-01	Cash changes	Changes arising from the acquisition/disposal of companies	Changes due to currency effects	Changes in fair values	Other effects	2022-09-30
Bank loans	546,724	259,300	17,185	-846	0	157	822,520
Financial liabilities from leases	98,189	-32,421	7,989	1,507	0	26,446	101,710
Notes payable	1	-1	0	0	0	0	0
Derivatives used to hedge financial transactions	291	0	0	55	-14	0	332
Other interest-bearing liabilities	142,404	-9,873	46,306	351	-3,515	893	176,566
	787,609	**217,005**	**71,480**	**1,067**	**-3,529**	**27,496**	**1,101,128**
Other financial receivables	-26,397	1,923	0	382	-14,621	-4	-38,717
	761,212	**218,928**	**71,480**	**1,449**	**-18,150**	**27,492**	**1,062,411**

			Non-cash changes			
in € thousands	2020-10-01	Cash changes	Changes due to currency effects	Changes in fair values	Other effects	2021-09-30
Bank loans	612,263	-66,536	775	0	222	546,724
Financial liabilities from leases	115,499	-28,911	684	0	10,917	98,189
Notes payable	403	-387	-15	0	0	1
Derivatives used to hedge financial transactions	73	0	9	209	0	291
Other interest-bearing liabilities	179,809	-3,245	124	-27,649	-6,635	142,404
	908,047	**-99,079**	**1,577**	**-27,440**	**4,504**	**787,609**
Other financial receivables	-30,169	3,589	181	55	-53	-26,397
	877,878	**-95,490**	**1,758**	**-27,385**	**4,451**	**761,212**

Notes on segment reporting

Information on the segment data

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

EBIT adjusted for non-recurring items (extrapolation of result from increasing the carrying values upon first-time consolidation (PPA depreciation) and restructuring expenses and other exceptional items) forms the central performance indicator for the operating result. Reconciliation of EBIT adjusted for non-recurring items to result before taxes from the Group's continuing operations contains effects which are, as a rule, shown as other operating income and expenses, and depreciation and amortization in the consolidated statement of income on account of their operating nature. In the course of calculating EBIT, these items are adjusted as non-recurring effects in order to facilitate a better assessment of segments' business operations.

The former Group Division Digital Ventures was already assigned to the Group holding company as a cross-divisional function in the previous year and has no longer been managed as a separate Group Division since then. In the segment reporting, the figures were integrated into the reconciliation column. In all other respects, the demarcation between the segments and the method used to calculate the segment information remains unchanged in comparison to September 30, 2021.

Segment information is generally based on the same presentation and measurement methods as the consolidated financial statements. Intercompany sales are effected at market prices, and intersegment transactions and business are all reported in accordance with the accounting policies used for the consolidated financial statements.

In the Voith Group, the key indicator for assessing and managing an individual segment is return on capital employed (ROCE). ROCE is calculated by bringing EBIT and the average capital employed into relation with each other. The definition of ROCE was amended in the reporting year. For better comparability, the previous-year figures were restated on the basis of the new definition. In the past, it was profit from operations rather than EBIT that was compared with capital employed to calculate ROCE. Profit from operations is calculated by adding operating interest income to EBIT. We define operating interest income as imputed interest effects on the portion of customer advances that is not used to finance inventories and receivables from customer-specific contracts.

Capital employed designates the funds tied up within the business with a view to generating sales. This essentially comprises property, plant and equipment and net working capital. Calculating the ratio of a performance indicator from the statement of income (profit from operations) to a figure based on the balance sheet (capital employed) is in compliance with generally accepted standards for holistic business management and with value-based management.

The capital employed on the reporting date is an average value derived from the values as at the end of the fiscal year, as at the reporting date for the previous six-monthly financial statements and as at the end of the previous year. In contrast to the requirements of IAS 21, the assets and liabilities of foreign subsidiaries are translated at the average exchange rate for the reporting year. Owing to the use of averages, capital employed cannot be reconciled to the figures in the consolidated balance sheet on any given reporting date.

Consolidation entries were taken into account in full in calculating capital employed.

Capital expenditures relate to intangible assets (excluding goodwill) and property, plant and equipment. In the fiscal year, the remeasurements from IFRS 16 are also disclosed as investments. The previous-year figures were adjusted accordingly. Additions due to business combinations are not included.

Sales are broken down regionally, based on the customer's registered office. Non-current assets, consisting of property, plant and equipment including rights of use, goodwill and other intangible assets, are allocated based on the location of the asset.

Information on the activities of the segments presented

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

As a leading partner and pioneer in the paper industry, the Group Division Paper provides technologies, products and services for the entire paper manufacturing process, all from a single source. A constant stream of innovations allows the technology group to optimize the paper manufacturing process on an ongoing basis. Voith Paper focuses on developing resource-saving products which reduce the consumption of energy, water and fibers. Furthermore, the Group Division Paper offers a broad service portfolio for all sections of the paper manufacturing process. The Papermaking 4.0 concept also allows papermakers to link up their equipment in the best possible way and improve their competitiveness through effective and secure use of the data generated.

The Group Division Turbo is a supplier of components and systems for intelligent drive technology and a provider of customized services. With innovative and smart products, Voith Turbo offers the highest levels of efficiency and reliability. Customers from highly diverse industries, such as oil & gas, energy, mining and mechanical engineering, ship technology, rail and commercial vehicles, rely on the advanced technologies and digital solutions provided by Voith Turbo.

Segment information by business segment

	Hydro		Paper		Turbo	
in € millions	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Sales with third parties	1,048	945	2,196	1,776	1,557	1,457
Sales with other segments	4	2	20	20	7	8
Segment sales, total	1,052	947	2,216	1,796	1,564	1,465
EBIT	2	8	131	114	48	41
Depreciation and amortization of property, plant and equipment and intangible assets[2]	23	22	59	57	50	51
Capital spending[3]	24	19	54	42	43	47
Segment goodwill	18	18	516	483	271	184
Average capital employed[4]	205	208	500	458	975	828
ROCE[4]	1.0%	3.7%	26.2%	24.9%	5.0%	4.9%
Employees[5]	3,444	3,628	7,825	7,432	7,732	6,200

[1] Sub-total of Hydro, Paper and Turbo.
[2] Depreciation and amortization does not include depreciation and amortization recorded in the non-recurring result as it is not included in EBIT.
[3] Without additions due to business combinations and financial assets. Previous year restated, see “Information on the segment data”.
[4] Previous year restated: new logic behind calculation of the average capital employed, see “Information on the segment data”.
[5] Statistical headcount on reporting date.

