Innovative Power Transmission

Half-Year financial report as of June 30, 2017

RENK Aktiengesellschaft

RENK Aktiengesellschaft

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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, 2016 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)	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30	Change in %
Order intake	221	316	-30.1
Sales revenue	224	227	-1.1
Order backlog[1]	788	799	-1.3
Headcount[1]	2,186	2,205	-0.9
			Change in € million
Operating profit	30	33	-3
Profit before tax	31	32	-1
Profit after tax	21	22	-1
Earnings per share in €	3.13	3.20	–
Operating return on sales in %	13.3	14.6	–
Capital expenditures[2]	5	7	-2
Depreciation and amortization on noncurrent assets	9	10	-1
Internally financed R&D expenditures	8	5	+3
Gross cash flow	27	27	–
Cash flows from operating activities	16	39	-23
Cash flows from current investing activities	-5	-8	+3
Net cash flow	11	31	-20
Net liquidity[1]	210	214	-4
Equity[1]	398	390	+8

1) As of June 30, 2017, as against December 31, 2016
2) For property, plant and equipment and intangible assets

Group interim management report as of June 30, 2017

Sales revenue at previous year's level
In the first six months of fiscal year 2017, RENK generated an order intake of € 221 million (previous year: € 316 million). As expected, the substantial additions recorded in the first half of the previous year for marine gear units in Special Gear Units business and for vehicle transmissions were not repeated in the current fiscal year. However, there were increases in Standard Gear Units business, while Slide Bearings business almost matched the previous year's level.

At € 224 million, the RENK Group's sales revenue in the first half of 2017 was only slightly below the comparative figure for 2016 (€ 227 million). The increases in Special Gear Units business could not entirely compensate for the declines in Vehicle Transmissions and Standard Gear Units business. Special Bearings business generated revenue at the previous year's level.

Slight decline in operating profit
In the reporting period, the RENK Group's operating profit decreased from € 33 million in the previous year to € 30 million in 2017. Declines in Special Gear Units, Vehicle Transmissions and Standard Gear Units business were countered by a slight increase in Slide Bearings business.

RENK therefore generated an operating return on sales of 13.3% in the 2017 reporting period (previous year: 14.6%). All of the business areas made positive contributions to this result.

After deducting the financial result of € +1 million (previous year: € -2 million) and the income taxes of € -10 million (unchanged year-on-year), the RENK Group's profit after tax in the first six months of 2017 amounted to € 21 million (previous year: € 22 million).

Continued high liquidity
In the first half of 2017, the RENK Group generated gross cash flow of € 27 million (previous year: € 27 million). After the net inflow of prepayments received in the current year fell short of the previous year's extraordinarily high level, as expected, there was an increase in cash tied up in working capital (€ -12 million; previous year: € +12 million). This resulted in cash flows from operating activities of € 16 million in the first half of 2017 after € 39 million in the same period of the previous year.

The reported cash flows from investing activities of € -5 million (previous year: € -8 million) arose from the investments made in intangible assets and property, plant and equipment. In the previous year, this also included the capital increase at the unconsolidated company RENK Shanghai Services and Commercial, Ltd., Shanghai, China, in the amount of € 1 million.

Taking account of the cash flows from financing activities, the unchanged dividend payment of € 15 million, and exchange rate effects, there was a decrease in cash and cash equivalents of € 4 million to € 210 million from the beginning of the year until June 30, 2017.

Asset and capital structure

The RENK Group's total assets fell from € 708 million to € 700 million in the first half of fiscal year 2017. On the assets side, this was mainly attributable to the decreases in property, plant and equipment (- € 5 million) and in cash and cash equivalents (- € 4 million). The decline in trade receivables (- € 12 million) almost offset the increases in inventories (+ € 10 million) and in other current assets (+ € 3 million).

