Submissions

to RÁBA Automotive Holding Plc.'s (RÁBA Plc.)

Annual General Meeting

to be held on April 11, 2019

Győr, March 20, 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

Notice of Annual General Meeting with the supplements of agenda 3

1. Assessment of the Company's operation in 2018 5

1.a) Report of the Board of Directors on the Company's business operations in the business year 2018 5

1.b) Report on the Company's normal and consolidated annual financial statements of 2018 drawn up as per the International Financial Reporting Standards (IFRS), proposal of the Board of Directors for the approval of the normal and consolidated annual financial statements as well as proposal for the allocation of the total profit for the reporting year and the submission of Corporate Governance Report 20

Report on the Company's normal annual financial statements of 2018 drawn up as per the International Financial Reporting Standards. 21

Report on the Company's consolidated annual financial statements of 2018 drawn up as per the International Financial Reporting Standards 73

Report on Corporate Governance 130

1.c) Report of the Supervisory Board on the annual financial statements of 2018, on the allocation of the total profit for the reporting year and on the submissions to the AGM 151

1.d) Report of the Auditor on the annual financial statements of 2018 153

1.e) Discussion and acceptance of the reports on normal annual financial statements and consolidated annual financial statements drawn up as per the International Financial Reporting Standards (IFRS), approval of the statement of financial position and resolution on the allocation of the total profit for the reporting year; and resolution on the acceptance of the Corporate Governance Report 167

2. Approval of an acquisition program 168

3. Recall of Members of Board of Directors, election of new Board members and setting the remuneration 179

4. Miscellaneous 180

Number of voting rights at RÁBA Automotive Holding Plc. on March 11, 2019 181

We engineer, you drive

The Board of Directors of
RÁBA Automotive Holding Plc. ("**RÁBA Plc.**")
(Seat of the Company: 9027 Győr, Martin u. 1.)

herewith informs its shareholders that it holds its

ANNUAL GENERAL MEETING

on April 11, 2019 at 10.00 a.m.

at the Commercial Centre of RÁBA Plc.
(Hotel Konferencia, H-9022 Győr, 3 Apor Vilmos püspök tere)

The Agenda of the General Meeting

1. **Assessment of the Company's operation in 2018**
   - **1.a) Report of the Board of Directors on the Company's business operations in the business year 2018;**
   - **1.b) Report on the Company's normal and consolidated annual financial statements of 2018 drawn up as per the International Financial Reporting Standards (IFRS), proposal of the Board of Directors for the approval of the normal and consolidated annual financial statements as well as proposal for the allocation of the total profit for the reporting year and the submission of Corporate Governance Report;**
   - **1.c) Report of the Supervisory Board on the annual financial statements of 2018, on the allocation of the total profit for the reporting year and on the submissions to the AGM;**
   - **1.d) Report of the Auditor on the annual financial statements of 2018;**
   - **1.e) Discussion and acceptance of the reports on normal annual financial statements and consolidated annual financial statements drawn up as per the International Financial Reporting Standards (IFRS), approval of the statement of financial position and resolution on the allocation of the total profit for the reporting year; and resolution on the acceptance of the Corporate Governance Report;**
2. **Approval of an acquisition program;**
3. **Recall of Members of Board of Directors, election of new Board members and setting the remuneration**
4. **Miscellaneous**

The General Meeting shall take place by personal attendance.

The submissions and draft resolutions relative to the Items on the Agenda of the AGM, the reports of the Supervisory Board (Audit Committee) and that of the Auditor will be published in separate notice by the Board of Directors until March 20, 2019 on the website of BSE (www.bet.hu) and on the website of the Company (www.raba.hu).

Subject to presentation of a certificate of their voting rights and indication of the reason for their request, the shareholders representing at least one (1) per cent of the votes, may request the Board of Directors, in writing and in accordance with the statutory requirements to detail the agenda items, to put any item on agenda of the AGM, and such shareholders may also submit draft resolutions regarding the items on agenda, within 8 days following the publication of this Notice of AGM.

Pursuant to the Articles of Association those shareholders or shareholder's proxies are entitled to participate in and vote at the AGM whose names are entered at the closing date in the Register of Shareholders, prepared on the basis of the identification of shareholders initiated by the Company.

The record date of identification of shareholders is: **April 4, 2019**

The closing date of Register of Shareholder is: **April 9, 2019 at 6 p.m.**

The financial institutions keeping the securities account shall arrange for the entering of the shareholders into the Company's Register of Shareholders kept by KELER Zrt, on the basis of the shareholder's instructions. RÁBA Plc. can not assume liability for the shareholders' registration.

The shareholders who intend to participate in the AGM are requested to check, until the second working day before the closing date of Register of Shareholders, the latest, at the financial institution keeping their securities account that the arrangements are made in favour of their registration into the Register of Shareholders.

Shareholders may participate in the General Meeting in person, or through their legal representatives or proxies.

The shareholders should prove their personal identity by presenting their certificates for identification. The shareholders' organizational or corporate identity and their right of representation should be verified by an authentic document, which certifies the registration and the data in force of the organization or the corporation and their representatives (e.g. certificate of incorporation). In case of a foreign shareholder, the provisions regarding the requirements of documents of foreign origin shall be applied, with regard to the relevant provisions of the international convention being in effect between Hungary and the country of the place of issue of such foreign documents, or the international reciprocity as well. If the documents are not issued in the Hungarian or English language, the shareholders should attach the Hungarian or the English translation.

For the purpose of registration, the shareholders are requested to arrive at the place of the General Meeting from 8.30 a.m, together with their documents necessary for the verification of their personal identity and/or corporate identity and their rights of representation.

Convocation of the Repeated General Meeting due to lack of quorum of AGM:

In the event that the General Meeting to be held on April 11, 2019 fails to have a quorum even 30 minutes after its scheduled time, the General Meeting repeated for lack of quorum shall be held at the same place and with the same agenda **on April 25, 2019 at 10.00 a.m.** In the case that repeated General Meeting is to be held, a separate notice will be published thereof by the Company on the date of the original General Meeting.

The Register of Shareholders prepared on the basis of the identification of shareholders at the record date of April 4, 2019 and closed on April 9, 2019 at 6 p.m. shall be valid for the General Meeting repeated for lack of quorum.

In the event the General Meeting having quorum is suspended, the date of the continued General Meeting will be established parallel to the time of suspension and it will be officially published by RÁBA Plc. in a notice on the next working day after the suspended General Meeting at the latest.

Győr, March 11, 2019

Board of Directors of RÁBA Plc.

We engineer, you drive

ITEM 1 ON AGENDA OF GENERAL MEETING

ASSESSMENT OF THE COMPANY'S OPERATION IN THE FY 2018

1.a) Report of the Board of Directors on the Company's business operations in the business year 2018

We engineer, you drive

Rába Automotive Holding Plc.

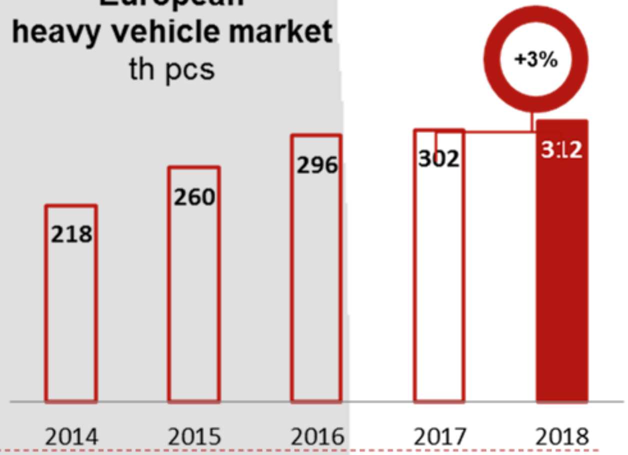
Annual General Meeting of 2019

Győr, April 11, 2019

We engineer, you drive

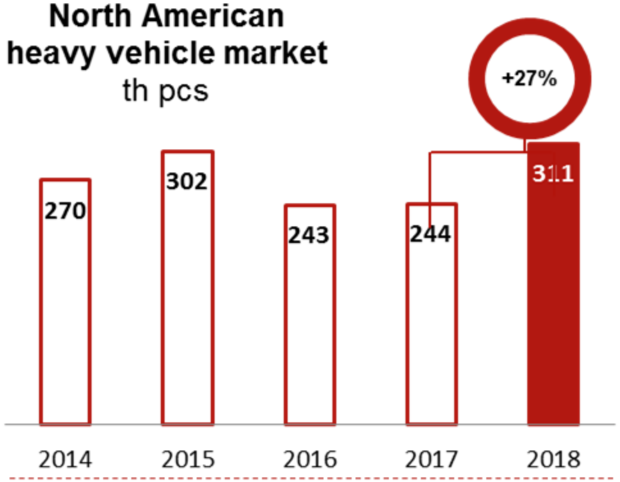
Market demand in 2018

European heavy vehicle market
th pcs



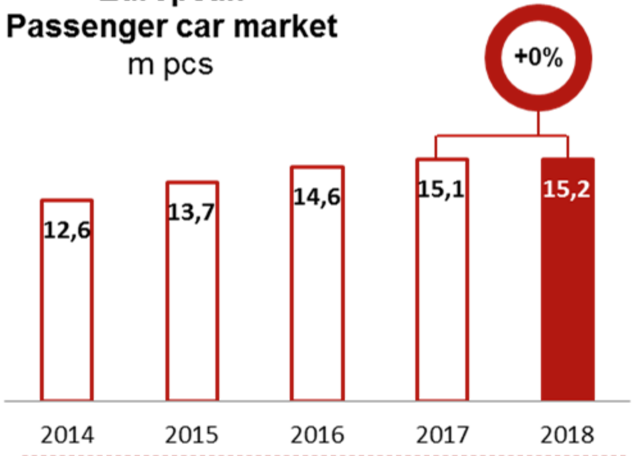
The truck market within Europe continued to show a steady increase in 2018. The strong demand for shipping, the utilisation of vehicle fleets and the level of shipping tariffs continue to provide a solid basis for the stabilisation of the market demand for heavy trucks at a high level.

North American heavy vehicle market
th pcs



In North America, due to the continued strong economic environment, the demand for trucks increased to an outstanding extent.

European Passenger car market
m pcs



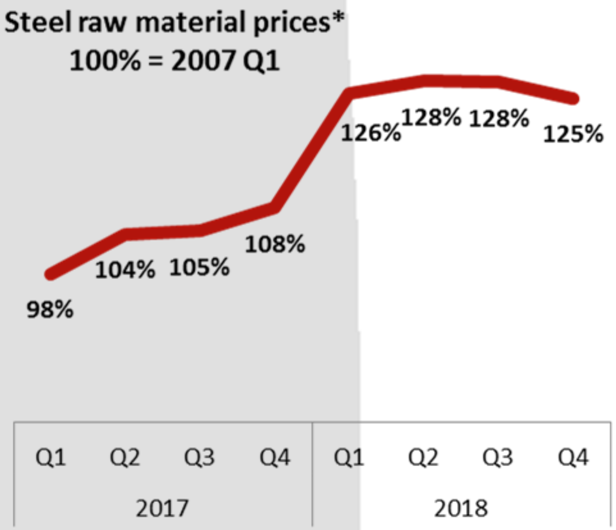
The European passenger car market stagnated practically in 2018.

<u>Further segments:</u>

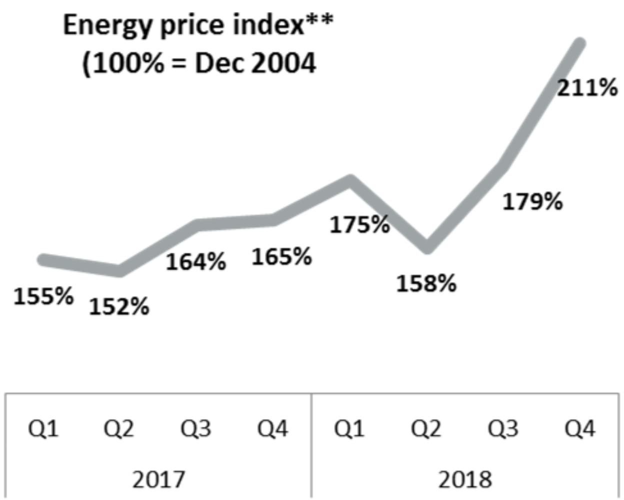
- Regarding the agricultural market, a significant expansion in the demand for Rába products can be observed in the US, as well as in the European market.
- The Russian bus and truck market continued to show a great deal of volatility. The outstanding growth of over 20 per cent observed during H1 slowed down by the second half of the year: the expansion of sales on the Russian bus market declined to 10.6 per cent, that of the truck market declined to 2.7 per cent.

We engineer, you drive

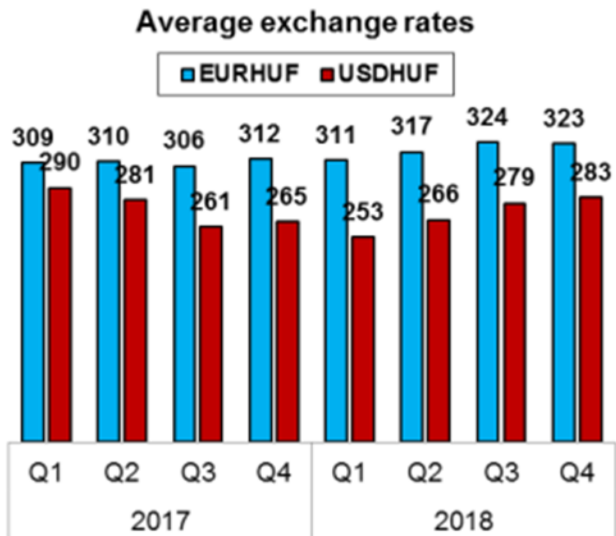
External environment



* Rába indices, Quarterly average values; 100%=2007 Q1



**Quarterly average values; 100% = Dec 2004



The meagre supplier capacities generated significant price increases in the steel raw materials market in 2018. The price pressure of suppliers was not only demonstrated through the international mark-up, but also through the significant increase in the base prices of steel. As a result, the price level of steel rose significantly, by 22.1 per cent in 2018.

There was a significant price increase in terms of energy costs in Q4 of 2018, the average energy prices in 2018 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 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 previous year’s level by 3.1 per cent.

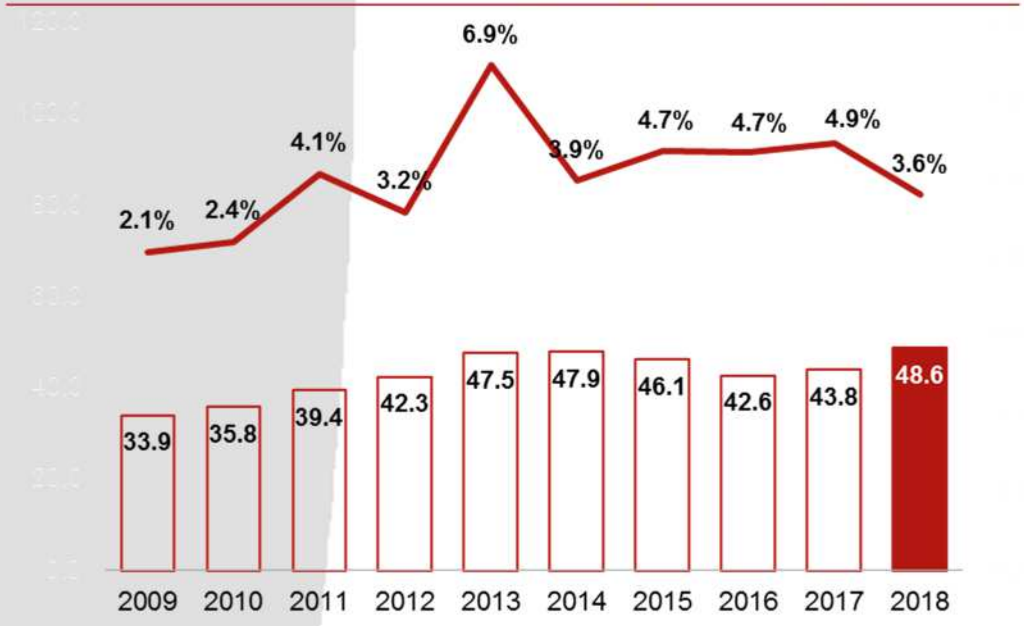
Rába Group: significant market changes, continuing technological modernization

We engineer, you drive

Profit and loss statement of Rába Group

IFRS, m HUF	2017	2018	Change
Sales revenue	**43,842**	**48,632**	**10.9%**
Operating profit	**2,149**	**1,751**	**-18.5%**
Profit on financial transactions	**-101**	**-109**	**-8.0%**
Profit for the year	**1,569**	**1,197**	**-23.7%**
Total comprehensive profit for the year	**1,569**	**1,197**	**-23.7%**
EBITDA	**4,100**	**3,790**	**-7.6%**

Sales revenue (bn) and operating profit level (%)



- Taking advantage of the stable demand, the turnover increase was significant, the sales revenue increase was 10.9 per cent. The highest sales revenue of the last decade was realised.
- The activity in the entire supply chain led to a significant increase in manufacturing costs. The increase in the purchase price of raw materials and energy put considerable pressure on the manufacturing activity and through that also on the financial performance.
- On operating level the Group realised profit of HUF 1,751 million, return on sales reached 3.6 per cent.
- Regarding the cash generating ability the EBITDA-level profit amounted to HUF 3,790 million, the EBITDA efficiency reached 7.8 per cent
- The financial stabilisation of the previous years ensured appropriate basis to the implementation of technology developing investments of strategic significance. The modernization continued in 2018.