Total core business[1]		Reconciliation		Total	
2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
4,801	4,178	80	82	4,881	4,260
31	30	-31	-30	0	0
4,832	4,208	49	52	4,881	4,260
181	163	19	2	200	165
132	130	23	23	155	153
121	108	22	25	143	133
805	685	63	69	868	754
1,680	1,494	230	221	1,910	1,715
10.8%	10.9%			10.5%	9.6%
19,001	17,260	2,490	2,658	21,491	19,918

Reconciliation of EBIT to the Group's result before taxes from continuing operations:

in € millions	2021/22	2020/21
EBIT	**200**	**165**
Non-recurring result	-66	-77
thereof PPA depreciation and amortization	-12	-17
thereof restructuring expenses	-15	-43
thereof expenses relating to other periods from legal disputes	-18	-17
thereof impairment losses on property, plant and equipment*	-10	0
thereof other exceptional items	-11	0
Other adjustments	2	1
Share of profit/loss from companies accounted for using the equity method	-4	-6
Interest income/expense	-37	-22
Other financial result	21	19
Result before taxes from continuing operations	**116**	**80**

* Further information on this in section 10. Property, plant and equipment.

Segment information by region

External sales (registered office of customer)

	Hydro		Paper		Turbo		Reconciliation		Total	
in € millions	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Germany	**39**	**33**	**186**	**138**	**408**	**370**	**46**	**42**	**679**	**583**
Foreign countries	**1,009**	**912**	**2,010**	**1,638**	**1,149**	**1,087**	**34**	**40**	**4,202**	**3,677**
thereof Europe	227	253	570	582	554	506	7	8	1,358	1,349
thereof Americas	379	329	584	486	182	128	22	22	1,167	965
thereof Asia	329	275	835	551	340	391	5	10	1,509	1,227
· of which China	121	124	615	363	194	266	1	5	931	758
thereof others	74	55	21	19	73	62	0	0	168	136
	1,048	**945**	**2,196**	**1,776**	**1,557**	**1,457**	**80**	**82**	**4,881**	**4,260**

Non-current assets

in € millions	2022-09-30	2021-09-30
Germany	**784**	**711**
Foreign countries	**1,457**	**1,284**
thereof Europe	767	667
· of which Switzerland	298	235
thereof Americas	301	278
· of which USA	249	226
thereof Asia	383	332
· of which China	290	263
thereof others	6	7
	2,241	**1,995**

Other notes

Contingent liabilities, contingent assets and other financial obligations

Appropriate provisions have been recognized in the relevant Group companies to cover potential financial obligations arising from taxation, legal and arbitration proceedings.

Over and above this there are risks from tax-related legal disputes and ongoing taxation proceedings in Brazil. There are risks of €21.9 million relating to income taxes. Likewise, tax risks in connection with VAT, among other things, were identified; no estimate of the financial effect is disclosed for reasons of practicability, as it is impossible to make any reliable estimate. The current assessment of the situation is that the proceedings will be brought to a successful conclusion and, therefore, there will be no outflow of economic resources.

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

Over and above this, there are risks from legal disputes amounting to €30.8 million (previous year: €21.5 million).

Other financial obligations include purchase commitments for capital expenditures of €32.4 million (previous year: €16.6 million).

Contingent liabilities

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

in € thousands	2022-09-30	2021-09-30
Guarantee obligations	2,442	958
Provision of collateral for third-party liabilities	500	800
	2,942	**1,758**

Most of the guarantee obligations expire in 2025.

Leases

The rental and lease agreements in the Voith Group mainly relate to buildings, passenger vehicles and machinery. The agreements mainly have terms of one to 15 years. Some companies have the option of extending their rental agreements.

Liabilities of €31,617 thousand in connection with lease agreements were repaid (previous year: €28,183 thousand). Including the interest payments, cash outflows totaled €32,421 thousand (previous year: €28,911 thousand).

The interest expenses from the compounding of lease liabilities are disclosed in the financial result and amounted to €881 thousand in the 2021/22 fiscal year (previous year: €897 thousand).

Lease expenses include expenses for short-term leases of €10,650 thousand (previous year: €9,573 thousand) and expenses for leases of low-value assets of €3,543 thousand (previous year: €3,229 thousand) that are disclosed in other operating expenses.

Future cash outflows of an immaterial amount were not included in the lease liabilities as it is not reasonably certain that the lease agreements will be extended or not terminated.

Income from the sublease of rights of use as well as gains and losses from sale-and-leaseback transactions are immaterial in the Voith Group.

Additional information on financial instruments

Carrying amounts, amounts recognized in the balance sheet and fair values by measurement category.

in € thousands	IFRS 9 measurement category	Carrying amount 2022-09-30	Amount recognized in the balance sheet in accordance with IFRS 9: Amortized cost	Fair value through equity	Fair value through profit or loss	Not assigned to an IFRS 9 measurement category	Fair value 2022-09-30
Assets:							
Cash and cash equivalents	AC	411,892	411,892				411,892
Trade receivables	AC	882,037	882,037				882,037
Contract assets	n. a.	715,432				715,432	715,432
Other financial assets and securities		254,161					
· Financial investments	AC	53,203	53,203				53,203
· Loans	AC	124,391	124,391				124,391
· Investments (strategic)	FVOCI/n. a.	10,966		137		10,829	137
· Investments (financial investments)	FVTPL	49,224			49,224		49,224
· Securities	FVOCI	16,377		16,377			16,377
Derivative financial instruments		64,951					
· Forward exchange contracts	FVTPL	27,914			27,914		27,914
· Forward exchange contracts (fair value hedges)	n. a.	22,430				22,430	22,430
· Interest rate swaps (cash flow hedges)	n. a.	14,607				14,607	14,607
Other receivables		85,662					
· Financial receivables	AC	20,647	20,647				20,647
· Sundry financial assets	AC	65,015	65,015				65,015
Liabilities:							
Trade payables	AC	729,446	729,446				729,446
Bank loans/notes	AC	822,520	822,520				783,021
Financial liabilities from leases	n. a.	101,710				101,710	
Derivative financial instruments		54,611					
· Forward exchange contracts	FVTPL	28,214			28,214		28,214
· Forward exchange contracts (fair value hedges)	n. a.	26,165				26,165	26,165
· Forward exchange contracts (cash flow hedges)	n. a.	232				232	232
Other interest-bearing liabilities		176,566					
· Other interest-bearing liabilities	AC	98,267	98,267				184,836
· Liabilities arising from the acquisition of investment shareholdings	FVTPL	78,299		67,362	10,937		78,299
Sundry financial liabilities	AC	264,527	264,527				264,527

