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Rába Automotive Holding Plc.

ANNUAL FINANCIAL STATEMENTS

based on consolidated, audited figures, according to IFRS

for the financial year ended December 31, 2016

Győr, April 13, 2017

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Rába Járműipari Holding Nyrt.

Consolidated Financial Statements

for the year ended 31 December 2016

Date: Győr, 16 March 2017

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of RÁBA Járműipari Holding Nyrt.

Opinion

We have audited the accompanying 2016 consolidated financial statements of RÁBA Járműipari Holding Nyrt. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016 - showing total assets of HUF 33,501,987 thousand and total comprehensive income for the period of HUF 1,377,522 thousand -, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Hungary, and we have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition at Axle segment and risk that revenue is overstated

The Group's revenue amounted to HUF 42,629 million out of which 48,6% is recognized in Axle segment. The revenue recognition in respect of Axle segment is non-standard, requiring the individual assessment of point of delivery, when the risks and rewards of the underlying products have been transferred to the customer. Due to the reasons described above we identified proper revenue recognition of Axle business segment and measurement of Group's sales revenue significant to our audit and a key audit matter.	Our audit procedures included, among others, understanding of key controls over revenue recognition which are designed to ensure proper timing and recognition of revenues when risk and rewards are transferred to customers. We analyzed the Group's revenue through entire population of journal entries of sales transactions, including correlations between revenue, accounts receivables, value added tax and cash inflows. On a sample basis we reconciled contract delivery terms to revenue recognized, circularized outstanding debtor balances and tested subsequent cash inflows. We performed a test of detail of significant axle segment sales transactions on a sample basis closed before and closed after balance sheet date as well as credit notes issued after the year end date whether Axle revenue was recognized in the correct period and in the correct amount. Furthermore we analyzed revenue recognized around balance sheet date compared to the yearly revenue recognition. We also assessed the adequacy of the Group's disclosures in respect of revenue. The Group's disclosures about revenue and revenue recognition policies are included in Note 19 and Note 3 q) of the consolidated financial statements.

Building a better working world

Development of the Inventory net realizable value and provision for excess and obsolescence

As detailed within the significant accounting judgements in Note 2 d) viii, management judgement is required to establish that the carrying value of inventory of HUF 5,728 million is appropriate, in particular in relation to determining the appropriate level of inventory provisioning against excess and obsolete items and net realizable value. Total inventory of HUF 5,728 million represents 16,7 % of total assets of Rába Group. Management uses the judgement to estimate the provision of large variety of inventory items in different completion stage, whether and how much provision is required due to obsolescence or due to expected loss on sales. This judgement, in combination with the significant share of inventories as part of Total assets, made us conclude that valuation of inventories are a key audit matter to our audit. Further details of accounting policy for inventories and inventory balances are shown in Note 3 l) and Note 11 of the consolidated financial statements.	Our audit procedures included, among others, understanding of key controls over the estimation process on inventory provisioning, including net realisable value estimate. We compared the inventory excess and obsolescence provision method applied by the Group to the Group's policy and whether it is consistent with the prior years and reviewed the overall level of provisions on an aggregate level as well as on the level of individual units for significant items. We assessed the reliability of the underlying data used by management to calculate the inventory excess and obsolescence provisions and we investigated manual adjustments made to the application of the inventory excess and obsolescence provisioning policy. We reviewed sales transactions after the balance sheet date to evaluate the management's estimate of net realisable value. We also assessed the adequacy of the Group's disclosures in respect of inventory net realizable value and provision for excess and obsolescence.

Other matters

The consolidated financial statements as at 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on 23 March 2016.

Other information

Other information consists of the 2016 consolidated business report of RÁBA Járműipari Holding Nyrt., which we obtained prior to the date of this auditor's report and the Annual Report of RÁBA Járműipari Holding Nyrt., which is expected to be made available to us after that date. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Concerning the consolidated business report it is our responsibility also, in accordance with the Hungarian Accounting Law, to consider whether the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Concerning the Statement on corporate governance it is our responsibility also, in accordance with the Hungarian Accounting Law, to consider whether it properly describes the main features of the Group's internal control and risk management systems in relation to the consolidated financial reporting process and the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law and also to confirm whether the Group has made available the information required according to Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law.

In our opinion, the consolidated business report of RÁBA Járműipari Holding Nyrt. for 2016 corresponds to the disclosures in the 2016 consolidated financial statements of RÁBA Járműipari Holding Nyrt. and has been prepared in accordance with the Hungarian Accounting Law. The Statement on corporate governance properly describes the main features of the Group's internal control and risk management systems in relation to the consolidated financial reporting process and the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Group further requirements with regard to its consolidated business report, our opinion on the consolidated business report do not include opinion in this regard as required by Subsection (5) h) of Section 156 of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Group and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the consolidated business report, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

We also confirm with regard to the Statement on corporate governance, that the Group have made available the information required according to Subsection (2) a)-d) and g) of Section 95/B of the Hungarian Accounting Law

When we read the Annual Report of RÁBA Járműipari Holding Nyrt., if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the EU IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Budapest, 16 March 2017

(The original Hungarian language version has been signed.)

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Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No. 001165

Bartha Zsuzsanna
Registered auditor
Chamber membership No.:005268

		31 December 2015	***31 December 2016***
Assets			
Property, plant and equipment	7	14 832 253	14 409 547
Intangible assets	8	789 131	499 559
Investment property	9	338 217	338 217
Receivables from asset disposals	31	128 417	126 808
Deferred tax assets*	25	265 872	82 038
Other non-current assets	10	430 063	342 892
Non-current assets, total		**16 783 953**	**15 799 061**
Inventories	11	6 210 830	5 728 057
Trade and other receivables**	12	8 362 785	10 074 774
Income tax assets **	25	21 916	-
Cash and cash equivalents	13	3 199 385	1 900 095
Current assets, total		**17 794 916**	**17 702 926**
Assets, total		***34 578 869***	***33 501 987***
Equity and liabilities			
Issued capital	14	13 473 446	13 473 446
Treasury shares	14	(303 244)	(108 952)
Share-based payment reserve	15	67 455	-
Retained earnings	14	3 869 173	5 314 151
Equity, total		**17 106 830**	**18 678 645**
Provisions***	16	131 615	150 243
Long-term loans and borrowings	17	3 005 952	2 239 344
Deferred tax liability*	25	61 088	44 486
Long-term liabilities, total		**3 198 655**	**2 434 073**
Provisions***	16	129 487	89 470
Loans and borrowings payable within one year	17	3 569 568	746 449
Creditors and other accounts payable**	18	10 574 329	11 540 605
Income tax liability	25	-	12 745
Current liabilities, total		***14 273 384***	***12 389 269***
Equity and liabilities, total		**34 578 869**	**33 501 987**

Note: the figures for 2015 were adjusted because of the following:

*Deferred tax assets were initially presented on a net basis in 2015 in the balance sheet in the ‘deferred tax assets’ line; but are as ’deferred tax assets’ and ’deferred tax liabilities’, respectively, after adjustment.

** In the 2015 annual financial statements, income tax assets were presented among trade & other receivables, and creditors & other accounts payable, respectively, but are presented in a separate line after adjustment.

***In 2015, provisions were not split according to maturity, but appear in a separate line after adjustment

		31 December 2015	*31 December 2016*
Revenues *	20	46 137 795	42 628 737
Direct cost of sales *	21	(36 316 941)	(33 200 039)
Gross profit		9 820 854	9 428 698
Sales and marketing expenses	21	(615 676)	(478 639)
General and administrative costs	21	(6 856 093)	(6 803 318)
Other income *	23	486 870	519 417
Other expenses	23	(655 269)	(666 134)
Other operating expenses, total		(7 640 168)	(7 428 674)
Profit from operations		**2 180 686**	**2 000 024**
Finance income *	24	1 226 704	643 227
Finance expenses *	24	(1 045 386)	(653 963)
Profit before tax		**2 362 004**	**1 989 288**
Corporate tax	25	(410 478)	(611 766)
Profit for the year		**1 951 526**	**1 377 522**
Comprehensive income for the year		**1 951 526**	**1 377 522**
Basic earnings per share (HUF)	28	150	104
Diluted earnings per share (HUF)	28	149	104

* Note: the figures for 2015 were adjusted as follows:
- In 2015, retrospective discounts were included within other income (kHUF 157,545) and, after adjustment, reduce the direct cost of sales.
- Following a review, financial discounts and rebates received in 2015 affect direct cost of sales (kHUF -2,454) and revenues (kHUF -15,761) rather than modifying the financial loss (kHUF -13,307)

		Issued capital	Treasury shares*	Share-based payment reserve	Retained earnings	Other comprehensive income	Total equity
Balance at 31 December 2014		**13 473 446**	**(384 496)**	**97 017**	**1 888 980**	**-**	**15 074 947**
Profit for the year					1 951 526		1 951 526
Income from share-based payment drawdowns	15		81 252	(32 193)	27 921		76 980
Deferred tax on share-based payment drawdowns	15			2 631	746		3 377
Balance at 31 December 2015		**13 473 446**	**(303 244)**	**67 455**	**3 869 173**	**-**	**17 106 830**
Profit for the year					1 377 522		1 377 522
Income from share-based payment drawdowns	15		194 292	(75 260)	67 456		186 488
Deferred tax on income from share-based payment drawdowns	15			7 805	-		7 805
Balance at 31 December 2016		**13 473 446**	**(108 952)**	**-**	**5 314 151**	**-**	**18 678 645**

	Notes	31/12/2015	31/12/2016
Operating cash flows			
Profit before tax		2 362 004	1 989 288
Adjustments of non-cash items:			
Interest income	_24_	-8 740	-
Interest expense	_24_	16 525	39 346
Depreciation and amortisation	7,8	2 268 965	2 121 540
Impairment loss on intangible and tangible fixed assets	_23_	11 992	114 807
Impairment loss on bad and doubtful debts and on long-term receivables		85 731	6 114
Impairment of inventories carried at net realisable value	_11_	230 584	136 246
Inventories scrapped	_23_	31 135	62 065
Provisions released		-54 277	-21 389
Equity-settled share-based payments		-9 644	-20 917
Losses on the disposal (contribution) of tangible and intangible fixed assets	_23_	-3 346	-3 189
Year-end revaluation of loans and borrowings		9 870	-20 160
Movements in working capital:			
Movements in debtors and other receivables		2 872 491	-1 722 376
Movements in inventories		123 219	284 464
Movements in creditors and other liabilities		42 248	959 843
Taxes paid		-384 283	-409 873
Interest paid		-123 387	-46 138
Operating cash flows, net		**7 471 087**	**3 469 671**
Investing cash flows			
Acquisition of tangible and intangible fixed assets		-2 356 638	-1 421 285
Gains on the disposal of tangible and intangible fixed assets		3 723	3 754
Dividends received	24	9 324	2 930
Investing cash flows, net		**-2 343 591**	**-1 414 601**
Financing cash flows			
Gains/expenses on the acquisition/disposal of treasury shares	15	90 000	215 210
Loans and borrowings, taken		5 172 925	-
Loans and borrowings, repaid	17	-8 216 496	-3 569 570
Financing cash flows, net		**-2 953 571**	**-3 354 360**
Net increase/decrease in cash and cash equivalents		**2 173 925**	**-1 299 290**

All figures in the notes to the consolidated financial statements are in kHUF (HUF thousands) unless indicated otherwise.

In the notes to the financial statements, the term “balance sheet” is used for the statement of financial position and the term “profit and loss account” is used for the statement of comprehensive income.

Note 1 Reporting entity

RÁBA Járműipari Holding Nyrt. ("the Company" or "Rába") is a company registered under the laws of Hungary. The Company was transformed from a state owned enterprise into a company limited by shares on 1 January 1992.

Registered seat: Hungary, 9027 Győr, Martin út 1.

The consolidated financial statements as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (Note 6) (together referred to as “the Group”). The Group’s principal activity is manufacturing vehicle parts, mainly axle and undercarriage components.

Shareholders

At 31 December 2015 and 2016, the share book indicated the following shareholders:

	31 December 2015	31 December 2016
	%	%
Private investors	23,17	24,76
Magyar Nemzeti Vagyonkezelő Zrt.	74,34	74,34
Treasury shares	2,49	0,90
	100,0	100,0

Note 2 Basis of preparation

a) Statement of compliance

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

The financial statements were approved by the Board of Directors on 16 March 2017.

b) Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value,
- receivables from sale of the assets are measured at fair value,
- liabilities arising from cash-settled share-based payment arrangements are measured at fair value.

