Semiannual Financial Report as of June 30, 2014

RENK AG

Contents

Introduction

The RENK Group’s interim 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 condensed interim consolidated financial statements, an interim group management report, and a management representation. The interim consolidated financial statements have been prepared in conformity with IAS 34 and the other International Financial Reporting Standards (IFRS) published by the IASB and the related Interpretations (IFRIC) as adopted by the European Union (EU). The semiannual group report should be read in the context of our annual report as of December 31, 2013, and the additional corporate information therein contained.

For explanations of the changed financial-reporting structure and redefined controlling parameters—attributable to RENK’s membership of the Volkswagen Group, see the interim group management report and the notes to the interim consolidated financial statements.

In this report, minor differences (if any) in amounts or percentages are attributable to commercial rounding.

At a glance

RENK GROUP

€ million (unless otherwise stated)

	H1/2014	H1/2013	Rel. change
			in %
Order intake	226	237	–4
Net sales (revenue)	216	225	–4
Order backlog [1)]	651	648	+1
Headcount [1) 2)]	2,205	2,306	–4
			Abs. change
			in € mill.
Operating profit [2)]	26	27	–1
EBT (earnings before taxes)	27	28	–1
Net income (EAT)	18	19	–1
Earnings per share (EpS) in €	2.65	2.81	—
Operating ROS [2)]	11.9	12.1	—
Return on sales (ROS) in % [3)]	12.3	12.3	—
Capital expenditures	7	8	–1
Amortization/depreciation of fixed assets	8	8	—
R&D expenditures (internally funded)	4	4	—
Gross cash flow	21	22	–1
Cash flow from operating activities	6	43	–37
Cash flow from investing activities	(7)	(8)	+1
Net cash flow	(1)	35	–36
Net liquid assets [1) 4)]	152	167	–15
Equity [1)]	302	302	—

[1)] As of June 30, 2014, vs. December 31, 2013.
[2)] See the Management Report: *Changes in financial reporting*.
[3)] Actual ROS is for fiscal 2014 additionally and voluntarily disclosed as defined previously; see also *Redefined controlling parameters*.
[4)] Cash plus time monies invested in the cash pool with MAN SE.

Interim group management report as of June 30, 2014

Economic expectations lowered
By mid-2014, major institutional economic pundits had pruned their predictions on how the economy would progress. In its global forecast, the World Bank reduced the growth rate expected for 2014 from 3.2 to 2.8 percent. Attention is directed especially at the ongoing economic weakness prevailing in the developing and newly emerging nations, specifically in southern Africa, India, and the Middle East. The forecast for the eurozone is still 1.1 percent.

This situation was reflected in orders booked by Germany's plant and machinery sector in the early months of 2014. Whereas orders from the eurozone tended to climb, from other countries they again slipped. In all, the decline in orders from abroad outnumbered the rise in orders from Germany. Within the industry, order intake was very mixed according to mechanical engineering subsector—from surge to slump.

Conditions mixed at the RENK divisions
RENK's H1/2014 order intake was year-on-year slightly down, too. Apart from the Standard Gear Units division (a moderate gain), all the others suffered losses, relatively severe at Vehicle Transmissions, less so at Slide Bearings, almost equal to H1/2013 at Special Gear Units. Both Standard Gear Units and Special Gear Units reported increases in marine yet decreases in industrial business. H1/2014 orders booked by RENK reached €226 million (down 4 percent).

RENK's sales during the period inched down 4 percent, from €225 million to €216 million. The only division to report a clear uptrend was Vehicle Transmissions. Year-on-year order intakes at Special Gear Units and Slide Bearings were slightly lower, at Standard Gear Units much so. The main reason was the slump in shipments to the offshore wind energy sector.

Operating profit at €26 million
In H1/2014, RENK's operating profit crept down year-on-year from €27 million to €26 million. Related to sales, the operating return on sales (ROS) came to 11.9 percent (down from 12.1). All the divisions contributed a profit.

Cash flow continuing high
RENK generated a gross H1/2014 cash flow of €21 million (down from €22 million). Since the steep upturn from soaring prepayments received in H1/2013 did no recur in the period under review, as expected, the H1/2014 cash flow from operating activities slumped year-on-year from €43 million to €6 million. Offsetting the €7 million cash outflow for investing activities, the net cash flow amounted to a red €1 million (down from a net cash flow of a black €35 million).

Deducting the dividend payout of €14 million, RENK closed the period with net liquid assets of €152 million as of June 30, 2014 (down from its annual opening balance of €167 million).

Asset and capital structure
In comparison to January 1, 2014, total assets shrank from €581 million to €573 million as of midyear 2014. On the asset side, it was primarily the €3 million drop in noncurrent assets, besides the merely €5 million dip of current assets, that pushed down the total. The €26 million addition to inventories in the wake of the progress of many projects contrasted with a €17 million reduction in trade receivables and a €15 million decrease in cash and cash equivalents.

On the capital side, noncurrent liabilities and accruals climbed €5 million, mainly as the net pension liability rose by €8 million. In contrast, current liabilities and accruals dropped €12 million, the main reason being the tax payments due which resulted in a €10 million decrease in tax accruals.

