RENK

Innovative Power Transmission

Half-Year financial report as of June 30, 2016

RENK Aktiengesellschaft

Contents

Introduction

The half-yearly financial report of RENK Aktiengesellschaft (RENK AG) meets the requirements under the applicable provisions of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) and contains condensed consolidated half-yearly financial statements, a Group interim management report, and a responsibility statement in accordance with section 37w(2) WpHG.

Pursuant to IAS 34, the condensed consolidated half-yearly financial statements were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) applicable at the end of the reporting period and endorsed by the European Union (EU) and their Interpretations. The half-yearly financial report should be read in conjunction with the annual report as of December 31, 2015 and the additional information on the company contained therein.

Minor differences in totals or percentages in the statements and tables below may occur as a result of the commercial rounding of amounts. The amounts are presented in euros (€), millions of euros (€ million) or thousands of euros (€ thousand).

This half-yearly financial report of RENK AG has not been reviewed by an independent auditor.

At a glance

RENK Group

In € million (unless stated otherwise)

	First half of 2016	First half of 2015	Change in %
Order intake	316	293	7.9
Sales revenue	227	240	(5.5)
Order backlog[1]	899	812	10.7
Headcount[1]	2,194	2,198	(0.2)
			Change in € million
Operating profit	33	43	(10)
Profit before taxes (EBT)	32	41	(9)
Profit after tax	22	29	(7)
Earnings per share in €	3.20	4.20	–
Operating return on sales	14.6	17.8	–
Capital expenditures[2]	7	12	(5)
Depreciation and amortization on noncurrent assets	10	11	(1)
Internally financed R&D expenditures	5	4	1
Gross cash flow	27	45	(18)
Cash flows from operating activities	39	36	3
Cash flows from investing activities	(8)	(12)	4
Net cash flow	31	24	7
Net liquidity[1]	213	197	16
Equity[1]	358	360	(2)

1) As of June 30, 2016, as against December 31, 2015
2) In intangible assets and property, plant and equipment

Group interim management report as of June 30, 2016

Positive development in order intake
In the first six months of fiscal year 2016, RENK generated an order intake of € 316 million (previous year: € 293 million). The significant growth in Special Gear Units business, particularly in marine gear units, more than offset the declines in Standard Gear Units and Slide Bearings business. New orders in Vehicle Transmissions business also slightly exceeded the previous year's level.

At € 227 million, the RENK Group's sales revenue in the first half of 2016 was almost € 13 million lower than the comparative figure from 2015. Only the Standard Gear Units business generated sales revenue above the previous year's level; by contrast, the other business areas were not able to reach the level of sales revenue they achieved in the previous year.

Decline in operating profit
In the reporting period, the RENK Group's operating profit decreased from € 43 million in the previous year to € 33 million in 2016. This decrease is due chiefly to the positive non-recurring effects included in the previous year's figure.

RENK therefore generated an operating return on sales of 14.6% in the 2016 reporting period (previous year: 17.8%). All of the business areas made positive contributions to this result.

After deducting the financial result of € -2 million (previous year: € -1 million) and the income taxes of € -10 million (previous year: € -13 million), the RENK Group's profit after tax in the first six months of 2016 amounted to € 22 million (previous year: € 29 million). Among other items, the financial result includes the impairment loss of almost € 2 million on the carrying amount of the investment in the unconsolidated Chinese subsidiary.

Continued high liquidity
In the first six months of 2016, the RENK Group generated gross cash flow of € 27 million (previous year: € 45 million). Thanks to positive effects of € 12 million from the decline in cash tied up in working capital (previous year: € -9 million), there was a slight improvement in cash flows from operating activities of € 39 million for the first half of 2016 after € 36 million in the same period of the previous year.

The reported cash flows from investing activities of € 72 million (previous year: €-12 million) chiefly resulted from the fact that RENK did not extend the investment of € 80 million with MAN SE that it held in the previous year, meaning that this sum returned to cash and cash equivalents. A net total of € 7 million (previous year: € 12 million) was added to property, plant and equipment and intangible assets in the first half of 2016. In addition, the capital increase at the unconsolidated company RENK Shanghai Services and Commercial, Ltd., Shanghai, China, had an impact of € 1 million here.

Taking account of the cash flows from financing activities, consisting mainly of the dividend payment of € 15 million (previous year: € 15 million), as well as exchange rate effects, there was an increase in cash and cash equivalents of € 96 million to € 213 million from the beginning of the year until June 30, 2016.

Asset and capital structure

The RENK Group's total assets grew from € 665 million to € 692 million in the first half of fiscal year 2016. On the assets side, this was attributable mainly to the increase in current assets. While inventories increased by € 20 million as a result of progress in project processing, and cash and cash equivalents including short-term investments climbed by € 16 million, receivables declined by € 11 million.

On the equity and liabilities side, the decrease in the actuarial interest rate for calculating pension obligations resulted in an increase in noncurrent provisions. Current liabilities and provisions increased from € 280 million to € 295 million; while prepayments received rose by € 26 million, tax provisions and trade payables declined by € 3 million each and other current provisions decreased by € 2 million.

