Semiannual Financial Report as of June 30, 2008

RENK AG

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Introduction

RENK AG's interim group management report meets the semiannual financial reporting requirements of the applicable regulations of the German Securities Trading Act ("WpHG") and, in accordance with Sec. 37w(2) WpHG, comprises interim consolidated financial statements, an interim group management report, and a responsibility statement of management. The interim consolidated financial statements were prepared in conformity with the published International Financial Reporting Standards (IFRS) and their Interpretations (IFRIC) as adopted by the European Union (EU). The interim group management report should be read in the context of our annual report as of December 31, 2007, and the additional corporate information therein contained.

At a glance

RENK GROUP
€ million

	H1/2008	H1/2007	Rel. change (%)
Order intake	215	221	–3
Net sales	247	196	+26
Order backlog *)	672	684	–2
Headcount *)	1,877	1,728	+9
Headcount incl. temporary employees *)	2,020	1,854	+9
			Abs. change
			(€ mill.)
Operating profit (EBIT)	37	31	+6
EBT (earnings before taxes)	37	30	+7
Net income (EAT)	26	18	+8
Earnings per share (EpS) in €	3.81	2.68	+1.13
ROS in %	14.9	15.8	—
Capital expenditures	11	5	+6
Amortization/depreciation of fixed assets	5	4	+1
R&D expenditures (internally funded)	2	2	0
Cash earnings	31	32	–1
Cash flow from operating activities	30	20	+10
Cash flow from investing activities	(11)	(5)	–6
Free cash flow	19	15	+4
Cash and cash equivalents *)	2	10	–8
Net liquid assets *)	2	10	–8
Equity *)	133	118	+15

*) As of June 30, 2008, vs. December 31, 2007

RENK in the first six months of 2008 (H1)

- **H1 operating profit:**
  €37 million (up 19 percent from €31 million)

- **ROS still outstanding at 14.9 percent (down from 15.8); EpS €3.81 (up 42 percent from €2.68)**

- **Order intake slips 3 percent to €215 million.**

- **Sales rise 26 percent to €247 million.**

- **Prospects for all of 2008:**
  Order intake to outgrow 2007 (€439 million), sales at around €500 million; ROS predicted at 14 to 15 percent

Interim group management report as of June 30, 2008

Muted optimism in the mechanical engineering sector
High commodity prices and a strong euro are making life difficult for the German mechanical engineering sector. Compounding the problems: the first reverberations of the financial crisis, production capacity constraints and production material bottlenecks. The increasingly tougher conditions suggest an end within the foreseeable future to the boom that has lasted now for a number of years.

RENK off to a good start in fiscal 2008
At €215 million, the RENK Group's order intake was more or less at the year-earlier volume of €221 million. There was again another powerful surge in orders for slide bearings whereas new business in marine gear units declined appreciably partly because of the tighter financing terms and conditions.

Sales were in much better shape, rising €51 million or 26 percent from €196 million to €247 million. All divisions shared with double-digit growth rates in this revenue rise.

Because of the sizable amounts invoiced during H1/2008, order backlog slipped from €684 million (at year-end 2007) to €672 million (at June 30, 2008).

Healthy profitability
The distinct rise in sales was reflected in EBIT which soared 19 percent from €31 million to €37 million. With the exception of Vehicle Transmissions, all RENK divisions showed improved profitability.

Outlook
Despite the clouds looming on the economic horizon, RENK is continuing along the growth path in 2008. We are still budgeting sales in the region of €500 million and a return on sales (ROS) of 14 to 15 percent. Against the backdrop of the impacts of the financial crisis, we are more cautious regarding the future order intake trend. Still, we should be able to top the prior-year €439 million.

Cash flow solid
The H1 cash flow from operating activities improved from €20 million in 2007 to €30 million in 2008. Despite this significant business expansion, the working capital as of June 30, 2008, showed only a €3 million rise.