Axle Business Unit: considerable growth in turnover, complying operation due to significant exposure

We engineer, you drive

Sales revenue figures by regions

IFRS, mHUF	2017	2018	Change
Axle Business Unit	**22,040**	**25,026**	**13.6%**
USA and South America	2,604	2,928	12.5%
EU	12,756	14,450	13.3%
Domestic market	3,375	3,965	17.5%
CIS countries	1,561	1,706	9.3%
ROW	1,744	1,977	13.4%

Profitability

IFRS, mHUF	2017	2018	Change
Sales revenue	**22,040**	**25,026**	**13.6%**
EBITDA	**2,106**	**1,743**	**-17.2%**
EBITDA level	*9.6%*	*7.0%*	*-2.6%p*
Operating profit	**983**	**629**	**-36.0%**
Operating profit level	*4.5%*	*2.5%*	*-1.9%p*

Sales revenue (bn) and operating profitability (%)

- Significant increase in sales in all the geographic regions. The sales revenue increasing by overall 13.6 per cent, by some HUF 3 billion was HUF 25,026 million.
- The major increase in steel and energy prices made the conditions of competitiveness worse. Therefore, the operating profitability is below the previous years:
  - The operating profit was HUF 629 million, the profitability ratio was 2.5 per cent
  - Realized profit at EBITDA level was HUF 1,743 million, the efficiency at EBITDA level 7.0 per cent.

Components Business Unit: outstanding sales, profitability stabilized on high level

We engineer, you drive

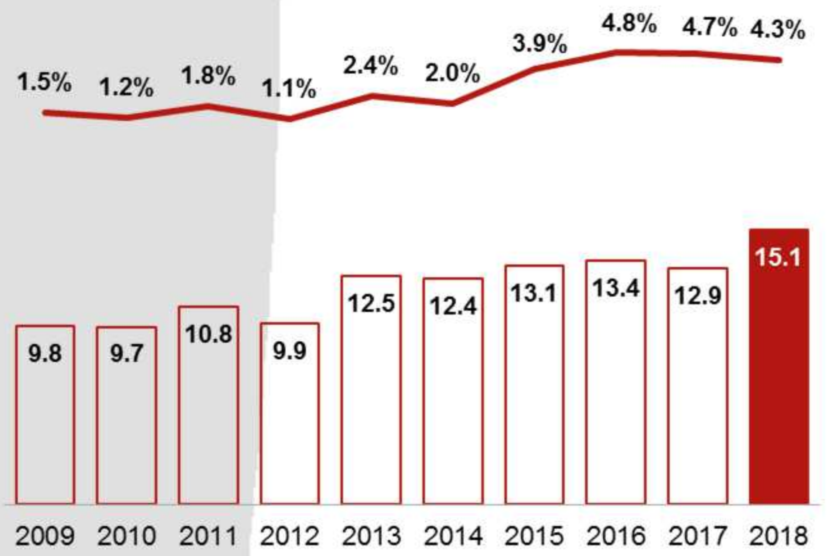
Sales revenue figures by regions

IFRS, mHUF	2017	2018	Change
Components BU	**12,941**	**15,061**	**16.4%**
Domestic market	7,134	8,413	17.9%
Export	5,808	6,647	14.5%

Profitability

IFRS, mHUF	2017	2018	Change
Sales revenue	**12,941**	**15,061**	**16.4%**
EBITDA	**1,003**	**1,135**	**13.2%**
EBITDA level	*7.8%*	*7.5%*	*-0.2%p*
Operating profit	**606**	**653**	**7.7%**
Operating profit level	*4.7%*	*4.3%*	*-0.3%p*

Sales revenue (bn) and operating profitability (%)



- Outstanding export and domestic sales: increasing sales revenue by overall 16.4 per cent, by more than HUF 2 billion.
- The profitability levels were stabilized despite the variable sales structure:
  - EBITDA volume was HUF 1,135 million, it increased by HUF 132 million compared to the level in the previous year, EBITDA operating rate to the sales revenue was 7.5 per cent
  - Operating profit increased by HUF 47 million, it was HUF 653 million, operating profitability was stabilized on the level of the previous years, it was 4.3 per cent.

We engineer, you drive

Vehicle Business Unit: increasing export, improving profitability

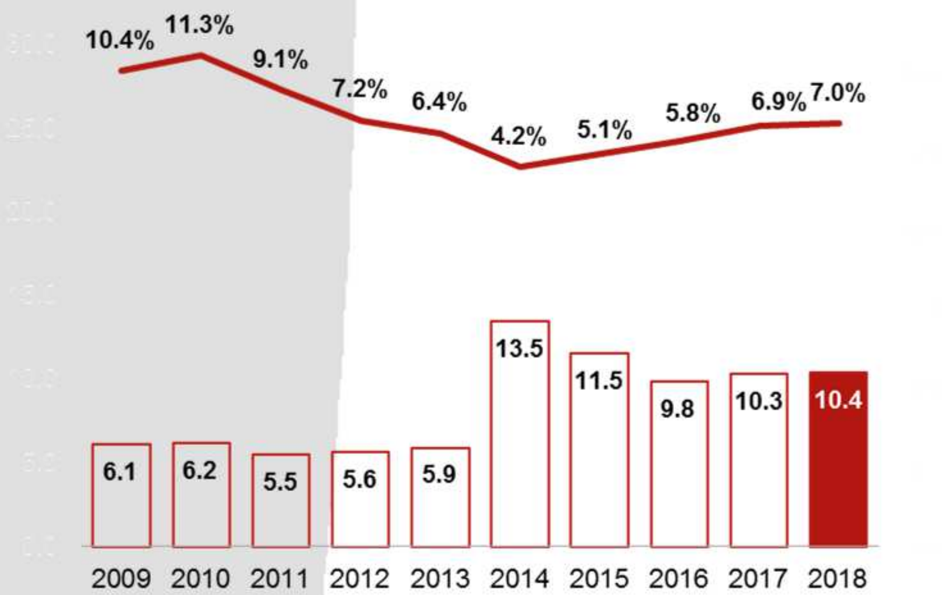
Sales revenue figures by regions

IFRS, mHUF	2017	2018	Change
Vehicle BU	**10,309**	**10,381**	**0.7%**
Domestic market	6,175	5,285	-14.4%
Export (EU)	4,134	5,096	23.3%

Profitability

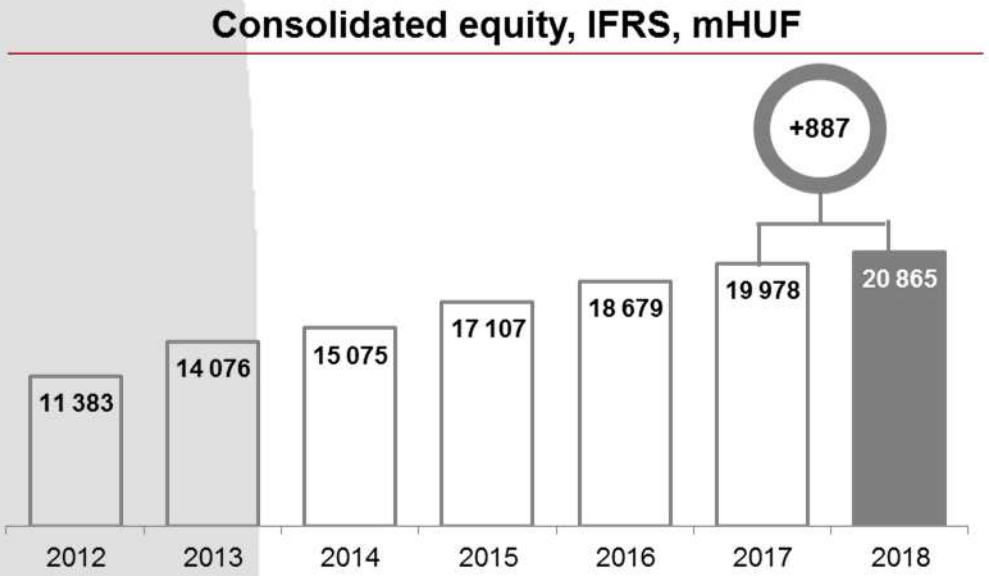
IFRS, mHUF	2017	2018	Change
Sales revenue	**10,309**	**10,381**	**0.7%**
EBITDA	**930**	**950**	**2.1%**
EBITDA level	*9.0%*	*9.2%*	*0.1%p*
Operating profit	**707**	**722**	**2.2%**
Operating profit level	*6.9%*	*7.0%*	*0.1%p*

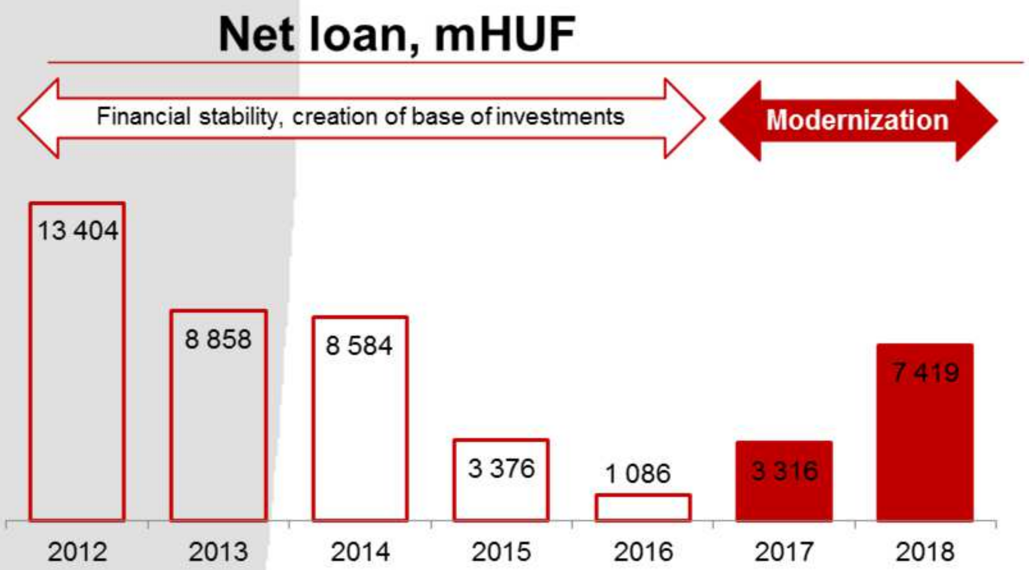
Sales revenue (bn) and operating profitability (%)



- Record-sized export sales, declining domestic sales and outstanding increasing of 23.8 per cent characterized the sales revenue.
- Sales revenue exceeded HUF 10.4 billion with 0.7 per cent increase
- Outstanding earning ability in 2018: achieved HUF 950 million EBITDA volume with 2.1 per cent increase and HUF 722 million operating profit with 2.2 per cent increase
- Increasing profitability
  - The EBITDA efficiency was stabilized on the industry average level, it was 9.2 per cent.
  - The ROS calculated with EBIT exceeded the level of the previous years, it was 7.0 per cent

Increasing company value, financial stability and investment programs

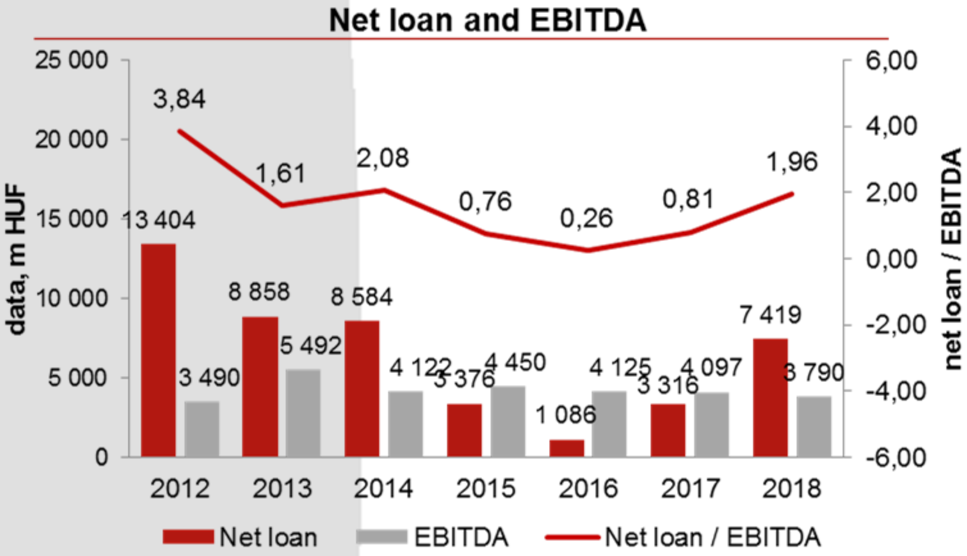


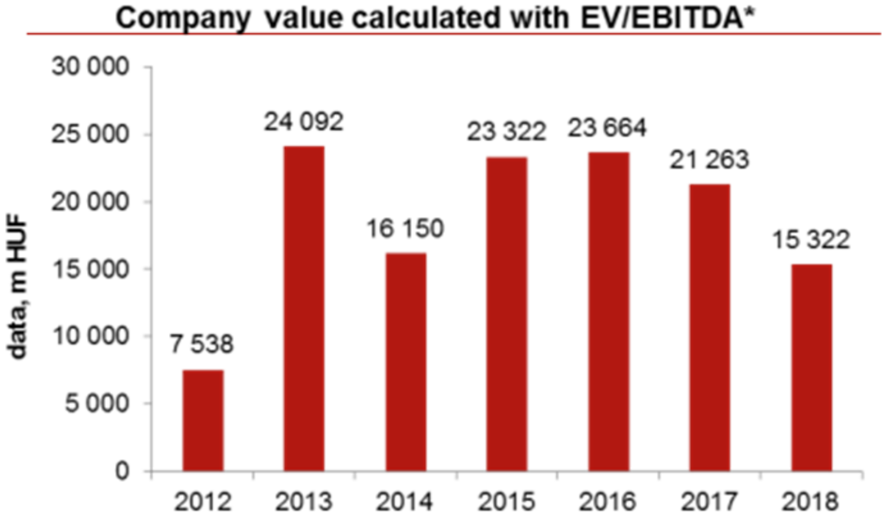


- ✓ Average increase of 10.6 % per cent
- ✓ Net loan decrease, creation of bases
- ✓ Investment programs

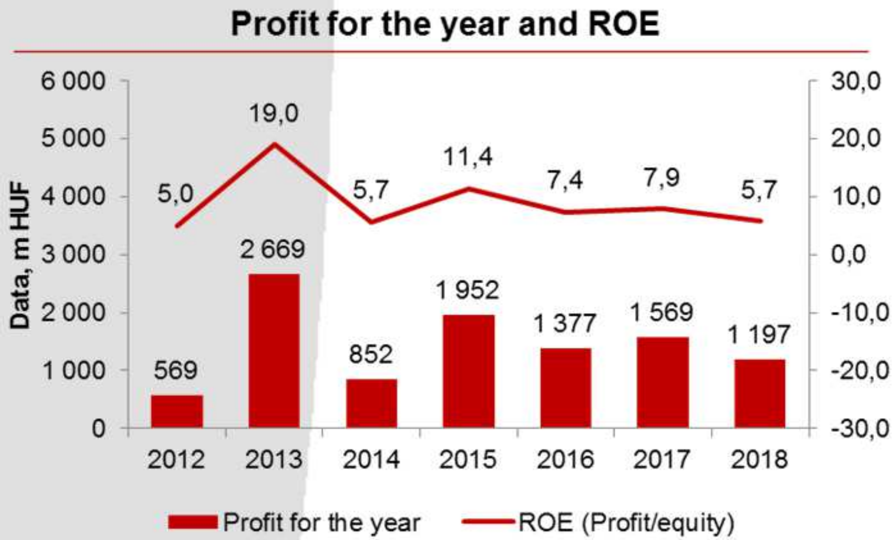
We engineer, you drive

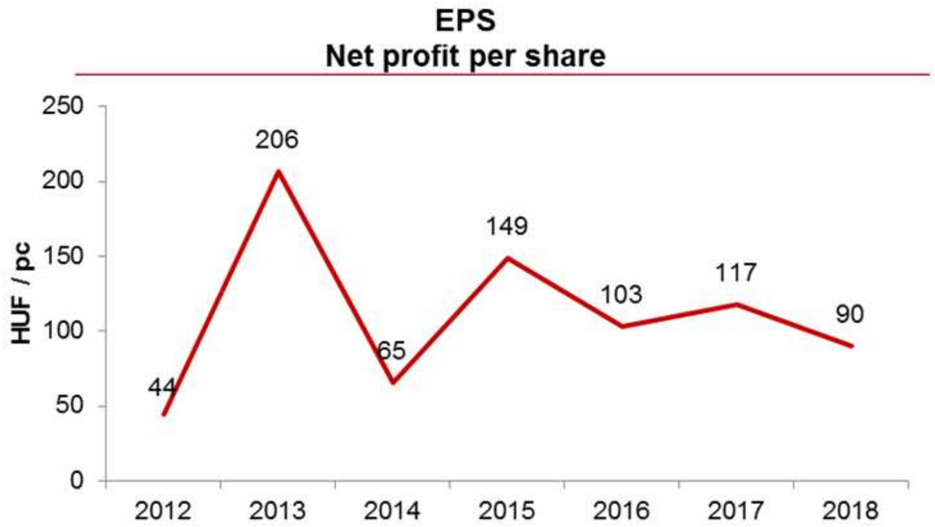
Financial indices 2012 – 2018





* *Value of industry multiplier : 6*





Technology developing and capacity improving investment program

Antecedents:

Resolution 9/2016.04.15 of the AGM

1. Pursuant to the Article 13. (z) of the Articles of Association of the Company, that correspond to the Article 13. (bb) after the approval of the amendment of the Articles of Association in Agenda item 3, the General Meeting approves the passing of a Founder's resolution of Rába Axle Ltd, a subsidiary of the Company on the realization of the planned investment program for technology development and capacity expansion and requests the management of the Company to pass the Founder's resolution with the following fundamental conditions:

   Rába Axle Ltd is authorized to enter into the investment obligation of the amount of HUF 10,502 million in all (calculated with the daily closing EUR central exchange rate on the last working day in 2015 by Hungarian National Bank) relating to the realization of the investment program (with using financial support or without it). The Founder authorizes the Managing Director of Rába Axle Ltd. to sign the financial support, credit, supplier and security contracts required to the realization of the program.

