ANNUAL FINANCIAL STATEMENTS

based on consolidated, audited figures, according to IFRS

for the financial year ended December 31, 2018

Győr, April 11, 2019

Seat: H-9027 Győr, Martin út 1. ▪ Postal address: H- 9002 Győr, POB 50 ▪ Telephone: +36-96-622 600 ▪ Fax: +36-96-624 069
Court of Registration: Győr Court of Justice as Court of Registration ▪ Registration number: Cg.08-10-001532
E-mail: raba@raba.hu ▪ www.raba.hu

We engineer, you drive

Table of contents

Rába Járműipari Holding Nyrt.
Consolidated Financial Statements
for the year ended 31 December 2018

Date: Győr, 19 March 2019

Table of Contents

Building a better working world

Ernst & Young Kft.
Ernst & Young Ltd.
H-1132 Budapest Váci út 20.
1399 Budapest 62. Pf.632, Hungary

Tel: +36 1 451 8100
Fax: +36 1 451 8199
www.ey.com/hu
Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of RÁBA Járműipari Holding Nyrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying 2018 consolidated financial statements of RÁBA Járműipari Holding Nyrt. ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018 - showing a balance sheet total of HUF 42,079,253 thousand and a total comprehensive income for the year of HUF 1,196,925 thousand -, the related 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 2018 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") and has been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated annual financial statements prepared in accordance with EU IFRSs.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). 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 applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other 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.

Building a better working world

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 cut-off at Axle segment and risk that revenue is overstated

The Group's revenues amounted to HUF 48,632 million as of 31 December 2018 out of which 49.7% 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 that proper revenue recognition of Axle business segment and measurement of Group's sales revenue is significant to our audit and a key audit matter.	Our audit procedures included, among others, understanding the design 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 tested on a sample basis selected significant axle segment sales transactions that were closed before and after balance sheet date as well as credit notes issued after the year end date to assess 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.

Building a better working world

We also assessed the adequacy of the Group's disclosures in respect of revenue in the consolidated financial statements, including disclosure requirements of the new IFRS 15 standard.

The Group's disclosures about revenue and revenue recognition policies are included in Note 19 Revenues and Note 3 p) Revenues of the consolidated financial statements.

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 Impairment of inventories and net realisable value estimates, management judgement is required to establish that the carrying value of inventory of HUF 9,072 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 9,072 million represents 21.6% of total assets of Rába Group as of 31 December 2018. 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.	Our audit procedures included, among others, understanding the design 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 the 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 a sample of 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. Further details of accounting policy for inventories and inventory balances are shown in Note 3 l) Inventories and Note 11 Inventories of the consolidated financial statements.

EY
Building a better working world

Other information

Other information consists of the 2018 consolidated business report of the Group, which we obtained prior to the date of this auditor's report and the Annual Report of the Group, 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 1) 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 and 2) the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Our opinion on the consolidated business report should include the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law and we are required to confirm also whether the information prescribed in Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law have been made available and whether the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

In our opinion, the consolidated business report of the Group, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2018 is consistent, in all material respects, with the 2018 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Group further requirements with regard to its consolidated business report, we do not express opinion in this regard.

We also confirm that the Group have made available the information required according to Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law and that the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 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 other information, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

When we read the Consolidated Annual Report of the Group, 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 EU IFRSs and the supplementary requirements of the Hungarian Accounting Law relevant for consolidated annual financial statements prepared in accordance with 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 and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 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 and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, 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.

Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Building a better working world

Appointment and Approval of Auditor

We were appointed as the statutory auditor of RÁBA Járműipari Holding Nyrt. by the General Assembly of Shareholders of the Company on 13 April 2017. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 3 years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on 5 March 2019.

Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated business report and in the consolidated financial statements, no other services were provided by us to the Company and its controlled undertakings.

The engagement partner on the audit resulting in this independent auditor's report is Péter Mészáros.

Budapest, 19 March 2019

(The original Hungarian version has been signed.)

Mészáros Péter
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No. 001165

Bartha Zsuzsanna
Registered auditor
Chamber membership No.: 005268

Consolidated Statement of Financial Position

Assets

	Notes	31 December 2017	31 December 2018
Property, plant and equipment	7	15 818 383	19 144 678
Intangible assets	8	282 418	182 827
Investment property	9	338 217	338 217
Other investments	10	205	205
Deferred tax assets	24	39 424	22 063
Other non-current assets	10	397 320	332 616
Non-current assets, total		**16 875 967**	**20 020 606**
Inventories	11	7 007 620	9 071 589
Trade and other receivables	12	9 864 423	12 265 856
Income tax assets	24	51 515	37 672
Cash and cash equivalents	13	2 638 342	683 530
Current assets, total		**19 561 900**	**22 058 647**
Assets, total		***36 437 867***	***42 079 253***
Equity and liabilities			
Issued capital	14	13 473 446	13 473 446
Treasury shares	14	-108 952	-108 952
Retained earnings	14	6 613 450	7 500 457
Equity, total		**19 977 944**	**20 864 951**
Provisions	15	162 712	245 476
Long-term loans and borrowings	16	4 372 974	5 915 784
Deferred tax liability	24	83 392	103 531
Long-term liabilities, total		**4 619 078**	**6 264 791**
Provisions	15	119 194	244 467
Loans and borrowings payable within one year	16	1 581 719	2 186 268
Creditors and other accounts payable	17	10 139 932	12 518 776
Current liabilities, total		**11 840 845**	**14 949 511**
Equity and liabilities, total		***36 437 867***	***42 079 253***

Consolidated Statement of Comprehensive Income

	Notes	31 December 2017	31 December 2018
Revenues	19	43 842 346	48 631 833
Direct cost of sales	20	-34 577 393	-38 261 718
Gross profit		**9 264 953**	**10 370 115**
Selling and marketing costs	20	-571 314	-814 449
General and administrative costs	20	-6 483 927	-7 087 370
Other income	22	612 555	369 264
Other expenses	22	-673 446	-1 086 949
Other operating expenses, total		**-7 116 132**	**-8 619 504**
Operating profit		***2 148 821***	***1 750 611***
Finance income	23	68 240	179 091
Finance expenses	23	-169 148	-288 045
Profit before tax		**2 047 913**	**1 641 657**
Taxation	24	-479 155	-444 732
Profit for the year		**1 568 758**	**1 196 925**
Comprehensive income for the year		**1 568 758**	**1 196 925**
Basic earnings per share (HUF)	27	117	90
Diluted earnings per share (HUF)	27	117	90

.

Consolidated Statement of Changes in Equity

	Issued capital	Treasury shares	Retained earnings	Other comprehensive income	Total equity
Balance at 1 January 2017	**13 473 446**	**-108 952**	**5 314 151**	**0**	**18 678 645**
Profit for the year	0	0	1 568 758	0	1 568 758
Dividends paid from the profit for 2016	0	0	-269 459	0	-269 459
Balance at 31 December 2017	**13 473 446**	**-108 952**	**6 613 450**	**0**	**19 977 944**
Profit for the year	0	0	1 196 925	0	1 196 925
Dividends paid from the profit for 2017	0	0	-309 918	0	-309 918
Balance at 31 December 2018	**13 473 446**	**-108 952**	**7 500 457**	**0**	**20 864 951**

Consolidated Statement of Cash Flows

	Notes	31 December 2017	31 December 2018
Operating cash flows			
Profit before tax		2 047 913	1 641 657
Adjustments of non-cash items:			
Interest income	23	6 920	0
Interest expense	23	10 550	2 886
Depreciation and amortisation	7,8	1 950 767	2 039 511
Impairment loss on intangible and tangible fixed assets	7,8	24 439	26 127
Intangible and tangible fixed assets scrapped	7,8	16 180	38 393
Impairment loss on bad and doubtful debts and on long-term receivables	26	664	5 047
Impairment of inventories carried at net realisable value	22	182 800	266 175
Inventories scrapped	22	55 839	175 396
Changes in provisions	15	42 193	208 037
Losses on the disposal (contribution) of tangible and intangible fixed assets	22	-26 924	-4 599
Year-end revaluation of loans and borrowings	16	-16 896	105 511
Movements in working capital:			
Movements in debtors and other receivables	12	206 423	-2 404 530
Movements in inventories	11	-1 518 202	-2 505 540
Movements in creditors and other liabilities	18	-1 509 725	2 206 428
Taxes paid		-461 894	-393 390
Interest paid		-37 521	-52 979
Operating cash flows, net		**962 766**	**1 354 130**
Investing cash flows			
Acquisition of tangible and intangible fixed assets	7,8	-2 972 941	-5 046 784
Gains on the disposal of tangible and intangible fixed assets	7,8	31 392	5 594
Interest received	23	692	317
Investing cash flows, net		**-2 940 857**	**-5 040 873**
Financing cash flows			
Loans and borrowings, taken	16	4 652 899	7 073 073
Loans and borrowings, repaid	16	-1 667 102	-5 031 224
Dividends paid	14	-269 459	-309 918
Financing cash flows, net		**2 716 338**	**1 731 931**
Net increase/decrease in cash and cash equivalents		**738 247**	**-1 954 812**

Notes to the consolidated financial statements

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 balance sheet and the term “profit and loss account” is used for the statement of other 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 2018 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 2017 and 2018, the share book indicated the following shareholders:
:

	31 December 2017	31 December 2018
	%	%
Private investors	24,76	24,76
Magyar Nemzeti Vagyonkezelő Zrt.	74,34	74,34
Treasury shares	0,90	0,90
	100,00	100,00

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 19 March 2019.

b) Basis of measurement

Except for the items described in Note 4, the consolidated financial statements were prepared on the historical cost basis.

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) Uses of 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 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) Impairment loss on for bad and doubtful debts
The Group recognizes impairment loss 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 22,380 at 31 December 2017 and kHUF 27,427 on 31 December 2018. 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 1,950,767 for 2017 and kHUF 2,039,511 for 2018. 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 147,841 at 31 December 2017 and kHUF 149,776 at 31 December 2018.
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 in Note 4. The fair values at 31 December 2017 and 2018 are presented in the relevant notes.

vii) Impairment test of non-monetary assets

The Group performs annual 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, not 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 64,520 was recognised in 2018 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 2018. Estimation of fair value was made by reference to transactions involving properties of a similar nature, location and condition. The key assumptions and disclosures of the fair values of properties are presented 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

Changes in the accounting policies and disclosures

Except for the IFRSs as amended as adopted by the Group starting as of 1 January 2018, the accounting policies are consistent with those applied in the previous year.

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The purpose of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendment has no an impact on the Group.

- **IAS 7: Disclosure Initiative (Amendments)**
  The purpose of the Amendments is 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. The Amendments clarify that one way to fulfil the disclosure requirement is to present a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendment has no impact on the Group.

- **IFRS 9 Financial instruments: classification and measurement**
  The standard is effective from 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Management has made an assessment of the effect of the standard and considers that the amendments have no significant impact on the Group’s statement of financial position and equity.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective from 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has made an assessment of the effect of the standard and considers that the amendment has no impact on the Group’s result.

b) Standards issued but not yet effective nor applied early

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’ (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. These Amendments have not yet been endorsed by the EU. Management has assessed the Amendments and has concluded that they would not have a material impact on the preparation of the financial statements.

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.
  Management has assessed the effect of the introduction of IFRS 16 on the financial statements. The expected impact will not be significant.

c) New and amended standards and interpretations

The standards and interpretations effective for annual periods started on or after 1 January 2018 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) Associates are business entities over whose financial and operational policies the Group has significant influence, but has no control. A significant influence is probable where the Group holds 20 to 50 percent of the voting rights in another business entity. Joint ventures are business entities over which the Group has common control based on a contractual agreement and where strategic financial and operational decisions require a unanimous consent of the controlling parties.

Associates and joint ventures are recognised with the equity method (equity accounted investments), and are initially recognised at fair value.

iii) 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.

f) Financial instruments

No impairment loss is recognised upon initial recognition, if the Company expects, in view of historic and prospective information recovery of the full amount by the contractual payment deadline.

Receivables not due over 90 days are considered of low risk, and therefore are not impaired. Receivables due over 90 days a credit loss is recognised or the full term of the contract as such a delay is considered a material increase in credit risk and the debtor is classified as nonperforming as a result. Should prospects improve, the full term credit loss is cut back to 12 months of expected.