On the equity and liabilities side, the increase in equity (+ € 8 million) was more than offset by the decrease in the recognition of pension obligations (- € 4 million), the decline in prepayments received (- € 9 million) and the decreases in other current and noncurrent liabilities (- € 3 million).

Capital expenditures and R&D

The RENK Group invested € 5 million in property, plant and equipment and intangible assets in the first half of 2017 (previous year: € 7 million). The focus was on the Augsburg site, where a wide range of measures were performed as part of the plant optimization.

Expenditures on internally financed research and development projects rose to € 8 million in the first six months of 2017, after € 5 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

With 2,186 employees as of June 30, 2017, the RENK Group's headcount remained virtually constant compared to the beginning of the year (December 31, 2016: 2,205). It also had 59 subcontracted employees (December 31, 2016: 44).

Risk report

The risk report of the RENK Group should be read in conjunction with our comments on the 2016 consolidated financial statements. The risk position is largely unchanged from the descriptions provided in the 2016 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 2017" section and our comments on the individual segments under "Development of the business areas."

Forecast for fiscal year 2017

The RENK Group's development in the first six months of 2017 was largely within the ranges anticipated by RENK's management. Accordingly, and in view of the prospects for the months ahead, the Executive Board is maintaining the forecasts made in the 2016 annual report. This remains subject to the condition that individual anticipated major projects in Vehicle Transmissions and Special Gear Units are implemented and the order intake for slide bearings develops at the level of the original planning. The order intake in fiscal year 2017 will thus be down slightly year-on-year, while consolidated sales revenue will be at the previous year's level. Operating profit is expected to decrease significantly in comparison to 2016. Accordingly, the operating return on sales will also decline but will remain in double digits.

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	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30	Change*
Order intake	75	155	-80
Sales revenue	70	65	5
Operating profit	2	4	-2
Operating return on sales (%)*	3.4	5.8	-2.4

* Calculated in € thousand

General economic conditions

As in the previous periods, the divergent developments on the individual target markets of Special Gear Units also continued in the first few months of 2017, resulting in very different conditions for RENK's respective business activities.

The market environment for Marine Special Gear Units business was still characterized by extensive project activities – a consequence of the imminent replacement of or addition to naval units in several different countries. The increased demand for sophisticated marine applications of this kind also enhanced the appeal of this market segment for providers who had generally operated in other segments before, resulting in significant intensification of competition.

By contrast, the market environment for products in the stationary industrial gear units segment was still characterized by a sometimes ruinous price war for the projects on the market, of which there were too few in relation to industrial capacity. The persistently low price level for crude oil and key minerals for industry hampered project planning activities for conveyors and processing facilities to a large extent. There are no indications of a sustained upturn in the cement industry yet, either.

Business development

As expected, new orders in Special Gear Units business in the first half of 2017 fell well short of the extraordinarily high level achieved in the same period of the previous year. In the marine gear units business unit in particular, considerably fewer projects reached the contract awarding stage compared to the previous year.

The order intake in the stationary gear units business area also did not match the comparative figure from 2016 in the first six months of 2017, with declines in incoming orders for industrial and turbo gear units in particular. By contrast, RENK-MAAG posted an increase in new orders.

Overall, the Special Gear Units business received orders in the amount of € 75 million in the first half of 2017 (previous year: € 155 million).

By contrast, the sales revenue of € 70 million over the course of 2017 to date was higher than the comparative figure of € 65 million from 2016. Whereas the marine gear units business area generated sales revenue at the previous year's level, both the stationary gear units business area in Augsburg and RENK-MAAG increased their deliveries in comparison to 2016.

Deliveries during the reporting period included ship sets for a megayacht and for the Italian navy and call-off orders from the US navy's long-term programs. In addition to cement mill gear units, sales revenue from stationary gear units also included deliveries of high-performance turbo gear units and large industrial gear units for the petrochemical industry.

In the first six months of fiscal year 2017, the Special Gear Units business generated an operating profit of € 2 million (previous year: € 4 million) and an operating return on sales of 3.4% (previous year: 5.8%), reflecting the difficult market situation, particularly for stationary gear units.