The presentation was changed in comparison to the previous year.

in € thousands	IFRS 9 measurement category	Carrying amount 2021-09-30	Amount recognized in the balance sheet in accordance with IFRS 9			Not assigned to an IFRS 9 measurement category	Fair value 2021-09-30
			Amortized cost	Fair value through equity	Fair value through profit or loss		
Assets:							
Cash and cash equivalents	AC	511,165	511,165				511,165
Trade receivables	AC	744,140	744,140				744,140
Contract assets	n. a.	573,952				573,952	573,952
Other financial assets and securities		132,238					
· Financial investments	AC	49,494	49,494				49,494
· Loans	AC	2,781	2,781				2,781
· Investments (strategic)	n. a.	5,821				5,821	
· Investments (financial investments)	FVTPL	59,520			59,520		59,520
· Securities	FVOCI	14,622		14,622			14,622
Derivative financial instruments		33,584					
· Forward exchange contracts	FVTPL	8,722			8,722		8,722
· Forward exchange contracts (fair value hedges)	n. a.	24,862				24,862	24,862
Other receivables		89,513					
· Financial receivables	AC	22,062	22,062				22,062
· Sundry financial assets	AC	67,451	67,451				67,451
Liabilities:							
Trade payables	AC	569,575	569,575				569,575
Bank loans/notes	AC	546,725	546,725				553,486
Financial liabilities from leases	n. a.	98,189				98,189	
Derivative financial instruments		33,314					
· Forward exchange contracts	FVTPL	8,867			8,867		8,867
· Forward exchange contracts (fair value hedges)	n. a.	24,000				24,000	24,000
· Forward exchange contracts (cash flow hedges)	n. a.	447				447	447
Other interest-bearing liabilities		142,404					
· Other interest-bearing liabilities	AC	91,645	91,645				189,413
· Liabilities arising from the acquisition of investment shareholdings	FVTPL	50,759		32,401	18,358		50,759
Sundry financial liabilities	AC	236,661	236,661				236,661

The presentation was changed in comparison to the previous year.

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

in € thousands	2022-09-30	Level 1	Level 2	Level 3
Assets				
Securities	16,377	16,377	0	0
Derivative financial instruments	64,951	0	64,951	0
Investments	49,361	0	0	49,361
Equity and liabilities				
Derivative financial instruments	54,611	0	54,611	0
Liabilities arising from the acquisition of investment shareholdings	78,299	0	0	78,299

in € thousands	2021-09-30	Level 1	Level 2	Level 3
Assets				
Securities	14,622	14,622	0	0
Derivative financial instruments	33,584	0	33,584	0
Investments	59,520	0	0	59,520
Equity and liabilities				
Derivative financial instruments	33,314	0	33,314	0
Liabilities arising from the acquisition of investment shareholdings	50,759	0	0	50,759

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

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

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

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

Within the Group, transfers between fair value hierarchy levels are performed at the end of the reporting period. No transfers were made between the levels of the fair value hierarchy in the 2021/22 and 2020/21 fiscal years.

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

€49 million (previous year: €60 million) of the investments allocated to level 3 of the fair value hierarchy relate to those held by the Group as investments with a view to generating income. These investments are therefore measured at fair value through profit or loss (FVTPL). The fair values of the investments were determined by firstly calculating the fair value for each investment resulting in each case from the total of the shares held and cash and cash equivalents available as at the measurement date. The equity value of the respective investment is determined on the basis of a market-oriented measurement approach, the multiplier method, and is calculated in each case from the total value of the Company less the net financial position. In the present case, multipliers derived from representative external transactions are used, taking account of current developments up to the measurement date. These multipliers are multiplied by the average of operating results (EBITDA) achieved in the past in relation to the total enterprise value. In a second step, the fair values of the investments attributable to the Voith Group are calculated in accordance with the existing ownership structure. One investment in this measurement category with a market value of €12.5 million was sold in the current fiscal year.

Furthermore, investments that the Group would like to hold over the long term for strategic purposes, and for which it exercised the OCI option, are allocated to level 3 of the fair value hierarchy. Both in the current year and in the previous year, market values of an immaterial amount were determined for these investments. No dividends were recognized in profit or loss from the equity investments designated as FVOCI in the 2021/22 fiscal year.

A rise (fall) in the projected figures or falling (rising) interest rates would give rise to an increase (decrease) in the fair value of the investment.

The fair values of liabilities arising from business combinations that are allocated to level 3 relate to put options held by non-controlling shareholders as well as contractually agreed purchase price installments for the future acquisition of shares. The fair values were determined on the basis of the current planning prepared by management using the discounted cash flow method. The planning assumptions are adjusted to reflect the current information available. A risk-adjusted discount rate (WACC) was used for discounting. Agreements concluded under company law generally contain a fixed formula for calculating the purchase price in the event of the put options being exercised. In this respect, the purchase prices result from the gross business values of the investments determined using the multiplier method in accordance with a contractually agreed definition, minus the net debt, multiplied by the non-controllers' shareholdings. If the put options can be exercised only at a later date, the purchase prices are discounted to the reporting date using an interest rate (WACC) appropriate for the term involved.

If the business value of the underlying companies were to increase (decrease), this would lead to an increase (decrease) in the liabilities from the acquisition of investment shareholdings. In contrast, rising (falling) interest rates would lead to a fall (rise) in the liabilities arising from the acquisition of investment shareholdings.

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

in € thousands	2022-09-30	2021-09-30
Balance, October 1	**8,761**	**-42,670**
Acquisition of investments	10,101	6,559
Exercise of put options	15,092	20,625
Disposal of investments FVTPL	-26,478	0
Put options from business combinations	-46,222	0
Change in valuation policy	137	0
Fair value changes of the investments recorded in the financial result	6,081	19,339
Fair value changes in liabilities from the acquisition of investment shareholdings recorded in the financial result	329	-506
Fair value changes in liabilities from the acquisition of investment shareholdings not affecting net income	3,261	5,414
Balance, September 30	**-28,938**	**8,761**

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

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

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

The market value of the note loan of €419 million (previous year: €465 million) is calculated in the same way as the market values of unlisted bonds, bank loans and other financial liabilities as the present value of the payments associated with the liabilities, based on the effective yield curve and Voith GmbH & Co. KGaA's credit spread curve determined for different currencies (fair value hierarchy level 2).

