ANNUAL FINANCIAL STATEMENTS

based on consolidated, audited figures, according to IFRS

for the financial year ended December 31, 2019

Győr, April 30, 2020

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Rába Járműipari Holding Nyrt.
Consolidated Financial Statements
for the year ended 31 December 2019

Date: Győr, 17 March 2020

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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 2019 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 2019 - showing a balance sheet total of HUF 41,569,157 thousand and a total comprehensive income for the year of HUF 571,872 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 2019 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 49,782 million as of 31 December 2019 out of which 46.4% 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 IFRS 15 standard. The Group's disclosures about revenue and revenue recognition policies are included in Note 19 Revenues and Note 3 q) Revenues of the consolidated financial statements.

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 7,651 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 7,651 million represents 18.4% of total assets of the Group as of 31 December 2019. 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 is 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 m) Inventories and Note 11 Inventories of the consolidated financial statements.

Other information

Other information consists of the 2019 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 2019 is consistent, in all material respects, with the 2019 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 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 4 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 3 March 2020.

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, 17 March 2020

(The original Hungarian version has been signed.)

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

Bartha Zsuzsanna
Registered auditor
Chamber membership No.: 005268

Consolidated Statement of Financial Position

Assets

	Notes	31 December 2018	31 December 2019
Property, plant and equipment	7	19 144 678	25 394 003
Intangible assets	8	182 827	147 709
Investment property	9	338 217	815 632
Other investments	10	205	45 027
Deferred tax assets	24	22 063	12 012
Other non-current assets	10	332 616	148 859
Non-current assets, total		**20 020 606**	**26 563 242**
Inventories	11	9 071 589	7 651 242
Trade and other receivables	12	12 265 856	6 487 674
Income tax assets	24	35 987	62 489
Cash and cash equivalents	13	683 530	804 510
Current assets, total		**22 056 962**	**15 005 915**
Assets, total		***42 077 568***	***41 569 157***
Equity and liabilities			
Issued capital	14	13 473 446	13 473 446
Treasury shares	14	-108 952	-108 952
Retained earnings	14	7 500 457	7 832 514
Equity, total		**20 864 951**	**21 197 008**
Provisions	15	245 476	237 208
Long-term loans and borrowings	16,29	5 915 784	3 566 784
Deferred tax liability	24	103 531	113 276
Long-term liabilities, total		**6 264 791**	**3 917 268**
Provisions	15	244 467	171 367
Loans and borrowings payable within one year	16	2 186 268	5 354 424
Creditors and other accounts payable*	17,29	12 517 091	10 929 090
Current liabilities, total		**14 947 826**	**16 454 881**
Equity and liabilities, total		***42 077 568***	***41 569 157***

*In the financial statements for 2018, innovation contribution was presented among trade and other payables, and was reclassified in 2019 to income tax assets (as a deductible item).

Consolidated Statement of Comprehensive Income

	Notes	31 December 2018	31 December 2019
Revenues	19	48 631 833	49 781 657
Direct cost of sales	20	-38 261 718	-40 462 613
Gross profit		**10 370 115**	**9 319 044**
Selling and marketing costs	20	-814 449	-886 163
General and administrative costs	20	-7 087 370	-6 934 625
Other income	22	369 264	685 247
Other expenses*	22	-1 030 986	-843 421
Other operating expenses, total		**-8 563 541**	**-7 978 962**
Operating profit		***1 806 574***	***1 340 082***
Finance income	23	179 091	125 866
Finance expenses	23	-288 045	-537 220
Profit or loss on the acquisition of subsidiary		0	105 623
Profit or loss on the acquisition of associates		0	-29 878
Profit before tax		**1 697 620**	**1 004 473**
Taxation*	24	-500 695	-432 601
Profit for the year		**1 196 925**	**571 872**
Comprehensive income for the year		**1 196 925**	**571 872**
Basic earnings per share (HUF)	27	90	43
Diluted earnings per share (HUF)	27	90	43

*In the financial statements for 2018, innovation contribution was presented among other expenses and was reclassified In 2019 to income taxes.