Capital expenditures and R&D

The RENK Group invested € 7 million in property, plant and equipment and intangible assets in the first half of 2016 (previous year: € 12 million). The focus here was on continuing the investments in the expansion of the multipurpose hall for Special Gear Units business at the Augsburg site and the renewal measures in Vehicle Transmissions business.

Expenditures on internally financed research and development projects rose to € 5 million in the first six months of 2016, after € 4 million in the same period of the previous year. The activities focused on continuing the longer-term development projects in the individual business areas and on optimization and efficiency enhancement measures with a short-term effect.

Headcount virtually constant

The number of employees in the RENK Group remained virtually constant at 2,194 in the first six months of fiscal year 2016 (December 31, 2015: 2,198). It also had 39 subcontracted employees (December 31, 2015: 39).

Risk report

The risk report of the RENK Group should be read in conjunction with our comments on the 2015 consolidated financial statements. The risk position is largely unchanged from the descriptions provided in the 2015 annual report.

For information on the effects on the order situation and the sales revenue and earnings situation arising from the current development of the general economic situation, please refer to the "Forecast for fiscal year 2016" section and our comments on the individual segments under "Development of the business areas."

Forecast for fiscal year 2016

The RENK Group's operating performance to date in the first half of 2016 was within the ranges anticipated by the RENK Executive Board. In light of this and based on the currently foreseeable prospects, the management is largely still maintaining the forecasts made in the 2015 annual report, provided individual anticipated major projects in Vehicle Transmissions and Special Gear Units are implemented and the order situation for slide bearings is roughly at the same level as in the previous year. The order intake for fiscal year 2016 is thus expected to be around the same level as in the previous year, while consolidated sales revenue in 2016 is expected to slightly exceed the previous year's figure. Owing to the unfavorable development on key sales markets and the tense competitive situation, a slight decline in operating profit is anticipated in comparison to 2015. The operating return on sales will therefore still be in the double digits, but it will no longer fully reach the level of fiscal year 2015.

Supplementary report

For the report on events after the end of the reporting period, please refer to the comments in the consolidated half-yearly financial statements.

Development of the business areas

Special Gear Units

€ million			
Period from January 1 to June 30	2016	2015	Change*
Order intake	155	90	65
Sales revenue	65	75	(10)
Operating profit	4	11	(7)
Operating return on sales (%)*	5.8	14.9	(9.1)

* Calculated in € thousand.

General economic conditions
The varying developments in the respective target markets of the Special Gear Units business also continued in the first half of fiscal year 2016, resulting in very divergent conditions for RENK's business activities.

The Marine Special Gear Units business benefited from the high level of project activities due to the upcoming renewal and further expansion of naval units in a number of countries. However, this growth in demand for marine applications also resulted in an increasingly intense competitive situation due to capacity and portfolio expansions.

By contrast, the market environment for products in the stationary industrial gear units segment is still characterized by a sometimes ruinous price war for the few projects on the market. The decrease in prices for crude oil and key minerals for industry also hampered project planning activities for conveyors and processing facilities. Demand from the cement industry also continued to decline, although this industrial sector remains attractive in the long term.

The business activities of the Swiss subsidiary RENK-MAAG were also impaired by the strength of the Swiss franc in relation to key export currencies.

Business development
The positive development in the marine segment of the Special Gear Units business that had begun in the previous years also continued in the first six months of 2016. As well as another major additional order for multiple ship sets for the Italian navy, RENK also obtained a major order for several newly constructed frigates for the Indian navy. In addition, follow-up orders were received for the long-term procurement programs of the US navy and the US coast guard.

Despite the challenges in the market segment for stationary gear units, a higher order intake was generated than in the previous year, although the situation varied considerably depending on the product area. While orders for industrial, mill, and turbo gear units were noticeably above year-on-year in some cases, the order intake for power plant applications saw a substantial decline. The order intake at RENK-MAAG was also lower than in the previous year.

Overall, the Special Gear Units business posted orders in the amount of € 155 million in the first half of 2016 (previous year: € 90 million).

By contrast, the sales revenue of € 65 million over the course of 2016 to date was lower than the comparative figure of € 75 million from 2015, which was also due in particular to the relatively long project terms in the marine sector. The orders delivered here in the reporting period included ship sets for the Thai, Malaysian, and UK navies and call-off orders from the longer-term programs of the US coast guard, the US navy, and the South Korean navy. Sales revenue from stationary gear units also included another delivery from the new COPE gear unit series for vertical cement mills.

In the first six months of fiscal year 2016, the Special Gear Units business generated an operating profit of € 4 million (previous year: € 11 million) and an operating return on sales of 5.8% (previous year: 14.9%). However, the figures for the previous year include a pro rata non-recurring effect of more than € 4 million.

Outlook

Particularly due to the continuing demand for sophisticated marine gear unit solutions, we continue to anticipate a significant increase in the order intake in Special Gear Units business. Sales revenue and operating profit are also expected to exceed the previous year's figures. The operating return on sales will be around the same level as in the previous year.

