voith.com

VOITH

# 2020 Annual Report

# Voith at a Glance

| in € millions | 2018/19 | 2019/20 |
|---|---|---|
| Orders received[1] | 4,697 | **4,036** |
| Sales[1] | 4,283 | **4,173** |
| EBIT adjusted[1), 2] | 208 | **139** |
| Return on sales in %[1] | 4.8 | **3.3** |
| Result before taxes from continuing operations[1] | 138 | **73** |
| Net result | 72 | **6** |
| Cash flow from operating activities | 46 | **234** |
| Total cash flow | 66 | **200** |
| Investments | 113 | **131** |
| Research and development | 213 | **189** |
| in % of sales | 5.0 | **4.5** |
| Equity | 1,245 | **1,083** |
| Equity ratio in % | 26.2 | **20.8** |
| Balance sheet total | 4,756 | **5,217** |
| Employees[1), 3] | 19,490 | **20,634** |

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

# Annual Report 2020

## Group



## Group Management Report



## Consolidated Financial Statements

# Group

Page

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

We look back on a 2019/20 fiscal year that has been very challenging in many ways. The global outbreak of COVID-19 impeded economic activity around the world in an unprecedented manner and plunged the global economy into the deepest crisis for many decades. This did not, of course, fail to leave its mark on our markets and customers – and therefore also on Voith. The coronavirus shock had a particular impact on the markets of energy, oil & gas and raw materials – with the corresponding consequences for our business that were clearly felt, especially in the second half of our fiscal year.

The pandemic has posed us, just like many other companies, with completely new challenges to which we had to find solutions quickly – from converting our production facilities to coronavirus-compliant work procedures and hygiene concepts as well as safeguarding our supply chains in an increasingly globalized world through to extensive mobile working or maintaining our service

**"Our broad sectoral and geographical positioning, regional supply chains and a sound balance sheet are important factors that have enabled us to endure the crisis relatively well. With this we put ourselves into a good position to continue our path of sustainable and profitable growth."**
**Dr. Toralf Haag**

business under the conditions of restricted possibilities for travel.

To summarize, we can say that we have successfully passed the test overall – together with our customers and thanks to a great, dedicated performance on the part of the entire Voith team. At this point, I would like to express once again my heartfelt thanks for such commitment.

Voith was not unprepared when the crisis hit: over the last few years, we had already made important strategic choices, improved our operating profitability and also secured our liquidity in the long term. Our broad sectoral and geographical positioning, regional supply chains and a sound balance sheet are important factors that have enabled us to endure the crisis relatively well. This means that together we have been able to put ourselves into a good starting position to continue our sustainable and profitable growth path.

The development of our key figures clearly reflects the assessment that we have endured the crisis well so far: the orders received saw a moderate decrease from the high previous-year level, the decline in sales was very limited in scope with a favorable effect coming from acquisitions. While the Group's EBIT similarly decreased on the previous year, it did remain at a sound level also in a multiyear comparison. Even after taxes, we have remained profitable – something that by no means can be taken for granted in such times. One thing I would like to emphasize is that Voith's net liquidity is still positive. This underlines how sound our financial position is. In a crisis, where nobody can reliably predict how long it will continue, this is certainly an advantage.

The positive net liquidity is also remarkable simply because we have a year involving very intense acquisition activity behind us. All in all, we have

**“We are pursuing the objective of being the pioneer and performance leader for our customers and supporting them in the transition into a digitalized and lower-emissions world.”**

**Dr. Toralf Haag**

purchased companies worth around €450 million, thus further strengthening Voith Paper and Voith Turbo in particular. With the various acquisitions – each one a company that is a technology leader in its respective segment and that supplements our portfolio of offerings in a meaningful way – we are investing in the future viability of our core business areas in line with our Group strategy.

We have put an even greater emphasis on this strategy and fleshed out its elements over the past fiscal year. The megatrends of digitalization and decarbonization form two central strategic cornerstones in this context. To translate the potential from the megatrends relevant to our operations into future growth, we are working on a corporate culture that is aligned even more closely to customers and the markets, and to promoting innovations. We intend to better exploit the potential of our core business and, at the same time, tap into new, promising business fields and growth markets. In this respect, we are keeping an eye in particular on energy storage, hydrogen technology and electrical drive systems – areas that logically follow on from the things that Voith is already able to do and that can contribute to paving our Company’s way as it accompanies our customers into a digitalized world with fewer emissions. At the same time, we are putting more efficient structures and processes into place in order to keep our costs under control and remain competitive. This enables us to secure the financial leeway for necessary investments and thus also the long-term future of Voith as an independent, competitive company.

With this, we are convinced we have the right strategy to lead our Company stronger out of the crisis. We are pursuing the clear objective of being the pioneer and performance leader for our customers. In this respect, we aspire to holding one of the top 3 positions in each of the industries we serve. We have not yet achieved this everywhere, but we see the potential across the entire spectrum of our offering to reach this objective – to this end, we must remain in a position, going forward, to turn ideas into innovations and innovations into marketable products that our customers need. In doing so, we also always balance our commercial ambitions with our responsibility towards society and the environment – in the sense of industrial sustainability. This is one of the reasons why we entered into a commitment, already last year, to become carbon neutral in our operations by 2022, and therefore count as one of the pioneers in our industry.

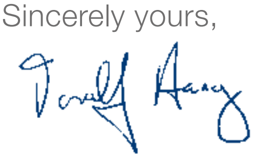
Until then, and this much seems to be certain, we will all have to spend a great deal of time and energy in overcoming the short-, medium- and long-term consequences of the COVID-19 pandemic. This means that, in all probability, the global environment will remain exceedingly challenging and volatile and will also continue to have an impact on our business. We do, however, reckon with a gradual economic recovery kicking in over the course of the 2020/21 fiscal year, which promises to be a year of transition, and consequently with a slight increase in all key figures in our operating business.

In 2021, our plans are not only to keep working towards Voith emerging stronger from this unprecedented crisis, but also to continue creating the foundations to enable our Company to sustainably generate profitable growth over the medium to long term.

We have formulated the right strategy and, even after the recent acquisitions, have sufficient financial leeway to add new strategic highlights and to invest with determination in the future of Voith.

We would be pleased if you would continue to accompany us on this path.

Sincerely yours,



Dr. Toralf Haag
President and CEO

# The Corporate Board of Management

| Andreas Endters | Dr. Toralf Haag | Egon Krätschmer | Dr. Uwe Knotzer | Uwe Wehnhardt |
|---|---|---|---|---|
| Voith Paper | President and CEO | Finance and Controlling | Voith Turbo | Voith Hydro |

> “We are convinced we have the right strategy to exploit the full potential of our core business, to further expand our technological leadership and continually supplement our portfolio with digital and sustainable offerings and services.”
>
> The Corporate Board of Management

# Report of the Supervisory Board for the 2019/20 Fiscal Year

## Ladies and gentlemen,

In the 2019/20 fiscal year, the world went through a global crisis and an associated recession both unparalleled in their impact. The economic shock triggered by the coronavirus pandemic impacted both the supply and demand sides, took hold of all regions of the world within only a few weeks and led to the deepest collapse in global economic performance since the Great Depression in the 1930s.

In this exceptional situation, the demands placed on Voith firstly consisted of protecting its around 20,000 employees as best as possible, to help weaken the dynamics of the infection wave and secondly of maintaining business continuity, fulfilling the Group's customer orders and thus safeguarding the future of the Company.

In the crisis, Voith proved how sound it is as a company. Major outbreaks of infection within our Company have been prevented so far. Thanks to the successful crisis management, it was possible to maintain business operations and production with only few interruptions at individual locations. Nevertheless, the contact restrictions and production interruptions on the part of customers resulting from the pandemic and the investment restraint in virtually all customer industries due to the recession also had an impact on Voith's figures: sales and, most of all, orders received fell behind the previous year. The decrease in sales could only partially be compensated for by short-term cost-cutting; consequently, results declined at a higher rate than sales.

There is one encouraging aspect, however: even in a crisis year such as this one, Voith succeeded in generating clearly positive EBIT. The sound financial and liquidity position provide the Group with sufficient leeway to invest in its future and to advance important strategic topics: Voith is constantly enhancing its core business, reinforced by targeted business acquisitions specifically in the service and spare parts market, and is increasingly offering its customers digital and sustainable solutions beyond machines and plants. Another cornerstone of Voith's sustainable business success is to explore future-oriented growth areas such as energy storage, electrical drive systems or hydrogen technology.

### Oversight activities of the Supervisory Board

The detailed reports by the Board of Management of Voith Management GmbH, the personally liable general partner, on the current business position and financial position of the Group and its Group Divisions, and the reports on the Group's planning, on the Group's strategy and major transactions, were once again one of the essential mainstays for the consultations by the Supervisory Board of Voith GmbH & Co. KGaA in the 2019/20 fiscal year.

The Supervisory Board held a total of four ordinary meetings: on October 10, 2019, on December 4, 2019, on March 27, 2020, and on May 29, 2020. These meetings involved an intense exchange of ideas and information between the Supervisory Board and Board of Management of the personally liable general partner.

In addition to the preliminary business figures for the 2018/19 fiscal year just ended, the first meeting of the Supervisory Board in the 2019/20 fiscal year held on October 10, 2019, focused on the planning for the 2019/20 and 2020/21 fiscal years. At this meeting, the Supervisory Board further addressed the Group's financial, investment and personnel planning.

The second meeting of the Supervisory Board in the 2019/20 fiscal year held on December 4, 2019, involved an in-depth discussion with the independent auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, and the Board of Management, following which the Supervisory Board approved the financial statements and the management report of Voith GmbH & Co. KGaA for the 2018/19 fiscal year, as well as the consolidated financial statements and the Group management report in accordance with the resolution recommended by the Audit Committee. Following the Supervisory Board's proposal, the financial statements were approved at the Company's subsequent general meeting held the same day. The Supervisory Board further passed resolutions to make proposals to the general meeting on issues including the appropriation of the unappropriated retained earnings and the election of the independent auditor. Furthermore, the Supervisory Board discussed the sustainability report and, as a special topic, the opportunities opening up for the Group Division Paper over the long term with existing and new technologies ("Foresight Project").

At its meeting on March 27, 2020, the Supervisory Board addressed the development of business operations over the first quarter of the 2019/20 fiscal year, the outlook for the full 2019/20 fiscal year, which also included in-depth discussion of the potential impact of the COVID-19 crisis that was just beginning. Over and above this, the consultations extended to the measures taken in response to the COVID-19 crisis and the status of the M&A projects and the Foresight Project of the Hydro Group Division, as a special topic.

At the fourth and last meeting of the Supervisory Board in the 2019/20 fiscal year held on May 29, 2020, the Supervisory Board heard the report by the Board of Management of the personally liable general partner on the first half of the year for the Group and on the expectations for the full 2019/20 fiscal year and, as a special topic, on the Foresight Project of the Group Division Turbo. A significant part of the deliberations at this meeting was again taken up by the development of the COVID-19 crisis and the measures introduced in its wake.

Between meetings of the Supervisory Board, the Chairman of the Supervisory Board, Prof. Dr.-Ing. Siegfried Russwurm, was kept informed by the Board of Management of the personally liable general partner on material developments and decisions. In each case, he regularly discussed important matters with the Chairman of the Board of Management of the personally liable general partner. All Supervisory Board members attended at least half of the Supervisory Board meetings. There were no potential or actual conflicts of interest in the Supervisory Board.

### Report on the work of the committees

The Supervisory Board has formed two committees: an Audit Committee and a Nomination Committee; the latter was formed on December 4, 2019, with the task of making proposals to the general meeting for the election of Supervisory Board members representing the shareholders. The Nomination Committee comprises the Chairman of the Supervisory Board and two representatives of the shareholders to be elected by the full Supervisory Board. There were no further committees in the 2019/20 fiscal year.

The Audit Committee came together on October 10, 2019, on December 3, 2019, and on May 28, 2020, at a total of three ordinary meetings. The Nomination Committee did not hold any meetings.

At the Audit Committee's meeting on October 10, 2019, held in the presence of the auditors from KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, the Audit Committee primarily addressed, among other matters, material issues pertaining to the financial statements for the 2018/19 fiscal year and discussed financial aspects of the 2019/20 budget and compliance issues.

At its second meeting on December 3, 2019, which was held in the presence of KPMG AG Wirtschaftsprüfungsgesellschaft, the Audit Committee conducted an in-depth examination of the 2018/19 financial statements of the Group and Voith GmbH & Co. KGaA and the report by the auditor of the financial statements. At this meeting, the committee discussed, in some cases with the auditors, individual issues relating to the suggestions for improvement proposed in the management letter to the financial statements, none of which were deemed relevant to this report. Otherwise, the annual internal audit report for the fiscal year was presented to the Audit Committee by the head of the Internal Audit function and the compliance report was presented by the head of the Compliance Committee; the reports were discussed within this framework.

At the meeting on May 28, 2020, the Audit Committee addressed in particular the Group's six-monthly financial statements as at March 31, 2020, and held an in-depth discussion of the impact of the coronavirus pandemic and the measures taken in its wake as well as issues relating to risk management and compliance.

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

With the consent of the shareholders, Dr. Roland Münch stepped down as member of the Corporate Board of Management and resigned as member of the Board of Management of Voith Management GmbH, thus leaving Voith Management GmbH as of November 1, 2019.

The Supervisory Board would like to thank Dr. Roland Münch for his many years of successful work for the Voith Group. Over his time as member of the Board of Management of the personally liable general partner Voith Management GmbH, Dr. Münch left a significant mark on the Group Division Digital Ventures and, before that, as member of the Management Board of Voith GmbH and Voith AG, and the Group Divisions Voith Hydro and Voith Paper. The Supervisory Board wishes Dr. Münch all the best for the future.

Mr. Martin Schily, whose term of office ended at the close of the general meeting on December 4, 2019, was reelected to the Supervisory Board by the general meeting for a full term.

Ms. Ute Schurr, who was elected to the Supervisory Board by the employees, resigned from her Supervisory Board seat as of September 30, 2020. Mr. Alexander Schlotz succeeded her on the Supervisory Board pursuant to Sec. 14 (2) German Codetermination Act (MitbestG) as elected substitute member for the remaining term of office of Ms. Ute Schurr, with effect from October 1, 2020.

Mr. Gerd Schaible resigned from his office as Deputy Chairman of the Supervisory Board as of September 30, 2020. The election of a successor to the office of Deputy Chairman was held after the end of the reporting period at the meeting of the Supervisory Board on October 9, 2020.

The Supervisory Board would like to thank Ms. Schurr for the consistently good and exceedingly constructive working relationships. She made a constantly valuable contribution to the Supervisory Board's work with her dedicated support and represented the employees' side on the Supervisory Board with the same commitment.

KPMG Wirtschaftsprüfungsgesellschaft, Munich, was appointed auditor of the financial statements for the 2019/20 fiscal year at the general meeting on December 4, 2019. The Supervisory Board accordingly engaged the independent auditor.

The general meeting of Voith GmbH & Co. KGaA held on December 4, 2019, exonerated the personally liable general partner and the Supervisory Board for their activities in the 2018/19 fiscal year.

## 2019/20 financial statements

The 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 for the Voith Group as at September 30, 2020. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

At its meeting on December 7, 2020, 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, 2020; at this meeting he reported on the material results of the audit and provided additional information. At its meeting on December 8, 2020, in which the responsible audit partner from KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, also took part, the Supervisory Board performed an in-depth examination of its own of the financial statements, the consolidated financial statements and the management reports, that did not give rise to any objections, the Supervisory Board agreed with the results of the audit on the part of the auditor and approved the financial statements and the consolidated financial statements in accordance with the recommendation of the Audit Committee. The financial statements of Voith GmbH & Co. KGaA were then approved by a resolution of the general meeting on December 8, 2020, with the approval of the personally liable general partner. Furthermore, at its meeting on December 8, 2020, 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 and decisive crisis management and their successful work in this exceedingly challenging past fiscal year. But our thanks go out most of all to the employees: with their dedication and flexibility, they made a substantial contribution to Voith's ability to endure the crisis relatively well so far.

Heidenheim, December 2020

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

**Gerd Schaible***
Deputy Chairman,
Head of Secretariat of the Corporate Works Council of Voith GmbH & Co. KGaA

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

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

**Constanze Hufenbecher**
CFO of Lufthansa Technik AG

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

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

**Dr. Hubert Lienhard**
Former President and CEO of Voith Management GmbH

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

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

**Ute Schurr***
Chairwoman of the Joint Works Council of J.M. Voith SE & Co. KG
(until September 30, 2020; from October 1, 2020, Alexander Schlotz as substitute member pursuant to Sec. 14 (2) MitbestG)

**Ralf Willeck***
First Authorized Representative of the Metal Workers' Union (IG Metall), Heidenheim

* 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 markets for energy, oil & gas, paper, raw materials and transport & automotive. 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 members of the Board of Management of Voith Management GmbH are 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 four Group Divisions: Hydro, Paper, Turbo and Digital Ventures. These Group Divisions are managed separately and their respective business results are presented transparently as part of the segment reporting.

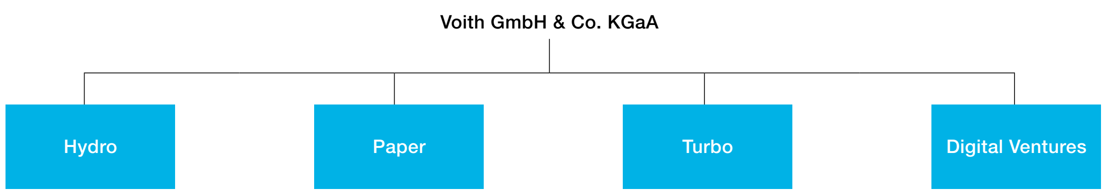
The Group Division Hydro is a leading full-line supplier and trusted partner for equipping hydropower plants. Voith Hydro develops customized, long-term solutions and services for large and small hydropower plants all over the world. Its portfolio of products and services covers the entire life cycle 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 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 paper manufacturing process and facilitating resource-conserving and efficient production.

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 highest 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.

The Group Division Digital Ventures is the vehicle that brings together the Voith Group's many years of development, digitalization and IT expertise with the comprehensive know-how from the divisions of hydropower, paper machines and drive technology. This Group Division acts as a cross-discipline function for Voith to advance the development of new digital products and services and the digitalization of internal operating processes. In order to play a major role in shaping the digitalization taking place in the mechanical and plant engineering industry, Voith is pushing forward the Industrial Internet of Things (IIoT). The Group Division plays a central role in digital innovations and applications for new markets as well as in the development and responsibility for existing and new digital venture activities.

**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, and restructuring 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.

By further adding operating interest income to EBIT, the profit from operations is obtained. We define operating interest income as interest received by the Company on the long-term financing of receivables from customers, or as the imputed interest effect attributable to that portion of customer advances that is not used to finance inventories and receivables from customer-specific contracts.

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

ROCE is calculated by bringing the profit from operations and capital employed into relation with each other. Capital employed designates the funds tied within the business with a view to generating sales. This essentially comprises property, plant and equipment and net working capital. 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 company management and with value-based management.

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 history covering more than 150 years, this approach has enabled Voith to overcome numerous obstacles, manage in 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 achieve this by generating profitable growth to guarantee the stability and financial independence of our Company and, at the same time, 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. By doing so, we experience firsthand the way the world and our customers are changing, develop solutions that create value added, and set new standards in our markets.

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

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.

## Our strategy for profitable growth

In the years before the beginning of the global crisis triggered by the COVID-19 pandemic, Voith had made important strategic choices, improved its operating earnings power and also secured its liquidity over the long-term with appropriate funding lines. Our broad sectoral and geographical positioning, regional supply chains and a sound balance sheet are important factors that have enabled us to endure the crisis relatively well so far.

Voith has consequently moved into a good starting position to continue along its path of sustainable and profitable growth. The digitalization of industry and the necessary decarbonization of the economy – both megatrends that are being accelerated by the crisis – present companies with great challenges, but at the same time offer immense opportunities. Companies have to set the right course today by investing in these areas in order to maintain their technological leadership and to secure important competitive advantages on the world markets. We have recognized this potential and are determined to use it. In order to not only lead our Company out of this crisis stronger than before but also to generate long-term profitable growth and position ourselves as a pioneer and performance leader for our customers in our strategic business units, we have defined the following four strategic pillars:

1. Advance our corporate culture:

Our corporate culture is based on our values. In order to cope with the upheavals in our industry and play an active role in shaping the outcome, we must, however, 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 competencies and skills required for this are described in our new competency model that will in the future have a major influence on the selection and further development of our employees and executive managers, and constitutes 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.

Information on the new HR competency model can be found in section I.6. **Employees**.

2. Leveraging the potential of our core business:
We want to leverage the full potential of our core business: this involves a noticeable expansion of the service and aftermarket business. We already offer our customers comprehensive and intelligent solutions beyond machines and systems in many areas. Targeted acquisitions will help us expand on this. The development and provision of sustainable solutions, in addition to our core business, meets the ongoing demand for environmentally friendly technologies while increasing resource efficiency, which saves costs for our customers. We will consistently drive forward our own digital transformation and, by doing so, achieve appreciable savings in operating costs. At the same time, we are the pioneer for our customers' digital transformation by consistently supplementing our products and services with digital offerings.

3. Exploring future growth markets:
Our strategy also includes a clear commitment to opening up new business segments and markets and investing in sustainable future technologies. Examples of this include the further development of electric drives, energy storage or the field of hydrogen technology, where there are many points that Voith can pick up on. With our experts, we are working on strategies and concepts for our customers, some of which are cross-divisional projects, in order to develop sustainable and marketable technologies from innovative ideas.

4. Set 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. In the reporting year, we launched several initiatives with this objective. Firstly, we further optimized our production network. Secondly, a major project is currently underway to streamline the administrative structures. Alongside reducing material and personnel costs, the Group Divisions are to be granted greater commercial leeway and responsibility, thus achieving greater market orientation. Thirdly, we are working towards standardization and harmonization of our IT landscape. As part of this process, we are planning to introduce a Group-wide ERP (enterprise resource planning) system that integrates all operating processes on one uniform platform over the next few years. Over and above this, the topics of occupational safety and the ongoing reduction in quality-related costs will remain a top priority. Both are fundamental to achieving excellence in our operating activities and ensuring our productivity and efficiency.

# I.4. Research and development

## Innovation as the basis of future business success

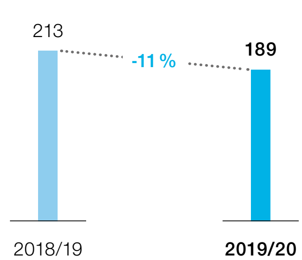
Research and development (R&D) has traditionally played a central role at Voith. Ever since the Company was founded, our engineers have been writing history with their inventions in the field of technology. This is reflected in the strong patent base: Voith holds several thousand active patents worldwide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

In order to remain successful in the future, it is of decisive importance to identify challenges for national economies, markets and businesses, and to develop innovative, viable and sustainable solutions in response. We apply systematic foresight management throughout all Group Divisions when selecting development projects and formulating our R&D strategy. As part of this process, we have drawn up a number of consistent future visions and scenarios for all relevant market and technology fields. We use the information summarized in this way to derive market demands and technology road maps that are, in turn, followed up and refined in strategic work streams. By proceeding in this way, we entrench sustainability within the Company as we take into account the needs of future generations; at the same time, we seize growth opportunities and increase our Company's resilience to upcoming challenges.

The megatrends of digitalization and decarbonization of the economy constitute central challenges over the coming decades and simultaneously point the way for Voith's R&D strategy. The strategic growth areas we have defined for Voith include energy storage, electric drive systems and hydrogen technology.

We continue to invest consistently in research and development of new solutions – over the past five years investment in this field has totaled over €1 billion. We have made the conscious decision to keep up our commitment even in this fiscal year marked by the COVID-19 crisis. Consequently, we have not reduced our R&D budget as part of our coronavirus crisis management; R&D projects were neither discontinued nor reduced in scope. Some customer-specific projects did, however, have to be postponed due to pandemic-related project delays, which means that a lower level of R&D expenses were incurred overall in the reporting year than originally planned. As a result, the Voith Group's R&D expenses stood at €189 million in the 2019/20 fiscal year, a fall on the previous-year level (previous year: €213 million).

**Research and development** Group
in € millions



The R&D ratio of the Voith Group, based on Group sales, stood at 4.5% (previous year: 5.0%). Of the total R&D expenses of €189 million, €10 million were capitalized (previous year: €14 million). Simultaneously, depreciation and amortization of €7 million (previous year: €5 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*

We continue the traditions of the family-owned company Voith based on our understanding of sustainability: the obligation to take ecologically sound, socially responsible and fair actions, and to return a profit over the long term. We are systematically implementing our sustainability strategy and have defined five fields of action to this end. Our aspiration of sustainable business management and our pursuit of profitable growth are stated here, as is our responsibility for our products, for the environment and for our employees.

Voith is one of the leading companies in its sector with regard to sustainable business, as has been confirmed by an independent body: in the corporate rating by the renowned rating agency ISS ESG, our sustainability activities conducted in 2019 were given a C+ grade. This is equivalent to prime status. In addition to the motivation it gives at a professional level, we are also benefiting from this award in terms of economics, as assessments of this kind play an ever-increasing role in the decision-making by lenders.

With the start of the 2019/20 fiscal year, we entered a new target period, one that also includes a specific carbon objective for the first time. With the objective of achieving climate-neutral operations overall at a global level as of 2022, Voith is one of the pioneers in its sector.

The current version of the Voith Sustainability Report is available on the Internet at **http://voith.com/corp-en/about-us/sustainability.html**.

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 fields of action can be found in our sustainability report.

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

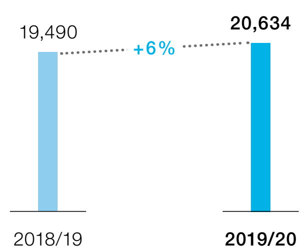
* The content of this section consists of unaudited, voluntary content that was critically read by the independent auditor.

# I.6. Employees

## Number and distribution of employees

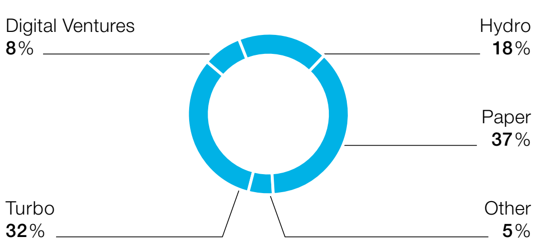
The number of employees (all figures represent full-time equivalents, excluding apprentices, as at September 30) within the Voith Group developed over the 2019/20 fiscal year and was distributed between the various Group Divisions and regions as follows:

**Employees** Group[1]
Full-time equivalents as at September 30

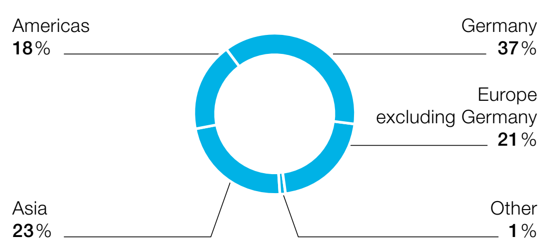



[1] Without discontinued operations; previous-year figure restated.

**Employees** total 20,634
by Group Division




by region




As at the end of the 2019/20 fiscal year, the Voith Group had a headcount of 20,634 employees (previous-year figure restated: 19,490). This figure does not include the 30 employees (previous year figure restated: 32) of the discontinued operations.

On balance, the number of Voith Group employees increased by 1,144. In this context, Voith took on 1,768 new employees due to company acquisitions. In contrast, 624 positions were cut, the majority being in the Group Division Hydro.

Information on this organizational change can be found in section II.4.4. **Digital Ventures**.

Within the Group, a total of around 560 positions were transferred from the Group Division Digital Ventures to the three established Group Divisions over the reporting year. The background to this is that the automation operating business was integrated into the established Group Division as it plays an ever more important role in the successful marketing of our products and solutions in the core markets. More than half of the positions transferred were integrated into the Group Division Paper.

Despite the automation business employees taken on from Digital Ventures, the number of jobs at Voith Hydro decreased on balance by 91 to 3,675. This development is attributable to capacity adjustments, especially in Brazil, as a competency consequence of ongoing reluctance to invest in infrastructure projects.

Information on the acquisition of BTG and Toscotec can be found in section II.4.2. **Paper**.

At Voith Paper, the Group Division with the highest headcount (September 30, 2020: 7,593 employees), the number of employees increased by 947 in comparison with the previous year. The growth in the number of jobs is essentially attributable to the fact that the employees of the acquired companies BTG and Toscotec, around 820 in total, were attributed to the Group Division for the first time. In addition, there was the effect from integration of the automation business. Productivity increases and market-related adjustments led to personnel adjustments at individual locations.

Information on the acquisition of ELIN Motoren can be found in section II.4.3 **Turbo**.

At Voith Turbo, the number of employees rose on balance by 955 to 6,555 as at September 30, 2020. 945 of these employees stem from ELIN Motoren (headquartered in Austria with plants in Bosnia and Hungary), which was acquired and consolidated in the reporting year. A smaller portion of the increase in personnel at Voith Turbo was a result of the internal transfer of jobs from the Group Division Digital Ventures.

At the end of the reporting year, Voith Digital Ventures had a headcount of 1,663 employees, 617 less than one year before. The decrease is essentially due to the transfer of jobs within the Group already described. A smaller number of jobs were cut following measures to improve efficiency.

The number of employees in the Corporate Functions & Services Division, i.e. in the central administrative functions, were reduced by 50 to 1,148.

As far as the regions are concerned, the majority of Voith's employees continue to be based in Germany. The second largest region is Asia, followed by Europe excluding Germany, and the Americas.

As part of its COVID-19 crisis management, Voith made use of government assistance programs, such as short-time working allowances in Germany and similar offerings in other countries wherever possible and appropriate. Over and above this, employees reducing their accrued overtime and vacation entitlements, and voluntary salary waivers on the part of executive managers, made a contribution to alleviating the economic consequences of the pandemic.

## 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 2019/20 fiscal year, 744 apprentices and students were employed at Voith locations around the globe (previous year: 833, -11 %). The number of apprentices fell primarily in Brazil on account of the ongoing difficult macroeconomic environment.

As a matter of tradition, we attach great importance to first-class vocational training. We place great value on interdisciplinary learning and a holistic approach to imparting a combination of both social and professional skills. We are also committed to the topic of education at our international locations. The largest Voith training facility outside Germany is the Kunshan Training Center in China, opened in 2014. At that facility, we employ training methods based on the German dual system but adapted to local requirements. In Brazil, where Voith opened its first plant back in 1964, we have also been training young people for many years now. In São Paulo, for example, we team with local training institutions to offer young people aged 15 years and older a dual-track apprenticeship, generally four years in length, that regularly provides excellently qualified young technicians.

As part of digital transformation, modern information and communications technologies merge with industrial processes. In order to prepare young people appropriately for a changing production landscape, we integrated new digital work contents into the training for technical professions in the 2017/18 fiscal year. Thanks to consistent digitalization, Voith succeeded in avoiding any major disruptions to vocational training despite the COVID-19 pandemic: although it was only possible to provide many apprentices with limited supervision at their training facilities for several weeks, Voith continued to provide remote teaching by means of a digital learning management system.

## Advancing Voith's culture*

Over the course of the reporting year, we spent a great deal of time and effort addressing the corporate culture and the employee competencies and skills needed to lead Voith successfully through this new decade. We want to advance our corporate culture towards a stronger market and customer orientation and become more innovative. We are convinced that, in an increasingly complex, networked and dynamic world, the future belongs to those who think and act in networks in a self-efficacious, independent, inquisitive and flexible manner. The challenges faced by a technology company, the upheavals in our markets and industries can be overcome. For this we need the courage to try out new approaches, the willingness to achieve viable results and the passion to work with colleagues and partners in finding new or better solutions by integrating their different skill sets and perspectives.

A competency model was derived from this basis in cooperation with the senior management team that enhances a way of thinking and working among our employees that makes Voith as a whole even more flexible, transparent and participative. "Achieve", "Collaborate" and "Explore" ("ACE") are the underlying dimensions of our new competency model that simultaneously constitute the guiding principle by which

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

we will identify and promote the top performers, networkers and innovators among our employees in the future. Closely connected to the three basic competencies are the leadership competencies "Enable", "Connect" and "Transform", which are at the same time the new, central elements of Voith's understanding of leadership.

The selection and further development of our employees and executive managers will be shaped by our new competency model in the future. Over and above this, it is the basis for all other HR tools.