Trade receivables, contractual assets and lease receivables are classified into categories of similar credit risk features and are tested for impairment on a group basis. An impairment matrix is used to identify and recognise any credit risk for the entire contract term.

Trade receivables are aged and assessed for any increase in credit loss by portfolio (market categories) based on past statistics and on credit loss risk rates (hereafter: loss rates).

In order to avoid any distortion, where such information is affected by one-off material items and/or unrebuttable evidence proves that the delay in payment does not indicate a significant increase in credit risk, any impairment loss is assessed after such items have been set off.

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

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. Demand overdrafts form an integral part of the Group's funds management and are classified as cash and cash equivalents for cash flow statement purposes.

Trade and other receivables, contractual assets and other long-term assets
Debtors and other receivables, contractual assets and other long-term assets 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.
Receivables in the category with a historic (three-year) loss rate below 1% (receivables written off in the year/billed amount) are considered low risk upon initial recognition, and are not impaired as a result. Any credit loss expected on receivables outstanding at the balance sheet date is assessed by the Group on that date based on historic information and on the loss rate applicable to the assessed age category. No impairment loss is recognised where the applicable loss rate is below 1%, as these are low risk receivables.

Receivables that are not due over 90 days are considered of low risk and are not impaired, except when unrebuttable evidence exists that the debtor failed to pay up because of financial distress.

Other investments
Participation in other entities, i.e. investments that are not subsidiaries, associates or joint ventures, are recognised as other investments at initial cost.

Financial instruments measured at fair value through other comprehensive income
Financial instruments that are intended for disposal beyond their cash generating potential and generate cash flows at pre-determined points in time related purely to principal repayment and interest payment are measured at fair value through other comprehensive income.

Financial instruments measured at fair value through profit or loss
A financial instrument is classified as measured at fair value through profit or loss if it cannot be classified upon initial recognition either as measured at amortised initial cost or as measured at fair value through other comprehensive income (if the instrument is held for trading or was designated as measured at fair value through profit or loss upon initial recognition). Upon initial recognition, all attributable transactions costs are recognised

through profit or loss as and when they incur. Financial instruments measured at fair value through profit or loss are measured at fair value and any changes are presented in the profit and loss account.

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. Fair values are explained in the notes. The fair value of loans and borrowings for disclosure purposes equals the future principal amount and interest cash flows discounted to present value at arm's rate interest rates prevailing at the balance sheet date.

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 Company 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 Company 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.

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.

Leased assets are depreciated over the shorter of the useful the life of the asset or the lease term, unless reasonable assurance indicates that the Group will acquire ownership of the asset by the end of the lease term.

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) Foundation/Restructuring, Research and development
The cost of research is expensed as and when they incur. Development costs attributable to a project can been carried forward if evidence exists for future recovery.
No research and development or foundation/restructuring expense is capitalised among intangible assets. Such expenses are recognised as indirect cost through current year's profit or loss. Development costs may be capitalised subject to case by case judgment provided that evidence exists for their recoverability.

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

iii) Subsequent costs
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 on brand names, is recognized in profit or loss as and when incurred.

iv) Amortisation
Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, except goodwill, 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 recorded at initial cost.
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

A contract between a lessor and lessee that allows the lessee rights to the use of an asset owned or managed by the lessor for a period of time.
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.

Other leases include operating leases. The assets leased under operating lease arrangements are not presented in the Group's balance sheet.

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.

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

Individually significant financial assets are tested for impairment on an individual basis. The difference between the initial cost of a financial asset (all cash flows attributable to the asset during its useful life) and the expected realisable cash flows as discounted with the initial effective interest rate is assessed at each balance sheet date. This difference should be assessed for both the entire useful life of the asset and for the next 12 months from the balance sheet date. Where there is a significant increase in credit risk since initial recognition, the recognised impairment loss should be adjusted for any anticipated credit loss due to potential non-performance events during the life of the 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.

No impairment loss is recognised upon initial recognition, if the Group expects, in view of historic and prospective information recovery of the full amount by the contractual payment deadline.

Receivables not due over 90 days are considered of low risk, and therefore are not impaired. Receivables due over 90 days a credit loss is recognised or the full term of the contract as such a delay is considered a material increase in credit risk and the debtor is classified as nonperforming as a result. Should prospects improve, the full term credit loss is cut back to 12 months of expected.

Trade receivables, contractual assets and lease receivables are classified into categories of similar credit risk features and are tested for impairment on a group basis. An impairment matrix is used to identify and recognise any credit risk for the entire contract term.

Trade receivables are aged and assessed for any increase in credit loss by portfolio (market categories) based on past statistics and on credit loss risk rates (hereafter: loss rates).
In order to avoid any distortion, where such information is affected by one-off material items and/or unrebuttable evidence proves that the delay in payment does not indicate a significant increase in credit risk, any impairment loss is assessed after such items have been set off.

Receivables in the category with a historic (three-year) loss rate below 1% (receivables written off in the year/billed amount) are considered low risk upon initial recognition, and are not impaired as a result.

Any credit loss expected on receivables outstanding at the balance sheet date is assessed by the Group on that date based on historic information and on the loss rate applicable to the assessed age category. No impairment loss is recognised where the applicable loss rate is below 1%, as these are low risk receivables.

Receivables that are not due over 90 days are considered of low risk and are not impaired, except when unrebuttable evidence exists that the debtor failed to pay up because of financial distress

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 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 loss on cash generating units is recognised by first reducing the book value of the goodwill attributable to the impaired cash generating units, then the book value of the cash generating unit's (or group of units) other assets is reduced on a pro rata basis.

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
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.

Hungarian contributions and taxes are paid at the statutory rates in force during the year. 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.
The Group pays Social Contribution Taxes.

o) 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. If the event of a significant impact, 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
Provision for warranties is recognized when the underlying products or services are sold. The provisions are based on historical warranty information and a weighting of all possible outcomes against all 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.

Environmental liabilities
Environmental expenses related to future revenues are expensed as and when they incur. The current restoration costs of environmental damage caused by past operations are expensed unless they contribute to the generation of present and future revenues.

p) Revenues
The Group's three strategic business lines manufacture axles, axle master units and parts for industrial vehicles, farming and power machines as well as parts for industrial vehicles and passenger cars, and special vehicles.

The Group's contractual obligations (guarantees, payment deadlines and quality warranty obligations) are typically similar across all geographical regions and are typical of the automotive industry.

In line with general industry practice, the prices in the Group's contracts are typically set in USD or EUR.

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 view of the assessed contracts, the Company has concluded that the judgment of those contracts under IFRS 15 does not depart significantly from the presentation and recognition applied before. Nothing was identified in the assessed contracts that would cause significant differences between the invoiced prices and the recognisable prices as, for instance, a certain price fluctuation range is set in the contracts and apply only when certain requirements (volume or other indirect requirements) are met. The assessed contracts typically serve as a framework for the Company's business, and the uncancellable commitments (waivers, sanctions) take effect when an order is placed or a facility is used.

Each general contract, in which the unit prices of the products to be delivered are pre-set for years irrespective of the expected volumes, other information and the economic environment at the date of the contract, contains a clause that allows for special negotiations/mediation between the parties to address any unexpected significant occurred/predictable changes. Such special arrangements typically apply only so long as the significant changes in the circumstances prevail and are intended to remedy the situation between the parties and will not be integral to the underlying general contract. Special arrangements are also used to determine from when the agreed changed prices/extra covenants will apply and endorsed by the parties.

i. financing obligation

The Group's standard payment deadlines vary between 30 to 90 days following delivery.

Where a business partner is required to meet their payment obligations up to within one year after contractual delivery, the Group normally does not stipulate any financing obligation that should be treated separately.
If the payment deadline for a particular business partner would exceed one year following delivery, for revenue recognition the Group applies a discount rate which equals the separate price of an arm's length financing obligation.

ii. warranty obligations related to selling

The Group undertakes typical industry warranty obligations for its products and are presented in the financial statements in accordance with IAS 37.

iii. contractual assets

Unavoidable (incremental) costs of winning a contract that are expected to be recovered during the term of the contract are not typical of the Company's operations and are therefore not presented among its assets.

iv. initial recognition of receivables

The Company continuously monitors its markets and business partners, analyses the related risks and adjusts its collection and shipping policies accordingly in an effort to keep non-payment risk at the minimum.

Unconditional trade receivables are initially recognised in line with IFRS 9. If the Group becomes aware of circumstances which indicate that there may be a material difference between the expected compensation and the value measured under IFRS 9, the difference is reflected upon initial recognition. The expected loss rates are revised annually by the Group.

v. advances received from debtors

Any payments received from the Group's customers before delivering on any contractual obligation are presented among liabilities until the related obligations are met.

Assets/goods sold
Revenue is recognized when the performance obligations under an identified contract with a customer have been met. If a contract is not fully identifiable, revenues is recognised when the obligation is satisfied or the contract ends or is suspended and most of the consideration payable by the customer has been collected in a non-refundable manner.

q) Subsidies

Subsidies are recognized initially as deferred income or as reserve when there is reasonable assurance that they will be received and 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.
Gross amounts are recognised and presented.
Subsidies received may not be directly presented as changes in equity.

r) Financial income and expenses

Financial income comprises: interest on investments, interest on financial instruments with a material financing component, 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.

Financial expenses comprise: interest expense on loans, bank documentary transaction costs, costs associated with payment risks assumed (e.g. guarantee fees, letter of credit expenses etc.), leasing administration costs, provision discount breakdowns, interest on financial instruments with a material financing component, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on certain financial assets and losses realised on hedging instruments presented in the profit and loss account. All borrowing costs are presented in the profit and loss account by using the effective interest rate method.

Foreign exchange gains and losses are presented after having netted off.

s) Income taxes

Income tax expenses include the current tax expense and deferred tax. Income tax expense is recognized in profit or loss except for items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year and municipal tax calculated using tax rates actually or practically in effect 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 their current tax liabilities and assets on a net basis or will realise 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.

Current and deferred tax are both recognised directly in equity when relate to items which the Group recognised in equity in the same or in another period.

Any additional income tax related to dividends is presented at the same time when the related dividends payment liability is presented.

t) 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.

u) 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 Group 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 ordinary shares with a dilutive potential, 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.
Fair value is the sale price agreed upon by a willing buyer and seller, assuming both parties enter the transaction freely and knowledgeably.

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 2018.

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

Receivables from the sale of assets
The fair value of receivables from the sale 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 27,427 on overdue receivables at 31 December 2018 (2017: kHUF 22,380). 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.

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 2017 and 2018, the Group 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 exchange at spot rates when necessary to address short-term balances.

According to Rába Group's accounting policies, in accordance with 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 2018, 84% of the Group's revenues were earned in EUR and 3% in USD (2017: EUR: 81%, USD: 3%).

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 2017 and 2018, 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 2017 and 2018 Rába met these externally imposed capital requirements.

f) Equity position of the Group

At 31 December 2018, the Group's equity totalled kHUF 20,864,951 (31 December 2017: 19,977,944), issued capital of kHUF 13,473,446 (31 December 2017: kHUF 13,473,446) and had an equity to issued capital ratio of 155 % (31 December 2017: 148%). The equity ratio improved as a result of the Group's improving operations.

Note 6 Companies included in the consolidation

	Shareholding	
	2017	2018
	%	%
Rába Futómű Kft.	100,0	100,0
Rába Járműalkatrész Kft.	100,0	100,0
Rába Jármű Kft.	100,0	100,0

The subsidiaries prepare and disclosed their financial statements as at 31 December in accordance with the Hungarian accounting act and with other applicable local statute. The Company's share in its subsidiaries equals the percentage of control.

a) Rába Futómű Kft.

Registered seat: Martin út 1., 9027 Győr, Hungary. Issued capital at 1 January 2017 and at 31 December 2017 and 2018: kHUF 9,762,800. The total issued capital was contributed to Rába Futómű Kft. by Rába Járműipari Holding Nyrt.

Rába Futómű Kft. 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. The company operates in Győr.

b) Rába Járműalkatrész Kft.

Registered seat: Martin út 1., 9027 Győr, Hungary. Issued capital at 1 January 2017, and at 31 December 2017 and 2017: kHUF 300,000. The total issued capital was contributed to Rába Járműalkatrész Kft. by Rába Járműipari Holding Nyrt.