Vehicle transmissions

€ million			
Period from January 1 to June 30	2016	2015	Change*
Order intake	88	86	2
Sales revenue	73	75	(2)
Operating profit	13	15	(2)
Operating return on sales (%)*	17.8	19.9	(2.1)

* Calculated in € thousand.

General economic conditions

The market for medium-weight and heavy tracked vehicles is still characterized by procurement programs that generally have low annual delivery quantities and long processing times. Some of these procurement programs have contract awards pending, but it is difficult to estimate when they will actually go ahead. The more restrictive German export control policy is negatively influencing decision-making by potential customers of RENK. At the same time, the growing number of competitors and their increased activities in this market segment are also having a significant impact on demand for RENK products.

The recovery in the test rig market that has been underway since 2014 also continued in the first half of fiscal year 2016. Opportunities for further orders can be seen in the aviation, rail, and special vehicle sectors in particular.

Business development

In the first half of 2016, Vehicle Transmissions business posted orders totaling € 88 million, up slightly on the previous year's level (€ 86 million). Vehicle Transmissions business at RENK AG particularly contributed to this positive development with an order for new production of the gear unit model RK 325. Test systems also made a positive contribution with projects received from the aviation and automotive industries. Maintenance and service business remained important.

In the 2016 reporting period, Vehicle Transmissions business generated sales revenue of € 73 million, only slightly lower than in the same period of the previous year (€ 75 million). In addition to after-sales activities, gear unit deliveries from the HSWL354 and HSWL256 series for the German PUMA program and the British AJAX program were also particularly important. Sales revenues with test systems particularly related to applications for testing brake, bearing, and engine components.

As expected, the operating profit in Vehicle Transmissions business was also down slightly in the first six months at € 13 million (previous year: € 15 million), with the operating return on sales amounting to 17.8% (previous year: 19.9%).

Outlook

Based on the developments in the first half of the year, RENK expects the order volume and sales revenue in Vehicle Transmissions business to be around the same level as in the previous year again. The management still anticipates an appreciable reduction in operating profit and the operating return on sales as shown in the estimates in the 2015 annual report.

Standard Gear Units

€ million			
Period from January 1 to June 30	2016	2015	Change*
Order intake	31	72	(41)
Sales revenue	49	44	5
Operating profit	9	6	3
Operating return on sales (%)*	19.1	12.5	6.6

* Calculated in € thousand.

General economic conditions

The decline in oil prices resulted in a significant reduction in demand for new LNG tankers due to the excess capacity that was now foreseeable. By contrast, demand for coastal protection and waterway maintenance solutions remained at a constant level.

In the turbo gear units market, the project implementation rate remained at a low level in the first few months of 2016. In the lower power ranges for turbo applications, there were some isolated signs of increased project activity, but the probability and timing of implementation cannot yet be foreseen at present.

With regard to couplings, the lack of demand from equipment manufacturers that were facing considerable underutilization themselves – both for the metal production and processing industry and for sectors dependent on the oil price – led to an increase in competitive pressure and a marked fall in prices.

A few individual energy policy measures in the EU and the USA will have a positive impact on the offshore wind power sector. The changes in the competitive structure due to intense acquisition and merger activities also continued in the first half of 2016. Development and planning activities in Asia remain relevant for RENK's technology in the wind power sector.

Business development

The difficult economic conditions were also reflected in a considerably lower order intake of € 31 million in the first half of the year (previous year: € 72 million). Significant orders for marine gear units were obtained for coastal protection applications and dredgers.

At a total of € 49 million, sales revenue in Standard Gear Units business was slightly above the previous year's level (€ 44 million), primarily as a result of working off the order backlog for wind turbine gear units. Operating profit (€ 9 million / previous year: € 6 million) and the operating return on sales (19.1% / previous year: 12.5%) therefore also developed positively in the 2016 reporting period.

Outlook

As stated in its forecast from the beginning of the year, RENK still anticipates a considerable decline in the order intake in Standard Gear Units business in fiscal year 2016. By contrast, sales revenue, operating profit and the operating return on sales should be slightly higher than the previous year's level.

Slide bearings

€ million			
Period from January 1 to June 30	2016	2015	Change*
Order intake	45	55	(10)
Sales revenue	45	51	(6)
Operating profit	7	10	(3)
Operating return on sales (%)*	15.7	19.9	(4.2)

* Calculated in € thousand.

General economic conditions

Economic downturns, unresolved political crises, and structural changes in energy policy are having a negative impact on the German supplier industry for mechanical and plant engineering. The shifts in demand within the slide bearings portfolio also continued in the first half of 2016. To secure local market share and improve their global market position, major providers from the electric machine sector in particular are unabatedly investing in new production facilities. RENK's sales potential is thus also shifting to these new production sites. Here, RENK faces competition both from locally established low-cost providers and also from international competitors seeking to establish themselves in these markets by means of an aggressive sales and pricing policy.

In the oil and gas industry and related market segments, the sharp negative development of commodity prices across the entire value chain has meant that a significant downturn in project activity can be observed.