The H1 cash flow from investing activities swelled from €5 million to €11 million, bringing the 6-month free cash flow to €19 million (up from €15 million). Besides the dividend payout, the financial liabilities of newly consolidated RENK-MAAG GmbH weighed on cash and cash equivalents, with the result that net liquid assets as of June 30, 2008, shrank to €2 million (down from €10 million at December 31, 2007).

Asset and capital structure
In comparison with December 31, 2007, total assets climbed €33 million to €373 million as of June 30, 2008. The increase in current and noncurrent assets involved substantially inventories (up €21 million) and tangible assets (up €12 million) as the business volume expanded and major capital outlays went into the German locations' infrastructure.

The higher equity (up from €118 million to €133 million) upgraded the equity ratio from 34.8 to 35.6 percent. While noncurrent liabilities and accruals at €16 million remained virtually unchanged at June 30, 2008 (down from €17 million as of December 31, 2007), trade payables within current liabilities surged by €12 million to €43 million and current accruals by €11 million to €53 million.

Capital expenditures and R&D

The €11 million outlays for tangible assets (up from €5 million) were chiefly incurred for expanding the production shops including the necessary production equipment at the Hannover plant and the new hardening shop furnaces at the Augsburg plant.

Internally funded R&D expenditures of €2 million (virtually unchanged) were attributable to downstream development work on the ESM 350 transmission at our French subsidiary SESM and value analyses on the turbo and marine gear units at Standard Gear Units at Rheine.

Growth creating new jobs

Solid business progress and the first-time consolidation of RENK-MAAG GmbH, Winterthur, increased the headcount (including temporary employees) from 1,854 (at December 31, 2007) to 2,020 (at June 30, 2008). Consolidation group changes added 83 employees while another 83 were hired to cope with the extra production volume. At June 30, 2008, the Group had 143 temporary employees (up from 126 at December 31, 2007); the domestic workforce numbered 1,859 (up from 1,656 at year-end 2007); outside of Germany the Group had a workforce of 161 (up from 72 at year-end 2007).

Risk report

The RENK Group's risk situation has worsened compared with the financial statements 2007 due to quality problems and losses for delayed performance. The semiannual consolidated financial statements duly reflect the current level of these risks.

The situation at the divisions

For improved understanding of what we mainly produce, we have renamed our divisions (apart from Vehicle Transmissions) as follows:
Drive Elements becomes Slide Bearings,
Special-Purpose Propulsion Systems becomes Special Gear Units, and
Broad-Use Propulsion Systems is now Standard Gear Units.

Vehicle Transmissions

€ million H1	2008	2007	Change in %
Order intake	25	29	–14
Sales	81	71	+14
			Change in € mill.
Operating profit (EBIT)	10.1	15.7	–5.6
ROS in %	12.4	22.2	

The figures reported for Vehicle Transmissions include those for Test Systems which in 2007 had still been a separate division. The year-earlier figures have been adjusted.

Order intake fell short of expectations. Among the projects for procuring new medium and heavy tracked vehicles chiefly in the Middle and Far East but also in Germany (PUMA infantry fighting vehicle), none materialized in the course of H1/2008. A certain compensation we do expect from the transfer of German and Dutch Leopard 2 tanks to Chile, Singapore, Canada, and Portugal since prior to handover to the new owners, regular retrofitting and repair work is necessary. Most of the orders for test rigs were placed by commercial vehicle industry suppliers.

Sales proved satisfactory, rising 14 percent to €81 million. Our most important source of revenue was the RK 304 gear unit series, shipped to Turkey and India.

The operating profit suffered from provisions for risks due to new warranty claims and to loss claims for delayed performance. As a result, ROS plunged from 22 to 12 percent. For the second half of the year, we see opportunities to both raise order intake and, with sales still brisk, significantly improve the operating profit.

Slide Bearings

€ million H1	2008	2007	Change in %
Order intake	62	48	+29
Sales	44	40	+10
			Change in € mill.
Operating profit (EBIT)	7.5	6.5	+1.0
ROS in %	16.9	16.4	

Order intake and sales again advanced appreciably. Our customers in the electrical machinery, plant construction and shipbuilding industries are still enjoying robust demand worldwide and this, in turn, is reflected in our own order books. Our entire slide bearing range shared in this vigorous growth, with order intake outstanding for customized and sophisticated projects, especially naval engineering.