The methods of fair value measurement are detailed in Note 4.

c) Functional and presentation currency

These consolidated financial statements are presented in Hungarian Forints ("HUF"), which is the Company's functional currency. All financial information presented in HUF has been rounded to the nearest thousand.

d) Significant estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are the following:

i) Deferred tax assets
The Group recognizes deferred tax assets in its consolidated balance sheet relating to tax loss carry forwards. The amount of such deferred tax assets recognized in the consolidated balance sheet was kHUF 368,681 at 31 December 2016. The recognition of such deferred tax assets is subject to the utilization of tax loss carry forwards. The utilization of certain amounts of such carried forward tax losses is subject to statutory limitations and to the aggregate of any future taxable income of the Group companies. The Group has recognized deferred tax assets relating to tax losses carried forward in view of the Group's estimated future taxable income based on the approved strategic business plans of the Group entities. If the future taxable income of the Group significantly differs from the amounts that were estimated, such differences could impact the amount of deferred tax assets and income tax expense of the Group.

ii) Allowance for bad and doubtful accounts receivable
The Group recognizes impairment on bad and doubtful debts to cover losses arising from the inability of its customers to pay. The provision for bad and doubtful debts recognized in the consolidated balance sheet amounted to kHUF 15,600 on 31 December 2015 and kHUF 21,716 on 31 December 2016. The estimates used in evaluating the adequacy of impairments on bad and doubtful debts are based on the ageing and credit rating of debtors, and on any changes in payment terms.

iii) Depreciation
Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The Group recorded a total depreciation and amortisation expense in the amount of kHUF 2,268,965 for 2015 and kHUF 2,121,540 for 2016. The calculation of the useful lives of assets is based on historical experience with similar assets, as well as any anticipated technological developments and changes in broad economic or industry factors. Estimated useful lives are reviewed annually.

iv) Recovery of self-produced intangible assets
The related expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.
During the year, management has reviewed the recovery of intangible assets produced internally.
Customer responses and orders confirmed the management's previous estimates regarding revenue.

v) Warranty provisions
The Group considers that the accounting estimate related to the determination of the provisions is a significant accounting estimate as it involves assumptions about future warranty claims. The Group recorded warranty provisions totalling kHUF 113,554 at 31 December 2015 and kHUF 142,860 at 31 December 2016.
General provisions for warranties are recognized based on historical experience. Provisions for special cases are recognized based on the claims received and the expected cost of repair. The adequacy of provisions is reviewed quarterly.

vi) Fair values
Fair values are determined as described in Note 4. The fair values at 31 December 2015 and 2016 are presented in the relevant notes.

vii) Impairment tests of non-monetary assets
The Group annually performs tests to see whether there are external and internal indications under IAS 36 which require an impairment review for tangible and intangible assets. As we are not aware of any impairment indicator, no impairment testing was conducted. Each asset is assessed for potential impairment or scrapping during the course of the annual count of tangible assets, and an impairment loss of kHUF 114,048 was recognised in 2016 as a result of impairment testing.

viii) Impairment of inventories and net realisable value estimates

Each year, the Group performs impairment tests on inventories to assess any surplus, obsolete inventories and the probability of realisation on an arm's length basis.

The Group estimates any impairment loss due to surplus or obsoletion based on the best information available, including past disposals, existing and expected orders and available market rates.

The net realisable values are estimated by the Group based on the arm's length price less the estimated expected costs of completion and cost to sell.

ix) Measurement of investment properties

The Group carries its investment properties at historical cost and present its fair value in the notes to the Financial Statements. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2016. Estimation of fair value was made by reference to transactions involving properties of a similar nature, location and condition. The key assumptions and disclosure of fair value of the properties are provided in Note 9.

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been consistently applied by Group entities.

a) Changes in the accounting policies

There was no change in Rába's accounting policies in 2016 other than reflecting the changes in IFRS accounting legislation.

b) Standards issued but not yet effective

The standards and interpretations - those that may have an impact on the Group's financial position, performance and/or disclosures - that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 *Financial instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future.

Overall, the Group expects that the changes in classification, measurement, impairment and hedge accounting brought by the new standard will not have a significant impact on its balance sheet and equity.

IFRS 15 *Revenues from contracts with customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

The Group trades in vehicle components, primarily axles and undercarriages based on identifiable contracts with each business partner.

Contracts with customers in which the sale of equipment is generally expected to be the only performance obligation are not expected to have any impact on the Group's profit or loss. The Group expects recognised revenue when control of the asset is transferred to the customer.

In preparing to IFRS 15, the Group is considering the following:

(i) Variable consideration

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated upon inception of the contract. IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(ii) Warranty obligations

The Group provides warranties for general repairs and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with its current practice.

(iii) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. In 2016 the Group developed and started testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

IAS 7 Disclosure initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

c) New and amended standards and interpretations

The standards and interpretations effective for annual periods started on or after 1 January 2016 were first applied by the Group in the reporting year. The Group elected not to early apply any standards, interpretations or amendments issued but not yet effective.

None of the new standards and amendments has a significant impact on the Group's consolidated annual financial statements.

d) Basis of consolidation

i) The consolidated annual financial statements include the annual figures of the Company and its controlled subsidiaries
Typically, control exists when the Group is exposed to variable proceeds from its investments or holds such rights and has an influence over such proceeds by controlling the operations of the investee. Influence exists when an investor has the rights to influence the key activities of the investee. Key activities are those that determine the proceeds produced/achieved by the investee.
Subsidiaries (Rába Futómű Kft., Rába Jármű Kft., Rába Járműalkatrész Kft.) (Note 6)

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Transactions eliminated on consolidation
Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated for consolidation. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated an a manner similar to unrealised gains, but only if there is no evidence for impairment.

e) Foreign currency transactions

Transactions in foreign currencies are translated to HUF (the functional currency of all Group entities) at exchange rates as published on the day of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange rate differences arising from revaluation are presented in the consolidated profit and loss account, with the exception of exchange rate differences related to transactions hedging various foreign exchange risks, which are directly recognised in other comprehensive income.

f) Financial instruments

i) Non-derivative financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings as well as creditors and other payables.

Non-derivative financial instruments are recognized initially at fair value and, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Cash and cash equivalents denominated in foreign exchange are translated at the date of payment at the official foreign exchange rates of the National Bank of Hungary and, at the balance sheet date, are translated to the Company's functional currency at the official year-end rates of the National Bank of Hungary.

Debtors and other receivables
Debtors and other receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method less any accumulated impairment loss. Any impairment loss is presented in other expenses.

Held-to-maturity investments
Debt securities which the Group intends and is able to hold until maturity are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment loss.

Receivables from asset disposals
Receivables from asset disposals are initially recognised at fair value then are subsequently measured at amortized cost using the effective interest method less any accumulated impairment loss. Any impairment loss is presented in other expenses.

Loans and borrowings
Loans and borrowings are recognized initially at fair value less discounts and attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortized cost using the effective interest method, with any difference between cost and redemption value being recognized in profit or loss over the period of the borrowings on an effective interest basis.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in profit or loss.

Other
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments
The Group uses derivative financial instruments, forward exchange and option contracts, to hedge its exposure to foreign exchange risks arising from operational activities. In accordance with its policy, the Group does not hold or issue derivative financial instruments for trading purposes; however, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted through profit or loss.

iii) Cash flow hedging transactions
In accordance with the accounting principles of IFRS, foreign currency loans used to ensure the necessary funds are classified by Rába as hedge transactions, provided that the hedge effectiveness calculated on the basis of the fluctuations of the cash flows from foreign exchange revenues and cash flows of loans as hedge transactions involved in the hedge relationship reaches the level required by the IFRS rules for the entire term of the hedge relationship. The effective portion of transactions designated and effective as cash flow hedges is recognised in other comprehensive income and accumulated in the other comprehensive income reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.
Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is repaid or no longer qualifies for hedge accounting.

g) Issued capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Redeemed treasury shares
The amount of the consideration paid upon the redemption of treasury shares, including directly attributable costs, is recognized as a deduction from equity.

Dividends
Dividends are recognized as a liability in the period when they are approved.

h) Property, plant and equipment

i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction or production of qualifying assets are capitalized.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Upon disposal or decommissioning of property, plant and equipment, the initial cost of the asset is derecognised along with any related accumulated depreciation and the gain or loss on the disposal of the asset is recognised in profit or loss (on a net basis, as other income or as other expense).

ii) Subsequent replacement cost
The cost of replacing a component of property, plant and equipment is recognized in the carrying value of the item if it is probable that the future economic benefits embodied by the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized in profit or loss as incurred.

iii) Depreciation
Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods were as follows:

- Buildings 10-50 years
- Machinery and equipment 3-15 years

The depreciation methods, useful lives and residual values are reviewed at each reporting date.

i) Intangible assets

i) Research and development
The cost of research for the purposes of gaining new scientific or technical expertise is recognized in profit or loss as and when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are capitalized. Other development expenditure is recognized in profit or loss as incurred.

Capitalised development expenses are measured at cost less accumulated amortisation and any accumulated impairment loss.

ii) Other intangible assets
Other intangible assets that are acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

iii) Subsequent replacement cost
Any subsequent cost is recognised only if so doing will increase the future economic benefits embodied by the asset. All other expense, including the expense of self-generated goodwill and brand names, is recognized in profit or loss as and when incurred.

iv) Amortisation
Amortisation, except for goodwill, is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Intellectual property 3-8 years
- Rights and concessions 3-8 years

j) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated impairment losses.
Investment properties are also presented in the notes at fair values as assessed by property appraisers. Fair values are revised each year. The fair value estimates for investment properties are detailed in notes 4 and 9.
When the use of a property changes such that it is reclassified as property, plant and equipment, its net book value at the date of reclassification remains its cost for subsequent measurement.

k) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The Group does not have any asset leased under a financial lease arrangement.

Operating lease payments are presented in profit or loss on a straight line basis over the term of the lease. Any lease incentive received is presented as integral part of the total lease expense over the term of the lease.
Other leases are operating leases and, the leased assets are not recognized on the Group's balance sheet.

l) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

m) Impairment

i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in other comprehensive income is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For assets measured at amortised cost the reversal is recognized in profit or loss.

ii) Non-financial assets
The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

n) Employee benefits

i) Contributions
Hungarian contributions and taxes are paid at the statutory rates in force during the year, based on gross salary payments. The cost of taxes and contributions on salaries and personnel expenses is recognized in profit or loss in the same period as the related salaries and personnel expenses are incurred.

ii) Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed,

without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

iii) Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

o) Share-based payments

The fair value of options offered to employees is recognized at the date of disbursement as personel expense, with a corresponding increase in equity, until the employees become unconditionally entitled to the options. The expense is adjusted to reflect the actual number of share options where the related service and non-market vesting conditions have been met.

Cash payments by the Group to cover social contributions and taxes relating to share-based payment transactions in addition to the share-based payment arrangement is treated as a cash-settled share-based payment transaction. The fair value of the amount payable to employees is recognized as an expense, with a corresponding increase in liabilities, until the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as payments to personnel in the consolidated profit and loss account.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments were obtained by the Group.

p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Warranties
The provisions for warranties are recognized when the underlying products or services are sold. The provisions are based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring
A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly or to those affected (that are the representatives of employees if employees are affected).

No provision is made for future operating costs.

q) Revenues

i) Goods sold
Revenue from the sale of goods is measured at the fair value of the consideration received or

receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and any product returns can be estimated reliably, there are no reserved management and supervisory rights with respect to the goods, and the amount of withheld can be measured reliably.

ii) Services
Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

iii) Rents
Rental income is recognised in profit or loss on a straight-line basis over the rental period.

r) Subsidies

Subsidies are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Group for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

s) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividends received, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized in profit or loss as it accrues, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss.

The borrowing costs except those related to the acquisition or construction of qualifying assets are recognized in profit or loss using the effective interest method.

t) Income taxes

Income tax expenses include the actual tax, deferred tax and the local business tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized in comprehensive income or directly in equity; in such cases current tax expense is also recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities which however intend to settle current tax liabilities and assets on a net basis or will realize them simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is still probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

u) Segment reporting

A segment is a component of the Group with a business activity that gives rise to income and expenses (including income and expenses related to transactions conducted with other components of the same business entity), whose operating result is reviewed by the Group's main operating decision maker in order to decide over the sources to be allocated to the segment and to evaluate performance, and which has access to relevant financial information.

Segment information is presented in respect of the Group's business lines. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise the income and expenses, and the assets and liabilities of the Groups asset management centre.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares with the effects of all dilutive (market price exceeding call price) potential ordinary shares, which comprise share options granted to employees.

Note 4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investment property
An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, valued the Group's Investment property at 31 December 2016. The fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

For the valuation, the appraisers primarily used the market sales comparison method.

Receivables from sales of assets
The fair value of receivables from sales of assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables
The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives
The fair value of forward exchange contracts is based on their quoted market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of option contracts is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Loans and borrowings
The fair value of Loans and borrowings, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.
For finance leases the market rate of interest is determined by reference to similar lease agreements.

Share-based payments transactions
The fair value of employee stock options is measured using a binomial lattice model. Measurement inputs include share price at measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Note 5 Financial risk management

a) Overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are designed to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by geographical segment, previous experience and individual characteristics of each customer.

The demographics of the Group's customer base, including the default risk of the industry and countries in which customers operate, has an influence on credit risk. The credit risk is concentrated mainly by geographical segments.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. A purchase limit or a security deposit, equal to the customer's maximum outstanding debt, is determined for each key customer. These limits and security deposits reviewed continuously. The rating and approval of customers is performed using an electronic system which manages customer risk in a standard manner across Rába Group. The limits are determined based on geographical region, the volume of turnover and on the individual credit rating of a customer. The Company accepts purchase orders from customers located in a region with higher credit risk only after advance payment or collateral. Many of the Group's customers have been regular buyers for several years.

In addition to the rating/limit system, the Company holds customer credit insurance for customers representing risks above the average. The insurance company evaluates the customers individually and provides insurance up to the limits agreed with the Group.

The Group recognised an impairment loss of kHUF 21,715 (2015: kHUF 15,600) on overdue receivables at 31 December 2016. Beside the risk on receivables, the maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated balance sheet.

Investments
The Group limits its exposure to credit risk by only investing in liquid securities or deposits and by doing business only with counterparties that have a high credit rating. Management does not expect any counterparty to fail to meet its obligations. The Group evaluates as acceptable risks investments in Hungarian Government bonds and deposits in banks which have the same or similar credit ranking as Hungarian Government bonds.