The market value of other financial liabilities totaling €120 million (previous year: €120 million) was determined based on internal planning data. These are measured using the discounted cash flow projections taken from the latest business planning prepared by management. The planning assumptions are adjusted to reflect the current information available (fair value hierarchy level 3).

Net gains and losses recognized in profit or loss for each measurement category of financial instruments:

in € thousands	2021/22	2020/21
Financial assets measured at amortized cost (AC)	65,777	13,292
Financial assets measured at fair value through other comprehensive income (FVOCI)	529	344
Financial assets and liabilities measured at fair value through profit or loss (FVTPL)	14,839	17,779
Financial liabilities measured at amortized cost (AC)	-43,599	-5,255

For details of net gains and losses from financial assets recognized in other comprehensive income we refer to note 19.

Net gains and losses recognized on financial assets measured at amortized cost (AC) mainly relate to trade receivables.

Interest income of €10,653 thousand (previous year: €6,202 thousand) and interest expenses of €16,166 thousand (previous year: €12,106 thousand) for financial assets or financial liabilities relate to those assets or liabilities measured at amortized cost. No interest was recorded for financial assets measured at fair value through other comprehensive income or for financial assets measured at fair value through profit or loss.

Offsetting of financial instruments

The following table shows the volume that can potentially be offset under master netting agreements. The agreements do not meet the criteria required for net presentation in the balance sheet due to the fact that the Group does not have a present legal right to offset the amounts recognized, as the right to offset is conditional on the occurrence of future events.

in € thousands	Gross presentation balance sheet 2022-09-30	Volume that can potentially be offset under master netting agreements	Potential net amount
Assets			
Derivative financial instruments	64,951	31,277	33,674
Equity and liabilities			
Derivative financial instruments	54,611	31,277	23,334

in € thousands	Gross presentation balance sheet 2021-09-30	Volume that can potentially be offset under master netting agreements	Potential net amount
Assets			
Derivative financial instruments	33,584	17,353	16,231
Equity and liabilities			
Derivative financial instruments	33,314	17,353	15,961

Collateral

As at the reporting date, the financial assets include non-current securities totaling €7,118 thousand (previous year: €7,869 thousand) that are used to cover future pension obligations. Furthermore, €114 thousand of the sundry financial assets (previous year: €210 thousand) has been provided as collateral for liabilities and contingent liabilities. They may be drawn on if the underlying obligations are not fulfilled or if the contingent liabilities are realized.

Assets of €159 thousand (previous year: €732 thousand) have been provided as collateral for financial liabilities.

Risk management

Principles of financial risk management

The Voith Group is a global business and is exposed to risks arising from changes in interest rates and exchange rates in the course of its ordinary business activities which affect its liabilities, assets and transactions. These risks could affect its net assets, financial position and earnings position. The aim of financial risk management is to manage and limit these risks.

The principles of the Group's financial policy are laid down by the Voith GmbH & Co. KGaA Board of Management and monitored by the Supervisory Board. Corporate Finance, a corporate department of Voith GmbH & Co. KGaA, implements the financial policy and regularly reports to the Chief Financial Officer on the financial position of the Group and its current risk exposures. Certain financial transactions require special approval by the Corporate Board of Management. Long-term refinancing is obtained by Voith GmbH & Co. KGaA.

Derivative financial instruments are used to limit the currency and interest rate risks arising both from operating business and from the resultant financing requirements. These instruments are used in accordance with clearly defined, consistent, Group-wide guidelines. Compliance with these guidelines is verified on an ongoing basis. Hedge transactions and cash investments are placed only with financial institutions that have first-class credit ratings.

Credit risk

The Voith Group does business only with recognized, creditworthy third parties. Customers who wish to do credit-based business with the Group are subject to creditworthiness verification.

Cash and cash equivalents and other financial assets:

For the purposes of internal risk management, other financial assets consist essentially of cash and short-term securities. Counterparty default risks associated with term deposits are limited by selecting solvent banking partners and by spreading cash across multiple counterparties. For banks, a ratings-based limit (derived from credit default swaps/rating) is monitored constantly. If a defined threshold is exceeded with the CDS rates, the limits are reduced and funds have to be allocated. In addition, the Voith Group invests in securities and monitors the associated risks of these centrally. The low credit risk exemption is applied. The Voith Group allocates cash investments primarily to business partners with investment grade ratings. In addition, all counterparties are continually monitored using a risk management system based on CDS rates.

With respect to credit risk arising from the Group's other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. For details of financial guarantees, please refer to the discussion of contingent liabilities. This kind of loss can occur if individual business partners fail to meet their contractual obligations. As a rule, no collateral exists for such an eventuality.

For determining the expected credit losses (ECL) for other financial instruments, Voith uses an evaluation model in which determination of the ECL is based on probabilities of default observable in the capital market and that are applied in each case to the individual counterparties and the associated exposures. Market-orientated probabilities of default for the relevant counterparties are derived on the basis of the corresponding credit default swap (CDS) rates that reflect the future expected credit losses. In the consolidated financial statements, the ECL for other financial instruments is of secondary importance, which means that no further quantification is necessary.

A significant rise in credit risk is assumed if the financial assets are more than 30 days overdue. An event of default is assumed if the financial assets are more than 90 days overdue. Objective evidence of impairment exists, for example, in a situation where the debtor is in significant financial difficulties or there has been a breach of contract such as an overdue payment.

Trade receivables:

Credit risk arising from the delivery of goods and services stems from manufacturing risks and receivable risks. Management of these risks is governed by rules that are binding throughout the Voith Group. The maximum default risk is limited to the carrying amount of trade receivables, which is €882,037 thousand (previous year: €744,140 thousand). The maximum default risk for contract assets is €715,432 thousand (previous year: €573,952 thousand). Based on the collateral held, the maximum default risk for trade receivables is reduced by €105,331 thousand (previous year: €109,051 thousand) and that for contract assets by €75,755 thousand (previous year: €36,161 thousand).

All orders above a defined contract value are subject to general risk assessment requirements. Without special permission from the relevant decision-making bodies, Group companies do not accept unsecured orders from customers whose credit rating is below a defined threshold and who cannot furnish an adequate guarantor.