2. Pursuant of the Article 13. (m) of the Articles of Association of the Company the General Meeting agrees that relating to the investment program for technology development and capacity expansion to be realized by Rába Axle Ltd. the Company provides securities (security, guaranty) or establishes mortgage up to HUF 10,502 million and its contributions at most and authorizes the management of the Company to sign these contracts.

We engineer, you drive

Scope of the investment program

Modernization of forging technology

- Infrastructure
- Logistics
- Tooling, technology
- Forging equipment

Modernization of machining technology

- Enlargement of I-Beam machining
- Enlargement of knuckle capacity
- Tag axle manufacturing

Original options of sources of the investment program

- Without financial support
- With financial support of 7 per cent

Change: A **financial support of HUF 2,516m**, with **25% financial support intensity**, was adjudged for this project, for our application to the Large Enterprise Investment Support Program in December 2016.

Progress, actual status

Financial status in proportion to the approved amount

- Contracted amount: 95%
- Paid 80%

Schedule of the tasks ahead of us

2019H1

- Quality and efficiency testing on the new forging line, conducting of technological handover-takeover proceeding.
- Activation of the new production line.
- Retechnologization and tool manufacturing to the new forging line

2019H2

- Retechnologization and tool manufacturing to the new forging line
- Customer approval
- Finish of enlargement of machining capacity
- Finish of the investment program

We engineer, you drive

Proposal of the Board of Directors

Plc. (normal)*	Group (consolidated)*
Balance sheet total: **22 630 542 ezer Ft**	Balance sheet total : **42 079 253 ezer Ft**
Balance sheet profit : **382 466 ezer Ft**	Total comprehensive profit for the year : **1 196 925 ezer Ft**

* Data according to IFRS

* Data according to IFRS

Dividend: HUF 17.80 / share

We engineer, you drive

Corporate Governance Report

Budapest Stock Exchange reworked and updated the Corporate Governance Recommendations in August 2018. To help the uniform filling, BSE introduced that the Companies have to fill in the Corporate Governance Report on the website of BSE.

Accordingly, our Company restructured and updated the answers to the questions.

We engineer, you drive

ITEM 1 ON AGENDA OF GENERAL MEETING

ASSESSMENT OF THE COMPANY'S OPERATION IN THE FY 2018

1.b) Report on the Company's normal and consolidated annual financial statements of 2018 drawn up as per the International Financial Reporting Standards (IFRS), proposal of the Board of Directors for the approval of the normal and consolidated annual financial statements as well as proposal for the allocation of the total profit for the reporting year and the submission of Corporate Governance Report

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

Date: Győr, 19 March 2019

Table of Contents

Independent Auditors' Report 4
Statement of Financial Position 9
Statement of Comprehensive Income 10
Statement of Changes in Equity 11
Cash flow statement 12
Notes to the Financial Statements 12
Note 1 Reporting entity 13
Note 2 Basis of preparation 13
Note 3 Significant accounting policies 15
Note 4 Determination of fair values 21
Note 5 Financial risk management 22
Note 6 Investments in subsidiaries 25
Note 7 Property, plant and equipment 27
Note 8 Intangible assets 29
Note 9 Investment properties 30
Note 10 Other non-current assets 30
Note 11 Trade and other receivables 31
Note 12 Cash and cash equivalents 32
Note 13 Equity 32
Note 14 Provisions 34
Note 15 Financial liabilities 35
Note 16 Trade and other payables 36
Note 17 Segment reporting 36
Note 18 Revenues 37
Note 19 Operating costs 38
Note 20 Payments to personnel 38
Note 21 Other income and expenses 39
Note 22 Finance income and expenses 40
Note 23 Income tax expense 40
Note 24 Transactions with related parties 42
Note 25 Financial risks 46
Note 26 Earnings per share 50
Note 27 Capital commitments and contingencies 50
Note 28 Operating leases 50
Note 29 Off-balance sheet liabilities 51
Note 30 Subsequent events 51
Note 31 Additional disclosures in accordance with the Hungarian Accounting Law 51

Independent Auditors' Report

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Statement of Financial Position

Assets	**Notes**	**31 December 2017**	**31 December 2018**
Property, plant and equipment	7	6 066 626	6 065 657
Intangible assets	8	15 171	12 809
Investment properties	9	338 217	338 217
Investment in subsidiaries	6	11 592 703	11 918 571
Other investments		205	205
Deferred tax assets	23	0	4 975
Other non-current assets	10	1 465 240	1 503 882
Non-current assets, total		**19 478 162**	**19 844 316**
Inventories		8 617	8 028
Trade and other receivables	11	548 148	2 311 343
Income tax receivables	23	11 574	17 167
Cash and cash equivalents	12	2 270 233	449 688
Current assets, total		**2 838 572**	**2 786 226**
Assets, total		***22 316 734***	***22 630 542***
Equity and liabilities			
Issued capital	13	13 473 446	13 473 446
Treasury shares	13	-108 952	-108 952
Retained earnings	13	3 583 343	3 655 891
Equity, total		**16 947 837**	**17 020 385**
Provisions	14	40 513	95 700
Non-current financial liabilities	15	45 133	0
Deferred tax liabilities	23	5 184	0
Non-current liabilities, total		**90 830**	**95 700**
Provisions	14	26 688	71 766
Trade and other payables	16	5 215 447	5 442 691
Current financial liabilities	15	35 932	0
Income tax liabilities	23	0	0
Current liabilities, total		**5 278 067**	**5 514 457**
Equity and liabilities, total		***22 316 734***	***22 630 542***

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Statement of Comprehensive Income ***Assets***	**Notes**	**31 December 2017**	**31 December 2018**
Revenues	18	1 449 300	1 495 835
Cost of sales	19	366 192	376 123
Gross profit		**1 083 108**	**1 119 712**
Dividends received*	21	174 581	265 585
Gain/loss on investments in subsidiaries	21	0	371 000
Other operating income	21	5 010	6 033
Other income		**179 591**	**642 618**
Selling and marketing expenses	19	43 618	45 392
General and administrative expenses	19	953 308	1 056 350
Other expenses	21	228 953	276 369
Other operating expenses		**1 225 879**	**1 378 111**
Operating profit		***36 820***	***384 219***
Finance income	22	74 488	95 940
Finance expenses	22	17 020	83 510
Profit before tax		**94 288**	**396 649**
Income tax	23	13 093	14 183
Profit for the year		**81 195**	**382 466**
Comprehensive income for the year		**81 195**	**382 466**

*As the Revenue standard changed (IFRS 15 replaced IAS 18), dividends received have been reclassified and presented separately in the financial statements.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Statement of Changes in Equity

	Issued capital	Treasury shares	Share-based payments reserve	Retained earnings	Other comprehensive income	Equity, total
1 January 2017	**13 473 446**	**-108 952**	**0**	**3 771 606**	**0**	**17 136 100**
Profit for the year				81 195		81 195
Dividends paid from the profit for 2016				-269 458		-269 458
31 December 2017	**13 473 446**	**-108 952**	**0**	**3 583 343**	**0**	**16 947 837**
Profit for the year				382 466		382 466
Dividends paid from the profit for 2017				-309 918		-309 918
31 December 2018	**13 473 446**	**-108 952**	**0**	**3 655 891**	**0**	**17 020 385**

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Cash flow statement

		31 Dec 2017	31 Dec 2018
Operating cash flows			
Profit before tax		94 288	396 649
Adjustments of non-cash items:			
Interest income	22	-65 079	-75 675
Interest expense	22	3 820	2 102
Depreciation and amortisation	7,8	208 340	216 064
Property, plan and equipment scrapped	7,22	440	3 721
Impairment loss on intangible assets, property, plant and equipment	7,22	24 439	10 008
Impairment recognized/(reversed) on investments in subsidiaries	6,22	0	-371 000
Gain or loss on fixed asset disposals		0	-1 297
Impairment loss on doubtful and bad debt, and long-term receivables	11,22	0	0
Impairment of inventories carried at unrealisable value		983	0
Changes in provisions	14,21	38 414	100 265
Changes in working capital			
Changes in trade and other receivables	11	955 160	-1 686 621
Changes in inventories		1 715	589
Changes in trade and other payables	16	-136 013	84 467
Income taxes paid	23	18 779	24 342
Interest received	22	-4 597	-2
Interest paid	22	12 404	10 926
Operating cash flows, net		**1 153 093**	**-1 285 462**
Investing cash flows			
Acquisition of intangible assets, property, plant and equipment	7,8	-217 386	-227 457
Fixed asset disposals		0	2 292
Investing cash flows, net		**-217 386**	**-225 165**
Financing cash flows			
Gain/(loss) on the acquisition/disposal of treasury shares		0	0
Dividends paid to shareholders	13	-269 458	-309 918
Financing cash flows, net		**-269 458**	**-309 918**
Net (decrease)/increase in cash and cash equivalents		**666 249**	**-1 820 545**

Notes to the Financial Statements

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

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 Company does not have any production activities, and its operations focus on business development, managing and overseeing the operations of the subsidiaries and performing asset management for these entities.

Shareholders

At 31 December 2017 and 2018, the share book indicated the following shareholders:

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

Note 2 Basis of preparation

a) Statement of compliance with IFRS

As of 1 January 2017, the Company has been using the International Financial Reporting Standards („IFRS") for statutory financial reporting purposes.

The 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.

For the purposes of these notes, the term „balance sheet" refers to the statement of financial position, the term „profit and loss account" refers to the statement of comprehensive income.

b) Basis of measurement

The financial statements were prepared on the historical cost basis except as listed in Note 4.

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

c) Functional and presentation currency

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

d) Significant estimates and judgements

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

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

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

i) 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. Depreciation and amortisation expense are presented in notes 7 and 8. 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.

ii) Provisions
The accounting estimate of provisions is considered by the Company a significant accounting estimate as presented in Note 14.

iii) Fair values
Fair values are determined as described in Note 4. The fair values at 31 December 2017 and 2018 are presented in the relevant notes.

iv) Impairment tests of non-monetary assets
The Company annually performs tests to see whether there are external and internal indications under IAS 36 which require an impairment review for tangible and intangible assets. As we are not aware of any impairment indicator, no impairment testing was conducted. Each asset is assessed for potential impairment or scrapping during the course of the annual count of tangible assets, and the results are presented Notes 7 and 8.

v) Measurement of investment properties

The Company carries its investment properties at historical cost and present its fair value in the notes to the financial statements. The Company 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 disclosure of fair value of the properties are provided in Notes 4 and 9.

vi) Valuation of investments

In accordance with Rába Group's business model, Rába Nyrt. has permanent strategic investments in three subsidiaries (100% ownership).
Investment in subsidiaries, in associates and joint ventures is initially recognized at cost and subsequently measured at carrying amount less accumulated impairment losses.

Impairment loss is recognised when the recoverable value of an investment is below its net book value. The recoverable value is determined based on the discounted cash flow method.

Impairment recognised in previous years may be reversed only if there has been a change in the estimates used to determine the recoverable amount since the latest recognition of any impairment. If so, the book value of the asset should be adjusted up to the recoverable amount.

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes detailed in part a).

a) Changes in the accounting policies

Except for the IFRSs as amended as adopted by the Company 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 Company.

- **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 Company.

- **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 amendment has no impact on the Company's statement of financial position or 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, owing to the nature of operations, the amendment has no impact on the Company.

b) Standards issued but not yet effective nor applied early

- **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) 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 (trade receivables, trade payables, cash and cash equivalents, loans and borrowings, other debt instruments etc.) denominated in foreign currencies at the reporting date are translated to the functional currency at the Hungarian central bank's exchange rates prevailing at that date.
Items measured at fair value denominated in foreign exchange are translated to HUF at the exchange rates prevailing on the date of fair valuation.

d) 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 receivables, cash and cash equivalents, loans and borrowings as well as creditors, 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 Company'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.

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.

e) 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.

f) 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 costs
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 Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized in profit or loss as incurred.

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

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

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

The depreciation methods, useful lives and residual values are reviewed on annual basis.

g) Intangible assets

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

ii) 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.

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

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

h) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at 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.

i) 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 Company 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. After initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The Company does not have any asset leased under a financial lease arrangement.

Other leases are operating leases and, the leased assets are not recognized on the Company'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.

j) Impairment

i) Financial assets

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

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

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

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

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

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

k) 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 Company 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 Company pays Social Contribution Taxes.

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

l) Provisions

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

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

No provision is made for future operating costs.

m) Revenues

i) Services rendered
Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The Company intermediates services to its affiliates and to its third party tenants. These services are mainly security services, IT, and fire protection.

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

iii) *Dividends*
Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

n) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividends received, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized in profit or loss as it accrues, using the effective interest method.

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

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

o) Income taxes

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

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

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

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

p) Segment reporting

A segment is a component of the Company 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 Company'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.
The Company does not have a separate component that meets the criteria of a segment and therefore no segment information is presented in the financial statements.

Note 4 Determination of fair values

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

Investment property
An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, valued the Company's Investment property at 31 December 2018.

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

Receivables from sales of assets
The fair value of receivables from sales of assets is estimated as the present value of future cash

flows, discounted at the market rate of interest at the reporting date.

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

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

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

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

Note 5 Financial risk management

a) Overview

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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company'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 Company's risk management framework.

The Company's risk management policies are designed to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Trade, intercompany and other receivables
Most of the Company's receivables are from its subsidiaries, including intercompany debtors, cash-pool assets and additional capital contributions. The Company owns 100% of its subsidiaries and therefore has influence over their operations.

Investments
The Company 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 Company 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 Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

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

Management believes that the Company 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 Company'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 Company 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 Company's cash-pool system, which is also operated in foreign exchange in addition to the functional currency, represents a currency risk. The various currencies are set off against one another and cash-pool receivables and liabilities are presented after netting off.

Interest rate risk

The Company adopts a policy which ensures that the mitigation of the interest rate risk is also effectively supported by the Holding'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 Company'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. At 31 December 2017 and 2018 the Company met these externally imposed capital requirements.

f) Equity position of the Company

At 31 December 2018, the Company's equity totalled kHUF 17,020,385 (31 December 2017: kHUF 16,947,837), issued capital of kHUF 13,473,446 (31 December 2017: 13,473,446), and had an equity to issued capital ratio of 126.3 % (31 December 2017: 125.8 %).

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 6 Investments in subsidiaries

31 December 2017	%	Initial cost	Impairment	Net Book Value	Equity
Investments					
Rába Futómű Kft.	100	10 911 170	-1 637 186	9 273 984	10 607 818
Rába Járműalkatrész Kft.	100	1 490 165	0	1 490 165	1 702 693
Rába Jármű Kft.	100	828 554	0	828 554	3 677 131
Total		**13 229 889**	**-1 637 186**	**11 592 703**	**15 987 642**

31 December 2018		Initial cost	Impairment	Net Book Value	Equity
Investments					
Rába Futómű Kft.	100	10 903 719	-1 266 186	9 637 533	11 154 790
Rába Járműalkatrész Kft.	100	1 468 323	0	1 468 323	2 149 273
Rába Jármű Kft.	100	812 715	0	812 715	3 990 205
Total		**13 184 757**	**-1 266 186**	**11 918 571**	**17 294 268**

The subsidiaries prepare and disclose their financial statements as at 31 December in accordance with the Hungarian Accounting Law and with other applicable laws and regulations. The Company's share in its subsidiaries equals the percentage of control.

Impairment on investments in subsidiaries

The parent company annually conduct an impairment test of the subsidiaries:

- Rába Jármű Kft.: no circumstance was detected which would call for an assessment of the investment or would jeopardise returns owing to the fact that Rába Jármű Kft's equity position is stable, the entity generates profits and, in view of its strategy, is expected to maintain its current positive situation.
- As in the previous years, Rába Futómű Kft. and Rába Járműalkatrész Kft. were assessed based on the discounted cash flow method, where the value of the subsidiaries is the discounted value of their expected future cash flows. The calculations were based on the Company's strategic plans developed in view of local and international economic conditions, the related risks and the impacts of these on the Company's industry. The fair value assessment underlined the book values of the investment in Rába Járműalkatész Kft.