Business development

These considerably more difficult market conditions resulted in a year-on-year decrease of € 10 million in the order intake in Slide Bearings business to € 45 million in the first half of 2015. Sales revenue in the first half of 2016 was also down year-on-year, with the figure of € 45 million in the first six months of 2016 representing a decrease of € 5 million on the comparative figure from 2015.

Compared with 2015, operating profit declined by € 3 million to € 7 million in the first half of 2016, partly also reflected the less favorable product mix. This also resulted in a considerably lower operating return on sales of 15.7% (previous year: 19.9%).

Outlook

The order intake and sales revenue in Slide Bearings business are now expected to be slightly lower in fiscal year 2016 than in the previous year. The activities to safeguard the order level in the future as part of a long-term strategy are expected to result in considerably lower figures for the operating return on sales and operating profit in 2016 as compared to 2015.

Condensed consolidated half-yearly financial statements as of June 30, 2016

RENK consolidated income statement

Period from January 1 to June 30

€ thousand	Note	2016	2015
Sales revenue		**226,857**	**239,679**
Cost of sales		(166,757)	(181,184)
Gross profit		**60,101**	**58,495**
Other operating income	[1]	2,652	13,132
Distribution expenses		(18,061)	(17,082)
General administrative expenses		(8,840)	(8,935)
Other operating expenses	[2]	(2,626)	(2,884)
Operating profit		**33,225**	**42,726**
Finance expenses		(224)	(290)
Other financial result		(1,429)	(1,053)
Financial result		**(1,653)**	**(1,343)**
Profit before taxes		**31,572**	**41,383**
Income tax expense		(9,787)	(12,829)
Profit after tax (share of RENK shareholders)		**21,785**	**28,554**
Earnings per share in € (basic and diluted)	**[3]**	**3.20**	**4.20**

Reconciliation to RENK total comprehensive income for the period

Period from January 1 to June 30

€ thousand	2016	2015
Profit after tax	**21,785**	**28,554**
Items not reclassified to profit or loss		
Remeasurement of pension plans	(13,055)	(362)
Deferred taxes	3,799	(274)
	(9,256)	**(636)**
Items reclassified to profit or loss in the future		
Currency translation differences	(302)	3,092
Change in fair values of derivatives	1,344	(896)
Deferred taxes	(427)	279
	615	**2,475**
Other comprehensive income for the period	**(8,641)**	**1,839**
Total comprehensive income	**13,144**	**30,393**
Other comprehensive income for the period as of June 30	**(24,541)**	**(20,069)**

RENK consolidated statement of financial position

Assets

€ thousand	Note	30.06.2016	31.12.2015
Intangible assets		1,221	1,479
Property, plant, and equipment	[5]	192,368	193,579
Other and financial investments	[6]	3,687	4,534
Deferred tax assets		11,322	7,267
Other noncurrent assets and receivables		49	33
Noncurrent assets		**208,647**	**206,892**
Inventories	[7]	191,185	171,218
Trade receivables	[8]	70,159	81,584
Current income tax receivables		3,415	3,143
Other current assets and receivables		5,897	84,704
Cash and cash equivalents		212,906	117,061
Current assets		**483,562**	**457,710**
		692,209	**664,602**

Equity and liabilities

€ thousand	Note	30.06.2016	31.12.2015
Subscribed capital		17,920	17,920
Capital reserves		10,669	10,669
Retained earnings		354,346	347,521
Accumulated other comprehensive income		(24,541)	(15,900)
Equity		**358,394**	**360,210**
Pension provisions		30,304	16,042
Deferred tax liabilities		1,361	1,730
Other noncurrent provisions	[9]	6,508	6,288
Other noncurrent liabilities		223	370
Noncurrent liabilities and provisions		**38,396**	**24,430**
Effective income tax provisions		940	4,290
Trade payables		33,520	36,767
Prepayments received		180,781	154,306
Current income tax payables		286	1,620
Other current provisions	[9]	48,304	50,405
Other current liabilities		31,588	32,574
Current liabilities and provisions		**295,419**	**279,962**
		692,209	**664,602**

RENK consolidated statement of changes in equity

€ thousand	Subscribed capital	Capital reserves	Retained earnings	Other compre-hensive income for the period	Total
As of Jan. 1, 2015	**17,920**	**10,669**	**320,700**	**(21,908)**	**327,381**
Profit after tax	–	–	28,554	–	28,554
Other comprehensive income for the period	–	–	–	1,839	1,839
Total comprehensive income	**–**	**–**	**28,554**	**1,839**	**30,393**
Dividends paid	–	–	(14,960)	–	(14,960)
As of June 30, 2015	**17,920**	**10,669**	**334,294**	**(20,069)**	**342,814**
As of Jan. 1, 2016	**17,920**	**10,669**	**347,521**	**(15,900)**	**360,210**
Profit after tax	–	–	21,785	–	21,785
Other comprehensive income for the period	–	–	–	(8,641)	(8,641)
Total comprehensive income	**–**	**–**	**21,785**	**(8,641)**	**13,144**
Dividends paid	–	–	(14,960)	–	(14,960)
As of June 30, 2016	**17,920**	**10,669**	**354,346**	**(24,541)**	**358,394**