Outlook

If the upcoming projects in the marine gear units business area are implemented in the second half of 2017, the order intake for 2017 is likely to be only slightly lower than the figure from 2016 – despite the high level of incoming orders in the previous year. By contrast, sales revenue will be up slightly on the previous year. The operating profit is therefore expected to rise appreciably and the operating return on sales will also be slightly above the previous year's level.

Vehicle transmissions

€ million	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30	Change*
Order intake	57	88	-31
Sales revenue	67	73	-6
Operating profit	11	13	-2
Operating return on sales (%) *	16.0	17.8	-1.8

* 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 in the short to medium term, but it is still difficult to estimate when they will actually go ahead. The restrictive German export control policy has an unfavorable influence for RENK on decision-making by potential customers. A growing number of competitors and their increased activities in this market segment are also having a significant impact on demand for RENK products.

The good economic conditions for test systems that have been in place for several years are being negatively impacted by increasing market protectionism in some regions. Opportunities for orders can still be seen in the aviation, rail, and special vehicle sectors in particular.

Business development

As expected, the order intake in Vehicle Transmissions business in the first half of 2017 also was not as high as the previous year's figure, which had included a major order for new production of the gear unit model RK 325. Incoming orders for test systems were also lower than the figure from 2016. Maintenance and service business remained important.

In the 2017 reporting period, Vehicle Transmissions business generated sales revenue of € 67 million, down € 6 million on the same period of the previous year. Sales revenue from new gear units predominantly came from deliveries of the gear unit model HSWL256 for the German PUMA program and the British AJAX program. With regard to test systems, the sales revenue particularly related to applications for testing vehicle, engine and wind turbine components.

Operating profit in Vehicle Transmissions business accordingly declined slightly by € 2 million year-on-year to € 11 million in the first six months. The operating return on sales came to 16.0% (previous year: 17.8%).

Outlook

The high order intake in 2016 probably cannot be repeated, meaning that incoming orders in 2017 will be considerably lower. Sales revenue should be around the same level as in the previous year. However, operating profit and the operating return on sales will see a considerable decrease, chiefly due to a less favorable product mix.

Standard Gear Units

€ million	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30	Change*
Order intake	50	31	18
Sales revenue	46	49	-3
Operating profit	8	9	-1
Operating return on sales (%) *	18.4	19.1	-0.7

* Calculated in € thousand

General economic conditions

With no foreseeable indications of a rise in oil prices in the reporting period, new shipbuilding plans in the offshore segment also remained at a low point. Excess supply is anticipated on the LNG tanker market in the medium term, too, with the effect that new construction projects will still be limited to special applications. By contrast, the need for coastal protection and waterway maintenance solutions resulted in continuing demand for dredgers.

In the turbo gear units market, the implementation rate remained stagnant at a low level. There were signs of a slight increase in project activity in the lower power ranges, but the implementation of projects in higher power ranges continued to develop very hesitantly.

With regard to couplings, the continued tense situation in mechanical and plant engineering resulted in only a low level of demand-side activity, with the effect that competitive and price pressure remained high. Suppliers from Asia are also increasingly being used.

It remains to be seen what further developments will occur in the wind power sector following the latest amendment of the Renewable Energy Sources Act (EEG) in Germany. This same applies to the effects of changes in the competitive structure in Europe. Activities in Asia remain interesting for RENK's technology in the wind power sector.

Business development

After a low order intake of € 31 million in the first half of 2016, Standard Gear Units business has already brought in orders worth € 50 million in the current year to date. Significant orders for marine gear units were obtained for special applications, including in the LNG sector, and subsequent purchase orders for several gear units were also received for offshore wind turbines.