Transactions involving derivative financial instruments are concluded with counterparties with high credit ratings. Given their high credit ratings management does not expect any counterparty to fail to meet its obligations with respect to its derivative financial instruments.

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

In particular, the Group aims to have sufficient amounts of cash, marketable securities and revolving credit facilities that are available to meet all operational and debt service related payments when those become due.

The Group periodically analyses its capital structure and the maturity dates of its liabilities to maintain a capital structure which is in line with the structure of its assets. The main objective is to finance non-current assets using non-current liabilities.

The Group has a cash pool system which is a tool for the optimization of the cash management. The liquidity risk within the Group can be minimized via the harmonization of the short-term surplus and shortage at the individual companies in the Group.

Management believes that the Group will be able to generate sufficient cash flows to meet its liabilities.

d) Market risk

Market risk is the risk that market prices fluctuations, such as changes in foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines approved by the Board of Directors.

Currency risk

The Group is exposed to currency risk mainly on sales that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro (EUR) and the U.S. Dollar (USD).
The primary method of mitigating currency risk is natural hedging by which the Group seeks to ensure that the currency structure of its expenditures is aligned with the currency structure of its revenues as closely as possible.

Foreign exchange rate risks are hedged in line with the hedging strategy generally approved by the Board of Directors of Rába Nyrt.
At the end of 2015 and 2016, the Company did not have any forward contracts.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term balances.

In 2011, Rába added the following section to its accounting policies: In accordance with the accounting principles of IFRS, foreign currency loans used to ensure the necessary funds are classified by the Group as hedge transactions, provided that the effectiveness of the hedge calculated on the basis of the volatility of the cash flows from foreign exchange gains which are designated as hedged items and the volatily of the cash flows from the foreign currency loans (the hedge transaction) reaches the level required by IFRS throughout the course of the hedging relationship.

In the year ended 31 December 2016, 79% of the Group's revenues were earned in EUR and 5% in USD (2015: EUR: 68%, USD: 12%).

Interest bearing borrowings are taken out in currencies that match the cash flows generated by the underlying operations of the Group, primarily EUR and USD.

Interest rate risk

The Group adopts a policy of ensuring that more than 50% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into loan agreements with a fixed interest rate for the whole maturity. As at 31 December 2015 and 2016, 100% of the outstanding loans and borrowings bore a fixed interest rate. The mitigation of the interest rate risk is also effectively supported by the Group's cash pool system which enables Group members facing short-term liquidity problems to be financed by Group members with a temporary surplus of funds through the cash-pool system. This allows significant interest savings to be achieved by retaining the difference between bank deposit and loan interest rates (spread).

e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Board seeks to maintain a balance between the potentially higher achievable returns at higher levels of borrowings and the advantages and security afforded by a sound capital position.
There were no changes in the Group's approach to capital management during the year.
Under the Civil Code the equity of a company limited by shares may not be less than 66% of the share capital, and for limited liability companies the minimum ratio of share capital to equity is 50%. At 31 December 2015 and 2016 Rába met these externally imposed capital requirements.

f) Equity position of the Group

At 31 December 2016, the Group's equity totalled kHUF 18,678,645 (31 December 2015: 17,106,830), issued capital of kHUF 13,473,446 (31 December 2015: kHUF 13,473,446) and had an equity to issued capital ratio of 139 % (31 December 2015: 127%). The equity ratio improved as a result of the Group's operating profit.

Note 6 Companies included in the consolidation

	Shareholding	
	2015	2016
	%	%
Rába Futómű Kft.	100,0	100,0
Rába Járműalkatrész Kft.	100,0	100,0
Rába Jármű Kft.	100,0	100,0

a) Rába Futómű Kft.

Registered seat: Hungary, 9027 Győr, Martin út 1.
Issued capital at 31 December 2015 and 2016: kHUF 9,762,800

The company manufactures complete and incomplete axles, axle parts and spare parts that are built into mid-size lorries an heavy duty trucks, coaches and buses, power machines and trailers. The company manufactures a wide range of products, including several word patented products.

b) Rába Járműalkatrész Kft.

Registered seat: Hungary, 9027 Győr, Martin út 1.
Issued capital at 31 December 2015 and 2016: kHUF 300,000

The company manufactures vehicle components such as seats and seat components (seat frames, upholstery), utility vehicle components, units, and machine cut heavy duty vehicle components.

c) Rába Jármű Kft.

Registered seat: Hungary, 9027 Győr, Martin út 1.
Issued capital at 31 December 2015 and 2016: kHUF 835,100

The Company manufactures undercarriages for trucks and buses and related components, other metal structures for the vehicle industry and also assembles vehicles.

Note 7 Property, plant and equipment

	Land and buildings	Machinery and equipment*	Capital expenditure	Total
Cost				
Balance at 1 January 2015	11 645 809	32 780 366	280 280	44 706 455
Additions	-	-	1 824 090	1 824 090
Posted from capital expenditures	221 626	1 549 270	(1 770 896)	-
Disposals	(756)	(225 980)	(4 311)	(231 047)
Reclassified	-	-	-	-
Balance at 31 December 2015	**11 866 679**	**34 103 656**	**329 163**	**46 299 498**
Accumulated depreciation				
Balance at 1 January 2015	3 411 552	26 317 998	-	29 729 550
Depreciation for the year	227 720	1 729 648	-	1 957 368
Decrease	(223)	(219 450)	-	(219 673)
Reclassified	-	-	-	-
Balance at 31 December 2015	**3 639 049**	**27 828 196**	**-**	**31 467 245**
Net book value at 31 Dec 2015	**8 227 630**	**6 275 460**	**329 163**	**14 832 253**

	Land and buildings	Machinery and equipment	Capital expenditure	Total
Cost				
Balance at 1 January 2016	11 866 679	34 103 656	329 163	46 299 498
Additions	-	-	1 497 591	1 497 591
Posted from capital expenditures	309 413	875 057	(1 184 471)	(1)
Disposals	-	(231 731)		(231 731)
Reclassified	-	(1 875)	-	(1 875)
Balance at 31 December 2016	**12 176 092**	**34 745 107**	**642 283**	**47 563 482**
Accumulated depreciation				
Balance at 1 January 2016	3 639 049	27 828 196	-	31 467 245
Depreciation for the year	237 889	1 588 413	-	1 826 302
Decrease	59 416	(199 028)	-	(139 612)
Reclassified	-	-	-	-
Balance at 31 December 2016	**3 936 354**	**29 217 581**	**-**	**33 153 935**
Net book value at 31 Dec 2016	**8 239 738**	**5 527 526**	**642 283**	**14 409 547**

**The opening balances in 2015 have been adjusted: the cost and the accumulated depreciation of assets fully written-off and derecognised have been set off. The net opening values in 2015 remained unchanged.*

According to IAS 16.51, the useful lives of assets, and according to IAS 16.61, the depreciation method are to be revised annually, at the end of the reporting year. In the reporting year, there was no event which would have carried a significant change in the depreciation rates.

Leased assets
The Group had no financial leases in either 2015 or 2016.

Collateral
To secure bank loans, mortgages on properties totalled HUF 6,693 million at 31 December 2016 (2015: HUF 6,497 million). There was no mortgage on machinery in 2016 (2015: HUF 77 million).

Note 8 Intangible assets

	Research and development	Intellectual property	Rights and concessions	Total
Cost				
Balance at 1 January 2015	1 303 614	425 234	1 464 474	3 193 322
Additions - internal development	1 765	-	-	1 765
Additions - acquisition	19 808	361	8 088	28 257
Disposals	(8 155)	-	(11 028)	(19 183)
Reclassified	-	-	-	-
Balance at 31 December 2015	**1 317 032**	**425 595**	**1 461 534**	**3 204 161**
Accumulated amortisation				
Balance at 1 January 2015	631 149	421 689	1 069 779	2 122 617
Amortisation charge	222 123	1 917	87 557	311 597
Decrease	(8 155)	-	(11 029)	(19 184)
Reclassified	-	-	-	-
Balance at 31 December 2015	**845 117**	**423 606**	**1 146 307**	**2 415 030**
Net book value at 31 December 2015	**471 915**	**1 989**	**315 227**	**789 131**

	Research and development	Intellectual property	Rights and concessions	Total
Cost				
Balance at 1 January 2016	1 317 032	425 595	1 461 534	3 204 161
Additions - internal development	2 786	-	-	2 786
Additions - acquisition	6 386	-	17 871	24 257
Disposals	(210 053)	(8 133)	(48 338)	(266 524)
Reclassified	-	-	1 875	1 875
Balance at 31 December 2016	**1 116 151**	**417 462**	**1 432 942**	**2 966 555**
Accumulated amortisation				
Balance at 1 January 2016	845 117	423 606	1 146 307	2 415 030
Amortisation charge	216 090	692	78 457	295 239
Decrease	(186 802)	(8 133)	(48 338)	(243 273)
Reclassified	-	-	-	-
Balance at 31 December 2016	**874 405**	**416 165**	**1 176 426**	**2 466 996**
Net book value at 31 December 2016	**241 746**	**1 297**	**256 516**	**499 559**

Research and development recognised on intangible assets includes the recoverable costs related to the formulation and improvement of the process of developing parts for self-constructed axles and of the manufacturing of products constructed by clients (preparation of pre-fabrication drawings and related construction and technology documentation, prototyping, production trials, sample supply).

In the reporting year the Group recognised the following research and development expenses within intangible assets:

In the vehicle components business line:

- Based on nomination, started to produce mounting base parts in the engine compartments of cars for VW Group
- Development of wiring lining production for new expandable plastic products
- Started preparations for the production of equalizing gear holders
- Production development of tube products

Intellectual property includes various software (design, technology control, and development programs, qualifying systems, and documentation).
Rights and concessions primarily include the right of using external programs applied by the Group.

Note 9 Investment property

Investment property comprises land to be sold in several phases. The expected proceeds from the sale significantly exceed the carrying value of the property.

The fair value of investment property was kHUF 4,571,000 at 31 December 2016 (kHUF 4,570,000 at 31 December 2015). Concerning investment property the Company applies the historical cost model; therefore, these properties are recognized at net book value instead of fair value. Fair value was assessed by an external independent appraiser. Valuation was performed on the basis of comparable market prices.

Note 10 Other long-term assets

	31 December 2015	**31 December 2016**
Long-term advances given	425 489	339 535
Long-term receivables	4 369	3 152
Investments recognised using the equity method	205	205
Other long-term assets, total	**430 063**	**342 892**

Long-term advances given

This includes two long-term advances given with a closing balance of HUF 340 million at 31 December 2016 (HUF 425 million at 31 December 2015) from the partial redemption of a long-term contractual obligation under favourable conditions. This service contract is secured against bankruptcy. The other advance payment reflects partial prepayment for services to be received over a three-year period. The advance payments are not interest bearing. These advance payments were discounted based on an assumption of equal cash outflows in each year. The discounted value of the initial cost of kHUF 363,774 is kHUF 339,535, plus an interest expense of kHUF 24,239 incurred as a result of discounting.

Long-term receivables
Long-term receivables include loans granted to employees.

Investments recognised using the equity method
There was no change in the balance of investments recognised using the equity method in 2016 and remained kHUF 205.

Note 11 Inventories

	31 December 2015	**31 December 2016**
Raw materials	2 921 799	2 875 573
Work in progress	1 778 691	1 704 117
Finished goods	1 288 476	965 692
Goods	221 864	182 675
Inventories, total	**6 210 830**	**5 728 057**

Impairment loss was recognized as follows:

	2015	**2016**
Opening value on 1 January	794 737	812 685
Impairment loss recognised in the reporting year	230 584	136 246
Written off due disposal, scrapping or use	(212 636)	(246 313)
Closing balance at December 31	**812 685**	**702 618**

Collateral
At 31 December 2016 mortgages were registered on inventories in a carrying amount of HUF 3,987 million (2015: HUF 4,439 million) to secure bank loans.

Note 12 Debtors and other receivables

	31 December 2015	**31 December 2016**
Receivables from debtors	7 744 282	9 189 175
Impairment loss on bad and doubtful debts	(15 600)	(21 716)
Debtors, net	7 728 682	9 167 459
Advance payments	20 764	318 655
Accrued income	16 540	22 666
VAT receivable	453 811	408 026
Other	142 988	157 968
Receivables, total	8 362 785	10 074 774

Receivables from debtors are carried in the following currencies:

Debtors	**31 December 2015**	**31 December 2016**
HUF	3 423 845	5 034 646
EUR	3 416 146	3 885 626
USD	904 247	268 865
GBP	44	38
Total	7 744 282	9 189 175

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is discussed in Notes 5 and 28.

Note 13 Cash and cash equivalents

	31 December 2015	31 December 2016
Bank	3 197 603	1 898 636
Cash	1 782	1 459
Cash and cash equivalents, total	**3 199 385**	**1 900 095**

Cash and cash equivalents are carried in the following currencies:

	31 December 2015	31 December 2016
HUF	1 528 808	176 068
EUR	1 265 311	1 650 515
USD	405 266	73 512
RUR	-	-
Cash and cash equivalents in HUF	**3 199 385**	**1 900 095**

The average interest rate for cash and cash equivalents was 0.18% at 31 December 2016 and 0.1% at 31 December 2015.
The Group's exposure to interest rate and currency risks related to cash and cash equivalents is discussed in Note 5.
A total interest income of HUF 4,8 million was earned on cash and cash equivalents in 2016.