Consolidated Statement of Changes in Equity

	Issued capital	Treasury shares	Retained earnings	Other comprehensive income	Equity, total
Balance at 1 January 2018	**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 previousy years' profits	0	0	-309 918	0	-309 918
Balance at 31 December 2018	**13 473 446**	**-108 952**	**7 500 457**	**0**	**20 864 951**
Profit for the year	0	0	571 872	0	571 872
Dividends paid from previousy years' profits	0	0	-239 815	0	-239 815
Balance at 31 December 2019	**13 473 446**	**-108 952**	**7 832 514**	**0**	**21 197 008**

Consolidated Statement of Cash Flows

	Notes	31 December 2018	31 December 2019
Operating cash flows			
Profit before tax*		1,697,620	1,004,473
Adjustments of non-cash items:			
Interest income	23	0	0
Interest expense	23	2,886	17,461
Depreciation and amortisation	7.8	2,039,511	2,115,003
Impairment loss and scrapping of intangible and tangible fixed assets	22	64,520	20,233
Impairment loss on bad and doubtful debts and on long-term receivables	10.26	5,047	96,404
Impairment of inventories carried at net realisable value	22	266,175	233,094
Inventories scrapped	22	175,396	155,341
Changes in provisions	15	208,037	-81,368
Losses on the disposal (contribution) of tangible and intangible fixed assets	22	-4,599	-117,178
Losses on investments		0	75,745
Year-end revaluation of loans and borrowings	16	105,511	232,892
Movements in working capital:			
Movements in debtors and other receivables	12	-2,406,305	5,757,482
Movements in inventories	11	-2,505,540	1,031,912
Movements in creditors and other liabilities	18	2,206,428	-1,787,084
Taxes paid*		-447,578	-381,911
Interest paid*	23	-52,979	-69,023
Operating cash flows, net		**1,354,130**	**8,303,476**
Investing cash flows			
Acquisition of tangible and intangible fixed assets	7.8	-5,046,784	-7,997,779
Gains on the disposal of tangible and intangible fixed assets	22	5,594	128,282
Increase in investments	6,10	0	-474,700
Interest received	23	317	10,732
Investing cash flows, net		**-5,040,873**	**-8,333,465**
Financing cash flows			
Loans and borrowings, taken	16	7,073,073	4,230,790
Loans and borrowings, repaid	16	-5,031,224	-3,840,006
Dividends paid	14	-309,918	-239,815
Financing cash flows, net		**1,731,931**	**150,969**
Net increase/decrease in cash and cash equivalents		**-1,954,812**	**120,980**

*In the financial statements for 2018, innovation contribution was presented among trade and other payables, and was reclassified to income tax assets (as a deductible item). In the profit and loss account it was reflected among other expenses and was recleassified to income taxes in 2019.

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 2019 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 2018 and 2019, the share book indicated the following shareholders:

	31 December 2018	31 December 2019
	%	%
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 17 March 2020.

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 27,427 on 31 December 2018 and kHUF 155,400 on 31 December 2019. 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 over their useful lives on a straight-line or, in respect of assets commissioned on or after 1 January 2019, on a performance basis as of 1 January 2019.
The Group recorded a total depreciation and amortisation expense in the amount of kHUF 2,039,511 for 2018 and kHUF 2,115,003 for 2019. 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 149,776 at 31 December 2018 and kHUF 141,508 at 31 December 2019.
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 2018 and 2019 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 20,233 was recognised in 2019 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 2019. 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

Except for the IFRSs as amended as adopted by the Group starting as of 1 January 2019, the accounting policies are consistent with those applied in the previous year.

- **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 adoption of IFRS 16 on the financial statements and the changes will not have a material impact on the Group financial statements.

- **IAS 16: Property, plant and equipment**
  Changes in the Company's accounting policies in 2019 allow for using performance as basis for depreciation, in addition to the straight line basis, on assets commissioned after 1 January 2019.

b) New but not yet effective standards, amendments and interpretations issued by the IASB and adopted by the EU

- **IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (amendments)** – interest rate benchmark reform - adopted by the EU on 19 December 2019 (will be effective for financial reporting periods starting on or after 1 January 2020).

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (amendments)** – Definition of materiality – adopted by the EU on 19 December 2019 (will be effective for financial reporting periods starting on or after 1 January 2020).

- **Amendments to References to the Conceptual Framework in IFRS Standards** - adopted by the EU on 19 December 2019 (will be effective for financial reporting periods starting on or after 1 January 2020).