Rába Járműalkatrész Kft. manufactures vehicle components such as seats and seat components (seat frames, upholstery), utility vehicle components, units, and machine cut heavy duty vehicle components. The company operates at two permanent establishments at Mór and Sárvár.

c) Rába Jármű Kft.

Registered seat: Martin út 1., 9027 Győr, Hungary. Issued capital at 1 January 2017, and at 31 December 2017 and 2018: kHUF 835,100. The total issued capital was contributed to Rába Jármű Kft. by Rába Járműipari Holding Nyrt.

Rába Jármű Kft. manufactures undercarriages for trucks and buses and related components, other metal structures for the vehicle industry and also assembles vehicles. The company operates in Győr.

Note 7 Property, plant and equipment

	Land and buildings	Machinery, equipment	Capital exoenditures	Total
Cost				
Balance at 1 January 2017	12 176 092	34 745 107	642 283	47 563 482
Additions	0	0	3 180 874	3 180 874
Posted from capital expenditures	156 998	1 594 051	-1 751 049	0
Disposals	-35 606	-311 067	0	-346 673
Balance at 31 December 2017	**12 297 484**	**36 028 091**	**2 072 108**	**50 397 683**
Accumulated depreciation				
Balance at 1 January 2017	3 936 354	29 217 581	0	33 153 935
Depreciation for the year	243 732	1 483 218	0	1 726 950
Impairment loss	24 439	0	0	24 439
Decrease	-30 243	-295 781	0	-326 024
Balance at 31 December 2017	**4 174 282**	**30 405 018**	**0**	**34 579 300**
Net book value at 1 January 2017	**8 239 738**	**5 527 526**	**642 283**	**14 409 547**
Net book value at 31 December 2017	**8 123 202**	**5 623 073**	**2 072 108**	**15 818 383**

	Land and buildings	Machinery, equipment	Capital exoenditures	Total
Cost				
Balance at 1 January 2018	12 297 484	36 028 091	2 072 108	50 397 683
Additions	0	0	5 299 267	5 299 267
Posted from capital expenditures	1 131 488	2 164 233	-3 295 721	0
Disposals	-327 091	-681 776	-3 011	-1 011 878
Balance at 31 December 2018	**13 101 881**	**37 510 548**	**4 072 643**	**54 685 072**
Accumulated depreciation				
Balance at 1 January 2017	4 174 282	30 405 018	0	34 579 300
Depreciation for the year	289 037	1 621 684	0	1 910 721
Impairment loss	14 931	22 183	0	37 114
Decrease	-314 584	-672 157	0	-986 741
Balance at 31 December 2018	**4 163 666**	**31 376 728**	**0**	**35 540 394**
Net book value at 31 December 2018	**8 938 215**	**6 133 820**	**4 072 643**	**19 144 678**

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 2017 or 2018.

Collateral

To secure bank loans, mortgages on properties totalled HUF 7,485 million at 31 December 2018 (2017: HUF 6,610 million).

Assets written down to zero but still in use:

	Land and buildings	Machinery and equipment	Total
1 January 2017			
Cost	123 372	18 122 204	**18 245 576**
Accumulated depreciation	123 372	18 122 204	**18 245 576**
Net book value	0	0	**0**
31 December 2017			
Cost	96 894	12 141 420	**12 238 314**
Accumulated depreciation	96 894	12 141 420	**12 238 314**
Net book value	0	0	**0**
31 December 2018			
Cost	151 915	14 676 890	**14 828 805**
Accumulated depreciation	151 915	14 676 890	**14 828 805**
Net book value	0	0	**0**

Note 8 Intangible assets

	Research and development	Intellectual property	Concessions and similar rights	Total
Cost				
Balance at 1 January 2017	1 116 151	417 462	1 432 942	2 966 555
Additions - internal development	3 624	0	708	4 332
Additions - acquisition	2 006	0	339	2 345
Disposals	-43 959	0	-26 428	-70 387
Balance at 31 December 2017	**1 077 822**	**417 462**	**1 407 561**	**2 902 845**
Accumulated amortisation				
Balance at 1 January 2017	874 405	416 165	1 176 426	2 466 996
Amortisation charge	155 124	619	68 075	223 818
Decrease	-43 959	0	-26 428	-70 387
Balance at 31 December 2017	**985 570**	**416 784**	**1 218 073**	**2 620 427**
Net book value at 1 January 2017	**241 746**	**1 297**	**256 516**	**499 559**
Net book value at 31 December 2017	**92 252**	**678**	**189 488**	**282 418**
Cost				
Balance at 1 January 2018	1 077 822	417 462	1 407 561	2 902 845
Additions - internal development	871	0	24 777	25 648
Additions - acquisition	476	0	18 567	19 043
Disposals	-14 009	0	-1 361	-15 370
2018. december 31-i egyenleg	**1 065 160**	**417 462**	**1 449 544**	**2 932 166**
Accumulated amortisation				
Balance at 1 January 2018	985 570	416 784	1 218 073	2 620 427
Amortisation charge	55 669	219	73 106	128 994
Extraordinary amortisation	0	0	1 279	1 279
Decrease	0	0	-1 361	-1 361
Balance at 31 December 2018	**1 041 239**	**417 003**	**1 291 097**	**2 749 339**
Net book value at 31 December 2018	**23 921**	**459**	**158 447**	**182 827**

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:

- Development of wiring lining production for new expandable plastic products

- arm-rest upholstery development
- seat padding foam production development

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.

Assets written down to zero but still in use:

	Research and development	Rights and concessions	Intellectual property	Total
1 Jan 2017				
Cost	520 184	367 987	412 544	**1 300 715**
Accumulated amortisation	520 184	367 987	412 544	**1 300 715**
Net book value	0	0	0	**0**
31 Dec 2017				
Cost	880 652	360 707	414 957	**1 656 316**
Accumulated amortisation	880 652	360 707	414 957	**1 656 316**
Net book value	0	0	0	**0**
31 Dec 2018				
Cost	1 182 143	376 498	416 724	**1 975 365**
Accumulated amortisation	1 182 143	376 498	416 724	**1 975 365**
Net book value	0	0	0	**0**

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 5,338,000 at 31 December 2018 (kHUF 5,112,000 at 31 December 2017). Concerning investment property the Group 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 Dec 2017	31 Dec 2018
Long-term advances given	262 935	199 331
Long-term receivables	3 986	2 886
Receivables from asset disposals	130 399	130 399
Other long-term assets, total	**397 320**	**332 616**

Long-term advances given
This includes two long-term advances given with a closing balance of HUF 199 million at 31 December 2018 (31 December 2017: HUF 263m) from the partial redemption of a long-term (10-year) contractual operating obligation under favourable conditions over the remaining 5 years of its term. The service contract is secured against bankruptcy. The advance payment is not interest bearing and was discounted based on an assumption of equal cash outflows in each year The discounted value of the initial cost of kHUF 283,660 the discounted value is 268,719 kHUF out of which the 199,331 is the long-term part and 69,388 kHUF is the closing balance of the related short-term receivables. The impact of discounting on the reporting year is 7,311 kHUF.

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

Receivables from assets disposals
Receivables from assets disposals include the amount receivable from the sale of a property and is expected to be recovered in 2020.

Other investments
Investments did not change in 2018 and remained at kHUF 205.

Note 11 Inventories

	31 Dec 2017	31 Dec 2018
Raw materials	3 975 621	5 311 632
Work in progress	2 119 849	2 511 526
Finished goods	750 019	994 093
Goods	162 131	254 338
Inventories, total	**7 007 620**	**9 071 589**

Impairment loss was recognized as follows:

	2017	2018
Opening value on 1 January	702 618	747 909
Impairment loss recognised in the reporting year	182 800	266 175
Written off due disposal, scrapping or use	-137 509	-164 490
Inventories, total	**747 909**	**849 594**

Collateral
At 31 December 2018 mortgages were registered on inventories in a carrying amount of HUF 6,244 million (2017: HUF 4,702 million) to secure bank loans.

Note 12 Trade and other receivables

	31 December 2017	31 December 2018
Receivables from debtors	5 813 285	6 976 340
Impairment loss on bad and doubtful debts	-22 380	-27 427
Debtors, net	5 790 905	6 948 913
Advance payments	3 308 116	4 432 304
Accrued income	19 693	22 943
VAT receivable	626 404	688 946
Other	119 305	172 750
Receivables, total	**9 864 423**	**12 265 856**

Trade receivables	31 December 2017	31 December 2018
Forint	1 260 656	1 402 044
EUR	4 301 740	5 219 612
USD	250 853	354 647
GBP	36	37
Total	**5 813 285**	**6 976 340**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is discussed in Notes 5 and 26.

Note 13 Cash and cash equivalents

	31 Dec 2017	31 Dec 2018
Bank	2 637 074	682 323
Cash	1 268	1 207
Cash and cash equivalents, total	**2 638 342**	**683 530**

	31 Dec 2017	31 Dec 2018
HUF	786 144	6 575
EUR	1 521 932	539 683
USD	330 266	137 272
Cash and cash equivalents in HUF	**2 638 342**	**683 530**

The average interest rate of cash and cash equivalents was 0.02% at 31 December 2018 and 0.04 % at 31 December 2017.
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 kHUF 317 was earned on cash and cash equivalents in 2018.

Note 14 Equity

Issued capital

At 31 December 2018, issued capital consisted of 13,473,446 category 'A' ordinary shares listed at the Budapest Stock Exchange (2017: 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 Company's other assets.

Treasury shares

Treasury shares held totalled kHUF 108,952 (120 681 shares) at 31 December 2018 and kHUF 108,952 (120 681 shares) at 31 December 2017. 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 Group had no other comprehensive income either at 31 December 2017 or at 31 December 2018.

Dividends paid

With resolution No. 3/2018.04.12, the annual shareholders' meeting of Rába Járműipari Holding Nyrt. held on 12 April 2018 decided, in line with sections 31-35 of its Company Statutes, to pay dividends of HUF 23 per share of HUF 1,000 face value each from the profits for 2016 plus retained earnings. The amounts of dividends attributable to the Group's treasury shares are distributed among the shareholders as apportioned to the percentage of their investment in accordance with the Company Statutes.

The payment of dividends started on 29 May 2018.

The right to uncollected dividends lapses within five years of the first day of dividend payment (when paying dividends falls due).

By also paying dividends on treasury shares, dividends of HUF 23.21 were paid per share of HUF 1,000 face value each.

The number of shares entitled to dividends (less treasury shares) was 13,352,765 and distributable profits totalled kHUF 309,918. The amount of dividends approved but not paid by the end of the reporting period due to outstanding information for clerical purposes was kHUF 409.

Related transaction costs totalling kHUF 10,900 were paid to KELER Zrt., the entity through which the dividends were paid, and deducted from the annual profit.

Note 15 Provisions

	Warranties	Legal cases	Employee related	Other	Total
Opening at 1 Jan 2017	**142 860**	**5 984**	**48 997**	**41 872**	**239 713**
Provisions made	55 642	0	52 026	66 114	173 782
Provisions used	-10 123	0	-49 000	-24 663	-83 786
Provisions released	-40 536	-3 100	0	-4 167	-47 803
Closing at 31 Dec 2017	**147 843**	**2 884**	**52 023**	**79 156**	**281 906**
Provisions made	39 069	1 497	50 000	246 618	337 184
Provisions used	-10 332	0	-52 023	-4 345	-66 700
Provisions released	-26 804	-4 381	0	-31 262	-62 447
Closing at 31 Dec 2018	**149 776**	**0**	**50 000**	**290 167**	**489 943**

	Warranties	Legal cases	Employee related	Other	Total
Long-term provision	118 896	2 884	0	40 932	162 712
Short-term provision	28 947	0	52 023	38 224	119 194
31 December 2017	**147 843**	**2 884**	**52 023**	**79 156**	**281 906**
Long-term provision	149 776	0	0	95 700	245 476
Short-term provision	0	0	50 000	194 467	244 467
31 December 2018	**149 776**	**0**	**50 000**	**290 167**	**489 943**

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.

Liabilities related to personnel
At 31 December 2018, a provisions was made for the expected termination and resignation expenses in accordance with the relevant provisions of the Labour Code and the covenants of the statutory Collective Labour Agreement.

Other
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 2018 when it will reach 50% of the provision made (kHUF 244,467; long-term: kHUF 245,476).

Note 16 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 60 million and exchange rate gains arising from changes to currency rates totalled HUF 45 million.