Note 14 Equity

Issued capital
At 31 December 2016, issued capital consisted of 13,473,446 category 'A' ordinary shares listed at the Budapest Stock Exchange (2015: 13,473 446 shares) of HUF 1,000 face value each. The holders of ordinary shares are entitled to periodically announced dividends and to one vote per share at the General Meetings of the Company's shareholders. Each share is on a par with the the Company's other assets.

Treasury shares
Treasury shares held totalled kHUF 108,952 (120 681 shares) at 31 December 2016 and kHUF 303,244 (335,891 shares) at 31 December 2015. In respect of the Company's shares that are held by the Group ("treasury shares"), all rights are suspended until the shares are reissued.

Other comprehensive income
The Company had no other comprehensive income at 31 December 2016.

Note 15 Share-based payments reserve

As of 2006, the Company had operated a share option plan for members of the Board of Directors and senior and mid-management in order to create a common ground of interest between the owners of Rába and the Group's management and to further increase the value of Company.
The plan was divided into three tranches and each tranche was subject to distinctive preconditions. The shares involved in the plan were Rába shares. All the options offered had similar terms.

Originally intended to run for five years, the plan was modified in 2010 and 2014 as approved by the General Meeting. The plan was first prolonged until 31 December 2014 and then until 30 June 2016.

The requirements for the first and second tranches had been met, making them exercisable. The requirements for the third tranche were not met as the stock exchange weighted average price of Rába shares on any twenty successive trading days in the first half of 2012 was less than HUF 2,000.

The participants of the option plan exercised their rights to the first tranche and the options in the first tranche had been fully exercised before the end of 2011.
All the outstanding shares of tranche 2 (215,210 shares) had been drawn down by 30 June 2016 (90,000 shares were drawn down in 2015).

Changes in the share option plan in 2016:

Movements in 2015 and in 2016:

	2015	**2016**
Outstanding at 1 January	305 210	215 210
Options granted	-	-
Foregone	-	-
Exercised	(90 000)	(215 210)
Expired	-	-
Not vested	-	-
Outstanding at December 31	**215 210**	**-**
Exercisable at December 31	**215 210**	**-**

The weighted average exercise price of the shares was HUF 1,201 in 2016 (HUF 1,363 in 2015).

Equity-settled share-based payments

	2015	**2016**
Opening balance at 1 January	107 453	75 260
Granted	-	-
Exercised	(32 193)	(75 260)
Foregone	-	-
Expenses on share based payments		
Closing balance at 31 December	**75 260**	**0**

The figures reflect gross values while the share-based payments reserve in the balance sheet shows share-based payments net of taxes.

Share options are measured with the binominal lattice model. Share options totalled kHUF 0 at 31 December 2016 (kHUF 75,259 at the end of 2015).

Cash-settled share-based payments

	2015	2016
Opening balance at 1 January	15 453	20 258
Granted	-	-
Exercised	(4 557)	(20 258)
Foregone	-	-
Share based payment expenses related to 2006	-	-
Change due to valuation	9 362	-
Closing balance at 31 December	**20 258**	**(0)**

In addition to the share-based payment itself, Rába also pays social security and similar taxes on share-based payment transactions. This portion of the plan is treated as cash settled share-based payments. A total drawdown liability of kHUF 20,258 related to previously determined payment obligations was released in 2016 along with an actual related social security liability of kHUF 12,100.

Note 16 Provisions

	Warranties	Legal cases	Redundancy	Other	Total
Opening balance at 1 Jan 2015	**94 470**	**31 988**	**149 497**	**39 424**	**315 379**
Provisions made during the year	41 591	12 625	40 000	20 863	115 079
Provisions used during the year	(377)	(23 504)	(40 281)	(3 045)	(67 207)
Provisions released during the year	(22 130)	(800)	(79 219)	-	(102 149)
Closing balance at 31 Dec 2015	**113 554**	**20 309**	**69 997**	**57 242**	**261 102**
Provisions made during the year	63 475	1 400	49 000	16 937	130 812
Provisions used during the year	(9 949)	(14 716)	(40 000)	(16 140)	(80 805)
Provisions released during the year	(24 220)	(1 009)	(30 000)	(16 167)	(71 396)
Closing balance at 31 Dec 2016	**142 860**	**5 984**	**48 997**	**41 872**	**239 713**

	Warranties	Legal cases	Redundancy	Other	Total
Long-term provisions	86 380	9 281	-	35 954	131 615
Shor-term provisions	27 174	11 028	69 997	21 288	129 487
31 December 2015	**113 554**	**20 309**	**69 997**	**57 242**	**261 102**
Long-term provisions	119 326	5 984	-	24 933	150 243
Shor-term provisions	23 534	-	48 997	16 939	89 470
31 December 2016	**142 860**	**5 984**	**48 997**	**41 872**	**239 713**

Warranties
The provisions for warranties relate to trucks and undercarriages sold. Provisioning is primarily based on values estimated on the basis of past warranty figures related to similar products and services, as well as on new products, changed constructions, and other events affecting product quality.

Legal cases
Provisions made for legal costs are related to liabilities expected to arise in connection with pending lawsuits or proceedings not yet instituted based on damage claims due to occupational accidents and occupational illnesses of former employees. We expect these legal cases to be closed during the next two years.

Redundancy
The amount of provision for redundancy at 31 December 2016 is related to the layoffs expected and planned by management and is in accordance with the relevant provisions of the Labour Code and the covenants of the statutory Collective Labour Agreement.

Other provisions reflect the estimate of outflows of resources expected as a result of other commitments from past events.
The amount of provisions made approximates the expected outflows of economic benefits. The event (the outflow of resources) which serves as the basis for the provision is expected to take place in 2017 when it will reach 37% of the provision made (kHUF 89,470; long-term: kHUF 150,243).

Note 17 Loans and borrowings

This note contains information about the terms and conditions of the Group's interest bearing borrowings and loans. Loans and borrowing are assessed at amortised historical cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Notes 5 and 27.

Interest expenses relating to loans and borrowings for the reporting period amounted to HUF 63 million and exchange rate gains arising from changes to currency rates totalled HUF 29 million.

Repayment schedule of loans and borrowings:

	31 December 2015	31 December 2016
Within one year	3 569 568	746 449
Over one year	3 005 952	2 239 344
Between one and five years	3 005 952	2 239 344
Over five years		
Loans and borrowings, total	**6 575 520**	**2 985 793**

In 2015 the Company took out two 5-year loans at fixed interest rates. Also, two long-term loans previously taken out at higher interest rates were prepaid by the Company. No additional loan was taken out in 2016 and loans repayable totalled HUF 3,570 million.

Loans and borrowings:

Type	Currency	Matures in	31 December 2015	31 December 2016
Secured bank loan	EUR	2020	1 878 720	1 492 893
Secured bank loan	EUR	2020	1 878 720	1 492 896
Secured bank loan	EUR	2016	1 565 600	-
Secured bank loan	EUR	2016	1 252 480	-
Loans and borrowings, total			**6 575 520**	**2 985 793**

The weighted average interest rate of the loans was 1.2% in 2016 (1.5% in 2015).

The Company had no liabilities from finance leases in either 2016 or 2015.

Mortgages at 31 December 2015:

Company	Bank	Asset category	Asset value* (HUF million)
Rába Nyrt.	CIB	property	3 623
Rába Nyrt.	RAIFFEISEN	property	513
Rába Futómű Kft	RAIFFEISEN	inventory	4 439
Rába Járműalkatrész Kft.	COMMERZBANK	property	2 361

Mortgages at 31 December 2016:

Company	Bank	Asset category	Asset value* (HUF million)
Rába Nyrt.	CIB	property	3 833
Rába Nyrt.	RAIFFEISEN	property	512
Rába Futómű Kft	RAIFFEISEN	inventory	3 987
Rába Járműalkatrész Kft.	COMMERZBANK	property	2 348

* Values indicated: property – appraised value; inventory – book value

These assets are used as collateral for the above loans, overdrafts and cash pool loans. The cash pool loans are secured by a mortgage on the Company’s property.

The covenants expected by the banks (EBITDA/sales revenues, net indebtedness/EBITDA, adequate level of exports, loan portfolio/(weighted debtors+inventories+orders) were met for each borrowing member of the Group as at 31 December 2016, the date of assessment.

Note 18 Creditors and other liabilities

	31 December 2015	31 December 2016
Creditors	6 867 573	7 640 598
Cash-settled share-based payments	20 258	-
Advances received	178 104	170 759
Accrued expenses	771 407	864 547
Deferred income	1 430 670	1 462 582
Wages and related contributions	748 720	739 041
VAT liability	557 515	655 229
Other	82	7 849
Creditors and other liabilities, total	**10 574 329**	**11 540 605**

Breakdown of creditors by currency:

Amounts payable to creditors	31 December 2015	31 December 2016
HUF	1 286 022	3 054 351
EUR	5 455 734	4 544 264
USD	114 055	41 743
GBP	11 559	11
SEK	203	229
Total	**6 867 573**	**7 640 598**

The Group’s exposures to currency and liquidity risk related to trade and other payables are disclosed in Notes 5 and 28.

Note 19 Segment reporting

Segment information is presented in respect of the Group's business segments which is in line with internal reporting of the Group. Segment revenues, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.
The management determined the reportable segments based on the product types, which is in line with the organizational structure. The Group's main segments are:

- Axle
- Vehicles
- Vehicle components

The Axle segment comprises the manufacturing and sale of axles, parts and components. The Vehicles segment includes the manufacturing of truck and bus undercarriages and related components, as well as the assembly and sale of vehicles. The Vehicle components segment includes the manufacturing and sale of spare parts, seat frames, pressed frameworks and truck undercarriages, and sewing seat upholstery.

31 December 2015	Axle*	Vehicles*	Parts*	Unallocated*	Intersegment eliminations*	Consolidated*
Extra-segment revenues	22 251 366	11 259 646	12 407 780	219 003		46 137 795
Intersegment revenues	549 921	272 170	674 448	1 068 101	(2 564 640)	-
Sales revenues, total	**22 801 287**	**11 531 816**	**13 082 228**	**1 287 104**	**(2 564 640)**	**46 137 795**
Direct cost of sales	(17 212 090)	(9 742 575)	(10 729 528)	(243 576)	1 610 828	(36 316 941)
Gross profit	**5 589 197**	**1 789 241**	**2 352 700**	**1 043 528**	**(953 812)**	**9 820 854**
Sales and marketing expenses	(374 328)	(109 847)	(95 694)	(35 808)		(615 676)
General and administrative costs	(3 910 713)	(1 106 997)	(1 778 455)	(1 014 384)	954 455	(6 856 093)
Other income	236 951	89 557	151 386	7 982	994	486 870
Other expenses	(215 148)	(69 819)	(145 209)	(229 460)	4 369	(655 267)
Other operating expenses, total	(4 263 238)	(1 197 106)	(1 867 972)	(1 271 670)	959 818	(7 640 168)
Operating profit or loss	**1 325 959**	**592 135**	**484 728**	**(228 141)**	**6 006**	**2 180 686**
Interest income	15 379	19 007	1 524	10 519	(44 734)	1 695
Interest expense	(66 698)	(19 687)	(40 006)	(23 701)	44 732	(105 360)
Tax expense	(192 814)	(96 209)	(129 974)	8 519		(410 478)
Assets						
Property, plant and equipment	4 729 490	1 708 425	2 312 461	6 081 877		14 832 253
Intangible assets	516 820	135 246	123 419	13 646		789 131
Investment property				338 217		338 217
Other non-current assets	372 401	33 671	23 786	205		430 063
Inventories	4 438 827	419 079	1 360 691	10 974	(18 741)	6 210 830
Debtors and other receivables	6 921 311	4 812 515	1 172 996	365 479	(4 909 516)	8 362 785
Cash and cash equivalents	677 214	2 189	3 220	2 516 762		3 199 385
Liabilities						
Provisions	59 042	110 680	12 525	78 855		261 102
Creditors and other payables	4 735 183	3 041 759	2 722 752	4 984 152	(4 909 517)	10 574 329
Capital expenditures	772 099	505 741	345 589	177 489		1 800 918
Depreciation and amortisation	1 439 619	212 459	420 847	196 040		2 268 965

* segment information for 2015 has been adjusted as a result of adjusted opening balances, and the Group aligned comparative information for intra-group leased assets in 2015 with its segment reporting in 2016.