Capital expenditures and R&D

As in H1/2013, RENK added tangible assets of €7 million—mainly at Augsburg (work on the new multifunctional shop for Special Gear Units and the rejuvenation of production facilities at Vehicle Transmissions).

Once again, €4 million went into internally-funded R&D projects, chiefly those launched in preceding years. These included the development of new transmission electronics at Vehicle Transmissions, a low-noise AED drive module at Special Gear Units and fine-tuning the series of marine and stationary gear units at Standard Gear Units.

Divestments

In May 2014, RENK sold all of its shares in ADMOS-Gleitlager Produktions- und Vertriebsgesellschaft mbH (ADMOS) in a management buyout. The circumstances in this company’s various areas of business called for a rethinking of the strategy adopted at the time of the original takeover. The outcome: it is neither economically sensible nor strategically recommendable for ADMOS to remain within the RENK Group.

For more information, refer to the notes to RENK'S consolidated financial statements.

Workforce slightly down

Compared with the start of 2014, RENK's workforce six months on had fallen from 2,306 to 2,205. The opening headcount included the 88 employees at ADMOS.

For details of the redefined counting method, see the *Changes in financial reporting*. The prior-year comparatives as of December 31, 2013, were restated accordingly.

Risk report

The risk report should be read in conjunction with our statements in the 2013 financial information. The present risk situation is essentially as outlined in the 2013 annual report.

On the subject of the present economic situation and its impact on RENK’s orders, sales and results of operations, refer herein to our statements under *Economic expectations lower*, *Prospects* and our comments on the individual segments under *The situation at the divisions*.

Prospects

The situation in the first six months has prompted RENK’s management to revise its forecasts for 2014. Some originally budgeted projects have been postponed and now RENK is predicting for this year order intake close to the €500 million threshold. Sales will be slightly short of last year's €485 million, the operating profit then ranging between €50 million and €60 million, with operating ROS again double digit.

The situation at the divisions

Vehicle Transmissions

€ million	H1/2014	H1/2013	Change in %
Order intake	37	47	–21
Sales	47	42	+13
			Change in € mill.
Operating profit	6.0	1.6	+4.4
Operating ROS in %	12.8	3.9	—

Economic parameters
The market for medium- and heavy-duty tracked vehicles, where such is accessible to RENK, is still characterized by a low number of procurement programs normally extending over lengthy periods with modest volumes shipped out annually. As to the near future, we see good possibilities of booking new series contracts, albeit their timing is difficult to predict. Alongside the host of ever-present political and financial factors in the customer nations, the repercussions of the present political debate remain to be seen. Aftermarket business on a broad scale is again constrained by tight budgets although there are some national exceptions. Used equipment is still being sourced from many parts of the world, with however less willingness to spend on extended repairs and overhauls prior to system introduction.

The H2/2013 hesitant revival in the relevant segments of the RTS test rig market continued into H1/2014, albeit not yet to the hoped-for extent.

Business trend
H1/2014 orders awarded to Vehicle Transmissions added up to €37 million (down from €47 million). Unlike 2013, there were no new-transmission orders of any significance. However, both RENK AG's Vehicle Transmissions and RENK France did manage to book aftermarket business. Buoyant compared with H1/2013 was order inflow for test rigs at RTS.

In contrast to orders received, sales by Vehicle Transmissions during the period rose year-on-year by €5 million to €47 million, key projects being shipments of transmissions for South Korea's K2 and Germany's Puma programs. Business in parts and maintenance contributed largely toward keeping RENK AG in Augsburg and RENK France busy.

H1 sales at Test Systems were chiefly boosted by further work on rigs for brakes and gear trains especially used by the motor vehicle, helicopter, and rail sectors.

Year-on-year operating profit surged from €1.6 million to €6 million, equivalent to an operating ROS of 12.8 percent (up from 3.9 percent).

Forecast for H2/2014
The period saw a re-postponement of important projects and hence order intake for all of 2014 is likely to be marginally short of 2013.

We still expect for 2014 altogether much higher sales than 2013; the operating profit should also rise appreciably.

Slide Bearings

€ million	H1/2014	H1/2013	Change in %
Order intake	52	54	–3
Sales	52	54	–3
			Change in € mill.
Operating profit	5.2	11.5	–6.3
Operating ROS in %	10.0	21.3	—

Economic parameters

The economic trend in the plant and machinery sector, a major source of business for Germany's supplier industry, again suffered from poor demand outside of Germany, especially in the developing and emerging nations. Thus, for example, Brazil's industry over the past years has blunted much of its competitive edge and in China, too, growth is slowing down, albeit compared with other countries the rate is still high. The prospects of extensive infrastructure expenditures seem to be brightening up in India while the US economy is likely to grow at a moderate pace in the latter half of this year.

Observable for more than two years now, the shift in demand in the standard bearings product portfolio has again picked up. Demand for the smaller standard bearings hovered well short of the high figures of previous years. Strong electrical machinery suppliers, especially in growth markets such as China and India, are spending heavily on new production facilities to address expected growth in their home markets and to position themselves on a global scale. This is leading to increasing shifts in the market at the expense of RENK's established European, American and Japanese customers.