  The impairment loss on the Rába Futómű Kft. was reversed as a result of the assessment.

Changes in the impairment of investments in subsidiaries:

	Impairment of investments in subsidiaries
1 January 2017	***1 637 186***
Reversal of unused impairment	0
Impairment charge for the year	0
31 December 2017	**1 637 186**
Reversal of unused impairment	-371 000
Impairment charge for the year	0
31 December 2018	**1 266 186**

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

a) Rába Futómű Kft.

Registered seat: Martin út 1., 9027 Győr, Hungary. Issued capital 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 operates in Győr and manufactures a wide range of products, including several word patented products.

b) Rába Járműalkatrész Kft.

Registered seat: Martin út 1., 9027 Győr, Hungary. Issued capital at 31 December 2017 and 2018: 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 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.

Key financial information of subsidiaries:

The figures below are from the standalone financial statements of the subsidiaries prepared in accordance with the Hungarian Accounting Law.

31 December 2017	**Issued capital**	**Reserves**	**Profit for the year**	**Equity**	**From this Additional paid in capital**	**BS total**	**Liabilities**	**Revenues**
Investments								
Rába Futómű Kft.	9 762 800	152 806	692 212	10 607 818	900 000	18 565 634	6 940 331	22 042 080
Rába Járműalkatrész Kft.	300 000	894 643	508 050	1 702 693	600 000	6 164 428	4 317 918	12 954 407
Rába Jármű Kft.	835 100	2 228 419	613 612	3 677 131		7 854 483	3 561 520	10 322 797

31 December 2018	**Issued capital**	**Reserves**	**Profit for the year**	**Equity**	**From this Additional paid in capital**	**BS total**	**Liabilities**	**Revenues**
Investments								
Rába Futómű Kft.	9 762 800	845 018	549 425	11 157 243	900 000	23 758 270	11 689 719	25 026 496
Rába Járműalkatrész Kft.	300 000	1 402 694	446 579	2 149 273	600 000	6 901 549	4 108 396	15 078 778
Rába Jármű Kft.	835 100	2 581 031	572 749	3 988 880		9 615 896	4 917 962	10 399 083

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 7 Property, plant and equipment

	Property	Plant and equipment	Construction in progress	Total
Cost				
Balance at 1 January 2017	8 898 863	680 589	99 057	9 678 509
Additions	108 425	29 367	79 594	217 386
Reclassified from CIP	3 624	4 141	-7 765	0
Other decrease	-592	-3 260	0	-3 852
Balance at 31 December 2017	**9 010 320**	**710 837**	**170 886**	**9 892 043**
Accumulated depreciation				
Balance at 1 January 2017	3 112 126	488 896	0	3 601 022
Depreciation charge	180 584	22 784	0	203 368
Impairment	24 439	0	0	24 439
Other decrease	-161	-3 251	0	-3 412
Balance at 31 December 2017	**3 316 988**	**508 429**	**0**	**3 825 417**
Net book value at 1 January 2017	**5 786 737**	**191 693**	**99 057**	**6 077 487**
Net book value at 31 December 2017	**5 693 332**	**202 408**	**170 886**	**6 066 626**
Cost				
Balance at 1 January 2018	9 010 320	710 837	170 886	9 892 043
Additions	0	0	224 743	224 743
Reclassified from CIP	123 759	17 400	-141 157	0
Other decrease	-5 207	-16 600	0	-21 807
Balance at 31 December 2018	**9 128 872**	**711 637**	**254 472**	**10 094 981**
Accumulated depreciation				
Balance at 1 January 2018	3 316 988	508 429	0	3 825 417
Depreciation charge	185 282	25 705	0	210 987
Impairment	10 008	0	0	10 008
Other decrease	-1 471	-15 617	0	-17 088
Balance at 31 December 2018	**3 510 807**	**518 517**	**0**	**4 029 324**
Net book value at 31 December 2018	**5 618 065**	**193 120**	**254 472**	**6 065 657**

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.

The reason for the other decrease in property, plant and equipment was scrapping and disposals.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Property, plant and equipment with no carrying amount but still in use:

	Property			Plant and equipment		
	Cost	Accumulated depreciation	Net Book Value	Cost	Accumulated depreciation	Net Book Value
31 Dec 2017	85 354	85 354	0	412 924	412 924	0
31 Dec 2018	138 921	138 921	0	410 803	410 803	0

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 8 Intangible assets

	Intellectual property	Concessions and similar rights	Total
Cost			
At 1 January 2017	48 754	213 026	261 780
Additions	0	0	0
Disposals	0	0	0
At 31 December 2017	**48 754**	**213 026**	**261 780**
Accumulated amortisation			
At 1 January 2017	48 371	193 266	241 637
Amortisation for the year	150	4 822	4 972
Disposals	0	0	0
At 31 December 2017	**48 521**	**198 088**	**246 609**
Net book value at 1 January 2017	**383**	**19 760**	**20 143**
Net book value at 31 December 2017	**233**	**14 938**	**15 171**
Cost			
At 1 January 2018	48 754	213 026	261 780
Additions	0	2 716	2 716
Disposals	0	0	0
At 31 December 2018	**48 754**	**215 742**	**264 496**
Accumulated amortisation			
At 1 January 2018	48 521	198 088	246 609
Amortisation for the year	136	4 942	5 078
Disposals	0	0	0
At 31 December 2018	**48 657**	**203 030**	**251 687**
Net book value at 31 December 2018	**97**	**12 712**	**12 809**

Within Concessions and similar rights, the balance of third party software used is the most significant.
Intangible assets with no carrying amount but still in use:

	Concessions and similar rights			**Intellectual property**		
	Cost	Accumulated amortisation	Net book value	Cost	Accumulated amortisation	Net book value
31 Dec 2017	188 330	188 330	0	47 720	47 720	0
31 Dec 2018	188 330	188 330	0	48 004	48 004	0

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 9 Investment properties

Investment properties comprise 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). Investment properties are measured based on the historical cost model. Therefore, these properties are recognized at net book value rather than at fair value. Fair value was assessed by an external independent appraiser on the basis of comparable market prices.

Note 10 Other non-current assets

	31 December 2017	31 December 2018
Receivables from asset disposals	130 399	130 399
Additional equity contribution receivable	1 333 741	1 373 483
Non-current receivables	1 100	0
Other non-current assets	**1 465 240**	**1 503 882**

Receivables from asset disposals
Receivables from asset disposals reflect the amount receivable from the sale of a property. The amount is expected to be recovered in 2020.

Intercompany loans granted for loss compensation
The Company has receivables from interest free loans granted to subsidiaries in previous year to compensate for their losses. These receivables are expected to be recovered in 2022. The change between the two years reflects the impact of discounting. Interest of kHUF 39,742 was recognised in 2018 (kHUF 38,586 in 2017).

	31 December 2017	31 December 2018
Within 1 years	500	130 399
Between 1 and 5 years	1 464 740	1 373 483
Over 5 years	0	0
Other non-current assets, total	1 465 240	1 503 882

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 11 Trade and other receivables

	31 December 2017	31 December 2018
Trade receivables	25 795	29 013
Impairment on doubtful and bad debt	0	0
Trade receivables, net	25 795	29 013
Intercompany receivables	509 846	2 255 927
Advance payments	86	503
Prepaid expenses and accrued income	12 348	12 200
VAT receivable	0	13 627
Other	73	73
Trade and other receivables	**548 148**	**2 311 343**

The Company's exposure to credit and currency risks and impairment related to trade and other receivables is discussed in Notes 5 and 25.

The Company has trade receivables only in its functional currency.

Trade and Intercompany receivables by currency:

	31 December 2017	31 December 2018
Trade and intercompany receivables		
HUF	186 795	155 648
Total	**186 795**	**155 648**

	31 December 2017	31 December 2018
Cash-pool receivables		
EUR	-763 386	-1 695 005
HUF	1 086 437	3 795 284
Total	**323 051**	**2 100 279**

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 12 Cash and cash equivalents

	31 December 2017	31 December 2018
Cash at banks and on hand	2 270 233	449 688
Cash and cash equivalents, total	**2 270 233**	**449 688**

The Company’s exposure to interest rate and currency risks related to cash and cash equivalents is discussed in Note 5.
Interest received on cash and cash equivalents in 2018 was immaterial.

	31 December 2017	31 December 2018
HUF	783 616	4 290
EUR	1 480 937	439 340
USD	5 680	6 058
Cash and cash equivalents	**2 270 233**	**449 688**

Note 13 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 (kHUF 108,952, 120 681 shares at 31 December 2017). In respect of the Company’s shares that are held by the Company (“treasury shares”), all rights are suspended until the shares are reissued.

Other comprehensive income

The Company had no other comprehensive income as at 31 December 2017 and 2018.

Dividends paid

In resolution No. 3/2018.04.12, the annual shareholders’ meeting of Rába Járműipari Holding Nyrt. held on 12 April 2018 decided to pay dividends of HUF 23 per each share of HUF 1,000 face value from the profits for 2017 plus retained earnings in line with sections 31-35 of its Company Statutes.

The dividends attributable to the Company'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.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 14 Provisions

	Non-current	Current		
	Creditors related	Creditors related	Employee related	**Total**
Openine, 1 Jan 2017	**24 513**	**4 274**	**0**	**28 787**
Made	28 000	8 999	17 583	54 582
Used	-12 000	0	0	-12 000
Released	0	-4 168	0	-4 168
Closing, 31 Dec 2017	**40 513**	**9 105**	**17 583**	**67 201**
Made	56 653	32 137	35 129	123 919
Used	-1 466	-105	0	-1 571
Released	0	-4 500	-17 583	-22 083
Closing, 31 Dec 2018	**95 700**	**36 637**	**35 129**	**167 466**

Provisions for creditors 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 2019 when it will reach 42.9% of the provision made (kHUF 71,766; non-current: kHUF 95,700).

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 15 Financial liabilities

The Company had no loans or borrowings in either the basis or in the reporting period.

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

The Company provided non-payment guarantee for its subsidiaries presented as financial liabilities in the balance sheet. The Company's joint and several liability terminated in 2018 as a result of amended contractual arrangements with the financing banks.

Financial liabilities are presented in Note 24 and include the following items:

31 December 2017

Subsidiary	**Title**	**Non-payment guarantee (mHUF)**
Rába Futómű Kft.	bank loan	2 233
Rába Futómű Kft.	other guarantee	4
Rába Járműalkatrész Kft.	bank loan	1 861
Rába Jármű Kft.	bank loan	1 861
Rába Jármű Kft.	bank guarantee	279

31 December 2018

Subsidiary	**Title**	**Non-payment guarantee (mHUF)**
Rába Futómű Kft.	bank loan	0
Rába Futómű Kft.	other guarantee	4
Rába Járműalkatrész Kft.	bank loan	0
Rába Jármű Kft.	bank loan	0
Rába Jármű Kft.	bank guarantee	0

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 16 Trade and other payables

	31 December 2017	31 December 2018
Trade payables	186 012	207 902
Intercompany liabilities	4 815 733	5 013 493
Advances received	1 072	72
Accrued expenses	86 844	112 771
Deferred income	79 521	75 461
Payroll and related taxes	30 412	31 627
VAT liabilities	7 612	0
Other	8 242	1 365
Trade and other payables	**5 215 447**	**5 442 691**

Trade payables and intercompany liabilities by currency:

	31 December 2017	31 December 2018
Trade and intercompany payables		
EUR	5 435	5 105
HUF	235 030	315 800
USD	8 198	8 898
Total	**248 663**	**329 803**

	31 December 2017	31 December 2018
Cash-pool liabilities		
EUR	2 090 647	189 971
HUF	2 662 435	4 701 621
Total	**4 753 082**	**4 891 592**

The Company's exposures to currency and liquidity risk related to trade and other payables are disclosed in Notes 5 and 25.

Note 17 Segment reporting

The Company's operations qualify as a single segment, therefore no segments are reported separately.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 18 Revenues

Revenues were as follows:

	31 December 2017	31 December 2018
Related parties*	1 397 540	1 263 654
Third parties	226 341	232 181
Domestic revenues	**1 623 881**	**1 495 835**
Revenues, total	**1 623 881**	**1 495 835**

Revenues by activity:

	31 December 2017	31 December 2018
Services rendered	877 755	924 842
Rental income	571 545	570 993
Dividends received	174 581	0
Revenues, total	**1 623 881**	**1 495 835**

* for more details refer to Note 24.

A significant proportion of the revenues recognized from subsidiaries. Third parties revenues contain services rendered and rental income.

Dividends received are considered other income in line with IFRS as of 1 January 2018.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 19 Operating costs

	31 December 2017	31 December 2018
Materials	505 931	418 364
Services used and other services	312 202	473 372
Payments to personnel	336 645	370 065
Depreciation and amortisation	208 340	216 064
Operating costs, total	**1 363 118**	**1 477 865**
Cost of sales	366 192	376 123
Selling and marketing expenses	43 618	45 392
General and administrative expenses	953 308	1 056 350
Operating costs, total	**1 363 118**	**1 477 865**

Note 20 Payments to personnel

	31 December 2017	31 December 2018
Wages and salaries	223 552	241 356
Social security and similar expenses	62 561	63 962
Other payments to personnel	50 532	64 747
Payments to personnel	**336 645**	**370 065**

The average number of staff in 2018 was 17 (2017: 18).

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 21 Other income and expenses

	31 December 2017	31 December 2018
Subsidy	4 332	4 332
Dividend income	0	265 585
Reversal of impairment on investments in subsidiaries	0	371 000
Other	678	1 701
Other income	**5 010**	**642 618**
Property taxes	135 296	135 296
Scrapping, impairment	25 862	13 729
Damages paid	8 995	10 976
Provision made during the year	54 582	123 919
Provision applied	-4 168	-22 083
Other	8 386	14 532
Other expenses	**228 953**	**276 369**
Other income and other expenses, total	**-223 943**	**366 249**

* As the Revenue standard changed (IFRS 15 replaced IAS 18), dividends received have been reclassified and presented separately in the financial statements.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 22 Finance income and expenses

Interest income in 2017 and 2018 typically related to cash and cash equivalents, loss compensation and guarantees.

Other financial income and expense contain typical foreign exchange gain or loss items.

Note 23 Income tax expense

Income tax expense for the period:

	31 December 2017	31 December 2018
Actual corporate income tax expense	0	7 102
Local business tax	18 779	17 240
Deferred tax	-5 686	-10 159
Income tax expense, total	**13 093**	**14 183**

Actual adjusted tax includes the corporate income tax expenses.

The Company is a Hungarian taxpayer and, therefore, is required to pay corporate income tax on its taxable income. 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. The adjusted actual corporate income tax reflects the amount of corporate tax payable.

At 31 December 2018, the balance of corporate income tax and local business tax assets and liabilities was a net income tax asset of kHUF 17,167 (a tax asset of kHUF 11,574 at 31 December 2017).

Deferred tax is calculated based on the expected time of recovery and based on the tax rate known in 2018, which is 9%.
At 31 December 2018, deferred tax assets amounted to kHUF 4,975 (31 December 2017: kHUF 0), and the deferred tax liability amounted to kHUF 0 (31 December 2017: kHUF 5,184).

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

	31 Dec 2017	Increase	Decrease	31 Dec 2018
Provisions	6 049	9 023	0	15 072
Property, plant and equipment	7 489	1 136		8 625
Receivables from asset disposals	-11 737	0		-11 737
Development reserve	-6 985	0		-6 985
Gross deferred tax asset, total	13 538	10 159	0	23 697
Gross deferred tax liability, total	-18 722	0	0	-18 722
Net deferred tax (liability) / asset	**-5 184**	**10 159**	**0**	**4 975**
Deferred tax (liability) / asset	-5 184			4 975
Net deferred tax (liability) / asset	**-5 184**			**4 975**

Deferred tax assets are reviewed on annual basis and are adjusted to the extent that it is still probable that the related tax benefit will be realised.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Corporate tax calculation:

	2017. december 31.	**2018. december 31.**
Profit before tax	94 288	396 650
Calculated corporate income tax	8 486	35 699
Local business tax	18 779	17 240
Tax losses and permanent difference for which no deferred tax assets / (liabilities) were recognized	-14 172	-38 756
Income tax expense	**13 093**	**14 183**

The Company does not enjoy any tax benefit.

Tax losses carried forward:

at 31 December 2017: kHUF 1,831,602, of which kHUF 141,543 expires in 2020 and kHUF 96,999 expires in 2022.

at 31 December 2018: kHUF 1,752,685, of which kHUF 141,543 expires in 2020 and kHUF 96,999 expires in 2022.

Tax losses carried forward utilized based on first-in first-out basis, and the Company will first utilize tax losses expiring in 2030.

No deferred tax asset was recognised on tax losses carried forward as based on management estimation the recoverability of such tax losses is uncertain.