31 December 2016	**Axle**	**Vehicles**	**Parts**	**Unallocated**	**Intersegment eliminations**	**Consolidated**
Extra-segment revenues	20 129 892	9 568 127	12 727 592	203 126		42 628 737
Intersegment revenues	594 776	257 749	626 401	1 166 463	(2 645 389)	-
Sales revenues, total	**20 724 668**	**9 825 876**	**13 353 993**	**1 369 589**	**(2 645 389)**	**42 628 737**
Direct cost of sales	(15 951 354)	(7 812 476)	(10 748 103)	(310 934)	1 622 828	(33 200 039)
Gross profit	**4 773 314**	**2 013 400**	**2 605 890**	**1 058 655**	**(1 022 561)**	**9 428 698**
Sales and marketing expenses	(329 220)	(101 901)	(11 748)	(35 771)		(478 639)
General and administrative costs	(3 687 005)	(1 220 865)	(1 860 087)	(1 058 620)	1 023 259	(6 803 318)
Other income	352 884	58 639	104 267	3 620	-	519 417
Other expenses	(151 830)	(177 753)	(183 473)	(161 466)	8 386	(666 134)
Other operating expenses, total	(3 815 171)	(1 441 880)	(1 951 041)	(1 252 227)	1 031 645	(7 428 674)
Operating profit or loss	**958 143**	**571 520**	**654 849**	**(193 572)**	**9 084**	**2 000 024**
Interest income	25 010	16 931	1 435	6 897	(45 470)	4 803
Interest expense	(61 193)	(15 914)	(33 437)	(40 450)	45 468	(105 526)
Tax expense	(221 331)	(101 998)	(28 302)	(260 135)		(611 766)
Assets						
Property, plant and equipment	4 350 082	1 649 462	2 319 331	6 090 672		14 409 547
Intangible assets	464 191	125 819	119 575	20 143		729 728
Investment property				338 217		338 217
Other non-current assets	289 372	26 186	18 497	8 837		342 892
Inventories	3 982 602	445 588	1 306 595	11 317	(18 045)	5 728 057
Debtors and other receivables	8 368 054	5 402 290	1 129 945	1 551 817	(6 377 332)	10 074 774
Cash and cash equivalents	290 560	2 367	3 184	1 603 984		1 900 095
Liabilities						
Provisions	56 900	153 143	883	28 787		239 713
Creditors and other payables	4 705 894	4 195 095	3 696 827	5 320 122	(6 377 333)	11 540 605
Capital expenditures	479 035	187 227	254 551	290 701		1 211 514
Depreciation and amortisation	1 292 938	218 539	406 012	204 053		2 121 542

Note 20 Revenues

Revenues by geographical segment were as follows:

	31 December 2015	31 December 2016
Europe	37 237 619	37 877 348
- of which: Hungary	17 840 024	16 234 025
American continent	6 712 255	2 998 427
Asia	2 185 442	1 750 468
Australia	2 479	2 494
Revenues, total	**46 137 795**	**42 628 737**

Note 21 Operating costs

	31 December 2015	31 December 2016
Materials *	28 499 852	25 099 949
Services used	4 885 261	5 191 896
Payments to personnel	7 894 694	7 757 173
Depreciation and amortisation	2 268 965	2 121 541
Capitalised own performance	239 938	311 437
Operating costs, total	43 788 710	40 481 996

Direct cost of sales *	36 316 941	33 200 039
Sales and marketing costs	615 676	478 639
General and administrative costs	6 856 093	6 803 318
Operating costs, total	43 788 710	40 481 996

* Note: For the sake of comparability, material costs and the direct cost of sales in 2015 have been adjusted by kHUF 159,999 being the aggregate of retrospective discounts and rebates received which were presented as other income and other financial income, respectively, in 2015.

Note 22 Payments to personnel

	31 December 2015	31 December 2016
Payroll costs	5 397 413	5 538 970
Payroll taxes	1 598 015	1 526 508
Other payments to personnel	899 266	691 695
Payments to personnel, total	**7 894 694**	**7 757 173**

In 2016, the average number of employees was 1,598 (2015: 1,715).

Note 23 Other income and expenses

	31 December 2015	31 December 2016
Gains on fixed asset disposals	3 346	3 189
Damages and penalty payments received	51 272	133 309
CO2 other income	-	849
Government subsidies	352 127	284 719
Other	80 125	97 351
Other income, total	**486 870**	**519 417**
Taxes	(197 115)	(195 459)
Impairment of inventories	(230 584)	(136 246)
Inventories scrapped	(31 135)	(62 065)
Fixed assets scrapped, extraordinary depreciation	(5 057)	(114 807)
Impairment of debtors	(5 731)	(13 429)
Impairment of long-term receivables	(80 000)	-
Provisions	(12 930)	(59 416)
Fines	(4 932)	(512)
Compensation and damages	(71 516)	(74 589)
Other	(16 269)	(9 611)
Other expenses, total	**(655 269)**	**(666 134)**
Other income and expenses, net	**(168 399)**	**(146 717)**

Other income and expenses included ordinary items in 2016. Following a review of tangible and intangible assets, a total impairment loss of HUF 114 million was recognised on some of the assets.

Note 24 Financial income and expenses

	31 December 2015	31 December 2016
Interest income	1 693	4 801
Realised gains on derivatives	-	-
Foreign exchange gain	1 206 042	614 578
Dividends received	9 324	2 930
Other	9 645	20 918
Financial income, total	**1 226 704**	**643 227**
Interest expense	(105 360)	(90 283)
Foreign exchange loss	(924 220)	(548 438)
Other	(15 806)	(15 242)
Financial expenses, total	**(1 045 386)**	**(653 963)**
Financial income or loss, net	**181 318**	**(10 736)**

Interest income in 2015 and 2016 was typically from cash and cash equivalents.

Foreign exchange gains and losses include ordinary items.

Note 25 Income tax

Income tax expense for the period:

	31 December 2015	31 December 2016
Adjusted actual tax	94 496	115 475
Local business tax	331 758	329 059
Deferred tax	(15 776)	167 232
Income tax expense, total	**410 478**	**611 766**

Actual tax includes the corporate income tax liability.

Rába is a Hungarian taxpayer and, therefore, is required to pay corporate income tax on its net profit. In 2016, the corporate income tax rate was 10% on the adjusted non-consolidated pre-tax profit up to HUF 500 million and 19% on the part of the tax base exceeding HUF 500 million. Additional tax liabilities included local taxes on revenues net of material costs, cost of goods sold and recharged services, at a tax rate of 1.8% in Győr and 2% for all the other sites. All subsidiaries of Rába are subject to Hungarian corporate income tax and local business tax.
At 31 December 2016, the balance of corporate income tax and local business tax assets and liabilities was a net income tax liability in kHUF 12,745 (at 31 December 2015, the Group had a net income tax asset of kHUF 21,916).

Deferred tax is calculated based on the expected time of recovery based on the tax rate known in 2016, which is 9%.
At 31 December 2016, deferred tax assets totalled kHUF 82,038 (2015: kHUF 265,872), and the deferred tax liability totalled kHUF 44,486 (2015: kHUF 61,088).

Deferred tax assets and liabilities were attributable to the following items:

	31 December 2015	Effective tax rate changes	Increase	Decrease	31 December 2016
Tax losses carried forward	603 177	(184 112)	108 000	(158 384)	368 681
Intangible assets	609	(74)	-	(529)	6
Long-term receivables	-	-	2 302	-	2 302
Debtors and other receivables	1 591	(187)	698	(147)	1 955
Provisions	34 273	(8 950)	3 822	(7 571)	21 574
Property, plant and equipment	(131 685)	32 614	-	25 210	(73 861)
Receivables from asset disposals	(19 263)	7 705	145	-	(11 413)
Development reserve	(283 918)	61 526	-	(49 300)	(271 692)
Deferred tax asset, gross	639 650				394 519
Deferred tax liability, gross	(434 865)				(356 967)
Deferred tax asset, net	**204 785**				**37 552**
Deferred tax asset	265 872				82 038
Deferred tax liability	(61 088)				(44 486)
Deferred tax asset, net	**204 784**				**37 552**

Group level tax losses carried forward totalled kHUF 16,343,157 at 31 December 2016 (2015: kHUF 17,035,870). Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is still probable that the related tax benefit will be realised. Therefore, the Company recognised deferred tax assets totalling kHUF 368,681 on a tax loss of kHUF 4,096,456 (2015: kHUF 603,177 deferred tax on a tax loss of kHUF 4,656,288).

Calculation of the total tax expense:

	31 December 2015	31 December 2016
Profit before tax	2 362 004	1 989 288
Calculated corporate tax (10%)	236 200	198 928
Previous year's tax difference	15	492
Local business tax	331 758	329 059
Loss and permanent differences with no deferred tax asset recognised	(96 525)	(2 002)
Over- or underassessment in previous years		(8 242)
Increase in deferred tax on losses carried forward	(66 600)	2 053
Effect of tax rate changes	5 630	91 478
Tax expense, total	410 478	611 766

Note 26 Transactions with related parties

i) Transactions with key management personnel

In addition to their salaries, the Group also provides non-cash benefits to directors. The key management personnel participate in the Group's share option programme (see Note 17).

Aggregate of the transactions and outstanding balances with key management personnel and with entities over which they have control or significant influence:

	Transaction expense/income 31 December		Balance at 31 December	
	2015	2016	2015	2016
Equity-settled share-based payments	-	-	73 259	-
Cash-settled share-based payments	(5 468)	15 623	19 941	-
Salaries paid to key management	274 785	298 053	87 740	85 187

ii) Transactions and outstanding balances with state-owned entities

Since 18 April 2012, 74.35 % of the Company's shares have been held by the Hungarian State through MNV Zrt.
Below are the Company's key balances with state owned enterprises and government entities over HUF 50 million where state ownership exceeds 50%.

The balance presented are sales revenues, the costs re-charged by such related parties and the outstanding balances of re-charges and loans.

	2015	**2016**
Revenues	3 835 319	4 978 951
Direct cost of sales	101 942	67 933

	31 December 2015	**2016.december 31.**
Debtors and other receivables	3 334 880*	3 713 531

**The figure for 2015 has been adjusted because a business partner was not among related party debtors in the previous year.*

The above transactions with related parties were conducted in the ordinary course of business, typically under circumstances (including interest and collateral) identical to those of comparable transactions with entities in a similar financial position. The transactions did not involve any additional risks on top of the regular risk of repayment and had no other unfavourable features.

Note 27 Financial risks

i) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Maximum exposure to credit risk at reporting date:

	31 December 2015	**31 December 2016**
Long-term receivables	4 574	3 358
Receivables from asset disposals	128 417	126 809
Debtors and other receivables	8 384 701	10 074 774
Cash and cash equivalents	3 199 385	1 900 095

Debtors, net, by geographical segment at 31 December 2015 and 2016:

	31 December 2015	**31 December 2016**
Europe	6 762 796	8 545 658
- of which: Hungary	4 269 242	5 778 828
American continent	865 859	534 900
Asia	98 147	82 960
Africa	-	2 902
Australia	1 880	1 040
Revenues, total	7 728 682	9 167 460

Aged list of net debtors at 31 December 2015 and 2016:

Aged list of debtors	**31 December 2015**	**2016.december 31.**
Not yet due	7 264 681	7 271 216
impairment	-	-
1-90 days overdue	404 718	1 857 971
impairment	-	-
91-180 days overdue	103 735	31 932
impairment	-2 206	-3 242
181-365 days overdue	-13 941	11 283
impairment	-4 410	-3 601
Due over 365 days	-12 388	15 026
impairment	-8 984	-14 872
Overdue, total	482 124	1 916 212
Impairment loss, total	-15 600	-21 715
Revaluation	-2 521	1 747
Total:	**7 728 682**	**9 167 460**

Impairment loss recognised on uncertain and doubtful debtors were as follows:

	2015	**2016**
Balance at 1 January	34 226	15 600
Derecognised impairment loss on bad debts	(25 178)	(6 118)
Impairment loss recognised in 2016	6 552	12 234
Balance at 31 December	15 600	21 715

Long-term receivables and receivables from asset disposals are treated in line with the rights and obligations stipulated in the underlying contracts signed with each business partner. Accordingly, the Group reviews, at least annually, the risks and securities identified in the contracts which may affect the cash flows from a particular receivable. Based on this review, an impairment loss is recognised for outstanding receivables per transaction to reflect any risk of future collectability despite contractual securities.
Long-term receivables are recognised at fair value as discounted over the term of the receivable.

Cash and cash equivalents are either readily available or within three months.

ii) Liquidity risk
Contractual maturity of financial liabilities including estimated interest payments:

31 December 2015	**Book value**	**Contractual cash flows**	**within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Fair value of future cash flows**
Secured bank loan	1 878 720	1 976 883	394 343	390 210	1 192 330	-	1 901 735
Secured bank loan	1 878 720	1 976 883	394 343	390 210	1 192 330	-	1 901 735
Secured bank loan	1 565 600	1 580 865	1 580 864	-	-	-	1 559 943
Secured bank loan	1 252 480	1 267 176	1 267 176	-	-	-	1 250 404
Total loans and borrowings	**6 575 520**	**6 801 807**	**3 636 726**	**780 420**	**2 384 660**	**-**	**6 613 817**

31 December 2016

	Book value	**Contractual cash flows**	**within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Fair value of future cash flows**
Secured bank loan	1 492 896	1 547 464	387 593	383 488	776 384	-	1 511 618
Secured bank loan	1 492 896	1 547 465	387 594	383 487	776 383	-	1 511 617
Total loans and borrowings	**2 985 792**	**3 094 929**	**775 187**	**766 975**	**1 552 767**	**-**	**3 023 235**

Creditors and other payables mature as follows:

31 December 2015	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Fair value of future cash flows
Creditors	6 867 573	6 867 573	6 867 573	-	-	-	6 867 573
Deferred income	1 430 670	1 430 670	226 133	190 384	413 317	600 836	1 430 670
Amounts payable to employees and other liabilities	2 014 985	2 014 985	2 014 985	-	-	-	2 014 985
Provisions	261 102	261 102	129 487	62 377	69 238	-	261 102
Creditors and other payables, total	**10 574 330**	**10 574 330**	**9 238 178**	**252 760**	**482 555**	**600 836**	**10 574 330**

2016.december 31.