At € 46 million, sales revenue in Standard Gear Units business in the first half of 2017 was € 3 million lower than the previous year's level (€ 49 million), increasingly reflecting the weak order intake in the previous year. Operating profit in the year to date was accordingly down slightly at € 8 million compared to € 9 million in the previous year, and the operating return on sales also decreased (18.4%; previous year: 19.1%).

Outlook

Following the low order intake in the previous year, incoming orders are expected to increase again slightly in 2017, whereas sales revenue will still remain well below the figure from 2016. The operating profit and the operating return on sales will therefore fall well short of the previous year's figures.

Slide bearings

€ million	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30	Change*
Order intake	44	45	-1
Sales revenue	45	45	0
Operating profit	8	7	1
Operating return on sales (%) *	18.5	15.7	2.8

* Calculated in € thousand

General economic conditions

The products in Slide Bearings business are closely linked to the development of the main customer segments of mechanical and plant engineering. Expectations in Germany are gradually becoming more positive, although there is continued uncertainty regarding the further development in Europe. The South American market depends entirely on the economic future of Brazil; the OEM market there has collapsed completely and only the most necessary replacement investments are still being made – with low-cost solutions where possible. The development in China is continuing as planned, while in India necessary investments in infrastructure projects are still generally being hampered by complex decision-making structures.

Due to the persistently low prices in the oil and gas sector, the level of investment remains low despite the OPEC countries' efforts to cap production volumes. It remains to be seen what effect will result from the USA's efforts to become a net exporter of oil and gas and to revive the coal industry. The market for special bearings displayed different developments. While demand from shipbuilding held up, both for passenger ships and for special-purpose ships, warehousing business for rolling mills remained weak. Announced trends toward a recovery in primary industry have not yet had an impact on plant engineering.

Business development

In line with the market situation, order intake in Slide Bearings business almost reached the previous year's level (€ 45 million) in the first half of 2017 at € 44 million. The sales revenue of € 45 million in the same period was at exactly the same level as the corresponding figure from 2016.

Compared with 2016, operating profit increased by € 1 million to € 8 million in the first half of 2017. This also resulted in a considerably higher operating return on sales of 18.5% (previous year: 15.7%).

Outlook

The tense situation on the markets for Slide Bearings business will demand considerable efforts to maintain the current level. For fiscal year 2017, the order intake and sales revenue figures are expected to be at the previous year's level again. By contrast, operating profit and the operating return on sales will be slightly lower than the figures for 2016.

Condensed consolidated half-yearly financial statements as of June 30, 2017

Consolidated Income Statement

€ thousand	Note	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30
Sales revenue		**224,413**	**226,857**
Cost of sales		-170,681	-166,757
Gross profit		**53,733**	**60,101**
Other operating income	[1]	5,210	2,652
Distribution expenses		-17,581	-18,061
General administrative expenses		-9,787	-8,840
Other operating expenses	[2]	-1,667	-2,626
Operating profit		**29,909**	**33,225**
Finance costs		-206	-224
Other financial result		1,134	-1,429
Financial result		**929**	**-1,653**
Profit before tax		**30,838**	**31,572**
Income taxes		-9,560	-9,787
Profit after tax (share of RENK shareholders)		**21,278**	**21,785**
Earnings per share in € (basic and diluted)	**[3]**	**3.13**	**3.20**

Reconciliation to Total Comprehensive Income for the Period

€ thousand	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30
Profit after tax	**21,278**	**21,785**
Items not reclassified to profit or loss		
Remeasurement of pension plans[1)]	3,008	-13,055
Deferred taxes[1)]	-947	3,799
	2,061	**-9,256**
Items reclassified to profit or loss in the future		
Currency translation differences[1)]	-1,228	-302
Change in fair values of derivatives	1,306	1,344
Deferred taxes	-418	-427
	-340	**615**
Other comprehensive income for the period	**1,720**	**-8,641**
Total comprehensive income	**22,998**	**13,144**
Other comprehensive income for the period as of June 30	**-13,912**	**-24,541**

1) No deferred taxes relate to currency translation differences.