Repayment schedule of loans and borrowings:

	31 Dec 2017	31 Dec 2018
Within one year	1 581 719	2 186 268
Over one year	4 372 974	5 915 784
Between one and five years	4 372 974	5 915 784
Loans and borrowings, total	**5 954 693**	**8 102 052**

In 2018, the Group signed two 5-year, fix interest bearing loan agreements which were used during the course of 2018. Accordingly, the debt on an earlier mid-term loan agreement was bullet paid.

Loans and borrowings:

Type	Currency	Matures in	31 Dec 2017	31 Dec 2018
Secured bank loan	EUR	2020	1 116 504	771 624
Secured bank loan	EUR	2020	1 116 504	0
Secured bank loan	EUR	2021	1 860 840	1 929 060
Secured bank loan	EUR	2022	1 860 840	1 543 248
Unsecured bank loan	HUF	2017	5	0
Secured bank loan	EUR	2023	0	1 929 060
Secured bank loan	EUR	2023	0	1 929 060
Loans and borrowings, total			**5 954 693**	**8 102 052**

In 2018, the weighted average interest rate of the loans was 0.8 % (2017: 0.9 %).

The Group had no financial leasing liabilities either in 2018 or in 2017.

Mortgages at 31 December 2017:

Company	**Bank**	**Asset category**	**Asset value* (HUF million)**
Rába Nyrt.	CIB	property	3 848
Rába Nyrt.	RAIFFEISEN	property	487
Rába Futómű Kft.	RAIFFEISEN	inventory	4 702
Rába Futómű Kft.	Budapest Bank Zrt.	trade receivables	400
Rába Futómű Kft.	CIB	trade receivables	300
Rába Futómű Kft.	RAIFFEISEN	trade receivables	355
Rába Járműalkatrész Kft.	COMMERZBANK	property	2 275

Mortgages at 31 December 2018:

Company	**Bank**	**Asset category**	**Asset value* (HUF million)**
Rába Nyrt.	CIB	property	3 944
Rába Nyrt.	RAIFFEISEN	property	491
Rába Nyrt.	COMMERZBANK	insurance policy	n.a.
Rába Futómű Kft.	RAIFFEISEN	inventory	6 244
Rába Futómű Kft.	Budapest Bank Zrt.	trade receivables	360
Rába Futómű Kft.	CIB	trade receivables	224
Rába Futómű Kft.	RAIFFEISEN	trade receivables	624
Rába Járműalkatrész Kft.	COMMERZBANK	property	3 050
Rába Jármű Kft.	CIB	trade receivables	115

* 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 2018, the date of assessment.

Note 17 Trade and other payables

	31 Dec 2017	31 Dec 2018
Creditors	7 110 732	8 898 492
Advances received	219 686	220 694
Accrued expenses	473 431	688 334
Deferred income	157 474	154 268
Deferred government subsidy	1 102 857	1 263 079
Wages and related contributions	828 412	825 231
VAT liability	140 564	182 126
Other	106 776	286 552
Trade and other payables	**10 139 932**	**12 518 776**

Deferred income from government subsidies:

	Subsidies received	Used in prior years	Opening balance	Current year subsidy	Used in the year	Closing balance
Rába Futómű Kft.	1 720 732	1 068 664	652 068	0	112 935	539 133
Rába Járműalkatrész Kft.	258 942	165 192	93 750	364 610	46 174	412 186
Rába Jármű Kft.	644 043	287 004	357 039	0	45 279	311 760
Total	**2 623 717**	**1 520 860**	**1 102 857**	**364 610**	**204 388**	**1 263 079**

Management believes that no circumstance prevailed on 31 December 2018, based on which the subsidies could have been reclaimed from any of the Group companies.

Breakdown of creditors by currency:

Trade payables	**31 Dec 2017**	**31 Dec 2018**
HUF	2 151 236	2 594 509
EUR	4 875 823	6 245 405
USD	83 227	58 063
SEK	441	502
RUB	5	13
Total	7 110 732	8 898 492

The Group’s exposures to currency and liquidity risk related to trade and other payables are disclosed in Notes 5 and 26.

Note 18 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 Dec 2017	**Axle**	**Vehicles**	**Vehicle components**	**Unallocated**	**Intersegment eliminations**	**Consolidated**
Extra-segment revenues	21 326 138	10 038 845	12 251 022	226 341		43 842 346
Intersegment revenues	713 535	270 349	690 228	1 397 540	-3 071 652	0
Sales revenues, total	**22 039 673**	**10 309 194**	**12 941 250**	**1 623 881**	**-3 071 652**	**43 842 346**
Direct cost of sales	**-17 209 814**	**-8 170 261**	**-10 668 853**	**-366 192**	**1 837 727**	-34 577 393
Gross profit	**4 829 859**	**2 138 933**	**2 272 397**	**1 257 689**	**-1 233 925**	**9 264 953**
Selling and marketing costs	-393 391	-105 607	-28 698	-43 618	0	-571 314
General and administrative costs	-3 556 632	-1 314 427	-1 708 830	-953 308	1 049 270	-6 483 927
Other income	387 148	72 292	149 049	5 010	-944	612 555
Other expenses	-283 561	-84 440	-77 436	-228 953	944	-673 446
Other operating expenses	**-3 846 436**	**-1 432 182**	**-1 665 915**	**-1 220 869**	**1 049 270**	**-7 116 132**
Operating profit or loss	**983 423**	**706 751**	**606 482**	**36 820**	**-184 655**	**2 148 821**
Interest income	19 942	18 714	930	77 011	-108 986	7 611
Interest expense	-34 722	-13 019	-20 679	-23 559	43 907	-48 072
Tax expense	-208 532	-114 899	-142 631	-13 093	0	-479 155
Assets						
Property, plant and equipment	4 831 156	1 630 238	3 278 108	6 078 883	0	15 818 385
Intangible assets	153 200	46 427	67 620	15 170	0	282 417
Investment property	0	0	0	338 217	0	338 217
Other non-current assets	230 314	20 808	14 699	1 465 240	-1 333 741	397 320
Inventories	4 701 787	957 046	1 370 444	8 617	-30 273	7 007 621
Trade and other receivables	8 227 068	5 178 035	1 414 194	548 148	-5 503 022	9 864 423
Cash and cash equivalents	362 374	2 272	3 464	2 270 233	0	2 638 343
Liabilities						
Provisions	56 826	157 876	0	67 201	0	281 903
Creditors and other payables	5 667 976	2 158 635	2 600 894	5 215 447	-5 503 024	10 139 928
Financial liabilities	0	0	0	81 065	-81 065	0
Capital expenditures	1 279 936	134 452	1 324 682	257 108	-1 000	2 995 178
Depreciation and amortisation	1 122 297	223 719	396 557	208 267	-73	1 950 767

31 Dec 2018	**Axle**	**Vehicles**	**Vehicle components**	**Unallocated**	**Intersegment eliminations**	**Consolidated**
Extra-segment revenues	24 168 384	10 078 031	14 153 237	232 181		48 631 833
Intersegment revenues	858 112	302 964	907 472	1 263 655	-3 332 203	0
Sales revenues, total	**25 026 496**	**10 380 995**	**15 060 709**	**1 495 836**	**-3 332 203**	**48 631 833**
Direct cost of sales	**-20 133 685**	**-7 978 810**	**-12 295 916**	**-376 123**	**2 522 816**	-38 261 718
Gross profit	**4 892 811**	**2 402 185**	**2 764 793**	**1 119 713**	**-809 387**	**10 370 115**
Selling and marketing costs	-468 879	-280 273	-19 905	-45 392	0	-814 449
General and administrative costs	-3 641 541	-1 230 723	-1 964 926	-1 056 350	806 170	-7 087 370
Other income	198 875	54 707	119 569	642 618	-646 505	369 264
Other expenses	-352 482	-224 013	-246 722	-276 369	12 637	-1 086 949
Other operating expenses	**-4 264 027**	**-1 680 302**	**-2 111 984**	**-735 493**	**172 302**	**-8 619 504**
Operating profit or loss	**628 784**	**721 883**	**652 809**	**384 220**	**-637 085**	**1 750 611**
Interest income	9 734	17 992	1 383	81 003	-102 483	7 629
Interest expense	-35 222	-17 436	-18 971	-18 354	26 808	-63 175
Tax expense	-165 113	-113 085	-152 351	-14 183	0	-444 732
Assets						
Property, plant and equipment	8 110 796	1 519 310	3 438 234	6 076 338	0	19 144 678
Intangible assets	96 191	46 579	27 248	12 809	0	182 827
Investment property	0	0	0	338 217	0	338 217
Other non-current assets	175 296	15 774	11 147	1 503 882	-1 373 483	332 616
Inventories	6 101 128	1 299 433	1 696 780	8 028	-33 780	9 071 589
Trade and other receivables	8 990 260	6 718 299	1 723 044	2 311 343	-7 477 090	12 265 856
Cash and cash equivalents	227 602	2 314	3 927	449 687	0	683 530
Liabilities						
Provisions	50 000	231 197	41 280	167 466	0	489 943
Creditors and other payables	7 919 255	3 464 407	3 169 513	5 442 691	-7 477 090	12 518 776
Financial liabilities	0	0	0	-81 065	81 065	0
Capital expenditures	4 053 569	182 985	603 391	217 598	0	5 057 543
Depreciation and amortisation	1 113 826	228 459	481 453	216 064	-291	2 039 511

Note 19 Revenues

Revenues by geographical segment were as follows:

	31 Dec 2017	31 Dec 2018
Europe	39 927 309	44 041 965
- of which: Hungary	15 236 575	15 826 737
American continent	2 579 554	2 866 299
Asia	1 324 815	1 713 793
Australia	10 668	9 776
Revenues, total	**43 842 346**	**48 631 833**

Revenues by type of operations were as follows:

	31 Dec 2017	31 Dec 2018
Sale of goods	42 311 605	46 622 748
Services rendered	1 367 967	1 843 292
Rental income	159 693	165 793
Other income	3 081	0
Revenues, total	**43 842 346**	**48 631 833**

Note 20 Operating costs

	31 Dec 2017	31 Dec 2018
Materials	26 679 699	30 107 447
Services used	5 665 004	6 636 254
Payments to personnel	7 616 648	8 234 326
Depreciation and amortisation	1 950 767	2 039 511
Capitalised own performance	-279 484	-854 001
Operating costs, total	**41 632 634**	**46 163 537**
Direct cost of sales	34 577 393	38 261 718
Sales and marketing costs	571 314	814 449
General and administrative costs	6 483 927	7 087 370
Operating costs, total	**41 632 634**	**46 163 537**

Note 21 Payments to personnel

	31 Dec 2017	31 Dec 2018
Payroll costs	5 589 472	6 182 837
Payroll taxes	1 329 040	1 330 203
Other payments to personnel	698 136	721 286
Payments to personnel, total	**7 616 648**	**8 234 326**

The average number of staff in 2018 was 1,452 (2017: 1,541).

Note 22 Other income and expenses

	31 Dec 2017	31 Dec 2018
Gains on fixed asset disposals	26 924	4 599
Damages and penalty payments received	61 835	70 780
Government subsidies	205 352	204 388
Barred liabilities	61 408	6 843
Late payment interest received	188 583	0
Other	68 453	82 654
Other income, total	**612 555**	**369 264**
Taxes	-194 903	-205 827
Impairment of inventories	-182 800	-266 175
Inventories scrapped	-55 839	-175 396
Fixed assets scrapped, extraordinary depreciation	-40 619	-64 520
Impairment of debtors	-10 271	-9 789
Provisions	-173 783	-274 738
Provisions not fulfilled	47 804	62 447
Compensation and damages	-53 317	-82 647
Other	-9 718	-70 304
Other expenses, total	**-673 446**	**-1 086 949**
Other income and expenses, net	**-60 891**	**-717 685**

Other income and expenses included items incurred in the normal course of business in 2018. Following a review of tangible and intangible assets, a total impairment loss of HUF 65 million was recognised on some of the assets.