## Employee recruitment and personnel marketing*

Competition for qualified employees is intensifying in many areas. At the same time, we consider attracting people with the right attitude to be critical to Voith's success. With an employer branding campaign developed in the reporting year, we have translated the competencies central to our Company into a corresponding visual and textual form. The campaign not only communicates the employer values consistent with the competencies but also references the global megatrends that Voith addresses with its products. From the 2020/21 fiscal year onwards, we will purposefully transpose this employer branding campaign into our digital communication channels (Voith's career website including job advertisements and social media).

Recruitment activities over the reporting year continued to focus on new hires who will play a role in shaping the digitalization of our Company and our portfolio of offerings. An additional focal point was placed on filling service vacancies where major growth objectives come into conflict with challenging demographic developments. In the choice of applicants, the crucial factors include, in addition to the required professional qualifications, ways of thinking and working that align with our corporate culture. As executive managers have a decisive influence on the dedication of our employees and on the development of their potential, the first step already implemented was to align new appointments to senior management positions to the new competency model. In this context, the reporting year saw the introduction of a new assessment instrument for the selection of candidates for the senior management level that involves internal and external observers.

## Personnel development and talent management*

In light of the great speed of change – in the context of digitalization, to name only one example – the willingness to engage in lifelong learning is a requirement we place on each and every employee. Based on our employees' individual training needs, we offer them access to internal and external training and personal development measures that expand their professional, personal and methodology skill sets. Our personnel development concepts are intended to help us, as an organization, to prepare for a dynamic, complex and networked working world and empower our employees to actively participate in shaping it. In this respect, a key role will be played by executive managers. They take part in modular training programs that we employ to create a common understanding of leadership across all Group Divisions and regions. In the reporting year, we reworded our leadership concept on the basis of the competency model. As part of this overall concept, our next step will be to appropriately revise the

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

executive management development program in terms of structure and content and to successively implement new training courses.

Our leadership calendar forms the operative framework for personnel development; it contains various management instruments such as formalized employee appraisals relating to individual objectives and development prospects as well as assessments of performance and potential. Here again, the design of these management tools has been revised to take account of the competency model. All in all, a greater focus is placed on a continual dialog between employee and executive manager. The new leadership calendar is being piloted in some areas over the 2020/21 fiscal year and will then be applied throughout the organization in the 2021/22 fiscal year.

## Ongoing digitalization and automation of HR processes*

Digitalization and automation of HR processes continues apace. To name one example, we improved and expanded the intranet-based self-service platform “Voith and Me” over the reporting year. All employees and their line managers now have access at all times to data such as vacation and time accounts as well as information relating to their employment relationship. Personal data can be updated by the employees themselves, and applications, for parental leave for example, can be filed online and further processed digitally. Optimization of our self-service platform is an important prerequisite for the planned introduction of a Group-wide integrated ESM (enterprise service management) platform that maps the administrative HR processes across departments, Group Divisions and regions, and renders their handling more efficient.

## Work-life balance*

At Voith, it is a matter of course to provide fair working conditions and competitive compensation. Younger employees, in particular, increasingly give priority to soft factors. These include, in addition to a meaningful occupation and opportunities for personal development, the desire to achieve a better balance between professional and private life. Voith sees itself as a family-friendly company. 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. A part-time work/training arrangement combines an active phase, where employees work for reduced pay, with a subsequent passive phase, in which they can study for additional professional qualifications while receiving continued payment. Voith also takes care of employees who retire or have become incapacitated, and provides support to the respective groups of people through part-time retirement models, company pension schemes and a mutual benefit fund. Our flexibility with regard to working-time models proved its worth particularly during the COVID-19 pandemic. Over the first few months of 2020, for instance, we succeeded in smoothly switching over to mobile working for all employees with screen-based workstations.

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

## Diversity and equal opportunity*

Voith employs people of all genders who are at different stages of their lives, come from just under 100 nations and bring their own individual experiences with them. As an employer, Voith sees it as its duty to offer all its employees equal opportunities and to ensure that the workplace is free from discrimination. Furthermore, studies have shown that diversity enriches the corporate culture, encourages team creativity and innovative drive, and contributes to the economic success of companies.

Since the 2012/13 fiscal year, there has been a Group-wide diversity and inclusion (D&I) initiative in place. At Voith, we see the diversity of our workforce as consisting of gender, age, nationality or ethnic origins, training and professional experience, as well as all other individual differences such as social background, beliefs, physical abilities or sexual orientation. For us, “inclusion” means a culture of appreciation and mutual respect that facilitates the development of individual potential and the contribution of different perspectives, approaches and strategies.

Alongside consistently increasing executive and employee awareness by means of workshops and related campaigns, the D&I program also involves optimizing our processes with regard to unconscious patterns of thought. In addition, managers have been provided with a D&I toolkit that contains concrete suggestions for how to work in and manage teams. In our new competency model, the D&I concept is expressed within the “Collaborate” competency. As a signatory to the Diversity Charter, Voith has taken part in the German Diversity Day since 2019. This year, various digital formats such as moderated online discussions, an e-learning program and interviews were made available globally.

As women are still underrepresented in technical professions and courses of studies, technology companies employ significantly fewer women than men, in general. In comparison to the previous year, around 180 more women were working at Voith as at September 30, 2020, than one year previously. The proportion of women in the overall workforce stood unchanged at 18% (based on headcount). In order to increase the proportion of women, specifically the proportion of female executives within the Company, we are making efforts to inspire girls and women to take up STEM professions, to position Voith as an attractive employer especially for female candidates, and to promote equal opportunity within the Company. These activities are also supported by internal women’s networks with various initiatives such as mentoring programs, networking events and courses.

## 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.

In the field of occupational safety, we are building on our effective HSE (Health, Safety, Environment) organization. A corresponding Group directive prescribes mandatory minimum requirements and standards for the Voith Group and contains fundamental written standard operating procedures. All rules and regulations are available in the Group’s hse+ IT system. All employees are covered by Voith’s

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

occupational safety program. Information and goals are rolled out throughout the organization, from the Board of Management through the respective executives down to employee level. Supervisors train their staff and address safety issues at regular meetings. This process is supported by the use of centrally coordinated training documents.

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 dramatically 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 was 1.8 (previous year: 1.5) per one million working hours or a total of 68 (previous year: 54) accidents. In comparison: the average frequency rate for companies in the German Wood and Metal Trades Association is 21.2. There has also been an appreciable improvement over the long term in what is known as the severity rate – in the reporting year it stood at 455 (previous year: 364) hours lost per one million working hours. Our success has also been confirmed by external opinions – for example we achieved a top score of A+ for our occupational safety rate in the 2019 ISS ESG rating.

In the field of occupational health and safety we place particular emphasis on prevention. This involves pursuing 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.

A new challenge for occupational health and safety stems from the spread of the COVID-19 pandemic that was declared to be a global pandemic by the World Health Organization (WHO) at the beginning of March 2020. We have taken a number of preventive measures, firstly to protect to the greatest possible extent the health of our employees and secondly as our contribution to slowing the momentum of the wave of infection. With the objective of reducing the number of persons present at our facilities, we have appreciably expanded the options for mobile working, reduced working time accounts and vacation days and implemented vacation close-downs at some locations. There are worldwide restrictions on travel. External and internal meetings are replaced as far as possible by conference calls and online meetings. For the employees remaining at the facilities, primarily those in production and logistics and deployed in safeguarding infrastructure, a wide range of protective measures have been introduced on-site to avoid the risk of infection to the greatest possible extent. We pay attention to strict compliance with the hygiene concepts and social distancing both at our own facilities and at customer's premises. This serves to protect not only our employees but also our colleagues on the customer side; at the same time, it is essential to allow us to perform services and carry out construction site activities for our customers and to enable us to support them in maintaining their production and implementing their projects. Our crisis management was successful: larger infection outbreaks have been prevented at our Company so far, and we were able to maintain business operations and production in the reporting year with only few interruptions at individual locations due to government regulations. We continue to closely observe developments and keep our employees up to date promptly and proactively. In doing so, we follow the guidelines issued by the WHO and national authorities with whom we communicate directly. We reserve the right to intensify the protective measures at any time, depending on the given situation.

# II. Economic report

## II.1. Overall assessment

### Robust operating and financial condition stands the test in the crisis

The Voith Group looks back on a very challenging 2019/20 fiscal year (October 1, 2019 to September 30, 2020). After a first quarter that went according to plan, the reporting year was overshadowed by the outbreak of the coronavirus pandemic and the global recession it triggered.

Voith demonstrated its robust nature in the crisis nevertheless. Thanks to our successful crisis management we were able to maintain business continuity and keep up our production with only few interruptions at individual locations due to government regulations, and fulfill our customer orders. Our broad sectoral and geographical positioning, regional supply chains and a sound balance sheet have enabled us to endure the crisis relatively well so far.

The contact restrictions associated with the pandemic and production interruptions on the part of customers and in particular the investment restraint in virtually all customer industries due to the recession also had a significant impact on Voith's 2019/20 consolidated financial statements. Our orders received fell on the previous-year figure – a very high figure, which was characterized by an exceptional major project in the area of hydropower – by 14% to €4,036 million. At €4,173 million (-3%), sales were also slightly down on the previous year. Voith continued to return a profit even if all earnings indicators were significantly lower than in the previous year. The performance indicator EBIT, being our most important operating earnings indicator, fell by 33% to €139 million. In line with this development, there was a deterioration in return on sales (3.3%, previous year: 4.8%) and ROCE (7.5%, previous year: 11.5%). The main cause of this decline in earnings was the lower sales volume. Short-term cost-cutting was able to partially compensate for the volume effect. The Group net result was additionally subject to the negative impact from restructuring expenses, such as those incurred in connection with optimizing the production network in the Group Division Turbo as well as those stemming from higher depreciation and amortization as a consequence of acquisitions and from a higher tax rate, to name some examples. The increase is primarily attributable to non-tax-deductible expenses, impairments of deferred tax assets and regional differences regarding the earnings power of the Group companies. After all deductions, there remained a consolidated net income of €6 million (previous year: €72 million).

In the reporting year, we naturally did not reach our targets set out prior to the outbreak of the coronavirus pandemic. In the light of the deep economic collapse that took place at virtually the same time in all regions and many sectors, we consider the development of Voith's business operations to be satisfactory overall, nevertheless.

Over the course of the 2019/20 fiscal year, we made three larger and strategically significant acquisitions. The new subsidiaries, BTG, ELIN Motoren and Toscotec, contributed in total orders received of €216 million and sales of €227 million to the Group.

We made a conscious decision to keep our R&D budget at a high level. We are confident that the intense investment in the development of innovative products and services for our established markets and also in strategic growth areas will provide us with a competitive advantage once the crisis has been overcome. Furthermore, we have invested 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 remains very sound. The equity ratio stood at 20.8% at the end of the reporting year (previous year: 26.2%). The main reasons for the decline consisted of an increase in total assets on account of M&A activities and exchange rate effects. Thanks to consistent working capital management, among other factors, the Group succeeded in increasing the cash flow from operating activities to €234 million (previous year: €46 million) and total cash flow stood at €200 million (previous year: €66 million). Net liquidity, defined as the difference between liquid financial assets and interest-bearing financial liabilities (not taking lease liabilities into consideration) remains positive despite the intense acquisition activity in the reporting year, standing at €71 million as at September 30, 2020. On account of the imponderabilities regarding the further course of the COVID-19 pandemic, we increased our confirmed credit lines by €375 million. We refer to our explanations in Section II.5.3. Financial position. The stable liquidity position from our own bank deposits and existing loan agreements gives us sufficient leeway to invest in our future and to advance important strategic topics.

Further information on this can be found in the section of the notes to the financial statements entitled **Discontinued operations in the 2019/20 fiscal year**.

The information on the operating activities in the reporting year relates to the Voith Group's continuing operations. The activities of merQbiz LLC ("merQbiz") are treated as discontinued operations as was already the case in the previous year. The background to this is that we intend to continue merQbiz's activities together with an investment partner who will assume the majority shareholding. The activities of Voith Composites SE & Co. KG ("Voith Composites") are to be continued after all and are therefore disclosed in the Voith Group's operating activities, in contrast to the previous year. The figures for the previous year in the statement of income and the associated notes to the financial statements have been restated correspondingly.

## II.2. Macroeconomic and industry-specific environment

### COVID-19 pandemic plunges global economy into unprecedented recession

The COVID-19 pandemic that broke out at the end of 2019, spread over all continents from January 2020 onwards and was declared a global pandemic by the World Health Organization (WHO) at the beginning of March, triggered an unparalleled economic shock worldwide. In the opinion of economic researchers, the virtually simultaneous collapse in all regions of the world, the depth of the fall and the anticipated duration of the recovery make this crisis the worst economic crisis since the Second World War.

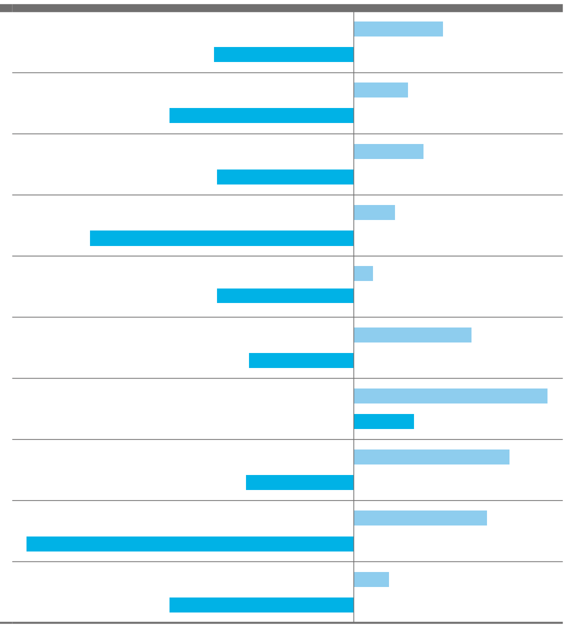
The government-imposed measures aimed at containing the pandemic, such as extensive lockdowns, social contact and travel restrictions, but also voluntary "social distancing", brought economic activity in many industries to a standstill at times. In this respect, it was not only the supply side that was affected – macroeconomic demand also collapsed on a broad front. Supply chains, trade and capital flows were hard hit, industrial production suffered a massive drop, investment and consumer expenditure fell dramatically. As a consequence, virtually all economies around the world entered recession over the first half of 2020.

The standstill saw its peak in April 2020, which at the same time constituted the lowest point in global economic activity. Individual countries gradually eased their measures from May/June onwards as the first wave of infection lost momentum in each nation. Whereas private expenditure on consumption and trade recovered immediately when the economy was reopened, business remained cautious with a wait-and-see approach so that industrial production in many countries at the end of the 2019/20 fiscal year was perceptibly down on the pre-crisis level (December 2019).

For the full year 2020, the IMF's most recent publication from October 2020 forecasts a decline in global economic output of 4.4%.

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

| | | |
|---|---|---|
| **World output** | 2019 | 2.8% |
| | **2020** | **-4.4%** |
| **Advanced economies** | 2019 | 1.7% |
| | **2020** | **-5.8%** |
| USA | 2019 | 2.2% |
| | **2020** | **-4.3%** |
| Euro area[2] | 2019 | 1.3% |
| | **2020** | **-8.3%** |
| Germany | 2019 | 0.6% |
| | **2020** | **-6.0%** |
| **Emerging market and developing economies** | 2019 | 3.7% |
| | **2020** | **-3.3%** |
| China | 2019 | 6.1% |
| | **2020** | **1.9%** |
| ASEAN-5 | 2019 | 4.9% |
| | **2020** | **-3.4%** |
| India | 2019 | 4.2% |
| | **2020** | **-10.3%** |
| Brazil | 2019 | 1.1% |
| | **2020** | **-5.8%** |



Source: International Monetary Fund (IMF); World Economic Outlook, Oct. 2020.
[1] 2019: estimates; 2020: forecasts.
[2] Including Germany.

All regions of the world were seriously impacted by the COVID-19 crisis. The depth of the recession and the strength of the recovery varied between individual countries, however, and essentially depended on the duration and the severity of the lockdowns and the extent and the efficacy of government financial aid and economic stimulus packages.

The only major economy that has seen growth over the full year 2020 is China (IMF forecast for 2020: +1.9%). The country that was first hit by the wave of infection had already reopened over large areas from the beginning of April onwards and recovered comparatively quickly – also thanks to extensive government investment. The gross domestic product of all other countries of relevance for Voith will in all probability fall in 2020. The euro zone (IMF forecast for 2020: -8.3%) has suffered considerable economic damage from the COVID-19 crisis that was mitigated somewhat by the extensive national and European financial support measures. The large economies of Southern and Western Europe were especially hard hit – Spain (-12.8%), Italy (-10.6%) and France (-9.8%). Compared to these figures, the percentage decline in German GDP (-6.0%) will be smaller but nevertheless perceptibly above the global average. The UK economy (-9.8%) is not only struggling with the pandemic but also with the impending Brexit. The US economy recovered faster than anticipated after its coronavirus-related plunge in April, but is expected to contract by 4.3% over the full year 2020. In Brazil (-5.8%), the pandemic came upon an economy that was already ailing as a consequence of fallen raw material prices and a political crisis. India (-10.3%) imposed one of the longest and strictest lockdowns but subsequently had difficulty in bringing the spread of COVID-19 under control on account of an insufficiently prepared health system. The decline in gross domestic product will probably be smaller in the ASEAN-5 countries (-3.4%).

## Mechanical and plant engineering experiencing a COVID-19 shock

Mechanical and plant engineering suffered massively from the consequences of the COVID-19 crisis in the reporting year. The ongoing protectionism in international trade continued to have a negative impact. The key figures for the German mechanical and plant engineering sector dropped considerably in 2020 according to data provided by VDMA, the relevant industry association: for instance, orders received and production dropped by 16% and 14% respectively, over the first eight months of 2020; capacity utilization fell to 76% by July 2020, the lowest figure since 2010.

## COVID-19-related decline in the five Voith markets

All five markets served by Voith were hit by the economic shock triggered by the COVID-19 pandemic in the reporting year. The declines were particularly sharp in the markets of energy, oil & gas and raw materials.

### Energy: investments in electricity generation capacities contracting over the short term

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

Global electricity consumption declined perceptibly in the 2019/20 fiscal year. Initially, the extensive lockdowns triggered a dramatic collapse from the first quarter of the year 2020 onwards; from then on, demand remained lower than in previous years as a consequence of the economic downswing. In line with the decline in demand, there was a decrease in conventional electricity generation – a perceptible one in the case of coal and gas, a slight one in the case of nuclear energy. In contrast, electricity generation from renewable energy sources is virtually independent of short-term fluctuations in demand as electricity from renewable energy sources is in many places subject to a priority dispatch regime, being fed into the electricity grid before other energy sources. According to IEA forecasts, electricity generation from renewable energy sources will grow by 5% in 2020. The secular trend of renewable energies increasing in importance continues; their share in global electricity generation will grow to 30% in 2020, according to an IEA estimate.

The electricity generation capacities from renewable sources continue to increase albeit at a slower rate in 2020 in the context of the pandemic. Investments in renewable energy projects, for instance, declined perceptibly in the reporting year, major project awards were postponed in many cases. 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. The volume of contracts awarded relevant to the Group Division Hydro in the 2019/20 fiscal year was appreciably down on the previous-year level. Investment in the market for conventional power plant technology, which is relevant for the Group Division Turbo, decreased in the reporting year from an already low level.

Irrespective of the decline in 2020, increasing energy and electricity needs are to be expected over the long term.

### Oil & gas: investments collapse following a price slump

The oil & gas market comprises three segments: upstream involving the extraction of crude oil and natural gas, midstream involving 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 Industry division of the Group Division Turbo supplies all segments in this market with application-specific products and services.

Triggered by the coronavirus pandemic, the oil market experienced an unparalleled demand shock over the first four months of the year 2020 and the crude oil price saw an outright plunge – initially with no cuts to oil production. The price for a barrel of Brent oil, which had still been moving between USD 53 and USD 62 over the fourth quarter of 2019, fell from the beginning of January 2020, when news of the outbreak of a coronavirus epidemic in China became known, until the end of April 2020, the peak of the lockdowns aimed at containing what in the meantime had become a global pandemic, to a price of under USD 20. Along with the successive easing of the measures and the associated hope for an economic recovery and on account of the agreement reached between the OPEC partners and other major oil-producing countries on a massive reduction in production volume, the crude oil price recovered part of its losses and as of June moved back above USD 40.

As gas is primarily used for electricity generation and for heating and only to a minor extent as a fuel, the gas price suffered less severely from the COVID-19 crisis than the oil price. The gas price (Henry Hub) nevertheless virtually halved between the end of 2019 and April 2020, before rising towards the USD 2.75 mark per one million British thermal units in a volatile upwards movement. The low gas price overall in the reporting year is attributable to large supply-side volumes alongside low demand as a consequence of the coronavirus-related economic collapse.

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. Investments in the oil & gas market plunged dramatically in the wake of the COVID-19 crisis. For the year 2020, market analysts forecast a fall in upstream investments of around one third in comparison to the previous year. Due to the declining demand for oil and gas, there are at least over the short term also excess capacities that hamper investment in the midstream and downstream area.

### Paper: COVID-19 crisis accelerates structural change

The paper market covers all areas of paper manufacturing: from paper recycling and paper production including surface refinement to calendering, painting and reeling paper webs. The Group Division Paper serves the market with all types of paper – board and packaging paper, tissue, specialty paper and graphic paper, such as newspaper and printing paper. Its range of offers includes new lines, rebuilds of entire production facilities, automation technology, partial rebuilds, services and spare parts, optimization products, roll covers and fabrics, preparation of primary (pulp) and secondary fiber (wastepaper) and water treatment facilities.

In Voith's 2019/20 fiscal year, global paper production was, contrary to original expectations, down on the previous-year level due to COVID-19 and is expected to see only slight growth again in the 2020/21 fiscal year. In 2020, all grades of paper apart from tissue were impacted by the decline, the largest decrease in absolute and percentage terms related to graphic paper. In this respect, the COVID-19 crisis is driving the structural change. Consequently, market analysts are forecasting that, due to the accelerating digitalization of day-to-day life, the downward trend with graphic papers will continue unabated even from the production level after the 2020 slump. For all other grades, a return to slight growth is anticipated from 2021, most clearly in the case of board and packaging papers.

The lower production figures led to a fall in demand for consumables and service offerings in the reporting year. The market for new machines and rebuilds, a vital market for Voith, collapsed in the second half of the 2019/20 fiscal year on account of the pandemic spreading in virtually all regions of the world. China constitutes one exception, where the economy recovered earlier and more quickly than in other regions.

### Raw materials: another setback for crisis-ridden market

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, which by 2019 had still not completely recovered following the dramatic collapse following the global financial crisis, was badly hit once again by the COVID-19 crisis. Prices for power plant coal, which had already fallen over 2019, collapsed once again in spring and summer 2020 by around 20% in comparison to the previous year. The prices of most metals were already weakening in 2019 on account of the cooling global economy; they continued to fall over the first half of 2020 due to the macroeconomic shock triggered by the COVID-19 pandemic before going over into a slight recovery in summer 2020. The only exception was the price of iron ore, which had already seen a perceptible rise in 2019: it declined over the first calendar quarter of 2020 before returning to appreciable growth along with the early opening of the Chinese economy. The mining industry was not only impacted by the recession-related fall in demand and prices, the sector's productivity also suffered from the shutdowns and contact restrictions as well as supply chain interruptions. In line with these developments, mine operators have perceptibly cut back on their investments; according to forecasts by market analysts the decrease will amount to more than 10% in 2020.

### Transport & automotive: recession-related collapse in commercial vehicles segment

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 and supplies drive components and solutions, as well as brake systems for the commercial vehicle industry, rail sector and marine segments.

The truck market, that had already weakened in 2019 after a ten-year growth cycle and was already in slight decline, collapsed outright in 2020. The cyclical downswing was reinforced by the effects of the COVID-19 pandemic. In this context, the coronavirus effect impacted the medium-size trucks (6–15 metric tons) particularly severely but the segment of heavy trucks (> 15 metric tons), which is of central importance for Voith received an additional coronavirus-related setback. Following the end of the lockdowns, demand for heavy and medium-size trucks recovered only gradually in Western Europe, the USA and Brazil. In contrast, the Chinese market returned to highly dynamic growth in April 2020 already, so that the coronavirus-related contractions in the first calendar quarter of 2020 were appreciably more than offset over the further course of the 2019/20 fiscal year. In addition to the introduction of the national emissions standard China VI as of July 1, 2020, the driving force behind this special economic upswing was a government-sponsored fleet renewal program that will remain in effect until the end of 2020.

For the full year 2020, market analysts are forecasting a decline in the global truck market (> 6 metric tons) of just under one fifth. The bus segment lost a large share of its passengers in the COVID-19 crisis; the resulting cost-cutting measures led to a sharp fall in global demand for buses. In this context, Chinese manufacturers saw the smallest decrease.

Rail traffic suffered severely from the coronavirus pandemic: public transport is seeing a dramatic fall in passenger numbers in the wake of the travel restrictions, contact restrictions and social distancing, and freight transport is being impacted by a recession-related decline in demand. Due to the long lead times in procurement, however, this had little effect on ongoing rail projects in the reporting year. Even if passenger numbers in public transport, in particular, are not expected to return to pre-crisis levels for several years, the long-term growth trend driven by climate protection remains unbroken. Consequently, it may be assumed that the losses incurred by state-owned rail operators will be compensated for by public spending, and government infrastructure investments will continue to rise over the coming years albeit at a somewhat lower level than prior to the COVID-19 crisis.

The coronavirus pandemic has put the marine market under increased pressure. The cruise industry has just about come to a standstill due to travel and contact restrictions, and freight transport is suffering from the recession. Niche fields such as special-purpose vessels offer potential.

A trend toward electric/hybrid drives and other environmentally friendly technologies aimed at meeting climate targets, as well as digital solutions can be observed in virtually all segments of the transport & automotive market.

## II.3. Business development of the Group

### II.3.1. Material events

The 2019/20 fiscal year was characterized by intense M&A activities. We invested around €450 million in the purchase of companies that complement our portfolio extremely well, reinforcing our offerings with future technologies.

Voith acquired the company BTG as of December 1, 2019. BTG is a multinational provider of integrated, highly specialized process solutions for the global pulp and paper industry with headquarters in Switzerland; its operations will strengthen Voith's position as full-line supplier in the paper industry. In the last fiscal year prior to its takeover by Voith, BTG generated sales of around €150 million, was profitable and had a workforce of around 600 employees.

As of May 1, 2020, Voith acquired 90% of the shares in Toscotec S.p.A. Headquartered in Italy, Toscotec is a manufacturer of paper machines, systems and components for tissue, paper and board. In the last fiscal year prior to its takeover by Voith, Toscotec generated sales of around €100 million, was profitable and had a workforce of more than 200 employees.

Consolidated within the Voith Group, BTG and Toscotec are assigned to the Paper segment.

Effective as of April 30, 2020, Voith acquired 70% of the shares in ELIN Motoren GmbH. Headquartered in Austria, ELIN is a high-tech company that has operations worldwide in the field of electric motors and generators and provides customized solutions for industrial applications. In the last fiscal year prior to its acquisition, ELIN Motoren GmbH generated sales of around €120 million, was profitable and had a workforce of around 960 employees. Consolidated within the Voith Group, ELIN Motoren is assigned to the Turbo segment.

Over and above this, we are planning to join forces with Swiss holding company PCS Holding to acquire the majority shareholding in Traktionssysteme Austria GmbH (TSA). TSA is the world's leading manufacturer of electric motors, generators and transmissions for rail and commercial vehicles. Following signing of the agreement in April 2020, we expect closing of the transaction to occur towards the end of 2020. TSA has a worldwide workforce of around 770 employees.

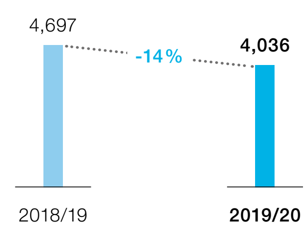
Together with Moog Inc., a developer, manufacturer and supplier of electric, hydraulic and hybrid drive solutions, we have formed the joint venture HMS – Hybrid Motion Solutions GmbH, based in Rutesheim, Germany. With the joint venture, we aim to expand the hydrostatic servo-hydraulics business in various industrial markets.

## II.3.2. Orders received

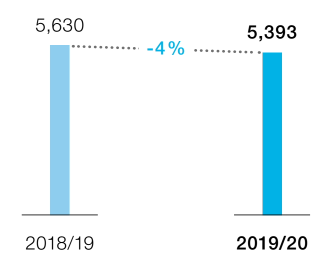
### Orders received reflect the COVID-19 crisis

In the 2019/20 fiscal year, the Voith Group secured new orders worth €4,036 million. This is a decrease of 14% in comparison to the very high previous-year figure which was impacted by an exceptional major project in the area of hydropower. It was not possible to achieve the “stable orders received” (forecast 2019 management report) anticipated prior to the outbreak of the COVID-19 pandemic on account of the worldwide economic shock. In the light of the unexpected crisis-ridden macroeconomic environment, this is nevertheless a satisfactory result. The Voith Group’s orders on hand stood at €5,393 million (previous year: €5,630 million).

**Orders received** Group[1)]
in € millions




**Orders on hand** Group
in € millions




1) Previous-year figure restated.

The 2019/20 consolidated financial statements also include for the first time the new subsidiaries, BTG, ELIN Motoren and Toscotec, which were acquired over the course of the reporting year and contributed orders received totaling €216 million. The Group’s orders received were negatively impacted by currency effects totaling €-65 million. Adjusted for acquisition and currency effects, orders received declined by 17%.

The COVID-19 crisis had adverse effects on all markets served by Voith. The decline at Group level was mainly due to the performance of the Group Division Hydro (-46%). The economic shock triggered by the pandemic meant that almost no major hydropower projects were awarded in the reporting year. As a consequence, the market volume and orders received fell more sharply than expected, albeit starting from an exceptionally high baseline level in the previous year. In the Group Division Turbo (-3%), the coronavirus-related decrease in orders received was partially balanced out by an acquisition. Paper was the only Group Division to record an increase in orders received (+8%), likewise buoyed by acquisitions. But even in strictly organic terms, Voith Paper saw comparatively stable developments on the back of good business with China. This allowed Voith Paper to contribute 42% to the Group’s orders received.

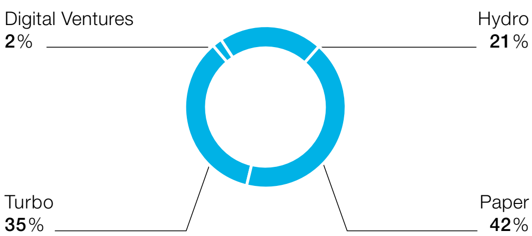
Detailed information on the development of orders received in each Group Division can be found in section II.4. **Business development of the Group Divisions**.

In the Group Division Digital Ventures, orders on hand is of no particular informative value – in contrast to mechanical and plant engineering, for example – on account of the short lead times. Orders received are virtually identical to sales and this figure is therefore not reported separately.

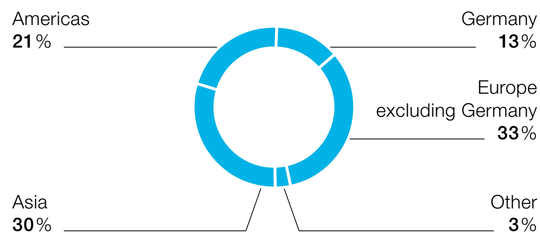
In the reporting year, orders received were distributed as follows among the Group Divisions and regional markets:

**Orders received** total €4,036 million

by Group Division




by region

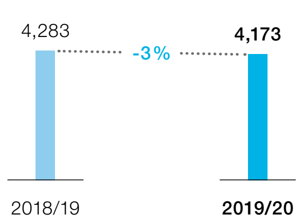



## II.3.3. Sales

### Group sales only slightly down

At €4,173 million, Group sales were 3% lower than in the previous year. The "slight increase" announced in the 2019 management report was not achieved due to the coronavirus pandemic. Sales in the reporting year were impacted by the recession to a lesser extent than orders received on account of the long lead times in plant engineering. Having said this, local lockdowns and travel restrictions, for instance, are negatively impacting sales as commissioning work was delayed and service activities, where revenue is typically recognized quite quickly, were postponed.

**Sales** Group[1)]
in € millions




[1)] Previous-year figure restated.

The new subsidiaries, BTG, ELIN Motoren and Toscotec, that were acquired over the course of the reporting year, contributed sales totaling €227 million. In contrast, Group sales were negatively impacted by currency effects totaling €-63 million. Adjusted for acquisition and currency effects, sales decreased by 6%.