Inquiries and project activities are brisk in the case of the typical specialty bearings such as used in the oil- and gas-related sectors and shipbuilding. The situation is much the same with vertical bearings even though the longstanding project implementation tailback remains.

Business trend

Total H1/2014 orders booked at Slide Bearings slipped year-on-year from €54 million to €52 million. Once again the standard variety accounted for over 50 percent although within the sector, demand did migrate toward the bigger bearings.

Sales at Slide Bearings were more or less synchronous with order intake which added up to €52 million (down 3 percent).

Both the order intake and sales figures include ADMOS only up to the latter's retirement from the consolidation group.

The division's H1 operating profit slumped from €11.5 million to €5.2 million. This takes into account the deconsolidation of ADMOS, which squeezed the profit by €4.2 million. Hence, the H1 operating ROS was 10 percent (down from 21.3).

Forecast for H2/2014

Order intake at Slide Bearings in 2014 is likely to be in the region of 2013, sales will be lower. The retirement of ADMOS from the RENK Group will depress both sales and operating profit and hence the latter will correspondingly shrink.

Special Gear Units

€ million	H1/2014	H1/2013	Change in %
Order intake	90	90	—
Sales	70	72	–3
			Change in € mill.
Operating profit	7.3	4.3	+3.0
Operating ROS in %	10.5	6.0	—

Economic parameters
As in past years, the various customer markets for Special Gear Units have so far been highly heterogeneous.

The market for stationary industrial gear units continues to be grueling. In the energy sector, the anticipated boom in the gas power plant sector still failed to materialize. Neither did demand for cement plants (in India, China, and elsewhere), in the past of importance, show any signs of resurgence.

Again and, in contrast, the markets for our advanced-technology marine gear units, chiefly for installation in vessels operated by public authorities, offshore patrol and naval, as well as for megayachts, proved highly promising.

The situation in the sectors served by our Swiss subsidiary RENK-MAAG was once more difficult. Inquiries again crumbled in the important market of China, albeit the collapse has now migrated from the steel to other industries.

Business trend
The disparate trend in this division’s submarkets was reflected in product-group performance. H1 orders booked by the marine group again rose, propelled by follow-up orders for US Navy projects launched in previous years, orders for naval projects in Thailand and Italy, and a megayacht contract.

Orders for industrial gear units fell steeply. Cement mill gear unit order inflow was, in particular, well short of H1/2013 due in particular to fierce competitive pressure and the paucity of ready-to-award projects. Orders for Augsburg's turbo units were only just short year-on-year. The situation at RENK-MAAG in Winterthur was much the same.

H1/2014 order intake throughout Special Gear Units at €90 million approximated the year-earlier total.

Due to the lengthy lead times for marine gear units, revenue at Special Gear Units at €70 million was marginally down. With shipments to the USA, Korea, India, Sri Lanka and elsewhere, the marine group contributed the lion's share.

The H1 operating profit of €7.3 million is equivalent to a 10.5-percent operating ROS. A year before, the figures had been €4.3 million and 6.0 percent, respectively.

Forecast for H2/2014
The H1/2014 performance required the full-year forecast for Special Gear Units to be revised. Order intake will, as budgeted, fall somewhat short of the high 2013 figure, sales should be about equal to it, likewise operating profit and operating ROS.

Standard Gear Units

€ million	H1/2014	H1/2013	Change in %
Order intake	50	47	+6
Sales	50	64	–22
			Change in € mill.
Operating profit	7.1	10.1	–3.0
Operating ROS in %	14.3	15.9	—

Economic parameters
So far this year the shipbuilding market has failed to show any momentum. The Japanese suppliers, moreover, have widened their competitive lead thanks to the yen's weakness versus the euro. As in preceding periods, activities centered on the energy sector and especially the market for LNG tankers where the offshore segment is gaining in significance.

In the market for the Rheine-sourced turbo gear units, groundwork for projects continued at an average pace yet very few reached fruition. Neither did Germany's offshore wind energy sector show any fundamental recovery during the period.

Business trend
H1 order intake by Standard Gear Units totaled €50 million (up €3 million). Fresh orders for marine gears outnumbered the shortfall elsewhere.

Sales at Standard Gear Units, as expected, failed to repeat the H1/2013 volume and at €50 million, were down by €14 million—mainly due to the sharp plunge in shipments to the off-shore wind energy sector.

Standard Gear Units reported an operating profit of €7.1 million (down from €10.1 million), equivalent to an operating ROS of 14.3 percent (down from 15.9).

Forecast for H2/2014
The Standard Gear Units division expects 12-month order intake to be slightly higher than in 2013. The sales forecast has not changed from the earlier ones and the figure for 2014 will be well short of last year's. Accordingly, operating profit and operating ROS will both dip appreciably.

Changes in financial reporting

The RENK Group's membership in the Volkswagen Group is also reflected in a restructured financial reporting system and redefined controlling parameters.

New income statement structure
For the first time, the RENK Group presents its consolidated income statement as part of its semiannual consolidated financial statements for H1/2014 in a structure modeled on Volkswagen AG's. For a comparative analysis of the previous and the new income statement format for H1/2013 and the key differences, see the notes to the consolidated financial statements.