	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Fair value of future cash flows
Creditors	7 640 598	7 640 598	7 640 598	-	-	-	7 640 598
Deferred income	1 462 582	1 462 582	211 423	207 624	411 551	631 985	1 462 582
Amounts payable to employees and other liabilities	2 197 712	2 197 712	2 197 712	-	-	-	2 197 712
Provisions	239 713	239 713	89 470	96 135	54 107	-	239 713
Creditors and other payables, total	**11 540 605**	**11 540 605**	**10 139 203**	**303 759**	**465 658**	**631 985**	**11 540 605**

iii) Foreign exchange risk

A 10% improvement of the EUR and the USD against the HUF would have increased the revenue for the period as follows:

	31 December 2015		**31 December 2016**	
	kHUF	**percentage of revenue affected**	**kHUF**	**percentage of revenue affected**
EUR	3 181 120	7%	3 353 376	8%
USD	554 188	1%	236 228	1%

A 10% drop of the EUR and the USD against the HUF would have had an identical but opposite effect on the revenue for the period.

The following significant exchange rates applied during the year and at year end:

	Average rate		**Spot rate at 31 December**	
	2015	**2016**	**2015**	**2016**
EUR	309,9	311,46	313,1	311,0
USD	279,5	281,4	286,6	293,7

iv) Interest rate risk

Interest rate profile of the Group's interest-bearing financial instruments at the reporting date:

	31 December 2015	**31 December 2016**
Fixed rate instruments	6 575 520	2 985 793
Variable rate instruments	-	-
Total loans and borrowings	**6 575 520**	**2 985 793**

An increase in interest rates would not have had an effect on interest expense in 2016 as the Company does not have any variable rate loans and all the other variables remained constant.

The weighted average interest rate of the loans was 1.2% in 2016 (1.5% in 2015).

v) Fair values

Fair values of financial assets and liabilities together with the carrying values as shown in the consolidated balance sheet:

	Book value		**Fair value**	
	31 December 2015	**31 December 2016**	**31 December 2015**	**31 December 2016**
Other non-current assets	430 063	342 892	430 063	342 892
Receivables from asset disposals	128 417	126 808	128 417	126 808
Debtors and other receivables	8 362 785	10 074 774	8 362 785	10 074 774
Cash and cash equivalents	3 199 385	1 900 095	3 199 385	1 900 095
Loans and borrowings	6 575 520	2 985 793	6 613 817	3 023 235
Creditors and other payables	10 574 329	11 540 605	10 574 329	11 540 605
Provisions	261 102	239 713	261 102	239 713
Income tax asset	21 916	-	21 916	-
Income tax liability	-	12 745	-	12 745
Deferred tax asset	265 872	82 038	265 872	82 038
Deferred tax liability	61 088	44 486	61 088	44 486

Fair value of financial assets and liabilities:

Fair value is the price that market players would receive for an asset in an arm's length transaction or they would be willing pay for the transfer of a liability at the time of measurement. Fair value measurement is related to an asset or liability. Therefore, for the purposes of fair value measurement, the Group must take into consideration the characteristics of the asset or liability if those would be taken into account by independent parties for pricing at the time of measurement.

For a fair valuation, we distinguish observable inputs from sources independent from the Group and non-observable inputs reflecting the Group's assumptions of the behaviour of market players.
IFRS 13 has a fair value hierarchy of three input levels (level 1, level 2 and level 3) based on the inputs used for fair valuation.

Level 1 inputs are the prices of assets and liabilities quoted in an active market.

Level 2 inputs are inputs beyond those in Level 1 and are directly or indirectly observable for the assets or liabilities affected, but are only indirectly related to the arm’s length valuation of the asset or liability. Such instruments are typically derivatives, the values of which are determined in view of the gain or loss on having the derivative closed and financially settled through a reverse derivative.

Level 3 inputs are inputs that are not observable or not accessible in an active market.

The Group’s assets and liabilities presented at fair value were measured based on the 3-level fair value hierarchy.

Note 28 Earnings per share

i) Basic earnings per share

Basic earnings per share a 31 December 2016 were calculated based on the current-year profit of kHUF 1,377,522 thousand (2015: profit of kHUF 1,951,526) and on the weighted average number of ordinary shares outstanding 13,288,366 shares (2015: 13,051,007 shares) as follows:

	2015	**2016**
Issued ordinary shares at 1 January	13 047 555	13 137 555
Effect of treasury shares held	-	-
Effect of share options exercised	3 452	150 781
Weighted average number of ordinary shares at 31 December	**13 051 007**	**13 288 336**
Profit for the year	1 951 526	1 377 522
Basic earnings per share (HUF/share)	150	104

ii) Diluted earnings per share

	2015	**2016**
Weighted average number of ordinary shares	13 051 007	13 288 336
Number of options granted	44 034	-
Diluted weighted average number of ordinary shares	**13 095 041**	**13 288 336**
Profit for the year	1 951 526	1 377 522
Basic earnings per share (HUF/share)	149	104

In 2015, the average market value of Rába's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the period in which the options were outstanding. There were no exercisable shares at 31 December 2016.

Note 29 Capital commitments and contingencies

At 31 December 2016, the Group had future commitments totalling kHUF 17,462,506 (2015: kHUF 9,786,994). These commitments are expected to be settled in the following financial years.

The Group did not have any contingent liabilities at 31 December 2015 and 2016.

Note 30 Operating leases

Non-cancellable operating leasing fees payable:

	31 December 2015	**31 December 2016**
Within one year	65 052	109 671
1 – 5 years	82 988	158 124
Over five years	-	-
Operating leases, total	**148 040**	**267 795**

The Group leases certain production machinery and vehicles through operating leases that typically run for a period of 1-5 years.

Note 31 Receivables from asset disposals

	31 December 2015	31 December 2016
Opening balance at 1 January	199 690	128 417
Impairment loss	(80 000)	-
Unwinding of discounts	8 727	(1 608)
Closing balance as 31 December	**128 417**	**126 809**

Receivables from asset disposals include one receivable from the sale of a property.

Note 32 Subsequent events

No extraordinary event took place after the reporting date that would have affected the financial statements for 2016.

We engineer, you drive

RÁBA Járműipari Holding Nyrt.

CONSOLIDATED MANAGEMENT REPORT / CONSOLIDATED BUSINESS REPORT

on the financial year ended December 31, 2016

1. Introduction of the Company

The legal predecessor of RÁBA Automotive Holding Plc. („Holding") was established in 1896. . In the course of its history it became a globally known company, then group of companies manufacturing road and off-road vehicles, main parts and components. The company's recent history includes the following milestones:

- transformation into a joint-stock company (1. January, 1992),
- listing of the company's shares on the stock exchange (17. December 1997)

Since the listing of the company's shares on the Budapest Stock Exchange, investors also monitor the operation of the company on an ongoing basis.

The Holding is a listed company registered in Hungary.

The consolidated accounts of the Holding include the holdings of the Holding and its subsidiaries (the "Group"), as well as of the affiliated companies, and of jointly owned companies.

The core activity of the Group is the manufacturing of automotive components, primarily axles and chassis.

The Group is seated at	H-9027 Győr, Martin út 1.
Its branches are located at:	H-8060 Mór, Ipartelep H-9600 Sárvár, Ipartelep 6

1.1. Subsidiaries of the Group

Rába Axle Ltd. (wholly owned subsidiary)

Rába Automotive Components Ltd. (wholly owned subsidiary)

Rába Vehicle Ltd. (wholly owned subsidiary)

1.2. Profile, product groups

<u>Rába Axle Ltd.</u>

Main profile: development and manufacturing of fixed and bent front and rear axles and various main axle parts and their components of road and off-road commercial vehicles with a loading capacity between 3 and 16 tons.

The products manufactured by the tool manufacturing and surface finishing production profile are largely used in the end products of the main profile but to the extent the available capacities allow, they are also sold directly.

<u>Rába Automotive Components Ltd.</u>

The company has substantial experience in manufacturing seats and components for passenger cars and commercial vehicles. The individual sites have different technologies, independent product profiles and customers. The Mór plant manufactures seat components for passenger vehicles, as well as seats and seat components for commercial vehicles. A considerable portion of the market volume is represented by passenger car seat components. The Sárvár plant produces components and parts for commercial vehicles, as well as machined parts for heavy vehicles. The on-line plant in Esztergom provides logistical services ("just-in-sequence" delivery) to the Hungarian Suzuki Co. Ltd.

<u>Rába Vehicle Ltd.</u>

The activity of the Company includes the manufacturing and the sale of trucks and vehicle sets with a total rolling weight of 14-41 tons, bus chassis, steel structures, as well as the sale of off-road trucks and off-road passenger vehicles of smaller rolling weight.

The company integrates the 120-year automotive traditions, intellectual capital and expertise of the parent company in manufacturing road vehicles.

1.3. Philosophy of the Rába Group

We aim to earn the satisfaction of our customers through the quality of our products and services and to remain in the leading edge of the automotive industry through the continuous improvement of our adaptability.

2. Main events and results in the current year

Rába Axle Ltd.

In spite of the uncertain situation on the external markets prevailing over the past years, the company has been active in its business development efforts, as a result of which EU countries have become its most important sales target markets. Within business development, great emphasis is put on the maintenance and development of its existing strategic partnerships, to ensure long-term presence on other markets, as well. As part of this, a five-year agreement was signed with Sojitz Corporation to strengthen the supplier position achieved on the Japanese commercial vehicle market.

Rába Vehicle Ltd.

Delivery of vehicles within the Ministry of Defense – Rába Framework Agreement for the current year, together with the preparation and conclusion of the Agreement for 2017 were the key events in 2016 in terms of the defense deal.

In 2016, the delivery of the mobile chassis started in 2015, continued, with the supply of 37 units. The volume budgeted for 2017, exceeding the 2016 amount, was ordered in 2016.

The component supply relationship started in 2015, was expanded, production was accelerated in 2016 with the company seated in Vienna. The number of different types manufactured exceeds 130.

Rába Automotive Components Ltd.

In 2016 Rába Automotive Components Ltd. was awarded the contract to produce the differential carrier for the 4-WD passenger cars as well as the contract to produce, for another major customer, the brake toggle. Rába's debt portfolio in 2016 was well below the industry average, reaching an all time low. Such financial stability provides a basis for the strategic investments launched, which aim to ensure sustainable competitiveness and market positions through the expansion and modernization of production capacities.

Results of the current year

In 2016, the dynamically changing market environment had considerable challenges for Rába: the American commercial vehicle market drastically declining in H2, the stagnating demand in the global agricultural segment, especially in the American location, the dramatic increase in the Russian market and customer demands showing cyclicality within the year required substantial flexibility and adjustability. We managed to accommodate the considerable volatility in both the geographical and product segments through portfolio optimisation, through deepening strategic partnerships and through the increase in the flexibility of our operating processes. As a result, certain segments demonstrated stable growth.

Despite 7.6 percent decrease in revenues, the Rába Group achieved HUF 4.1 billion EBITDA and closed 2016 with HUF 1,378 million profit.

2.1. Changes in the Group

No changes occurred in the group in 2016.

2.2. Analysis of Consolidated Statement of Comprehensive Income (profit and loss account)

Data in th HUF

	31 December 2015	31 December 2016
Revenues*	46 137 795	42 628 737
Direct cost of sales*	(36 316 941)	(33 200 039)
Gross profit	**9 820 854**	**9 428 698**
Sales and marketing expenses	(615 676)	(478 639)
General and administrative costs	(6 856 093)	(6 803 318)
Other income *	486 870	519 417
Other expenditures	(655 269)	(666 134)
Total other operating expenditures	(7 640 168)	(7 428 674)
Profit from operating activities	**2 180 686**	**2 000 024**
Finance income *	1 226 704	643 227
Finance expenses *	(1 045 386)	(653 963)
Profit before tax	**2 362 004**	**1 989 288**
Taxation	(410 478)	(611 766)
Profit after tax	**1 951 526**	**1 377 522**
Total comprehensive profit for the year	**1 951 526**	**1 377 522**
Basic earnings per share (HUF)	150	105
Diluted earnings per share (HUF)	149	105

*****The 2015 figures are values adjusted in accordance with the accounts for 2016. Discounts were accounted for as items reducing operating costs or sales revenues, rebates offered by the supplier afterwards reduced costs after the adjustments instead of other revenues.

All in all, in 2016, the group-level sales revenue declined by 7.6 per cent compared to the previous year, generating sales of HUF 42.6 billion, to which the Axle Business Unit and the Vehicle Business Unit contributed with a decline by 9.1 and 14.7 per cent, respectively, and the Components Business Unit with a growth by 2.1 per cent. The trend-like decline in steel raw material prices continued in 2016, although the decline became slower. On a year-per-year basis, the decline in average steel prices was 10.0 per cent.

Concerning energy prices, favourable processes were manifest in 2016. The average energy prices in 2016 were 7.0 per cent down the figure recorded for the previous year, respectively

There were no major changes in terms of foreign exchange rates compared to the previous year. In terms of the average foreign exchange rates a slight increase affected the operation of the company, the increase in the case of the EUR amounted to 0.5 per cent and in the case of the USD it was 0.7 per cent.

The Company improved the competitiveness of its products in 2016. The gross margin achieved by the group in 2016 is more than in the base period, it amounted to 22.1 per cent upon an increase by 0.8 percentage points.

Despite the market environment that continued to be full of challenges and a decline in turnover, the Rába Group decreased its gross profit by -4 percent (HUF 392 million) and booked HUF 9.4 billion gross profit in its books in 2016.

The other revenues and expenditures contained the usual items, with a balance of HUF 147 million loss during the review period. It is lower by HUF 21m then the loss of HUF 168 m of the same period of the previous year.

Indirect costs declined by 2.5%, HUF 190 million compared to 2015.