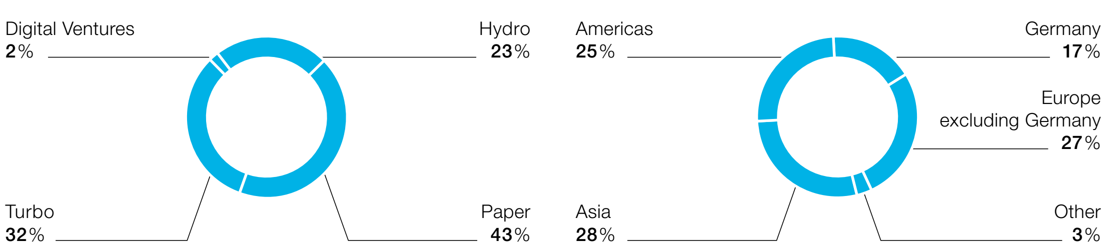
Detailed information on the development of sales in each Group Division can be found in section II.4. **Business development of the Group Divisions**.

Sales in the Group Divisions Hydro (-17%) and Turbo (-4%) fell in the reporting year. Thanks to good business with China and favorable influences from the acquisitions, Voith Paper achieved an increase in sales (+9%), thus contributing 43% to Group sales. In the Group Division Digital Ventures, sales rose slightly (+6%), despite the challenging environment.

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

**Sales** total €4,173 million

by Group Division




## II.3.4. Operating result

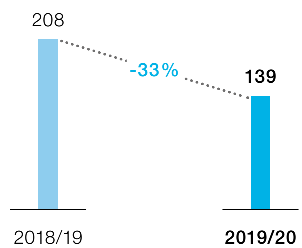
### Positive EBIT

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

Even in the year that saw the worst global economic crisis since the Second World War, Voith returned a profit. Due to the crisis, the performance indicator EBIT fell to €139 million. This means that we did not achieve our EBIT target (forecast in the 2019 management report: “perceptible increase”) formulated prior to the outbreak of the COVID-19 pandemic.

Short-term cost-cutting only partially compensated for the decrease in sales, which impacted the net result at a higher rate. In addition, one-time costs were incurred on account of technical problems with a hydropower project and on account of delivery delays and negative non-recurring effects from the restructuring of the Turbo production network in Germany that had not been completed in the reporting year. The coronavirus-related decline in the service business depressed the return on sales, which fell to 3.3% (previous-year figure restated: 4.8%).

**EBIT** Group[1)]
in € millions




**ROCE** Group[1)]
in %


[1)] Previous-year figure restated.

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

The new subsidiaries, BTG, ELIN Motoren and Toscotec, that were acquired over the course of the reporting year, contributed EBIT totaling €21 million. This was augmented by positive currency effects of €7 million. Adjusted for acquisition and currency effects, EBIT decreased by 46%.

Appreciable declines in earnings were reported by the Group Divisions Hydro (-80%) and Turbo (-44%). Voith Paper's EBIT was only slightly down (-7%) on the previous-year level. The Group Division Digital Ventures succeeded in reducing the shortfall in EBIT, an encouraging development.

ROCE decreased on account of the decline in earnings.

# II.4. Business development of the Group Divisions

## II.4.1. Hydro

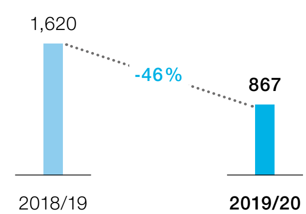
### COVID-19-related losses

The Group Division Hydro looks back on an extremely challenging fiscal year. In the light of the crisis-ridden economic environment, the targets set prior to the outbreak of the coronavirus pandemic were not reached: orders received, sales, EBIT and ROCE decreased from the good previous year at a higher rate than expected at the time of publication of the 2019 annual report.

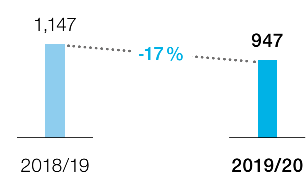
#### Key figures

The Group Division Hydro's key figures for the 2019/20 fiscal year are as follows:

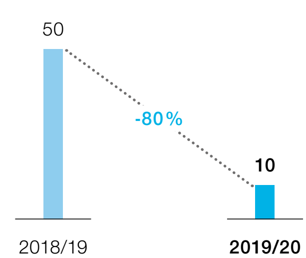
**Orders received** Hydro
in € millions



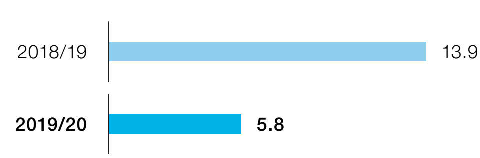

**Sales** Hydro
in € millions




**EBIT** Hydro
in € millions




**ROCE** Hydro
in %




#### Hydropower market slowed by COVID-19 pandemic

The volume of contracts awarded in the hydropower market fell appreciably over the 2019/20 fiscal year. Contract award processes were delayed on account of the COVID-19 crisis; one of the factors playing a role in this development were customers' uncertainties as to which extent projects can, under pandemic conditions, be implemented as planned. In addition, the financing of projects was called into question and reassessed after credit assessment criteria had deteriorated significantly. This led to delays in both the tendering process and in the awarding of contracts. Furthermore, service contracts were postponed in the light of lockdowns and contact restrictions.

### Fall in orders received greater than expected, due to COVID-19

Following the previous year that was very high in investments and characterized by an exceptional major project, we prepared for normalization. The business plan for the 2019/20 fiscal year consequently provided for a "perceptible decline" in orders received (forecast in 2019 management report). On account of the unexpected general market collapse, the drop of 46% was more severe than anticipated. This was aggravated by the fact that the measures aimed at containing the pandemic impeded sales activities and order processing at times.

All in all, Voith realized an appropriate share in the total volume of contracts awarded in the market that had contracted appreciably in absolute terms. Orders received in the reporting year were characterized by medium-size and smaller projects. The largest order recorded in the 2019/20 fiscal year came from South America. It involved Voith receiving the contract for supplying the electromechanical equipment for the 270 MW power plant Aña Cuá. Aña Cuá is part of the 3.2 GW hydropower project Yacyretá on the Paraná river between Argentina and Paraguay. The extension project includes the installation of three vertical Kaplan turbines with an output of more than 90 megawatts. In the 2019/20 fiscal year, Voith also signed a contract with Spanish electricity generation company Iberdrola for the modernization of a total of five pump-turbines for the Torrejón and Valdecañas hydropower plants located on the Tajo river. Due to the travel restrictions caused by the coronavirus pandemic, the entire contract negotiations were carried out virtually by both parties.

The small hydropower segment (plants with an output of up to 30 megawatts per unit) is generally suffering from the fact that operating conditions for small hydropower plants remain difficult due to a lack of grants and financing models in many countries. Our business in this segment remained stable, standing roughly at the previous-year level. In Japan, our most important small hydropower market, we were able to continue the growth trajectory, while South American markets remain under pressure from the general economic environment.

The service activities ("HyService") achieved dynamic growth over the first half of the fiscal year, which was stifled from spring 2020 onwards by the lockdowns and contact restrictions imposed in the context of combating the pandemic. Calculated on the basis of the full fiscal year, the service business nevertheless reported growth.

As at September 30, 2020, orders on hand stood at €2,908 million (September 30, 2019: €3,159 million).

### Sales down 17%

As a consequence of the COVID-19 crisis, sales in the Group Division Hydro fell significantly more than expected (forecast in the 2019 management report: "slight decline"). Firstly, construction site closures, local lockdowns and interruptions to the supply chain led to significant shifts in sales, secondly the dampened growth in orders received in the service business, that typically involves revenue being recognized quite quickly, exerted a negative influence. Looking at the regional distribution of sales, North America, Europe (including Germany) and Asia were virtually on a par.

### Appreciable decrease in operating result

The decline in EBIT is primarily attributable to the pandemic-related volume effects. In addition, one-time costs relating to technical problems with a project in North America negatively impacted the net result. As a consequence, the fall on the previous year was more severe than anticipated (forecast in the 2019 management report: “perceptible decline”). Return on sales and ROCE also decreased as a result of the decline in earnings. The return on sales stood at 1.1% (previous year: 4.4%). In the case of ROCE, we had forecast a “slight decline” in the 2019 management report. Standing at 5.8% (previous year: 13.9%), this profitability indicator was likewise below our expectations.

### Innovations

After launching an initiative to introduce a modular design in hydropower technology in the 2018/19 fiscal year, we completed the first two technology modules, which we already deployed in projects in the reporting year. The concept behind modularization is to assemble complete systems built up from individual units in a building block approach. The possibilities provided by the same components being designed for reuse mean that development can focus on how they can be combined in an intelligent way and on fulfilling individual project requirements. We expect modularization of our product portfolio to provide us with cost benefits and, at the same time, improve overall quality by reusing a design that has undergone thorough testing and proven its reliability in operation. We are advancing the modularization of the hydropower portfolio generally as part of current customer projects in order to keep development costs to a minimum and at the same time to prove the performance of the modules under real-life conditions.

Voith is participating in the “Innovations for the Energy Transition” research project funded by the German Federal Ministry for Economic Affairs and Energy and is working within the scope of the “Francis+” initiative on developing a type of turbine for flexible deployment in areas of operation in which Francis turbines have not traditionally been used. The background to this research work is that hydropower plants are increasingly important for grid stabilization and the provision of balancing power in the light of the growing share of wind and solar power in energy supplies. The research project is being conducted in cooperation with the University of Stuttgart and runs from 2019 to 2022. In the reporting year, the runner design was successfully refined in various model tests and made more robust.

We made progress in the field of generators over the reporting year, too. For a Chinese customer’s project, we developed an advanced end corona protection for controlling the electric field at the stator winding overhang of the electric generators. This part of the high voltage insulation system helps to fulfill the high customer demands such as a test voltage of 67 kilovolts.

Last but not least, we are constantly refining our digital product portfolio. In our OnPerformance.Lab, our center for digital hydro services founded in the previous year, we developed 50 defined “health status indicators” over the reporting year. We use these indicators to quantify the health status of individual power plant components, assess risks and provide customized recommendations for action. By doing so, we enable our customers to implement a more flexible maintenance strategy in line with the actual status of the components.

## II.4.2. Paper

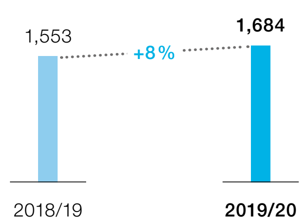
### Growth thanks to acquisitions

The Group Division Paper saw robust developments in a challenging market environment. Orders received and sales grew perceptibly, also thanks to the first-time consolidation of two strategically important acquisitions. EBIT and ROCE declined on account of the pandemic but still remained at a high level.

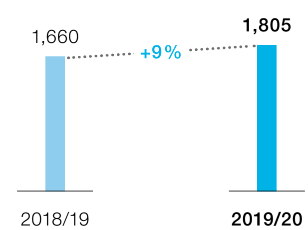
#### Key figures

The Group Division Paper's key figures for the reporting year are as follows:

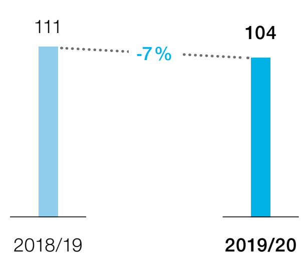
**Orders received** Paper
in € millions



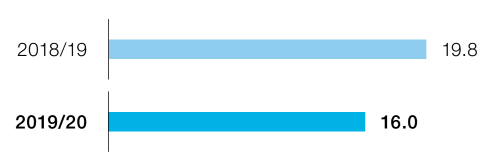

**Sales** Paper
in € millions




**EBIT** Paper
in € millions




**ROCE** Paper
in %




Information on BTG and Toscotec can be found further below in this section of the management report, under the heading **Material events** (in the Group Division Paper) and in section II.3.1. **Material events** (in the Group)

The figures for the 2019/20 fiscal year also include for the first time BTG, integrated as of December 1, 2019, and Toscotec, consolidated as of May 1, 2020. In total, the two acquisitions contributed orders received of €175 million and sales of €175 million.

#### Orders received increased by 8 %

In the Group Division Paper, orders received increased by 8 % when the first-time consolidation effect of BTG and Toscotec are taken into account. This means that we achieved our forecast made in the 2019 management report ("perceptible increase, including the positive effect from the acquisition of BTG").

In the light of the COVID-19 crisis, however, it was not possible to achieve the slight organic growth likewise expected. After average developments with a normal level of activity over the first half of our 2019/20 fiscal year, the paper machine market collapsed in the second half of the fiscal year as a consequence of the global spread of the pandemic: with the exception of China, whose economy started to recover earlier and more quickly than other regions, investment decisions for new machines and major rebuilds were put on hold around the world. Paper production, which is decisive for demand for our consumables and services, was in decline in contrast to the development expected by industry analysts prior to the crisis. Production of graphic and specialty papers dropped particularly sharply in the wake of the lockdowns. In the case of board and packaging grades, the increase in online business made up for the decrease in industrial demand. The tissue segment benefited from the rise in home demand; at the same time, demand in the away-from-home segment fell. In addition, our customers' production sites were often not accessible for our service staff on account of measures aimed at combating the pandemic such as contact and travel restrictions.

Orders received in the project business were dominated by new lines and rebuilds for the production of board and packaging paper. To name one example, we received a major contract for a new kraftliner production line from Swedish paper manufacturer SCA. The start-up of the PM 2 at the Obbola paper mill in Sweden is scheduled for the beginning of 2023 and the paper machine will produce 725,000 tons of kraftliner each year. Voith received another extensive order in the field of board and packaging in Asia: we signed a contract with a long-standing customer on the delivery of two new paper machines.

Orders on hand in the Group Division Paper stood at €1,247 million as at the end of the fiscal year on September 30, 2020 (September 30, 2019: €1,344 million).

### Perceptible sales growth thanks to acquisitions

The Group Division's sales remain at a sound level. As forecast in the 2019 management report, sales have increased perceptibly in comparison to the previous year if the acquisitions are taken into consideration. It was not possible to achieve the organic growth anticipated due to the market environment. Whereas sales in the project business still benefited from the high level of orders on hand in the previous year and increased slightly, the coronavirus-related economic collapse in our business with consumables and services led directly to losses.

The region with the strongest sales in the reporting year was Europe (including Germany), followed by Asia and North America. In Asia in particular we succeeded in generating a satisfactory rise in sales. The fact that China had to a great extent come out of the lockdown before the end of April already and economic activity there picked up pace again earlier than in other regions contributed to this development.

### Fall in operating result due to COVID-19

The operating result in the Group Division Paper fell slightly due to the coronavirus pandemic, which means that we did not fulfill the forecast published in our 2019 management report ("appreciable increase"). The negative consequences arising from the measures aimed at containing the pandemic, such as restricted service activities, temporary closures of Voith production sites as well as temporary or even complete closures of paper mills were not completely balanced out by the positive effect from the first-time consolidation of the two new subsidiaries. Return on sales declined accordingly to 5.7% (previous year: 6.7%). At 16.0%, ROCE remained at a high level, albeit falling on the previous year. This means that we did not reach our ROCE forecast (2019 management report: “stable development”).

### Material events

In the reporting year, we made two major acquisitions in the Group Division Paper that strengthen our position as full-line supplier in the paper industry. Both companies remain commercially independent and continue to operate under their established brands. Voith acquired the company BTG as of December 1, 2019. BTG is a well-positioned multinational provider of integrated, highly specialized process solutions for the global pulp and paper industry with headquarters in Switzerland. The takeover of BTG is of great strategic importance for Voith Paper because BTG’s portfolio supplements Voith Paper’s products and solutions in a very complementary fashion.

As of May 1, 2020, Voith acquired 90% of the shares in Toscotec S.p.A. Headquartered in Italy, Toscotec is a manufacturer of paper machines, systems and components for tissue, paper and board. In the area of tissue, Toscotec will carry out the business with new lines and major rebuilds for the whole Voith Group in the future. Voith Paper will continue to provide services for its tissue machines already delivered.

### Innovations

Voith Paper brought numerous innovations onto the market in the 2019/20 fiscal year. A large share of these innovations aim at sustainable, more resource-saving paper production. For instance, we have developed a closed water loop that was used for the first time in a packaging paper machine that was put into operation in the reporting year. In the context of the closed water loop, all the water used in the paper production process is cleaned in the company’s own water treatment facility involving state-of-the-art processing technology using anaerobic and aerobic biological treatments and is then returned to the production process as recycled water, thus conserving resources. This allows a wastewater-free paper production process.

Over and above this, Voith has launched a new disperger with hydraulic gap adjustment. The InfibraDisp expands the product portfolio of the BlueLine stock preparation line. It aims at keeping energy, water and fiber consumption as low as possible. Together with Voith’s The Wall disperger filling, InfibraDisp forms an ideal combination for achieving the best technological results with comparatively low specific energy input. The newly developed, smart control unit additionally enables the monitoring of filling wear and uses vibration sensors to prevent any risk of plate contact.

In addition, we added three new products to our portfolio of measurement and diagnostic services in the reporting year: MobiLab is a mobile analysis laboratory used to investigate and optimize stock quality on-site. With the SpeedUp Certificate, Voith examines the possibilities for paper manufacturers to operate their paper machines above the original design speed in consideration of the machine-dynamic behavior. And 3D Scan produces high-precision digital images of the current condition of production facilities, which reduces the risk of collisions (between parts) and significantly increases the processing efficiency.

In cooperation with Austrian paper manufacturer Laakirchen Papier AG, we have launched a lighthouse project for digitalization of paper machines. In one large-scale project, the plans are for production at the company's headquarters to be equipped with Papermaking 4.0 technologies from Voith, thus transforming it into a model digital site. Through intelligent use of data already available, it is anticipated that the production and value creation of the two existing production lines will increase and become stabilized at a high level. Furthermore, production outages caused by sheet breaks are to be prevented.

In collaboration with Papiertechnische Stiftung (PTS) Heidenau in Germany, Voith introduced a new measuring method to detect unwanted, tacky contaminants known as stickies. The measuring method, by means of which sticky measurements can be performed using a near-infrared camera, allows the reliable detection of contaminants along the papermaking process and offers higher measuring accuracy as well as a wider range of applications compared to conventional methods. The reduction in the amount of contaminants significantly improves the smooth running of the paper machine. The technical rule was published in the reporting year as DIN SPEC 6745.

## II.4.3. Turbo

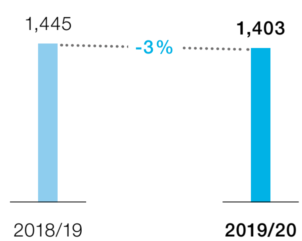
### Business in decline due to COVID-19, strategic enhancement progressing

The business of the Group Division Turbo was perceptibly hit by the economic shock triggered by the COVID-19 crisis and reported a fall in key figures in the reporting year. Despite the difficult operating environment in the fiscal year, we continued to invest in the future of Voith Turbo – firstly in the form of business acquisitions and secondly by optimizing our production network.

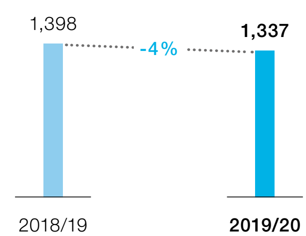
#### Key figures

The Group Division Turbo's key figures developed as follows in the 2019/20 fiscal year:

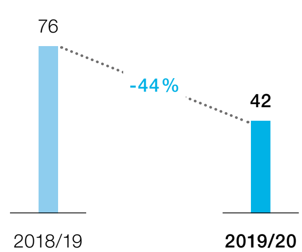
**Orders received** Turbo
in € millions



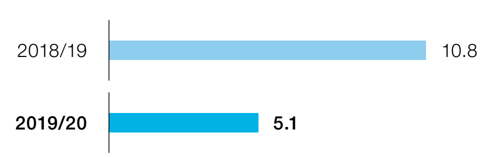

**Sales** Turbo
in € millions




**EBIT** Turbo
in € millions




**ROCE** Turbo
in %




Information on ELIN Motoren can be found further below in this section of the management report, under the heading **Material events** (in the Group Division Turbo) and in section II.3.1. **Material events** (in the Group).

The figures for the 2019/20 fiscal year also include for the first time the majority shareholding (70%) in ELIN Motoren GmbH acquired in the reporting year. The company has been fully consolidated since May 1, 2020, and is allocated to the Industry division. This new Voith subsidiary contributed orders received of €41 million and sales of €51 million over the five-month period.

### Orders received decline slightly

The Group Division Turbo felt the negative effects of the coronavirus pandemic and the global economic crisis it triggered in almost all areas. As a result, orders received decreased slightly over the reporting year. The “slight increase” anticipated in the 2019 management report was not achieved. The drop stemmed primarily from the Mobility division. In the Industry division, a slight organic decrease was more than offset by the orders received of ELIN Motoren included for the first time. The service business that had recently enjoyed very positive developments in both divisions suffered from the lockdowns and contact restrictions in the wake of the pandemic. Voith Turbo’s orders on hand as at the end of the reporting year improved to €1,216 million (September 30, 2019: €1,101 million).

The Mobility division reported a slight decrease in orders received in the reporting year. The outbreak of COVID-19 had a far-reaching impact on the transport sector. In the commercial vehicle segment, the decline in production at our customers in Europe and the USA – firstly on account of production stops over several weeks and secondly as a consequence of a collapse in demand due to the economic environment – had a direct impact on our business with retarders for trucks and DIWA transmissions for city buses. China was an exception to this trend and we were able to benefit from the exceptional boom on the truck market in that country. With regard to public transport, the rail segment has been hard hit by the contact restrictions and travel restrictions in connection with combating the pandemic and with regard to freight transport by the fall in demand caused by the recession. Over the short term, this had only a minor impact on our ongoing rail projects as rail traffic is classified as critical infrastructure in most countries. In the previous periods the marine segment was already struggling with a very low market level that is unlikely to see any recovery on account of the COVID-19 crisis. Electrification of vessel propulsion systems offers growth opportunities as in all mobility segments. For instance, we achieved individual order successes in the reporting year with the new fully electric Voith Schneider Propeller.

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

In the reporting year, the COVID-19 crisis had an impact on the sales markets served by the Industry division – oil & gas, raw materials and energy. As a consequence, investment activities fell in almost all relevant customer industries. Particularly our business in the mining sector, in the oil & gas market and in the machine-tool market suffered from the decline in investment. If ELIN Motoren GmbH, which was consolidated for the first time, is not taken into consideration, the Industry division’s orders received would have decreased slightly.

### Sales likewise down on the previous year

The sales trend in the Group Division Turbo reflects the measures aimed at containing the COVID-19 pandemic and their economic consequences. There were, among other factors, delays in the acceptance, the call-off and delivery of products. Service activities were also postponed. With a decrease of 4%, we remained behind the originally forecast “stable development”. Neither division was able to uphold the sales level of the previous year, although the decline in the Industry division was partially balanced out by the sales included for the first time of ELIN Motoren.

### Decrease in EBIT as consequence of the fall in sales

The coronavirus-related drop in sales impacted the net result at a higher rate despite appreciable cost-cutting. The “perceptible increase” in EBIT announced in the 2019 annual report was not achieved in the reporting year. In addition to the volume effect, there were also negative effects from the ongoing optimization of the production network. On account of the fall in EBIT, the return on sales dropped to 3.1% (previous year: 5.4%) and ROCE to 5.1% (previous year: 10.8%). It was not possible to fulfill the ROCE forecast (2019 management report: “slight increase”) due to the fall in return on sales.

### Material events

Over the reporting year we invested intensely in the further development of the Group Division Turbo. The measures taken in one of our strategic growth areas, electric drive systems, in the reporting year include two acquisitions.

The takeover of ELIN Motoren GmbH has already been completed. Headquartered in Austria, ELIN is a high-tech company that has operations worldwide in the field of electric motors and generators and provides customized solutions for industrial applications. The portfolio of electric components is an outstanding supplement to Voith Turbo’s mechanical drive solutions and supports our position as a technology-independent supplier of drive systems. In the last fiscal year prior to its acquisition, ELIN Motoren GmbH generated sales of around €120 million and had a workforce of around 960 employees.

Over and above this, we are planning to join forces with Swiss holding company PCS Holding to acquire the majority shareholding in Traktionssysteme Austria GmbH (TSA). An agreement on the joint purchase of 59% of the shares was signed in April 2020. The transaction is expected to be closed by the end of 2020 and is subject to the granting of all official approvals. TSA is the world’s leading manufacturer of electric motors, generators and transmissions for rail and commercial vehicles. TSA has a worldwide workforce of around 770 employees.

Together with Moog Inc., a developer, manufacturer and supplier of electric, hydraulic and hybrid drive solutions, we have formed the joint venture HMS – Hybrid Motion Solutions GmbH, based in Rutesheim, Germany. This strategic partnership is aimed at expanding the hydrostatic servo-hydraulics business in various industrial markets. HMS – Hybrid Motion Solutions GmbH aims to combine the solid expertise of both companies in the field of electrohydrostatic servo drives and advance synergies in tapping new markets. The joint venture will focus primarily on research and development, design and assembly as well as service operations.

Alongside M&A activities, we worked on the strategic enhancement of Voith’s production network. Our objective is to create high-performing, more clearly profiled and closely integrated locations at which significant shares of production are concentrated. As a consequence, the plants in Sonthofen and Zschopau were shut down as scheduled as of September 30, 2020. The Mühlheim production site is likewise planned for closure. The consolidation of plants involves job cuts expected to amount to around 230 positions; another 370 or so jobs are to be transferred to other locations.

## Innovations

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

One important new development in the Mobility division is the electric Voith Schneider Propeller (eVSP). The fully electric and emissions-free version of the tried-and-tested vessel propulsion system was launched on the market in the 2019/20 fiscal year. With the market launch of the eVSP we are also pursuing the objective of penetrating deeper into the growing market for supply and service vessels for offshore wind farms. We already received the first orders for the new eVSP in the reporting year.

Voith is also pushing forward with important innovations for the rail vehicle industry. The CargoFlex range of automatic freight couplers introduced on the market in the previous year was augmented in the reporting year by a digital component that enables power and data transmission. With this coupler version, Voith is participating in a test series as part of the DAC4EU program of the German Federal Ministry of Transport aimed at introducing a digital automatic coupling system for rail freight traffic throughout the EU.

In the commercial vehicles segment, we launched further versions of our successful retarder on the market. To name one example, we adapted the Voith Retarder VR 115 that meets the specific requirements of Chinese customers for braking quality and excellent cost-effectiveness for many truck models new to the Chinese market. These product developments were an important factor in our successful business in the region. In this context, we succeeded in participating in the expanded Chinese truck market and perceptibly increasing unit sales of retarders in China over the reporting year.

The Industry division added a new product to Voith's OnCare.Health family, which comprises status monitoring systems for a wide range of systems. OnCare.Health IOLIS was, for instance, presented in the reporting year; this is an easy-to-use digital instrumentation system for industrial fans and pump drive trains. The new product offers a sustainable solution for boosting efficiency in industrial applications.

Another digital product to demonstrate its top performance as part of a first reference project is the BeltGenius ERIC. The BeltGenius product family, a focal point of development over recent years, enables mine operators to optimize the energy efficiency and plant productivity of their conveyor systems. BeltGenius ERIC is a digital twin of the conveyor belt. It processes sensor data in real time to calculate the performance indicator of the respective conveyor belt and to point out possibilities for performance improvement. A prototype running at a renowned European mine operator reached all targeted key figures and optimizations – which means that BeltGenius ERIC is now being deployed by the customer following acceptance.

We have achieved the first market successes not only with the next generation of our Vorecon NX variable speed planetary gear but also with the VECO-Drive, a variable speed drive for compressors and pumps. These are two anchor products from the Industry division that we have refined in extensive projects conducted over periods of several years. As part of the further development work, we electrified and digitalized our extremely reliable and powerful mechanical products, thus harnessing the possibilities of the Industrial Internet of Things for customers. In the 2019/20 fiscal year, we put the first two VECO-Drives into operation at a power station in China and received several orders for the Vorecon NX through original equipment manufacturers.

## II.4.4. Digital Ventures

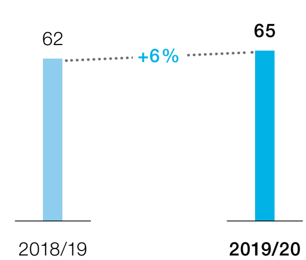
### Sales slightly increased, operating result improved

The Group Division Digital Ventures is responsible within Voith for building up a digital venture portfolio and plays the central role in the development of digital technologies and automation systems. Over and above this, Digital Ventures acts as an internal IT service provider ensuring a powerful system and infrastructure landscape throughout the Group. The Group Division looks back on a good fiscal year in a difficult environment. The coronavirus pandemic involved challenges at two levels: firstly, the coronavirus-related economic shock had a negative impact on the sales markets of our ventures; secondly, the Group's central IT function faced the task of ensuring the business continuity of our Company at all times despite the greater demands placed on it. At the same time, we maintained the great intensity of progress in our research and development activities. Despite the difficult market environment, we succeeded in slightly increasing Digital Ventures' sales and considerably reducing the shortfall in EBIT.

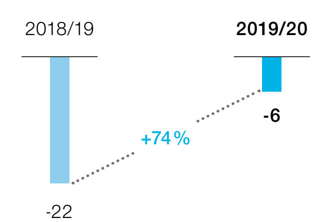
#### Key figures

Sales and EBIT for the Group Division Digital Ventures developed as follows in the 2019/20 fiscal year:

**Sales** Digital Ventures
in € millions




**EBIT** Digital Ventures
in € millions




#### Slight growth in sales

Despite the challenging business environment, we succeeded in increasing the Group Division's sales by 6% on the previous year. It was not possible to bring about the "appreciable increase" (forecast in the 2019 management report), however.

The severity of the effects of the COVID-19 crisis varied depending on the respective market environment. The business of our subsidiary FlowLink Systems was especially hard hit. This company, headquartered in India, manufactures industrial valves and valve components. After a promising first half of the fiscal year, the three-month lockdown in India and the collapse of the North American oil & gas market exerted a negative impact. The negative effects were balanced out by positive developments in the other ventures.

With regard to the sales generated in the Group Division Digital Ventures, orders on hand is of no particular informative value – in contrast to mechanical and plant engineering, for example – on account of the short lead times. Orders received are virtually identical to sales and are therefore not reported separately.

The sales reported in the Digital Ventures segment stem exclusively from the venture portfolio. The sales that are generated from digital and automation business in the Group Divisions Hydro, Paper and Turbo with development support from Digital Ventures are included in the respective segments.

### EBIT significantly improved

The earnings development in the Group Division Digital Ventures was at the upper end of our expectations (forecast in the 2019 management report: "appreciable improvement"). The shortfall in EBIT of €-22 million in the previous year was reduced to €-6 million. Alongside stringent cost management, higher contributions to earnings from the venture activities added to this encouraging development.

### Venture portfolio

Following the intense M&A activity in the previous year, in the reporting year we focused on refining the existing portfolio. Voith Robotics was repositioned in the reporting year as a vendor-independent system integrator for robot-assisted automation solutions. In addition to the companies already named, the venture portfolio further includes Pilotfish, a cloud-based applications provider for local public transport, TSP OnCare Digital Assets, a provider of manufacturer-independent services for automation and digital products for the paper industry and digital service provider Ray Sono. merQbiz, the marketplace for recovered paper, is reported as a discontinued operation; the negotiations with potential investment partners who want to continue merQbiz together with Voith as a minority shareholder have not yet been completed.

### Integration of the automation operating business into the established Group Divisions

Over the last three years, the automation business has successfully grown to a significant size. At the same time, important technical standards have been defined for the future. In this respect, it became clear at the same time that automation is playing an ever more important role in the successful marketing of our products and solutions in our core markets. In order to provide our customers with even better support for their digital transformation in the future and to be able to act flexibly and quickly, the automation operating business was integrated into the Group Divisions Hydro, Paper and Turbo. As part of this restructuring measure some 560 jobs were transferred within the Group. The organizational change was successfully completed within a few months without interfering with ongoing customer projects. The development of automation systems remains the responsibility of the Group Division Digital Ventures.

### New technologies

In the reporting year again, we worked intensely on the development of fundamental technologies, products and applications for the Industrial Internet of Things (IIoT) and brought further digital solutions to market maturity. With every innovation, we assess the benefit for our customers and check whether technologies that are already available can be reused in order to significantly reduce development and time-to-market cycles.

The break protector that proved itself in operations in the first pilot systems in the reporting year should be mentioned in this context. It involves the use of artificial intelligence to predict paper breaks in production and avoid them with suitable countermeasures. The plans are for larger quantities of the new product to be sold in the paper industry in the 2020/21 fiscal year. Over and above this, we are working on deploying the fundamental artificial intelligence of the break protector and from OnCare.Acoustic, a cloud-based acoustic monitoring system for the intelligent monitoring of hydropower plants, for further applications in industrial settings.