Redefined controlling parameters
For the H1/2014 period, RENK has for the first time used the definitions and structures of the Volkswagen Group's financial reporting system to compute its financial controlling indicators. Below follows a summary of the major differences.

The operating profit—used by the RENK Group up to the close of 2013—corresponded generally to EBIT. Effects on EBIT related to purchase price allocations and, in isolated cases, the gain or loss from nonrecurring transactions had been eliminated from EBIT to arrive at the operating profit. The redefined operating profit in the Volkswagen Group's terminology reflects earnings before taxes (EBT) and before the financial result; this means that primarily the net investment result is no longer included in the *operating profit* line but shown within the *other financial result*. However, effects on EBIT related to tangible and intangible assets acquired in connection with the purchase and transfer of a specific segment are, in fact, eliminated from such segment's operating profit.

Self-explanatory, the *operating return on sales* (ROS) reported for the RENK Group and its segments represents the operating profit in percent of net sales.

The actual ROS percentages continue in fiscal 2014 to be reported voluntarily also in accordance with the previous definition.

Redefined workforce numbers
The disclosure of RENK's headcount has likewise been adjusted to match Volkswagen AG's reporting system. Workforce comprises all active employees, the inactive preretirement part-timers and all apprentices yet excludes any temporary labor.

Restatement of prior-period comparatives
Given the changed financial reporting structure and the redefined controlling parameters, the income statement data and controlling indicators as published in the present semiannual consolidated financial statements are not comparable with the corresponding data reported for prior periods and, therefore, the H1/2013 comparatives published herein have been restated.

Condensed consolidated interim financial statements as of June 30, 2014

RENK consolidated income statement

k€	H1/2014	H1/2013
Net sales (revenue)	**216,288**	**225,207**
Cost of sales	(163,899)	(176,520)
Gross profit	**52,389**	**48,687**
Other operating income	3,800	4,362
Selling expenses	(15,980)	(15,732)
General administrative expenses	(8,694)	(8,199)
Other operating expenses	(5,781)	(1,760)
Operating profit	**25,734**	**27,358**
Finance cost	(176)	(65)
Other financial result	1,264	357
Financial result	**1,088**	**292**
EBT	**26,822**	**27,650**
Income taxes	(8,779)	(8,571)
Net income/EAT (share of RENK stockholders)	**18,043**	**19,079**
Earnings per share (EpS) in €	**2.65**	**2.81**

RENK statement of comprehensive income

k€	H1/2014	H1/2013
Net income/EAT	**18,043**	**19,079**
Gains/losses not subsequently recyclable from OCI to income statement		
Change in actuarial gains/losses from pensions	(6,543)	3,863
Deferred taxes thereon	1,895	(1,064)
Gains/losses subsequently recyclable from OCI to income statement		
Currency translation differences	224	(329)
Change in fair value of financial derivatives	(661)	(877)
Deferred taxes thereon	210	274
Total OCI	**(4,875)**	**1,867**
Comprehensive income (share of RENK stockholders)	**13,168**	**20,946**

RENK consolidated balance sheet as of June 30, 2014

Assets

k€	6/30/2014	12/31/2013
Intangible assets	4,501	6,044
Tangible assets	148,452	150,076
Financial investments	4,534	4,534
Deferred tax assets	2,587	2,137
Other noncurrent assets and receivables	175	353
Total noncurrent assets	**160,249**	**163,144**
Inventories	183,098	157,439
Trade receivables	69,709	86,350
Income tax assets	370	780
Other current assets and receivables	87,572	86,223
Cash and cash equivalents	72,046	86,573
Total current assets	**412,795**	**417,365**
	573,044	**580,509**

RENK consolidated balance sheet as of June 30, 2014

Equity & liabilities

k€	**6/30/2014**	**12/31/2013**
Capital stock	17,920	17,920
Additional paid-in capital	10,669	10,669
Reserves retained from earnings	289,964	285,492
Accumulated OCI (unrealized gains/losses)	(16,405)	(11,590)
Total equity	**302,148**	**302,491**
Pension accruals	16,912	9,193
Deferred tax liabilities	1,277	3,493
Other noncurrent accruals	5,867	5,864
Other noncurrent liabilities	236	568
Total noncurrent liabilities and accruals	**24,292**	**19,118**
Trade payables	36,739	35,455
Prepayments received	133,037	133,492
Current income tax liabilities	52	1,312
Current income tax accruals	1,033	11,292
Other current accruals	47,604	46,583
Other current liabilities	28,139	30,766
Total current liabilities and accruals	**246,604**	**258,900**
	573,044	**580,509**