Note 23 **Financial income and expenses**

	31 Dec 2017	31 Dec 2018
Interest income	7 611	7 629
Foreign exchange gain on creditors	60 629	0
Foreign exchange gain on foreign currencies held and on FX loans	0	171 462
Financial income, total	**68 240**	**179 091**
Interest expense	-48 072	-63 175
Foreign exchange loss on trade payables	0	-38 937
Foreign exchange loss on trade receivables	-69 139	0
Foreign exchange loss on foreign currencies held and on FX loans	-40 455	-178 612
Other	-11 482	-7 321
Financial expenses, total	**-169 148**	**-288 045**
Financial income and expenses, net	**-100 908**	**-108 954**

Interest income in 2017 and 2018 was typically from cash and cash equivalents.

Note 24 **Income tax**

Income tax expense for the period:

	31 Dec 2017	31 Dec 2018
Adjusted actual tax	75 917	85 691
Local business tax	321 717	321 542
Deferred tax	81 521	37 499
Income tax expense, total	**479 155**	**444 732**

All subsidiaries of Rába are subject to Hungarian corporate income tax and local business tax.

The actual tax equals the corporate income tax liability.

Rába is a Hungarian taxpayer and, therefore, is required to pay corporate income tax on its net profit. In 2018, the corporate income tax rate was 9%. Additional tax liabilities included local taxes on revenues net of material costs, cost of goods sold and recharged services, at a tax rate of 1.6% in Győr and 2% for all the other sites.

At 31 December 2018, the Group's balance of corporate income tax and local business tax assets and liabilities was a net income tax asset of kHUF 37,672 (a tax liability of kHUF 51,515 at 31 December 2017).

Deferred tax is calculated based on the expected time of recovery based on the tax rate known in 2018, which is 9%. At 31 December 2018, deferred tax assets totalled kHUF 22,063 (31 December 2017: kHUF 39,424), and the deferred tax liability totalled kHUF 103,531 (31 December 2017: kHUF 83,392).

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

	31 Dec 2017	Increase	Decrease	31 Dec 2018
Losses carried forward	**303 693**	**0**	**-36 751**	**266 942**
Rába Futómű Kft.	205 986		-22 422	183 564
Rába Járműalkatrész Kft.	97 707		-14 329	83 378
Long-term liabilities	**2 002**	**0**	**-658**	**1 344**
Rába Futómű Kft.	1 732		-569	1 163
Rába Jármű Kft.	158		-52	106
Rába Járműalkatrész Kft.	112		-37	75
Trade and other receivables	**2 014**	**568**	**-114**	**2 468**
Rába Futómű Kft.	945	568		1 513
Rába Jármű Kft.	36		-36	0
Rába Járműalkatrész Kft.	1 033		-78	955
Provisions	**25 372**	**19 337**	**-614**	**44 095**
Rába Nyrt.	6 049	9 023		15 072
Rába Futómű Kft.	5 114		-614	4 500
Rába Jármű Kft.	14 209	6 599		20 808
Rába Járműalkatrész Kft.	0	3 715		3 715
Property, plant and equipment	**-70 712**	**-9 714**	**0**	**-80 426**
Rába Nyrt.	7 489	1 134		8 623
Rába Futómű Kft.	-85 245	-13 441		-98 686
Rába Jármű Kft.	3 726	975		4 701
Rába Járműalkatrész Kft.	3 318	1 618		4 936
Receivables from asset disposals	**-11 737**	**0**	**0**	**-11 737**
Rába Nyrt.	-11 737			-11 737
Development reserve	**-294 600**	**-31 918**	**22 364**	**-304 154**
Rába Nyrt.	-6 985			-6 985
Rába Futómű Kft.	-148 544		22 364	-126 180
Rába Jármű Kft.	-76 325	-18 695		-95 020
Rába Járműalkatrész Kft.	-62 746	-13 223		-75 969
Deferred tax, net	**-43 968**	**-21,727**	**-15,773**	**-81 468**
Rába Nyrt.	**-5 184**	**10 157**	**0**	**4 973**
Rába Futómű Kft.	**-20 012**	**-12 873**	**-1 241**	**-34 126**
Rába Jármű Kft.	**-58 196**	**-11 121**	**-88**	**-69 405**
Rába Járműalkatrész Kft.	**39 424**	**-7 890**	**-14 444**	**17 090**
Deferred tax asset (+) liability (-)	**-83 392**			**-103 531**
Deferred tax asset (+) liability (-)	**39 424**			**22 063**

Group level tax losses carried forward totalled kHUF 15 437 376 at 31 December 2018 and can be used as follows: kHUF 141,503 until 2020, kHUF 96,999 until 2022 and the remaining amount until 2030 (2017: kHUF 15,924,639 of which kHUF 141,543 can be used until 2020). 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 266,942 on a tax loss of kHUF 2,966,022 at 31 December 2018 (2017: kHUF 303,693 deferred tax asset on a tax loss of kHUF 3,374,367).

	31 Dec 2017	31 Dec 2018
Profit before tax	2 047 913	1 641 657
Calculated corporate tax	184 312	147 749
Previous year's tax difference	3 111	0
Local business tax	321 717	321 542
Loss and permanent differences with no deferred tax asset recognised	-48 299	-24 611
Over- or underassessment in previous years	18 314	52
Increase in deferred tax on losses carried forward	0	0
Tax expense, total	479 155	444 732
	23%	27%

In 2018, the Group's statutory tax rate was 9%, therefore we considered 9% as the effective tax rate. The Group does not apply any tax benefit.

Note 25 Transactions with related parties

i) Transactions with key management personnel

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

	Transaction expense		Balance	
	at 31 December		**at 31 December**	
	2017	**2018**	**2017**	**2018**
Salaries paid to key management	230 414	229 255	53 979	100 205
Remuneration paid to Board members	16 290	26 982	0	0
Remuneration paid to Supervisory Board members	13 153	13 759	0	0

Key management personnel at 31 December 2018:

Name	Position	Board	SB	AC	Management
Pintér István	Chairman of the Board	x			
Dr. Fördős Géza János	Board member	x			
Dr. Hartmann Péter	Board member	x			
Dr. Rátky Miklós	Board member	x			
Wáberer György	Board member	x			
Csókay Ákos	Board member	x			
Tóth Andor Nándor	Board member	x			
Dr. Pafféri Zoltán Lajos	SB member		x	x	
Dr. Kanta Tünde	SB member		x	x	
Dr. Harmath Zsolt	SB member		x	x	
Pintér István	President-CEO				x
Balog Béla	CFO				x
Steszli Ádám	Human Resources and Controlling Director				x
Urbányi László	Rába Járműalkatrész Kft. CEO				x
Torma János	Rába Jármű Kft. CEO				x
Závori Péter	Rába Futómű Kft. SB member		x		
Zoltán Csaba	Rába Futómű Kft. SB Chairman		x		
Dr. Frank József	Rába Futómű Kft. SB member		x		
Balog Béla	Rába Járműalkatrész Kft. SB Chairman		x		
Steszli Ádám	Rába Járműalkatrész Kft. SB member		x		
Steiner Gábor	Rába Járműalkatrész Kft. SB member		x		
Nagy Tamás	Rába Jármű Kft. SB member		x		
Farkas Ákos	Rába Jármű Kft. SB member		x		
Romvári Ferenc	Rába Jármű Kft. SB Chairman		x		

Board –Board of Directors
SB-Supervisory Board
AC –Audit Committee
Management-Executive management

ii) Transactions and outstanding balances with state-owned entities

Since 18 April 2012, 74.4% 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.

	year 2017	year 2018
Revenues	5 603 205	4 606 675

	31 Dec 2017	31 Dec 2018
Trade and other receivables	1 047 038	1 090 811

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.

Notes 26 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 Dec 2017	31 Dec 2018
Receivables from asset disposals	130 399	130 399
Trade receivables	5 813 285	6 976 340
Cash and cash equivalents	2 638 342	683 530

Debtors, net, by geographical segment at 31 December 2017 and 2018:

	31 Dec 2017	31 Dec 2018
Europe	5 183 083	6 004 444
- of which: Hungary	2 057 438	2 388 272
American continent	462 451	698 256
Asia	142 967	244 955
Australia	2 404	1 258
Receivables, total	**5 790 905**	**6 948 913**

Aged list of net debtors at 31 December 2017 and 2018:

	31 Dec 2017	31 Dec 2018
Not yet due	*5 345 580*	*6 102 928*
1-90 days overdue	431 151	789 327
91-180 days overdue	13 434	35 177
181-365 days overdue	237	21 437
Due over 365 days	503	44
Overdue total	*445 325*	*845 985*
Total	**5 790 905**	**6 948 913**

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

	Impairment loss on doubtful and bad debts
1 January 2017	**21 715**
impairment loss reversed	0
impairment loss recognised	10 271
impairment loss written off	-9 606
31 December 2017	**22 380**
impairment loss reversed	0
impairment loss recognised	9 789
impairment loss written off	-4 742
31 December 2018	**27 427**

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 2017

	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	1 116 504	1 135 950	382 403	378 309	375 238	-	1 113 129
Secured bank loan	1 116 504	1 135 950	385 403	378 309	375 238	-	1 113 129
Secured bank loan	1 860 840	1 895 359	383 891	381 286	1 130 181	-	1 846 492
Secured bank loan	1 860 840	1 892 474	478 236	474 514	939 724	-	1 847 720
Unsecured bank loan	5	5	5	-	-	-	5
Loand and borrowings, total	**5 954 693**	**6 059 737**	**1 629 937**	**1 612 418**	**2 820 382**	**0**	**5 920 475**

31 December 2018

	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	771 624	780 112	392 178	387 934	0	0	771 129
Secured bank loan	1 929 060	1 964 844	397 965	395 264	1 171 615	0	1 920 010
Secured bank loan	1 929 060	1 964 844	397 965	395 264	1 171 615	0	1 920 010
Secured bank loan	1 929 060	1 953 494	655 880	650 736	646 878	0	1 918 734
Secured bank loan	1 543 248	1 566 204	395 264	392 564	778 376	0	1 533 412
Loand and borrowings, total	**8 102 052**	**8 229 498**	**2 239 252**	**2 221 762**	**3 768 483**	**0**	**8 063 295**

Trade and other payables mature as follows:

31 December 2017

	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Fair value of future cash flows
Trade payables	7 110 732	7 110 732	7 110 732	-	-	-	7 110 732
Amounts payable to employees and other liabilities	1 768 870	1 768 870	1 768 870	-	-	-	1 768 870
Trade and other payables, total	**8 879 602**	**8 879 602**	**8 879 602**	**0**	**0**	**0**	**8 879 602**

31 December 2018

	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Fair value of future cash flows
Trade payables	8 898 492	8 898 492	8 898 492	-	-	-	8 898 492
Amounts payable to employees and other liabilities	2 202 937	2 202 937	2 202 937	-	-	-	2 202 937
Trade and other payables, total	**11 101 429**	**11 101 429**	**11 101 429**	**0**	**0**	**0**	**11 101 429**

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 2017		31 December 2018	
	kHUF	**percentage of revenue affected**	**kHUF**	**percentage of revenue affected**
EUR	3 581 412	8,0%	4 127 690	8,0%
USD	132 827	0,3%	135 377	0,3%

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 the year-end:

	Average rate		Spot rate at 31 December	
	2017	**2018**	**2017**	**2018**
EUR	309,2	318,9	310,1	321,5
USD	274,3	270,3	258,8	280,9

iv) Interest rate risk

The Group's interest bearing financial instruments included only fix interest rate instruments as presented in Note 16.

An increase in interest rates would not have had an effect on interest expense in 2018 as the Group does not have any variable rate loans and all the other variables remained constant.

The weighted average interest rate of the loans was 0.8% in 2018 (0.9% in 2017).