Consolidated Statement of Financial Position

Assets

€ thousand	Note	June 30, 2017	Dec. 31, 2016
Intangible assets		1,134	1,356
Property, plant, and equipment	[5]	193,580	198,223
Other and financial investments		3,687	3,687
Deferred tax assets		11,705	10,498
Other noncurrent financial assets		74	8
Other noncurrent receivables		29	37
Noncurrent assets		**210,208**	**213,809**
Inventories	[6]	192,245	182,086
Trade receivables	[7]	74,275	86,323
Current income tax receivables		5,673	7,318
Other current financial assets		2,609	1,915
Other current receivables		5,251	2,327
Cash and cash equivalents		209,612	213,957
Current assets		**489,663**	**493,926**
		699,871	**707,735**

Equity and liabilities

€ thousand	Note	June 30, 2017	Dec. 31, 2016
Subscribed capital		17,920	17,920
Capital reserves		10,669	10,669
Retained earnings		383,101	376,783
Accumulated other comprehensive income		-13,912	-15,632
Equity		**397,778**	**389,740**
Pension provisions		11,131	15,108
Deferred tax liabilities		3,157	3,429
Other noncurrent provisions	[8]	6,828	7,050
Other noncurrent financial liabilities		42	295
Other noncurrent liabilities		76	101
Noncurrent liabilities and provisions		**21,234**	**25,983**
Effective income tax provisions		595	950
Trade payables		36,866	36,447
Prepayments received		158,450	167,596
Current income tax payables		304	7
Other current provisions	[8]	54,211	55,423
Other current financial liabilities		873	2,040
Other current liabilities		29,560	29,549
Current liabilities and provisions		**280,859**	**292,012**
		699,871	**707,735**

Consolidated Statement of Changes in Equity

€ thousand	Subscribed capital	Capital reserves	Retained earning	Other comprehen-sive income	Total
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	–	–	–	-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**

€ thousand	Subscribed capital	Capital reserves	Retained earning	Other comprehen-sive income	Total
As of Jan. 1, 2017	**17,920**	**10,669**	**376,783**	**-15,632**	**389,740**
Profit after tax	–	–	21,278	–	21,278
Other comprehensive income	–	–	–	1,720	1,720
Total comprehensive income	**–**	**–**	**21,278**	**1,720**	**22,998**
Dividends paid	–	–	-14,960	–	-14,960
As of June 30, 2017	**17,920**	**10,669**	**383,101**	**-13,912**	**397,778**

Consolidated Statement of Cash Flows

€ thousand	2017	2016
Cash and cash equivalents on Jan. 1	**213,957**	**117,061**
Profit before tax	30,838	31,572
Income taxes paid	-10,853	-15,793
Depreciation, amortization and impairment losses on intangible assets and property, plant and equipment	9,170	8,496
Impairment of other and financial investments	–	1,847
Change in provisions for pension obligations	-972	1,211
Gains/losses from asset disposals	26	-149
Other non-cash expenses and income	-833	-571
Change in inventories	-10,711	-20,151
Change in receivables	8,873	10,613
Change in liabilities and prepayments received	-8,321	23,621
Change in other provisions	-1,342	-1,861
Cash flows from operating activities	**15,875**	**38,835**
Payments to acquire property, plant and equipment and intangible assets	-4,857	-7,351
Capital increases in other and financial investments	–	-1,000
Proceeds from asset disposals	196	380
Cash inflow from deposits	–	80,000
Cash flows from investing activities	**-4,661**	**72,029**
Dividends paid	-14,960	-14,960
Cash flows from financing activities	**-14,960**	**-14,960**
Effect of exchange rate changes on cash and cash equivalents	-599	-59
Change in cash and cash equivalents	**-4,345**	**95,845**
Cash and cash equivalents on June 30	**209,612**	**212,906**

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 2016 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, 2017 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 2016. 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, 2016.