Political manufacturing and receivables risks with a Euler Hermes Country Risk Level of 3 or higher must, as a rule, be hedged, unless approval is issued by the decision-making bodies in individual cases. Further risk assessment is also activated for orders upward of defined contract values. Necessary credit insurance is obtained via export credit agencies (ECAs), in the private insurance market or by means of bank products.

The impairment model in IFRS 9 involves a risk allowance for expected credit losses (ECL). This means that the accounting method is close to the forward-looking credit risk management and necessitates a model for measuring expected credit losses on trade receivables and also for contract assets that takes account of macroeconomic factors ("forward-looking information"). IFRS 9 does not contain any regulations on the specific design of the model.

IFRS 9 does not permit mere extrapolation of credit losses observed in the past, which means that a certain likelihood of default exists even for customers who have always had a first-class rating.

Voith uses a simplified evaluation model in which determination of the ECL is based on probabilities of default observable in the capital market and that are applied in each case to the portfolio of receivables and the contract assets (exposure) for each individual region and Group Division. In this context, allocation of total exposure to the relevant regions is derived from the regional distribution of sales in the past fiscal year. Market-orientated probabilities of default for the relevant regions and Group Divisions are derived on the basis of the corresponding credit default swap (CDS) rates that reflect the future expected credit losses. Any impaired and hedged receivables still contained in the exposure are taken into account as necessary.

In principle, expected credit losses should be determined at the level of individual instruments, but, for the purpose of simplification, clustering is deemed permissible and is customary in practice. With regard to clustering, it should be noted that the clusters must be comprised of financial instruments with homogeneous characteristics. In this respect, the assumption is made that each of the outstanding receivables have similar risk features and are thus subject to similar default probabilities. Voith performs clustering according to the Group Divisions Hydro, Paper, Turbo and Others, and according to geographical regions.

The following structure of external default risk rating classes is derived from the ECL model:

in € thousands	External rating	Breakdown of receivables	Gross carrying amount*	Impairment loss	Net carrying amount	Loss rate
2022-09-30						
Low risk	**AAA to BBB-**	91%	1,553,327	-12,538	1,540,789	0.81%
Medium risk	**BB+ to BB-**	7%	61,003	-739	60,264	1.21%
High risk	**B+ to B-**	1%	117,110	-4,750	112,360	4.06%
2021-09-30						
Low risk	**AAA to BBB-**	91%	1,290,370	-6,228	1,284,142	0.48%
Medium risk	**BB+ to BB-**	7%	100,810	-802	100,008	0.80%
High risk	**B+ to B-**	1%	20,162	-5,779	14,383	28.66%

The impairment model applied is based on an event of default of the receivable after a maturity of 365 days.

Prior to application of the model at Group level, the Voith companies examined the portfolio of receivables with regard to objective evidence of impairment, such as delayed payment on the part of the debtor for no apparent reason, significant levels of debt or breach of contract. The gross carrying amount of the impaired receivables from customers is ultimately derecognized when the debtor has become insolvent and insolvency proceedings have been opened.

The Voith Group is not exposed to any material concentration of risks. Corporate policy is to avoid concentration of credit risk in a single financial institution. Instead, the Group invests with a variety of creditworthy financial institutions. The Group's customer structure is not materially concentrated in any particular geographic region. The Group tests doubtful accounts for impairment considering certain customers, historical trends, branches of industry and various other information.

Liquidity risk

To ensure that it can always meet its financial obligations, the Voith Group has negotiated sufficient cash lines and syndicated credit facilities with its banking partners.

In February 2020, Voith took out a note loan of €400 million with terms of five, seven and ten years. Fixed rate interest (€169 million) or floating rate interest on the basis of the 6M Euribor (€231 million) is payable on the tranches. The variable interest was fixed in the 2021/22 fiscal year by means of interest rate swaps. Long-term loans totaling €200 million were taken out in the 2021/22 fiscal year. Of this total, floating interest based on the Euribor is payable on €100 million and fixed interest on the other €100 million.

* Gross carrying amount less specific bad debt allowances and without taking account of deduction of provisions on the assets side.

Follow-on financing for the syndicated euro loan dating from 2018 was successfully obtained at the beginning of October 2022. The syndicate was expanded from 11 to 12 participating banks, the volume was increased from €550 million to €600 million. The credit line has not been drawn on and is available as a strategic liquidity reserve until 2027, plus two renewal options until 2029. It contains an option to increase the volume of the facility up to a maximum of €800 million subject to the banks' consent.

The revolving syndicated loan in China, which was refinanced in 2019, will be available until June 2024; it is for an amount of €202 million. This facility is currently not being utilized.

The credit facilities are subject to the customary market conditions and contractual terms and conditions based on Voith's rating. As in previous years, all contractual terms and conditions were complied with in full in the 2021/22 fiscal year. The ratings given by the rating agencies Moody's and S&P remain unchanged at Ba1 stable and BB+ stable.

The liquidity of Group companies is ensured by means of cash pools, intercompany loans and the allocation of external bank credit lines to individual operating units. Corporate Finance produces monthly finance status reports for the entire Group. Balances of central bank and cash pool accounts and bank guarantees are available on a daily basis.

The table below lists the undiscounted, contractually agreed cash outflows for financial instruments:

in € thousands	2022-09-30	**Cash flows < 1 year**	**Cash flows 1–5 years**	**Cash flows > 5 years**
Trade payables	729,446	729,445	282	0
Bank loans/notes	822,520	203,734	601,073	48,862
Financial liabilities from leases	101,710	30,668	62,199	9,865
Other interest-bearing liabilities	176,566	39,026	64,706	73,951
Other financial liabilities	264,527	243,986	20,760	2,087
Derivative financial instruments	54,611			
· Outflows		789,226	175,841	578
· Inflows		-748,185	-154,494	-501
	2,149,380	**1,287,900**	**770,367**	**134,842**

in € thousands	2021-09-30	Cash flows < 1 year	Cash flows 1–5 years	Cash flows > 5 years
Trade payables	569,575	569,090	528	0
Bank loans/notes	546,725	83,384	274,610	213,484
Financial liabilities from leases	98,189	28,304	61,194	12,868
Other interest-bearing liabilities	142,404	50,474	31,397	60,420
Other financial liabilities	236,661	212,312	23,630	720
Derivative financial instruments	33,314			
· Outflows		475,546	195,097	0
· Inflows		-454,303	-183,025	0
	1,626,868	**964,807**	**403,431**	**287,492**

Solvency is ensured and liquidity managed using cash equivalents and short-term securities which can be transformed into cash at any time.