In the field of fundamental technologies, we spent a great deal of time and effort addressing battery storage, a strategic growth area for the Voith Group, placing the focus on redox flow battery technology. On the basis of this storage technology, Voith intends to position itself on the market as a system integrator for stationary energy storage systems in the medium- to high-performance range. Such systems are required, for example, to balance out performance fluctuations and, in the wake of the expansion of renewable energies, make a contribution to grid stability and reliability of supply. Our medium-term objective is to develop a marketable product for which investments in the higher single-digit million euro range have been earmarked.

### Group's own IT function

Information on how the IT risks caused by the COVID-19 pandemic were mastered can be found in section III.3.2. **Risks to performance**.

The Voith Group's IT function, which is also assigned to the Group Division Digital Ventures, faced particular challenges in the 2019/20 fiscal year. At very short notice, we needed to provide the majority of our office staff around the world with the means to work on a mobile basis. This involved, for example, significantly increasing the bandwidths, expanding IT support capacities and providing additional VPN (virtual private network) access. By successfully dealing with this challenge, IT made an important contribution to maintaining business operations while simultaneously ensuring data and system security over the COVID-19 crisis.

Alongside this acute crisis management, we pressed ahead with standardization and harmonization of our IT landscape as an important strategic project. In essence, this involves migrating the existing ERP (enterprise resource planning) systems into a modern, integrated systems landscape. In this context, essential core processes are being redefined and standardized throughout the Group. This is a complex, multiyear project impacting all areas of our Group and sets an important course for Voith's future.

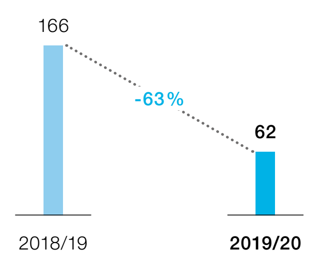
# II.5. Economic position

## II.5.1. Earnings position

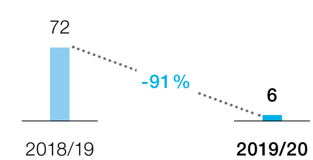
### Earnings position deteriorated on account of the pandemic

The Voith Group's statement of income for the reporting year reflects the impact of the coronavirus-related economic crisis. Short-term cost-cutting was able to compensate for only part of the drop in sales also because a higher level of depreciation and amortization as a consequence of the business acquisitions had the opposite effect. The operational result and the Group net result continued to be positive but declined sharply on the previous year, however.

**Operational result** Group[1)]
in € millions




**Net result** Group
in € millions




[1)] Previous-year figure restated.

Total output in the Voith Group stood at €4,189 million (previous-year figure restated: €4,291 million). The total output (-2 %) thus developed virtually in parallel with sales (€4,173 million, -3 %).

The cost of materials fell by 4 % to €1,828 million (previous-year figure restated: €1,905 million). The ratio of cost of materials to total output decreased to 43.6 % (previous year: 44.4 %).

Personnel expenses stood at €1,501 million (previous-year figure restated: €1,487 million; +1 %). The slight increase essentially reflects ongoing rises in personnel expenses due to collectively bargained pay rises and increased personnel expenses following acquisitions. The opposite effect came from the reduction of vacation and time credits as part of the COVID-19 crisis management. The personnel expenses ratio (ratio of personnel expenses to total output) stood at 35.8 %, slightly up on the previous year (previous-year figure restated: 34.7 %).

Depreciation and amortization amounted to €168 million (previous year: €119 million, +41 %). The ratio of depreciation and amortization to total output increased to 4.0 % (previous year: 2.8 %). The increase was firstly due to a technical effect in the wake of first-time application of the new financial reporting standard IFRS 16 on the accounting treatment of leases, where the rights of use under leases are capitalized in the balance sheet and amortized over the term of the lease. Secondly, amortization occurred on intangible assets that were recognized for the first time in the wake of the acquisitions that took place in the reporting year.

The net balance of other operating expenses and income increased slightly to €-631 million (previous-year figure restated: €-614 million, +3%).

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

The operational result fell by 63% to €62 million (previous-year figure restated: €166 million). EBIT is obtained by eliminating non-recurring items and performing other adjustments. This important financial performance indicator decreased by 33% in the reporting year to €139 million (previous-year figure restated: €208 million).

The share of profit/loss from companies accounted for using the equity method stood at €-8 million, down slightly on the previous year (previous year: €-7 million).

The balance of interest expenses and interest income stood at €0 million (previous year: €-26 million). The improvement is essentially attributable to an increase in interest income from €23 million to €25 million from the measurement of financial liabilities on account of termination rights of non-controlling interests.

The other financial result rose to €19 million (previous year: €5 million, +271%). The increase essentially stems from income from financial investments and from the measurement of derivative financial instruments.

Income taxes totaled €60 million (previous year: €57 million). The tax rate rose to 82% (previous-year figure restated: 41%). The increase is primarily attributable to non-tax-deductible expenses, impairments of deferred tax assets and regional differences regarding the earnings power of the Group companies.

The net result from continuing operations decreased to €13 million (previous-year figure restated: €81 million).

The net result from discontinued operations improved to €-7 million in the 2019/20 fiscal year (previous-year figure restated: €-8 million). This relates to the contribution to earnings from the merQbiz activities. On account of the decision to continue, after all, the activities of Voith Composites SE & Co. KG ("Voith Composites"), which were treated as discontinued operations in the previous year, the income and expenses of this company are disclosed in the operating activities of the Voith Group in the reporting year. The previous-year figures were correspondingly restated in the statement of income as were the pertinent notes to the consolidated financial statements.

All in all, the Group net result was positive at €6 million but was 91% down on the previous-year figure (€72 million).

## II.5.2. Net assets

### Assets situation still sound

Detailed information on the business acquisitions can be found in section II.3.1. **Material events**.

In comparison to September 30, 2019, total assets increased by €461 million to €5,217 million (previous year: €4,756 million, +10%). The increase is essentially due to the acquisitions carried out in the reporting year and to the first-time application of IFRS 16.

In total, non-current assets increased by €557 million to €2,400 million (previous year: €1,843 million, +30%). The increase in intangible assets of €454 million to €987 million (+85%) is due to the capitalization of goodwill and other intangible assets following the acquisitions carried out in the reporting year. The increase in property, plant and equipment of €104 million to €1,028 million (+11%) is mainly the result of the first-time recognition of rights of use under lease agreements as a consequence of first-time application of IFRS 16 in the reporting year. The increase in deferred tax assets to €245 million (previous year: €219 million, +12%) is essentially attributable to the increase in deferred tax assets on temporary differences.

Current assets fell by €96 million to €2,817 million (previous year: €2,913 million, -3%). This fall was primarily due to a €233 million decrease in current securities to €123 million (previous year: €356 million, -66%) arising from a reduction in term deposits. In contrast, cash and cash equivalents increased by €164 million to €582 million (previous year: €418 million, +39%), due to the cash flow from the taking out of long-term bank loans.

## II.5.3. Financial position

### Solid financial position

Non-current liabilities increased by €415 million to €1,792 million (previous year: €1,377 million; +30%). The increase in non-current liabilities is primarily due to the increase in bank loans of €311 million to €472 million for the financing of business acquisitions. The increase in lease liabilities of €72 million following the first-time application of IFRS 16 likewise contributed to the rise in this item.

Current liabilities increased by €208 million to €2,342 million (previous year: €2,134 million, +10%). The increase in current liabilities is essentially a result of the rise in bank loans of €73 million to €141 million and of the increase in lease liabilities of €43 million caused by the first-time application of IFRS 16.

The net balance of deferred tax assets and liabilities decreased by €11 million. The decrease is essentially due to a higher level of deferred tax liabilities on temporary differences, primarily in connection with the acquisitions.

Equity decreased to €1,083 million (previous year: €1,245 million, -13%). This was mainly due to negative exchange rate effects and the distribution of dividends.

The equity ratio fell to 20.8% (previous year: 26.2%). Alongside the decrease in equity, this was also caused by the 10% increase in total assets largely due to the business acquisitions.

## Sharp increase in cash flow from operating activities

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

**Development of cash flow**
in € millions

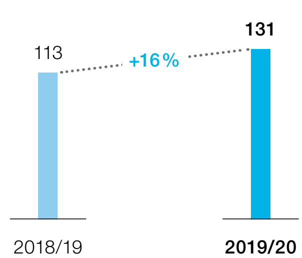
| | 2019/20 | 2018/19 |
|---|---|---|
| Cash flow from operating activities | 234 | 46 |
| Cash flow from investing activities | -266 | 124 |
| Cash flow from financing activities | 232 | -104 |
| **Total cash flow** | **200** | **66** |

The cash flow from operating activities increased by €188 million to €234 million in the 2019/20 fiscal year. This was due, among other factors, to our strict working capital management with regard to inventories. An increase in provisions and accruals was another significant reason for this development.

The cash flow from investing activities amounted to €-266 million in the reporting period (previous year: €124 million). In the 2019/20 fiscal year, this figure was dominated most of all by acquisitions. In this context, payments of €414 million were made for the acquisition of consolidated companies. These involved purchase price payments for the subsidiaries acquired in the reporting year, most notably BTG, ELIN Motoren and Toscotec. On net balance, receipts of €232 million were generated from the purchase and sale of securities. 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 of €-83 million were roughly at the same level as the previous year (€-86 million).

In the 2019/20 fiscal year, we invested a total of €131 million (previous year: €113 million) in property, plant and equipment and intangible assets. The rights of use under leases were recognized pursuant to IFRS 16 for the first time. The rise on the previous year is attributable to the first-time application of IFRS 16.

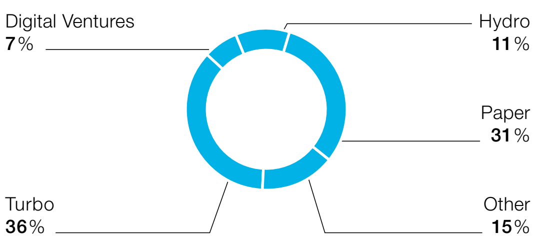
**Investments** Group
in € millions



As a percentage of the Group's sales, our investment ratio came to 3.1 % in the reporting year (previous year: 2.6%).

Capital expenditure breaks down between the individual Group Divisions as follows:

**Investments** total €131 million
by Group Division




## Moderate increase in financial liabilities

A note loan totaling €400 million was issued in February 2020; it has terms of five, seven and ten years. In addition to financing the acquisition activities in the reporting year, the note loan funds firstly serve to top up the liquidity reserves. Secondly, the funds are to be used to finance the repayment of a note loan of €102 million maturing in November 2020. The syndicated loan placed in China in 2012 was fully repaid in the 2019/20 fiscal year (previous year: €33 million).

The revolving syndicated loan in China, which was refinanced in 2019, will be available until June 2024; it is for an amount of €176 million. This facility is currently not being utilized.

After exercising a second renewal option, the existing syndicated euro loan for €550 million was extended to April 2025. This credit line is also currently not being utilized.

In July 2020, bilateral confirmed cash lines totaling €375 million were entered into with four partner banks with terms of two to three years. These credit lines are currently not being utilized, either. 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 in a volatile market environment. 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 imponderabilities regarding the further course of the coronavirus pandemic.

Payments for dividends increased to €-61 million (previous year: €-33 million).

This results in a cash flow from financing activities of €232 million (previous year: €-104 million).

Total cash flow amounted to €200 million (previous year: €66 million), a clearly positive figure.

### Net liquidity still 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 purchase price payments from the acquisition activity. At the end of the reporting year, it amounted to €71 million (previous year: €552 million).

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 (where legally permissible) and 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. Risks to the Group's ability to continue as a going concern are defined as aggregate risk potential that threatens more than 50% of equity or more than 10% of sales.

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

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

1. Risks to the Group
   - External risks
   - Management risks
   - Liquidity and financial risks
   - Infrastructure risks
2. Risks to performance
   - Contractual risks
   - Technical risks

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

examined. This involves monthly reporting to the Corporate Board of Management of those individual risks with a maximum risk impact of >€5 million or a realistic risk impact of >€2 million, including the measures taken to mitigate this risk such as existing insurance policies, recognized provisions or recorded depreciation.

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

In addition to the systematic management of risks, it is also essential that we support our business performance by actively managing opportunities. The identification of opportunities and their strategic and financial assessment plays an important role in the strategy discussions the Corporate Board of Management holds regularly with those responsible for the operating units. The results of these meetings are incorporated into the Voith Group's strategic decisions as well as into the 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. Risk control matrices have been developed at corporate headquarters for those line items that, from a Group perspective, are significant and exposed to an elevated risk of misstatement. These matrices must be applied by the subsidiaries when preparing their end-of-year financial reporting. They present the significant accounting-related risks for the specified line items of the financial reporting and contain corresponding instructions on controlling activities, responsibilities and documentation duties. Among other elements, the controlling activities comprise analytical procedures as well as the practice of having significant and complex business transactions processed and controlled by different people. Complex accounting issues (e.g. financial instruments) are referred to corporate departments or external experts (e.g. relating to pensions). The activities and controls for these issues are also considered in the risk control matrices.

The consolidated financial statements are prepared by adding information to the 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 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 six risk categories presented below reflects how we currently estimate the importance of these risks for the Voith Group. Unless stated otherwise, the following risks relate to all Group Divisions.

## III.3.1. Risks to the Group

### External risks

Our economic environment is determined by global demand for capital goods. This demand is in turn influenced by the global macroeconomic environment. 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. It is currently difficult to make economic forecasts. We based our planning for the 2020/21 fiscal year on the assumption that the global economy will recover slowly following the deep slump in the first half of 2020 and will grow slightly over 2021. This expectation is fraught with strong uncertainties, however. Uncertainty hampers consumption on the part of consumers and investment on the part of companies. The main risk for the macroeconomic environment is the raging COVID-19 pandemic in conjunction with the measures to contain the virus. In particular, a second wave of infection with another round of extensive lockdowns as well as future plant and construction site closures could cause considerable damage to the economy and ring in a further downturn. Alongside the COVID-19 crisis, there are a series of further risks that could have an additional negative impact on the global economy should they eventuate. These primarily include escalating trade conflicts, specifically between the USA and China, a disorderly Brexit and increasing political instabilities, for instance in Europe on account of the long-term economic consequences of the COVID-19 pandemic. The high level of sovereign debt in many countries continues to pose a risk over the medium term – especially in the wake of an additional burden on public finances stemming from the emergency relief and economic stimulus packages implemented with a view to overcoming the COVID-19 crisis.

Various market risks could have a negative impact on Voith's earnings position should they eventuate. The number of market risks has risen in the three established Group Divisions.

Any further waves of COVID-19 infection and new measures aimed at combating the pandemic, such as lockdowns and travel restrictions, may lead to a situation where our production is hampered, projects are postponed or commissioning work cannot be performed as planned as the required specialist staff cannot access the construction site. Intensified travel restrictions would have a particularly severe impact on the service business, one of Voith's areas of strategic growth.

Due to structural change in some of the market segments served by the Group Divisions Paper and Turbo, the first signs of a decline in demand for individual industrial applications over the medium term can be seen. The base of these products installed in the market contracting permanently will reduce the potential for our service business. If this change, accelerated by the COVID-19 crisis, takes place more rapidly than assumed in our planning, it would become more difficult to achieve our targets.

It is conceivable that there will be deferments of hydropower projects in Africa and South America, specifically in Brazil. In Africa, such deferments may be triggered not only by the political and macroeconomic situation but also by uncertainties regarding the funding of the projects in question. The low energy prices associated with the ongoing economic crisis in South America are having a negative effect on large-scale hydropower projects. The further rise in the burden on public finances caused by the coronavirus pandemic in the already highly indebted emerging markets is having an additional negative effect on the approval and implementation of major infrastructure projects.

The power generation market is currently characterized worldwide by uncertainties regarding energy policy, to which the Group Division Turbo and, even more so, the Group Division Hydro, will have to adjust. Hydropower is currently only benefiting to a limited extent from the trend towards renewable energies because solar and wind power are highly subsidized in Europe, which reduces incentives to invest in hydropower.

The commercial vehicle market is extremely sensitive to economic developments and experienced an unprecedented slump in the reporting year. We are currently anticipating a return to the pre-crisis level in 2023. If the recovery in the commercial vehicle market should take even longer, this would have a direct impact on truck production and therefore on Voith Turbo's business.

Global paper production failing to gradually recover in 2021 and 2022, as anticipated by market analysts, would adversely affect not only demand for paper machines but also sales of consumables. A negative impact on paper production may arise in particular from a sustained macroeconomic crisis or also barriers to international trade in the wake of which fewer goods are packaged. In the event of a decline in unit sales, the already existing competitive and price pressure might intensify further, which would have a negative impact on the earnings position of the Group Division Paper.

If the technological shift from internal combustion engines to electric or hybrid motors were to take place more rapidly than assumed in our planning, this would negatively impact the earnings position of the Mobility division within the Group Division Turbo.

It is conceivable that the intensifying geopolitical tensions might lead to new trade embargoes or a potential exacerbation of sanctions already in place. Depending on the extent and the severity of the sanctions, this would at the very least put limits on our doing business in the countries affected, if not prevent it entirely.

### Management risks

Voith has set itself the aim of playing a major role in digitalizating industry and will continue to make considerable investments in the key competencies for the Industrial Internet of Things megatrend over the next few years, both within the Company and through acquisitions. 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. Strict project controlling is in place. The enhancement of the Voith product portfolio with digital applications enjoys the utmost attention from the Corporate Board of Management.

### Liquidity and financial risks

Voith’s diversified financing structure is designed to safeguard long-term stability. By virtue of the easy access to 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. On account of the imponderabilities regarding the further course of the COVID-19 pandemic, Voith has increased its confirmed credit lines as a precaution against increased liquidity requirements.

As a globally operating company, 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 when these occur. Revaluation of the euro against various other currencies could have negative effects on sales and net result due to currency translation of the financial statements prepared in foreign currency. This could further have an impact on our competitive position as competitors could benefit from cost advantages in weaker currencies. Moreover, interest rate risks are hedged using suitable instruments in order to maintain interest and financing security in the long term.

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

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

Counterparty risks with financial partners are monitored constantly. 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.

### Infrastructure risks

In the area of infrastructure risks, Voith primarily identifies IT risks, human resources risks, compliance risks and environmental protection risks, against which the Company takes specific countermeasures. There are currently no indications of particular risks relating to the Group's infrastructure.

Our successful business activities are underpinned by state-of-the-art and secure information technology. This is why we have our own IT function, assigned to the Group Division Digital Ventures, to ensure that reliable data processing services are provided from our own computer centers. The IT specialists in this function manage the entire IT infrastructure for the Group and the specific application systems used by each Group Division. Our information security management is based on the international standard ISO/IEC 27001, and thus meets the most stringent standards. Our central computer center is certified under this standard. 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 redundancy capacity into the core systems of our IT landscape at two computer centers. At the application level, we address the risk of defective software in addition to the risk of outages. We ensure the reliability ("integrity") of applications with a strict quality management system, which involves new software versions and programs being subject to a multistep test and approval process before they are implemented. In order to maintain the confidentiality of our data, these are categorized according to predefined confidentiality levels. Depending on the level of confidentiality, we have IT tools of varying complexity such as encryption technology, which we use to securely store and transfer data. This also ensures that our intellectual property is protected as well as possible. In addition to these technical measures, we train and inform our employees about how to securely handle confidential data by means of e-learning programs and awareness campaigns.

One current challenge for IT in the reporting year was posed by the measures taken in conjunction with containing the COVID-19 pandemic. For instance, a large number of our employees left their offices to work remotely from home for several weeks. Consequently, many employees with screen-based workstations have been performing at least part of their work remotely from a home office since spring 2020. Video and telephone conferences replaced internal get-togethers and face-to-face meetings with external business partners. At very short notice, we needed to provide these employees with the means to continue securely accessing their systems, documents and data in order to remain able to communicate and perform their work. As part of this, several thousand colleagues around the world, who had up to that point in time worked exclusively in the office, were given appropriate access to Voith's systems within the shortest possible timeframe. This process was accompanied by an info platform and intensified IT support by telephone. In order to deal with the increased data flow, we significantly increased our Internet broadband at short notice. In addition, an orderly procedure was put in place to allow employees to relocate the necessary hardware from the office to their home to maintain their ability to work properly. Due to the increase in cyber crime associated with the COVID-19 pandemic, our employees received information on how they can protect themselves from cyber criminals when working from home. Despite the need for haste, our crisis management not only centered on establishing a fast and stable IT infrastructure but also placed great emphasis on protecting Voith's data and systems, both at a technical and organizational level. As a result, it was possible to continue business operations virtually without restriction at all times, and communication with internal and external contacts ran smoothly. Productivity remained high; data and system security were ensured at all times. We are currently evaluating the experience made with acute crisis management in order to further optimize our information technology. In the event that further lockdowns become necessary, for instance in the context of further waves of infection, we see ourselves well equipped overall to safeguard business continuity throughout the Group once again.

One of the central challenges for Voith is the ability to always recruit a sufficient number of qualified employees and retain them within the Company. If we were unable to cover our qualitative and quantitative personnel needs over a longer period of time, this would call into question our ability to reach our corporate targets. We compete with other international players and act with foresight in order to ensure we have a sufficient number of qualified employees. 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 encourage our employees to continually improve their qualifications to meet the demands of a constantly changing working world. In the reporting year, we developed a new personnel marketing campaign that we are going to employ in the 2020/21 fiscal year. The campaign communicates our employer values and the competencies central to our corporate culture and references the global megatrends that Voith addresses with its products.

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

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, can be damaging to our reputation and can lead to sanctions, penalties and ultimately to a fall in earnings. 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 President and CEO, and by the compliance officers in the Group Divisions and in each Group company. Each employee is 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. Within the scope of an audit being performed by an international organization with the active support of the Company, the Company identified in the fiscal year before last indirect compensation payments to a representative of one of its subsidiaries made by that subsidiary without the approvals necessary according to the regulations in place throughout the Group; the audit is still ongoing due to the COVID-19 pandemic among other factors. The contract with the representative was terminated immediately, the necessary personnel-related measures were taken. Subject to the final assessment that is still outstanding, the two subsidiaries covered by the audit are alleged to have additionally infringed certain fair competition rules in the bidding and award process relating to two projects.

Further information on compliance management in the Voith Group can be found in the Voith Sustainability Report. The current version is available on the Internet at **http://voith.com/corp-en/about-us/sustainability.html**.

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 to be well under control with regard to probability of occurrence and amount of potential damage in particular.

## III.3.2. Risks to performance

### Contractual risks

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 them. These firstly include contractual penalties and claims for damages through to withholding of payments and contract terminations arising from unexpected technical problems, 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.

### Technical risks

Technical risks relate to innovation-related risks, sourcing risks and sales risks due to decreasing customer satisfaction.

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 to further improve and refine existing technologies, and to research and develop new products, systems and services. Within the scope our strategic foresight management system in place throughout the Group, we are systematically addressing future trends in the market and technology environment

Information on the current focus areas of our R&D activities is provided in section I.4. **Research and development**.

and set the priorities for our development projects. 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.

Collaboration with suppliers in the global procurement markets 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 2019/20 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.

Current challenges are posed by the upcoming Brexit and the ongoing coronavirus pandemic. The measures aimed at containing the pandemic taken over the first half of 2020, such as extensive lockdowns and contact restrictions, caused severe disruptions to global supply chains. As part of our crisis management activities, we systematically examined all projects, identified the critical value added chains, made contact with suppliers, and defined individual solutions. In many cases, we transferred products to suppliers located in other regions whose production facilities were not affected by lockdowns at the specific point in time. The situation required numerous short-term measures in the implementation of which Voith was able to profit from its long-standing supplier relationships. As a result, our delivery capability was ensured at all times even if there were time delays on occasions. We are prepared for a repeat of such situations over the further course of the pandemic. Through the analysis of the critical value added chains performed in spring 2020, we 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. Also with a view to preventing the risks of a potentially disorderly Brexit, extensive measures were taken such as the building up of alternative supply sources or increasing inventories. These measures meant that it was possible to fully mitigate any potential risks of outages.

As part of our regular internal reporting on performance risks, we monitor the theoretical maximum risks associated with specific risk positions as well as the risks deemed to be realistic after careful assessment. Maximum risks are considered in the light of whether they constitute risks jeopardizing the Group's ability to continue as a going concern. There were no risks to the Group's ability to continue as a going concern at the reporting date. The risks which may be realistically expected are considered for profit planning purposes and in order to assess the need to recognize provisions in the balance sheet. As at the reporting date, provisions and allowances totaling €240 million (previous year: €175 million) were recognized in the balance sheet for significant performance risks (maximum risk: €392 million; previous year: €271 million).

### III.3.3. Overall risk

To the best of our knowledge, there are no risks which, either individually or collectively, could jeopardize the ability of the Voith Group to continue as a going concern. Of all the risks facing the Voith Group, external risks could have the strongest negative impact on business development. On account of the ongoing COVID-19 pandemic with its sweeping macroeconomic implications, the risk situation has deteriorated in comparison to the previous year. We are nevertheless convinced that, in light of our strong diversification, 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 exceeding forecasts or targets. 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 Group Divisions.

#### Growing our service business

We are generally working towards expanding the service business and increasing its share of sales. In the currently subdued investment climate, spending on new equipment and machines is being 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 win market shares that have not yet been integrated in our business plan, especially if innovations are recognized as value adding by our customers much faster than currently assumed. We see opportunities in particular in the new digital offerings and solutions in the area of Industrial Internet of Things, electromobility and digital services. The digitalization of many industries such as the paper industry is accelerating on account of the COVID-19 pandemic. This offers growth potential for Voith.

#### 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 speed of the expected recovery depends to a great extent on how quickly efficacious vaccines and treatments for COVID-19 can be found and the world is able to contain the pandemic. Upside potential for global economic development and China as an important sales market could also materialize if a lasting solution to the trade conflicts could be found. Economic developments which exceed current expectations would benefit all Group Divisions, albeit with different degrees of delay, and in all cases from the second half of the 2020/21 fiscal year at the earliest.

#### 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 mid-term they can help improve our position in existing markets or tap 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. As the markets on that continent are proving to be volatile and difficult to predict, however, 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. 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

Our planning for the 2020/21 fiscal year currently assumes that there will not be any substantial recovery in the oil price and the extremely low level of investment in the oil & gas market will continue. If, in contrast, the oil price were to rise on a permanent basis from its current level of around USD 40 per barrel of Brent oil and perceptibly exceed the USD 70 mark per barrel of Brent oil in the long term, oil companies might increase their investments and expenditure on service activities in contrast to expectations. 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. We based our planning for the Group Division Hydro on the assumption that the hydropower market will grow only slightly on the low level of the reporting year. In the event that some of the major projects currently on hold are awarded in the 2020/21 fiscal year, this would lead to an unexpected upward spike and improve the Group Division Hydro’s order situation. In this context, a positive impulse might come from government economic stimulus programs aimed at overcoming the COVID-19 crisis that foster infrastructure projects in the field of hydropower.

# IV. Forecast report

## IV.1. Business environment

### Hesitant economic recovery threatened by setbacks

At the beginning of the 2020/21 fiscal year, the COVID-19 pandemic is keeping the world in suspense. The infection rates are rising rapidly again in many countries and there is no marketable vaccine to date. After the lockdowns for containing the first wave of infection, concepts were, however, developed around the world to allow personal contacts to a limited extent again and to enable continuation of business activities in many sectors at a reduced level of infection risk. This demands a great degree of flexibility and discipline from all persons involved and causes additional expenditure and investments on the part of companies.

We assume that the gradual economic recovery that began towards the end of the reporting year will continue over the 2020/21 fiscal year. Global economic output is unlikely to reach its pre-crisis level before 2022, with the development being threatened by setbacks and highly uncertain. In addition, not all countries and industries will profit equally from the upswing. In its most recent release (October 2020), the IMF forecasts global economic growth of 5.2% for 2021 – after the deep fall seen in 2020. The forecast is based on the assumption that social distancing measures remain necessary but the second wave of infection currently on the horizon will not have to be combated with a repeat of the extensive lockdowns.

An overview of the growth rates expected by the IMF in 2021 and 2022 for regions and countries relevant to Voith is presented below:

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

| | | |
|---|---|---|
| **World output** | 2021 | 5.2% |
| | **2022** | **4.2%** |
| **Advanced economies** | 2021 | 3.9% |
| | **2022** | **2.9%** |
| USA | 2021 | 3.1% |
| | **2022** | **2.9%** |
| Euro area[2] | 2021 | 5.2% |
| | **2022** | **3.1%** |
| Germany | 2021 | 4.2% |
| | **2022** | **3.1%** |
| **Emerging market and developing economies** | 2021 | 6.0% |
| | **2022** | **5.1%** |
| China | 2021 | 8.2% |
| | **2022** | **5.8%** |
| ASEAN-5 | 2021 | 6.2% |
| | **2022** | **5.7%** |
| India | 2021 | 8.8% |
| | **2022** | **8.0%** |
| Brazil | 2021 | 2.8% |
| | **2022** | **2.3%** |

Source: International Monetary Fund (IMF); World Economic Outlook, Oct. 2020.
[1] Forecasts.
[2] Including Germany.

Asia is expected to see very dynamic developments as of 2021 and make a material contribution to global economic growth. Appreciable economic growth is expected for China, in particular, in 2021 on the back of extensive government assistance and export business that is picking up sharply. India is likely to return a similarly high percentage growth rate following the dramatic collapse in 2020 but from a comparatively low level in absolute terms, however. This means that Indian gross domestic product (GDP) would remain perceptibly under the pre-crisis level. Both the euro zone and its largest single economy, Germany, and the USA are expected to return to positive GDP growth rates in 2021 but with less momentum than in Asia. In Brazil, the recovery will probably be significantly slower than in other economies. There are fears that the situation will remain precarious in many other emerging markets in South America and Africa. The background to this assumption is that the health systems are overstretched with the pandemic, severely impacted sectors such as tourism play a major role in these economies, and the financial resources for government economic stimulus packages are very limited.

The medium-term outlook is also subdued. For example, the IMF assumes that the effects of the crisis will linger in many places and will put a permanent strain on the global economy, for example through company insolvencies, job cuts, productivity losses in the wake of increased work safety and health protection measures, and through expensive adjustments to deal with the accelerated structural change.

The IMF's current forecasts involve, according to its own statement, exceptionally great uncertainty that might cause a deviation upwards or downwards from the forecast development. The uncertainty factors relate primarily to the further course of the pandemic but also to the scope and the effectiveness of government economic stimulus packages and economic interdependencies, such as between the real economy and the financial sector. Uncertainty is generally detrimental to the investment climate.

## Investment activities in the Voith markets remain subdued

It is still unclear whether the lowest point of the crisis in the five Voith markets has already been reached in the reporting year. While we do reckon with recovery gradually kicking in over the 2020/21 fiscal year, the speed and extent of the recovery will, however, differ and with the exception of a few segments it is not likely that the pre-crisis level will be reached before the end of the 2020/21 fiscal year. Experience tells us that investments in plant and machinery only pick up again with a time lag of several months after the end-customer markets have turned around. For this reason, our outlook for the 2020/21 fiscal year is subdued.

The medium to long-term growth trajectory of the energy market is characterized by rising needs worldwide, requiring increasing investments in the creation of additional power generation capacities. In this context, the transformation of the energy sector towards low-emissions energies such as hydropower is being driven forward. 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, however, the expansion of power generation capacities could be slowed by financing uncertainties as a consequence of higher sovereign debt. Over and above this, 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 conventional sector, a stable development is expected for nuclear power generation and gas, whereas coal-fired power plants will increasingly recede into the background.

In the face of the unprecedented collapse of the oil & gas market in the reporting year and the ongoing economic crisis prevailing in virtually all sectors, we anticipate oil price volatility on a low level in a long-term comparison also for the 2020/21 fiscal year. We expect the situation to be similar for the price of gas. We based our business plan on the assumption that the investments in the oil & gas market will stabilize in the 2020/21 fiscal year.

For the paper market in the 2020/21 fiscal year, we anticipate declining investments in new lines and major rebuilds and increasing competition among machinery manufacturers on account of the ongoing uncertainty. While paper production will probably grow slightly but remain under the pre-crisis level, demand for consumables and service offerings will also remain subdued. The trend away from graphic papers and towards board, packaging paper and tissue will continue.

We assume that the raw materials market bottomed out in the reporting year and that prices and demand will gradually recover in the 2020/21 fiscal year. As mine operators have postponed planned investments in many cases, there is pent-up demand especially with replacement investments to maintain production but also in new technologies for boosting efficiency; on the other hand, many mining operations are faced with an ailing financial situation after the crisis year 2020. We therefore expect only a slight rise in investment.