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 2016. A detailed description of these methods can be found in the notes to the consolidated financial statements as of December 31, 2016. All amounts are rounded in accordance with standard commercial practice, which may result in minor differences when they are added together.

For this half-yearly financial report, a discount rate of 1.8% (December 31, 2016: 1.6%) was used for calculating pension provisions in Germany. The higher interest rate results in a decrease 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 2017 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, 2017 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 that have been endorsed by the EU and are required to be applied.

Since January 1, 2017, additional disclosures have been required in accordance with IAS 7 (Statement of Cash Flows) in relation to cash and non-cash changes in financial liabilities resulting from financing activities according to the statement of cash flows. These disclosures are required for the first time in the 2017 annual financial statements.

As a result of the amendments to IAS 12 (Income Taxes), the recognition of deferred tax assets for unrealized losses has been clarified for assets measured at fair value with effect from January 1, 2017.

Since January 1, 2017, the IASB has made amendments to IFRS 12 (Disclosure of Interests in Other Entities) as part of the improvement of International Financial Reporting Standards (Annual Improvement Project 2016). The amendments clarify that the disclosures in accordance with IFRS 12 are also required for subsidiaries, joint ventures, associates and unconsolidated structured companies even if they are classified as "held for sale" or "intended for distribution to owners" or form part of discontinued operations.

The amendments described do not have any significant impact on the net assets, financial position and results of operations of the RENK Group. They have not yet been incorporated into European law but this is expected to take place before the end of fiscal year 2017.

The following list shows all of the accounting standards that have been effective for the first time since January 1, 2017, but had not yet been endorsed by the EU at the time this report was prepared. They are expected to be incorporated into European law before the end of fiscal year 2017.

The assessments in the notes to the 2016 consolidated financial statements regarding the future application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" are unchanged.

Notes to the Consolidated Income Statement

(1) Other operating income

€ thousand	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30
Income from reversal of provisions and liabilities	4,602	1,361
Income from currency translation differences and derivatives	348	729
Income from reversal of bad debt allowances on receivables and receivables written off	7	34
Other income	253	528
	5,210	**2,652**

Income from currency translation differences includes gains from exchange rate changes between the origination and payment date of receivables and liabilities in foreign currency, as well as price gains from measurement at the closing date. The resulting exchange rate losses are reported in other operating expenses.

(2) Other operating expenses

€ thousand	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30
Expenses from currency translation differences and derivatives	662	932
Surety and bank fees	318	402
Bad debt allowances on receivables and other assets and write-off of bad debts	149	93
Allocated costs	–	682
Other expenses	538	517
	1,667	**2,626**

(3) Earnings per share

	2017 Jan. 1 - June 30	2016 Jan. 1 - June 30
Profit after tax in € thousand	21,278	21,785
Weighted average shares outstanding (in thousands)	6,800	6,800
Earnings per share in €	**3.13**	**3.20**

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, 2017 or June 30, 2016 that would dilute earnings per share.

(4) Dividend for fiscal year 2016

Based on the resolution of the Annual General Meeting on April 26, 2017, 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 2016. The dividend was paid out on May 2, 2017. 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, 2017	Dec. 31, 2016
Land and buildings	69,261	70,557
Technical equipment and machinery	102,914	105,603
Other equipment, operating and office equipment	12,938	12,682
Prepayments and assets under construction	8,467	9,381
	193,580	**198,223**

(6) Inventories

€ thousand	June 30, 2017	Dec. 31, 2016
Raw materials, consumables, and supplies	24,685	27,729
Finished goods and work in progress	163,490	149,997
Prepayments for inventories	4,069	4,360
	192,245	**182,086**

No significant write-downs on inventories were recognized in the current reporting period. In the same period of the previous year, cumulative write-downs on inventories of € 2,258 thousand were recognized.