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 Dec 2017	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**
Other non-current assets	266 921	202 217	266 921	202 217
Receivables from asset disposals	130 399	130 399	130 399	130 399
Other investments	205	205	205	205
Debtors and other receivables	9 864 423	12 265 856	9 864 423	12 265 856
Cash and cash equivalents	2 638 342	683 530	2 638 342	683 530
Loans and borrowings	5 954 693	8 102 052	5 920 475	8 063 295
Trade and other payables	10 139 929	12 518 776	10 139 929	12 518 776
Provisions	281 906	489 943	281 906	489 943
Income tax asset	51 515	37 672	51 515	37 672
Income tax liability	0	0	0	0
Deferred tax asset	39 424	22 063	39 424	22 063
Deferred tax liability	83 392	103 531	83 392	103 531

Fair value of financial assets and liabilities:

Fair value is the price that market participants 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 27 Earnings per share

i) Basic earnings per share

Basic earnings per share at 31 December 2018 were calculated based on the profit for the year of kHUF 1,196,925 (2017: profit of kHUF 1,568,758) and on the weighted average number of ordinary shares outstanding (2017: 13,352,765 shares) as follows:

	2017	**2018**
Issued ordinary shares at 1 January	13 352 765	13 352 765
Effect of treasury shares held	0	0
Effect of share options exercised	0	0
Weighted average number of ordinary shares at 31 December	**13 352 765**	**13 352 765**
Profit for the year	1 568 758	1 196 925
Basic earnings per share (HUF/share)	117	90

ii) Diluted earnings per share

	2017	**2018**
Weighted average number of ordinary shares	13 352 765	13 352 765
Number of options granted	0	0
Diluted weighted average number of ordinary shares	**13 352 765**	**13 352 765**
Profit for the year	1 568 758	1 196 925
Diluted earnings per share (HUF/share)	117	90

The share option programme ended during 2016 and as no outstanding option remained, share options has no diluting effect. There was no change in treasury shares in 2018.

Note 28 Capital commitments and contingencies

At 31 December 2018, the Company had future commitments from capital projects and other services totalling kHUF 15,282,979 (31 December 2017: kHUF 15,448,820).

The Company did not have any contingent liabilities at 31 December 2017 or at 31 December 2018.

Note 29 Operating leases

Non-cancellable operating leasing fees payable:

	31 December 2017	31 December 2018
Within one year	131 901	102 312
1 – 5 years	141 787	*123 984*
Over five years	-	-
Operating leases, total	**273 688**	**226 296**

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

Note 30 Subsequent events

No extraordinary event took place after the reporting date that would have affected the financial statements for 2018.

Note 31 Disclosures in accordance with the Hungarian accounting act

i) The Company's senior officers authorised to sign the consolidated financial statements:

Pintér István	chairman-CEO	9028 Győr, Vándor u. 20.
Balog Béla	CFO	9024 Győr, Babits Mihály u. 38/C

ii) The Company's website is available at: www.raba.hu

iii) The Company's accountants are:

T-Systems Magyarország Zrt.
9024 Győr, Hunyadi út 14.

The person in charge of accounting and preparation of the IFRS financial statements:

Name: Kelemen Melinda Registration No.: 151546

iv) The Company's statutory auditors are:

Ernst and Young Könyvvizsgáló Kft.
1132 Budapest, Váci út 20.

Signing statutory auditor: Bartha Zsuzsanna
Chamber registration No.: 005268

The agreed fee for the audit of the annual financial statements for the financial year ended 31 December 2018 is kHUF 1,900 +VAT.

The auditors did not supply any other assurance, tax advisory or other auditing services to Rába Group in 2018.

v) Recommendation for profit distribution:

The Board of Directors recommends that the Shareholders meeting approve paying dividends of HUF 17.80 per share.

We engineer, you drive

CONSOLIDATED MANAGEMENT REPORT / CONSOLIDATED BUSINESS REPORT

on the financial year ended December 31, 2018

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 (January 1, 1992)
- listing of the company’s shares on the stock exchange (December 17, 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”).

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

Rába Axle Ltd.

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.

Rába Automotive Components Ltd.

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.

Rába Vehicle Ltd.

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 earn the satisfaction of our customers through the quality of our products and services.

We 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.

The Company invested considerable amounts for the investment for forging technology development and capacity expansion in process in 2018. The financial status in 2018 was basically determined by the demand conditions having favourable effects on sale, significant material and energy price increase having unfavourable effects on manufacturing activity and the investment for capacity expansion with significant capital reservation requirement.

Rába Vehicle Ltd.

The most important tasks in 2018: the extension of the framework agreement relating to the delivery of vehicles and the preparation of a new agreement, compliance with the commitments in the valid supplementary agreement, delivery of the products by the given deadline of the contracted quality, meeting the requirements of MoD more complete, further increase of sale of products for civilian purposes through the signed and the new supplementary agreements, increase of their share within the total sales revenue, continuous increase in efficiency with application of up-to-date production management methods e.g. LEAN, keep of the profitability and financial positions achieved.

Rába Automotive Components Ltd.

There were investment expenditures in Sárvár plant in 2018 for the brake spanners project gained in 2016: partly forming of a laboratory and purchase of the robot necessary to the forming of the CNC cell, partly enlargement for the gained NAF spindles project, purchase of a new machining centre and turning lathe were realized.

Besides the double-headed wire bending machine, airbag sewing machines and automated sewing machines were installed in Mór.

Results of the current year

In 2018, favourable market demand influenced all the relevant markets of the Company, hereby sales revenue increase was realized. Expansion in the demand was observed on the agricultural market in Europe and in the US. The European truck market showed a steady increase. In the Russian bus and truck market, there was outstanding growth which slowed down by the second half of the year.

The economic activity and the excess demand in the entire supply chain led to a significant increase in manufacturing costs. The increase in the purchase price of raw materials and energy, two largest cost elements, put considerable pressure on the manufacturing activity and through that also on the financial performance.

In regard to the exchange rate environment a 3.1 per cent increase in exchange rates was observed compared to the basic year for the EUR, which represents a major proportion of the company's foreign exchange turnover.

Despite drastically rising purchase prices, gross profitability was raised. The increase of sales revenue grew by 11 per cent, so Rába Group reached EBITDA profit of HUF 3.8 billion, and ended the FY 2018 with the profit for the year of HUF 1,197 million.

2.1. Changes in the Group

No changes occurred in the group in 2018.

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

Data in th HUF

	December 31, 2017	***December 31, 2018***
Revenues	43 842 346	48 631 833
Direct cost of sales	- 34 577 393	- 38 261 718
Gross profit	9 264 953	10 370 115
Sales and marketing expenses	- 571 314	- 814 449
General and administrative costs	- 6 483 927	- 7 087 370
Other income	612 555	369 264
Other expenditures	- 673 446	- 1 086 949
Total other operating expenditures	- 7 116 132	- 8 619 504
Profit from operating activities	**2 148 821**	**1 750 611**
Financial income	68 240	179 091
Financial expenses	- 169 148	- 288 045
Profit before tax	**2 047 913**	**1 641 657**
Taxation	- 479 155	- 444 732
Profit for the year	**1 568 758**	**1 196 925**
Total comprehensive profit for the year	**1 568 757**	**1 196 925**
Basic earnings per share (HUF)	117	90
Diluted earnings per share (HUF)	117	90

In terms of the sales activities of the business lines in 2018, the Axles business unit topped its sales revenues by 13.5 per cent with major increase in European export and domestic sales. The sales of the Components business unit involved a considerable, 14.5 per cent rise in exports and 17.9 per cent rise in domestic sales, as an overall result of which the business unit reported 16.4 per cent increase in its revenues. The Vehicle business unit also expanded its sales by 0.7 per cent with outstanding, 23.3 per cent export and shrinking domestic sales. All in all, the sales revenues earned by the Group exceeded the figure reported for the base period by HUF 4.8 billion, reaching HUF 48.6 billion.

There was also a significant price increase in terms of energy costs in Q4 of 2018, amounting to 27.7 per cent. In 2018 the average energy prices exceeded the previous year's level by 13.8 per cent.

In regard to the exchange rate environment a 1.5 per cent drop in exchange rates was observed in Q1-Q4 of 2018 for the USD, which represents a lower proportion of the company's foreign exchange turnover. In the case of the EUR the exchange rate fluctuation was reversed: in 2018 the EUR average exchange rate exceeded the base period by 3.1 per cent.

Despite the major increase in raw material prices the profitability increased; the gross margin increased by 0.2 per cent, achieved 21.3 per cent.

Despite the significantly rising material purchase prices, gross profitability was raised, the increase of the gross profit level was 0.2 percentage points and reached 21.3 per cent.

Despite drastically rising steel and energy purchase prices, gross profitability was raised both on a quarterly basis and for the entire year 2018: the increase of the gross profit level was 1.1 percentage points in Q4 of 2018, and 0.2 percentage points in the whole of 2018. Therefore the Group-level gross margin reached 21.3 per cent.

The other revenues and expenditures amounted to HUF 718 million loss during the reporting period, against the loss of HUF 61 million incurred during the same period of the previous year. The fundamental items of the negative difference are the non-recurring items, the impairment accounted on measurement of the condition and realisability of assets, the scrapping, provisions set aside for the liabilities expected.

Indirect costs declined by 12.0%, HUF 847 million compared to 2017. The costs on production and customer service increased.

With direct cost items under control, as a result of the controlled management of sales, administration and management costs, all business lines produced profits at operating level during both the quarter and the aggregate period. Of the business units, the Components and the Vehicle business units was able to increase its operating profit by HUF 47 million and 15 million respectively, while the profits of the Axle business unit decreased by HUF 354 million. In total, the Group level operating profit amounted to HUF 1,751 million.

In 2018 the financial loss amounted to HUF 109 million compared to the HUF 101 million loss realised in the similar period of last year. The financial performance was fundamentally influenced by the realised and non-realized exchange rate loss and the interest expenses due to the net loan portfolio increase.

The Group has HUF 445 million tax liability. Of that HUF 86 million is corporate income tax, HUF 322 million is local business tax, and HUF 37 million is deferred tax liability.

In 2018 the total comprehensive income and the profit for the year was HUF 1,197 million profit, it is less by 23.7 per cent then the profit in the base period.

The volatility of the economic environment and the increasing cost of manufacturing conditions have already had an impact on EBITDA-level performance: the EBITDA return on sales fell by 1.6 percentage points to 7.8 per cent during the Q1-Q4 of 2018 period. In consequence, EBITDA-level profits were 7.6 per cent, HUF 310 million lower than during the base period profit of the previous year. The realised EBITDA-level profit amounted to HUF 3,790 million.

At the end of 2018 the net borrowing reached HUF 7.43 billion, which is by HUF 4.1 billion higher than the figure reported one year ago. The HUF 105 million worth of revaluation of loans resulting from exchange rate changes, not involving cash movements, was another factor of the increase of the net borrowing figure.

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

Data in th HUF

	December 31, 2017	***December 31, 2018***
Assets		
Property, plant and equipment	15 818 383	19 144 678
Intangible assets	282 418	182 827
Investment property	338 217	338 217
Receivables from asset disposals	205	205
Deferred tax assets	39 424	22 063
Other non-current assets	397 320	332 616
Total Non-current assets	**16 875 967**	**20 020 606**
Inventories	7 007 620	9 071 589
Trade and other receivables	9 864 423	12 265 856
Income tax assets	51 515	37 672
Cash and cash equivalents	2 638 342	683 530
Total current assets	**19 561 900**	**22 058 647**
Total assets	***36 437 867***	***42 079 253***
Equity and liabilities		
Issued capital	13 473 446	13 473 446
Treasury shares	- 108 952	- 108 952
Share-based payment reserve	-	-
Retained earnings	6 613 450	7 500 457
Total equity	**19 977 944**	**20 864 951**
Provisions	162 712	245 476
Long-term loans and borrowings	4 372 974	5 915 784
Deferred tax liability	83 392	103 531
Total Long-term liabilities	**4 619 078**	**6 264 791**
Provisions	119 194	244 467
Loans and borrowings payable within one year	1 581 719	2 186 268
Creditors and other accounts payable	10 139 932	12 518 776
Total Current liabilities	***11 840 845***	***14 949 511***
Total Equity and liabilities	**36 437 867**	**42 079 253**

In 2018, the total assets and liabilities increased by 15.5 per cent compared to 2017. On the assets side, non-current assets were approximately 1.3 percentage point higher than in the previous year (2018: 47.6%, 2017: 46.3%). The expenditure on real properties, machines and equipment in the current year was HUF 2,001 million more than the depreciation recorded for the year. The 1.3 percentage point decrease of the ratio of the current assets is arising from the 5.6 per cent decrease of cash and cash equivalents, the 2.1 per cent increase of account receivable and the 2.3 per cent increase of inventories.

On the liability side, the liabilities increases by 5.2 per cent point compared to the previous year. Within the liabilities, the ratio of accounts payable and other liabilities decreased from 27.8 per cent to 29.8 per cent and the share of loans increased from 16.3 per cent to 19.4 per cent, the provisions ratio changed from 0.8 per cent to 1.2 per cent.

The equity ratio decreased from 54.8 per cent to 49.6 per cent.