Our short-term expectations for the transport & automotive market are subdued, especially with regard to the commercial vehicle segment: production of trucks and buses will probably continue to drop over the 2020/21 fiscal year on account of the recession. In contrast, the global market for rail vehicles will in all probability see slight growth also over the next few years, albeit with lower momentum than prior to the outbreak of the COVID-19 crisis. At the same time, competition remains intense. Our outlook remains restrained for the marine segment. We see stimulus for growth coming from special-purpose vessels for offshore wind farms. The transport & automotive market will be increasingly characterized by the trend towards e-mobility as well as automation and digitalization.

## IV.2. Future development of the Voith Group

### A year of transition

The global crisis triggered by the coronavirus is the greatest political, economic and social challenge since the Second World War. The 2019/20 consolidated financial statements clearly show the traces of the macroeconomic shock caused by the pandemic. Its effects will continue into the 2020/21 fiscal year. We expect the global environment to remain exceedingly challenging and volatile – even if no further extensive lockdowns are imposed and the supply chains remain intact, as assumed in our business planning. As a late cyclical industry, mechanical and plant engineering will be faced with a very low level of investment activities in many markets also in 2021. Private and public sector clients will be hesitant in the tendering and awarding of new projects. And the implementation of orders already received, specifically in the service segment that is gaining in importance, is continuing to take place under aggravated conditions.

In our estimation, the 2020/21 fiscal year will consequently be a year of transition for Voith before a genuine recovery sets in: we assume that we will end the 2020/21 fiscal year only slightly up on the current reporting year. Over this year of transition, we intend, however, to reinforce the foundations for leading Voith out of this crisis stronger than before. With this objective in mind, we will further develop our corporate culture towards a stronger market and customer orientation, and promote a distinct culture of innovation. We will continue to consistently leverage the potential of our core business, for example by expanding services and digital offerings, and invest in new strategic growth areas and innovative technologies. This involves a great deal of commitment to research and development, and consistent digitalization of our business processes. Over and above this, we will continuously increase our productivity and efficiency through optimized structures and processes.

Our Group forecasts for the four key figures in the 2020/21 fiscal year are as follows:

| **Voith Group** | **2019/20** in € millions | **2020/21** Forecast |
|---|---|---|
| Orders received | 4,036 | Slight increase |
| Sales | 4,173 | Slight increase |
| EBIT | 139 | Slight increase |
| ROCE | 7.5% | Slight increase |

The anticipated slight increase in orders received is based in particular on growth in the Group Division Hydro, where, after a 2019/20 fiscal year with very weak investment activity, postponed orders might now be awarded. Despite the fall in orders received in the reporting year, our sales planning likewise provides for slight growth on the basis of the still prevailing high level of orders on hand and thanks to the expected growth in the service business, where revenue is typically recognized quickly. We will continue to return a profit from the operating business and expect to bring about a slight increase in our EBIT. A contribution to this development is to come from the Group Division Hydro in particular, where, alongside the volume growth, the cessation of one-time effects that negatively impacted the net result in the reporting year will have an effect. ROCE is expected to improve in line with the development of the operating result. All key figures are benefitting from the fact that the contributions by the acquired companies, BTG, ELIN Motoren and Toscotec, will be taken into consideration for the full 2020/21 fiscal year for the first time.

In this context, our forecasting accuracy is impaired by the great uncertainty currently still prevailing. All forecasts are based on the assumption that the second wave of infection on the horizon in some regions will not be combated with widespread lockdowns.

Our forecasts for the Group Division Hydro are as follows:

| **Group Division Hydro** | **2019/20** in € millions | **2020/21** Forecast |
|---|---|---|
| Orders received | 867 | Slight increase |
| Sales | 947 | Slight increase |
| EBIT | 10 | Appreciable increase |
| ROCE | 5.8% | Appreciable increase |

The Group Division Hydro will in all probability be confronted with a challenging and volatile market environment in the 2020/21 fiscal year, too: we expect the awarding of new hydropower projects to continue to be hesitant as a consequence of investment bottlenecks and on account of the uncertain general macroeconomic environment. Depending on the duration and the further course of the pandemic, there may be a new round of restrictions in the handling of orders. Some of the pressure should be taken off by the fact that employees and customers have adapted to the new normalcy in the meantime. Our planning for the Group Division Hydro provides for slight growth in orders received. Sales, too, are expected to see a slight increase based on the still prevailing high level of orders on hand. We are hoping for stimulus for growth from the service business, in the area of small hydropower plants, and through our automation portfolio as well as the digital offerings. The forecast of a significant improvement in the operating result and consequently in ROCE stems not only from the sales effect but also from the cessation of one-time costs for a project incurred in the reporting year.

For the Group Division Paper we forecast the following developments:

| **Group Division Paper** | **2019/20** in € millions | **2020/21** Forecast |
|---|---|---|
| Orders received | 1,684 | Stable development |
| Sales | 1,805 | Stable development |
| EBIT | 104 | Slight decline |
| ROCE | 16.0% | Slight decline |

The Group Division Paper will, in our estimation, continue to feel the appreciable effects of the global economic crisis triggered by the coronavirus pandemic in the 2020/21 fiscal year. In light of the general economic uncertainty, the reluctance on the part of paper manufacturers to make investments can be expected to continue, which will have a perceptible negative impact on our project business (new lines and rebuilds). As paper production is likely to remain under the pre-crisis level again in 2021, we do not expect any significant stimulus for growth from the business with consumables and services. Our business planning provides for a stable development in orders received and sales at the high level of the 2019/20 fiscal year. A positive effect will come from the fact that the figures for BTG and Toscotec, the companies acquired in the reporting year, will be included in the Voith Group for the full fiscal year for the first time. The increasing competitive and margin pressure may well push our operating result downwards; costs-cutting measures will probably be able to partially balance out this effect so that we are reckoning with a slight decline in EBIT. As a consequence, ROCE will likewise fall slightly.

Our forecasts for the Group Division Turbo are as follows:

| Group Division Turbo | 2019/20 in € millions | 2020/21 Forecast |
|---|---|---|
| Orders received | 1,403 | Stable development |
| Sales | 1,337 | Slight increase |
| EBIT | 42 | Stable development |
| ROCE | 5.1 % | Stable development |

We assume that the markets relevant for the Group Division Turbo, being late cyclicals, will still be suffering from the consequences of the pandemic and the recession it triggered in the 2020/21 fiscal year. Taking account of the positive effect from the first-time consolidation for a 12-month period of the majority shareholding in ELIN Motoren acquired in spring 2020, we nevertheless anticipate stable orders received and slightly rising sales for Voith Turbo. In the 2020/21 fiscal year, EBIT and ROCE will remain roughly at the level of the reporting year, according to our estimates.

The forecasts for the Group Division Digital Ventures are as follows:

| Group Division Digital Ventures | 2019/20 in € millions | 2020/21 Forecast |
|---|---|---|
| Sales | 65 | Stable development |
| EBIT | -6 | Stable development |

With regard to the business development of our ventures, we are cautiously optimistic. The only shadow over our sales expectations is the ongoing difficult situation in India that is impacting our subsidiary FlowLink Systems. In light of this, we expect the venture portfolio to show a stable sales development overall in the 2020/21 fiscal year. The negative effect from the research and development expenses for the strategic growth area of battery storage will be reflected in the operating result of the 2020/21 fiscal year. We see this as an important investment in the future of the Voith Group. All in all, we forecast an EBIT that is roughly at the level of the reporting year.

Forecasts are always subject to considerable uncertainty. This is particularly true at the editorial deadline of this annual report in the light of the coronavirus pandemic that is still raging and potential countermeasures directly linked to the dynamics of its spread. The pandemic causes a high level of uncertainty with regard to the further development of the global economy and our markets. 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.

We see ourselves equipped in the best possible way for coming challenges. Thanks to its broad sectoral and geographical position, regional supply chains and a sound balance sheet, Voith is an extremely resilient company. 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.

# Consolidated Financial Statements

# Consolidated statement of income

## for the period from October 1, 2019 to September 30, 2020

| in € thousands | Note | 2019/20 | 2018/19* |
|---|---|---|---|
| Sales | (1) | 4,173,101 | 4,282,908 |
| Changes in inventories and other own work capitalized | (2) | 16,107 | 8,183 |
| **Total output** | | **4,189,208** | **4,291,091** |
| Other operating income | (3) | 377,528 | 396,472 |
| Cost of materials | (4) | -1,827,750 | -1,904,709 |
| Personnel expenses | (5) | -1,501,461 | -1,487,358 |
| Depreciation and amortization | | -167,886 | -119,363 |
| Other operating expenses | (6) | -1,008,093 | -1,010,041 |
| **Operational result** | | **61,546** | **166,092** |
| Share of profit/loss from companies accounted for using the equity method | | -7,799 | -6,512 |
| Interest income | | 28,460 | 12,316 |
| Interest expenses | | -28,138 | -38,756 |
| Other financial result | (7) | 19,100 | 5,143 |
| **Result before taxes from continuing operations** | | **73,169** | **138,283** |
| Income taxes | (8) | -60,262 | -57,383 |
| **Net result from continuing operations** | | **12,907** | **80,900** |
| **Net result from discontinued operations** | | **-6,563** | **-8,447** |
| **Net result** | | **6,344** | **72,453** |
| · Net result attributable to shareholders of the parent company | | -3,157 | 70,711 |
| · Net result attributable to holders of non-controlling interests | | 9,501 | 1,742 |

* Previous year restated (see section “Restatements of previous-year figures”).

# Consolidated statement of comprehensive income

## for the period from October 1, 2019 to September 30, 2020

| in € thousands | 2019/20 | 2018/19 |
|---|---|---|
| **Net result** | **6,344** | **72,453** |
| *Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods:* | | |
| Remeasurement of defined benefit plans | 21,082 | -125,972 |
| Taxes on components of other comprehensive income that will not be recycled through profit or loss in later accounting periods | -6,152 | 33,032 |
| *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 | -4,614 | -45,261 |
| Gains/losses on cash flow hedges | 888 | -764 |
| Gains/losses on currency translation | -82,344 | 30,998 |
| Gains/losses on net investment in foreign operations | -35,908 | 728 |
| Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods | 4,724 | 127 |
| **Other comprehensive income** | **-102,324** | **-107,112** |
| **Total comprehensive income** | **-95,980** | **-34,659** |
| · Total comprehensive income attributable to shareholders of the parent company | -103,386 | -38,507 |
| · Total comprehensive income attributable to holders of non-controlling interests | 7,406 | 3,848 |
| | **-95,980** | **-34,659** |

# Consolidated balance sheet

**as at September 30, 2020**

## Assets

| in € thousands | | | 2020-09-30 | 2019-09-30 |
|---|---|---|---|---|
| **A.** | **Non-current assets** | | | |
| I. | Intangible assets | (9) | 986,805 | 532,813 |
| II. | Property, plant and equipment | (10) | 1,028,065 | 923,832 |
| III. | Investments accounted for using the equity method | (11) | 21,222 | 25,658 |
| IV. | Securities | (16) | 11,945 | 12,181 |
| V. | Other financial assets | | 50,966 | 60,065 |
| VI. | Other financial receivables | (15) | 41,657 | 52,804 |
| VII. | Other assets | (15) | 14,453 | 16,580 |
| VIII. | Deferred tax assets | (8) | 244,774 | 218,732 |
| **Total non-current assets** | | | **2,399,887** | **1,842,665** |
| **B.** | **Current assets** | | | |
| I. | Inventories | (12) | 591,912 | 599,297 |
| II. | Trade receivables | (13) | 674,797 | 657,084 |
| III. | Contract assets | (14) | 539,446 | 541,204 |
| IV. | Securities | (16) | 122,693 | 355,757 |
| V. | Current income tax assets | | 33,524 | 50,045 |
| VI. | Other financial receivables | (15) | 119,913 | 116,715 |
| VII. | Other assets | (15) | 146,819 | 146,398 |
| VIII. | Cash and cash equivalents | (17) | 581,766 | 417,874 |
| | | | **2,810,870** | **2,884,374** |
| IX. | Assets held for sale | (18) | 6,024 | 28,597 |
| **Total current assets** | | | **2,816,894** | **2,912,971** |
| **Total assets** | | | **5,216,781** | **4,755,636** |

## Equity and liabilities

| in € thousands | | | 2020-09-30 | 2019-09-30 |
|---|---|---|---|---|
| **A.** | **Equity** | | | |
| I. | Issued capital | | 120,000 | 120,000 |
| II. | Revenue reserves | | 1,040,815 | 1,086,916 |
| III. | Other reserves | | -224,617 | -109,446 |
| IV. | Profit participation rights | | 6,600 | 6,600 |
| **Equity attributable to shareholders of the parent company** | | | **942,798** | **1,104,070** |
| V. | Profit participation rights | | 96,800 | 96,800 |
| VI. | Other interests | | 43,871 | 44,190 |
| **Equity attributable to non-controlling interests** | | | **140,671** | **140,990** |
| **Total equity** | | (19) | **1,083,469** | **1,245,060** |
| **B.** | **Non-current liabilities** | | | |
| I. | Provisions for pensions and similar obligations | (20) | 825,733 | 835,049 |
| II. | Other provisions | (21) | 139,823 | 130,383 |
| III. | Income tax liabilities | | -87 | -100 |
| IV. | Bank loans and other interest-bearing liabilities | (22) | 665,036 | 290,357 |
| V. | Other financial liabilities | (24) | 36,992 | 29,747 |
| VI. | Other liabilities | (24) | 42,097 | 46,364 |
| VII. | Deferred tax liabilities | (8) | 82,224 | 44,955 |
| **Total non-current liabilities** | | | **1,791,818** | **1,376,755** |
| **C.** | **Current liabilities** | | | |
| I. | Provisions for pensions and similar obligations | (20) | 32,904 | 32,499 |
| II. | Other provisions | (21) | 283,060 | 250,600 |
| III. | Income tax liabilities | | 38,994 | 19,860 |
| IV. | Bank loans and other interest-bearing liabilities | (22) | 243,011 | 109,096 |
| V. | Trade payables | (23) | 537,532 | 531,647 |
| VI. | Contract liabilities | (14) | 845,256 | 816,919 |
| VII. | Other financial liabilities | (24) | 216,919 | 247,898 |
| VIII. | Other liabilities | (24) | 142,310 | 123,755 |
| | | | **2,339,986** | **2,132,274** |
| IX. | Liabilities directly associated with assets classified as held for sale | (18) | 1,508 | 1,547 |
| **Total current liabilities** | | | **2,341,494** | **2,133,821** |
| **Total equity and liabilities** | | | **5,216,781** | **4,755,636** |

# Consolidated statement of changes in equity

| | | | | | Equity attributable to shareholders of the parent company |
|---|---|---|---|---|---|
| in € thousands | Issued capital | Revenue reserves | Financial assets and marketable securities | Cash flow hedges | Currency translation |
| **2019-10-01** | **120,000** | **1,086,916** | **-44,174** | **-764** | **-60,439** |
| Net result | | -3,157 | | | |
| Other comprehensive income | | 14,942 | -3,427 | 867 | -80,071 |
| **Total comprehensive income** | **0** | **11,785** | **-3,427** | **867** | **-80,071** |
| Allocation of profit participation rights | | -5,590 | | | |
| Share of net result attributable to profit participation rights | | | | | |
| Dividends | | -47,226 | | | |
| Acquisition of non-controlling interests | | -5,900 | | | |
| Non-controlling interests – put options | | -164 | | | |
| Other adjustments | | 994 | | | |
| **2020-09-30** | **120,000** | **1,040,815** | **-47,601** | **103** | **-140,510** |

| | | | | | Equity attributable to shareholders of the parent company |
|---|---|---|---|---|---|
| in € thousands | Issued capital | Revenue reserves | Financial assets and marketable securities | Cash flow hedges | Currency translation |
| **2018-09-30** | **120,000** | **1,150,429** | **3,364** | **-1,006** | **-88,742** |
| First-time adoption of IFRS 15 | | -7,345 | | | |
| First-time adoption of IFRS 9 | | -1,786 | -2,637 | | |
| **2018-10-01** | **120,000** | **1,141,298** | **727** | **-1,006** | **-88,742** |
| Net result | | 70,711 | | | |
| Other comprehensive income | | -92,584 | -44,901 | -764 | 28,303 |
| **Total comprehensive income** | **0** | **-21,873** | **-44,901** | **-764** | **28,303** |
| Allocation of profit participation rights | | -5,590 | | | |
| Share of net result attributable to profit participation rights | | | | | |
| Dividends | | -19,000 | | | |
| Non-controlling interests – capital contributions | | | | | |
| Non-controlling interests – put options | | -4,976 | | | |
| Other adjustments | | -2,943 | | 1,006 | |
| **2019-09-30** | **120,000** | **1,086,916** | **-44,174** | **-764** | **-60,439** |

| Net investment in foreign operations | Profit participation rights | Total | Equity attributable to non-controlling interests: Profit participation rights | Other interests | Total | Total equity |
|---|---|---|---|---|---|---|
| **-4,069** | **6,600** | **1,104,070** | **96,800** | **44,190** | **140,990** | **1,245,060** |
| | | -3,157 | | 9,501 | 9,501 | 6,344 |
| -32,540 | | -100,229 | | -2,095 | -2,095 | -102,324 |
| **-32,540** | **0** | **-103,386** | **0** | **7,406** | **7,406** | **-95,980** |
| | 363 | -5,227 | 5,227 | | 5,227 | 0 |
| | -363 | -363 | -5,227 | | -5,227 | -5,590 |
| | | -47,226 | | -7,036 | -7,036 | -54,262 |
| | | -5,900 | | 1,051 | 1,051 | -4,849 |
| | | -164 | | -1,453 | -1,453 | -1,617 |
| | | 994 | | -287 | -287 | 707 |
| **-36,609** | **6,600** | **942,798** | **96,800** | **43,871** | **140,671** | **1,083,469** |

| Net investment in foreign operations | Profit participation rights | Total | Equity attributable to non-controlling interests: Profit participation rights | Other interests | Total | Total equity |
|---|---|---|---|---|---|---|
| **-4,797** | **6,600** | **1,185,848** | **96,800** | **43,002** | **139,802** | **1,325,650** |
| | | -7,345 | | | | -7,345 |
| | | -4,423 | | | | -4,423 |
| **-4,797** | **6,600** | **1,174,080** | **96,800** | **43,002** | **139,802** | **1,313,882** |
| | | 70,711 | | 1,742 | 1,742 | 72,453 |
| 728 | | -109,218 | | 2,106 | 2,106 | -107,112 |
| **728** | **0** | **-38,507** | **0** | **3,848** | **3,848** | **-34,659** |
| | 363 | -5,227 | 5,227 | | 5,227 | 0 |
| | -363 | -363 | -5,227 | | -5,227 | -5,590 |
| | | -19,000 | | -8,218 | -8,218 | -27,218 |
| | | | | 6,552 | 6,552 | 6,552 |
| | | -4,976 | | -1,741 | -1,741 | -6,717 |
| | | -1,937 | | 747 | 747 | -1,190 |
| **-4,069** | **6,600** | **1,104,070** | **96,800** | **44,190** | **140,990** | **1,245,060** |

# Consolidated cash flow statement

| in € thousands | 2019/20 | 2018/19 |
|---|---|---|
| Result before taxes from continuing and discontinued operations | 66,606 | 129,836 |
| Depreciation and amortization | 168,418 | 122,539 |
| Interest expenses/income | -285 | 26,440 |
| Other non-cash items | 5,406 | 5,549 |
| Gains/losses from the disposal of property, plant and equipment and intangible assets | -511 | -12,884 |
| Gains/losses from investments | -10,881 | -6,482 |
| Changes in provisions and accruals | 11,375 | -62,228 |
| Change in net working capital | 45,972 | -92,691 |
| Interest paid | -17,653 | -19,513 |
| Interest received | 6,244 | 7,143 |
| Dividends received | 10,794 | 6,609 |
| Tax paid | -51,302 | -58,156 |
| **Cash flow from operating activities** | **234,183** | **46,162** |
| Investments in property, plant and equipment and intangible assets | -95,803 | -112,679 |
| Proceeds from the disposal of property, plant and equipment and intangible assets | 13,128 | 26,921 |
| Investments in financial assets | -9,027 | -42,303 |
| Acquisitions of consolidated subsidiaries minus cash and cash equivalents | -414,414 | -13,935 |
| Proceeds from the disposal of financial assets | 9,174 | 1,546 |
| Proceeds from the disposal of securities | 476,037 | 429,757 |
| Payments for the acquisition of securities | -244,541 | -165,425 |
| **Cash flow from investing activities** | **-265,446** | **123,882** |
| Dividends paid | -60,910 | -33,356 |
| Contributions from holders of non-controlling interests | 0 | 6,552 |
| Acquisition of non-controlling interests | -4,849 | 0 |
| New bank loans and overdrafts | 417,132 | 16,756 |
| Repayment of bank loans and overdrafts | -95,312 | -68,716 |
| Changes in other interest-bearing financial receivables and liabilities | -24,366 | -25,456 |
| **Cash flow from financing activities** | **231,695** | **-104,220** |
| **Total cash flow** | **200,432** | **65,824** |
| Exchange rate movements and valuation changes | -36,540 | 10,359 |
| Cash and cash equivalents at the beginning of the period | 417,874 | 341,691 |
| **Cash and cash equivalents at the end of the period** | **581,766** | **417,874** |

# Notes to the consolidated financial statements for the 2019/20 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, 2020 in accordance with IFRS as endorsed by the EU, and a Group management report. JMV SE & Co. KG, as parent of the largest group of companies requiring consolidation, prepares consolidated financial statements as at September 30, 2020 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 30, 2020.

The preparation of the consolidated financial statements for the 2019/20 fiscal year in accordance with IFRS as endorsed by the EU, and 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 four segments: Hydro, Paper, Turbo and Digital Ventures. 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:

| | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Voith GmbH & Co. KGaA and its fully consolidated subsidiaries: | | |
| · Germany | 24 | 25 |
| · Other countries | 118 | 118 |
| | **142** | **143** |
| Associates and joint ventures: | | |
| · Germany | 5 | 3 |
| · Other countries | 6 | 4 |
| | **11** | **7** |

**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 |
| | |
| DSIF | FlowLink Systems Private Ltd., Coimbatore, India |
| DSGM | Ray Sono AG, Munich, 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. 3 HGB and Sec. 264 (3) No. 4 HGB.

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

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

| | 2020-09-30 | 2019-09-30 |
|---|---|---|
| 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, Germany

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Sales | 951,527 | 1,147,672 |
| Net result | -15,739 | -11,727 |
| Net result attributable to non-controlling interests | -6,779 | -5,432 |
| Other comprehensive income | -50,066 | 3,778 |
| Total comprehensive income | -65,805 | -7,949 |
| Total comprehensive income attributable to non-controlling interests | -24,038 | -4,415 |
| Current assets | 880,722 | 1,066,576 |
| Non-current assets | 235,566 | 256,690 |
| Current liabilities | 849,723 | 860,667 |
| Non-current liabilities | 160,206 | 284,328 |
| Net assets | 106,359 | 178,271 |
| Net assets attributable to the non-controlling interests | 26,176 | 50,981 |
| Cash flow from operating activities | -30,010 | -21,045 |
| Cash flow from investing activities | -13,351 | -15,079 |
| Cash flow from financing activities | 17,957 | 47,532 |
| **Total cash flow** | **-25,404** | **11,408** |
| Net foreign exchange difference | -13,971 | 3,261 |
| Net increase/decrease in cash and cash equivalents | -39,375 | 14,669 |

### Business combinations in the 2019/20 fiscal year

**ELIN Motoren GmbH**

In April 2020, Voith acquired 70% of the shares in ELIN Motoren GmbH, a manufacturer of electric motors based in Austria, and its two subsidiaries and shares in an associate.

ELIN Motoren GmbH is a high-tech company that has operations worldwide in the field of electric motors and generators and provides customized solutions for industrial applications in this context. The acquired group of companies employs a workforce totaling around 960 and generates sales of around €120 million. ELIN Motoren's portfolio is an outstanding supplement to Voith's industrial drive solutions and supports Voith's position as a technology-independent supplier of drive systems.

Under the terms of the business combination, Voith agreed to acquire the remaining 30% 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 €16.0 million that is reported in 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 7.5%.

The company and its two subsidiaries have been fully consolidated since May 1, 2020, and are allocated to the Group Division Turbo.

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

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €35.5 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Since May 1, 2020, ELIN Motoren contributed an additional €51.3 million to the Group's sales. The share in net result for the same period amounted to €0.7 million (this figure includes depreciation and amortization of the assets identified within the scope of the purchase price allocation of €0.2 million).

If ELIN Motoren had been included in the Group for the whole fiscal year, it would have generated additional sales of €69.4 million and a net result of €-3.3 million.

### Balance sheet item

| in € thousands | Acquisition date fair value |
|---|---|
| Intangible assets | 3,909 |
| Property, plant and equipment | 40,827 |
| Financial assets | 449 |
| Inventories | 20,796 |
| Receivables and other assets | 53,455 |
| Cash and cash equivalents | 66 |
| Pension obligations | -4,583 |
| Other liabilities and accruals | -55,037 |
| Liabilities to banks | -37,046 |
| Option – financial liability | -16,000 |
| Deferred tax liabilities | -1,411 |
| **Net fair value of equity** | **5,425** |
| Goodwill | 35,495 |
| **Purchase price of the interests acquired** | **40,920** |
| Cash and cash equivalents | -66 |
| **Cash outflows** | **40,854** |

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

**BTG**

Voith acquired 100% of the shares in several BTG companies as of November 30, 2019. BTG is a multinational provider of integrated, highly specialized process solutions for the global pulp and paper industry. With some 600 employees, it will strengthen Voith's position as a full-line supplier in the future. This acquisition will enable Voith to strengthen its competitive position by bundling the potential of both companies.

The subsidiaries of BTG have been fully consolidated since December 1, 2019, and are allocated to our Group Division Paper.

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €191.8 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Since December 1, 2019, the BTG companies contributed an additional €119.7 million to the Group's sales. The share in net result for the same period amounted to €6.2 million (this figure includes depreciation and amortization of €8.5 million on assets identified within the scope of the purchase price allocation).

If the BTG companies had been included in the Group for the whole fiscal year, they would have generated additional sales of €27.6 million and a net result of €4.6 million.

### Balance sheet item

| in € thousands | Acquisition date fair value |
|---|---|
| Intangible assets | 124,144 |
| Property, plant and equipment | 29,340 |
| Inventories | 19,147 |
| Receivables and other assets | 27,371 |
| Financial receivables | 6,088 |
| Cash and cash equivalents | 3,530 |
| Pension obligations | -17,933 |
| Liabilities and accruals | -26,053 |
| Financial liabilities | -3,946 |
| Deferred tax liabilities | -28,261 |
| **Net fair value of equity** | **133,427** |
| Goodwill | 191,808 |
| **Purchase price of the interests acquired** | **325,235** |
| Cash and cash equivalents | -3,530 |
| **Cash outflows** | **321,705** |

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

**Toscotec S.p.A.**

In April 2020, Voith acquired 90% of the shares in Toscotec S.p.A. headquartered in Lucca, Italy. Toscotec S.p.A. is a multinational provider of systems, products and services for the paper industry. Its operations focus on machines for producing tissue for use as paper towels, paper napkins or toilet paper. Toscotec S.p.A. employs a workforce of around 200 employees and generates sales of around €100 million. The acquisition will allow Voith to expand its position as a full-line supplier in all areas of the paper industry.

Under the terms of the business combination, Voith agreed to acquire the remaining 10% 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 €7.3 million that is reported in financial liabilities.

The amount of this obligation was determined using discounted cash flows on the basis of the contractually agreed terms, an estimated exercise date and an interest rate of 7.7%.

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 €67.2 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

The subsidiaries of Toscotec have been fully consolidated since May 1, 2020, and are allocated to our Group Division Paper.

Since May 1, 2020, the Toscotec companies contributed an additional €55.8 million to the Group's sales. The share in net result for the same period amounted to €0.3 million (this figure includes depreciation and amortization of €0.8 million on assets identified within the scope of the purchase price allocation).

If the Toscotec companies had been included in the Group for the whole fiscal year, they would have generated additional sales of €54.2 million and a net result of €3.3 million.

## Balance sheet item

| in € thousands | Acquisition date fair value |
|---|---|
| Intangible assets | 40,477 |
| Property, plant and equipment | 10,533 |
| Financial assets | 23 |
| Inventories | 21,880 |
| Receivables and other assets | 54,743 |
| Cash and cash equivalents | 32,808 |
| Pension obligations | -930 |
| Other liabilities and accruals | -80,351 |
| Financial liabilities | -33,577 |
| Option – financial liability | -7,300 |
| Deferred tax liabilities | -5,571 |
| **Net fair value of equity** | **32,735** |
| Goodwill | 67,165 |
| **Purchase price of the interests acquired** | **99,900** |
| Cash and cash equivalents | -32,808 |
| **Cash outflows** | **67,092** |

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

**Sintaksa d.o.o.**

Towards the end of the 2020 fiscal year, Voith acquired 51% of the shares in Sintaksa. Sintaksa is an innovative technology company headquartered in Croatia, that supplies products and renders services in the field of electromechanical systems and automation for the hydropower industry with a strong focus on small hydro. The company places a special focus on control, safety and measuring systems for small hydropower plants. Sintaksa was founded in 2008 and today has a workforce of more than 50 highly qualified employees. The company has grown continually and generates annual sales in the area of €10 million. With this acquisition, Voith is taking the next step on the way towards becoming a small hydro systems integrator.

Under the terms of the business combination, Voith agreed to acquire the remaining 49% of the shares at a later date, where the non-controlling shareholders are, subject to certain conditions, entitled to sell their 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 €2.3 million that is reported in financial liabilities.

The amount of this obligation was determined using discounted cash flows on the basis of the contractually agreed terms, an estimated exercise date and an interest rate of 7.5%.

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 €2.7 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Sintaksa is consolidated in the Voith Group as of September 30, 2020.

If Sintaksa had been included in the Group for the entire fiscal year, it would have generated additional sales of €8.1 million and a net result of €0.3 million.

### Balance sheet item

| in € thousands | Acquisition date fair value |
|---|---|
| Intangible assets | 1,142 |
| Property, plant and equipment | 1,182 |
| Financial assets | 32 |
| Inventories | 906 |
| Receivables | 549 |
| Cash and cash equivalents | 972 |
| Other liabilities and accruals | -1,666 |
| Liabilities to banks | -322 |
| Option – financial liability | -2,310 |
| **Net fair value of equity** | **485** |
| Goodwill | 2,664 |
| **Purchase price of the interests acquired** | **3,149** |
| Cash and cash equivalents | -972 |
| **Cash outflows** | **2,177** |

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

### Business combinations in the 2018/19 fiscal year

**Pilotfish Networks AB**

55.98% of the shares in Pilotfish Networks AB were acquired in January 2019.

This company with its headquarters in Gothenburg, Sweden, is one of Europe's leading providers of onboard IT systems and applications. Pilotfish has installed its systems in more than 10,000 buses, trains and streetcars in a number of countries. The company offers applications, hardware and consulting in one portfolio, Eco-Driving, a vehicle communication platform based on open standards, tachograph downloads, automatic error messages, navigation as well as automatic transfer of vehicle data directly into cloud-based analysis processes.

Within the scope of the business combination, Voith undertook an obligation to purchase the remaining 44.02% of the Pilotfish shares at a later date. The non-controlling shareholders have been provided with fixed exercise periods in which they are able to sell their shares to Voith. This gives rise to an obligation of €2.8 million that is disclosed in financial liabilities. This obligation is measured on the basis of the contractually agreed terms.

The company has been fully consolidated since January 1, 2019, and is allocated to our Group Division Digital Ventures.

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 €6 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Since January 1, 2019, Pilotfish has contributed an additional €3.1 million to the Group's sales. The share in net result for the same period amounted to €-0.6 million.

If Pilotfish had been included in the Group for the whole fiscal year, it would have generated additional sales of €1.0 million and an additional net result for the year of €-0.4 million.

## Balance sheet item

| in € thousands | Acquisition date fair value |
|---|---|
| Intangible assets | 1,521 |
| Property, plant and equipment | 16 |
| Financial assets | 1,339 |
| Inventories | 880 |
| Receivables | 1,959 |
| Cash and cash equivalents | 316 |
| Other liabilities and accruals | -1,917 |
| Liabilities to banks | -2,919 |
| Option – financial liability | -2,800 |
| **Net fair value of equity** | **1,605** |
| Goodwill | 6,015 |
| **Purchase price of the interests acquired** | **4,410** |
| Cash and cash equivalents | -316 |
| **Cash outflows** | **4,094** |

**VolgaHydro OOO**

Voith has acquired the remaining 40% of the shares in VolgaHydro OOO. RusHydro, Voith's partner in this joint venture in Russia, pulled out of the cooperation arrangement for strategic reasons.