  The Group does not early apply any of the above amended standards or the amendments to the conceptual framework. Group management believes that the above amendments will not have a material impact on the Group's financial statements on initial application.

c) Standards and interpretations issued by the IASB but not adopted by the EU

- **IFRS 14 Regulatory Deferral Accounts** (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

- **IFRS 17 Insurance Contracts** - Will be effective for financial reporting periods starting on or after 1 January 2022.,

- **IFRS 3 Business Combinations (amendments)** – Applies to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

The implementation of these amendments, standards and interpretations does not have a substantial impact the Company's stand-alone financial statements.

d) New and amended standards and interpretations

The standards and interpretations effective for annual periods started on or after 1 January 2019 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.

e) 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., Diagonal Valor 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. During 2019, the Company acquired 2.4)% of Rekard Hajtó-és Gépgyártó Kft. with a purchase option for the the rest of the quotas.

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 in a manner similar to unrealised gains, but only if there is no evidence for impairment.

f) 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. Any foreign exchange gain or loss on the revaluation is presented in the consolidated profit and loss account.

g) Financial instruments

Impairment

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.

h) 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.

i) 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. Assets where performance can be reliably measured, material variations in annual performance is expected and performance-based measurement more reliably reflects the depreciation of the asset, then performance-based measurement can be applied but its use must be justified.

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

- Buildings	10-50 years
- Machinery and equipment	3-25 years

The depreciation of right of use is recognised by the Group as explained under l**)** Leased assets.

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

j) 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

k) 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.
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.

The fair value estimates for investment properties are detailed in notes 4 and 9.

l) Leased assets

Right of use, rented assets

A contract qualifies as or containing a lease where the contract conveys the Group the right to control the use of an identified asset for a period of time in exchange for consideration and allows the Group to both collect the benefits of using the asset and make decisions regarding its use.

The right of use related to the subject of the lease as identified in a lease contract (underlying asset) is presented as an asset, as right of use, upon inception of the lease. Upon initial recognition, any right of use is recognised at cost and is then amortised over shorter of the useful the life of the asset or the lease term. Where the lease contract transfers ownership of the asset, amortisation is charged over the term of the lease.

The requirements applicable to leases and the usage (rental) fees do not apply to short-term leases (with a term not exceeding 12 months) and to small value underlying assets as these are recognised in profit or loss as and when incur. Small value underlying assets are assets with an acquisition cost of less than HUF 1 million and are independent units (computers, telephone sets, vending machines operating at the Company etc.).

Leased intangible assets, if any, are not considered leases under IFRS and are treated as rent.

The lease liability is the present value of the outstanding lease payments. Lease payments are discounted at the implicit interest rate. Where no such rate is identifiable, the interest rate applied in similar loan arrangements made at the time of signing the lease contract is used for discounting. Lease payments are recognised as principal repayment and interest payment by using the effective interest rate.
Where approriate information is available, the initial cost of a lease does not include the value of other services that may be incorporated in the contract. The cost of such other services is expensed through profit or loss as and when they incur.
As the rule of thumb, the Company expects no changes in the actual term of a lease contract compared to the initial contracted term (i.e. it will not be terminated or drawn on).

The Group applies the requirements of the new IFRS 16 Leases standard for annual periods beginning on or after 1 January 2019.
For contracts in effect on 1 January 2019 that qualify as operating leases under the previous IAS 17, the Group will apply the amended retrospective method from 1 January 2019 onwards. Further to IFRS16, these contracts are recalculated as if IFRS 16 had been applied all along. For leases that qualified as operating lease under IAS 17, the value of the right to use equals the amount of lease liability (the lease liability being the present value of the outstanding lease payments at 1 January 2019, and the right to use asset equals the net value under IFRS 16). The Company applies

exemption to operating leases under IAS 17 maturing within 12 months from the date of first application. These lease contracts are recognised in accordance with section 6 of IFRS 16 over the lease term.

m) 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.

n) 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.

o) 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.

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.

p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

q) 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 contracts include guarantees, payment deadlines and quality warranty obligations typical of the industry.

In line with general industry practice, the prices in the Group's contracts are typically set in USD or EUR.
The Group expects recognised revenue when control of the asset is transferred to the customer.

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.

a) 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.

b) 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.

c) 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.

d) initial recognition of receivables

The Group 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.

e) 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.

r) 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.

s) 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.

t) 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 expense is the expected tax payable on taxable income for the year, municipal tax and innovation contribution 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.

u) Segment reporting

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

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

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

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

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

v) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the 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.
The market interest rate of leases is determined by reference to similar lease agreements.