.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Note 24 Transactions with related parties

i) Transactions with subsidiaries

Other non-current assets related to subsidiaries:

	31 December 2017	31 December 2018
Rába Futómű Kft. loss compensation	799 216	823 297
Rába Járműalkatrész Kft. loss compensation	534 525	550 186
Other non-current assets related to subsidiaries	**1 333 741**	**1 373 483**

Current receivables from subsidiaries:

	31 December 2017	31 December 2018
Rába Futómű Kft.	85 927	86 528
Rába Járműalkatrész Kft.	7 010	7 027
Rába Jármű Kft.	90 844	39 241
Intercompany receivables	**183 781**	**132 796**
Rába Futómű Kft.	0	1 968 482
Rába Járműalkatrész Kft.	323 051	131 797
Rába Jármű Kft.	0	0
Cash-pool receivables	**323 051**	**2 100 279**
Rába Futómű Kft.	611	2 804
Rába Járműalkatrész Kft.	1 431	12 881
Rába Jármű Kft.	972	7 167
Prepayments and accrued income	**3 014**	**22 852**
Receivables from subsidiaries:	**509 846**	**2 255 927**

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Trade and other liabilities to subsidiaries:

	31 December 2017	31 December 2018
Rába Futómű Kft.	52 168	121 901
Rába Járműalkatrész Kft.	0	0
Rába Jármű Kft.	0	0
Intercompany payables	**52 168**	**121 901**
Rába Futómű Kft.	937 949	0
Rába Járműalkatrész Kft.	0	0
Rába Jármű Kft.	3 815 133	4 891 592
Cash-pool liabilities	**4 753 082**	**4 891 592**
Rába Futómű Kft.	1 020	0
Rába Járműalkatrész Kft.	3 792	0
Rába Jármű Kft.	5 671	0
Accrued expenses and deferred income	**10 483**	**0**
Trade and other liabilities to subsidiaries	**4 815 733**	**5 013 493**

Financial liabilities to subsidiaries:

	2017. december 31.	2018. december 31.
Rába Futómű Kft.	7 452	0
Rába Járműalkatrész Kft.	21 842	0
Rába Jármű Kft.	15 839	0
Long-term financial liabilities	**45 133**	**0**
Rába Futómű Kft.	11 451	0
Rába Járműalkatrész Kft.	12 025	0
Rába Jármű Kft.	12 456	0
Current financial liabilities	**35 932**	**0**
Financial liabilities to subsidiaries	**81 065**	**0**

In 2017, financial liabilities included guarantees undertaken for the subsidiaries. In 2018, the banks waived their right to demanding guarantee.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Income from subsidiaries:

	31 December 2017	**31 December 2018**
Rába Futómű Kft.	655 632	660 246
of which services rendered	*318 925*	*324 894*
of which rental income	*336 707*	*335 352*
of which dividends received	-	-
Rába Járműalkatrész Kft.	227 579	257 302
of which services rendered	*227 579*	*257 302*
of which rental income	-	-
of which dividends received	-	-
Rába Jármű Kft.	514 329	346 106
of which services rendered	*267 685*	*276 259*
of which rental income	*75 144*	*69 847*
of which dividends received	*171 500*	-
Revenues from subsidiaries	**1 397 540**	**1 263 654**
Rába Futómű Kft. impairment reversed		*371 000*
Rába Jármű Kft. dividends received	-	*265 585*
Other income from subsidiaries	**0**	**636 585**
Rába Futómű Kft.	40 094	35 532
Rába Járműalkatrész Kft.	15 854	27 686
Rába Jármű Kft.	9 131	12 457
Financial income from subsidiaries	**65 079**	**75 675**
Total	**1 462 619**	**1 339 329**

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

ii) Transactions with key management personnel

Név	**Pozíció**	**IG**	**FB**	**AB**	**ÜV**
Pintér István	Chairman of the Board	x			
Dr. Fördős Géza János	Member of BoD	x			
Dr. Hartmann Péter	Member of BoD	x			
Dr. Rátky Miklós	Member of BoD	x			
Wáberer György	Member of BoD	x			
Csókay Ákos	Member of BoD	x			
Tóth Andor Nándor	Member of BoD	x			
Dr. Pafféri Zoltán Lajos	Chairman of the SB		x	x	
Dr. Kanta Tünde	Member of BoD		x	x	
Dr. Harmath Zsolt	Member of BoD		x	x	
Pintér István	President-CEO				x
Balog Béla	CFO, deputy CEO				x
Steszli Ádám	HR and Controlling Director				x

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

BoD - Board of Directors
SB - Supervisory Board
AC - Audit Committee
M - Management

	Transaction expense / (income)		Actual balance	
	31 Dec 2017	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**
Salaries paid to key management	170 505	168 902	43 451	82 826
Remuneration of BoD	16 291	26 982	-	-
Remuneration of SB	9 313	8 677	-	-

The Company did not grant any loans to key senior management, nor does it have any post-employment liabilities.

iii) Transactions and outstanding balances with state-owned entities

Since 18 April 2012, 74.34 % of the Company's shares have been held by the Hungarian State through MNV Zrt.
The Company discloses significant balances and transactions with state owned enterprises and government entities over HUF 50 million where state ownership exceeds 50%.

The Company did not have any significant transactions with state owned entities either in 2017 nor in 2018 which exceeded the materiality threshold for presentation.

Note 25 Financial risks

i) Credit risk

Exposure to credit risk

Most of the Company's receivables are form related parties, therefore the exposure to credit risk is from receivables from third parties.

Non-current 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 Company 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.

Non-current receivables are recognised at fair value as discounted over the term of the receivable.

Non-current liabilities at 31 December 2018 totalled kHUF 130,399 (kHUF 131,499 at 31 December 2017), current debtors at 31 December 2018 totalled kHUF 29,013 (kHUF 25,795 at 31 December 2017).

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

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

ii) Liquidity risk

Liabilities by maturity:

31 December 2017

	Book value	**Contractual cash flows**	**Within 12 months**	**Between 1 and 2 years**	**Between 2and 5 years**	**Over 5 years**	**Fair value of future cash flows**
Long-term liabilities	45 133	-	-	-	-	-	-
Provisions	67 201	67 201	26 688	40 513	-	-	67 201
Trade payables	4 991 261	4 991 261	4 991 261	-	-	-	4 991 261
VAT payable	7 612	7 612	7 612	-	-	-	7 612
Amounts payable to employees and other payables	137 053	137 053	137 053	-	-	-	137 053
Trade and other payables	**5 135 926**	**5 135 926**	**5 135 926**	**-**	**-**	**-**	**5 135 926**
Current liabilities	35 932	-	-	-	-	-	-

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

31 December 2018

	Book value	Contractual cash flows	Within 12 months	Between 1 and 2 years	Between 2and 5 years	Over 5 years	Fair value of future cash flows
Provisions	167 466	167 466	71 766	95 700	-	-	167 466
Trade payables	5 221 396	5 221 396	5 221 396	-	-	-	5 221 396
Amounts payable to employees and other payables	145 834	145 834	145 834	-	-	-	145 834
Trade and other payables	**5 367 230**	**5 367 230**	**5 367 230**	**-**	**-**	**-**	**5 367 230**

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

iii) Foreign exchange risk

Part of the Company's cash-pool system is operated in foreign currency. Amounts receivable and payable in foreign currencies are presented in the schedule below:

	31 December 2017	**31 December 2018**
Cash-pool assets		
EUR	-763 386	-1 695 005
Cash-pool liabilities		
EUR	2 090 647	189 971
Total	**1 327 261**	**1 884 976**

iv) Fair values

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

	Book value		**Fair value**	
	31 Dec 2017	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**
Other non-current assets	1 334 841	1 373 483	1 334 841	1 373 483
Receivables from asset disposals	130 399	130 399	130 399	130 399
Trade and other receivables	548 148	2 311 343	548 148	2 311 343
Cash and cash equivalents	2 270 233	449 688	2 270 233	449 688
Trade and other payables	5 215 447	5 442 691	5 215 447	5 442 691
Provisions	67 201	167 466	67 201	167 466
Income tax assets	11 574	17 167	11 574	17 167
Deferred tax assets	0	4 975	0	4 975
Deferred tax liability	5 184	0	5 184	0

Fair value of financial assets and liabilities

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Fair value is the price that market players would receive for an asset in an arm's length transaction or they would be willing pay for the transfer of a liability at the time of measurement. Fair value measurement is related to an asset or liability. Therefore, for the purposes of fair value measurement, the Company 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 Company and non-observable inputs reflecting the Company'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 Company’s assets and liabilities presented at fair value were measured based on the 3-level fair value hierarchy.

Note 26 Earnings per share

Basic earnings per share are presented in the consolidated financial statements.

Note 27 Capital commitments and contingencies

At 31 December 2018, the Company had future commitments from capital projects and other services totalling kHUF 306 910 (31 December 2017: kHUF 355,322).

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

Note 28 Operating leases

Non-cancellable operating leasing fees payable:

	31 December 2017	**31 December 2018**
Within 1 year	13 440	13 704
Between 1 and 5 years	17 957	4 693
Over 5 years	0	0
Operating leases	31 397	18 397

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

Note 29 Off-balance sheet liabilities

Mortgages:

31 December 2017	**Bank**	**Asset category**	**Asset value (HUF million)**
Rába Nyrt.	CIB	property	3 848
Rába Nyrt.	RAIFFEISEN	property	487
Rába Nyrt.	COMMERZBANK	insurance policy	n/a

31 December 2018	**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

Note 30 Subsequent events

There was no significant subsequent event that would have affected the financial statements for 2018.

Note 31 Additional disclosures in accordance with the Hungarian Accounting Law

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

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

ii) The Company's website is accessible 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 the 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.

The signing statutory auditor is Bartha, Zsuzsanna (Chamber registration No.: 005268). Audit fee of the annual standalone financial statements for the financial year ended 31 December 2018 is kHUF 1,400 +VAT.

v) Proposal for the utilization of the net profit for the year:

The Board of Directors will propose dividend payment of HUF 17.80 per shares to the Shareholders on the Annual General Meeting.

vi) Equity reconciliation

Basis of the equity reconciliation schedule

According to section 114/B of the Hungarian Accounting Law, the financial statements should contain a reconciliation of equity as per the Hungarian Accounting Law and the Basis of Preparation.
The reconciliation of equity as per the Basis of Preparation and the accounting act includes the following equity components as at 31 December 2017 and 31 December 2018:

Equity

- Issued capital
- Capital reserve
- Retained earnings
- Valuation reserve
- Profit for the year
- Allocated reserves

The equity reconciliation schedule also reflects:

- a presentation of the differences between the statutory issued capital registered by the Hungarian Companies Court and the issued capital determined based on the Basis of Preparation;
- the amount of retained earnings available for distribution, including the profit for the year.

for the year ended 31 December 2018 (amounts in HUF thousand unless stated otherwise)

Equity reconciliation schedule

	Equity as per IFRS at 31 Dec 2017	**Treasury shares, reclassified**	**Capital reserve, reclassified**	**Loss compensation set off**	**Profit for the year, reclassified**	**Equity at 31 Dec 2017**
Issued capital	13 473 446					13 473 446
Treasury shares	-108 952	108 952				0
Share-based payments reserve	0					0
Retained earnings	3 583 343	-108 952	-127 654	-1 333 741	-81 195	1 931 801
Capital reserve	0		127 654			127 654
Allocated reserve	0	108 952				108 952
Profit for the year	0				81 195	81 195
Equity and liabilities	**16 947 837**	**108 952**	**0**	**-1 333 741**	**0**	**15 723 048**

	Equity as per IFRS at 31 Dec 2018	**Treasury shares, reclassified**	**Capital reserve, reclassified**	**Loss compensation set off**	**Profit for the year, reclassified**	**Equity at 31 Dec 2018**
Issued capital	13 473 446					13 473 446
Treasury shares	-108 952	108 952				0
Share-based payments reserve	0					0
Retained earnings	3 655 891	-108 952	-127 654	-1 373 483	-382 466	1 663 336
Capital reserve	0		127 654			127 654
Allocated reserve	0	108 952	0			108 952
Profit for the year	0				382 466	382 466
Equity and liabilities	**17 020 384**	**108 952**	**0**	**-1 373 483**	**0**	**15 755 854**

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

Date: Győr, 19 March 2019

Table of Contents

Independent Auditor's Report 3
Consolidated Statement of Financial Position 9
Consolidated Statement of Comprehensive Income 10
Consolidated Statement of Changes in Equity 11
Consolidated Statement of Cash Flows 12
Notes to the consolidated financial statements 13
Note 1 Reporting entity 13
Note 2 Basis of preparation 13
Note 3 Significant accounting policies 16
Note 4 Determination of fair values 25
Note 5 Financial risk management 26
Note 6 Companies included in the consolidation 28
Note 7 Property, plant and equipment 30
Note 8 Intangible assets 32
Note 9 Investment property 33
Note 10 Other long-term assets 33
Note 11 Inventories 34
Note 12 Trade and other receivables 35
Note 13 Cash and cash equivalents 35
Note 14 Equity 36
Note 15 Provisions 37
Note 16 Loans and borrowings 38
Note 17 Trade and other payables 40
Note 18 Segment reporting 41
Note 19 Revenues 44
Note 20 Operating costs 44
Note 21 Payments to personnel 45
Note 22 Other income and expenses 45
Note 23 Financial income and expenses 46
Note 24 Income tax 46
Note 25 Transactions with related parties 48
Notes 26 Financial risks 50
Note 27 Earnings per share 56
Note 28 Capital commitments and contingencies 56
Note 29 Operating leases 57
Note 30 Subsequent events 57
Note 31 Disclosures in accordance with the Hungarian accounting act 57

Independent Auditor's Report

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**
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

Rába Automotive Holding Plc.

REPORT ON CORPORATE GOVERNANCE

according to the Corporate Governance Recommendations of Budapest Stock Exchange

2018

We engineer, you drive

Index

Introduction 3
1.1. A brief presentation of the operation of the Board of Directors and the distribution of responsibilities and tasks between the Board of Directors and the management 3
1.1.1. Short description of the Board of Directors' activity 3
1.1.2. Authority and tasks of the Board of Directors 3
1.1.3. Management 4
1.1.3.1. Chief Executive Officer 4
1.1.3.2. Chief Financial Officer 4
1.1.3.3. Human resources and Controlling Director 4
1.1.4. Relationship between the Board of Directors and the Management 5
1.2. An introduction of the Board of Directors, Supervisory Board (and Audit Committee) and management members, a presentation of the boards' structures 5
1.2.1. Members of Board of Directors 5
1.2.2. Members of Supervisory Board (and Audit Committee) 5
1.2.3. Members of management 5
1.2.4. Structure of Supervisory Board and Audit Committee 6
1.3. Meetings of the Board of Directors, Supervisory Board (and Audit Committee) held in the given period 6
1.4. Presentation of the work done by the Board of Directors, the Supervisory Board and the management as well as the considerations for assessing their individual members 6
1.5. Operation and tasks of the Supervisory Board and Audit Committee 7
1.5.1. Supervisory Board 7
1.5.2. Audit Committee 7
1.6. System of internal controls, evaluation of the activities performed in the given period, efficiency and effectiveness of the risk management procedures 8
1.7. Activity of the auditor 10
1.8. Publication policy, insider people 10
1.9. Exercising shareholders' rights 10
1.10. Rules for the settlement of the General Meeting 11
1.11. Remuneration statement 11
2. Corporate Governance Declaration 12

Introduction

The Company

Rába Plc. is registered as a public limited company in Hungary by Győr Court of Justice as Court of Registration. The main market of Rába shares is the Hungarian Stock Exchange (BSE); so according to this, Rába takes into consideration the Hungarian Corporate Governance Policy and the obligatory legal regulations concerning to it.

Rába Group

Rába Plc. controls the Rába Group, which is one of the biggest automotive groups of Hungary. The main point of the effective integration of Rába Group is the successful coordination of the activity of the subsidiaries. Rába Group consists of Rába Plc. as parent company and Rába Axle Ltd, Rába Automotive Components Ltd, Rába Vehicle Ltd as subsidiaries.

1.1. A brief presentation of the operation of the Board of Directors and the distribution of responsibilities and tasks between the Board of Directors and the management

1.1.1. Short description of the Board of Directors' activity

The number of board members is between 3 and 7 persons. The chairman and the members of the Board of Directors are elected by the General Meeting of Shareholders for a definite period of time not exceeding five (5) years. Members of the Board of Directors can be recalled from office at any time without any cause and can be re-elected upon expiry of their mandate. The Board of Directors consists of 7 (seven) members at present. The term of the individual board members ends at the date stipulated in the resolution of the general meeting of shareholders adopted about the election of the board members.

Members of the Board of Directors or the members of the Supervisory Board may not (apart from the acquisition of shares or positions in public limited companies) acquire shareholding and may not be a chief executive officer or supervisory board member in business organisations conducting a main activity identical to that of the Company, except the GM grants approval to such acquisition or position.

Executives and the SB members of the Company shall inform the companies about their new executive or SB positions within 15 days from the acceptance of such positions.

Unless the GM gives approval, the members of the Board of Directors and the Members of the Supervisory Board and their relatives may not conclude on their own behalf or in their own favour contracts falling within the scope of activities of the Company except for contracts which are usually concluded as part of the every-day life.

Pursuant to Act CLII of 2007, the Members of the Board of Directors are required to declare their assets.

1.1.2. Authority and tasks of the Board of Directors

The Board of Directors shall be the executive organ of the Company. The Board of Directors is not an operative management body, it is not involved in the Company's daily business. It makes decisions, it is responsible for all matters relating to the Company's management and course of business not fell under the exclusive competence of the General Meeting or other corporate bodies by the Articles of Association of the Company or by the law.