RENK consolidated statement of cash flows

Period from January 1 to June 30

€ thousand	2016	2015
Cash and cash equivalents on Jan. 1	**117,061**	**70,396**
Profit before taxes	31,572	41,383
Income taxes paid	(15,793)	(8,516)
Depreciation, amortization and impairment losses on intangible assets and property, plant and equipment	8,496	11,211
Depreciation and amortization of other and financial investments	1,847	–
Change in pension obligations	1,211	686
Gains/losses from asset disposals	(149)	(12)
Other non-cash expenses and income	(571)	237
Change in inventories	(20,151)	(2,831)
Change in receivables	10,613	(18,545)
Change in liabilities and prepayments received	23,621	13,320
Change in other provisions	(1,861)	(584)
Cash flows from operating activities	**38,835**	**36,349**
Payments to acquire property, plant and equipment and intangible assets	(7,351)	(12,408)
Capital increases in other and financial investments	(1,000)	–
Proceeds from asset disposals	380	115
Cash inflow from deposits	80,000	–
Cash flows from investing activities	**72,029**	**(12,293)**
Dividends paid	(14,960)	(14,960)
Change in other financial liabilities	–	283
Cash flows from financing activities	**(14,960)**	**(14,677)**
Effect of exchange rate changes on cash and cash equivalents	(59)	1,601
Change in cash and cash equivalents	**95,845**	**10,980**
Cash and cash equivalents on June 30	**212,906**	**81,376**

Notes to the condensed consolidated half-year financial statements

General principles

Pursuant to Regulation 1606/2002 of the European Parliament and of the Council, RENK AG, Augsburg, prepared its consolidated financial statements for 2015 in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union.

These condensed consolidated half-yearly financial statements of RENK AG as of June 30, 2016 were prepared in accordance with IAS 34 and do not contain all of the information and disclosures in the notes that are required for consolidated financial statements as of the end of the fiscal year in accordance with IFRS, but rather should be read in conjunction with the IFRS consolidated financial statements published by the company for fiscal year 2015. The explanatory disclosures in the notes to the financial statements present the main circumstances required in order to understand the changes in the net assets, financial position and results of operations of the RENK Group that have taken effect since December 31, 2015.

Unless any changes are explicitly mentioned, the accounting policies used in the condensed consolidated half-yearly financial statements correspond to those used in the last consolidated financial statements as of the end of the fiscal year 2015. A detailed description of these methods can be found in the notes to the consolidated financial statements as of December 31, 2015.

For this half-yearly financial report, a discount rate of 1.5% (December 31, 2015: 2.7%) was used for calculating pension provisions in Germany. The reduced interest rate results in an increase in actuarial losses from the remeasurement of pension plans recognized in equity as well as in an increase in pension provisions.

In these consolidated half-yearly financial statements, income tax expense is essentially calculated on the basis of the expected income tax rate for the year as a whole.

In the opinion of the Executive Board, this unaudited Group interim financial report contains all of the usual adjustments to be made on an ongoing basis that are required for an appropriate presentation of the net assets, financial position, and results of operations of the Group. The results generated in the first six months of fiscal year 2016 do not necessarily provide any indication of the future business performance.

In preparing the condensed consolidated half-yearly financial statements, the Executive Board must make assumptions and estimates. These affect the amount and reporting of figures recognized for assets and liabilities and for income and expenses in the reporting period. The amounts actually incurred may deviate from these estimates. In addition to the financial statement figures, the condensed consolidated half-yearly financial statements also include explanations in the notes on selected items of the financial statements.

Basis of consolidation

In addition to RENK AG, the condensed consolidated half-yearly financial statements as of June 30, 2016 also include the following wholly owned subsidiaries:

- RENK France S.A.S., Saint-Ouen-l'Aumône, France
- RENK Corporation, Duncan (SC), USA
- RENK Test System GmbH, Augsburg
- RENK-MAAG GmbH, Winterthur, Switzerland
- RENK Systems Corporation, Camby (IN), USA.

The basis of consolidation is unchanged in comparison to the end of the preceding fiscal year.

New and revised accounting pronouncements

RENK has implemented all accounting standards endorsed by the EU and effective for financial periods from January 1, 2016. The following list shows all of the accounting standards that have been effective for the first time since January 1, 2016. Overall, these standards have no effect or no material effect on the presentation of the net assets, financial position and results of operations in the condensed consolidated half-yearly financial statements of RENK AG.