The lower sales growth rate is due to our own workload which by now has reached the limits of our capacities and the still difficult situation on the material procurement markets. Relief is expected starting from 2009 with a more systematic global focus of our purchasing activities and the start-up of additional turning and machining centers in the latter half of 2008. The construction work on the 50-percent production shop extension was completed in Q1/2008.

Regarding the latter half of fiscal 2008 we expect continuity in both order intake and earnings.

Special Gear Units

€ million H1	2008	2007	Change in %
Order intake	83	80	+4
Sales	64	38	+68
			Change in € mill.
Operating profit (EBIT)	11.4	3.1	+8.3
ROS in %	17.7	8.0	

The 2008 figures for Special Gear Units include those of RENK-MAAG GmbH, Winterthur, which during H1 contributed new orders worth €15 million, sales of €10 million, and an operating profit of €1 million.

The order intake situation was mixed. Demand for our stationary gear units was again robust, especially on the part of the cement sector and specifically for our main gear units installed into ball grinders for Chinese customers and bevel-planetary gear units for European manufacturers. Growing order volumes were also noted for turbo gear units for compressors and, especially, generator drives.
New orders for special marine gear units, in contrast, were only just under half the year-earlier volume, chiefly because shipbuilding capacities are fully booked up until 2011. Also, there was delay in the awarding of sizable contracts for new vessels. The current order backlog is

sufficient to keep our production plants fully employed until the start of 2010 albeit due to brisk project business in the naval sector with customers in Germany, the USA, and Korea plus sophisticated megayacht gear unit systems we still expect strong demand although spread out over time.

Sales surged. We shared in the expanding market for both stationary and special marine gear units, especially with our shipments of turbo gear units, wind turbine gear units (5-MW class) for offshore plants, and gear units for patrol boats of various nations.

Operating profit and ROS rose commensurately, also on account of productivity improvements and upward price adjustments.

The special marine gear unit market is expected to regain momentum in H2/2008 since gear unit contracts for a new generation of frigates for the German navy and notable naval projects in Korea and the USA are ready for award.

Standard Gear Units

€ million H1	2008	2007	Change in %
Order intake	48	66	–27
Sales	59	49	+20
			Change in € mill.
Operating profit (EBIT)	8.0	5.7	+2.3
ROS in %	13.5	11.7	

As to the standard gear units built at the Rheine plant the gap between order intake and sales was even more pronounced than at the Augsburg and Winterthur special gear unit plants. Subsiding order intake is attributable to flagging demand in certain areas of shipbuilding, especially for container feeders and new gas tankers. Moreover, the aftershocks of the financial crisis are leading to tighter financing terms and conditions for new ships.

Thanks to the tall order backlog, sales again advanced—marine gear units, especially the single-engine RSV and HSU series, and the couplings (particularly the curved-tooth variety) all showing growth.

The second half of 2008 is expected to see our business continue vigorous. To enable us to series produce gear units for 5-MW wind turbine plants over the years ahead we started work on the construction of a further production shop at Rheine.

Semiannual consolidated financial statements as of June 30, 2008

RENK consolidated income statement

k€

	H1/2008	H1/2007
Net sales	**247,413**	**195,830**
Cost of sales	(188,206)	(146,885)
Gross margin	**59,207**	**48,945**
Other operating income	5,499	5,791
Selling expenses	(11,882)	(11,388)
General administrative expenses	(7,012)	(5,568)
Other operating expenses	(8,867)	(6,786)
EBIT	**36,945**	**30,994**
Interest income	232	896
Interest expense	(137)	(1,614)
EBT	**37,040**	**30,276**
Income taxes	(11,112)	(12,080)
Net income (EAT)	**25,928**	**18,196**
EpS in €	**3.81**	**2.68**