Derivatives include cash outflows for derivative financial instruments with negative market values for which gross cash settlement has been agreed. The cash outflows for these financial derivatives are matched by corresponding cash inflows which are shown separately in the table above under inflows and outflows (gross). On the other hand, where a net cash settlement is effected, cash outflows are presented on a net basis.

There are no expectations that cash flows presented in the maturity analysis could be incurred significantly earlier, or that there will be significant changes to the cash flow amounts.

Financial market risk

Foreign exchange risk:

Its global production and trading activities expose the Voith Group to risks arising from fluctuations in exchange rates. Foreign exchange risks exist in particular wherever receivables, liabilities, cash and cash equivalents, and orders received (fixed obligations/forecast transactions) are or will be denominated in a currency other than the functional currency of the Group company concerned.

Most currency hedging is undertaken by Corporate Finance and its Regional Finance Center. Transaction risks arising from the international delivery of goods and services are mainly limited by forward exchange contracts. In general, all foreign currency transactions at the Voith Group are hedged. Major balance sheet items and orders are hedged individually within the framework of hedge accounting (full fair value method). Based on this, the foreign currency risk essentially corresponds to the nominal value of the forward exchange contracts.

In the project business, both the hedge relationship and the risk management objectives and strategies must be documented in respect of the underlying hedged item or transactions before external hedges are entered into.

Hedges must be highly effective to be in compliance with the Voith Group's risk management strategy. Where hedges are demonstrated to be effective, the transactions qualify for hedge accounting. The Group uses the dollar offset and critical term match method to assess whether the derivative designated in each hedge will probably be effective and has been effective. As a result, fluctuations in the exchange rate do not affect profit or loss, nor do they influence project costing.

Main causes for these hedges being ineffective can be firstly the impact of the credit risk of the counterparties and the Group on the fair value of the forward exchange contracts that are not reflected in the change in the fair value of the hedged cash flows and that are attributable to the change in the exchange rates, and secondly changes in the timing of the hedged transaction.

In the Voith Group, derivative financial instruments are traded externally by Corporate Finance on behalf of Group companies. Group companies in countries subject to foreign exchange restrictions hedge their currency risks locally. A Group-wide treasury management software tool is used for central scheduling, monitoring and documentation of all foreign currency hedges entered into by Corporate Finance or Group companies.

Changes in the US dollar exchange rate are significant for the Voith Group. The net USD exposure amounted to €191 million as at September 30, 2022 (previous year: €254 million). Based on the balance sheet items described above, the effects on the net result and consolidated equity are as follows: if the US dollar falls by 5%, the result before taxes increases by €652 thousand (previous year: increase of €4,473 thousand) and other comprehensive income increases by €3,464 thousand (previous year: decrease of €197 thousand). If, on the other hand, the US dollar rises by 5%, the result before taxes decreases by €652 thousand (previous year: decrease of €4,473 thousand) and other comprehensive income decreases by €3,464 thousand (previous year: increase of €197 thousand). The exposure not taken into consideration in the sensitivity analysis amounts to €296 million for CNY (previous year: €146 million) and to €112 million for SEK (previous year: €55 million).

Interest rate risk:
The Voith Group's exposure to interest rate risks arising from external refinancing is analyzed and managed centrally by Corporate Finance. Medium- to long-term assets and liabilities with fixed interest rates are the main source of interest rate risks at the Group, as changes in market rates of interest can cause the value of a financial instrument to fluctuate. The risk to the market value of fixed-interest receivables and liabilities and the interest rate risk with floating-rate receivables and liabilities is hedged on a case-by-case basis, for example by means of interest rate swaps and, where appropriate, hedge accounting is applied.

The Voith Group's risk management strategy requires highly effective hedges. When demonstrated to be effective, the hedge transactions qualify for hedge accounting status. The critical term match method and the hypothetical derivative method are used to prove the effectiveness of the hedge. As a result, interest rate fluctuations do not affect the interest result.

The relevant asset items are essentially cash at banks that is invested in the money market and/or is used to fund the existing cash pools. The Group companies that participate in the cash pool operate a daily zero-balancing policy and therefore have no exposure to external interest rate risks.

On the cost side, interest rate risks arise from a note loan and a variety of bank loans.

The carrying amounts of the Group's significant financial instruments that are exposed to interest rate risks are grouped by their contractually agreed maturities in the following table:

2022-09-30 in € thousands	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
Floating interest rate							
Cash and cash equivalents	411,892	0	0	0	0	0	**411,892**
Bank loans	155,236	101,109	711	711	711	887	**259,365**
Fixed interest rate							
Bank loans	38,732	737	200,480	21,711	260,967	40,528	**563,155**

2021-09-30 in € thousands	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
Floating interest rate							
Cash and cash equivalents	511,165	0	0	0	0	0	**511,165**
Bank loans	77,405	1,110	1,109	98,189	711	135,342	**313,866**
Fixed interest rate							
Bank loans	1,363	38,711	737	102,896	21,701	67,450	**232,858**

The variable part of the note loan is now presented in the fixed interest liabilities as it has been hedged using interest rate swaps. In the event of an increase (decrease) in the interest rate of 100 basis points, the market value of the interest rate swaps, and correspondingly the other comprehensive income, would increase (decrease) by €6.3 million. In the previous year, additional interest costs of €1.1 million p.a. would have been incurred for the variable part of the note loan if the 6M Euribor had risen in comparison to the end of the previous fiscal year. If, in contrast, the 6M Euribor had fallen at the next two interest dates by 100 basis points, the interest costs would have remained unchanged.

The interest result from the other material floating-rate financial instruments would have been €1.5 million higher (lower) (previous year: €4.3 million higher (lower)) if the market rate of interest had been 100 basis points higher (lower) as at September 30, 2022. As in the previous year, this effect originates from CNY denominated floating-rate financial instruments of €1.4 million (previous year: €2.5 million).

Risks relating to securities and stock prices:

The Voith Group holds securities in the “at fair value through other comprehensive income” (FVOCI) measurement category of €16 million (previous year: €15 million). A 10% change in the underlying stock prices would cause equity to change by 10% of the carrying amount of the stocks concerned.

It should be noted that all existing stock price risks are analyzed continuously and suitable counteraction is taken accordingly.