RENK Group statement of changes in equity (H1)

k€	Capital stock	Additional paid-in capital	Reserves retained from earnings	Accumulated other comprehensive income (OCI)	Total (share of RENK stockholders)
Balance at December 31, 2012	**17,920**	**10,669**	**254,896**	**(18,222)**	**265,263**
Change in accounting policy due to IAS 19 (2011)	—	—	756	—	756
Adjusted balance at Dec. 31, 2012	**17,920**	**10,669**	**255,652**	**(18,222)**	**266,019**
Net income/EAT	—	—	19,079	—	19,079
Total OCI	—	—	—	1,867	1,867
Comprehensive income	—	—	**19,079**	**1,867**	**20,946**
Dividend payout	—	—	(13,600)	—	(13,600)
Balance at June 30, 2013	**17,920**	**10,669**	**261,131**	**(16,355)**	**273,365**
Balance at December 31, 2013	**17,920**	**10,669**	**285,492**	**(11,590)**	**302,491**
Net income (EAT)	—	—	18,043	—	18,043
Total OCI	—	—	—	(4,875)	(4,875)
Comprehensive income	—	—	**18,043**	**(4,875)**	**13,168**
Dividend payout	—	—	(13,600)	—	(13,600)
All other changes	—	—	29	60	89
Balance at June 30, 2014	**17,920**	**10,669**	**289,964**	**(16,405)**	**302,148**

RENK consolidated statement of cash flows

k€	H1/2014	H1/2013
Opening cash and cash equivalents at Jan. 1 [1]	**86,573**	**124,627**
EBT	26,822	27,650
Cash outflow for income taxes	(20,058)	(12,243)
Amortization/depreciation/write-down of tangibles and intangibles	7,786	7,752
Change in pension accruals	1,192	(1,797)
Net gain/loss from disposal of tangibles/intangibles	(1)	49
Other noncash income/expenses, net [2]	4,985	377
Gross cash flow	**20,726**	**21,788**
Change in working capital	**(14,979)**	**20,796**
Change in inventories	(27,301)	(8,387)
Change in receivables	13,393	9,910
Change in payables and prepayments received	(1,637)	22,166
Change in other accruals	566	(2,893)
Net cash provided by operating activities	**5,747**	**42,584**
Cash outflow for additions to tangibles and intangibles	(6,856)	(7,386)
Cash outflow for additions to financial investments	—	(1,000)
Cash inflow from the disposal of subsidiaries (less cash and cash equivalents)	(8)	—
Cash inflow from the disposal of tangibles/intangibles	35	501
Net cash used in investing activities	**(6,829)**	**(7,885)**
Net cash flow	**(1,082)**	**34,699**
Dividend payout	(13,600)	(13,600)
Change in other financial liabilities	94	(502)
Net cash used in financing activities	**(13,506)**	**(14,102)**
Parity-related change in cash and cash equivalents	61	(1)
Change in cash and cash equivalents	**(14,527)**	**20,596**
Closing cash and cash equivalents at June 30 [1]	**72,046**	**145,223**

[1] As from fiscal 2014, time monies invested in the cash pool with MAN SE are no longer included in *cash and cash equivalents*. For enhanced comparability, k€80,000 was reclassified as of January 1, 2014, into the *other current financial assets and receivables* (see the notes under *Changes in accounting policies* and *Cash flow statement*). No such time monies invested with MAN SE existed at January 1 or June 30, 2013.
[2] This line substantially includes a derecognition loss of k€4,242 from the ADMOS share sale and transfer (see also under *Divestments*).

Notes to RENK's consolidated financial statements

General

According to Regulation 1606/2002 of the European Parliament and Council, RENK AG prepared its 2013 consolidated financial statements in conformity with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. RENK AG's present condensed consolidated interim financial statements for the six months (H1) ended June 30, 2014, conform with IAS 34 and consequently do not comprise all the information and disclosures in the notes that the IFRS require for consolidated annual financial statements but should be read in the context of RENK's published IFRS consolidated financial statements for fiscal 2013. Unless expressly otherwise stated, the accounting and valuation methods applied to these interim consolidated financial statements are identical with those adopted for the consolidated financial statements as of December 31, 2013, and to which (including the related notes) 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 true and fair 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 (H1/2014) do not necessarily allow a forecast of the future business trend.

Preparing interim consolidated financial statements requires the Executive Board to make certain assumptions and estimates for the valuation and disclosure in the period of recognized assets, liabilities, income and expenses. Actual values may differ from those estimates. Besides the financial schedules, the Group's semiannual financial statements include notes to selected financial statement lines. For enhanced comparability, some year-earlier comparatives have been adjusted to the current presentation format. Additional information is provided in these notes: *Changes in accounting policies* and *Details of income statement data restated to match the Volkswagen Group's presentation*.

For segment information, see the note to *Segment reporting* herein.

Consolidation group

The consolidated financial statements include besides RENK AG as parent all subsidiaries wholly owned by it, i.e., RENK France SAS, Saint-Ouen-l'Aumône, France; RENK Corporation, Duncan, USA; RENK Test System GmbH, Augsburg, Germany; RENK-MAAG GmbH, Winterthur, Switzerland; and RENK Systems Corporation, Camby, IN, USA.

As of June 30, 2014, the consolidation group changed as follows: disposal of Berlin-based ADMOS-Gleitlager Produktions- und Vertriebsgesellschaft mbH in the wake of its sale and transfer at May 21, 2014, by share deal.

For the effects of the consolidation group change, see under *Divestments*.

Changes in accounting policies

RENK has duly adopted all EU-endorsed accounting standards and rules whose application as from January 1, 2014, is mandatory.