Standard/Interpretation		Published by IASB	Endorsed by the EU
IFRS 11	Joint Arrangements: Accounting for Acquisitions of interests in Other Entities	Nov. 24, 2015	Dec. 02, 2015
IAS 1	Presentation of Financial Statements	Dec. 18, 2014	Dec. 18, 2015
IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	May 12, 2014	Dec. 02, 2015
IAS 16 and I AS 41	Agriculture: Bearer Plants	June 30, 2014	Nov. 23, 2015
IAS 19	Employee Benefits: Defined benefit plans - employee contributions	Nov. 21, 2013	Dec. 17, 2014
IAS 27	Separate Financial Statements: Equity method	Aug. 12, 2014	Dec. 18, 2015
	International Financial Reporting Standards improvements 2012 –2014[1)]	Sept 25, 2014	Dec. 15, 2015
	International Financial Reporting Standards improvements 2010–2012[1)]	Dec. 11, 2013	Jan. 9, 2015

1) Minor amendments to a variety of IFRSs (IFRS 5, IFRS 7, IAS 19, IAS 34)
2) Minor amendments to a variety of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24)

Notes to the Consolidated Income Statement

(1) Other operating income

€ thousand		
Period from January 1 to June 30	2016	2015
Income from reversal of provisions	1.361	657
Income from currency translation differences and currency forwards	729	2.034
Income from reversal of bad debt allowances on receivables and receivables written off	34	68
Other income	528	243
Income from indemnities	–	9.138
Income from the derecognition of liabilities	–	992
	2.652	**13.132**

In the same period of the previous year, this item included income from the payment of agreed purchase commitments for wind turbine gear units in the amount of € 8,900 thousand.

(2) Other operating expenses

€ thousand		
Period from January 1 to June 30	2016	2015
Expenses from currency translation differences and currency forwards	932	1,474
Allocated costs	682	127
Surety and bank fees	402	344
Bad debt allowances on receivables and other assets and write-off of bad debts	93	113
Other expenses	517	826
	2,626	**2,884**

(3) Earnings per share

Period from January 1 to June 30	2016	2015
Profit after tax in € thousand	21,785	28,554
Weighted average shares outstanding (in thousands)	6,800	6,800
Earnings per share in €	**3.20**	**4.20**

In accordance with IAS 33, earnings per share are calculated from the consolidated profit after tax and the average number of shares outstanding in the period. There were no financial instruments as of either June 30, 2016 or June 30, 2015 that would dilute earnings per share.

(4) Dividend for fiscal year 2015

Based on the resolution of the Annual General Meeting on April 29, 2016, RENK AG paid out an ordinary dividend with a total value of € 14,960,213.40 (€ 2.20 per share) to the shareholders for fiscal year 2015. The dividend was paid out on May 2, 2016. In the previous year, a sum of likewise € 2.20 per share and thus also around € 15.0 million was distributed to the shareholders.

Notes to the consolidated statement of financial position

(5) Property, plant, and equipment

€ thousand	June 30, 2016	Dec. 31, 2015
Land and buildings	67,842	62,294
Technical equipment and machinery	104,276	88,797
Other equipment, operating and office equipment	12,834	11,590
Prepayments and assets under construction	7,416	30,898
	192,368	**193,579**

(6) Other and financial investments

RENK AG is the sole shareholder of RENK Shanghai Services Commercial Co. Ltd, Shanghai, China (RSH), which is not included in the company's consolidated financial statements for reasons of materiality. In March 2016, the shareholders' meeting resolved on the provision of additional cash in the form of a € 1 million increase in the share capital to finance measures relating to the expansion of a service company on the Chinese market.

In view of the economic conditions, an impairment test was performed during the year. The carrying amount of the investment in the company was found to be higher than the recoverable amount (value in use) of € 289 thousand. Taking account of a WACC of 8.7%, this resulted in an impairment loss of € 1,847 thousand, which is included in the Group's other financial result.

For information on the fundamental methods and the determination of the planning assumptions, please refer to the comments in the consolidated financial statements as of December 31, 2015.

(7) Inventories

€ thousand	June 30, 2016	Dec. 31, 2015
Raw materials, consumables, and supplies	28,221	27,027
Finished goods and work in progress	159,607	141,559
Advance payments	3,357	2,632
	191,185	**171,218**

Cumulative write-downs on inventories of € 2,258 thousand (previous year: € 388 thousand) were recognized in the reporting period.

(8) Trade receivables

€ thousand	June 30, 2016	Dec. 31, 2015
Customer receivables	63,000	71,270
Receivables from affiliated companies	4,480	8,024
PoC receivables	2,680	2,289
	70,159	**81,584**

(9) Other provisions

€ thousand	June 30, 2016	Dec. 31, 2015
Warranties	35,293	37,549
Outstanding costs	7,020	6,912
Obligations to employees	5,001	5,059
Miscellaneous other provisions	7,498	7,173
	54,812	**56,693**

Other provisions break down as follows according to maturity:

€ thousand	June 30, 2016	Dec. 31, 2015
Other noncurrent provisions	6,508	6,288
Other current provisions	48,304	50,405
	54,812	**56,693**

(10) Contingent liabilities

€ thousand	June 30, 2016	Dec. 31, 2015
Contingent liabilities	5	0
	5	**0**

(11) Fair value disclosures

The RENK Group classifies financial instruments as follows:

- financial instruments at fair value,
- financial instruments at amortized cost,
- hedging derivative financial instruments and
- financial instruments not covered by IFRS 7

The fair values were calculated based on the market conditions at the end of the reporting period and using generally accepted measurement methods. These are the prices at which one party would assume the rights or obligations from these financial instruments from an independent third party. The inputs for measuring fair value are largely unchanged compared to December 31, 2015.