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 155,400 on overdue receivables at 31 December 2019 (2018: kHUF 27,427). 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 2018 and 2019, the Group did not have any forward contract.

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 2019, 83% of the Group's revenues were earned in EUR and 4% in USD (2018: EUR: 84%, 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 2019, 77% of the outstanding loans and borrowings bore a fixed interest rate (31 December 2018: 100%). 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).

Lease payments are discounted at the implicit interest rate. Where no such rate is identifiable, the interest rate applied in similar loan arrangements made at the time of signing the lease contract is used for discounting. Lease payments are recognised as principal repayment and interest payment by using the effective interest rate.

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 2018 and 2019 Rába met these externally imposed capital requirements.

f) Equity position of the Group

At 31 December 2019, the Group's equity totalled kHUF 21,197,008 (31 December 2018: 20,864,951), issued capital of kHUF 13,473,446 (31 December 2018: kHUF 13,473,446) and had an equity to issued capital ratio of 157 % (31 December 2018: 155%). The equity ratio improved as a result of the Group's improving operations.

Note 6 Companies included in the consolidation

	Shareholding	
	2018	2019
	%	%
Rába Futómű Kft.	100,0	100,0
Rába Járműalkatrész Kft.	100,0	100,0
Rába Jármű Kft.	100,0	100,0
Diagonal Valor Kft.	0,0	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 2018 and at 31 December 2018 and 2019: 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 2018, and at 31 December 2018 and 2019: 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 2018, and at 31 December 2018 and 2019: 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.

c) Diagonal Valor Kft.

Registered seat: Martin út 1., 9027 Győr, Hungary. Issued capital at 31 December 2018 and 2019: kHUF 3,000. Rába Járműipari Holding Nyrt. purchased 100% of Diagonal Valor Kft. on 14 May 2019. Diagonal Valor Kft. rents out and operates own properties.

Fair values of the assets and liabilities acquired as a result of the acquisition of Diagonal Valor Kft.:

	Negative goodwill
Fair values of properties	438 000
Book value of receivables	24 325
Book value of receivables from loans granted	34 037
Book value of liquid assets	63 251
Book value of mortgage right	-71 620
Book value of liabilities	-2 609
Fair values of identifed assets, total	**485 384**
Consideration paid	400 000
Badwill	**85 384**

Mortgage rights at a fair value of kHUF 71,600 were recognised being the collateral of loans taken by Rekard Hajtó- és Gépjárműgyártó Kft. The fair value of properties are presented in Note 9.

Note 7 Property, plant and equipment

	Properties	Machinery, equipment	Capital expenditure	Total
Cost				
Balance at 1 January 2018	12 297 484	36 028 091	2 072 108	50 397 683
Additions	0	0	5 299 267	5 299 267
Posted from capital expenditures	1 131 488	2 164 233	-3 295 721	0
Disposals	-327 091	-681 776	-3 011	-1 011 878
Balance at 31 December 2018	**13 101 881**	**37 510 548**	**4 072 643**	**54 685 072**
Accumulated depreciation				
Balance at 1 January 2018	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**
Balance at 1 January 2018	**8 123 202**	**5 623 073**	**2 072 108**	**15 818 383**
Net book value at 31 December 2018	**8 938 215**	**6 133 820**	**4 072 643**	**19 144 678**
Cost				
Balance at 1 January 2019	13 101 881	37 510 548	4 072 643	54 685 072
Additions	0	357 124	7 949 770	8 306 894
Posted from capital expenditures	1 501 625	9 241 133	-10 742 758	0
Disposals	-15 559	-1 271 365	-5 227	-1 292 151
Balance at 31 December 2019	**14 587 947**	**45 837 440**	**1 274 428**	**61 699 815**
Accumulated depreciation				
Balance at 1 January 2019	4 163 666	31 376 728	0	35 540 394
Depreciation for the year	375 268	1 664 254	0	2 039 522
Impairment loss	0	9 049	0	9 049
Decrease	-74 141	-1 209 012	0	-1 283 153
Balance at 1 January 2019	**4 464 793**	**31 841 019**	**0**	**36 305 812**
Net book value at 31 December 2019	**10 123 154**	**13 996 421**	**1 274 428**	**25 394 003**

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. The Group amended its accounting policies in 2019 to the extent that identifiable machinery will be depreciated based on performance rather than on a straight line basis.