The events outlined above resulted in HUF 2,000 million operating profit. This reflected a major, 8.28 percent and HUF 181 million decrease in the 2016 business year over the base year. The sustainable profitability was preserved despite the high-volatility characteristic for the foreign markets: all business units generated a positive operating result.

On the whole, the Rába Group retained its profitability upon declining sales.

In 2016 the financial loss amounted to HUF 11 million compared to the HUF 181 million profit realised in the similar period of last year. This difference is explained mainly by the decrease of exchange rate gain.

The Group has HUF 612 million tax liability. Of that HUF 116 million is corporate income tax, HUF 329 million is local business tax, and HUF 167 million is deferred tax liability.

In 2016 the total comprehensive income and the profit for the year was HUF 1,378 million profit, it is less by HUF 574 million then the profit in the base period. In terms of the profit for the year and the total comprehensive income, the decrease is 29.4 percent.

The EBITDA reflecting the cash generating efficiency remained at the level above the industry average: in 2016, the Rába Group generated an EBITDA-level result in excess of HUF 4 billion with an EBITDA level of 9.7 per cent and an EBITDA volume of HUF 4,122 million

The Company's net borrowing reduced to a record low at the end of 2015 was further reduced in 2016, which improved the liquidity position of the group considerably. The net borrowing declined to HUF 1.1 billion, thanks to the continuous profitable operation, efficient cash generating and to the continued stringent working capital management. This is HUF 2.3 billion lower than a year earlier. The decline in the level of net borrowing was also triggered by HUF 20 million worth of revaluation of loans because of exchange rate changes, not involving cash movements, though.

2.3. Analysis of the Consolidated Statement of Financial Position (Balance sheet)

Data in th HUF

	31. December 2015	31 December 2016
Assets		
Property, plant and equipment	14 832 253	14 409 547
Intangible assets	789 131	499 559
Investment property	338 217	338 217
Long-term participations	-	-
Receivables from asset disposals	128 417	126 808
Deferred tax assets *	265 872	82 038
Other non-current assets	430 063	342 892
Total Non-current assets	**16 783 953**	**15 799 061**
Inventories	6 210 830	5 728 057
Trade and other receivables *	8 362 785	10 074 774
Income tax assets *	21 916	-
Cash and cash equivalents	3 199 385	1 900 095
Total current assets	**17 794 916**	**17 702 926**
Total assets	***34 578 869***	***33 501 987***
Equity and liabilities		
Issued capital	13 473 446	13 473 446
Treasury shares	(303 244)	(108 952)
Share-based payment reserve	67 455	-
Retained earnings	3 869 173	5 314 151
Total equity	**17 106 830**	**18 678 645**
Provisions *	131 615	150 243
Long-term loans and borrowings	3 005 952	2 239 344
Deferred tax liability *	61 088	44 486
Total Long-term liabilities	**3 198 655**	**2 434 073**
Provisions *	129 487	89 470
Loans and borrowings payable within one year	3 569 568	746 449
Creditors and other accounts payable *	10 574 329	11 540 605
Income tax liability	-	12 745
Total Current liabilities	***14 273 384***	***12 389 269***
Total Equity and liabilities	**34 578 869**	**33 501 987**

*2015 figures were adjusted in accordance with the 2016 accounts, using the gross accounting of deferred tax receivables and liabilities. Profit tax is shown in a separate line and provisions have also been split into long-term and short-term liabilities.

In 2016, the total assets and liabilities decreased by 3.1 per cent compared to 2015. On the assets side, non-current assets were approximately 1.4 percentage point lower than in the previous year (2016: 47.2%, 2015: 48.5%). The expenditure on real properties, machines and equipment in the current year was HUF 329 million lower than the depreciation recorded for the year. The 1.4 percentage point increase of the ratio of the current assets is arising from the 3.6 per cent increase of cash and cash equivalents, the 5.9 per cent increase of account receivable and the 0.9 per cent decrease of inventories.

On the liability side, the liabilities decreases by 7 per cent point compared to the previous year. Within the liabilities, the ratio of accounts payable and other liabilities decreased from 31 per cent to 34 per cent and the share of loans shrank from 19 per cent to 9 per cent, the provisions ratio is unchanged.

The equity ratio changed from 49 per cent to 56 per cent due to the profit reported for 2016.

Equity

The shareholders’ equity (HUF 18,679 million) developed as follows since the previous year (HUF 17,107 million):

	Share capital	**Treasury share**	**Sharebased payment reserve**	**Retained earnings**	**Other comprehensive income**	**Total shareholders’ equity**
Balance as of 1 January 2014	**13 473 446**	**(384 496)**	**97 017**	**1 888 980**	**-**	**15 074 947**
Profit for the year				1 951 526		1 951 526
Income from share-based payment drawdowns		81 252	(32 193)	27 921		76 980
Deferred tax on share-based payment drawdowns			2 631	746		3 377
Balance at 31 December 2015	**13 473 446**	**(303 244)**	**67 455**	**3 869 173**	**-**	**17 106 830**
Profit for the year				1 377 522		1 377 522
Income from share-based payment drawdowns		194 292	(75 260)	67 456		186 488
Deferred tax on share-based payment drawdowns			7 805	-		7 805
Balance at 31 December 2016	**13 473 446**	**(108 952)**	**-**	**5 314 151**	**-**	**18 678 645**

2.4. Analysis of assets and liabilities, financial income and liquidity position

The financial position and liquidity of the Company as at 31 December 2015 and 31 December 2016 are illustrated by the following financial indicators

Financial status, liquidity indicators:

Indicators	2015.	2016.
Cash liquidity indicator: *Cash and cash equivalents / Short-term liabilities*	22.42%	15.34%
Quick liquidity indicator: *(Current assets - Inventories) / Short-term liabilities*	81.16%	96.66%
Liquidity indicator: *Current assets / Short-term liabilities*	124.67%	142.89%
Net working capital (M HUF): *Current assets / Short-term liabilities*	3 522	5 314

Assets and liabilities and the capital structure

Indicator	2015.	2016.
Ratio of long-term invested assets %: *Invested assets/Total assets*	48.43%	47.16%
Coverage of invested assets %: *Equity / Invested assets*	101.92%	118.23%
Debt ratio %: *Liabilities/Shareholders' equity*	102.14%	79.36%
Solvency ratio %: *Equity / Total liabilities*	49.47%	55.75%

Profitability

Indicators on profit and loss:

Indicator	2015.	2016.
Return on equity % *Profit/loss in the current year/Shareholders' equity*	11,41%	7,37%
Return on assets % *Profit of the current year/Total assets*	5,64%	4,11%
Return on sales % *Profit of the current year/Net sales revenues*	4,23%	3,23%

The profitability indicators are below the values in the base period, mainly due to a decrease in the current year's profit (HUF 574 million decrease in 2016 compared to 2015). The capital structure and liquidity indicators improved.

3. Strategy, development potentials

3.1. RÁBA Automotive Holding Plc.

The Holding continues to act in the interests of the entire group of companies, represents the subsidiaries through its central organisations in strategic areas and concludes framework agreements. This function is intended to be further strengthened in the future as well.

The management of the Company makes substantial efforts to utilise the real assets of the Company.

A key element of the company's strategy is the profitable utilisation of the real estate not utilised for the operation of the company.

Possible methods of utilisation include increased leasing, as well as the sale of land. To this end, in addition to the sensible utilisation of the areas already leased or currently used by the company, we focus on the management, refurbishment and upgrading of the premises and buildings.

3.2. Rába Axle Ltd.

The aim of Rába Axle Ltd. is to achieve dynamic growth and to increase customer satisfaction, through the development of existing market segments and through penetration into new markets.

The dynamism is based on the following factors:

- Utilisation of the innovation and development potentials of the company, through the committed reinforcement of the construction and research and development infrastructure.
- Increased role of business development, as part of the operating model. Relying on the development capabilities, the organisation integrating development and sales can target new market segments
    - relying upon the developments of automotive producers,
    - meeting specific customer demands.
- The efficiency improvement manifest throughout the operation allows us to pursue a cost-based strategy and achieve benefits within the price competition on the international market.
- Utilisation of reserves in terms of quality through the development of the quality management system to meet international requirements and through the application of modern quality assurance methods.

3.3. Rába Vehicle Ltd.

The organisation of Rába Vehicle Ltd. continues to focus on its customers, its strategic goals:

- Development and production of vehicles for special defense and civilian needs;
- Establishment of strategic partnerships with bus manufacturers and companies building bus superstructures;
- Search for new customers within the fields of chassis and component manufacturing.
- Market expansion for welded and assembled iron structures.
- Continuation of the strategic cooperation with suppliers representing the leading edge of truck manufacturing (Daimler AG, MAN, Volvo etc).
- Continuous upkeep of the existing MSZ EN ISO 9001:2008, ISO 14001:2005 and MSZ EN ISO 3834-2:2006, as well as AQAP 2110:2006 quality assurance accreditations and the OHSAS 18001: 2007 MEBIR certificates and preparation for the ISO TS accreditation.
- In addition to product development and the development of the supplier chain and of human resources, there is strong emphasis on customer service activities.

3.4. Rába Automotive Components Ltd.

The most important strategic objective is to maintain the volume of the Suzuki business.

- further strategic relation with Fehrer Group on the field of metal components (wireframe, armrest, etc.
- long-term sustainability of the entire commercial vehicle seat business;
- making the most of the new strategic partnerships with existing partners
- growth together with the main customers by minimal investment

4. Research and Development

Axle Business Unit

The Rába Development Institute established in 2010, in line with the strategy of the company, set the reinforcement of research and development capacity as an aim. Through the institute, the company wishes to increase the share of complex products representing high added value and it expanded the range of products supplied in the previous year.

Since the company wishes to achieve its strategic goals primarily through the development and production of axles and components in the future as well, it is important thet the one-off, project-based developments serving current customer demands were replaced by comprehensive R+D activities based on a comprehensive concept integrated into the strategy of the company.

Through the cooperation with the Experimental plant, the Development Institute developed and validated a number of products last year in 2016, as well. The use of modern simulation methods allows our engineers to reveal, already during the design phase, possible defects. This, together with the tests, leads to increased product reliability.

Numerous products were further developed in 2016, allowing the company to target new markets. A project was launched for a Mexican company to converse an existing double-reduction, disc-brake bus axle type for wider track use. In anticipation of the international bus market trends, a substantial gear development programme was implemented, which allows the company to offer the market axles with a lower noise level to improve passenger comfort.

Last year opened new opportunities for us on the American market, as well, to widen our product range. The development of a new type of commercial vehicle axle optimised for the American standard was began. As a result, the company expects further expansion on the market. Another development within the off-road truck segment is that a front thru-driven axle type, specifically for the Russian market was developed. The significance of this lies in that the company has now entire range suitable for the 8x8 vehicle configuration. An important milestone, in terms of our aspirations on the Japanese market is the series of negotiations and engineering co-operations regarding the development of the front axle of a multi-purpose off-road vehicle. The broadening of this relationship provides a basis for the implementation of further joint projects in the future. Owing to the cost cutting programmes launched during earlier years in the field of agricultural axles, in 2016 the company managed to achieve considerable results, which led to a further increase in the competitiveness of axles. The experience gained during these programmes can be put to use for other axle families as well, which can result in module packages benefiting from economies of scale. The result of the programmes is expected to be manifest in the following years.

In 2016 we successfully concluded our development project launched within the framework of the support provided by the EU R+D+I umbrella projects. As part of this, progressive technologies were developed, which, when introduced, will increase the added value of the Rába products substantially.

Rába Development Institute played a key role, in 2016 as well, in widening the company's product portfolio, as well as in following market trends. In 2016, an internal drawing management system was devised, used by CAD engineers, to form the basis for additional future processes. The use of modern simulation and computation systems will contribute to more efficient operation and to the production of more competitive products by reducing the time necessary for development and by cutting the number of development cycles. We intend to raise the standard of our products in the future even further by further developing such mechatronic, simulation an drive train sizing competences.

Vehicle Business Unit

Due to the nature of the activity of the Company and because of the fulfilment of the Military Vehicle Supply Programme, the business unit conducts substantial research and development activities. The principal areas of research and development are type variations meeting customer demands of the various military trucks, armoured superstructures and bus chassis, as well as compliance with the prevailing environmental norms.

In 2016 the key development project for the Company was the development, manufacturing and testing of the chassis cab for fire engines

The development of the S91-type midi-bus chassis also continued in accordance with the EURO 6 environmental norms. This enables Rába Vehicle Ltd. to reenter the market together with a car body manufacturing partner.

Components Business Unit

The experimental developments of the Business Unit serve the launch of the production of new businesses acquired in the first place.

Major experimental development projects during the year included:

- Introduction of the production of engine compartment support parts for vehicles for the VW group based on nomination
- one of the key customers of the Company is intent upon transferring the product from an existing supplier to Rába. Sample components have been manufactured and are now being tested. Serial production is expected to commence after approval.
- production of wire frame inserts for the new foamed products. Serial production is expected to commence in September 2017.
- launch of the production of 11 types of tube products for a German company manufacturing refrigerators for caravans. Samples are now being tested and new samples are being manufactured as the requirements of the customer have changed.

5. Environmental protection

Adequate waste management is a precondition for high-standard environmental performance and positive economic impact. The waste balance of the Rába Group in 2016 was as follows:

- Reusable wastes

Volume: 13 354 tons
Revenue: HUF 435m

- Non-reusable wastes

Volume: 463 tons
Cost: HUF 16m

- Hazardous wastes

Volume: 3607 tons
Cost: HUF 44m

The review and monitoring period of remediation carried out during previous years is still underway, with costs in 2016 at nearly HUF 2.2 million at the Rába level. Such remediation efforts are currently taking place in the Győr Airfield site of Rába Automotive Holding Plc. In 2016 the values remained under the limit values. The remained monitoring wells are put in consolidated water rights permission.