Since January 1, 2014, the rules of the so-called consolidation package have become obligatory. The package includes the newly enacted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, as well as adjustments to IAS 28 *Investments in Associates and Joint Ventures*. The definition of the consolidation group and the subsidiaries to be consolidated is now governed by IFRS 10. The consolidation group encompasses all companies directly or indirectly controllable by RENK AG. The changeover from the IAS 27 to the IFRS 10 policies did not require any changes for the RENK Group since the parent-subsidiary or control relationship is throughout based on voting majorities and, therefore, no company had to be newly consolidated or derecognized.

IFRS 11 provides the rules for defining and treating so-called joint arrangements in the consolidated financial statements. Such joint arrangements break down into joint ventures and joint operations. The application of IFRS 11 has not in any way affected the RENK Group.

IFRS 12 specifies the mandatory disclosure of all details of equity interests in other entities and thus subsumes whatever requires to be disclosed in the notes regarding subsidiaries, joint arrangements, associated affiliates, plus consolidated and unconsolidated structured entities. In some cases, the scope and extent of disclosable information have been broadened.

According to the revised IAS 28, the only acceptable way to account for joint ventures and associated affiliates has since January 1, 2014, been the equity method. The option of including any such enterprises pro rata in the consolidated financial statements does no longer exist. For lack of applicability, this revised rule does not affect the RENK Group.

The remaining accounting rules and regulations to be applied for the first time in fiscal 2014 have had no significant effect on the presentation of RENK's asset and capital structure, financial position, or results of operations as presented in this semiannual financial report. For a detailed listing of the Standards and Interpretations herein adopted, see the notes to the consolidated financial statements in the annual report 2013.

Moreover, the following voluntary changes in accounting policies have been applied since 2014 as a consequence of RENK's integration in the Volkswagen reporting system:

The prior-year comparatives of deferred tax assets/liabilities as of December 31, 2013, have for enhanced comparability been restated to match the Volkswagen Group's deferred-tax netting principles, which reduced the balance sheet total by €18 million.

Time monies invested in the cash pool with MAN SE are no longer reported as liquid assets but disclosed within *other current financial assets and receivables*. Therefore, €80 million was reclassified accordingly as of December 31, 2013.

Given the regular business cycles of certain RENK Group segments, all trade receivables and payables have since 2014 been reported as current and the prior-period comparatives restated by reclassifying €2 million from noncurrent to current assets.

Within equity, *net earnings* and *reserves retained from earnings* were combined and the prior-period comparatives restated accordingly. The statement of changes in equity was adjusted analogously. Furthermore, the OCI changes were no longer broken down but shown in one line since the separate OCI items continue to be disclosed in the statement of comprehensive income.

The separate financial statements of non-German RENK companies are translated into euro in accordance with the functional-currency concept; to this end, previously the annual average rate (calculated from the monthly averages) had been used for income statement lines, whereas, since 2014, the weighted average rates have been applied. Moreover, financial instruments are now recognized at the settlement date (previously, the trading date), viz. as of the date of asset delivery. These two changes have no significant effects.

Regarding the modified income statement presentation format, see under *Details of income statement data restated to match the Volkswagen Group's presentation.*

Divestments

On May 21, 2014, RENK AG sold all of its shares in Berlin-based ADMOS-Gleitlager Produktions- und Vertriebsgesellschaft mbH. The shares had been assigned to the Slide Bearings segment (division). The divestment produced a derecognition loss of k€4,242 which is shown within other operating expenses. Major balance sheet captions of the disposal group include the intangible and tangible assets (at k€2,398), inventories (at k€1,818), and financial liabilities (at k€2,183). The cash flow statement discloses the disposal of ADMOS's cash and cash equivalents of k€8.

Notes to the income statement

Details of income statement data restated to match the Volkswagen Group’s presentation

Due to RENK’s integration in the Volkswagen reporting system, RENK has used as from 2014 the Volkswagen Group’s income statement presentation format. The table below is a comparative analysis of the year-earlier period’s old and new presentation format.

H1/2013										
Previous format		**Restatement effects**								**New format**
k€		**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**			**k€**
Net sales	**225,387**					**(180)**		**225,207**		**Net sales**
Cost of sales	(171,532)	(3,934)	(1,092)	38				(176,520)		Cost of sales
Gross margin	**53,855**	**(3,934)**	**(1,092)**	**38**		**(180)**		**48,687**		**Gross profit**
Other operating income	3,969		1,218			(825)		4,362		Other operating income
Selling expenses	(15,729)						(3)	(15,732)		Selling expenses
General administrative expenses	(8,199)							(8,199)		Gen. administr. expenses
Other operating expenses	(6,845)	3,934	(126)	(38)		1,312	3	(1,760)		Other operating expenses
Other investment result	625				(625)			—		No longer included in operating profit
EBIT	**27,676**				**(625)**	**307**		**27,358**		**Operating profit**
Interest income	39				625	(307)		357		Other financial result
Interest expense	(65)							(65)		Finance cost
	(26)				**625**	**(307)**		**292**		**Financial result**
EBT	**27,650**							**27,650**		**EBT**
Income taxes	(8,571)							(8,571)		Income taxes
EAT/net income	**19,079**							**19,079**		**EAT (share of RENK stockholders)**

Below follows a summary of the key effects of restating RENK’s consolidated income statement (old RENK vs. new Volkswagen presentation format):

(1) Research and noncapitalizable development costs are now shown within *cost of sales* (instead of *other operating expenses*).