Leased assets

In 2019, as a result of changes in the applicable International Financial Reporting Standard, operating lease assets which met the requirements of the standard, such as cars and forklifts, were reclassified to lease liabilities.

Movements in right-of-use rented assets:

	Machinery, equipment	Capital expenditure	Total
Cost			
Balance at 1 January 2019	0	0	0
Additions	362 769	362 769	725 538
Reclassified from capital expenditure	0	-362 769	-362 769
Disposals	-6 061	0	-6 061
Balance at 31 December 2019	**356 708**	**0**	**356 708**
Accumulated depreciation			
Balance at 1 January 2019	0	0	0
Depreciation charge	84 677	0	84 677
Decrease	-2 202	0	-2 202
Balance at 31 December 2019	**82 475**	**0**	**82 475**
Net book value at 31 December 2019	**274 233**	**0**	**274 233**

All right-of-use will expire in 2024. The aged analysis of lease liabilities is presented in Note 29.

Collateral

To secure bank loans, mortgages on properties totalled HUF 8,230 million at 31 December 2019 (2018: HUF 7,485 million).

Assets written down to zero but still in use:

	Propertiey	Machinery, equipment	Total
1 January 2018			
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**
31 December 2019			
Cost	180 784	16 059 164	**16 239 948**
Accumulated depreciation	180 784	16 059 164	**16 239 948**
Net book value	0	0	**0**

The most significant item is a Lasco production line which the Group is planning to replace by a Schluer production line in the future.

Note 8 Intangible assets

	Research and development	Intellectual property	Concessions and similar	Total
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
Balance at 31 December 2018	**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 1 January 2018	**92 252**	**678**	**189 488**	**282 418**
Net book value at 31 December 2018	**23 921**	**459**	**158 447**	**182 827**
Cost				
Balance at 1 January 2019	1 065 160	417 462	1 449 544	2 932 166
Additions - internal development	3 123	0	60	3 183
Additions - acquisition	0	0	37 241	37 241
Disposals	-722	-6 725	-828	-8 275
Balance at 31 December 2019	**1 067 561**	**410 737**	**1 486 017**	**2 964 315**
Accumulated amortisation				
Balance at 1 January 2019	1 041 239	417 003	1 291 097	2 749 339
Amortisation charge	12 821	98	62 623	75 542
Decrease	-722	-6 725	-828	-8 275
Balance at 31 December 2019	**1 053 338**	**410 376**	**1 352 892**	**2 816 606**
Net book value at 31 December 2018	**14 223**	**361**	**133 125**	**147 709**

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:

- seat structure parts production development
- arm-rest upholstery production development

Intellectual property includes various software (design, technology control, and development programs, qualifying systems, and documentation).

Concessions and similar rights primarily include the right of using external programs applied by the Group.

Assets written down to zero but still in use:

	and development	and similar rights	Intellectual property	Total
1 Jan 2018				
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**
31 Dec 2019				
Cost	1 190 309	1 231 817	410 749	**2 832 875**
Accumulated amortisation	1 190 309	1 231 817	410 749	**2 832 875**
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 5,480,000 at 31 December 2019 (kHUF 5,338,000 at 31 December 2018). The Group applies the historical cost model for investment property. As a result, 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.

The property of Diagonal Valor Kft., an entity purchased in 2019, also qualifies as investment property at a fair value of kHUF 438,000. The results of the acquisition are presented in Note 6.

The book values of investment properties were as follows:

	31 December 2018	31 December 2019
Investment property	338 217	815 632
Investment property, total	**338 217**	**815 632**

Impairment losses totalling kHUF 54,695 recognised on investment properties were reversed in the reporting year.

Note 10 Other long-term assets

	31 December 2018	31 December 2019
Long-term advances given	199 331	134 328
Long-term receivables	2 886	14 531
Receivables from asset disposals	130 399	0
Other long-term assets, total	**332 616**	**148 859**

Long-term advances given
This includes two long-term advances given with a closing balance of HUF 134 million at 31 December 2019 (31 December 2018: HUF 199m) 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 203,716 kHUF out of which the 130,354 is the long-term part and 73,362 kHUF is the closing balance of the related short-term receivables. The impact of discounting on the reporting year is 5,912 kHUF.

Long-term receivables
Long-term receivables include the long-term parts of loans granted to employees and loan receivables acquired by the Group via investment.