With the plant in Balakovo, Voith Hydro will serve the Russian hydropower market.

The remeasurement of the 60% shareholding in VolgaHydro OOO previously accounted for using the equity method gave rise to a loss of €8.0 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 60% shareholding and the purchase price for the 40% shareholding acquired in the 2018/19 fiscal year are listed in the table shown below.

The company has been fully consolidated since January 1, 2019, and is allocated to our Group Division Hydro. Until December 31, 2018, the 60% shareholding was accounted for using the equity method.

The negative difference between the purchase price and the acquired net assets revalued within the scope of the business combination amounting to €7.9 million (bargain purchase) was realized in the statement of income in accordance with IFRS 3, in the item "Share of profit/loss from companies accounted for using the equity method". The negative difference is due, among other factors, to the new strategic focus of the business activities at RusHydro.

Since January 1, 2019, VolgaHydro has contributed an additional €3.9 million to the Group's sales. The share in net result for the same period amounted to €-2.6 million.

If VolgaHydro had been included in the Group for the whole fiscal year, it would have generated additional sales of €3.1 million and an additional net result for the year of €-1.1 million.

## Balance sheet item

| in € thousands | Acquisition date fair value |
|---|---|
| Property, plant and equipment | 28,750 |
| Receivables | 2,216 |
| Other assets | 50 |
| Cash and cash equivalents | 1,385 |
| Other liabilities and accruals | -9,400 |
| **Net fair value of equity** | **23,001** |
| Negative goodwill | -7,866 |
| **Fair value of the 100% shareholding held by Voith** | **15,135** |
| thereof: fair value of the 60% shareholding already held | 9,081 |
| **Purchase price of the 40% shareholding newly acquired** | **6,054** |
| Cash and cash equivalents | -1,385 |
| **Cash outflows** | **4,669** |

**TSP OnCare Digital Assets Inc.**

On April 15, 2019, Voith and TSP, a leading US technology service provider, started a new joint venture with a combined start-up capital of €5,746 thousand (USD 6.5 million).

The start-up capital was used to purchase a business sector from TSP, in a transaction that was structured as an asset deal. A significant portion of the net assets purchased, amounting to €47 thousand, comprises property, plant and equipment. A goodwill of €5.7 million arose on the asset deal transaction.

The company has been fully consolidated since April 15, 2019, and is allocated to our Group Division Digital Ventures.

The new Voith/TSP joint venture reinforces Voith's presence in North America in the important field of automation and digital services.

Both Digital Ventures and TSP will be represented on the management of the new company, TSP OnCare Digital Assets, in which Voith has a 90% shareholding.

The strategic position of TSP OnCare Digital Assets in providing support for all digital systems of our customers' complex plant and equipment reduces customers' expenses and risks involved in the maintenance of their digital assets. In addition, it has a lean, flexible service organization and powerful training and recruitment expertise.

TSP OnCare Digital Assets will combine the strengths of the two companies and continue to focus on offering all customers excellent services for all their systems from a wide range of automation providers.

Since April 15, 2019, TSP OnCare Digital Assets has contributed an additional €6.1 million to the Group's sales. The share in net result for the same period amounted to €21 thousand.

If TSP OnCare Digital Assets had been included in the Group for the whole fiscal year, it would have generated additional sales of €7.3 million.

### Discontinued operations in the 2019/20 fiscal year

In the previous year, the business operations of Voith Composites SE & Co. KG were treated as held for sale and discontinued operations as a sale of the business operations was expected to take place over the short term. In the reporting year, the plans to sell the activities were abandoned and the decision was made to continue the activities with the consequence that the business operations of Voith Composites SE & Co. KG were no longer classified as held for sale in the reporting year. The net result reported in the result from continuing operations of the business operations of Voith Composites SE & Co. KG amounts to €-6,669 thousand in the current fiscal year. The previous-year figures contained in the statement of income were adjusted accordingly, with the net result amounting to €-8,268 thousand in the previous year.

Furthermore, the decision was made in the second half of the 2018/19 fiscal year to relinquish control of merQbiz LLC and to continue the associated business activities as a non-controlling shareholder with a different partner. Due to the fact that implementation of the plan to sell these business operations is expected to take place over the short term, they are treated in the reporting year as held for sale and discontinued operations, as was already the case in the previous year.

The following items were disclosed in the statement of income in the net result from discontinued operations relating to merQbiz LLC (the previous-year figures were correspondingly adjusted in the statement of income with regard to Voith Composites SE & Co. KG:

| in € thousands | 2019/20 | 2018/19* |
|---|---|---|
| Income | 795 | 287 |
| Expenses | -7,358 | -8,734 |
| **Operational result before taxes** | **-6,563** | **-8,447** |
| Income taxes | 0 | 0 |
| **Net result** | **-6,563** | **-8,447** |

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

Cash flow from discontinued operations:

| in € thousands | 2019/20 | 2018/19* |
|---|---|---|
| Cash flow from operating activities | -5,570 | -8,543 |
| Cash flow from investing activities | -28 | -319 |

The carrying amounts of the assets and liabilities held for sale attributable to merQbiz LLC are presented in note 18.

## Basis of consolidation

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

* Previous year restated (see section “Restatements of previous-year figures”).

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 IAS 39. 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 that are recognized in profit or loss.

## 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 with 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 to obtain 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 with 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 classes 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 depreciation, had no impairment loss been recognized for the asset in previous years.

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

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

Goodwill is tested for impairment at least annually. For impairment testing, goodwill is assigned to essentially four groups of cash-generating units. In line with the management's internal reporting practices, these are identified on the basis of the Group's operating activities. Voith has therefore defined the three established segments Hydro, Paper and Turbo as relevant groups of cash-generating units. In previous years, goodwill was created in the Digital Ventures segment stemming from the acquisition of Ray Sono AG, from the increase in Voith's holdings in FlowLink Systems Private Ltd., from the acquisition of shares in Pilotfish Networks AB and from the acquisition of assets and liabilities of TSP OnCare Digital Assets Inc. Due to the start-up situation in the new segment, this goodwill is tested for impairment on a stand-alone basis at the level of the respective unit.

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 fair value less cost to sell 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:**
After a sharp decline in orders received in the reporting year, a slight increase in orders received is expected for the 2020/21 fiscal year. For the 2020/21 fiscal year, we expect a slight rise in sales at Voith Hydro whereas a moderate rise in sales is anticipated over the following years.

**Voith Paper:**
After a perceptible increase in the reporting year, a stable development of orders received is expected for the 2020/21 fiscal year. For the 2020/21 fiscal year, the Group Division Paper is expecting a stable development in sales while a rise in sales is expected over the following years.

**Voith Turbo:**
After a slight decline in orders received in the reporting year, a stable development of orders received is expected for the 2020/21 fiscal year. Voith Turbo anticipates a slight rise in sales for the 2020/21 fiscal year and rising sales over the subsequent years.

**Ray Sono AG:**
Perceptible growth consistent with trends in the digital market is expected for orders received and sales over the planning years.

**FlowLink Systems Private Limited:**
Moderate increases in orders received and sales are anticipated for the planning years.

**Pilotfish Networks AB:**
Appreciable increases in orders received and sales are anticipated for the planning years.

**TSP OnCare Digital Assets Inc.:**
Perceptible increases in orders received and sales are anticipated for the planning years.

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 segments 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 5.8% for Voith Hydro (previous year: 6.1%), 6.8% for Voith Paper (previous year: 7.1%), 7.0% for Voith Turbo (previous year: 7.3%), 6.6% for Ray Sono AG (previous year: 7.3%), 6.7% for FlowLink Systems Private Ltd., Pilotfish Networks AB and TSP OnCare Digital Assets Inc. (previous year: 7.3%). The rates extrapolated from the pre-tax rates for which IAS 36 disclosures are required are 7.6% for Voith Hydro (previous year: 8.6%), 8.7% for Voith Paper (previous year: 10.4%), 8.7% for Voith Turbo (previous year: 10.0%), 8.8% for Ray Sono AG (previous year: 9.5%), 8.9% for FlowLink Systems Private Ltd. (previous year: 9.7%), 8.1% for Pilotfish Networks AB (previous year 8.8%) and 8.5% for TSP OnCare Digital Assets Inc. (previous year 9.1%).

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 three segments, for FlowLink Systems Private Ltd., and for TSP OnCare Digital Assets Inc. do not give rise to any impairment. For RaySono AG, an increase in the discount rate of more than 0.4 percentage points or a decrease in future cash flows of more than 8% would result in a need to record an impairment loss. For Pilotfish Networks AB, the corresponding thresholds stand at 0.7 percentage points (discount rate) or -15% (cash flows).

The brands acquired as part of the acquisition of BTG and Toscotec are classified as intangible assets with an indefinite useful life.

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 €39.5 million (€38.8 million as at the acquisition date) and the brand Capstone is €2.7 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 performed as at September 30, 2020, 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. The discount factor (before taxes) for the future cash flows is 9.2% (BTG) and 8.7% (Capstone), respectively, as at September 30, 2020.

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 performed as at September 30, 2020, 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. The discount factor (before taxes) for the future cash flows is 8.8% as at September 30, 2020.

The impairment testing performed as at September 30, 2020, did not lead to any need to recognize impairment losses on the brands.

## 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 exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in previous years.

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

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

### Leases

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 (up to USD 5 thousand) leases. 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.

The following accounting policies pursuant to IAS 17 were applied for lease arrangements in the previous year:

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

## Financial instruments

A financial instrument is any contract that simultaneously gives rise to a financial asset of one party to the contract and a financial liability or equity instrument of the other party to the contract. Financial assets and liabilities are 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. They 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, while 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 statement of income, 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

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

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

### Profit participation rights

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 that are classified as finance leases in accordance with the criteria laid out in IAS 17 are recognized at the present value of the minimum lease payments at the start of the lease and subsequently stated under financial liabilities at their amortized cost. Lease payments are split into an interest component and a principal component. The interest component of each payment is recognized as an expense in the statement of income.

### Classification of non-controlling interests 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. 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).

The amounts reclassified from equity to financial liabilities came to a total of €62,146 thousand in the 2019/20 fiscal year (previous year: €35,852 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 exercise judgment in determining current and deferred taxes, as deferred taxes are recognized to the extent that their realization is probable
- Determining the requirement for, and measuring the amount of, impairment of intangible assets and property, plant and equipment
- Determining the requirement for allowances against doubtful receivables
- Sales 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 fair value less cost to sell 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 unused tax losses and temporary differences, for example, assumptions must be made about the possibility of realizing sufficient taxable income in the future and the interpretation of complex tax laws and regulations. We refer to note 8 for details of the carrying amounts.

### 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 2019/20 fiscal year:

| Standard/interpretation | Amendment/new standard or interpretation |
|---|---|
| Amendments to IFRS 9<br>Financial Instruments | The amendments relate to premature repayment options with negative early repayment compensation. |
| IFRS 16<br>Leases | IFRS 16 governs the recognition, measurement, presentation and disclosure of leases in financial statements. |
| Amendments to IAS 19<br>Plan Amendment, Curtailment or Settlement | According to this amendment, in the event of amendment, curtailment or settlement of a defined benefit plan, it is now mandatory that the current service cost and the net interest for the period used for the required remeasurement of the net liability are determined again using the actuarial assumptions currently made.<br>In addition, amendments were included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. |
| Amendments to IAS 28<br>Investments in Associates and Joint Ventures | According to this amendment, long-term interests that in substance form part of the net investment in an entity accounted for using the equity method are to be accounted for and measured pursuant to IFRS 9. |
| IFRIC 23<br>Uncertainty over Income Tax Treatments | IFRIC 23 supplements the provisions of IAS 12 regarding accounting treatment of uncertainties in connection with the income tax treatment of issues and transactions. |
| Improvements to IFRS (2015–2017) | Amendments to standards IFRS 3, IFRS 11, IAS 12 and IAS 23. |

The changes from first-time application of IFRS 16 are explained below. All other 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.

## IFRS 16 – Leases

IFRS 16 Leases replaces the previous requirements of IAS 17 Leases and does away with the previous classification, on the part of the lessee, of leases into operating and finance leases. Most leases and the associated rights of use and lease liabilities are now reported in the lessee’s balance sheet. There are exceptions for short-term and low-value leases. The right of use is amortized over the term of the lease. In contrast, the lease liability is accreted applying the effective interest method and taking account of the lease payments. The accounting treatment by lessors is not materially different from the provisions of IAS 17.

In the past, Voith had only operating leases and immaterial finance leases as lessee. Lease liabilities arising from existing operating leases of €87.2 million were recognized as at October 1, 2019. For the transition, Voith chose the modified retrospective approach and made use of the simplifications for short-term and low-value leases. This means that lease agreements where the term of the lease ends prior to October 1, 2020, were also classified as short-term leases, irrespective of the starting date of the lease agreement, and not reported in the balance sheet. Any direct costs from determining the right of use are not taken into consideration. With regard to existing leases, the assessment to date used to identify leases (grandfathering clause) was carried forward. At the time of the changeover, the lease liabilities were recognized at the present value of the outstanding lease payments. In this context, the present value was determined using the incremental borrowing rates as at October 1, 2019. The weighted average interest rate in the Voith Group stood at 0.5%.

The leases that were classified as finance leases pursuant to IAS 17 as at September 30, 2019 were retained at their carrying amounts of the assets and liabilities recognized immediately before first-time application and are carried forward pursuant to the provisions of IFRS 16.

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. Intercompany leases are not presented in the internal reporting according to IFRS 16 and consequently will not give rise to any changes in the segment reporting pursuant to IFRS 8.

The reconciliation of future minimum lease payments under operating leases as at September 30, 2019, to the lease liabilities recognized as at October 1, 2019 is presented below:

| in € thousands | |
|---|---|
| **Future minimum lease payments arising from operating leases as at 2019-09-30** | **118,894** |
| Obligations that are not covered by IFRS 16 (maintenance and software) | -53,350 |
| Short-term leases with a term of up to 12 months | -2,771 |
| Leases of low-value assets | -1,826 |
| Extension, termination and purchase options that are reasonably certain to be exercised | 20,841 |
| Other | 6,234 |
| **Gross lease liability** | **88,022** |
| Discounting | -795 |
| **Lease liability from first-time application of IFRS 16 as at 2019-10-01** | **87,227** |

The adoption of the following revised and newly issued IFRS and IFRIC was not yet mandatory in the 2019/20 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 |
|---|---|---|
| Revised conceptual framework and amendments to the references to the conceptual framework in IFRS standards | This includes revised definitions of assets and liabilities and new guidelines on measurement and derecognition, disclosure and notes. | Periods beginning on or after January 1, 2020 |
| Amendments to IFRS 3<br>Business Combinations | “Definition of a Business”<br>The new provisions offer a framework for determining whether a business or a group of assets has been acquired. | Periods beginning on or after January 1, 2020 |
| Amendments to IFRS 3<br>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<br>Leases | In the wake of the coronavirus (COVID-19) pandemic, lessees were granted rental concessions. | No later than from June 1, 2020 for periods beginning on or after January 1, 2020 |
| IFRS 17<br>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.<br>The amendments to IFRS 17 primarily included a deferral of the effective date. | Periods beginning on or after January 1, 2023 |
| Amendments to IFRS 4<br>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. | Periods beginning on or after January 1, 2021 |
| Amendments to IAS 1<br>Presentation of Financial Statements and IAS 8<br>Accounting Policies, Changes in Accounting Estimates and Errors | The amendment standardizes the definition of materiality in the standards themselves and in the conceptual framework. Furthermore, the definition of “material” has been sharpened up. | Periods beginning on or after January 1, 2020 |
| Amendments to IAS 1<br>Presentation of Financial Statements | The amendments clarify the classification of liabilities as current or non-current. | Periods beginning on or after January 1, 2023 |
| Amendments to IAS 16<br>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<br>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 |
| Amendments to IFRS 9, IAS 39 and IFRS 17<br>Interest Rate Benchmark Reform – Phase 1 | The amendments relate in particular to certain simplification options relating to the hedge accounting provisions and are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform. In addition, further disclosures are required on the extent to which the entities’ hedging relationships are impacted by the amendments. | Periods beginning on or after January 1, 2020 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16<br>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. | Periods beginning on or after January 1, 2021 |
| 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 2020/21 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 early adopt the new or amended standards and interpretations.

## Restatements of previous-year figures

Due to Voith Composites SE & Co. KG being reported as a continuing operation in the reporting year, the previous-year figures in the consolidated statement of income are adjusted correspondingly. The business activities of Voith Composites SE & Co. KG were reported as discontinued operations in the previous year.

# Notes to the consolidated statement of income

## 01. Sales

| in € thousands | 2019/20 Over time | 2019/20 At a point in time | 2019/20 Total | 2018/19 Over time | 2018/19 At a point in time | 2018/19 Total |
|---|---|---|---|---|---|---|
| Voith Hydro | 947,043 | 0 | 947,043 | 994,860 | 151,848 | 1,146,708 |
| Voith Paper | 1,121,565 | 683,151 | 1,804,716 | 891,682 | 768,733 | 1,660,415 |
| Voith Digital Ventures | 36,212 | 28,892 | 65,104 | 14,758 | 46,755 | 61,513 |
| | **2,104,820** | **712,043** | **2,816,863** | **1,901,300** | **967,336** | **2,868,636** |

Sales of €1,337,453 thousand (previous year: €1,398,350 thousand) at Voith Turbo and the other sales of €18,785 thousand (previous year restated (see section “Restatements of previous-year figures”): €15,922 thousand) were mainly recognized at a specific point in time.

Sales of €1,348,396 thousand (previous year: €1,653,069 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 | 2019/20 | 2018/19* |
|---|---|---|
| Changes in inventories of finished goods and work in progress | 10,529 | 113 |
| Other own work capitalized | 5,578 | 8,070 |
| | **16,107** | **8,183** |

* Previous year restated (see section “Restatements of previous-year figures”).

# 03. Other operating income

| in € thousands | 2019/20 | 2018/19* |
|---|---|---|
| Income from the use of order-related provisions | 99,723 | 126,008 |
| Income from the reversal of provisions and accruals | 76,080 | 80,370 |
| Foreign exchange gains | 86,458 | 66,925 |
| Recovered bad debts | 20,937 | 10,692 |
| Gains on the disposal of intangible assets and property, plant and equipment | 2,126 | 14,844 |
| Rental and lease income | 2,559 | 3,088 |
| Income from insurance indemnification payments | 33,352 | 20,207 |
| Other income | 56,293 | 74,338 |
| | **377,528** | **396,472** |

# 04. Cost of materials

| in € thousands | 2019/20 | 2018/19* |
|---|---|---|
| Cost of raw materials and supplies and of purchased merchandise | 1,502,479 | 1,517,038 |
| Cost of purchased services | 325,271 | 387,671 |
| | **1,827,750** | **1,904,709** |

# 05. Personnel expenses

| in € thousands | 2019/20 | 2018/19* |
|---|---|---|
| Wages and salaries | 1,237,143 | 1,226,551 |
| Social security, pension and other benefit costs | 264,318 | 260,807 |
| | **1,501,461** | **1,487,358** |

On account of the pandemic, personnel cost subsidies of €1,397 thousand were received and recorded as reducing expenses.

* Previous year restated (see section “Restatements of previous-year figures”).

### Number of employees

| | Annual average | | As at the reporting date | |
|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2020-09-30 | 2019-09-30 |
| Direct production employees | 10,177 | 9,974 | 10,538 | 10,000 |
| Administration staff/indirect production | 10,052 | 9,647 | 10,126 | 9,522 |
| | **20,229** | **19,621** | **20,664** | **19,522** |
| Apprentices and interns | 744 | 837 | 744 | 837 |
| | **20,973** | **20,458** | **21,408** | **20,359** |

### Number of employees by region

| | Annual average | | As at the reporting date | |
|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2020-09-30 | 2019-09-30 |
| Germany | 7,808 | 7,925 | 7,713 | 7,885 |
| Europe excluding Germany | 3,503 | 2,676 | 4,253 | 2,709 |
| Americas | 3,925 | 4,081 | 3,770 | 3,975 |
| Asia | 4,825 | 4,768 | 4,764 | 4,788 |
| Other | 168 | 171 | 164 | 165 |
| | **20,229** | **19,621** | **20,664** | **19,522** |

## 06. Other operating expenses

| in € thousands | 2019/20 | 2018/19* |
|---|---|---|
| Increase in provisions and accruals | 244,296 | 199,335 |
| Other selling expenses | 223,100 | 270,070 |
| Other administrative expenses | 245,587 | 246,379 |
| Foreign exchange losses | 102,114 | 71,654 |
| Rental and lease expenses | 19,952 | 47,511 |
| Bad debt allowances | 16,688 | 12,857 |
| Losses on the disposal of intangible assets and property, plant and equipment | 3,302 | 1,937 |
| Other expenses | 153,054 | 160,298 |
| | **1,008,093** | **1,010,041** |

* Previous year restated (see section "Restatements of previous-year figures").

# 07.

## Other financial result

| in € thousands | 2019/20 | 2018/19 |
|---|---|---|
| Gains/losses from investments | 10,881 | 6,482 |
| Reversal of impairment/impairment of other investments and loans | 1,038 | -1,924 |
| Income from securities and loans | 380 | 339 |
| Currency gains on long-term financing positions | 5,762 | 17,090 |
| Currency losses on long-term financing positions | -7,835 | -7,422 |
| Measurement of derivatives used to hedge financial transactions | 8,874 | -9,422 |
| | **19,100** | **5,143** |

Gains/losses from investments and 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 | 2019/20 | 2018/19 |
|---|---|---|
| Current taxes | -83,660 | -56,206 |
| Deferred taxes | 23,398 | -1,177 |
| | **-60,262** | **-57,383** |

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

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

Deferred taxes are calculated at the tax rates prevailing in the respective countries. The deferred tax income from temporary differences amounted to €20,098 thousand (previous year: tax expense of €11,886 thousand).

The deferred tax income from unused tax losses amounted to €3,300 thousand in the 2019/20 fiscal year. This primarily includes the impairment of deferred tax assets of €26,367 thousand which were recognized in the 2018/19 fiscal year, an increase in deferred tax assets on unused tax losses of €278 thousand as a result of adjustments of unused tax losses from the previous year, income of €28,202 thousand from the initial recognition of deferred tax assets on unused tax losses, expenses of €1,651 thousand from the utilization of tax losses recognized in the previous year and income of €2,597 thousand from the initial recognition of previously unrecognized tax losses.

The deferred tax income from unused tax losses amounted to €10,709 thousand in the 2018/19 fiscal year. This primarily includes the impairment of deferred tax assets of €10,381 thousand which were recognized in the 2017/18 fiscal year, a reduction of deferred tax assets on unused tax losses of €1,020 thousand as a result of adjustments of unused tax losses from the previous year, income of €1,957 thousand from the initial recognition of deferred tax assets on unused tax losses, expenses of €2,762 thousand from the utilization of tax losses recognized in the previous year and income of €22,852 thousand from the initial recognition of previously unrecognized tax losses.

In addition, the current income tax charge was reduced by the use of previously unrecognized deferred tax assets on unused tax losses of €1,400 thousand (previous year: €169 thousand).

In the 2019/20 fiscal year, a forecast period of five years (previously two years) was used for the first time in the measurement of deferred tax assets on unused tax losses for German companies.

This change results in deferred tax income of €41,900 thousand. As at September 30, 2020, no deferred tax assets were recognized on German trade tax losses of €828,421 thousand (previous year: €641,403 thousand), German corporate income taxes of €347,321 thousand (previous year: €520,383 thousand) as well as on interest expenses currently not deductible under German tax law of €58,505 thousand (previous year: €80,344 thousand) as it is not likely that the unused tax losses can be utilized in the near future.

In addition, no deferred tax assets were recorded on unused tax losses for foreign federal tax of €166,322 thousand (previous year: €153,306 thousand) or foreign state taxes of €112,358 thousand (previous year: €130,519 thousand), also due to the fact that the utilization of the losses is not probable in the near future.

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

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

| in € thousands | 2020-09-30 Deferred tax assets | 2020-09-30 Deferred tax liabilities | 2019-09-30 Deferred tax assets | 2019-09-30 Deferred tax liabilities |
|---|---|---|---|---|
| Intangible assets | 8,881 | 89,456 | 9,928 | 51,474 |
| Property, plant and equipment | 6,256 | 35,097 | 4,013 | 34,180 |
| Financial assets and securities | 3,112 | 1,749 | 4,027 | 4,369 |
| Inventories and receivables | 46,289 | 76,543 | 41,803 | 59,483 |
| Other assets | 11,127 | 20,807 | 15,176 | 16,162 |
| Pension provisions | 139,137 | 1,372 | 144,963 | 1,576 |
| Financial liabilities | 6,821 | 3,845 | 5,532 | 5,546 |
| Other provisions and liabilities | 147,478 | 6,646 | 99,536 | 684 |
| Tax effect on distributable earnings of Group companies | | 5,480 | | 5,480 |
| Impairment of deferred tax assets on temporary differences | -18,632 | | -20,284 | |
| Unused tax losses | 53,076 | | 48,037 | |
| Netting | -158,771 | -158,771 | -133,999 | -133,999 |
| | **244,774** | **82,224** | **218,732** | **44,955** |

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

Reconciliation of deferred tax assets and liabilities:

| in € thousands | 2019/20 | 2018/19 |
|---|---|---|
| **Balance, October 1** | **173,777** | **132,644** |
| thereof: deferred tax assets | 218,732 | 172,783 |
| thereof: deferred tax liabilities | -44,955 | -40,139 |
| Deferred tax income/(expense) reported in the statement of income in the reporting period | 23,398 | -1,177 |
| Deferred tax income/(expense) reported in other comprehensive income in the reporting period | -1,428 | 33,159 |
| Business acquisitions and disposals | -30,047 | 414 |
| First-time adjustment effects from IFRS 9 and IFRS 15 | 0 | 6,653 |
| Currency | -3,150 | 2,084 |
| **Balance, September 30** | **162,550** | **173,777** |
| thereof: deferred tax assets | 244,774 | 218,732 |
| thereof: deferred tax liabilities | -82,224 | -44,955 |

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. 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 29.84% (previous year: 29.84%) that takes into account the legal structure of the Voith Group relevant for tax purposes.

| in € thousands | 2019/20 | 2018/19* |
|---|---|---|
| Result before income taxes | 73,169 | 138,283 |
| Expected tax expense (+)/tax income (-) | 21,834 | 41,264 |
| Deviations from expected tax rates | -9,176 | -3,119 |
| Effect of changes in tax rates | -548 | 497 |
| Tax-free income | -7,873 | -5,867 |
| Non-deductible expenses | 20,945 | 24,225 |
| Taxes relating to other periods | -851 | 1,000 |
| Change in impairments of deferred tax assets | 35,875 | -1,004 |
| Other tax effects | 56 | 387 |
| **Income taxes** | **60,262** | **57,383** |
| **Effective tax rate (in %)** | **82.4** | **41.5** |

No deferred tax was recorded on temporary differences on investments in subsidiaries of €1,216,514 thousand (previous year: €1,174,254 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.

* Previous year restated (see section “Restatements of previous-year figures”).

# Notes to the consolidated balance sheet

## 09. Intangible assets

### Development of intangible assets from 2018-10-01 to 2019-09-30

| 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 2018-10-01** | **213,144** | **496,996** | **144,040** | **199** | **854,379** |
| Business combinations | 0 | 11,713 | 1,521 | 0 | 13,234 |
| Currency translation differences | 1,862 | -300 | 240 | 0 | 1,802 |
| Additions | 3,466 | 0 | 13,615 | 0 | 17,081 |
| Disposals | -6,186 | 0 | -468 | -5 | -6,659 |
| Other adjustments | 3,040 | 0 | 0 | 0 | 3,040 |
| Transfers | 460 | 0 | 0 | -194 | 266 |
| Reclassification to assets held for sale | 0 | 0 | -5,567 | 0 | -5,567 |
| **Cost 2019-09-30** | **215,786** | **508,409** | **153,381** | **0** | **877,576** |
| **Accumulated amortization and impairment 2018-10-01** | **-165,652** | **-54,179** | **-113,948** | **0** | **-333,779** |
| Currency translation differences | -1,320 | 0 | -52 | 0 | -1,372 |
| Amortization | -9,461 | 0 | -4,652 | 0 | -14,113 |
| Impairment losses | 0 | 0 | 0 | 0 | 0 |
| Disposals | 6,067 | 0 | 0 | 0 | 6,067 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Reclassification to assets held for sale | 0 | 0 | 1,479 | 0 | 1,479 |
| Other adjustments | -3,045 | 0 | 0 | 0 | -3,045 |
| **Accumulated amortization and impairment 2019-09-30** | **-173,411** | **-54,179** | **-117,173** | **0** | **-344,763** |
| **Carrying amounts 2019-09-30** | **42,375** | **454,230** | **36,208** | **0** | **532,813** |

## Development of intangible assets from 2019-10-01 to 2020-09-30

| 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 2019-10-01** | **215,786** | **508,409** | **153,381** | **0** | **877,576** |
| Business combinations | 169,672 | 297,132 | 0 | 0 | 466,804 |
| Currency translation differences | -2,789 | 89 | 32 | 0 | -2,668 |
| Additions | 5,014 | 0 | 10,025 | 33 | 15,072 |
| Disposals | -2,089 | 0 | 0 | 0 | -2,089 |
| Other adjustments | 19 | 0 | -7 | 0 | 12 |
| Transfers | 812 | 0 | 0 | 0 | 812 |
| Reclassification to assets held for sale | 0 | 0 | 0 | 0 | 0 |
| **Cost 2020-09-30** | **386,425** | **805,630** | **163,431** | **33** | **1,355,519** |
| **Accumulated amortization and impairment 2019-10-01** | **-173,411** | **-54,179** | **-117,173** | **0** | **-344,763** |
| Currency translation differences | 2,720 | 0 | -12 | 0 | 2,708 |
| Amortization | -21,543 | 0 | -6,423 | 0 | -27,966 |
| Impairment losses | -77 | 0 | -672 | 0 | -749 |
| Disposals | 2,062 | 0 | 0 | 0 | 2,062 |
| Transfers | -32 | 0 | 0 | 0 | -32 |
| Reclassification to assets held for sale | 0 | 0 | 0 | 0 | 0 |
| Other adjustments | 26 | 0 | 0 | 0 | 26 |
| **Accumulated amortization and impairment 2020-09-30** | **-190,255** | **-54,179** | **-124,280** | **0** | **-368,714** |
| **Carrying amounts 2020-09-30** | **196,170** | **751,451** | **39,151** | **33** | **986,805** |

# 10. Property, plant and equipment

## Development of property, plant and equipment from 2018-10-01 to 2019-09-30

| in € thousands | Land and buildings, including buildings on third-party land | Plant and machinery | Other equipment, furniture and fixtures | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|
| **Cost 2018-10-01** | **799,392** | **1,387,793** | **503,243** | **38,305** | **2,728,733** |
| Business combinations | 15,621 | 3,937 | 668 | 8,605 | 28,831 |
| Currency translation differences | 14,281 | 29,082 | 4,010 | 2,532 | 49,905 |
| Additions | 11,897 | 29,718 | 29,717 | 24,266 | 95,598 |
| Capitalized interest | 0 | 0 | 0 | 71 | 71 |
| Disposals | -11,350 | -23,911 | -28,523 | -6,674 | -70,458 |
| Transfers | 6,073 | 19,235 | 4,008 | -29,583 | -267 |
| Reclassification to assets held for sale | -1,402 | -1,777 | -633 | 0 | -3,812 |
| Reclassification of former finance leases | 0 | 0 | 0 | 0 | 0 |
| Other adjustments | 112 | 116 | -12 | -67 | 149 |
| **Cost 2019-09-30** | **834,624** | **1,444,193** | **512,478** | **37,455** | **2,828,750** |
| **Accumulated depreciation and impairment 2018-10-01** | **-372,555** | **-1,059,820** | **-397,594** | **0** | **-1,829,969** |
| Business combinations | 0 | 0 | -9 | 0 | -9 |
| Currency translation differences | -5,078 | -21,404 | -3,030 | 0 | -29,512 |
| Depreciation | -18,343 | -53,878 | -31,221 | 0 | -103,442 |
| Impairment losses | -1,192 | -111 | -413 | 0 | -1,716 |
| Disposals | 10,025 | 22,578 | 25,911 | 0 | 58,514 |
| Transfers | 0 | -2 | 2 | 0 | 0 |
| Reclassification to assets held for sale | 0 | 1,102 | 181 | 0 | 1,283 |
| Reclassification of former finance leases | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairment losses | 0 | 0 | 4 | 0 | 4 |
| Other adjustments | 25 | -31 | -65 | 0 | -71 |
| **Accumulated depreciation and impairment 2019-09-30** | **-387,118** | **-1,111,566** | **-406,234** | **0** | **-1,904,918** |
| **Carrying amounts 2019-09-30** | **447,506** | **332,627** | **106,244** | **37,455** | **923,832** |

## Development of property, plant and equipment from 2019-10-01 to 2020-09-30

| in € thousands | Land and buildings, including buildings on third-party land | Plant and machinery | Other equipment, furniture and fixtures | Prepayments and assets under construction | Total |
|---|---|---|---|---|---|
| **Cost 2019-10-01** | **834,624** | **1,444,193** | **512,478** | **37,455** | **2,828,750** |
| Business combinations | 23,148 | 26,075 | 3,328 | 1,403 | 53,954 |
| Currency translation differences | -28,051 | -61,551 | -10,249 | -1,902 | -101,753 |
| Additions | 2,879 | 24,016 | 25,681 | 28,156 | 80,732 |
| Capitalized interest | 0 | 0 | 0 | 129 | 129 |
| Disposals | -1,534 | -12,869 | -14,065 | -2,004 | -30,472 |
| Transfers | 1,468 | 16,539 | 708 | -19,528 | -813 |
| Reclassification to assets held for sale | 849 | 29,692 | 8,950 | 90 | 39,581 |
| Reclassification of former finance leases | -2,598 | 0 | 0 | 0 | -2,598 |
| Other adjustments | -575 | -2,937 | -1,662 | -391 | -5,565 |
| **Cost 2020-09-30** | **830,210** | **1,463,158** | **525,169** | **43,408** | **2,861,945** |
| **Accumulated depreciation and impairment 2019-10-01** | **-387,118** | **-1,111,566** | **-406,234** | **0** | **-1,904,918** |
| Business combinations | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 11,553 | 45,587 | 8,235 | 0 | 65,375 |
| Depreciation | -18,537 | -56,677 | -31,665 | -240 | -107,119 |
| Impairment losses | -613 | -1,473 | -795 | 0 | -2,881 |
| Disposals | 879 | 9,918 | 13,346 | 0 | 24,143 |
| Transfers | 0 | -687 | 719 | 0 | 32 |
| Reclassification to assets held for sale | -658 | -24,167 | -7,884 | 0 | -32,709 |
| Reclassification of former finance leases | 745 | 0 | 0 | 0 | 745 |
| Reversal of impairment losses | 0 | 0 | 26 | 0 | 26 |
| Other adjustments | 455 | 3,190 | 1,746 | 0 | 5,391 |
| **Accumulated depreciation and impairment 2020-09-30** | **-393,294** | **-1,135,875** | **-422,506** | **-240** | **-1,951,915** |
| **Carrying amounts 2020-09-30** | **436,916** | **327,283** | **102,663** | **43,168** | **910,030** |

The impairment losses are included in the consolidated statement of income item “Depreciation and amortization”.