(2) Provisions for impending losses on onerous contracts—previously shown as *other operating expenses*—are as from 2014 likewise *cost of sales*.

Accruals are no longer released by crediting the costs to whose debit they had been recognized but posted to *other operating income*.

(3) Write-down and write-up as well as the scrapping of inventories are henceforth *cost of sales* (previously *other operating expenses*).

(4) The result from financial investments (incl. the *other investment result*) is no longer part of the meantime redefined operating profit but shown within the *financial result*.

(5) This restatement effect is the combined result of the following:
- To the extent that a sales transaction secured by cash flow hedge (CFH) is recognized in the income statement, the proratable OCI is recycled to *other operating income/expenses* (previously *net sales*).

- Gains/losses from the (re)measurement of derivatives other than hedges, as well as the ineffective CFH portions are shown in the *other financial result* (previously *other operating income/expenses*).
- Currency translation gains/losses are now throughout shown on a gross basis within *other operating income/expenses*, instead of being netted.
- While previously forex effects resulting from the measurement of liquid assets had been disclosed—together with the translation differences from currency receivables/payables—as *other operating income/expenses*, they are now part of the *financial result*.

(6) Other restatement effects/adjustments

Other operating income

k€	H1/2014	H1/2013
Income from the release of accruals	1,758	3,104
Gains from currency translation differences and derivatives	702	556
Write-down/write-off of receivables and sundry payables	868	174
All other income	472	528
	3,800	**4,362**

Other operating expenses

k€	H1/2014	H1/2013
Sundry losses on derecognition	4,242	—
Losses on currency translation differences and derivatives	525	470
All other expenses	1,014	1,290
	5,781	**1,760**

The *sundry losses on derecognition* were incurred in connection with the disposal of ADMOS in H1/2014; for further details, see *Divestments*.

Earnings per share (EpS)

	H1/2014	H1/2013
Net income/EAT in k€	18,043	19,079
Weighted average number of shares outstanding (1,000)	6,800	6,800
Earnings per share in €	**2.65**	**2.81**

According to IAS 33, EpS is obtained by dividing the Group’s net income (EAT) for H1 by the average number of shares outstanding in the period. No financial instruments existed at June 30, 2014 or 2013, to dilute earnings per share.

Dividend for fiscal 2013

As resolved by the annual general meeting on May 7, 2014, RENK AG distributed on May 8, 2014, an ordinary cash dividend of €2.00 per share to its stockholders, corresponding to a total payout for 2013 of €13,600,194.00.

Notes to the balance sheet

Tangible assets

k€	6/30/2014	12/31/2013
Land and buildings	45,132	45,122
Production plant and machinery	75,660	77,576
Other plant, factory and office equipment	10,484	11,110
Prepayments on tangibles, construction in progress	17,176	16,268
	148,452	**150,076**

Special tooling and fixtures valued at k€1,328 as of June 30, 2014 (up from k€1,311 as of December 31, 2013) are allocated as from 2014 to factory and office equipment (previously shown as production plant and equipment). The prior-period comparatives have been restated.

Inventories

k€	6/30/2014	12/31/2013
Raw materials and supplies	25,619	25,018
Work in process and finished products	154,934	131,146
Prepayments made	2,545	1,275
	183,098	**157,439**

Trade receivables

k€	6/30/2014	12/31/2013
Due from customers	55,906	73,100
Due from group companies	5,250	7,792
Receivables under PoC contracts	8,553	5,458
	69,709	**86,350**

Other accruals

k€	6/30/2014	12/31/2013
Warranties	37,435	36,167
Unbilled costs from contracts invoiced	8,243	7,958
Obligations to personnel	3,946	3,804
Remaining accruals	3,847	4,518
	53,471	**52,447**

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

k€	6/30/2014	12/31/2013
Other noncurrent accruals	5,867	5,864
Other current accruals	47,604	46,583

Contingent liabilities

k€	6/30/2014	12/31/2013
Guaranties/suretyships	196	140

Cash flow statement

Since January 1, 2014, the cash flow statement has been presented in the format used by Volkswagen, which resulted in the following changes:

As from 2014, the net gain/loss from the disposal of tangible and intangible assets as well as the net change in income tax assets/liabilities are shown as part of the gross cash flow. Previously, RENK's consolidated statement of cash flows disclosed such lines outside the gross cash flow within the cash flow from operating activities. The year-earlier comparatives were adjusted accordingly; the reclassification reduced the H1/2014 gross cash flow by k€3,875 while the cash flow from operating activities remained unaffected.

The previous lines disclosing changes in (i) prepayments received, (ii) trade payables, (iii) other liabilities and (iv) the remaining working capital have now been combined into one line, *Change in payables and prepayments received*.

The table below summarizes the resulting adjustments to the year-earlier comparatives of RENK's consolidated statement of cash flows.