Equity

The shareholders' equity (HUF 20,865 million) developed as follows since the previous year (HUF 19,978 million) (data in th HUF):

	Share capital	**Treasury share**	**Sharebased payment reserve**	**Retained earnings**	**Total shareholders' equity**
Balance as of 1 January 2017	**13 473 446**	**-108 952**	**5 314 151**	**-**	**18 678 645**
Profit for the year	-	-	1 568 758	-	1 568 758
Dividend payment from profit of 2016	-	-	-269 459	-	-269 459
Balance at 31 December 2017	**13 473 446**	**-108 952**	**6 613 450**	**-**	**19 977 944**
Profit for the year	-	-	1 196 925	-	1 196 925
Dividend payment from profit of 2017	-	-	-309 918	-	-309 918
Balance at 31 December 2018	**13 473 446**	**-108 952**	**7 500 457**	**-**	**20 864 951**

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

The financial position and liquidity of the Company as at 31 December 2017 and 31 December 2018 are illustrated by the following financial indicators

Financial status, liquidity indicators:

Indicators	**2017**	**2018**
Cash liquidity indicator: *Cash and cash equivalents / Short-term liabilities*	15.34%	22.28%
Quick liquidity indicator: *(Current assets - Inventories) / Short-term liabilities*	96.66%	106.03%
Liquidity indicator: *Current assets / Short-term liabilities*	142.89%	165.21%
Net working capital (M HUF): *Current assets / Short-term liabilities*	5 314	7 721

Assets and liabilities and the capital structure

Indicator	**2017**	**2018**
Ratio of long-term invested assets %: *Invested assets/Total assets*	47.16%	46.31%
Coverage of invested assets %: *Equity / Invested assets*	118.23%	118.38%
Debt ratio %: *Liabilities/Shareholders' equity*	79.36%	82.39%
Solvency ratio %: *Equity / Total liabilities*	55.75%	54.83%

Profitability

Indicators on profit and loss:

Indicator	**2017**	**2018**
Return on equity % *Profit/loss in the current year/Shareholders' equity*	7.37%	7.85%
Return on assets % *Profit of the current year/Total assets*	4.11%	4.31%
Return on sales % *Profit of the current year/Net sales revenues*	3.23%	3.58%

The profitability indicators exceeded the values in the base period, mainly due to a decrease in the current year's profit (HUF 372 million decrease in 2018 compared to 2017). The liquidity indicators and the capital structure also declined compared to the previous year.

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 defence 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.

On strategic horizon the base of the growth will arise from the growth of the existing key customers' volume by the better utilization of the capacities.

Strategic goals:

- maintenance of the volume of products for Suzuki and increase of product portfolio
- Expanding the strategic relationship with the Fehrer group in the field of metal components and the supply of arm rest covers. In recent years the plant consolidation program was closed, as a results of this our customer installed two foaming lines and enlarged its storages. Rába built a new sewing workshop.
- Because of the take-off of the markets served by our German customers, we take a significant volume growth into account as a result of the enlargement of the forestry and special construction demand in 2019. The realization of the developments is required to the monitoring of the volume growth.
- rethinking the supply chain with certain customers, establishing new grounds for the relation by a long-term agreement, stabilizing the supply of the customer after portfolio cleaning
- Stabilizing the supply for our important domestic customer, operating of a long-term and mutually beneficial cooperation taking advantage of the geographical location.
- rationalization of pressed components by a portfolio cleaning

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 2018, 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.

In 2018, a number of existing products were further developed, with which the Company intended to enter new markets. The development of the independent front suspensions of midi-buses corresponding to the global bus market trends will continue for the easier and cheaper manufacturability.

The development of a power unit based on a new concept began also within this segment aiming at increasing vehicle.

Participation in the tenders of the strategic partners continued in 2018, following the projects started in the past years and conducted in relation to agricultural machine axles.

Last year a new opportunity occurred to develop the product range in the American market too. Within the framework of the project focusing on the NAFTA markets, a new truck axle type, optimised for the American standard, was developed. Moving on this, the development of another disc brake axle optimised for the American standard was launched in 2018, through which the company counts on further market penetration. In terms of our efforts focusing on the Japanese market, continuous consultation about the functional tests of prototype axles engineered to an important market player is very important, by which the physical implementation of a multi-purpose off-road vehicle was launched. The expansion of these relations and the new models represent the basis of the increase of future orders and other joint projects.

The development project launched in the framework of an EU R+D+I support application was successfully continued in 2018. Progressive new technologies will be developed within the framework of that project, the implementation of which in the future will significantly raise the added value of the Rába products.

The complex review of our ceiling systems should also be mentioned among the quality improving developments and assessments. The project will continue after 2018 as an indispensable requirement of continuous quality improvement and of raising customer satisfaction to the highest possible level, which is one of the goals of our Company.

Rába Development Institute played a key role in the expansion of the product range of the Company and in following the market trends. Based on the internal technical drawing database prepared the year before, an electronic system of the list of materials was started in 2018 which will form the basis for additional future. 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 as well as compliance with the prevailing environmental norms.

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:

- development of wiring lining production for expandable plastic products
- preparation of manufacturing of arm-rest upholstery to passenger cars
- seat foam production and renewal of railway carriage

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 2018 was as follows:

- Reusable wastes
  Volume: 16 421 tons
  Revenue: HUF 1 160 million
- Non-reusable wastes
  Volume: 355 tons
  Cost: HUF 13 million

- Hazardous wastes
  Volume: 7 561 tons
  Cost: HUF 69 million

The review and monitoring period of remediation carried out during previous years is still underway, with costs in 2018 at nearly HUF 823,500 at the Rába level. Such remediation efforts are currently taking place in the following area: Győr Airfield site of Rába Automotive Holding Plc. In 2018 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 2018:

- 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)
- Use of a statutory regulation change monitoring service (Rába Vehicle Ltd.).
- Production of standard information boards (Rába Vehicle Ltd.).
- Installation of automatic doors at the entrance of the plant (Rába Vehicle Lfd.).
- Completion of the measurements (wastewater) defined in the self-audit plan (Rába Axle Ltd., Rába Automotive Components Ltd.)
- Purchasing saturation kits at the forklift truck fuelling and hazardous waste collection building (Rába Vehicle Ltd.).
- Measuring pollutants in WP painting, surface treatment and conservation point sources (Rába Axle Ltd.)
- Cleaning the WP pre-treatment facility (Rába Axle Ltd.).
- Increasing energy efficiency at the welding production site by installing a motoric butterfly valve in the extractor fans (Rába Automotive Components Ltd.).
- Reducing the quantity of abrasion sludge generated during abrasion (Rába Automotive Components Ltd.).
- Procurement of an oil water separator and its installation in the compressors (Rába Automotive Components Ltd.).

6. Employment policy

Human resource management plays a strategic role among the processes that support operation. The primary goal of the HR strategy is to implement a human resource policy built on values in line with the future vision of the company. As a company delivering complex engineering solutions and products, the implementation of the activity representing high added value is of key importance for the company.

It is a crucial task and responsibility of HR to introduce and apply methods which can trace, retain, lead and motivate the labour force of the 21st century, and which can contribute to increasing work efficiency ensuring that employees can create added value through the really important activities.

In addition to the quantitative and structural deficit and the increasingly expensive labour force, there are changes on the labour market on which it is required to react at the strategic level. Besides the automatization and the digitalization, the demographic changes and the ever-changing expectations of the labour force are the background to the change of operation. The technological development raises to a new level and changes the world of work. The primary arena of Industry 4.0 is production but fundamental changes must be anticipated in other areas of corporate operation as well. To utilise new opportunities as soon as possible, the role of the person in the individual processes has to be clearly designated and work has to be reorganised, jobs have to be adjusted and employees have to be trained accordingly. To achieve this in 2018

- we extended the forced training for all stocks of group;
- within the intellectual career path programme available in all business units, some 50 people participate in personalized professional and competency development in conformity with the strategic and business objectives; in addition to general development, we have also made expert and management further training programmes available;
- we continue to closely cooperate with institutions of middle and higher education providing qualified workforce;
- in the tight labour market environment, we managed to ensure the necessary headcount using new recruitment methods reaching a wider range of people and applying digital tools;
- in spite of the increasingly expensive labour force and accelerating wage competition, we managed to improve our position and offered wages that are competitive and proportionate with performance;
- parallel to increasing basic salaries, our groupbased motivation and individual performance-incentive programmes continued and within the framework of our moving wage system linked to the operating profit of the company, we were able to pay more than during the previous years;
- we implemented the organization restructuring based on the business goals

Flexible workforce with modern competencies, ready to be developed and capable of quality and efficient work is required to perform our professional tasks. In consideration of Rába’s characteristics, the employees playing a dominant role in the company’s operation and in possession of the necessary key competences, ready to develop and pass them on, have to be retained, strengthened and expanded.

The average headcount figure of the employees of the Group was 1,452 in 2018.

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. Natural hedge is the primary instrument to reduce foreign exchange risks: the Company tries to make sure that the currency composition of the expenses match the currency composition of revenues to the highest possible extent.

The exchange rate risks are hedged according to the currently effective hedge strategy, approved by the Board of Directors of Rába Plc. In 2018, 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 2018.

At the end of 2018, 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 2018 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: rights related to the shares, management, owners

RÁBA Plc. has no shares granting special management rights.

On December 31, 2018 the registered capital consists of 13 473 446 registered, common shares with a nominal value of HUF 1,000 each registered in Category "A" of the Budapest Stock Exchange. The value of the Treasury shares is HUF 108 952 th on December 31, 2018 (120 681 pcs share).

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.

To exercise shareholders' rights at the General Meeting of Shareholders, either in person, or through the authorised representative, the shareholder's name has to be shown in the Register of Shareholders at 6 p.m., on the second working day preceding the starting day of the General

Meeting of Shareholders, based on the shareholder's identification initiated by the Company for the period between the 7th and the 5th working day preceding the General Meeting of Shareholders.

The Company's shares may be transferred without restriction. Dematerialised shares can only be acquired or transferred through the credit and debit to the security account.

Unless otherwise provided by the Civil Code, 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 detailed rules for the authority and operation of the Board of Directors are contained in the Articles 19-21 of the Articles of Association.

(http://raba.hu/investment/en.befektetoi.raba.hu/doctar/Alapdokumentumok/2018/Raba_Plc_Articles_of_Association_20180412.pdf

http://raba.hu/investment/en.befektetoi.raba.hu/doctar/Alapdokumentumok/Raba_Plc_Rules_of_Procedure_Board_2014_.pdf)

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).

The Chief Executive Officer's sphere of competence encompasses all matters and decisions related to the work of the Company not under the exclusive competence of the General Meeting of Shareholders or of the Board of Directors, or those not drawn to their own competence by the General Meeting of Shareholders or by the Board of Directors.

The detailed rules for the tasks and the authority of the Chief executive Officer are contained in the Article 22 of the Articles of Association of Rába Plc, which is available at the web site of the Company:

http://raba.hu/investment/en.befektetoi.raba.hu/doctar/Alapdokumentumok/2018/Raba_Plc_Articles_of_Association_20180412.pdf

Corporate Governance Declarations

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 Corporate Governance and the Corporate Governance Declaration, in which the Company states the extent to which it applies the recommendations and suggestions set out in the relevant clauses of the Corporate Governance Recommendations (Recommendations) published by the Budapest Stock Exchange in its own corporate governance practice.

The Company digresses from the Recommendations as follows:

- According to the practices until now, prior to discussing agenda items concerning the amendment of the Articles of Association, the General Meeting did not pass a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific way, to ensure the smooth and efficient conduct of the meeting. According to the practices until now, the General Meeting passed one resolution on the amendment of the Articles of Association proposed by the Company and resolutions on each amendment of the Articles of Association proposed by shareholder motion separated, except when the General Meeting required differently, then passed a separate resolution on setting of the consolidated memorandum of the Articles of Association according to the amendments and submitting thereof to the Court of Registry. The amendment of the Articles of Association was not on agenda on the Company's General Meeting in 2018.
- The Remuneration Rules approved by the General Meeting and provided its opinion by the Supervisory Board is in force, which is not compiled by the Board of Directors or a committee consisting of Board of Directors.
- The assessment of the efficiency of the publication processes at the Company is not carried out by the Board of Directors but by the management and by an internal analysis which is not required to be published.
- The Company does not regulate, does not publish, the procedure used for nominating the members of the Board of Directors; they are nominated pursuant to shareholder motion on the General Meeting.
- In case of nomination of the members of the Board of Directors and of the Supervisory Board, the information about the candidates does not make public before the General Meeting, they are nominated and elected pursuant to shareholder motion
- The Company did not publish its guidelines concerning the independence of its Board of Directors / Supervisory Board as well as the applied independence criteria. The Company enforces the legal provisions.
- The Supervisory Board has a member, who was a member of the Board of Directors in 2016 and after his resignation from his position he was elected as a Supervisory Board member.