An interest rate of 1.1 % was used to calculate capitalized interest (previous year: 2.1 %).

The prepayments and assets under construction include buildings of €3,316 thousand (previous year: €1,371 thousand), plant and machinery of €37,216 thousand (previous year: €33,282 thousand) and non-production-related equipment of €2,635 thousand (previous year: €2,802 thousand).

### Development of rights of use under leases from 2019-10-01 to 2020-09-30

| in € thousands | Rights of use under leases |
|---|---|
| **Carrying amounts 2019-09-30** | **0** |
| First-time application of IFRS 16 | 87,227 |
| Business combinations | 28,029 |
| Reclassification of former finance leases | 1,853 |
| Additions | 34,983 |
| Remeasurements | -1,079 |
| Disposals | -94 |
| Depreciation and amortization | -28,865 |
| Impairment losses | -306 |
| Currency translation differences | -2,186 |
| Reclassification to assets held for sale | -1,399 |
| Other adjustments | -128 |
| **Carrying amounts 2020-09-30** | **118,035** |

As at September 30, 2020, the carrying amounts of the rights of use under leases contained land and buildings of €89,478 thousand, plant and machinery of €819 thousand, leased vehicles of €13,681 thousand and other of €14,057 thousand.

The amortization on the rights of use under leases break down as follows: €16,715 thousand on land and buildings, €826 thousand on plant and machinery, €9,576 thousand on leased vehicles and €1,748 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 | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Carrying amount of the investments in associates | 16,646 | 21,939 |
| Share of: | | |
| Net result of continuing operations | -7,366 | -4,660 |
| Other comprehensive income | 0 | -478 |
| **Total comprehensive income** | **-7,366** | **-5,138** |

## 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 | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Carrying amount of the interests in joint ventures | 4,576 | 3,719 |
| Share of: | | |
| Net result of continuing operations | -433 | -1,714 |
| Other comprehensive income | -181 | -517 |
| **Total comprehensive income** | **-614** | **-2,231** |

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

# 12. Inventories

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Raw materials and supplies | 242,727 | 233,512 |
| Work in progress | 136,559 | 153,211 |
| Finished goods and merchandise | 141,041 | 130,322 |
| Prepayments | 71,585 | 82,252 |
| | **591,912** | **599,297** |

Write-downs of inventories recognized as expenses amounted to €14,674 thousand (previous year: €9,671 thousand). Obligatory reversals of write-downs totaling €5,133 thousand (previous year: €6,253 thousand) were made. These amounts are recognized in the cost of materials.

# 13. Trade receivables

Trade receivables consist of the following items:

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Trade receivables | 720,374 | 709,390 |
| Bad debt allowances | -45,577 | -52,306 |
| | **674,797** | **657,084** |

Trade receivables are classified as current assets. As at September 30, 2020, the volume of receivables that is not expected to be realized within one year is €10,541 thousand (previous year: €11,095 thousand).

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

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| **Impairment at the beginning of the fiscal year** | **-52,306** | **-51,663** |
| Additions | -16,586 | -12,706 |
| Utilization | 2,834 | 1,752 |
| Reversal | 20,666 | 10,548 |
| Changes in consolidated group/exchange differences | 548 | -811 |
| Expected credit losses | -733 | 574 |
| **Impairment at the end of the fiscal year** | **-45,577** | **-52,306** |

The total reversal of €20,666 thousand (previous year: €10,548 thousand) consists of reversals of specific bad debt allowances of €20,666 thousand (previous year: €10,019 thousand) and expected credit losses of €0 (previous year: €529 thousand). Additions of €16,586 thousand (previous year: €12,706 thousand) consist of additions to specific bad debt allowances of €15,223 thousand (previous year: €12,706 thousand) and of expected credit losses of €1,363 thousand (previous year: €0).

# 14. Contract assets and contract liabilities

Notes on material changes in contract assets and contract liabilities:

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| **Contract assets at the beginning of the fiscal year** | **541,204** | **444,971** |
| Exchange rate differences | -47,344 | 10,275 |
| Business combinations | 23,200 | 0 |
| Change as a result of project progress, taking account of customer payments received | 216,040 | 178,974 |
| Reclassification from contract assets to trade receivables | -266,203 | -85,642 |
| Impairments (thereof first-time application of IFRS 9: €0, in previous year: €-4,909 thousand) | 657 | -6,694 |
| Other changes | 71,892 | -680 |
| **Contract assets at the end of the fiscal year** | **539,446** | **541,204** |
| **Contract liabilities at the beginning of the fiscal year** | **816,919** | **753,700** |
| Exchange rate differences | -28,844 | 18,099 |
| Business combinations | 28,147 | 0 |
| Sales included in contract liabilities at the beginning of the period | -197,204 | -432,662 |
| Increase as a result of customer payments received less figure recognized as sales over the period | 258,250 | 459,225 |
| Other changes | -32,012 | 18,557 |
| **Contract liabilities at the end of the fiscal year** | **845,256** | **816,919** |

# 15. Other financial receivables and other assets

## Other financial receivables

| in € thousands | Current | Non-current | 2020-09-30 | Current | Non-current | 2019-09-30 |
|---|---|---|---|---|---|---|
| Derivatives used to hedge operational transactions | 10,232 | 4,014 | 14,246 | 9,041 | 2,872 | 11,913 |
| Derivatives used to hedge financial transactions | 131 | 24 | 155 | 437 | 0 | 437 |
| Financial receivables | 18,113 | 332 | 18,445 | 40,417 | 310 | 40,727 |
| Sundry financial assets | 91,437 | 37,287 | 128,724 | 66,820 | 49,622 | 116,442 [1] |
| | **119,913** | **41,657** | **161,570** | **116,715** | **52,804** | **169,519** |

## Other assets

| in € thousands | Current | Non-current | 2020-09-30 | Current | Non-current | 2019-09-30 |
|---|---|---|---|---|---|---|
| Prepaid expenses | 40,145 | 7,528 | 47,673 | 31,157 | 6,689 | 37,846 |
| Other taxes (without income taxes) | 106,674 | 6,925 | 113,599 | 115,241 | 9,891 | 125,132 |
| | **146,819** | **14,453** | **161,272** | **146,398** | **16,580** | **162,978** |

# 16. Securities

Current securities of €122,693 thousand (previous year: €355,757 thousand) contain term deposits of Voith GmbH & Co. KGaA or subsidiaries of €50 million (previous year: €300 million) at selected banking partners with original maturity dates of more than 90 days that had residual terms of up to 150 days as at the reporting date.

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

[1] Includes assets totaling €19,093 thousand (previous year: €26,625 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 | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Checks | 0 | 81 |
| Cash on hand | 134 | 470 |
| Cash equivalents | 2,545 | 980 |
| Cash at bank | 579,087 | 416,343 |
| | **581,766** | **417,874** |

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

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

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

As at September 30, 2020, this item includes the assets and liabilities of merQbiz LLC, which are still intended for sale as part of the planned disposal of the business operations and the planned surrender of control. In addition, the item contains the property, plant and equipment of the Group Division Hydro in Brazil. The disposal of these assets and liabilities is planned for the 2020/21 fiscal year. The assets held for sale of €6,024 thousand (previous year: €28,597 thousand) are intangible assets and property, plant and equipment of €5,233 thousand (previous year: €23,930 thousand), inventories of €119 thousand (previous year: €1,307 thousand), trade receivables of €643 thousand (previous year: €3,149 thousand) and other assets of €29 thousand (previous year: €210 thousand). The liabilities directly associated with assets classified as held for sale of €1,508 thousand (previous year: €1,547 thousand) consist of trade payables, lease liabilities and other liabilities.

# 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 available-for-sale investments and financial assets recognized directly in equity without effect on profit or loss and cash flow hedges pursuant to IAS 39.

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

| in € thousands | 2019/20 | 2018/19 |
|---|---|---|
| **Remeasurement of defined benefit plans** | **21,082** | **-125,972** |
| · Gains/losses in the current period | 21,082 | -125,972 |
| **Gains/losses on the valuation of financial assets and marketable securities** | **-4,614** | **-45,261** |
| · Gains/losses in the current period | -4,614 | -45,261 |
| · Transfers to profit and loss | 0 | 0 |
| **Gains/losses on cash flow hedges** | **888** | **-764** |
| · Gains/losses in the current period | 124 | -764 |
| · Transfers to profit and loss | 764 | 0 |
| **Gains/losses on currency translation** | **-82,344** | **30,998** |
| · Gains/losses in the current period | -82,344 | 28,424 |
| · Transfers to profit and loss | 0 | 2,574 |
| **Gains/losses from the currency translation of net investments in foreign operations** | **-35,908** | **728** |
| · Gains/losses in the current period | -35,908 | 728 |
| · Transfers to profit and loss | 0 | 0 |
| **Tax on components of other comprehensive income** | **-1,428** | **33,159** |
| **Other comprehensive income** | **-102,324** | **-107,112** |

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

| | 2019/20 | | | 2018/19 | | |
|---|---|---|---|---|---|---|
| in € thousands | Before taxes | Deferred taxes | After taxes | Before taxes | Deferred taxes | After taxes |
| Remeasurement of defined benefit plans | 21,082 | -6,152 | 14,930 | -125,972 | 33,032 | -92,940 |
| Gains/losses on the valuation of financial assets and marketable securities | -4,614 | 1,377 | -3,237 | -45,261 | 127 | -45,134 |
| Gains/losses on cash flow hedges | 888 | -21 | 867 | -764 | 0 | -764 |
| Gains/losses on currency translation | -82,344 | 0 | -82,344 | 30,998 | 0 | 30,998 |
| Gains/losses from the currency translation of net investments in foreign operations | -35,908 | 3,368 | -32,540 | 728 | 0 | 728 |
| **Other comprehensive income** | **-100,896** | **-1,428** | **-102,324** | **-140,271** | **33,159** | **-107,112** |

## 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 2019/20 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: €19,000 thousand). The distribution per share in the fiscal year amounted to €0.17 per share (previous year: €0.16 per share). In addition, a tax field audit resulted in a capital gains tax back payment on distributions from previous years amounting to €27,226 thousand (€0.23 per share).

### Additional disclosures on capital management

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

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

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Equity | 1,083,469 | 1,245,060 |
| Interest-bearing financial liabilities | 908,047 | 399,453 |
| | **1,991,516** | **1,644,513** |

Equity fell by 13% compared to the previous year. This movement was primarily due to the negative impact arising on the translation of subsidiaries reporting in foreign currencies, as well as the revaluation of net investments in foreign subsidiaries. Interest-bearing financial liabilities increased by 127%. 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 total €98,958 thousand for the Voith Group as a whole (previous year: €100,204 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.

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

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

The legal and regulatory framework for calculating the minimum funding requirement for the pension plans is based on the relevant US laws, including the Employee Retirement Income Security Act (ERISA) as amended. An annual assessment of the minimum funding requirement is made by the plan's actuary on the basis of these laws. In the past, Voith paid into the plans to maintain a funded status of at least 80%, as required by local law. The annual employer's contributions correspond to the net present value of the benefit obligation accumulated in the year, plus the amortization of any plan deficit from the previous year.

If the employer's contribution exceeds the minimum funding requirement or if the plan assets exceed the liabilities, the surplus may be offset against future minimum funding requirements.

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

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

The legal and regulatory framework used to calculate the minimum funding requirement for pension plans is based on the relevant laws 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 | 2020-09-30 | 2019-09-30 | 2020-09-30 | 2019-09-30 | 2020-09-30 | 2019-09-30 |
| Germany and Austria | 836,250 | 856,772 | -24,693 | -24,398 | 811,557 | 832,374 |
| USA and Canada | 181,506 | 192,787 | -165,036 | -169,577 | 16,470 | 23,210 |
| Other | 80,132 | 35,905 | -49,522 | -23,941 | 30,610 | 11,964 |
| | **1,097,888** | **1,085,464** | **-239,251** | **-217,916** | **858,637** | **867,548** |

Movements in the net liability from defined benefit plans:

| | 2020-09-30 | | | 2019-09-30 | | |
|---|---|---|---|---|---|---|
| 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** | **1,085,464** | **-217,916** | **867,548** | **944,726** | **-200,437** | **744,289** |
| Current service cost | 19,747 | - | 19,747 | 16,198 | - | 16,198 |
| Past service cost from plan curtailments | -620 | 0 | -620 | -456 | 0 | -456 |
| Interest expenses (+)/interest income (-) | 14,044 | -4,848 | 9,196 | 22,722 | -7,195 | 15,527 |
| Remeasurements: | | | | | | |
| Losses (+)/gains (-) from changes in demographic assumptions | 3,348 | - | 3,348 | 1,929 | - | 1,929 |
| Losses (+)/gains (-) from changes in financial assumptions | -9,340 | - | -9,340 | 131,046 | - | 131,046 |
| Losses (+)/gains (-) from experience adjustments | -1,365 | - | -1,365 | 2,178 | - | 2,178 |
| Remeasurement of plan assets (without amounts included in interest result) | - | -14,142 | -14,142 | - | -13,310 | -13,310 |
| Employer contributions to the fund | - | -4,012 | -4,012 | - | -3,253 | -3,253 |
| Employee contributions to the fund | - | -1,117 | -1,117 | - | -428 | -428 |
| Benefits paid | -46,120 | 14,914 | -31,206 | -45,029 | 15,642 | -29,387 |
| Change to the Group's structure | 53,208 | -29,822 | 23,386 | -1,636 | 0 | -1,636 |
| Other | -5,694 | 5,176 | -518 | 3,163 | 434 | 3,597 |
| Currency translation differences on foreign plans | -15,013 | 12,516 | -2,497 | 10,547 | -9,369 | 1,178 |
| Addition to termination benefits in accordance with IAS 19.159 et seq. | 229 | - | 229 | 76 | - | 76 |
| **Balance, September 30** | **1,097,888** | **-239,251** | **858,637** | **1,085,464** | **-217,916** | **867,548** |

Movements in the net liability from defined benefit plans in Germany and Austria:

## Germany and Austria

| | 2020-09-30 | | | 2019-09-30 | | |
|---|---|---|---|---|---|---|
| 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** | **856,772** | **-24,398** | **832,374** | **744,464** | **-24,135** | **720,329** |
| Current service cost | 16,282 | - | 16,282 | 14,866 | - | 14,866 |
| Past service cost from plan curtailments | -58 | 0 | -58 | -738 | 0 | -738 |
| Interest expenses (+) / interest income (-) | 8,390 | -241 | 8,149 | 15,140 | -496 | 14,644 |
| Remeasurements: | | | | | | |
| Losses (+) / gains (-) from changes in demographic assumptions | 6,449 | - | 6,449 | 2,364 | - | 2,364 |
| Losses (+) / gains (-) from changes in financial assumptions | -23,323 | - | -23,323 | 107,088 | - | 107,088 |
| Losses (+) / gains (-) from experience adjustments | -38 | - | -38 | 1,659 | - | 1,659 |
| Remeasurement of plan assets (without amounts included in interest result) | - | -663 | -663 | - | -375 | -375 |
| Employer contributions to the fund | - | -732 | -732 | - | -727 | -727 |
| Employee contributions to the fund | - | 0 | 0 | - | 0 | 0 |
| Benefits paid | -31,883 | 1,341 | -30,542 | -30,326 | 1,335 | -28,991 |
| Change to the Group's structure | 4,592 | 0 | 4,592 | -1,636 | 0 | -1,636 |
| Other | -1,162 | 0 | -1,162 | 3,815 | 0 | 3,815 |
| Currency translation differences on foreign plans | 0 | 0 | 0 | 0 | 0 | 0 |
| Addition to termination benefits in accordance with IAS 19.159 et seq. | 229 | 0 | 229 | 76 | 0 | 76 |
| **Balance, September 30** | **836,250** | **-24,693** | **811,557** | **856,772** | **-24,398** | **832,374** |

Movements in the net liability from defined benefit plans in USA and Canada:

## USA and Canada

| in € thousands | 2020-09-30 Present value of defined benefit obligations | 2020-09-30 Fair value of plan assets | 2020-09-30 Total | 2019-09-30 Present value of defined benefit obligations | 2019-09-30 Fair value of plan assets | 2019-09-30 Total |
|---|---|---|---|---|---|---|
| **Balance, October 1** | **192,787** | **-169,577** | **23,210** | **169,413** | **-155,258** | **14,155** |
| Current service cost | 639 | - | 639 | 699 | - | 699 |
| Past service cost from plan curtailments | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest expenses (+)/interest income (-) | 4,810 | -4,149 | 661 | 6,628 | -6,065 | 563 |
| Remeasurements: | | | | | | |
| Losses (+)/gains (-) from changes in demographic assumptions | -3,069 | - | -3,069 | -507 | - | -507 |
| Losses (+)/gains (-) from changes in financial assumptions | 13,453 | - | 13,453 | 19,523 | - | 19,523 |
| Losses (+)/gains (-) from experience adjustments | -158 | - | -158 | 331 | - | 331 |
| Remeasurement of plan assets (without amounts included in interest result) | - | -14,925 | -14,925 | - | -10,874 | -10,874 |
| Employer contributions to the fund | - | -1,347 | -1,347 | - | -1,172 | -1,172 |
| Employee contributions to the fund | - | 14 | 14 | - | -428 | -428 |
| Benefits paid | -12,506 | 12,506 | 0 | -13,276 | 13,276 | 0 |
| Other | -420 | 424 | 4 | -374 | 391 | 17 |
| Currency translation differences on foreign plans | -14,030 | 12,018 | -2,012 | 10,350 | -9,447 | 903 |
| **Balance, September 30** | **181,506** | **-165,036** | **16,470** | **192,787** | **-169,577** | **23,210** |

Costs for defined benefit plans break down as follows:

| in € thousands | 2020-09-30 | 2019-09-30* |
|---|---|---|
| Current service cost | 19,747 | 16,366 |
| Past service cost | -620 | -456 |
| Interest expenses from pension obligations and plan assets | 9,196 | 15,551 |

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.

* Previous year restated (see section “Restatements of previous-year figures”).

The fund assets consist of the following components:

| | Quoted prices in an active market | | No quoted prices in an active market | | Total | |
|---|---|---|---|---|---|---|
| in € thousands | 2020-09-30 | 2019-09-30 | 2020-09-30 | 2019-09-30 | 2020-09-30 | 2019-09-30 |
| Equity instruments | 9,150 | 10,595 | 0 | 0 | 9,150 | 10,595 |
| Debt instruments | 148,207 | 158,325 | 923 | 741 | 149,130 | 159,066 |
| Real estate | 2,375 | 378 | 0 | 428 | 2,375 | 806 |
| Cash and cash equivalents | 5,304 | 1,750 | 154 | 251 | 5,458 | 2,001 |
| Other[1] | 429 | 4,053 | 72,709 | 41,395 | 73,138 | 45,448 |
| | **165,465** | **175,101** | **73,786** | **42,815** | **239,251** | **217,916** |

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

| | Germany and Austria | | USA | |
|---|---|---|---|---|
| in % | 2020-09-30 | 2019-09-30 | 2020-09-30 | 2019-09-30 |
| Discount rate | 1.18 | 1.00 | 2.13 | 2.82 |
| Pension increases | 1.60 | 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:

| | | 2020-09-30 | | 2019-09-30 | |
|---|---|---|---|---|---|
| | | in € thousands | in % | in € thousands | in % |
| Discount rate | up 0.50% points | -77,057 | -7.0 | -78,373 | -7.2 |
| | down 0.50% points | 87,189 | 7.9 | 88,735 | 8.2 |
| Pension increases | up 0.25% points | 17,897 | 1.6 | 18,822 | 1.7 |
| | down 0.25% points | -17,095 | -1.6 | -17,964 | -1.7 |
| Life expectancy | + 1 year | 35,936 | 3.3 | 37,294 | 3.4 |

[1] Primarily employer's pension liability insurance.

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

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

### Asset-liability matching strategies

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

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

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

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

### Future cash flows

Contributions of €6,432 thousand are expected to be paid into the plans in the next reporting period.

The weighted average term of the DBO is 14 years.

# 21. Other provisions

The provisions consist of the following:

| in € thousands | At 2019-09-30 | Business combina-tions | Utilization | Additions | Reversals | Transfers | Discounting effect | Currency translation differences | At 2020-09-30 |
|---|---|---|---|---|---|---|---|---|---|
| Personnel-related provisions | 75,974 | 2,690 | -9,830 | 14,002 | -2,025 | 0 | 3 | -387 | 80,427 |
| Other tax provisions | 4,589 | 17 | -839 | 1,115 | -46 | 4 | 0 | -521 | 4,319 |
| Warranty provisions | 154,293 | 4,901 | -56,258 | 92,221 | -31,027 | 4,219 | -485 | -4,597 | 163,267 |
| Other order-related provisions | 100,946 | 7,387 | -22,995 | 58,616 | -20,980 | 868 | -554 | -3,287 | 120,001 |
| Other provisions | 45,181 | 2,806 | -18,181 | 31,726 | -1,685 | -1,110 | -699 | -3,169 | 54,869 |
| | **380,983** | **17,801** | **-108,103** | **197,680** | **-55,763** | **3,981** | **-1,735** | **-11,961** | **422,883** |

| | 2020-09-30 | | 2019-09-30 | |
|---|---|---|---|---|
| in € thousands | < 1 year | > 1 year | < 1 year | > 1 year |
| Personnel-related provisions | 19,232 | 61,195 | 15,608 | 60,366 |
| Other tax provisions | 3,701 | 618 | 3,937 | 652 |
| Warranty provisions | 106,505 | 56,762 | 108,578 | 45,715 |
| Other order-related provisions | 117,067 | 2,934 | 96,880 | 4,066 |
| Other provisions | 36,555 | 18,314 | 25,597 | 19,584 |
| | **283,060** | **139,823** | **250,600** | **130,383** |

The other contract-related provisions include provisions for expenses for the repair of a large-scale customer plant of €23.6 million.

Other provisions include restructuring provisions and provisions for personnel adjustments totaling €42.5 million (previous year: €29.1 million).

Refund claims totaling €12.3 million (previous year: €8.9 million) associated with other provisions were capitalized.

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 financial liabilities

Financial liabilities include the following:

| in € thousands | Current | Non-current | 2020-09-30 | Current | Non-current | 2019-09-30 |
|---|---|---|---|---|---|---|
| Bank loans | 140,738 | 471,525 | 612,263 | 67,524 | 160,784 | 228,308 |
| Financial liabilities from leases | 43,264 | 72,235 | 115,499 | 178 | 259 | 437 |
| Notes payable | 403 | 0 | 403 | 853 | 0 | 853 |
| Derivatives used to hedge financial transactions | 73 | 0 | 73 | 856 | 9,025 | 9,881 |
| Other loans and borrowings | 58,533 | 121,276 | 179,809 | 39,685 | 120,289 | 159,974 |
| | **243,011** | **665,036** | **908,047** | **109,096** | **290,357** | **399,453** |

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

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

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Euro | 593,649 | 161,986 |
| Swedish krona | 15,562 | 692 |
| Norwegian krone | 2,115 | 10,355 |
| Chinese renminbi | 0 | 32,735 |
| Japanese yen | 0 | 18,709 |
| Other currencies | 937 | 3,831 |
| | **612,263** | **228,308** |

# 23. Trade payables

Trade payables of €615 thousand (previous year: €114 thousand) are due after more than one year.

# 24. Other financial liabilities/other liabilities

## Other financial liabilities

| in € thousands | Current | Non-current | 2020-09-30 | Current | Non-current | 2019-09-30 |
|---|---|---|---|---|---|---|
| Derivatives used to hedge operational transactions | 20,993 | 13,777 | 34,770 | 18,156 | 6,985 | 25,141 |
| Personnel-related liabilities | 94,902 | 467 | 95,369 | 99,182 | 11 | 99,193 |
| Sundry financial liabilities | 101,024 | 22,748 | 123,772 | 130,560 | 22,751 | 153,311 |
| | **216,919** | **36,992** | **253,911** | **247,898** | **29,747** | **277,645** |

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 | 2020-09-30 | Current | Non-current | 2019-09-30 |
|---|---|---|---|---|---|---|
| Tax liabilities | 59,591 | 8,753 | 68,344 | 54,525 | 12,713 | 67,238 |
| Prepaid expenses | 13,005 | 2,741 | 15,746 | 1,337 | 2,583 | 3,920 |
| Other liabilities | 69,714 | 30,603 | 100,317 | 67,893 | 31,068 | 98,961 |
| | **142,310** | **42,097** | **184,407** | **123,755** | **46,364** | **170,119** |

Tax liabilities principally relate to sales taxes (VAT).

Since the 2018/19 fiscal year, advances received have been disclosed in contract liabilities.

# Notes to the consolidated cash flow statement

| in € thousands | 2019-10-01 | Cash changes | Non-cash changes | | | | Other effects | 2020-09-30 |
|---|---|---|---|---|---|---|---|---|
| | | | Changes arising from the acquisition/disposal of companies | Changes due to currency effects | First-time application of IFRS 16 | Changes in fair values | | |
| Bank loans | 228,308 | 321,820 | 63,735 | -499 | 0 | 0 | -1,101 | 612,263 |
| Financial liabilities from leases | 437 | -28,697 | 28,083 | -1,270 | 87,227 | 0 | 29,719 | 115,499 |
| Notes payable | 853 | -418 | 0 | -32 | 0 | 0 | 0 | 403 |
| Derivatives used to hedge financial transactions | 9,881 | 0 | 0 | -1,663 | 0 | -8,145 | 0 | 73 |
| Other loans and borrowings | 159,974 | -22,317 | 41,703 | -1,260 | 0 | 2,770 | -1,061 | 179,809 |
| | **399,453** | **270,388** | **133,521** | **-4,724** | **87,227** | **-5,375** | **27,557** | **908,047** |
| Other financial receivables | -51,561 | 27,066 | -6,105 | 3,897 | 0 | 522 | -3,988 | -30,169 |
| | **347,892** | **297,454** | **127,416** | **-827** | **87,227** | **-4,853** | **23,569** | **877,878** |

| in € thousands | 2018-10-01 | Cash changes | Non-cash changes | | | Other effects | 2019-09-30 |
|---|---|---|---|---|---|---|---|
| | | | Changes arising from the acquisition/disposal of companies | Changes due to currency effects | Changes in fair values | | |
| Bonds | 17,574 | -17,926 | 0 | 649 | -331 | 34 | 0 |
| Bank loans | 258,134 | -34,034 | 2,620 | 1,478 | 0 | 110 | 228,308 |
| Financial liabilities from leases | 651 | -231 | 0 | 0 | 0 | 17 | 437 |
| Notes payable | 1,405 | -676 | 0 | 124 | 0 | 0 | 853 |
| Derivatives used to hedge financial transactions | 1,829 | 0 | 0 | -198 | 8,250 | 0 | 9,881 |
| Other loans and borrowings | 163,571 | -3,687 | 3,397 | 623 | -3,382 | -548 | 159,974 |
| | **443,164** | **-56,554** | **6,017** | **2,676** | **4,537** | **-387** | **399,453** |
| Other financial receivables | -28,200 | -20,862 | 0 | -3,225 | 1,098 | -372 | -51,561 |
| | **414,964** | **-77,416** | **6,017** | **-549** | **5,635** | **-759** | **347,892** |

# 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.

The sales with third parties reported in the Group Division Digital Ventures mainly originates from transactions with the entities Ray Sono AG, FlowLink Systems Private Ltd. and with the Group's own IT service provider with external customers. Sales with other segments relates to digital support for the established Group Divisions. Digital Ventures' sales with third parties included in the established Group Divisions are stated in the segment information by business segment.

EBIT adjusted for non-recurring items (extrapolation of result from increasing the carrying values upon first-time consolidation (PPA depreciation and amortization) and restructuring expenses) 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.

Due to the decision not to continue presenting Voith Composites SE & Co. KG as a discontinued operation, the respective figures were accordingly reflected in the segment reporting and the previous-year figures were correspondingly adjusted in the reconciliation and balance 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, 2019.

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

In the Voith Group, the key indicator to assess and manage the individual segments is return on capital employed (ROCE). The calculation of ROCE is defined as profit from operations in relation to the average capital employed. The profit from operations is obtained by adding operating interest income to EBIT. Operating interest income is defined as interest received by the Company on the long-term financing of receivables from customers, or as the imputed interest effect attributable to that portion of customer advances that is not used to finance inventories and receivables from customer-specific contracts.

Capital employed is defined as operating net assets. It is the aggregate of property, plant and equipment, and intangible assets (excluding goodwill), inventories, trade receivables, other non-interest-bearing assets and income tax assets as well as prepaid expenses, less trade payables, non-interest-bearing liabilities and income tax liabilities, deferred income and advances received, which are deducted up to the amount of inventories and PoC receivables.

The capital employed on the reporting date is an average value derived from the values as at the end of the fiscal year, as at the reporting date for the previous six-monthly financial statements and as at the end of the previous year. In contrast to the requirements of IAS 21, the assets and liabilities of foreign subsidiaries are translated at the average exchange rate for the 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. Additions due to business combinations are not included. The rights of use stemming from IFRS 16 are accounted for the first time in the 2019/20 fiscal year and disclosed as investments.

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

## Information on the activities of the segments presented

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. Voith Hydro is a joint venture with Siemens, in which Voith holds a majority (65%) of all shares and voting rights.

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. Furthermore, the Company's Papermaking 4.0 concept 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 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.

Voith **Digital Ventures** brings together Voith's many years of automation and IT expertise with know-how in the fields of hydropower, paper machines and drive technology. The Group Division, which was newly created in the 2016/17 fiscal year, develops innovative products and services with existing and new customers to advance the Industrial Internet of Things (IIoT) and to play a major role in the digitalization of plant and mechanical engineering. Digital Ventures plays a central role in digital innovations and applications for new markets as well as in the development and responsibility for existing and new digital venture activities.