H1 (in k€)		**2013**	
	unadjusted	adjustment	adjusted
Cash outflow for income taxes (previously *Current taxes*)	(8,319)	(3,924)	(12,243)
Net gain/loss from disposal of tangibles and intangibles	0	49	49
Gross cash flow (previously *Cash earnings*)	**25,663**	**(3,875)**	**21,788**
Net change in income tax assets/liabilities	(3,924)	3,924	0
Net gain/loss from disposal of tangibles and intangibles	49	(49)	0
Net cash provided by operating activities	**42,584**		**42,584**

Segment reporting

The RENK Group's operations break down into four reportable segments: Vehicle Transmissions, Slide Bearings, Special Gear Units, and Standard Gear Units. Each segment's management reports directly to RENK AG's Executive Board.

Since January 1, 2014, RENK has used the operating profit (as defined for the Volkswagen Group) as key parameter for assessing a segment's results of operations while previously, the operating profit had been based on EBIT. Effects on EBIT related to purchase price allocations and, in isolated cases, the gain or loss from nonrecurring transactions were eliminated from EBIT to arrive at the operating profit. The redefined operating profit in the Volkswagen Group's terminology reflects earnings before taxes (EBT) and before the financial result; this means that primarily the net investment result is no longer included in the *operating profit* line. However, effects on earnings related to tangible and intangible assets which are acquired in connection with the purchase and transfer of a specific segment are, in fact, eliminated from such segment's operating profit. For details of the controlling parameter's redefinition, turn to the *Notes to the income statement* above. The year-earlier comparatives have been restated.

Segment assets comprise the net operating assets, i.e., all noncurrent and current assets excluding current and deferred taxes.

Segment information has been determined in accordance with the same disclosure rules and valuation methods as those used for the interim consolidated financial statements.

Intersegment transfers are stated at prices as if at arm’s length.

The table below reflects the various segments’ financial information, as well as the reconciliation of the operating profit to EBT.

Segment information by division

	Vehicle Transmissions		Slide Bearings		Special Gear Units		Standard Gear Units		Consolidation/adj.		Group	
k€	H1/2014	H1/2013	H1/2014	H1/2013	H1/2014	H1/2013	H1/2014	H1/2013	H1/2014	H1/2013	H1/2014	H1/2013
Order intake from third parties	37,044	47,057	51,628	53,420	89,092	89,443	48,620	46,713			226,384	236,633
Intersegment order intake	7	46	796	767	723	904	1,362	507	(2,888)	(2,224)		
Total order intake	**37,051**	**47,103**	**52,424**	**54,187**	**89,815**	**90,347**	**49,982**	**47,220**	**(2,888)**	**(2,224)**	**226,384**	**236,633**
Sales to third parties	47,271	41,859	**50,726**	52,590	**69,464**	68,127	48,827	62,811		**(180)**	216,288	225,207
Intersegment transfers	2	15	1,357	1,348	626	3,805	821	830	(2,806)	(5,998)		
Total segment sales	**47,273**	**41,874**	**52,083**	**53,938**	**70,090**	**71,932**	**49,648**	**63,641**	**(2,806)**	**(6,178)**	**216,288**	**225,207**
Order backlog [1])	**305,362**	**315,880**	**31,828**	**32,677**	**234,649**	**215,086**	**84,048**	**89,088**	**(4,600)**	**(5,008)**	**651,287**	**647,723**
Operating profit	**6,040**	**1,614**	**5,217**	**11,464**	**7,330**	**4,282**	**7,123**	**10,094**	**24**	**(96)**	**25,734**	**27,358**
Segment assets [1])	170,442	167,229	89,440	110,196	200,024	182,117	113,721	120,333	(3,540)	(2,283)	570,087	577,592
Segment liabilities [1])	90,975	87,107	17,217	18,507	103,182	100,189	56,685	58,516	475	(2,398)	268,534	261,921
Capital expenditures	1,897	1,741	1,252	1,915	3,507	3,430	200	1,298			6,856	8,386
Operating ROS (%)	**12.8**	**3.9**	**10.0**	**21.3**	**10.5**	**6.0**	**14.3**	**15.9**			**11.9**	**12.1**

[1]) Balance at June 30, 2014, or December 31, 2013

Related-party transactions

There have been no significant changes in reportable transactions with related parties (entities/individuals) in comparison to the consolidated financial statements as of December 31, 2013.

Review by the statutory group auditor

The semiannual consolidated financial statements as of June 30, 2014 and 2013, have not been reviewed by our auditor.

Changes in Supervisory Board membership

With effect as of the close of May 7, 2014 (date of AGM), Klaus Ketterle stepped down from RENK AG’s Supervisory Board. Being the duly elected alternate, Rainer Handschuh, Augsburg, automatically succeeds Klaus Ketterle.

Subsequent events

No reportable events have occurred after the semiannual closing date.

Management representation

To the best of our knowledge and in accordance with the applicable interim financial reporting principles, we state that, with due regard to generally accepted accounting principles, (i) RENK's consolidated semiannual 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 23, 2014

RENK AG
The Executive Board

Financial diary, RENK Group:

Updating notice for Q3/2014	October 27, 2014