RENK consolidated balance sheet as of June 30, 2008

Assets
k€

	6/30/2008	12/31/2007
Intangible assets	7,650	1,081
Tangible assets	74,725	63,082
Sundry investments	1,560	3,065
Deferred tax assets	4,994	6,298
Other noncurrent assets	1,993	1,722
Total noncurrent assets	**90,922**	**75,248**
Inventories	170,523	149,671
Trade receivables	99,121	97,487
Income tax assets	3,120	3,564
Other current assets	6,861	4,032
Cash and cash equivalents	2,278	10,461
Total current assets	**281,903**	**265,215**
	372,825	**340,463**

RENK consolidated balance sheet as of June 30, 2008

Equity & liabilities

k€

	6/30/2008	12/30/2007
Capital stock	17,920	17,920
Additional paid-in capital	10,669	10,669
Reserves retained from earnings	72,063	72,063
Net earnings	35,329	23,001
Accumulated OCI (unrealized gains/losses)	(3,432)	(5,154)
Total equity	**132,549**	**118,499**
Noncurrent financial liabilities	—	136
Pension accruals	2,756	4,526
Deferred tax liabilities	5,590	6,459
Other noncurrent accruals	6,931	5,007
Other noncurrent liabilities	1,085	1,161
Total noncurrent liabilities and accruals	**16,362**	**17,289**
Current financial liabilities	345	408
Trade payables	42,765	30,815
Prepayments received	89,088	88,683
Current income tax liabilities	19,327	24,349
Other current accruals	52,771	42,086
Other current liabilities	19,618	18,334
Total current liabilities and accruals	**223,914**	**204,675**
	372,825	**340,463**

RENK consolidated statement of cash flows

k€

Six months (H1) ended June 30	2008	2007
Opening cash and cash equivalents	**10,461**	**41,752**
EBT	37,040	30,276
Current taxes	(12,139)	(3,481)
Amortization/depreciation/write-down of tangibles, intangibles and investments	4,868	3,963
Change in pension accruals	780	890
Cash earnings	**30,549**	**31,648**
Increase in inventories	(15,222)	(13,611)
Increase/(decrease) in prepayments received	(1,432)	713
Decrease in trade receivables	1,660	2,577
Increase/(decrease) in trade payables	10,257	(1,234)
Change in income tax assets/liabilities	(4,217)	(2,155)
Increase in other accruals	10,906	2,151
Increase in other assets	(2,733)	(1,224)
Increase/(decrease) in other liabilities	(19)	1,099
Elimination of net gain/loss from disposal of tangibles, intangibles and investments	(569)	61
Other changes in working capital	309	(113)
Net cash provided by operating activities	**29,489**	**19,912**
Cash outflow for additions to tangibles and intangibles	(11,225)	(4,840)
Cash outflow for additions to investments	—	(299)
Cash inflow from the disposal of tangibles, intangibles and investments	583	100
Net cash used in investing activities	**(10,642)**	**(5,039)**
Free cash flow	**18,847**	**14,873**
Dividend payout	(13,600)	(12,240)
Financial liabilities redeemed	(199)	(180)
Special transfer to pension plan	—	(1,019)
Net cash used in financing activities	**(13,799)**	**(13,439)**
Net change in cash and cash equivalents	**5,048**	**1,434**
Parity-related change in cash and cash equivalents	(14)	(2)
Consolidation group-related change in cash and cash equivalents	(13,217)	2,297
Closing cash and cash equivalents	**2,278**	**45,481**
Breakdown of net liquid assets at June 30		
Cash and cash equivalents	**2,278**	**45,481**
Financial liabilities	**(345)**	**(734)**
Net liquid assets	**1,933**	**44,747**