Fair value hierarchy

The classification and reporting of the fair values of financial instruments are based on a fair value hierarchy that reflects the significance of the inputs used for measurement and breaks down as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Input factors other than quoted prices included within level 1 that are observable for an asset or liability either directly (as a price) or indirectly (derived from prices). The fair values of level 2 financial instruments are calculated based on the conditions at the end of the reporting period, such as interest rates or exchange rates, and using recognized models, such as discounted cash flow models or option pricing models.

Level 3 Input data used for the measurement of the asset or liability not based on observable market data (unobservable inputs).

Up until June 30 of the 2016 and 2015 reporting periods, there were no reclassifications between levels 1 and 2 and no reclassifications into or out of level 3.

The following table contains the classes of financial instruments included in the statement of financial position items, broken down by carrying amounts and fair values of financial instruments, and their allocation to the measurement categories as of June 30, 2016:

€ thousand	At fair value						
	in other compreh ensive income	in profit or loss	At amortized cost		Hedging derivative financial instru-ments	Not covered by IFRS 7	Total
	Carrying amount	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Other and financial investments	774	–	–	–	–	2,913	3,687
Other financial assets	–	–	8	8	39	–	47
Current assets							
Trade receivables	–	–	70,159	70,159	–	–	70,159
Other financial assets	–	81	1,082	1,082	292	–	1,455
Cash and cash equivalents	–	–	212,906	212,906	–	–	212,906
Noncurrent liabilities							
Other financial liabilities	–	–	–	–	122	–	122
Current liabilities							
Trade payables	–	–	33,520	33,520	–	–	33,520
Other financial liabilities	–	1,010	398	398	390	–	1,798

The following table contains the classes of financial instruments included in the statement of financial position items, broken down by carrying amounts and fair values of financial instruments, and their allocation to the measurement categories as of December 31, 2015:

€ thousand	At fair value						
	in other comprehensive income	in profit or loss	At amortized cost		Hedging derivative financial instruments	Not covered by IFRS 7	Total
	Carrying amount	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets							
Other and financial investments	774	–	–	–	–	3,760	4,534
Other financial assets	–	–	8	8	22	–	30
Current assets							
Trade receivables	–	–	81,584	81,584	–	–	81,584
Other financial assets	–	69	81,048	81,048	24	–	81,141
Cash and cash equivalents	–	–	117,061	117,061	–	–	117,061
Noncurrent liabilities							
Other financial liabilities	–	120	–	–	124	–	244
Current liabilities							
Trade payables	–	–	36,767	36,767	–	–	36,767
Other financial liabilities	–	1,450	429	429	1,314	–	3,193

Cash and cash equivalents, trade receivables, other financial assets, trade payables, and other financial liabilities predominantly have a short remaining term. Their carrying amounts as of the end of the reporting period therefore approximately match their fair value. Furthermore, appropriate impairment losses are recognized on trade receivables when there is objective evidence.

The future cash flows for derivative financial instruments without option components, such as currency forwards, are calculated using forward curves. The fair value of these instruments is the total of the discounted cash flows. The options on currency pairs are measured on the basis of standard option pricing models ('Black-Scholes model').

Available-for-sale financial assets include equity shares in an unchanged amount of € 774 thousand, which are measured at cost. These are shares in unlisted companies for which the measurement by discounting of forecast cash flows has been dispensed with given the lack of reliably determinable cash flows. The shares of unlisted companies relate to a company for which there are no quoted market values as there is no active market for these shares. There is currently no intention to sell these shares.

The following tables show the financial assets and liabilities at fair value broken down by the defined hierarchy levels at the respective reporting dates:

€ thousand	June 30, 2016	Level 1	Level 2	Level 3
Noncurrent assets				
Other and financial investments	774	–	–	774
Current assets				
Other financial assets	81	–	81	–
Noncurrent liabilities				
Other financial liabilities	–	–	–	–
Current liabilities				
Other financial liabilities	1,010	–	1,010	–

€ thousand	Dec. 31, 2015	Level 1	Level 2	Level 3
Noncurrent assets				
Other and financial investments	774	–	–	774
Current assets				
Other financial assets	69	–	69	–
Noncurrent liabilities				
Other financial liabilities	120	–	120	–
Current liabilities				
Other financial liabilities	1,450	–	1,450	–

The following tables contain an overview of hedge derivative financial instruments broken down by the defined hierarchy levels at the respective reporting dates:

€ thousand	June 30, 2016	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	39	–	39	–
Current assets				
Other financial assets	292	–	292	–
Noncurrent liabilities				
Other financial liabilities	122	–	122	–
Current liabilities				
Other financial liabilities	390	–	390	–

€ thousand	Dec. 31, 2015	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	22	–	22	–
Current assets				
Other financial assets	24	–	24	–
Noncurrent liabilities				
Other financial liabilities	124	–	124	–
Current liabilities				
Other financial liabilities	1,314	–	1,314	–

(12) Segment reporting

The activities of the RENK Group are divided into the reportable segments Vehicle Transmissions, Slide Bearings, Special Gear Units and Standard Gear Units. The management of each of these segments reports directly to the Executive Board of RENK AG.