The Group established and operates the Environmental Management System compliant with the MSZ EN ISO 14001:2005. standard, which encompasses all activities and services of the Rába Group.

The impact on the human factor is viewed as the most important means to attain the goals set within our environmental policy.

The management of the company declared that their activities are conducted in accordance with the principles of the environmental policy and the same is expected of all Rába employees.

The environmental status of the Rába Group is adequate, developments are implemented every year to the extent possible, environmental considerations and requirements are always taken into consideration for the proposed developments and interventions.

Environmental investments and projects in 2016:

- More efficient energy consumption (Rába Group)
- Implementation of the tasks relating to the environmental product fee (Rába Group)
- Implementation of the audit under the ISO 14001:2005 Standards (Rába Group)
- Further expansion of selective waste collection (Rába Group)
- Accredited measurement of the emissions of WP painting point sources (Rába Axle Ltd.)
- Audit of the report on carbon dioxide emission (Rába Axle Ltd.)
- Marking as per the regulations of the locations of waste collectors (Rába Axle Ltd.)
- Completion of the wastewater measurements defined in the self-audit plan (Rába Automotive Components Ltd. and Rába Axle Ltd.)
- Raising the environmental awareness of the employees (Rába Vehicle Ltd.)
- Installation of hand driers, thus reducing the volume of paper towels (Rába Vehicle Ltd.)
- Procurement of salvage trays (Rába Automotive Components Ltd.)
- Reduction of the amount of liquid hazardous wastes through the cutting of the use of emulsions (Rába Axle Ltd., Rába Automotive Components Ltd.)

6. Employment policy

Among the processes supporting the operation, human resources management plays a strategic role in supporting the implementation of the business objective through the supply of efficient workforce with up-to-date skills and knowledge.

The focus is on identifying and recruiting potential employees, on the development of the existing staff and on providing performance-based incentives, for available qualified staff ensuring the use of the resources efficiently and effectively. Rába employees are offered financial security, a challenging environment, as well as professional development and career development opportunities. Rába employees, aligned to our strategic goals embody the competence, which, when nurtured and developed, can result in business excellence

The positive economic situation, the expectations suggesting improving circumstances and the intensive developments implemented in the region are accompanied by an increase in the rate of employment. Rába is active in the automotive industry characterised by above average growth rate, which represents a significant challenge in the competition on the labour market.

In addition to securing the necessary new staff, we pay special attention to the motivation of our work force. The number of areas included in the incentive programme within blue-collar areas has increased further, with the aim of achieving higher work efficiency and consequently increased profitability through financial incentives provided to our employees, as measured through specific indicators, the impact on profits and their interrelations. Additionally, further areas have been included into the performance incentive programme linked to the number of finished products and other territorial objectives.

Within the white-collar development programme, employees with outstanding performance are offered multi-year, tailor-made professional and competence development. The tasks implemented in the various phases of the programme serve to increase responsibilitiy, competence and independence, preparing the participants for expert or managerial promotions. A new programme is the development linked to team exercises in order to develop cooperation and proactivity. The aim here is to reinforce the alternative perspective of young white-collar employees and to capture their potential, as well as to develop new methods and ideas.

In order to maintain our expertise and to ensure the transfer of Rába-specific professional know-how, a mentor system is being developed for blue-collar workers within professional areas of key significance in terms of the operation of the organisation.

The project organisation related to the investment programme for technological development and capacity increase, as approved by the General Meeting, was set up and has started its work. Within the Axle Company organisation, a Business and product development chief engineering section was established, to develop product development plans and complex offer concepts, as well as to implement pre-development projects and to continuously develop the knowledge basis.

The average headcount figure of the employees of the Group was 1,598 in 2016.

7. Risk management

The risk management activities of the Rába Group are an integrated part of a responsible corporate governance structure. The main principle of risk management is to keep risks within the limits that do not yet impede the achievement of the Group's business objectives. Risk management focuses on finding and maintaining the right balance between risks and opportunities.

The main responsibility of risk management is to protect the economic interests of the shareholders and clients in relation to the Company, to ensure smooth and effective operation, to generate and maintain a return reflecting also the risk exposure and to introduce new products and new services in consideration to the risk exposure.

The main aim of the Rába Group is to identify, sufficiently understand and evaluate risks in time and to respond to them effectively. The assessment of internal controls is also an integrated part of risk management, which in turn contributes to a more effective internal control system.

The assessed risks are managed at levels that reflect their volume and severity.

The Group manages its risks at several levels with several methods.

Risk assessment is applied for labour safety; error, mode and impact analyses are conducted for manufacturing processes and product design. The results of the risk analysis, the corrective measures and implementation of the measures are reviewed by the management.

The management has a consolidated credit policy at group level and regularly monitors credit risks. Rába has elaborated a credit policy, within the framework of which each individual new customer is subjected to individual credit rating. A purchase limit is defined for each customer whose estimated turnover will be higher than HUF 5 million. The limit equals the maximum debt. Those limits are reviewed annually. The customers are rated and approved with the help of an electronic system, with which the Rába Group manages the customer risks consistently.

The interest rate risk, reflected in the interest rate conditions of financing, is managed in a consolidated manner at the level of the Rába Group, integrated into the financing, based on which the ratio of financing deals with variable and fixed interest rates is in balance.

The Rába group operates a cash pool system to improve the efficiency of its cash management and mitigate its financing risks. The cash pool system is ideal for optimising the available cash amount.

The Group assumes a foreign exchange risk in relation to any loan taken in any currency other than HUF. The currencies entailing a risk include primarily EUR and USD.

The exchange rate risks are hedged according to the currently effective hedge strategy, approved by the Board of Directors of Rába Plc. In 2016, the exchange rate hedge strategy did not change. The Group may enter into futures and options currency exchange deals in order to minimise the risk of exchange rate fluctuation. At Rába 70% of the net currency exposure, projected for the subsequent 6 months, may be hedged with forward deals and options. The Group did not enter into such deals in 2016.

At the end of 2016, the Group did not have any forward FX deals.

In line with the Group's risk management strategy, USD and EUR loans could be taken, which are reported among the financial liabilities and function as hedge deals to cover the risks of

USD/HUF and EUR/HUF exchange rates inherent in the USD and EUR revenues, projected according to the sales contracts (“Underlying transaction”). The transactions that are hedged effectively are cash flow hedge transactions. The results of those cash flow hedge transactions are recorded in the other overall profit/loss. The Group did not classify its loans recorded at the end of 2016 as cash-flow hedge transactions.

The Group manages the liquidity and cash flow risks with its customer and supplier rating system.

8. Events after the cut-off date

There were no extraordinary events after the cut-off date.

9. Miscellaneous

RÁBA Plc. has no shares granting special management rights.

The Company’s shareholders have identical voting and ownership rights (one share represents one vote). The Company’s own shares held by the Company grant no voting rights.

The Company’s shares may be transferred without restriction.

Unless otherwise provided by the Companies Act, the General Meeting will have the power to decide on raising the registered capital or authorising the Board of Directors to increase the registered capital, and to decrease the registered capital of the Company.

The General Meeting of Shareholders of the Company decides about the acquisition, sale, redeeming of treasury shares, authorises the Board of Directors to acquire, sell, redeem treasury shares or to accept offers received for the purchase of treasury shares, as well as authorises the Board of Directors to accept an interim balance sheet in the context of the acquisition of treasury shares, and decides about the sale of treasury shares amounting to or exceeding HUF 400 million.

The General Meeting will also decide on adopting and amending the Articles of Associations of the Company.

Company executives

The Board of Directors is the Company’s executive body whose members are elected by the General Meeting for a definite period of time not exceeding five years. The Board of Directors has 7 members. Each members of the Board of Directors shall serve until the date specified in the General Meeting resolution stipulating their election. Members of the Board of Directors may be recalled from office and may be re-elected after their term expires.

The Board of Directors shall exercise employer’s rights other than the fundamental employer’s rights that are within the exclusive powers of the General Meeting (performance requirement and associated remunerations, and authorisation of vacations and official trips) over the Chief Executive Officer, who is an employee of the Company).

Corporate Governance statements

The principal market of Rába’s shares is the Budapest Stock Exchange (BSE); accordingly, RÁBA abides by the company management principles developed in Hungary and the related statutory requirements.

RÁBA Plc.. applies the disclosure rules set out in the regulations, the rules of the BSE and the Company’s by-laws. The places of disclosure are the Company’s website (www.raba.hu) and the BSE’s official website, as well as Capital market publications system operated by the National Bank of Hungary.

The Company’s corporate governance documents are public.

Such documents include the Report on Responsible Corporate Governance and the Statement on Responsible Corporate Governance, in which the Company states the extent to which it applies the recommendations and suggestions set out in the relevant clauses of the Responsible Corporate Governance Recommendations (RCGR) published by the Budapest Stock Exchange in its own corporate governance practice.

The Company digresses from the RCGR recommendations to the extent that it does not operate a separate nomination committee and a remuneration committee, the tasks of which are performed by the Board of Directors and the General Meeting. The Remuneration Rules initiated by the General Meeting are in force. The members of the Board of Directors and the Supervisory Board (Audit Committee) are nominated by shareholder motion.

The Company's management is supervised by a Supervisory Board consisting of three persons. If all members of the Supervisory Board are independent, then they are automatically elected by the General Meeting to members of the Audit Committee. The Audit Committee comments on the annual report prepared according to the Accounting Act, follows the audit, is involved in the selection of the auditor and in preparing the contract to be executed with the auditor. The audit committee proposes the auditor and monitors the professional requirements and conflict of interest regulations for the auditor and performs actions to be taken in connection with cooperation with the auditor, evaluates the operation of the financial reporting system, and helps the work of the Board of Directors in order to properly control the financial reporting system. It monitors the services provided to the Company by the auditor in addition to the audit of the financial statements drawn up as per the Act on Accounting and makes proposal to the Board of Directors for measures to be taken if it is necessary. The Audit Committee also monitors the efficient operation of the internal controlling and risk management system.

The Company's system of internal controls:

- internal management and regulation of activities – the management exercises internal controls at the management fora of various levels, prompt action is taken to address any risks identified during meetings. Processes are governed by written managing director's, procedural and work instructions;
- independent internal audit, which operates under the supervision of the Supervisory Board, performs its activities based on an annual audit plan, supplemented by ad hoc audits.

Such internal controlling activity of the Holding encompasses the entire Group. Supervisory Board operate at each subsidiary, in accordance with the provisions of the Civil Code.

The remuneration principles applied within the Company are set forth in the Remuneration rules adopted by the General Meeting. Pursuant to the Statutes of the Company, performance requirements and the related benefits for managing executives as set forth in 208.§ (1) of the Labour Code (the top manager of the employer and his deputy) are determined by the Board of Directors. The Board of Directors evaluates the work of the Chairman-CEO and his deputy at least once per year.

Ownership structure, ownership stakes in Rába Plc.

Shareholder description	**Total registered capital**					
	Start of period (01 January)			**End of period (31 December)**		
	% [1]	**%** [2]	**pcs**	**%** [1]	**%** [2]	**pcs**
Domestic institution/company	5.77	5.92	777 267	7.83	7.90	1 054 460
Foreign institution/company	1.62	1.66	217 667	0.26	0.26	35 291
Foreign private individual	0.03	0.03	4 497	0.04	0.04	5 382
Domestic private individual	15.60	16.00	2 101 847	16.49	16.64	2 221 355
Employees, executive officers	0.14	0.14	18 738	0.14	0.14	18 738
Own shares	2.49		335 891	0.90		120 681
Shareholder who is a part of public finances	74.35	76.25	10 017 539	74.35	75.02	10 017 539
International Development Institutions	0.00	0.00	0	0.00	0.00	0
Other	0.00	0.00	0	0.00	0.00	0
TOTAL	**100.00**	**100.00**	**13 473 446**	**100.00**	**100.00**	**13 473 446**

[1] Ownership stake
[2] Voting right providing participation in the decision making at the general meeting of the issuer.

List of shareholders with a stake exceeding 5%

Name	Activity	Quantity (pcs)	Share (%)	Voting rights (%)
Magyar Nemzeti Vagyonkezelő Zrt.	Public finances	10 015 829	74.34	75.02

Number of treasury shares during the current year (pcs)

	1 January	31 March	30 June	30 September	31 December
Corporate level	335 891	332 064	120 681	120 681	120 681
Subsidiaries					
Total	335 891	332 064	120 681	120 681	120 681

Repurchased shares are all treasury shares directly held by the parent company.

According to the closing situation as at 31 December, 2016, compared to 31 December, 2015, the number of treasury shares repurchased declined by 215 210, the share option drawn.

Declaration

We the undersigned hereby declare and warrant that

- the enclosed consolidated annual report prepared in accordance with the applicable accounting regulations using our best efforts, give a true and accurate picture of the assets, liabilities, financial situation and profits of Rába Automotive Holding Plc., and the consolidated enterprises and
- the consolidated management report provides a reliable account of the situation, development and performance of Rába Automotive Holding Plc., and the consolidated enterprises, revealing major risks and factors of uncertainty.

Győr, 16 March, 2017

István Pintér
Chairman-CEO

Béla Balog
CFO

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Court of Registration: Győr Court of Justice as Court of Registration ▪ Registration number: Cg.08-10-001532
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