(7) Trade receivables

€ thousand	June 30, 2017	Dec. 31, 2016
Customer receivables	65,775	69,684
Receivables from affiliated companies	4,554	4,744
Receivables from customer-specific construction contracts (PoC receivables)[1]	3,946	11,895
	74,275	**86,323**

1) Includes receivables from affiliated companies in the amount of € 2,391 thousand (December 31, 2016: € 835 thousand)

(8) Other provisions

€ thousand	June 30, 2017	Dec. 31, 2016
Warranties	37,326	38,241
Outstanding costs	6,902	6,350
Obligations to employees	9,805	10,122
Miscellaneous other provisions	7,006	7,760
	61,038	**62,473**

Other provisions break down as follows according to maturity:

€ thousand	June 30, 2017	Dec. 31, 2016
Other noncurrent provisions	6,828	7,050
Other current provisions	54,211	55,423
	61,038	**62,473**

(9) Contingent liabilities

€ thousand	June 30, 2017	Dec. 31, 2016
Contingent liability	14	12
	14	**12**

(10) 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
- 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, 2016.

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 2017 and 2016 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, 2017:

€ thousand	At fair value						
	In other comprehensive income[1]	In profit or loss[2]	At amortized cost[3]		Hedging derivative financial instruments	Not covered by IFRS 7	Statement of financial position item as of June 30, 2017
	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	66	–	74
Current assets							
Trade receivables	–	–	74,275	74,275	–	–	74,275
Other financial assets	–	386	2,152	2,152	70	–	2,609
Cash and cash equivalents	–	–	209,612	209,612	–	–	209,612
Noncurrent liabilities							
Other financial liabilities	–	–	39	39	3	–	81
Current liabilities							
Trade payables	–	–	36,866	36,866	–	–	36,866
Other financial liabilities	–	3	823	823	47	–	873

1) Corresponds to the measurement category “Available for sale financial assets” under IAS 39.
2) Corresponds to the measurement category “Financial instruments measured at fair value through profit or loss” under IAS 39.
3) Includes the measurement categories “Loans and receivables” and “Financial liabilities at amortized cost.”

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, 2016:

€ thousand	At fair value						
	In other comprehensive income[1]	In profit or loss[2]	At amortized cost[3]		Hedging derivative financial instruments	Not covered by IFRS 7	Statement of financial position item as of Dec. 31, 2016
	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	–	–	8
Current assets							
Trade receivables	–	–	86,322	86,322	–	–	86,322
Other financial assets	–	153	1,762	1,762	–	–	1,915
Cash and cash equivalents			213,957	213,957			213,957
Noncurrent liabilities							
Other financial liabilities	–	20	–	–	275	–	295
Current liabilities							
Trade payables	–	–	36,447	36,447	–	–	36,447
Other financial liabilities	–	585	629	629	827	–	2,040

1) Corresponds to the measurement category “Available for sale financial assets” under IAS 39.
2) Corresponds to the measurement category “Financial instruments measured at fair value through profit or loss” under IAS 39.
3) Includes the measurement categories “Loans and receivables” and “Financial liabilities at amortized cost.”

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.

Financial assets and liabilities measured at fair value and hedge derivative financial instruments correspond to level 2 of the fair value hierarchy with the exception of other equity investments, which correspond to level 3.

(11) Segment reporting

The activities of the RENK Group are divided into the reportable segments Special Gear Units, Vehicle Transmissions, Standard Gear Units, and Slide Bearings. The management of each of these segments reports directly to the Executive Board of RENK AG in its function as the responsible chief operating decision maker.

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 as measured by reference to binding incoming orders.

The composition of the segments is unchanged in comparison to December 31, 2016; please refer to the corresponding explanations in the 2016 consolidated financial statements.