RENK Group statement of changes in equity

k€	Capital stock	Additional paid-in capital	Reserves retained from earnings	Net earnings	Accumulated other compre-hensive income (OCI)	Total
Balance at December 31, 2006	**17,920**	**10,669**	**58,507**	**9,129**	**(7,000)**	**89,225**
EAT	—	—	13,556	26,112	—	39,668
Dividend payout	—	—	—	(12,240)	—	(12.240)
Currency translation differences	—	—	—	—	(301)	(301)
OCI: unrealized gains/losses	—	—	—	—	(100)	(100)
OCI: actuarial gains/losses	—	—	—	—	2,432	2,432
Other changes	—	—	—	—	(185)	(185)
Balance at December 31, 2007	**17,920**	**10,669**	**72,063**	**23,001**	**(5,154)**	**118,499**
EAT	—	—	—	25,928	—	25,928
Dividend payout	—	—	—	(13,600)	—	(13,600)
Currency translation differences	—	—	—	—	(156)	(156)
OCI: unrealized gains/losses	—	—	—	—	80	80
OCI: actuarial gains/losses	—	—	—	—	1,514	1,514
Other changes	—	—	—	—	284	284
Balance at June 30, 2008	**17,920**	**10,669**	**72,063**	**35,329**	**(3,432)**	**132,549**

RENK Group:
Statement of changes in comprehensive income

k€

H1	**2008**	**2007**
Currency translation differences from non-German subsidiaries	(156)	(77)
Change in fair value of financial derivatives	80	(90)
Change in actuarial gains/losses from pensions	1,514	5,173
Pretax gains/losses directly recognized in equity, net	**1,438**	**5,006**
Net income (EAT)	**25,928**	**18,196**
Comprehensive income	**27,366**	**23,202**

Notes to RENK’s consolidated financial statements for H1/2008

General

The present semiannual consolidated financial statements for the six months (H1) ended June 30, 2008, conform with the International Financial Reporting Standards (IFRS) and the related Interpretations of the International Accounting Standards Boards (IASB) whose application to interim reports is mandatory in the European Union (EU). Consequently, these semiannual financial statements do not comprise all the information and disclosures in the notes which the IFRS require for consolidated financial statements as of year-end but should be read in the context of RENK’s published IFRS consolidated financial statements for fiscal 2007. Unless expressly otherwise stated, the accounting and valuation methods applied to these semiannual consolidated financial statements are identical with those adopted for the consolidated financial statements as of December 31, 2007, and to which reference is made for full details.

From the Executive Board’s vantage point, the present unaudited interim report reflects all due interim adjustments required in good accounting practice for a reasonable view of the Group’s asset and capital structure, financial position, and results of operations. The performance data and results shown for this interim period do not necessarily allow a forecast of the future business trend.

Preparing the consolidated financial statements requires the Executive Board to make certain assumptions and estimates for the valuation and disclosure in the period of recognized income and expenses. Actual values may differ from those estimates.

Besides the financial schedules, the semiannual financial statements include notes to selected financial statement lines. For the segment information, see pages 7–9 hereof. The Test Systems division has been reassigned to Vehicle Transmissions. There have been no other changes in the current reporting structure in comparison to that at December 31, 2007.

Consolidation group

The consolidated financial statements include besides RENK AG as parent all subsidiaries wholly owned by it, i.e., Société d'Équipements, Systèmes et Mécanismes, Saint-Ouen-l'Aumône, France (SESM); RENK Corporation, Duncan, USA (RC); RENK Test System GmbH, Augsburg, Germany; and as from fiscal 2008, RENK-MAAG GmbH, Winterthur, Switzerland (RMCH). For details of the effects of this first-time consolidation, see page 8 of this semiannual financial report.

Notes to the income statement

Other operating income

k€	H1/2008	H1/2007
Income from the release of accruals	150	2,854
Gains from the disposal of tangibles/intangibles	576	80
Income from other trade business	251	89
Gains from exchange differences and hedges	3,699	1,138
All other income	823	1,630
	5,499	**5,791**

Other operating expenses

k€	H1/2008	H1/2007
R&D	1,984	1,818
Provisions in the period	9	1,421
Write-down of current assets	2,258	1,354
Losses on exchange differences and hedges	2,477	1,079
All other expenses	2,139	1,114
	8,867	**6,786**

Net interest expense

k€	H1/2008	H1/2007
Interest and similar income	232	896
Interest and similar expenses	(48)	(58)
Return on plan assets (Industrial Business)	1,846	—
Interest portion of addition to pension accruals	(1,935)	(1,556)
	95	**(718)**

Income taxes

The H1 income tax expense has been determined by applying to the H1 EBT the effective tax rate expected for the full year.