The Report on Corporate Governance of the Company is available:
http://raba.hu/investment/report_on_corporate_governance.html

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 internal control systems operated efficiently in 2018 in that it prevented the significant mistakes in the financial statements.

Both the Board of Directors and the Supervisory Board meet at least once every quarter.

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

Ownership structure, ownership stakes in 2018

Shareholder description	**Total registered capital**					
	Start of period (01 January)			**End of period (31 December)**		
	% [1]	**% [2]**	**pcs**	**% [1]**	**% [2]**	**pcs**
Domestic institution/company	7.76	7.83	1 045 635	7.89	7.97	1 063 082
Foreign institution/company	2.25	2.27	303 443	2.24	2.26	302 409
Foreign private individual	0.04	0.04	5 432	0.08	0.08	10 805
Domestic private individual	14.57	14.71	1 963 642	14.41	14.54	1 941 856
Employees, executive officers	0.13	0.13	17 074	0.13	0.13	17 074
Own shares	0.90		120 681	0.90		120 681
Shareholder who is a part of public finances	74.35	75.02	10 017 539	74.35	75.02	10 017 539
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% (31.12.2018)

Name	Activity	Quantity (pcs)	Share (%)	Voting rights (%)
Magyar Nemzeti Vagyonkezelő Zrt.	Public finances	10 015 829	74.34	75.01

Number of treasury shares during the current year (pcs) 2018.

	1 January	31 December
Corporate level	120 681	120 681
Subsidiaries	-	-
Total	120 681	120 681

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

10. Non-financial report

Business model

The group of companies operates in a holding structure. In addition to the parent company, the group includes three subsidiary limited liability companies, in which the Plc. has a 100% ownership ratio.

Rába Automotive Holding Plc. performs asset management tasks and offers management and control services.

The real estates at the Győr site is owned by the parent company and are leased by Rába Axle Ltd. and Rába Vehicle Ltd. as needed to carry out their activities. Rába Automotive Components Ltd. conducts its business in Sárvár and Mór in its own real assets.

The limited liability companies perform automotive manufacturing activities.

Managing directorial, finance, HR, IT system and process development, as well as strategic procurement and asset management functions for Rába Axle Ltd. are performed by the top management of Rába Plc.

The companies stand for the same principles regarding values in environment protection, human resource policy, ethical issues, business and internal relations. These principles are embedded in regulations. The strategic objectives of the Rába group are adopted by the board of directors.

Environment protection

Environmental awareness, environmental strategy

Reducing the use of and the burden on the environment and adopting environment friendly solutions are among today's most important corporate challenges. The Rába Group is intent upon meeting environmental requirements through ongoing environment-conscious developments and through compliance with the relevant regulations and other requirements, thus ensuring the company's sustainable development.

The environmental management system of the Rába Group is based on the following 10 principles:

- Prevention of emissions and other pollutants,
- Reduction of material and energy use, as well as of emissions,
- Increase of secondary use and recycling of waste materials,
- Protection of the status of elements of the environment – water, soil, air, built environment,
- Reinforcement of customer focus, mapping of the needs of internal and external customers, full compliance with agreed requirements,
- Understanding of the operation of the company as a set of optimal processes in consideration of the importance of process-focus,
- Clear commitment of managers in defining environmental objectives and in providing the conditions necessary to achieve them,
- Coordination of competences and responsibilities in order to unleash the full potential of our employees,
- Application of a systemic approach through the unified approach to interrelated processes,
- Key importance of continuous improvement in all areas of production, ongoing search for and implementation of opportunities for perfecting measures

Environmental policy

The strategy of environmental policy of the Rába Group is defined by its aspiration for sustainable development and an environmentally aware way of thinking. Thus, optimising waste management and reducing the environmental risk of hazardous materials resulting through the operation play a key role in our environmental policy.

In order to ensure that we meet the environmental policy objectives, our companies have obtained the environmental accreditations: so far, we have acted upon the ISO 14001:2004 standard, which is now replaced by the new ISO 14001:2015 standard.

Transition to the new ISO 14001:2015 standard had to be completed by each of our subsidiaries by 14 September, 2018, which took place by the required deadline successfully. The renewal audit at Rába Axle Ltd. took place between 5 March and 9 March, 2018, upon which the criteria as per the new standard was verified. As a result of the successful audit, the company was accredited according to the new standard till 29.03.2021.

By the successful renewal audit in April 2018, Rába Automotive Components Ltd. transited to the new ISO 14001:2015 standard for environmental management system. The company was accredited according to the new standard till 23.04.2021

Successful supervisory quality assurance audit took place at Rába Vehicle Ltd. in February 2019.

It is important to note that this accreditation is only granted to companies that have managed to minimise their negative impact on the environment, whose internal rules are in unison with the environmental regulations in effect and that make an effort to continuously develop their companies on the basis of the contents of the standard.

In their work, the management attributes special attention to the compliance with the principles as set forth in the environmental policy, additionally, similarly responsible, environmentally aware work is a strict requirement towards all employees of the company.

We also consider it of key importance to take both environmental and sustainability considerations into account upon each of our investments. A special budget is allocated each year to finance various environmental developments.

Each of the subsidiaries employs a dedicated environmental specialist, whose work is coordinated by the Rába Holding responsible, who is at the same time the environmental specialist of the Axle BU.

Social, employment issues, protection of human rights, fight against corruption and bribery

The basis of our business success is the knowledge and commitment of our employees.

It is important for us to work in a working environment based on mutual trust and on respecting the dignity of others. We pay special attention to the personal and professional development of our staff.

We are committed to the equitable remuneration of our employees. Rába makes differences between the employees' wage and imparts appreciation by job competencies and the performance assessment representing these competencies. Our goals and interests to grant our colleagues worthy, competitive compensation based on the company's performance and the individual performance. To do that, in addition to the wage developments and programs for increase of wage level the composition of the other wage-elements and allowances are revised and formed with the representations of interests year by year.

Our business successes are based on knowledge and commitment of our colleagues. In order to achieve this, personalized, professional and competency development in conformity with the strategic and business objectives and mentor programs are provided for the employees. Besides the managerial career, professional career is offered in order to assist the advancement of the employees having development potential and clear objectives concerning their professional future. The demands for training and further training are harmonized with the employees' expectations during the regular performance assessment. We provide the participation in trainings supporting the job management and contributing to the professional career, regardless of age, gender, marital status, health status or unit on equal terms. If necessary, we support the employees taking part in trainings financially and by training leave depending on the learning agreement.

Rába, as a responsible employer views diversity, respectful thinking and action as key elements of its success and pursues these principles. In its employment, the principle of equal treatment is enforced, the company prevents and fights against negative discrimination of the employees and refrains from any behaviour which may result in direct or indirect negative discrimination, retribution, harassment or unlawful separation of individual employees or groups thereof based on certain characteristics. The company expects its employees to take a clear stance against all forms of discrimination, not to disseminate any documents or stories which may harm the dignity of others.

By maintaining equal opportunities employment, the company ensures that innovation is promoted, employees are attracted and retained and that customers' needs are met at a high standard in a positive and nurturing environment. To this end, the company records its measures taken and behaviours to follow to promote equal opportunities in a separate, regularly updated plan.

The employees are continuously informed of the business by system of meetings and by the representation of interests; the availability of the documents regulating the operation is continuously ensured for all the employees.

Employees' interests are safeguarded in an organised fashion by the trade unions and work councils operating on the premises of the group of companies. These and their bodies are contacted by the management of the group of companies in a fair and predictable manner as regulated in the Collective Bargaining Agreement, they consult continuously about the actions affecting a larger group of employees, the management initiates the representatives in the decisions. For the continuous communication and exchange of information, the parties hold monthly forums for representation of interests in every business unit. They conclude individual agreements harmonized with the interests of the Rába employees on the issues besides the compulsory legal provisions. During the monthly forum the employer informs the representation of interests regularly on the operation, the implementation of the agreement, the results, the execution for the period and the tasks required for achievement of the objectives.

Recently there were not any significant labour disputes or legal proceedings; the company was not condemned during the official controls on its merits. The majority of the employees has been working at the company for more than 15 years.

The group's expectations regarding conflict of interest are set more explicitly in the group's Collective Bargaining Agreement, the internal rules and the individual employment contracts. Some principal requirements include:

- Our employees should not work together with or offer services to persons or organisations, with whom they are in business contact through their employment with Rába.
- Our employees and their close relatives cannot establish business contacts with companies that are Rába's business partners. A waiver from this can be granted by the person exercising employer's rights.
- Employees are not allowed to invest into Rába suppliers, whose selection or evaluation the employees or their subordinates have played a role in.
- Rába employees cannot invest into companies, for whose dealings with Rába the employees or his/her subordinates are responsible.

Rába executives and employees have to refrain from all situations in which unlawful advantages can be granted or the suspicion thereof may arise. In the course of their employment, our employees cannot accept or require remuneration or any other compensation from third persons for their activities performed under their employment.

Rába employees may report their concerns regarding non-compliance with the guidelines to their immediate superior. There are several ways to facilitate fast resolution of the problem: employees may seek help from the managers of the HR organisations or can write an email to the dedicated email address. The specific issue is investigated by the independent 3-member investigation committee unbiased regarding the problem at hand.

Our partners/suppliers involved are expected to comply with the regulations regarding fair treatment of employees and to provide a healthy and safe working environment, as well as to protect the environment.

Processes ranging from the selection of suppliers through the acceptance of customer needs to financial performance are regulated by internal rules and the implementation of regulated processes is facilitated by closed operating systems. Ongoing reviews and controls aim at minimising risks.

Diversity policy

The Rába Group considers diversity and respectful thinking and action as key factors of its success and embraces them within its principles.

Upon the appointment of executives, professional qualification, high level human and managerial competencies, extensive business experience and reliability are of primary importance, the company is at the same time committed to taking effective measures to promote diversity within the corporate operation. It is also important to note that as a publicly listed company, members of the executive bodies of Rába are nominated by the shareholders and their election is the exclusive competence of the general meeting of shareholders, over which Rába Plc. has no material control.

Pursuant to the statutes of Rába Plc., the company has a Board of Directors with 3-7 members and a Supervisory Board with 3 members. The current Board of Directors has 7 members, all of whom are men, whereas of the 3 members of the Supervisory Board, one is a woman. The management of Rába Plc. currently has 3 members, with no woman among them.

The new employees are recruited and selected based on the job competencies exclusively. According to data protection laws (GDPR), the Company obtains and registers personal data of the candidates and employees that are prescribed by the laws or are essential for the efficient operation.

Non-financial performance indicators

The Rába Group evaluates its operation in addition to financial indicators through the constant monitoring of the activities within the individual areas, including efficiency and its changes. The annual plan of the company includes the key performance indicators of the given business area, which are checked and evaluated at regular (weekly/monthly/quarterly/yearly) intervals and in the event of discrepancies, an action plan is devised for the necessary intervention. In addition to key financial performance indicators, depending on the given area, objectives are defined for performance, efficiency, quality, inventory, business and technology development, as well as system and process development. Meeting these indicators influences the performance evaluation and compensation of managers and employees. The annual performance review encompassing all groups of employees includes competence reviews as well, in addition to the financial and professional indicators, so the characteristics related to the specific job and behaviour, as well as their changes are reviewed, alongside with the performance and the results.

Rába Automotive Holding Plc.

We engineer, you drive

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, 19 March, 2019

István Pintér
Chairman-CEO

Béla Balog
CFO

Seat: H-9027 Győr, Martin út 1. ▪ Postal address: H- 9002 Győr, POB 50 ▪ Telephone: +36-96-622 600 ▪ Fax: +36-96-624 069
Court of Registration: Győr Court of Justice as Court of Registration ▪ Registration number: Cg.08-10-001532
E-mail: raba@raba.hu ▪ www.raba.hu