Commodity price risk:

The Voith Group is exposed to risks arising from changes in commodity prices, as these also affect most of the semi-finished goods that it needs. Voith’s Corporate Purchasing regularly reviews the nature, volume and scheduling of the Group’s materials requirements. On request by Corporate Purchasing and in consultation and agreement with Group companies, suitable forward commodity contracts can be arranged by Corporate Finance to limit any latent commodity price risks. The Group had commodity contracts of an immaterial amount in the fiscal year.

Hedge relationships:

The following items are used to hedge foreign exchange and interest rate risks:

2022-09-30	Nominal values*		Positive market values		Negative market values	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Forward exchange contracts (fair value hedges)	457,869	143,191	13,404	9,026	19,752	6,413
Forward exchange contracts (cash flow hedges)	1,237	0	0	0	232	0
Interest rate swaps (cash flow hedges)	0	231,500	0	14,607	0	0
Other derivatives	821,786	211,912	17,737	10,177	19,053	9,161
	1,280,892	**586,603**	**31,141**	**33,810**	**39,037**	**15,574**

2021-09-30	Nominal values*		Positive market values		Negative market values	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Forward exchange contracts (fair value hedges)	595,944	249,947	16,775	8,087	15,326	8,674
Forward exchange contracts (cash flow hedges)	11,050	991	0	0	447	0
Other derivatives	330,954	156,053	4,452	4,270	5,696	3,171
	937,948	**406,991**	**21,227**	**12,357**	**21,469**	**11,845**

* Nominal values refer to the volume of the hedged transaction in local currency, translated at the closing rate.

Positive market values are disclosed at the reporting date as other financial assets and negative market values as financial liabilities (in the case of financial transactions) or as other financial liabilities (in the case of operational transactions).

The market values of the forward exchange contracts were determined as present values of the cash flows taking account of the respective contractually agreed forward rates and the forward rate on the reporting date. The average rates of the forward exchange contracts entered into for material currency pairs are as follows as at September 30, 2022:

	Average hedged rates	
	< 1 year	> 1 year
EUR/USD	1.1337	1.2027
EUR/CNY	7.7520	8.8000
USD/BRL	5.4060	5.9417
USD/CNY	6.8684	6.8443
USD/INR	80.2180	81.6643

The average interest rate for the interest rate hedges is 1.003%.

Fair value hedges:
The Group uses fair value hedges primarily to hedge foreign exchange risks.

In the 2021/22 fiscal year, a loss of €4,597 thousand was recorded on derivative financial instruments classified as fair value hedges (previous year: a gain of €21,260 thousand). Since the hedges have been mainly classified as highly effective, measurement of the hedged transactions at the reporting date produced an offsetting gain/loss in the same amount.

The following table presents the measurement effects of the underlying hedged transactions ("firm commitments") and the change in the value of the underlying transactions that are used as a basis for determining whether the hedge is ineffective. The change in the value of the hedging instruments that were used as a basis for determining whether the hedge is ineffective corresponds to the change in value of the underlying hedged transactions.

	Balance sheet item		
in € thousands	Sundry financial assets	Financial liabilities/ sundry financial liabilities	Change in the value of the underlying hedged transactions that were used as a basis for determining whether the hedge is ineffective
2022-09-30			
Firm commitments	15,251	15,812	-3,735
2021-09-30			
Firm commitments	10,137	16,097	-863

In the 2021/22 fiscal year, positive effects on profit or loss of €3.4 million arose from ineffective hedges (previous year: €1 million) that are contained in other expenses.

Changes in the value of derivative financial instruments that do not meet the requirements for hedge accounting under IAS 39 are recognized as income or expenses in profit or loss at the reporting date.

Cash flow hedges:
As at September 30, 2022, there were cash flow hedges in place that are subject to either currency or interest rate risks.

Hedge relationships designed to hedge cash flows from forecast sales transactions were classified as highly effective. Accordingly, an unrealized gain of €14,415 thousand (previous year: loss of €500 thousand) was recognized within consolidated equity in other reserves as at September 30, 2022.

The following table presents the measurement effects of the underlying hedged transactions ("forecast transactions") and the change in the value of the underlying transactions that are used as a basis for determining whether the hedge is ineffective. The change in the value of the hedging instruments that were used as a basis for determining whether the hedge is ineffective corresponds to the change in value of the underlying hedged transactions.

in € thousands	Change in the fair values of the underlying transactions	Hedge reserve	Change in the value of the underlying hedged transactions that were used as a basis for determining whether the hedge is ineffective
2022-09-30			
Foreign exchange risk			
Forecast transactions	192	-231	192
Interest rate risk			
Floating interest rate instruments	-14,607	14,607	-14,607
2021-09-30			
Forecast transactions	-626	-500	-626

There were no effects on profit or loss from ineffective hedges in the 2021/22 and 2020/21 fiscal years.

In the 2021/22 fiscal year, there was a reclassification from other reserves of €407 thousand (previous year: €-70 thousand) to other operating expenses in the statement of income on account of the termination of hedges. No effects were reclassified in the statement of income relating to the interest rate swaps.

Research and development costs

In the 2021/22 fiscal year, research and development costs totaled €212,544 thousand (previous year: €192,028 thousand).

Of this amount, development costs of €5,441 thousand (previous year: €6,030 thousand) were capitalized in the balance sheet. The remaining costs represent activities for non-customer-specific new developments and improvements of €155,702 thousand (previous year: €139,055 thousand) and development activities of €51,401 thousand (previous year: €46,943 thousand) capitalized for customer-specific contracts.

Transactions with related parties and individuals

In the course of its ordinary business activities, Voith GmbH & Co. KGaA maintains relationships both with the subsidiaries listed in these consolidated financial statements and with other related companies and individuals (family members who are shareholders, and members of the Supervisory Board and of the Board of Management).

In the 2007/08 fiscal year, one subsidiary of Voith GmbH (as it was known at the time) was sold to family shareholders in a transaction under common control. That company, JMV GmbH & Co. KG, Heidenheim an der Brenz, Germany, was merged into JMV SE & Co. KG, Heidenheim an der Brenz, Germany, in the 2019/20 fiscal year. Since then, it has been the ultimate parent company of the Voith Group.

All business transactions with related parties are conducted at arm's length conditions.

Members of the Board of Management of Voith Management GmbH, members of the Supervisory Board of Voith GmbH & Co. KGaA and family member shareholders also serve on the supervisory boards of other companies with which Voith maintains relationships in the course of its ordinary business activities. Any transactions involving these companies are conducted at arm's length conditions.