€ thousand	Special Gear Units		Vehicle transmissions	
Reporting period Jan. 1 - June 30	**2017**	**2016**	**2017**	**2016**
Order intake from third parties	74,285	153,412	56,022	87,764
Order intake from other segments	1,194	1,999	632	9
Total order intake	**75,478**	**155,411**	**56,654**	**87,773**
Sales revenue with third parties	68,982	62,858	66,501	72,832
Sales revenue with other segments	784	1,782	632	9
Total sales revenue	**69,766**	**64,640**	**67,133**	**72,841**
Order backlog[1)]	**259,487**	**256,066**	**445,198**	**459,137**
Operating profit	**2,383**	**3,774**	**10,711**	**12,954**
Capital expenditures	1,838	4,627	2,023	2,863
Depreciation and amortization	3,638	3,381	2,640	2,173
Operating return on sales	**3.4%**	**5.8%**	**16.0%**	**17.8%**

1) As of June 30, 2017 / December 31, 2016

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.

Standard Gear Units		Slide bearings		Consolidation		Group	
2017	2016	2017	2016	2017	2016	2017	2016
47,267	30,281	43,392	44,628	–	–	220,966	316,085
2,245	1,053	422	464	-4,493	-3,525	–	–
49,512	**31,334**	**43,814**	**45,092**	**-4,493**	**-3,525**	**220,966**	**316,085**
43,943	47,478	44,987	43,691	–	–	224,413	226,859
1,647	1,599	498	1,746	-3,562	-5,136	–	–
45,590	**49,077**	**45,485**	**45,437**	**-3,562**	**-5,136**	**224,413**	**226,859**
54,720	**51,875**	**35,441**	**37,353**	**-6,940**	**-5,805**	**787,905**	**798,626**
8,382	**9,373**	**8,431**	**7,124**	**1**	**–**	**29,909**	**33,225**
233	205	763	656	–	–	4,857	8,351
1,753	1,761	1,176	1,181	-37	–	9,170	8,496
18.4%	**19.1%**	**18.5%**	**15.7%**	**–**	**–**	**13.3%**	**14.6%**

(12) Related party disclosures

There were no significant changes with regard to related parties as compared to the consolidated financial statements as of December 31, 2016.

The services provided to and received from related parties in the period from January 1 to June 30 in 2017 and 2016 were as follows:

€ thousand	Services rendered (income)		Services received (expense)	
	2017	**2016**	**2017**	**2016**
MAN SE	25	32	425	524
Other MAN, Volkswagen, and Porsche Group companies	9,864	10,041	2,635	2,910
Unconsolidated subsidiaries and other equity investments	961	752	437	429

As of June 30, 2017 and December 31, 2016, there were the following receivables from and liabilities to related parties:

€ thousand	Accounts receivable		Accounts payable	
	2017	**2016**	**2017**	**2016**
MAN SE	209,821	213,300	53	1,706
Other MAN, Volkswagen, and Porsche Group companies	5,672	4,228	4,687	3,117
Unconsolidated subsidiaries and other equity investments	1,273	1,351	75	84

There are receivables of € 209,299 thousand (December 31, 2016: € 213,147 thousand) from cash management with MAN SE and other MAN companies as of June 30, 2017.

(13) Review by the Group auditors

The consolidated half-yearly financial statements as of June 30, 2017 and 2016 were not subject to an audit review.

(14) Changes in the Supervisory Board

The Supervisory Board members Dr. Georg Pachta-Reyhofen and Dr.-Ing. Hans-Otto Jeske had resigned with effect from the end of the Annual General Meeting on April 26, 2017. Mr. Hardy Brennecke and Mr. Joachim Drees were elected by the Annual General Meeting to replace them on the Supervisory Board.

Ms. Christiane Hesse and Herr Thorsten Jablonski, who had already been appointed to the Supervisory Board in 2016 in accordance with Article 7 (3) Sentence 1 of the company's Articles of Association, were confirmed as Supervisory Board members by the Annual General Meeting on April 26, 2017.

(15) Events after the end of the reporting period

There were no reportable events after June 30, 2017.

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 14, 2017

RENK Aktiengesellschaft
The Executive Board

Florian Hofbauer　　Christian Hammel

Financial diary at www.renk.eu

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