The detailed rules for the tasks, the authority and operation of the Board of Directors are contained in the Articles 19-21 of the Articles of Association of Rába Plc and in the Rules of Procedure of the Board of Directors, that are 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
http://raba.hu/investment/en.befektetoi.raba.hu/doctar/Alapdokumentumok/Raba_Plc_Rules_of_Procedure_Board_2014_.pdf

1.1.3. Management

The management is responsible for the operative control of the Company. The management consists of 2 persons besides the Chief Executive Officer: the Chief Financial Officer and Human resources and Controlling Director.

1.1.3.1. Chief Executive Officer

The Chief Executive Officer, who is the Chairman of the Board of Directors as well, shall be elected by the General Meeting for an indefinite time-period.

With the exception of fundamental employer's rights which are under the competence of the General Meeting of Shareholders, the Board of Directors exercises other employer's rights (especially vacation, foreign visit permits) in relation to the Chief Executive Officer.

Pursuant to Act CLII of 2007, the CEO is required to make declaration of assets.

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

1.1.3.2. Chief Financial Officer

The Chief Financial Officer is the deputy of the employer's number one chief. Exercising of the fundamental employer's rights in relation to the Chief Financial Officer falls under the exclusive competence of the General Meeting, with the exception of the definition of the performance requirements and the related benefits which is the competence of the Board of Directors of the Company. The Chief Executive Officer exercises the non-fundamental, other employer's rights.

Management of the financial, accounting, business planning tasks of the Group, monitoring of the operation of the Group's companies, financial analysis thereof, preparation of the guidelines, coordination of the sale and leasing of assets fall within the Chief Financial Officer's activity.

1.1.3.3. Human resources and Controlling Director

The Chief Executive Officer (the employer's number one chief) exercises the employer's rights in relation to the Human resources and Controlling Director as employees as per the Section (1) of the Paragraph 208 of the Labour Code.

Planning, organization, managing, coordination and controlling of the human resources management, preparation and implementation of the human resources development (human strategy) fitting into the business plan, creation of management information systems, planning systems, analysing methods, construction of "Make or buy" standards and the controlling of the current process for efficiency, managing of the activity for optimization of product portfolio (evaluation based on analysis, working out of proposals), definition, measuring and evaluation of KPIs fall within the Human resources and Controlling Director's activity.

1.1.4. Relationship between the Board of Directors and the Management

The members of the management attended the normal and extraordinary meeting of the Board of Directors.

The management reports to the members of the Board of Directors quarterly. They are informed on the operation of the Company and the Group, introduced the efficiency's difference from the base period and the business plan.

The management prepares ad hoc analysis about the significant changes of the operation of the Company and the Group, and about the projects different from the business plan for the Board of Directors.

1.2. An introduction of the Board of Directors, Supervisory Board (and Audit Committee) and management members, a presentation of the boards' structures

1.2.1. Members of Board of Directors

István Pintér, Chairman of the Board of Directors mandate till 19.05.2021 (not independent)
Ákos Csókay, Member of the Board of Directors, mandate till 19.05.2021 (independent)
Dr. Géza János Fördős, Member of the Board of Directors, mandate till 19.05.2021 (independent)
Dr. Péter Hartmann, Member of the Board of Directors, mandate till 19.05.2021 (independent)
Dr. Miklós Rátky Miklós, Member of the Board of Directors, mandate till 11.11.2019 (independent)
Andor Nándor Tóth, Member of the Board of Directors, mandate from 12.04.2018 till 19.05.2021 (independent)
György Wáberer, Member of the Board of Directors, mandate till 11.11.2019 (independent)

CV of the members of Board of Directors is available at the web site of Rába Plc: http://raba.hu/english/board_of_directors_and_supervisory_board.html

1.2.2. Members of Supervisory Board (and Audit Committee)

Dr. Gábor Czepek, Chairman of the Supervisory Board (and Audit Committee) till 29.05.2018 (independent)

dr. Zoltán Lajos Pafféri, Chairman of the Supervisory Board (and Audit Committee), mandate from 12.07.2018 till 30.04.2022 (independent)

Dr. Zsolt Harmath, Member of the Supervisory Board (and Audit Committee), mandate till 30.04.2022 (independent)

dr. Tünde Kanta, Member of the Supervisory Board (and Audit Committee), mandate till 30.04.2022 (independent)

CV of the members of Supervisory Board (and Audit Committee is available at the web site of Rába Plc:
http://raba.hu/english/board_of_directors_and_supervisory_board.html

1.2.3. Members of management

István Pintér István, Chairman-Chief Executive Officer
Béla Balog, Chief Financial Officer
Ádám Steszli, Human Resources and Controlling Director

CV of members of management is available at the web site of Rába Plc:
http://raba.hu/english/management.html

1.2.4. Structure of Supervisory Board and Audit Committee

Supervisory Board

Supervision of the Company's executive management is performed by the Supervisory Board elected by the General Meeting of Shareholders. The Supervisory Board of the Company is made up of three members. The task of the Supervisory Board is to supervise the management of the Company in favour of the supreme body and with the purpose of protecting the Company's interest.

The chairman and the members of the Supervisory Board are elected by the General Meeting of Shareholders.

The members of the Supervisory Board are elected for a definite period of time, no longer than five years. Members of the Supervisory Board can be re-elected or recalled, without cause. The term of a member of the Supervisory Board elected through interim election, shall expire when the term of the other members of the Supervisory Board expire.

Audit Committee

From among the independent members of the Supervisory Board the general meeting of shareholders shall elect a three-member Audit Committee.

If the Supervisory Board has three members, and all are independent pursuant to the law, they are automatically elected by the General Meeting of Shareholders to become members of the Audit Committee. The chairman of the Audit Committee is elected by the members from among themselves. The termination of the membership in the Audit Committee is governed by the rules for the termination of the membership in the Supervisory Board. The membership in the Audit Committee is also terminated if the membership in the Supervisory Board is terminated.

1.3. Meetings of the Board of Directors, Supervisory Board (and Audit Committee) held in the given period

Rába's Board of Directors had got 4 times general meeting and 4 times written voting in 2018, with an average attendance of 96.3 per cent. The Board of Directors discussed the submissions to the General Meeting, the main events concerning the Group and their effects, the periodical and expected results, the plans and prospects of the companies, among others on its meetings.

The Supervisory Board (and Audit Committee) had got 3 times general meeting and 2 times written voting in 2018, always with an attendance of 100%. The Committees discussed the main events of the Company, its economic, financial situation and the reports of the internal auditor on their meetings.

1.4. Presentation of the work done by the Board of Directors, the Supervisory Board and the management as well as the considerations for assessing their individual members

The base of the evaluation of the Board of Directors' and Management' work is the strategy and the business plan.

The Board of Directors makes a detailed on analysis based strategy plan generally for 4 years. This plan will be controlled every year and does the necessary updates. With the evaluation of the work done for realizing the plan the Committee qualify the correctness of the strategy and evaluate itself work. The Board of Directors prepares a report on the Company's business operations in the last business year for the annual general meeting.

The work of the Chief Executive Officer and the Chief Financial Officer will be evaluated through the fulfilment of the business plan. This evaluation will take place formally at the last Board of Directors' Meeting after the Annual General Meeting, when they determine the payable amount of annual bonus for the Chief Executive Officer and the Chief Financial Officer.

The Supervisory Board expresses the opinion previously on evaluation of the performance of the Chief Executive Officer, the Chief Financial Officer and the Human Resources and Controlling Director.

The annual work of the Human resources and controlling director will be evaluated by the CEO in framework of the „annual personal efficiency evaluation" (APEE). The payable amount of the bonus is determinate by fulfilment of business and personal targets.

The evaluation of the work of the Chief Executive Officer and the Chief Financial Officer will be documented in the records of the Board of Directors' Meeting, and it of the Human Resources and Controlling Director will be documented on the personal efficiency evaluation sheet.

The Supervisory Board reviews its activity in the previous year yearly. The annual general meeting discusses the Report of the Supervisory Board under the approval of the annual financial statements.

The assessment of the work done in 2017, carried out in 2018 did not result in any personal changes.

1.5. Operation and tasks of the Supervisory Board and Audit Committee

Considering that the professional introduction of the Committee members is presented in Item 1.2 and the Item 1.3 gives information on the meetings held, this Item is about the operation and tasks of the committees.

1.5.1. Supervisory Board

Supervision of the Company's executive management is performed by the Supervisory Board elected by the General Meeting of Shareholders. The Supervisory Board of the Company is made up of three members. The task of the Supervisory Board is to supervise the management of the Company in favour of the supreme body and with the purpose of protecting the Company's interest.

The chairman and the members of the Supervisory Board are elected by the General Meeting of Shareholders.

The members of the Supervisory Board are elected for a definite period of time, no longer than five years. Members of the Supervisory Board can be re-elected or recalled, without cause. The term of a member of the Supervisory Board elected through interim election, shall expire when the term of the other members of the Supervisory Board expire.

Pursuant to Act CLII of 2007, the Members of the Supervisory Board and Audit Committee are required to declare their assets.

The detailed rules for the tasks, the authority and operation of the Supervisory Board are contained in the Articles 23-24 of the Articles of Association of Rába Plc and in the Rules of Procedure of the Supervisory Board, that are 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
http://raba.hu/investment/en.befektetoi.raba.hu/doctar/Alapdokumentumok/Raba_Plc_Rules_of_Procedure_SB_2016.pdf

1.5.2. Audit Committee

From among the independent members of the Supervisory Board the general meeting of shareholders shall elect a three-member Audit Committee.

If the Supervisory Board has three members, and all are independent pursuant to the law, they are automatically elected by the General Meeting of Shareholders to become members of the Audit Committee. The chairman of the Audit Committee is elected by the members from among themselves. The termination of the membership in the Audit Committee is governed by the rules for the termination of the membership in the Supervisory Board. The membership in the Audit Committee is also terminated if the membership in the Supervisory Board is terminated.

The Audit Committee shall – unless it is composed automatically of the members of the Supervisory Board – prepare its own procedures. If it is composed automatically of the members of the Supervisory Board, its procedures are identical with those of the Supervisory Board.

Pursuant to Act CLII of 2007, the Members of the Audit Committee are required to declare their assets.

Furthermore, the Audit Committee is governed by the special provisions concerning the of public-interest entities of Act CXX of 2001 on the Capital Market.

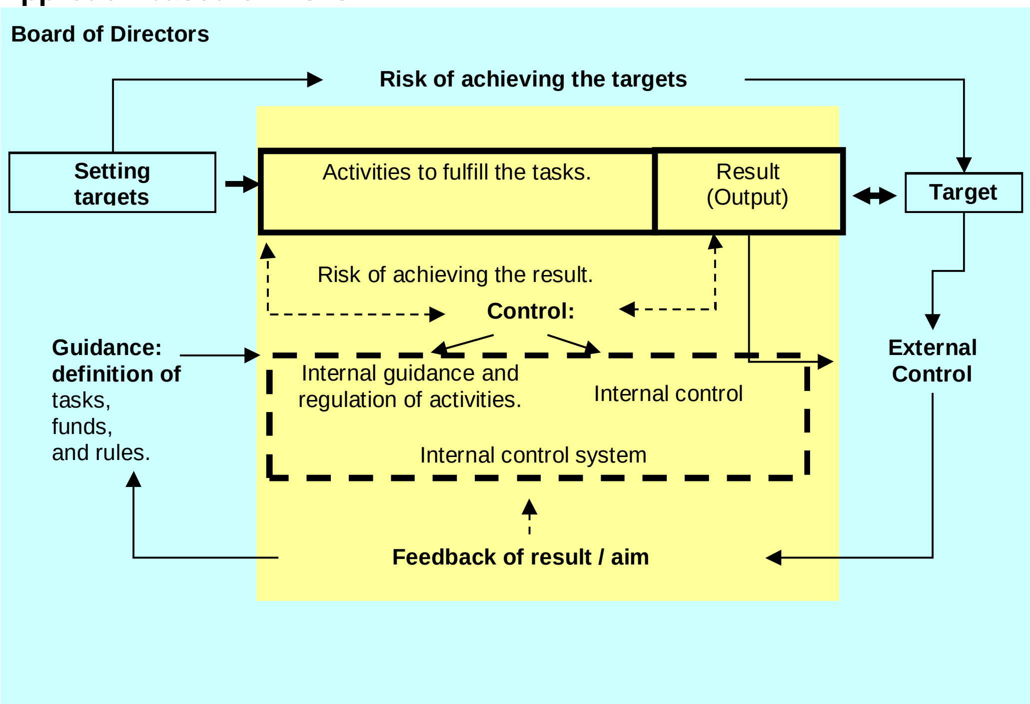
The detailed rules for the tasks, the authority and operation of the Audit Committee are contained in the Article 24.5 of the Articles of Association of Rába Plc and in the Rules of Procedure of the Supervisory Board, that are available at the web site of the Company:
http://raba.hu/investment/en.befektetoi.raba.hu/doctar/Alapdokumentumok/2018/Raba_Plc_Articles_of_Association_20180412.pdf
http://raba.hu/investment/en.befektetoi.raba.hu/doctar/Alapdokumentumok/Raba_Plc_Rules_of_Procedure_SB_2016.pdf

1.6. System of internal controls, evaluation of the activities performed in the given period, efficiency and effectiveness of the risk management procedures

The target of the internal control is fulfilling with a required quality the defined tasks of the organization:

- to fulfil its economic activities regularly, economically, efficiently and effectively;
- to be in accordance with the relative rules and regulations of law;
- to satisfy completely the demand of buyers in time.

Approach based on risks



The internal control system of the Company is based on two main principles

- Internal guidance and regulation of activities
- Internal control

Internal coordination and regulation of the activity

- Rába's management exercises the internal controls in different levelled and regulated (daily, weekly, monthly) manager meetings. To handle the risks defined at meetings immediate arrangements will be made.
- The economic processes of the company and their persons in charge will be guided and controlled by written managing-, procedure- and work rules, which are updated time to time continually.

Internal control

The acting internal control organization works under the supervision of the Supervisory Board. It does its activity based on and according to the approved yearly audit plan, which will be completed with ad-hoc monitoring.

The audits done during 2018 didn't found any deficiency dangerous for the operation of the company or for the interests of shareholders. There was any offence against law. All the deficiencies written in the audit reports are solved or under way and all the proposals of these reports are launched.

The Company's shareholders are informed about the operation of the internal control system by the Company's publications.

Risk management

To the operation of the company it is essential to manage the risk aspects. Rába Plc's production, products, sale, markets and customers mean different risks to the company. The company's risk management for the effective activity is based upon two pillars:

1. Managing of the change of the customer's demand, assurance of the conditions of the operation and production

The company minimizes the risks in relation to the continuous course of business by the planned maintenance of the key producing equipment, the realization of the investments in accordance with the strategic plan, the plans prepared for the unexpected production stop (outsourcing) and manages the change of the customer's demand mainly by use of allocated cumulative working hours and operation of consignment stores. The risks are managed at different levels according to its measures and seriousness.

2. Financial risk management

The financial risk management is specialized in short, market risks. The main means applied now or applicable by managing the financial risks:

- to enter into swap, forward and option FX transactions
- to apply customer insurance
- to apply property insurance
- to operate an internal supplier, customer qualification system.

The Company managed the risks arisen of an appropriate quality. Extraordinary expenses, significant negative effects did not come up due to the inadequate management of the external and internal risks.

1.7. Activity of the auditor

In 2018 the audit of Rába Group was done by Ernst & Young Kft. Ms. Zsuzsanna Éva Bartha is the auditor in charge, Mr. Péter Mészáros is the deputy auditor on behalf of the appointed company. The company does not provided other professional services different from the audit

1.8. Publication policy, insider people

In its publication policy Rába Plc. uses statutory and required rules according to the publicize rules and regulations of law, the rules of Budapest Stock Exchange and the rules of its own Articles of Associations. The places of publicize are: the website of the company (www.raba.hu) and the official website of Budapest Stock Exchange according to the articles of associations; and the capital market publication system operating by the Central Bank of Hungary.

According to 199§ of Capital Market Act, based on Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse Rába Plc. ensures that the records concerning persons with access to insider information, working for Rába in labour relation or in other quasi contract, are kept in accordance with the provisions of the law. Directives of Capital Market Law are valid to the insider people.

1.9. Exercising shareholders' rights

The shareholders may exercise shareholders' rights in relation to the Company provided that they are registered in the Company's Register of Shareholders and their ownership of shares is certified by a shareholding certificate.

The shareholding certificate is not required for exercising shareholders' rights if the Register of Shareholders is compiled by way of shareholder's identification initiated by the Company,

Shareholders shall be entitled to participate in the General Meetings and to vote if they hold shares with 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 Register of Shareholders shall be kept by the Board of Directors of the Company or by the person contracted with the Board of Directors for keeping the Register of Shareholders. The Register of Shareholders shall contain for each shareholder: the company/name of the shareholder (proxy holder); seat/address of the shareholder (proxy holder); number, nominal value of shares, amount paid for the individual shares, as well as the ownership ratio of the shareholder (proxy holder) per share series and the date of entry into the Register of Shareholders.

Shareholders have the right to a pro-rata portion of the net profit to be distributed according to the resolution of the General Meeting of Shareholders (dividend).