A total of €680 thousand (previous year: €600 thousand) was paid at customary market rates to members of the Supervisory Board and former members of the Board of Management for consulting and other services. Consulting services for a total of €460 thousand were provided by other related parties (previous year: €462 thousand), of which €115 thousand (previous year: €122 thousand) had yet to be paid as at September 30, 2022.

The majority of goods and service transactions with related parties (entities and individuals) are shown in the table below:

in € thousands	2021/22	2020/21
Liabilities to family shareholders	9,165	8,636
Services purchased from associates	261	307
Services rendered to associates	292	4,931
Receivables from associates	437	58
Liabilities to associates	1,073	848
Services purchased from other investments	2,732	3,140
Services rendered to other investments	12,020	10,323
Receivables from other investments, including advances paid	12,891	10,454
Impairment of receivables from other investments	-354	-354
Liabilities to other investments and to Voith Management GmbH	29,018	27,912
Loans to JMV Hydro Beteiligungen GmbH	120,600	0
Services purchased from joint ventures	2	2
Services rendered to joint ventures	9	8
Receivables from joint ventures	170	255
Liabilities to joint ventures	971	846
Services purchased from the ultimate parent company	12,999	10,925
Services rendered to the ultimate parent company	1,393	1,406
Receivables from the ultimate parent company	676	498
Liabilities to the ultimate parent company	11,208	10,303

Liabilities to family shareholders include current floating-rate clearing accounts and pension obligations.

For more information on the profit participation rights of €103,400 thousand (previous year: €103,400 thousand) granted to family shareholders, please refer to note 19.

In the 2021/22 fiscal year, guarantees of €2,424 thousand (previous year: €940 thousand) were issued in favor of other investments.

Capital increases totaling €1,003 thousand (previous year: €0) were made in favor of associates. There were no capital increases in favor of joint ventures in the 2021/22 fiscal year (previous year: €853 thousand).

Compensation of governing bodies

The compensation for members of the Board of Management of Voith Management GmbH, including pension expenses, totaled €9,416 thousand in the fiscal year (previous year: €9,831 thousand). Due to the fact that these expenses are recharged by Voith Management GmbH to Voith GmbH & Co. KGaA, they are presented in the Voith Group's consolidated statement of income wholly within personnel expenses. This amount includes short-term benefits totaling €8,515 thousand (previous year: €9,004 thousand) and post-employment benefits of €901 thousand (previous year: €827 thousand).

The compensation for members of the Board of Management under commercial law totaled €7,741 thousand (previous year: €8,186 thousand).

As a consequence of bringing together the Corporate Board of Management at Voith Management GmbH, the pension commitments to this group of individuals existing prior to their appointment to the Voith Corporate Board of Management was transferred to Voith Management GmbH at the respective fulfillment amount under commercial law. No transfers were performed in the 2021/2022 fiscal year (previous year: approximately €280 thousand).

The present value as at September 30, 2022, of the defined benefit obligations to the Corporate Board of Management at Voith Management GmbH amounted to €6,258 thousand (including entitlements from deferred compensation; previous year: €9,990 thousand).

The present value of defined benefit obligations toward past members of the Board of Management totals €67,588 thousand (previous year: €90,690 thousand). Of these amounts, €2,311 thousand (previous year: €2,730 thousand) relates to obligations on the part of the former parent of the Group, J.M. Voith SE & Co. KG, toward past members of the Corporate Board of Management.

Plan assets for former members of the Board of Management total €38,977 thousand (previous year: €38,602 thousand).

These amounts are included in note 20.

The compensation for past members of the Board of Management totaled €4,624 thousand (previous year: €4,967 thousand). Of this amount, €411 thousand (previous year: €399 thousand) relate to compensation for the members of the Board of Management of the former parent of the Group, J.M. Voith SE & Co. KG.

The members of the Supervisory Board of Voith GmbH & Co. KGaA received (short-term) compensation of €378 thousand (previous year: €376 thousand).

Auditor’s fees and services

The following fees (including reimbursement of expenses) were paid to the independent auditor for the services rendered in the 2021/22 fiscal year:

in € thousands	2021/22	2020/21
Annual audit	3,102	2,784
Other assurance or valuation services	41	0
Tax advisory services	778	999
Other services	49	6
	3,970	**3,789**

Subsequent events

Mr. Uwe Wehnhardt, Chairman of the Management Board of Voith Hydro and member of the Corporate Board of Management, resigned from both positions as of October 31, 2022.

Dr. Tobias Keitel was appointed Chairman of the Management Board of Voith Hydro and member of the Corporate Board of Management with effect from November 1, 2022.

Voith acquired 100% of the shares in IGW Rail in October 2022. Further information on this can be found in the section entitled “Business combinations in the 2022/23 fiscal year”.

No additional significant developments have occurred since the close of the 2021/22 fiscal year.

Corporate Board of Management

The following were appointed members of the Board of Management of Voith Management GmbH in the 2021/22 fiscal year or shortly afterwards:

Dr. Toralf Haag
Stephanie Holdt (from April 1, 2022)
Egon Krätschmer (until April 30, 2022)
Dr. Stefan Kampmann
Andreas Endters
Uwe Wehnhardt (until October 31, 2022)
Dr. Tobias Keitel (from November 1, 2022)
Cornelius Weitzmann

Heidenheim an der Brenz, November 29, 2022

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Stephanie Holdt
Dr. Stefan Kampmann
Andreas Endters
Dr. Tobias Keitel
Cornelius Weitzmann

The German language consolidated financial statements of Voith GmbH & Co. KGaA as at September 30, 2022, as authorized for issue and the unqualified audit opinion issued thereon by KPMG Wirtschaftsprüfungsgesellschaft, Munich, will be filed in German at the Bundesanzeiger (Federal German Gazette). They can be viewed at www.bundesanzeiger.de.

Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and earnings position of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Heidenheim an der Brenz, November 29, 2022

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Stephanie Holdt
Dr. Stefan Kampmann
Andreas Endters
Dr. Tobias Keitel
Cornelius Weitzmann

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Imprint

Publisher
Voith Group
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89522 Heidenheim, Germany
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Fax: +49 7321 37 7000

Editing/Text
Seipp Kommunikationsberatung,
Cologne, Germany

Typography
G2 Printmedienmanufaktur GmbH,
Neunburg vorm Wald, Germany

Photo Credits
Thomas Dashuber,
Munich, Germany

This annual report is also available in German. Both versions, as well as other information, can be downloaded at www.voith.com.

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