The financial performance indicators for segments are sales revenue, operating profit, and operating return on sales. The operating return on sales is the ratio of the operating profit generated to sales revenue. The non-financial performance indicator is order intake.

€ thousand

Period from Jan. 1 to June 30	Special Gear Units		Vehicle transmissions	
	2016	2015	2016	2015
Order intake from third parties	153,412	83,671	87,764	86,003
Order intake from other segments	1,999	6,665	9	107
Total order intake	**155,411**	**90,336**	**87,773**	**86,110**
Sales revenue with third parties	62,858	72,646	72,832	74,585
Sales revenue with other segments	1,782	2,025	9	107
Total sales revenue	**64,640**	**74,671**	**72,841**	**74,692**
Order backlog[1)]	**296,468**	**207,315**	**496,412**	**481,808**
Operating profit	**3,774**	**11,131**	**12,954**	**14,862**
Capital expenditures	4,627	8,095	2,863	2,828
Depreciation and amortization	3,381	3,104	2,173	1,627
Operating return on sales	**5.8%**	**14.9%**	**17.8%**	**19.9%**

1) As of June 30, 2016 / December 31, 2015

Segment information is determined applying the same accounting policies as those used in the preparation of the consolidated financial statements.

Transactions between segments are performed on an arm's length basis.

The table below contains key segment-related information.

Standard Gear Units		Slide bearings		Consolidation/ change		Group	
2016	2015	2016	2015	2016	2015	2016	2015
30,281	70,256	44,628	53,328	–	–	316,085	293,257
1,053	1,421	464	1,529	(3,525)	(9,722)	–	–
31,334	**71,677**	**45,092**	**54,857**	**(3,525)**	**(9,722)**	**316,085**	**293,257**
47,478	42,252	43,691	50,196	–	–	226,859	239,679
1,599	1,254	1,746	374	(5,136)	(3,760)	–	–
49,077	**43,506**	**45,437**	**50,570**	**(5,136)**	**(3,760)**	**226,859**	**239,679**
78,258	**96,133**	**36,892**	**37,298**	**(9,384)**	**(11,010)**	**898,646**	**811,544**
9,373	**5,457**	**7,124**	**10,076**	**–**	**1,200**	**33,225**	**42,726**
205	353	656	1,132	–	–	8,351	12,408
1,761	6,454	1,181	1,161	–	(1,135)	8,496	11,211
19.1%	**12.5%**	**15.7%**	**19.9%**	**–**	**–**	**14.6%**	**17.8%**

(13) Related party disclosures

There were no significant changes with regard to related parties as compared to the consolidated financial statements as of December 31, 2015.

The services provided to and received from related parties in the period from January 1 to June 30 in 2016 and 2015 were as follows:

€ thousand	Services rendered (income)		Services received (expense)	
	2016	2015	2016	2015
MAN SE	32	77	524	229
Other MAN, Volkswagen, and Porsche Group companies	10,041	11,175	2,910	1,614
Unconsolidated subsidiaries and other equity investments	752	817	429	356

As of June 30, 2016 and December 31, 2015, there were the following receivables from and liabilities to related parties:

€ thousand	Accounts receivable		Accounts payable	
	2016	2015	2016	2015
MAN SE	213,897	197,151	2,781	3,525
Other MAN, Volkswagen, and Porsche Group companies	2,830	6,451	3,102	2,094
Unconsolidated subsidiaries and other equity investments	1,650	1,573	84	107

There are receivables of € 212,229 thousand (December 31, 2015: € 196,737 thousand) from cash management with MAN SE and other MAN companies as of June 30, 2016.

(14) Review by the Group auditors

The consolidated half-yearly financial statements as of June 30, 2016 and 2015 were not subject to an audit review.

(15) Changes in the Supervisory Board

Prof. Werner Neubauer resigned his office as a member of the Supervisory Board of the company with effect from February 15, 2016.

With effect from April 19, 2016, Ms. Christiane Hesse and Mr. Thorsten Jablonski were delegated to the Supervisory Board of RENK AG by MAN SE.

(16) Events after the end of the reporting period

There were no reportable events after June 30, 2016.

Responsibility statement

To the best of our knowledge and in accordance with the applicable accounting principles for half-yearly financial reporting, the condensed consolidated half-yearly financial statements give a true and fair view of the net assets, financial position, and results of operations of the Group, and the Group interim 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 over the remainder of the fiscal year.

Augsburg, July 20, 2016

RENK Aktiengesellschaft
The Executive Board

Florian Hofbauer   Christian Hammel

Financial diary of RENK Aktiengesellschaft at www.renk.biz

RENK Aktiengesellschaft

Gögginger Str. 73
86159 Augsburg, Germany
Phone: +49 821 5700-0
Fax: +49 821 5700-460

www.renk.eu

A company of the MAN Group