Shareholders recorded in the Register of Shareholders on the day as defined by the General Meeting of Shareholders deciding about the dividend payment are entitled to a dividend. The right to claim an uncollected dividend shall lapse after five years from when the dividend was due.

The detailed rules for exercising of shareholders' rights are contained in 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

1.10. Rules for the settlement of the General Meeting

The supreme organ of the Company is the General Meeting of Shareholders, composed of the totality of the shareholders. The General Meeting of Shareholders has the right to decide matters under the competence of the Board of Directors, including those of the Chief Executive Officer, as well.

The Annual General Meeting is held once a year, by the deadline stipulated by the relevant legal regulation. If it is necessary, the Company may hold extraordinary general meeting, beside the annual general meeting, at any time as specified in the Articles of Association.

The detailed rules for tasks, authority and settlement of the General Meeting are contained in the Articles13-18 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

1.11. Remuneration statement

To fortify the commitment and the identification with the targets of company, the performance indices deduced from the business plan and the particular individual tasks for the given year related to the responsibility of the manager are determined then evaluated every year within the scope of the management incentive scheme at Rába Group.

The Remuneration Rules contains the fundamental standpoints concerning the remuneration of members of the Board of Directors and the chief executive employees.

Remuneration of the Board of Directors

The Board of Directors draws its fees according to the Articles of Association, which is determined by the Annual General Meeting. Presently the fee of the chairman of the Board of Directors is HUF 380,000/month, the fee of its members is HUF 255,000/month/person.

Remuneration of the Supervisory Board

The Supervisory Board – according to its committee nature – draws only its fees. Presently the fee of the chairman of the Supervisory Board is HUF 335,000/month, the fee of its members is HUF 220,000/month/person.

Győr, March 2019

Corporate Governance Declaration
on Compliance with the Corporate Governance Recommendations

Level of compliance with the Recommendations

The Company indicates whether it follows the relevant recommendation or not, and if not, briefly explains the reasons why it did not follow that specific recommendation.

1.1.1. Does the Company have an organisational unit dealing with investor relationship management, or a designated person to perform these tasks?

Yes No

Explanation:

1.1.2. Are the Company's Articles of Association available on the Company's website?

Yes No

Explanation:

1.1.4. If the Company's Articles of Association allow shareholders to exercise their rights in their absence, did the Company publish the methods and conditions of doing so, including all necessary documents?

Yes No

Explanation:

1.2.1. Did the Company publish on its website a summary document containing the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders?

Yes No

Explanation:

1.2.2. Did the Company publish the exact date when the range of those eligible to participate in a given company event is set (record date), and also the last day when the shares granting eligibility for participating in a given company event are traded?

Yes No

Explanation:

1.2.3. Did the Company hold its General Meetings in a manner providing for maximum shareholder participation?

Yes No

Explanation:

1.2.6. The Company did not restrict the shareholders' right to designate a different representative for each of their securities accounts to represent them at any General Meeting.

Yes No

Explanation:

1.2.7. For proposals for the agenda items, were the Board of Directors' draft resolution and also the Supervisory Board's opinion disclosed to the shareholders?

Yes No

Explanation:

1.3.3. The Company did not restrict the right of its shareholders attending a General Meeting to request information, add comments and submit proposals, or set any preconditions for these with the exception of some measures taken to conduct the General Meeting in a correct manner and as intended.

Yes No

Explanation:

1.3.4. By answering the questions raised at the General Meeting, did the Company ensure compliance with the information provision and disclosure principles set out in legal and stock exchange requirements?

Yes No

Explanation:

1.3.5. Did the Company publish on its website the answers to the questions that the representatives of the Company's boards or its auditor present at the General Meeting could not satisfactorily answer at the meeting within 3 working days following the General Meeting, or an official statement explaining why it refrained from giving answers?

Yes No

Explanation:

1.3.7. Did the Chairman of the General Meeting order a recess or suggest that the General Meeting be postponed when a proposal or proposal relating to a particular issue on the agenda was submitted which the shareholders hadn't had a chance to become familiar with before the General Meeting?

Yes No

Explanation:

1.3.8.1. The Chairman of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling executive officers and Supervisory Board members.

Yes No

Explanation:

1.3.8.2. For executive officers or Supervisory Board members, whose nominations were supported by shareholders, did the Company disclose the identity of the supporting shareholder(s)?

Yes No

Explanation: Yes, the Company disclosed the identity of the nominating shareholder(s).

1.3.9. Prior to discussing agenda items concerning the amendment of the Articles of Association, did the General Meeting 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?

Yes **No**

Explanation: The amendment of the Articles of Association was not on agenda on the Company's General Meeting in 2018. 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.

1.3.10. Did the Company publish the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting?

Yes No

Explanation: The Company published the draft resolutions of the General Meeting, then the resolutions of the General Meeting. Since there is not any legal obligation on publishing of the Minutes of the General Meeting, the Company met its commitments on deposition of the Minutes of the General Meeting on the Court of Registry according to the current prescriptions of the Civil Code.

1.5.1.1. Did the Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members establish guidelines and rules concerning the performance review and remuneration of the Board of Directors/Governing Board, the Supervisory Board and the management?

Yes **No**

Explanation: The Remuneration Rules approved by the General Meeting contains the remuneration guidelines.

1.5.1.2. Were the tasks and the level of responsibility of each member, the rate of achievement of the Company's objectives and its economic/financial position taken into consideration for establishing performance-based remuneration for the members of the management?

Yes No

Explanation:

1.5.1.3. Were the remuneration guidelines established by the Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members assessed by the Supervisory Board?

Yes No

Explanation: The Supervisory Board gave an opinion on the remuneration guidelines submitted to the General Meeting.

1.5.1.4. Were the guidelines (and any major changes thereof) for the remuneration of Board of Directors/Governing Board and Supervisory Board members approved by the General Meeting?

Yes No

Explanation:

1.5.2.1. Does controlling the performance of and establishment of the remuneration for the executive management fall within the competence of the Board of Directors/Governing Board?

Yes No

Explanation: The controlling of the performance of the management members defined by Section 208 (1) of the Act on Labour Code falls within the competence of the Board of Directors.

1.5.2.2. Were the terms for extraordinary benefits provided to management members (and any major changes thereto) approved by the General Meeting in a separate agenda item?

Yes No

Explanation:

1.5.3.1. Did the General Meeting approve the principles of the stock-based remuneration schemes?

Yes No

Explanation:

1.5.3.2. Did shareholders receive detailed information before the General Meeting decided about the stock-based remuneration schemes (at least as specified in Section 1.5.3)?

Yes No

Explanation:

1.5.4. Does the Company have a remuneration scheme in place which does not incentivize the staff to focus only on short-term maximisation of the share price?

Yes No

Explanation:

1.5.5. Does Supervisory Board members receive a fixed-amount remuneration which does not include any elements linked to share price?

Yes No

Explanation:

1.5.6. Did the Company prepare a report ('Remuneration Statement') for the owners about the remuneration principles relating to and containing the actual remuneration of Board of Directors/Governing Board, Supervisory Board and management members (with the content and the level of detail set out in industry regulations binding for the Company), and did the Company present it to the General Meeting? Did the Remuneration Statement present the remuneration of Board of Directors/Governing Board and Supervisory Board members, as well as the guidelines used to assess their activities and establish their remuneration? Did this information include the disclosure of the total remuneration for Board of Directors/Governing Board and Supervisory Board level, the details of all fixed and variable elements, any other remunerations as well as a presentation of the guidelines for the remuneration scheme and any major changes to those compared to the previous financial year?

Yes No

Explanation:

1.6.1.1. Do the Company's publication guidelines cover the procedures for electronic, online disclosure?

Yes No

Explanation:

1.6.1.2. Does the Company design its by considering the aspects of disclosure and the information of investors?

Yes No

Explanation:

1.6.2.1. Does the Company have an internal publication policy in place which covers the processing the information listed in Section 1.6.2 of the Recommendations document?

Yes No

Explanation:

1.6.2.2. Do the internal regulations of the Company cover the methods for the assessment of events judged to be important for publication?

Yes No

Explanation:

1.6.2.3. Did the Board of Directors/Governing Board assess the efficiency of the publication processes?

Yes No

Explanation: The management assesses the efficiency of the publication processes at the Company.

1.6.2.4. Did the Company publish the findings of the efficiency assessment of the publication process?

Yes **No**

Explanation: The Company assesses the efficiency of the publication processes by an internal analysis. It is not required to publish its findings, so the Company does not considered necessary to publish it.

1.6.3. Did the Company publish its annual company event calendar?

Yes No

Explanation:

1.6.4. Did the Company publish its strategy, business ethics and policies regarding other stakeholders?

Yes No

Explanation:

1.6.5. Did the Company publish the career information of Board of Directors / Governing Board, Supervisory Board and management members in its annual report or on the company website?

Yes No

Explanation:

1.6.6. Did the Company publish all relevant information about the internal organisation and the operation of the Board of Directors / Governing Board and the Supervisory Board, about the work of the management, the assessments of these and the changes in the current year?

Yes No

Explanation:

1.6.7.1. Did the Company publish its remuneration guidelines in line with the recommendations set out in Section 1.5?

Yes No

Explanation:

1.6.7.2. Did the Company publish its remuneration statement in line with the recommendations set out in Section 1.5?

Yes No

Explanation:

1.6.8. Did the Company publish its risk management guidelines and information about its system of internal controls, the main risks and the principles for their management?

Yes No

Explanation:

1.6.9.1. Did the Company publish its guidelines relating to the trading of its shares by insiders?

Yes No

Explanation:

1.6.9.2. Did the Company disclose the share of the Board of Directors / Governing Board, Supervisory Board and management members in the securities issued by the Company, as well as the extent of their interest under the equity-based incentive system in the annual report or in some other way?

Yes No

Explanation:

1.6.10. Did the Company publish the relationship of Board of Directors / Governing Board, Supervisory Board and management members may have with third parties which could affect the operation of the Company?

Yes No

Explanation:

2.1.1. Does the Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors / Governing Board?

Yes No

Explanation:

2.2.1. Does the Board of Directors / Governing Board have a rules of procedure in place defining the organisational structure, the actions for arranging for and conducting the meetings, and the tasks regarding the adopted resolutions, as well as other issues related to the operation of the Board of Directors / Governing Board?

Yes No

Explanation:

2.2.2. Does the Company publish the procedure used for nominating Board of Directors / Governing Board members and the principles for determining their remuneration?

Yes **No**

Explanation: The Company 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.

2.3.1. Does the Supervisory Board provide a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it, in its rules of procedure and work plan?

Yes No

Explanation:

2.4.1.1. Did the Board of Directors / Governing Board and the Supervisory Board hold meetings periodically at a predefined interval?

Yes No

Explanation:

2.4.1.2. Did the rules of procedure of the Board of Directors / Governing Board and the Supervisory Board provide rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic telecommunications means?

Yes No

Explanation:

2.4.2.1. Did board members have access to the proposals to be presented at the meeting of the respective board at least five days prior to the meeting?

Yes No

Explanation:

2.4.2.2. Did the Company arrange the proper conduct of the meetings, the drawing up of the meeting minutes and management of the resolutions made by the Board of Directors / Governing Board and the Supervisory Board?

Yes No

Explanation:

2.4.3. Do the rules of procedure provide for the regular or ad hoc participation of non-board members at respective board's meetings?

Yes No

Explanation:

2.5.1. Were the members of the Board of Directors / Governing Board and the Supervisory Board nominated and elected in a transparent process, and was the information about the candidates made public in due time before the General Meeting?

Yes **No**

Explanation: The members of the Board of Directors and of the Supervisory Board are nominated and elected pursuant to shareholder motion.

2.5.2. Does the composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations?

Yes No

Explanation:

2.5.3. Did the Company ensure that the newly elected Board of Directors / Governing Board and Supervisory Board members became familiar with the structure and operation of the Company and their tasks were carried out as members of the respective boards?

Yes No

Explanation:

2.6.1. Did the Governing Board / Supervisory Board request (in the context of preparing the annual corporate governance report) its members considered to be independent to confirm their independence at regular intervals?

Yes No

Explanation:

2.6.2. Does the Company provide information about the tools which ensure that the Board of Directors / Governing Board assesses objectively the management's activities?

Yes No

Explanation:

2.6.3. Did the Company publish its guidelines concerning the independence of its Governing Board / Supervisory Board members and the applied independence criteria on its website?

Yes **No**

Explanation: The Company enforces the legal provisions.

2.6.4. Does the Supervisory Board of the Company have any members who has held any position in the Board of Directors or in the management of the Company in the previous five years, not including cases when they were involved to ensure employee participation?

Yes **No**

Explanation: Dr. Zsolt Harmath resigned from his position at the Board of Directors as of 14.04.2016 and he is a member of the Supervisory Board from 17.04.2016.

2.7.1. Did members of the Board of Directors / Governing Board inform the Board of Directors / Governing Board and (if applicable) the Supervisory Board (or the Audit Committee if a uniform governance system is in place) if they, or individuals they have business relations with, or their relatives have interest in any business transactions of the Company (or any subsidiaries thereof) which excludes their independence?

Yes No

Explanation:

2.7.2. Were transactions and assignments between members of boards/ members of the management/individuals closely associated with them and the Company/subsidiaries of the Company carried out in accordance with the Company's general business practice but applying more stringent transparency rules compared to general business practice, and were they approved?

Yes No

Explanation:

2.7.3. Did board members inform the Supervisory Board / Audit Committee (Nominating Committee) if they had received an appointment for board membership or management position of a company not belonging to the Company Group?

Yes No

Explanation:

2.7.4. Did the Board of Directors / Governing Board develop guidelines for the flow of information and the management of insider information within the Company, and monitor compliance with them?

Yes No

Explanation: The management developed the internal rules for the flow of information and the management of insider information within the Company.

2.8.1. Did the Company create an independent internal audit function that reports directly to the Audit Committee / Supervisory Board?

Yes No

Explanation:

2.8.2. Does Internal Audit have unrestricted access to all information necessary for carrying out audits?

Yes No

Explanation:

2.8.3. Did shareholders receive information about the operation of the system of internal controls?

Yes No

Explanation:

2.8.4. Does the Company have a function ensuring compliance (compliance function)?

Yes No

Explanation:

2.8.5.1. Is the Board of Directors / Governing Board or a committee operated by it responsible for the supervision and management of the entire risk management of the Company?

Yes No

Explanation:

2.8.5.2. Did the relevant organisation of the Company and the General Meeting received information about the efficiency of the risk management procedures?

Yes No

Explanation:

2.8.6. With the involvement of the relevant areas, did the Board of Directors / Governing Board develop the basic principles of risk management taking into account the special idiosyncrasies of the industry and the Company?

Yes No

Explanation:

2.8.7. Did the Board of Directors / Governing Board define the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives?

Yes No

Explanation:

2.8.8. Did internal control systems functions report about the operation of internal control mechanisms and corporate governance functions to the competent board at least once a year?

Yes No

Explanation:

2.9.2. Did the Board of Directors / Governing Board invite the Company's auditor in an advisory capacity to the meetings on financial reports?

Yes No

Explanation:

Level of compliance with the Proposals

The Company must state whether it follows the relevant proposal included in the Corporate Governance Recommendations, or not (Yes/No). The Company can also explain any derogation from it.

1.1.3. Does the Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights also when they are not present in person?

Yes No

(Explanation:)

1.2.4. Did the Company determine the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account?

Yes No

(Explanation:)

1.2.5. Does the voting procedure used by the Company ensure a clear, unambiguous and fast determination of voting results, and in the case of electronic voting, also the validity and reliability of the results?

Yes No

(Explanation:)

1.3.1.1. Were the Board of Directors/Governing Board and the Supervisory Board represented at the General Meeting?

Yes **No**

(Explanation:)

1.3.1.2. In the event the Board of Directors/Governing Board and the Supervisory Board was absent, was it disclosed by the Chairman of the General Meeting before discussion of the agenda began?

Yes **No**

(Explanation:)

1.3.2.1. The Articles of Association of the Company did not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments there if that person's presence and expert opinion is presumed to be necessary or help provide information to the shareholders and help the General Meeting make decisions.

Yes No

(Explanation:)

1.3.2.2. The Articles of Association of the Company did not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments there.

Yes No

(Explanation:)

1.3.6. Does the annual report of the Company prepared as specified in the Accounting Act contain a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's annual operation?

Yes No

(Explanation:)

1.4.1. In line with Section 1.4.1, did the Company pay dividend within 10 working days to those of its shareholders who had submitted all the necessary information and documents?

Yes No

(Explanation:)

1.6.11. Did the Company publish its information in English as well, in line with the provisions of Section 1.6.11?

Yes No

(Explanation:)

1.6.12. Did the Company inform its investors about its operation, financial situation and assets on a regular basis, but at least quarterly?

Yes No

(Explanation:)

2.9.1. Does the Company have in place internal procedures regarding the use of external advisors and outsourced activities?