# Segment information by business segment

| | Hydro | | Paper | | Turbo | |
|---|---|---|---|---|---|---|
| in € millions | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19 |
| Sales with third parties | 947 | 1,147 | 1,805 | 1,660 | 1,337 | 1,398 |
| · thereof attributable to Digital Ventures | 72 | 112 | 103 | 104 | 34 | 70 |
| Sales with other segments | 3 | 2 | 24 | 20 | 6 | 9 |
| Segment sales, total | 950 | 1,149 | 1,829 | 1,680 | 1,343 | 1,407 |
| EBIT | 10 | 50 | 104 | 111 | 42 | 76 |
| Depreciation and amortization of property, plant and equipment and intangible assets[2] | 24 | 19 | 56 | 45 | 44 | 36 |
| Capital spending[3] | 13 | 18 | 41 | 34 | 47 | 44 |
| Segment goodwill | 17 | 15 | 478 | 222 | 180 | 141 |
| Average capital employed | 485 | 469 | 735 | 624 | 830 | 706 |
| ROCE | 5.8% | 13.9% | 16.0% | 19.8% | 5.1% | 10.8% |
| Employees[4] | 3,675 | 3,766 | 7,593 | 6,646 | 6,555 | 5,600 |

[1] Sub-total of the segments 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.
[4] Statistical headcount on reporting date.
* Previous year restated (see section "Restatements of previous-year figures").

| | Total Core Business[1] | | Digital Ventures | | Reconciliation | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2019/20 | 2018/19 | 2019/20 | 2018/19 | 2019/20 | 2018/19* | 2019/20 | 2018/19* |
| | 4,089 | 4,205 | 65 | 62 | 19 | 16 | 4,173 | 4,283 |
| | 209 | 286 | 65 | 62 | 0 | 0 | 274 | 348 |
| | 33 | 31 | 172 | 216 | -205 | -247 | 0 | 0 |
| | 4,122 | 4,236 | 237 | 278 | -186 | -231 | 4,173 | 4,283 |
| | 156 | 237 | -6 | -22 | -11 | -7 | 139 | 208 |
| | 124 | 100 | 16 | 13 | 10 | 6 | 150 | 119 |
| | 101 | 96 | 10 | 12 | 20 | 5 | 131 | 113 |
| | 675 | 378 | 68 | 69 | 8 | 7 | 751 | 454 |
| | 2,050 | 1,799 | 118 | 130 | 128 | 121 | 2,296 | 2,050 |
| | 9.2% | 14.7% | -4.8% | -16.7% | | | 7.5% | 11.5% |
| | 17,823 | 16,012 | 1,663 | 2,280 | 1,148 | 1,198 | 20,634 | 19,490 |

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

| in € millions | 2019/20 | 2018/19* |
|---|---|---|
| **EBIT** | **139** | **208** |
| Non-recurring result | -76 | -42 |
| thereof PPA depreciation and amortization | -17 | 0 |
| thereof restructuring expenses | -59 | -42 |
| Other adjustments | -1 | 0 |
| Share of profit/loss from companies accounted for using the equity method | -8 | -7 |
| Interest income/expense | 0 | -26 |
| Other financial result | 19 | 5 |
| **Result before taxes from continuing operations** | **73** | **138** |

# Segment information by region

## External sales (registered office of customer)

| in € millions | Hydro 2019/20 | Hydro 2018/19 | Paper 2019/20 | Paper 2018/19 | Turbo 2019/20 | Turbo 2018/19 | Digital Ventures 2019/20 | Digital Ventures 2018/19 | Reconciliation 2019/20 | Reconciliation 2018/19* | Total 2019/20 | Total 2018/19* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Germany | 32 | 20 | 326 | 316 | 329 | 337 | 26 | 28 | 14 | 14 | 727 | 715 |
| Foreign countries | 915 | 1,127 | 1,479 | 1,344 | 1,008 | 1,061 | 39 | 34 | 5 | 2 | 3,446 | 3,568 |
| thereof Europe | 238 | 275 | 432 | 422 | 429 | 480 | 9 | 7 | 1 | 0 | 1,109 | 1,184 |
| thereof Americas | 370 | 521 | 499 | 498 | 148 | 171 | 27 | 23 | 1 | 1 | 1,045 | 1,214 |
| thereof Asia | 255 | 279 | 527 | 408 | 380 | 341 | 3 | 4 | 3 | 0 | 1,168 | 1,032 |
| · of which China | 133 | 142 | 270 | 261 | 233 | 186 | 0 | 1 | 3 | 0 | 639 | 590 |
| thereof others | 52 | 52 | 21 | 16 | 51 | 69 | 0 | 0 | 0 | 1 | 124 | 138 |
| | 947 | 1,147 | 1,805 | 1,660 | 1,337 | 1,398 | 65 | 62 | 19 | 16 | 4,173 | 4,283 |

## Non-current assets

| in € millions | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Germany | 715 | 668 |
| Foreign countries | 1,300 | 789 |
| thereof Europe | 685 | 183 |
| · of which Switzerland | 247 | 1 |
| thereof Americas | 279 | 263 |
| · of which USA | 228 | 198 |
| thereof Asia | 330 | 340 |
| · of which China | 263 | 276 |
| thereof others | 6 | 3 |
| | **2,015** | **1,457** |

* Previous year restated (see section “Restatements of previous-year figures”).

# Other notes

## Contingent liabilities, contingent assets and other financial obligations

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

In addition, there are risks in connection with the recognition of transfer prices outside Germany amounting to €3.4 million (previous year: €5 million) and risks from legal disputes of €67.9 million (previous year: €84 million). A successful outcome is currently expected in both cases.

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

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

There continue to be other financial obligations from purchase commitments for capital expenditures of €8,006 thousand (previous year: €14,956 thousand) and from other financial obligations of €9,795 thousand (previous year: €80,699 thousand).

## 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 | 2020-09-30 | 2019-09-30 |
|---|---|---|
| Guarantee obligations | 3,681 | 1,039 |
| Warranties | 0 | 0 |
| Provision of collateral for third-party liabilities | 0 | 500 |
| | **3,681** | **1,539** |

Most of the guarantee obligations expire in 2022.

## Leases

The rental and lease agreements in the Group mainly relate to buildings, passenger vehicles and machinery. The majority of leases run for between 1 and 15 years. Some companies have the option of extending their rental contracts.

Liabilities of €28,192 thousand in connection with lease agreements were repaid. The interest expenses from the compounding of lease liabilities are disclosed in the financial result.

The interest expenses from lease arrangements amounted to €730 thousand in the 2019/20 fiscal year.

Lease expenses include expenses for short-term leases of €3,947 thousand and expenses for leases of low-value assets of €12,436 thousand that are disclosed in other operating expenses.

In the 2019/20 fiscal year, total cash outflows for leases amounted to €28,697 thousand.

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 2020-09-30 | Amount recognized in the balance sheet in accordance with IFRS 9 | | | Amount recognized in the balance sheet in accordance with IFRS 16 | Fair value 2020-09-30 |
|---|---|---|---|---|---|---|---|
| | | | Amortized cost | Fair value through equity | Fair value through profit or loss | | |
| **Assets:** | | | | | | | |
| Cash and cash equivalents | AC | 581,766 | 581,766 | | | | 581,766 |
| Trade receivables | AC | 674,797 | 674,797 | | | | 674,797 |
| Contract assets | n.a. | 539,446 | 539,446 | | | | 539,446 |
| Other financial assets and securities | | 185,604 | | | | | |
| · Financial investments | AC | 120,730 | 120,730 | | | | 120,730 |
| · Loans | AC | 9,589 | 9,589 | | | | 9,589 |
| · Investments (strategic) | n.a. | 7,178 | | | | | |
| · Investments (financial investments) | FVTPL | 34,199 | | | 34,199 | | 34,199 |
| · Securities | FVOCI | 13,908 | | 13,908 | | | 13,908 |
| Derivative financial instruments | | 14,401 | | | | | |
| · Forward exchange contracts | FVTPL | 2,836 | | | 2,836 | | 2,836 |
| · Forward exchange contracts (fair value hedges) | n.a. | 11,386 | | | 11,386 | | 11,386 |
| · Forward exchange contracts (cash flow hedges) | n.a. | 179 | | 179 | | | 179 |
| Other receivables | | 128,076 | | | | | |
| · Financial receivables | AC | 18,445 | 18,445 | | | | 18,445 |
| · Sundry financial assets | AC | 109,631 | 109,631 | | | | 109,631 |
| **Liabilities:** | | | | | | | |
| Trade payables | AC | 537,532 | 537,532 | | | | 537,532 |
| Bank loans/notes | AC | 612,666 | 612,666 | | | | 618,730 |
| Financial liabilities from leases | n.a. | 115,499 | | | | 115,499 | |
| Derivative financial instruments | | 34,843 | | | | | |
| · Forward exchange contracts | FVTPL | 3,060 | | | 3,060 | | 3,060 |
| · Forward exchange contracts (fair value hedges) | n.a. | 31,783 | | | 31,783 | | 31,783 |
| Other loans and borrowings | AC | 179,809 | 102,940 | 58,530 | 18,339 | | 330,632 |
| Sundry financial liabilities | AC | 219,140 | 219,140 | | | | 219,140 |

| in € thousands | IFRS 9 measurement category | Carrying amount 2019-09-30 | Amount recognized in the balance sheet in accordance with IFRS 9 | | | Amount recognized in the balance sheet in accordance with IAS 17 | Fair value 2019-09-30 |
|---|---|---|---|---|---|---|---|
| | | | Amortized cost | Fair value through equity | Fair value through profit or loss | | |
| **Assets:** | | | | | | | |
| Cash and cash equivalents | AC | 417,874 | 417,874 | | | | 417,874 |
| Trade receivables | AC | 657,084 | 657,084 | | | | 657,084 |
| Contract assets | n.a. | 541,204 | 541,204 | | | | 541,204 |
| Other financial assets and securities | | 428,003 | | | | | |
| · Financial investments | AC | 354,051 | 354,051 | | | | 354,051 |
| · Loans | AC | 9,261 | 9,261 | | | | 9,261 |
| · Investments (strategic) | FVOCI | 20,627 | | 20,627 | | | 20,627 |
| · Investments (financial investments) | FVTPL | 30,409 | | | 30,409 | | 30,409 |
| · Securities | FVOCI | 13,655 | | 13,655 | | | 13,655 |
| Derivative financial instruments | | 12,350 | | | | | |
| · Forward exchange contracts | FVTPL | 1,373 | | | 1,373 | | 1,373 |
| · Forward exchange contracts (fair value hedges) | n.a. | 10,977 | | | 10,977 | | 10,977 |
| Other receivables | | 130,544 | | | | | |
| · Financial receivables | AC | 40,727 | 40,727 | | | | 40,727 |
| · Sundry financial assets | AC | 89,817 | 89,817 | | | | 89,817 |
| **Liabilities:** | | | | | | | |
| Trade payables | AC | 531,647 | 531,647 | | | | 531,647 |
| Bank loans/notes | AC | 229,161 | 229,161 | | | | 236,597 |
| Financial liabilities from leases | n.a. | 437 | | | | 437 | |
| Derivative financial instruments | | 35,022 | | | | | |
| · Forward exchange contracts | FVTPL | 13,761 | | | 13,761 | | 13,761 |
| · Forward exchange contracts (fair value hedges) | n.a. | 20,497 | | | 20,497 | | 20,497 |
| · Forward exchange contracts (cash flow hedges) | n.a. | 764 | | 764 | | | 764 |
| Other loans and borrowings | AC | 159,974 | 110,885 | 31,914 | 17,175 | | 159,974 |
| Sundry financial liabilities | AC | 252,504 | 252,504 | | | | 252,504 |

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

| in € thousands | 2020-09-30 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Securities | 13,908 | 13,908 | 0 | 0 |
| Derivative financial instruments | 14,401 | 0 | 14,401 | 0 |
| Investments | 34,199 | 0 | 0 | 34,199 |
| **Equity and liabilities** | | | | |
| Derivative financial instruments | 34,843 | 0 | 34,843 | 0 |
| Liabilities arising from the acquisition of investment shareholdings | 76,869 | 0 | 0 | 76,869 |

| in € thousands | 2019-09-30 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Assets** | | | | |
| Securities | 13,886 | 13,886 | 0 | 0 |
| Derivative financial instruments | 12,350 | 0 | 12,350 | 0 |
| Investments | 50,805 | 0 | 0 | 50,805 |
| **Equity and liabilities** | | | | |
| Derivative financial instruments | 35,022 | 0 | 35,022 | 0 |
| Liabilities arising from the acquisition of investment shareholdings | 49,089 | 0 | 0 | 49,089 |

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

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

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

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

No reclassifications were made between the levels of the fair value hierarchy in the 2019/20 fiscal year.

The fair values of derivative financial instruments allocated to level 2 of the fair value hierarchy are taken from the daily observable exchange rates, associated forward rates and the 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 Voith the market CDS rates were used to calculate the Group's own credit risk.

€34 million (previous year: €30 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 Voith are calculated in accordance with the existing ownership structure.

Investments of €0 (previous year: €21 million) 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. No dividends were recognized in profit or loss from the equity investments designated as FVOCI in the 2019/20 fiscal year. The material investment (in the previous year and at the time of the partial sale with a market value of €10 million) from the Digital Ventures business segment was sold in part in the current fiscal year as part of a strategic realignment (gain on sale: €5 million). A market value of €0 was determined for the remaining shares. The fair value of this investment was determined on the basis of the anticipated future cash flows.

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 from the business combination allocated to level 3 of the fair value hierarchy concern put options held by non-controlling shareholders as well as contractually agreed purchase price installments from future acquisitions 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.

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

| in € thousands | 2020-09-30 | 2019-09-30 |
|---|---|---|
| **Balance, October 1** | **1,716** | **-16,187** |
| Change in valuation policy according to IFRS 9 | 0 | 61,956 |
| Acquisition of investments | 5,539 | 16,181 |
| Disposal of investments FVTPL | -2,554 | -248 |
| Disposal of investments FVOCI | -4,906 | 0 |
| Put options from business combinations | -25,610 | -3,397 |
| Change in valuation policy | -10,629 | 0 |
| Fair value changes of the investments recorded in the financial result | 1,038 | -1,886 |
| Fair value changes in liabilities from the acquisition of investment shareholdings recorded in the financial result | -1,064 | -1,678 |
| Fair value changes in the investments recorded in other comprehensive income | -5,094 | -45,183 |
| Fair value changes in liabilities from the acquisition of investment shareholdings recorded in other comprehensive income | -1,106 | -6,402 |
| Currency effects and other adjustments | 0 | -1,440 |
| **Balance, September 30** | **-42,670** | **1,716** |

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 €566 million (previous year: €168 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 €177 million (previous year: €178 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 | 2019/20 | 2018/19 |
|---|---|---|
| Financial assets measured at amortized cost (AC) | 43,199 | 32,049 |
| Financial assets measured at fair value through other comprehensive income (FVOCI) | 597 | 330 |
| Financial assets and liabilities measured at fair value through profit or loss (FVTPL) | 12,847 | -16,108 |
| Financial liabilities measured at amortized cost (AC) | -42,769 | -22,622 |

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 €4,415 thousand (previous year: €5,751 thousand) and interest expenses of €10,674 thousand (previous year: €14,661 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 2020-09-30 | Volume that can potentially be offset under master netting agreements | Potential net amount |
|---|---|---|---|
| **Assets** | | | |
| Derivative financial instruments | 14,401 | 12,387 | 2,014 |
| **Equity and liabilities** | | | |
| Derivative financial instruments | 34,843 | 12,387 | 22,456 |

| in € thousands | Gross presentation balance sheet 2019-09-30 | Volume that can potentially be offset under master netting agreements | Potential net amount |
|---|---|---|---|
| **Assets** | | | |
| Derivative financial instruments | 12,350 | 8,531 | 3,819 |
| **Equity and liabilities** | | | |
| Derivative financial instruments | 35,022 | 8,531 | 26,491 |

## Collateral

As at the reporting date, the financial assets include non-current securities totaling €8,039 thousand (previous year: €8,312 thousand) that are used to cover future pension obligations. Furthermore, €242 thousand of the sundry financial assets (previous year: €251 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 €470 thousand (previous year: €1,612 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. We verify the creditworthiness of customers who wish to do credit-based business with us.

**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. Voith allocates cash investments 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.

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 €674,797 thousand (previous year: €657,084 thousand). The maximum default risk for contract assets is €539,446 thousand (previous year: €541,204 thousand). Based on the collateral held, the maximum default risk for trade receivables is reduced by €67,796 thousand (previous year: €110,875 thousand) and that for contract assets by €6,594 thousand (previous year: €44,819 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), which constitutes a shift away from recognition on the basis of losses incurred, as was previously the case. This means that the accounting method moves closer to forward-looking credit risk management and necessitates a model for measuring expected credit losses on trade receivables and, most recently, 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, Digital Ventures 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 receivables | Gross carrying amount[1] | Impairment loss | Net carrying amount | Loss rate |
|---|---|---|---|---|---|---|
| **2020-09-30** | | | | | | |
| Low risk | **AAA to BBB-** | 91% | 1,527,428 | -7,177 | 1,520,251 | 0.47% |
| Medium risk | **BB+ to BB-** | 6% | 98,544 | -8,088 | 90,456 | 8.21% |
| High risk | **B+ to B-** | 3% | 49,272 | -398 | 48,874 | 0.81% |
| 2019-09-30 | | | | | | |
| Low risk | **AAA to BBB-** | 88% | 1,160,331 | -3,348 | 1,156,983 | 0.29% |
| Medium risk | **BB+ to BB-** | 9% | 114,131 | -594 | 113,537 | 0.52% |
| High risk | **B+ to B-** | 3% | 38,044 | -11,067 | 26,977 | 29.09% |

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.

[1] Gross carrying amount less individual impairments and without deduction of provisions on the assets side.

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 interest (€169 million) or variable interest on the basis of the 6M Euribor (€231 million) is payable on the tranches. This mainly serves to increase the volume of cash and cash equivalents as a precaution. In addition, another portion of the note loan amounting to €102 million will be used in November 2020 to repay another note loan as it becomes due.

After exercising the second renewal option, the existing syndicated euro loan of €550 million was extended to April 2025. No financial covenants were arranged. It has not been drawn on and is available as a strategic liquidity reserve if needed, as are available bilateral lines of credit from banks. To safeguard internal and external growth, the Voith Group procures long-term funding on the capital markets by issuing bonds, through private placements, and individual bank loans.

The syndicated loan in China was refinanced in 2019 and matures in 2024. It secures the finance for the operating business on the local market in the same currency as business operations. No funds were drawn from this facility over the reporting year.

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 2019/20 fiscal year. The ratings given by the rating agencies Moody's, S&P and Scope remain at Baa3 negative outlook, BBB- negative outlook and BBB- stable outlook in each case.

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 | 2020-09-30 | Cash flows < 1 year | Cash flows 1–5 years | Cash flows > 5 years |
|---|---|---|---|---|
| Trade payables | 537,532 | 536,918 | 709 | 0 |
| Bank loans/notes | 612,666 | 147,049 | 255,680 | 237,462 |
| Financial liabilities from leases | 115,499 | 46,347 | 58,029 | 17,060 |
| Other loans and borrowings | 179,809 | 58,533 | 39,396 | 81,803 |
| Other financial liabilities | 219,140 | 195,925 | 22,701 | 513 |
| Derivative financial instruments | 34,843 | | | |
| · Outflows | | 226,008 | 129,881 | 4,619 |
| · Inflows | | -205,094 | -124,920 | -5,249 |
| | **1,699,489** | **1,005,686** | **381,476** | **336,208** |

| in € thousands | 2019-09-30 | Cash flows < 1 year | Cash flows 1–5 years | Cash flows > 5 years |
|---|---|---|---|---|
| Trade payables | 531,647 | 531,558 | 25 | 234 |
| Bank loans/notes | 229,161 | 72,665 | 146,909 | 22,258 |
| Financial liabilities from leases | 437 | 189 | 265 | 0 |
| Other loans and borrowings | 159,974 | 39,690 | 25,108 | 95,133 |
| Other financial liabilities | 252,504 | 229,739 | 22,678 | 84 |
| Derivative financial instruments | 35,022 | | | |
| · Outflows | | 270,792 | 175,357 | 14,939 |
| · Inflows | | -251,081 | -163,817 | -16,262 |
| | **1,208,745** | **893,552** | **206,525** | **116,386** |

Solvency is ensured and liquidity managed using cash equivalents and short-term securities which can be transformed into cash at any time.

Derivatives include cash outflows for derivative financial instruments with negative market values for which gross cash settlement has been agreed. The cash outflows for these financial derivatives are matched by corresponding cash inflows which are shown separately in the table above under inflows and outflows (gross). On the other hand, where a net cash settlement is effected, cash outflows are presented on a net basis.

There are no expectations that cash flows presented in the maturity analysis could be incurred significantly earlier, or that there will be significant changes to the cash flow amounts.

## Financial market risk

**Foreign exchange risk:**

Global production and trading activities expose the Voith Group to risks arising from fluctuations in exchange rates. Foreign exchange risks exist in particular wherever receivables, liabilities, cash and cash equivalents, and orders received (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 €199 million as at September 30, 2020. 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 €5,619 thousand (previous year: increase of €10,512 thousand) and other comprehensive income increases by €327 thousand (previous year: decrease of €1,579 thousand). If, on the other hand, the US dollar rises by 5%, the result before taxes decreases by €5,619 thousand (previous year: decrease of €10,512 thousand) and other comprehensive income decreases by €327 thousand (previous year: increase of €1,579 thousand). The exposure not taken into consideration in the sensitivity analysis amount to €60 million for CNY and €12 million for SEK.

### 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 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:

| **2020-09-30**<br>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 | 581,766 | 0 | 0 | 0 | 0 | 0 | **581,766** |
| Bank loans | 38,750 | 500 | 500 | 500 | 97,971 | 137,409 | **275,630** |
| **Fixed interest rate** | | | | | | | |
| Bank loans | 101,987 | 1,987 | 39,314 | 737 | 102,796 | 89,812 | **336,633** |

| 2019-09-30<br>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 | 417,874 | 0 | 0 | 0 | 0 | 0 | **417,874** |
| Bank loans | 67,524 | 0 | 0 | 0 | 0 | 0 | **67,524** |
| **Fixed interest rate** | | | | | | | |
| Bank loans | 0 | 101,905 | 0 | 37,931 | 0 | 20,948 | **160,784** |

If the 6M Euribor were to rise at the next two interest dates by 100 basis points on the level at September 30, 2020, additional interest costs of €1.2 million p.a. would arise for the variable part of the note loan. If, in contrast, the 6M Euribor were to fall at the next two interest dates by 100 basis points, the interest costs would remain unchanged.

The interest result from the other material floating-rate financial instruments would have been €5.4 million higher (lower) (previous year: €3.5 million higher (lower)), if the market rate of interest had been 100 basis points higher (lower) as at September 30, 2020. This effect chiefly originates from euro-denominated floating-rate financial instruments of €2.7 million (previous year: €1.4 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 €14 million (previous year: €14 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:

| 2020-09-30 | Nominal values[1] | | Positive market values | | Negative market values | |
|---|---|---|---|---|---|---|
| in € thousands | < 1 year | > 1 year | < 1 year | > 1 year | < 1 year | > 1 year |
| Forward exchange contracts (fair value hedges) | 431,007 | 386,165 | 7,855 | 3,531 | 18,234 | 13,549 |
| Forward exchange contracts (cash flow hedges) | 26,593 | 0 | 179 | 0 | 0 | 0 |
| Other derivatives | 233,750 | 20,545 | 2,329 | 507 | 2,832 | 228 |
| | **691,350** | **406,710** | **10,363** | **4,038** | **21,066** | **13,777** |

[1] Nominal values refer to the volume of the hedged transaction in local currency, translated at the closing rate.

| 2019-09-30 | Nominal values[1] | | Positive market values | | Negative market values | |
|---|---|---|---|---|---|---|
| in € thousands | < 1 year | > 1 year | < 1 year | > 1 year | < 1 year | > 1 year |
| Forward exchange contracts (fair value hedges) | 433,653 | 295,591 | 8,211 | 2,766 | 13,297 | 7,200 |
| Forward exchange contracts (cash flow hedges) | 17,290 | 0 | 0 | 0 | 764 | 0 |
| Other derivatives | 170,395 | 37,793 | 1,267 | 106 | 4,951 | 8,810 |
| | **621,338** | **333,384** | **9,478** | **2,872** | **19,012** | **16,010** |

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, 2020:

| | Average hedged rates | |
|---|---|---|
| | < 1 year | > 1 year |
| EUR/USD | 1.1750 | 1.3013 |
| EUR/CNY | 8.0578 | 8.5197 |
| USD/BRL | 4.3337 | 4.9824 |
| USD/CNY | 6.9705 | 7.1152 |
| USD/INR | 75.7628 | 78.4943 |

**Fair value hedges:**
The Group uses fair value hedges primarily to hedge interest rate and foreign exchange risks.

In the 2019/20 fiscal year, a loss of €10,877 thousand was recorded on derivative financial instruments classified as fair value hedges (previous year: a gain of €5,888 thousand). Since the hedges have been classified as highly effective, measurement of the hedged transactions at the reporting date produced an offsetting gain/loss in the same amount.

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.

[1] Nominal values refer to the volume of the hedged transaction in local currency, translated at the closing rate.

| in € thousands | Balance sheet item: Sundry financial assets | Balance sheet item: 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 |
|---|---|---|---|
| **2020-09-30** | | | |
| Firm commitments | 20,501 | 8,623 | 20,397 |
| 2019-09-30 | | | |
| Firm commitments | 16,471 | 6,926 | 9,520 |

There were no effects on profit or loss from ineffective hedges in the 2019/20 and 2018/19 fiscal years.

Changes in the value of derivative financial instruments that do not meet the requirements for hedge accounting under IAS 39 are recognized as income or expenses in profit or loss at the reporting date.

**Cash flow hedges:**
As at September 30, 2020, there were cash flow hedges in place that are subject to currency risks.

Hedge relationships designed to hedge cash flows from forecast sales transactions were classified as highly effective. Accordingly, an unrealized gain of €124 thousand (previous year: loss of €764 thousand) was recognized within consolidated equity in other reserves as at September 30, 2020.

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 |
|---|---|---|---|
| **2020-09-30** | | | |
| Forecast transactions | -224 | 124 | -224 |
| 2019-09-30 | | | |
| Forecast transactions | -923 | -764 | -923 |

There were no effects on profit or loss from ineffective hedges in the 2019/20 and 2018/19 fiscal years.

In the 2019/20 fiscal year, hedged transactions of €764 thousand (previous year: €0) were realized over the course of the reporting year by transfer of the relevant accumulated losses from other reserves to profit or loss due to the premature termination of hedges. No gains or losses (previous year: €159 thousand) were taken into account in the cost of inventories, cash flow hedges currently in place provide for reclassification through profit or loss.

## Research and development costs

In the 2019/20 fiscal year, research and development costs totaled €188,592 thousand (previous year: €212,674 thousand).

Of this amount, development costs of €10,025 thousand (previous year: €13,615 thousand) were capitalized in the balance sheet. The remaining costs represent activities for non-customer-specific new developments and improvements of €132,611 thousand (previous year: €141,266 thousand) and development activities of €45,956 thousand (previous year: €57,793 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 €600 thousand (previous year: €651 thousand) was paid at customary market rates to members of the Supervisory Board and former members of the Board of Management for consulting and other services.

The majority of goods and service transactions with related parties (entities and individuals) are shown in the table below:

| in € thousands | 2019/20 | 2018/19 |
|---|---|---|
| Liabilities to family shareholders | 7,186 | 11,786 |
| Services purchased from associates | 257 | 556 |
| Services rendered to associates | 3,397 | 116 |
| Receivables from associates | 4,472 | 2,581 |
| Liabilities to associates | 753 | 636 |
| Services purchased from other investments | 3,753 | 4,053 |
| Services rendered to other investments | 10,414 | 10,258 |
| Receivables from other investments, including advances paid | 10,231 | 8,929 |
| Impairment of receivables from other investments | -375 | -385 |
| Liabilities to other investments and to Voith Management GmbH | 27,260 | 25,363 |
| Services purchased from joint ventures | 164 | 4,016 |
| Services rendered to joint ventures | 0 | 1,097 |
| Receivables from joint ventures | 170 | 729 |
| Liabilities to joint ventures | 725 | 656 |
| Services purchased from the ultimate parent company | 11,271 | 14,399 |
| Services rendered to the ultimate parent company | 1,336 | 1,367 |
| Receivables from the ultimate parent company | 55 | 7 |
| Liabilities to the ultimate parent company | 9,568 | 9,207 |

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 2019/20 fiscal year, guarantees of €1,101 thousand (previous year: €1,021 thousand) were issued in favor of other investments.

There are no obligations under outstanding orders with the ultimate parent company (previous year: €255 thousand).

Capital increases totaling €625 thousand (previous year: €0) were made in favor of joint ventures. There were no capital increases in favor of associates in the 2019/20 fiscal year (previous year: €25,685 thousand).

## Compensation of governing bodies

The compensation for members of the Board of Management of Voith Management GmbH, including pension expenses, totaled €10,420 thousand in the fiscal year (previous year: €18,862 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 €6,039 thousand (previous year: €6,842 thousand), post-employment benefits of €877 thousand (previous year: €1,114 thousand) and termination benefits pursuant to IAS 24 of €3,505 thousand (previous year: €10,906 thousand).

The compensation for members of the Board of Management under commercial law totaled €5,490 thousand (previous year: €6,220 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 2019/20 fiscal year.

The present value as at September 30, 2020, of the defined benefit obligations to the Corporate Board of Management at Voith Management GmbH amounted to €9,424 thousand (including entitlements from deferred compensation).

The present value of defined benefit obligations toward past members of the Board of Management total €91,741 thousand (previous year: €86,902 thousand). Of these amounts, €2,878 thousand (previous year: €3,509 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 €37,923 thousand (previous year: €34,128 thousand).

These amounts are included in note 20.

The compensation for past members of the Board of Management totaled €4,437 thousand (previous year: €5,136 thousand). Of this amount, €397 thousand (previous year: €512 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 €380 thousand (previous year: €379 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 2019/20 fiscal year:

| in € thousands | 2019/20 | 2018/19 |
|---|---|---|
| Annual audit | 2,741 | 2,729 |
| Other assurance or valuation services | 4 | 43 |
| Tax advisory services | 684 | 637 |
| Other services | 6 | 33 |
| | **3,435** | **3,442** |

## Subsequent events

There were no significant events after the end of the 2019/20 fiscal year.

## Corporate Board of Management

The following were appointed members of the Board of Management of Voith Management GmbH in the 2019/20 fiscal year and later:

Dr. Toralf Haag
Egon Krätschmer
Andreas Endters
Dr. Uwe Knotzer
Uwe Wehnhardt
Dr. Roland Münch (until October 31, 2019)

Heidenheim an der Brenz, November 30, 2020

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Egon Krätschmer
Andreas Endters
Dr. Uwe Knotzer
Uwe Wehnhardt

The German language consolidated financial statements of Voith GmbH & Co. KGaA as at September 30, 2020, as authorized for issue and the unqualified audit opinion issued thereon by KPMG Wirtschaftsprüfungsgesellschaft, Munich, will be filed in German at the Bundesanzeiger (Federal German Gazette). They can be viewed at www.bundesanzeiger.de.

# Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Heidenheim an der Brenz, November 30, 2020

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Andreas Endters
Uwe Wehnhardt
Egon Krätschmer
Dr. Uwe Knotzer

## Contact

**Voith Group**
Phone: +49 7321 37 0
Fax: +49 7321 37 7000
E-mail: info@voith.com

**Group Communications**
Phone: +49 7321 37 2864
Fax: +49 7321 37 7107
E-mail: info@voith.com

**Investor Relations**
Phone: +49 7321 37 2332
Fax: +49 7321 37 7010
E-mail: info@voith.com

## Imprint

**Publisher**
Voith Group
Voith GmbH & Co. KGaA
St. Pöltener Str. 43
89522 Heidenheim, Germany
Phone: +49 7321 37 0
Fax: +49 7321 37 7000

**Editing/Text**
Seipp Kommunikationsberatung,
Köln

**Typography**
G2 Printmedienmanufaktur GmbH,
Neunburg vorm Wald

**Photo Credits**
Thomas Dashuber,
München

This annual report is also available in German.
Both versions, as well as other information, can
be downloaded at www.voith.com.

VOITH