Earnings per share

	H1/2008	H1/2007
Net income (k€)	25,928	18,196
Weighted average number of shares outstanding (1,000)	6,800	6,800
Earnings per share (€)	**3.81**	**2.68**

According to IAS 33, EpS is obtained by dividing the Group's net income for H1 by the average number of shares outstanding in the period. No financial instruments existed at June 30, 2008 or 2007, to dilute earnings per share.

Dividend for fiscal 2007

As resolved by the annual general meeting on May 8, 2008, RENK AG's Executive Board distributed on May 9, 2008, an ordinary cash dividend of €2.00 per share, corresponding to a total payout for 2007 of €13,600,194.00.

Notes to the balance sheet

Tangible assets

k€	6/30/2008	12/31/2007
Land and buildings	24,771	20,370
Production plant and machinery	38,465	32,971
Other plant, factory and office equipment	5,560	4,481
Prepayments on tangibles, construction in progress	5,929	5,260
	74,725	**63,082**

Inventories

k€	6/30/2008	12/31/2007
Raw materials and supplies	28,530	26,710
Work in process and finished products	138,668	118,210
Prepayments made	3,325	4,751
	170,523	**149,671**

Trade receivables

k€	6/30/2008	12/31/2007
Due from customers	28,530	26,710
Due from group companies	138,668	118,210
Due from investees	3,325	4,751
	170,523	**149,671**

Other accruals

k€	6/30/2008	12/31/2007
Warranties	28,377	23,086
Other business obligations	5,667	6,137
Obligations to personnel	18,522	10,647
Unbilled costs from contracts invoiced	5,960	6,358
Remaining accruals	1,176	865
	59,702	**47,093**

The *other accruals* are disclosed within these balance sheet lines:

k€	6/30/2008	12/31/2007
Other noncurrent accruals	6,931	5,007
Other current accruals	52,771	42,086

Financial liabilities

k€	6/30/2008	12/31/2007
Due to banks	345	544
	345	**544**

The accounts due to banks have not been collateralized by land charges or similar encumbrances.

Financial liabilities are disclosed within these balance sheet lines:

k€	6/30/2008	12/31/2007
Noncurrent financial liabilities	—	136
Current financial liabilities	345	408
	345	**544**

Contingent liabilities

k€	6/30/2008	12/31/2007
Guaranties/suretyships	—	953
	—	**953**

The contingent liabilities as of December 31, 2007, referred almost exclusively to RENK-MAAG GmbH (consolidated in 2008).

Related-party transactions

There have been no significant changes in reportable transactions with related parties (entities/individuals) in comparison to December 31, 2007.

Review by the statutory group auditor

The semiannual financial statements as of June 30, 2008 and 2007, were not reviewed.

Subsequent events

No reportable events occurred after the semiannual closing date.

Financial diary, RENK Group:

Updating notice for Q3/2008	Oct. 30, 2008
Press release on financial information 2008	Feb. 19, 2009
Updating notice for Q1/2009	Apr. 30, 2009
Annual general meeting on fiscal 2008	May 12, 2009

Responsibility statement by management

"To the best of our knowledge and in accordance with the applicable interim financial reporting principles, we state that (i) RENK's interim consolidated financial statements present a true and fair view of the RENK Group's asset and capital structure, financial position and results of operations, (ii) the interim group management report presents a fair review of the Group's business trend, performance and position, and (iii) the principal risks and rewards associated with the Group's expected development for the remaining months of the fiscal year have been duly described."

Augsburg, July 30, 2008

RENK AG
The Executive Board