Yes No

(Explanation:)

Győr, March 2019

ITEM 1 ON AGENDA OF GENERAL MEETING

ASSESSMENT OF THE COMPANY’S OPERATION IN THE FY 2018

1.c) Report of the Supervisory Board on the annual financial statements of 2018, on the allocation of the total profit for the reporting year and on the submissions to the AGM

We engineer, you drive

Report of the Supervisory Board of RÁBA Automotive Holding Plc.
to the Annual General Meeting on the annual financial statements of 2018,
on the allocation of the total profit for the reporting year and
on the submissions to the AGM

At its regular meetings held quarterly in the financial year, the Supervisory Board – also in its capacity as Audit Committee - discussed and approved the reports of the Board of Directors on the Company's quarterly activity, its financial management as well as on its most significant events.

The Supervisory Board continuously monitored the operation of the internal audit organizational unit, had its leader reports and discussed the reports on internal revisions as well as on follow-up revisions. The Supervisory Board set the audit plan for the year, and in some cases gave instructions with regard to further monitoring considerations and fields to be monitored.

The Supervisory Board has been in contact with the Company's auditor and they jointly discussed the reports of the Board of Directors to be submitted to the Annual General Meeting.

The key financial figures of the Company in the annual reports on financial statements drawn up as per the International Financial Reporting Standards (th HUF):

Description	**2017**		**2018**	
	Rába Plc. normal IFRS	**consolidated IFRS**	**Rába Plc. normal IFRS**	**consolidated IFRS**
Sales revenue	1 449 300	43 842 346	1 495 835	48 631 833
Operating profit	36 820	2 148 821	384 219	1 750 611
Profit before taxes	94 288	2 047 913	396 649	1 641 657
Total comprehensive profit for the year	81 195	1 568 758	382 466	1 196 925
Issued capital	13 473 446	13 473 446	13 473 446	13 473 446
Own equity	16 947 837	19 977 944	17 020 385	20 864 951
Balance sheet total	22 316 734	36 437 867	22 630 542	42 079 253
Average headcount	18	1 541	17	1 452

The Supervisory Board – in agreement with the Audit Committee and taking the auditor reports into consideration - determined that the financial statements give a true and fair view of the Company's operation.

The Supervisory Board proposes to the General Meeting to approve the Company's normal and consolidated financial statements for the FY 2018 drawn up as per IFRS as well as the proposal of the Board of Directors for the allocation of total profit for the reporting year and the Report on Corporate Governance.

The Supervisory Board supports the proposal of the Board of Directors to pay a dividend of HUF 17.80 per each share with face value of HUF 1,000 from the Company's untied retained earnings supplemented by the after-tax profit from the FY 2018 and to place the margin into profit reserves.

The Supervisory Board inspected all the submissions and draft resolutions of the Board of Directors to be proposed to the General Meeting, and it supports them and proposes to the General Meeting to approve them.

Budapest, March 19, 2019

On behalf of the Supervisory Board of Rába Plc.

dr. Zoltán Pafféri
Chairman

ITEM 1 ON AGENDA OF GENERAL MEETING

ASSESSMENT OF THE COMPANY'S OPERATION IN THE FY 2018

1.d) Report of the Auditor on the annual financial statements of 2018

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 financial statements

Opinion

We have audited the accompanying 2018 financial statements of RÁBA Járműipari Holding Nyrt. ("the Company"), which comprise the statement of financial position as at 31 December 2018 - showing a balance sheet total of HUF 22,630,542 thousand and a total comprehensive income for the year of HUF 382,466 thousand -, the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and its 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 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 financial statements" section of our report.

We are independent of the Company 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.

EY
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 financial statements of the current period. These matters were addressed in the context of our audit of the 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 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 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 financial statements.

Valuation of investments in subsidiaries

The company's investments in subsidiaries represents HUF 11,919 million, 53% of total assets and includes investment in three of its subsidiaries. Fair valuation is prepared by management annually for assessing potential impairment need or reversal of accumulated impairment. Valuation of investments in subsidiaries is a significant judgmental area and it is highly dependent on estimates. This, in combination with the significant share of investments in subsidiaries as part of total assets and potential profit and loss effect made us conclude that valuation of investments in subsidiaries are a key audit matter of our audit.

Our audit procedures included, among others, evaluating assumptions and methodologies used by the Company. With involvement of valuation experts we assessed the accuracy of key inputs used in the model, such as management's primary cash-flow assumptions, or the used weighted average cost of capital. We reconciled the model to the approved business plan of the subsidiaries and also assessed historical accuracy of management's estimates. We assessed whether the Company's disclosures about investments in subsidiaries in the financial statements are compliant with EU IFRSs requirements.

The Company's accounting policy and disclosures about its investments in subsidiaries are included in Note 2 d) vi Valuation of investments and Note 6 Investments in subsidiaries, which specifically explain the valuation method used when determining fair value and impairments of investments.

Other information

Other information consists of the 2018 business report of the Company. Management is responsible for the preparation of the business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the financial statements does not cover the business report.

In connection with our audit of the financial statements, our responsibility is to read the business report and, in doing so, consider whether 1) the business report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

Our opinion on the 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 business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

In our opinion, the business report of the Company, 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 financial statements of the Company and the relevant requirements of the Hungarian Accounting Law.

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

We also confirm that the Company 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 business report includes the non-financial statement as required by Section 95/C of the Hungarian Accounting Law.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and the supplementary requirements of the Hungarian Accounting Law relevant for annual financial statements prepared in accordance with EU IFRSs., and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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:

Appointment and Approval of Auditor

We were appointed as the statutory auditor of the Company 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.

Building a better working world

Consistency with Additional Report to Audit Committee

Our audit opinion on the 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 Company in conducting the audit.

In addition to statutory audit services and services disclosed in the business report and in the 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 Mészáros Péter.

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

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.

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.

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.

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:

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

We engineer, you drive

ITEM 1 ON AGENDA OF GENERAL MEETING

ASSESSMENT OF THE COMPANY'S OPERATION IN THE FY 2018

1.e) Discussion and acceptance of the reports on normal annual financial statements and consolidated annual financial statements drawn up as per the International Financial Reporting Standards (IFRS), approval of the statement of financial position and resolution on the allocation of the total profit for the reporting year; and resolution on the acceptance of the Corporate Governance Report

DRAFT RESOLUTIONS OF THE ANNUAL GENERAL MEETING

(Draft) **resolution 1/2019.04.11. of the AGM:**

The General Meeting approves the report of the Board of Directors on the Company's business operations in the financial year 2018 as set forth in the proposal.

(Draft) **resolution 2/2019.04.11. of the AGM:**

Based on the figures in the reports on normal and consolidated annual financial statements drawn up as per the International Financial Reporting Standards, on the review by the Supervisory Board and on the report of the auditor, the General Meeting approves the normal and consolidated statement of financial position of Rába Plc. for 2018 as set forth in the proposal and as follows:

A./ the report on normal annual financial statements drawn up as per the International Financial Reporting Standards, as at December 31, 2018, with a corresponding total of assets and liabilities of HUF 22,630,542 thousand and a total comprehensive profit for the year of HUF 382,466 thousand in the statement of financial position;

B./ the report on consolidated annual financial statements drawn up as per the International Financial Reporting Standards, as at December 31, 2018, with a corresponding total of assets and liabilities of HUF 42,079,253 thousand and a total comprehensive profit for the year of HUF 1,196,925 thousand in the statement of financial position.

(Draft) **resolution 3/2019.04.11. of the AGM:**

Based on the proposal of the Board of Directors, considering the opinion of the Supervisory Board, the General Meeting resolves that the Company pays a dividend of HUF 17.80 per each share with face value of HUF 1,000 from the Company's untied retained earnings supplemented by the after-tax profit from the FY 2018.

Shareholders registered in the Company's Register of Shareholders to be drawn up for the purpose of dividend payment with the record date of May 21, 2019 will be entitled to dividend according to the Articles of Association.

The starting day of dividend payment: May 28, 2019

The General Meeting authorizes the Board of Directors to arrange for the technical execution of the dividend payment according to Articles 31-35 of the Articles of Association and to publish the necessary announcements. The dividend payment will be carried out by KELER Zrt. on assignment.

(Draft) **resolution 4/2019.04.11. of the AGM:**

With regard to the preliminary approval by the Supervisory Board, the General Meeting approves the Corporate Governance Report as per the proposal.

We engineer, you drive

ITEM 2 ON AGENDA OF GENERAL MEETING

APPROVAL OF AN ACQUISITION PROGRAM

We engineer, you drive

ITEM 2 ON AGENDA OF GENERAL MEETING

APPROVAL OF ACQUISITON PROGRAMME

Executive Summary

STRATEGIC GOALS

- To accelerate organic growth by the acquisition
- To strengthen market presence in the agricultural segment
- To enlarge resource base (power, HR)

We engineer, you drive

We engineer, you drive

Introduction of potential acquisition

TARGET OF ACQUISITION: REKARD GROUP (GYŐR)

SHORT INTRODUCTION OF THE COMPANY GROUP

- The Rekard Group is a group of companies located in Győr which dates back to a history of more than a half century
- Registered seat: Kandó Kálmán út 5.; Győr
- Size of the registered seat: sqm 11,208
- Main profile: manufacture of driveline components and parts
- Communal facilities: Complete infrastructure
- Certifications: ISO 9001: 2008, ISO 14001: 2004:
- Headcount: 180 persons

STRUCTURE OF THE REKARD GROUP

Diagonal Valor Kft.

Rekard Hajtómű- és Gépgyártó Kft.

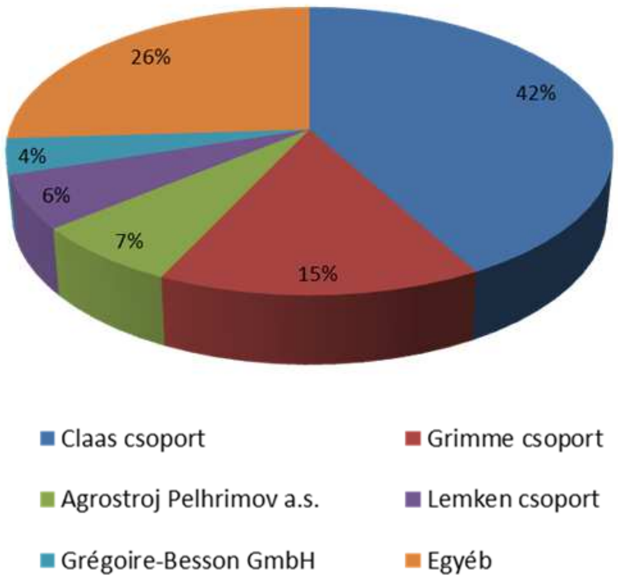
Main data of Rekard Group (2017)

We engineer, you drive

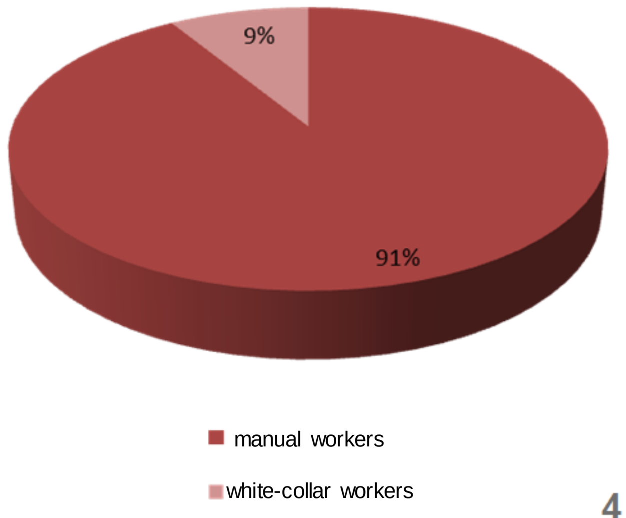
MAIN FINANCIAL FIGURES

HUF Million	2017
Revenue (non-audited)	3,516
Domestic:	1,276
Export	2,240
EBITDA (non-audited)	291

MAIN MARKETS



HEADCOUNT



We engineer, you drive

Main data of Rekard Group (2017)

PRODUCTS

- Differential carrier assembly for agricultural machines
- Friction and hydraulic clutches
- Differential carrier assembly for utility vehicles
- Different driveline parts: gear, pinion gear, shaft like parts, different kind of machined parts, cardan joint, V-belt discs, sprockets

TECHNOLOGICAL COMPETENCES

- CNC machining activity
- Chip free splining
- Heat treatment with different kind of technologies
- Gearing
- Hard broaching
- Assembly of complex units
- Powder coating

RABA

We engineer, you drive

Strategic Synergies

OF MARKET

- To enlarge the portfolio in agricultural segment
- To strengthen the practice of „fully comprehensive purchaser supply” in case of common purchasers

OF SUPPLIERS

- To consolidate the scope of suppliers
- To improve the bargain position in case of procurement of products and services
- To optimize the level of active capital

TECHNOLOGICAL

- To utilize the possibilities provided by the similar competencies
- To improve the level of assets’ utilization
- To optimize the investments

HUMAN RESOURCES

- To strengthen the competency at group level by the integration of skilled workers
- To achieve more flexible and effective employment
- To improve efficiency

Main risks and their handling

BUSINESS RISK

- Rába has a relationship of higher level with most of the main purchasers, therefore the issues that may arise can be directly handled

PRODUCT MANAGEMENT AND HR RISKS

- To retain the experienced human resources
- To synchronize the incentive system
- To pay special attention to positions of high importance, in particular, to persons participating in the process of production, development and business

SUPPLY CHAIN MANAGEMENT

- Stable background for the suppliers
- Reduction of risk premium
- Improvement of competitiveness of the entire supply chain

FINANCIAL RISK

- The total growth in investment assets will not even reach 1.7% of the total of the consolidated corresponding balance-sheet; main elements of risks:

Anticipated financial risk element	Possibility of occurrence of risk	Anticipated effect of risk
Foreing exchange	Low	Low
Unidentified liabilities	Medium	Medium
The free CF production capacity is better than planned	Medium	Medium
The run of sale is better than planned	Medium	Law

The structure and schedule of acquisiton

We engineer, you drive

STRUCTURE

The Rekard Group qualifies as a Small- and Medium-Sized Enterprise (SME) at present and is running significant investments implemented with subsidies.
As a consequence of the acquisition, the SME status would cease to exist pursuant to 3. § (4) of the Act XXXIV. of 2004 as it is defined that no enterprise qualifies as SME which is controlled, directly or indirectly, by a stake of 25% or more, owned either independently or jointly, by the state or a local municipality.
Due to the loss of SME status, there would arise an obligation for the repayment of subsidies granted. Considering the applicable law, until the closing date of the subsidy period, Rába Plc is not in a position to acquire majority in the enterprise with subsidy. The obligation of repayment shall automatically terminate upon the expiry and closure of the maintenance period for the project implemented with subsidy.
Therefore, the transaction for acquisition shall take place in two phases.

PHASE I. 2019

- Purchase of stake of 100% in Diagonal Valor Kft.
- Purchase of a quota of 24.9% in the Rekard Hajtómű- és Gépgyártó Kft.

PHASE II. 2021

- Purchase of the remaining quota of 75.% in the Rekard Hajtómű- és Gépgyártó Kft.

THE COUNTER VALUE OF THE PLANNED ACQUISITION HUF 700 MILLION

We engineer, you drive

Appraisal, Due Diligence

DUE DILIGENCE

- The due diligence has been done by Ernst & Young Tanácsadó Kft.
- Under the due diligence there were not such risks identified which would the planned transaction.

APPRAISAL

- The evaluation of the company group was made by Grant Thornton Valuation Kft
- In the course of appraisal, the value of the company group was established by the expert by using the method of income-approach (DCF) and market-approach. According to the findings, the purchase price of HUF 700 Million is favourable, the savings to be generated from the synergy shall ensure further advantages and provide appropriate coverage for those risks that have been discovered and/or those risks that might have not been discovered too.
- As regards the purchaser, the planned purchase price seems to be acceptable and profitable.

We engineer, you drive

ITEM 2 ON AGENDA OF GENERAL MEETING
APPROVAL OF AN ACQUISITION PROGRAM

DRAFT RESOLUTIONS OF THE ANNUAL GENERAL MEETING

(Draft) resolution 5/2019.04.11. of the AGM:

Pursuant to the Article 13 (y) of the Articles of Association of the Company, the General Meeting approves the planned acquisition according to the submission and authorizes the Company to achieve it.

We engineer, you drive

ITEM 3 ON AGENDA OF GENERAL MEETING

RECALL OF MEMBERS OF BOARD OF DIRECTORS, ELECTION OF NEW BOARD MEMBERS AND SETTING THE REMUNERATION

Shareholder’s submission

ITEM 4 ON AGENDA OF GENERAL MEETING

MISCELLANEOUS

Number of voting rights at RÁBA Automotive Holding Plc. on March 11, 2019

RÁBA Automotive Holding Plc. informs the participants of capital markets pursuant to the provisions of Section (9) of Paragraph 54 of Act CXX of 2001 about the number of voting rights attached to the shares of the Company, as well as about the size of the Company's equity:

Composition of the Company's equity:

Series of shares	Nominal value (HUF/share)	Number of shares issued	Total nominal value (HUF)
	1.000	13,473,446	13,473,446,000
Size of equity		13,473,446	13,473,446,000

Number of voting rights attached to the shares:

Share series	Number of shares issued	Number of voting shares	Voting right per share	Total number of voting rights	Number of treasury shares
	13,473,446	13,473,446	1	13,473,446	120,681
Total	13,473,446	13,473,446	1	13,473,446	120,681

Győr, March 20, 2019

RÁBA Automotive Holding Plc.