Receivables from assets disposals
Receivables from assets disposals include the amount receivable from the sale of a property.
As the probability of recovery is low in view of the court decision, the full amount was impaired.

Other investments
On 14 May 2019, Rába Nyrt. signed a sale-purchase agreement on acquiring 24.9% of Rekard Hajtómű- és Gépgyártó Kft., a member of Rekard Group, as endorsed in resolution No. 5/2019.04.11. of the shareholders. The consideration paid was kHUF 74,700. At the year-end the loss of Rekard Hajtómű- és Gépgyártó Kft. for 2019 attributable to Rába Nyrt. was recognised and the value of the investment declined by kHUF 29,878 as a result. The book value of the investments was kHUF 44,822 at 31 December 2019.

Note 11 Inventories

	31 December 2018	31 December 2019
Raw materials	5 311 632	3 783 683
Work in progress	2 511 526	2 323 035
Finished goods	994 093	1 364 764
Goods	254 338	179 760
Inventories, total	**9 071 589**	**7 651 242**

Impairment loss was recognized as follows:

	2018	2019
Opening value on 1 January	747 909	849 594
Impairment loss recognised in the reporting year	266 175	233 094
Reversed impairment loss	0	0
Written off due disposal, scrapping or use	-164 490	-399 904
Inventories, total	**849 594**	**682 784**

Collateral

At 31 December 2019 mortgages were registered on inventories in a carrying amount of HUF 4,920 million (2018: HUF 6,244 million) to secure bank loans.

Note 12 Trade and other receivables

	31 December 2018	31 December 2019
Receivables from debtors	6 976 340	4 861 825
Impairment loss on bad and doubtful debts	-27 427	-155 400
Debtors, net	6 948 913	4 706 425
Advance payments	4 432 304	930 099
Accrued income	22 943	15 931
VAT receivable	688 946	682 071
Other*	172 750	153 148
Receivables, total	**12 265 856**	**6 487 674**

Trade receivables are carried in the following currencies:

Trade receivables	31 December 2018	31 December 2019
HUF	1 402 044	39 424
EUR	5 219 612	4 402 847
USD	354 647	419 514
GBP	37	40
Total	6 976 340	4 861 825

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.

* In the financial statements for 2018, innovation contribution was presented among trade and other payables, and was reclassified in 2019 to income tax assets (as a deductible item).

Note 13 Cash and cash equivalents

	31 Dec 2018	31 Dec 2019
Bank	682 323	803 426
Cash	1 207	1 084
Cash and cash equivalents, total	**683 530**	**804 510**

Cash and cash equivalents are carried in the following currencies:

	31 Dec 2018	31 Dec 2019
HUF	6 575	281 883
EUR	539 683	426 038
USD	137 272	96 501
GBP	0	88
Cash and cash equivalents, total, HUF	**683 530**	**804 510**

The average interest rate of cash and cash equivalents was 0.001% at 31 December 2019 and 0.02 % at 31 December 2018.
The Group's exposure to interest rate and currency risks related to cash and cash equivalents is detailed in Note 5.
A total interest income of kHUF 10,732 was earned on cash and cash equivalents in 2018.

Note 14 Equity

Issued capital

At 31 December 2019, issued capital consisted of 13,473,446 category 'A' ordinary shares listed at the Budapest Stock Exchange (2018: 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 2019 and kHUF 108,952 (120 681 shares) at 31 December 2018. 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 2018 or at 31 December 2019.

Dividends paid

Dividends payable are presented as a liability in the period when approved.

With resolution No. 3/2018.04.12, the annual shareholders' meeting of Rába Nyrt. held on 12 April 2019 decided to pay dividends of HUF 17,80 per share of HUF 1,000 face value each from the profits for 2018 plus retained earnings in 2019. 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 2019.

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 17.96 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 239,815. The amount of dividends approved but not paid by the end of the reporting period due to outstanding information for clerical purposes was kHUF 646.

Related transaction costs totalling kHUF 11,400 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 1 Jan 2018	**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**
Provisions made	46 454	0	114 277	37 082	197 813
Provisions used	-13 104	0	-50 000	-121 261	-184 365
Provisions released	-35 225	0	0	-59 591	-94 816
Closing at 31 Dec 2019	**147 901**	**0**	**114 277**	**146 397**	**408 575**

	Warranties	Legal cases	Employee related	Other	Total
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**
Long-term provision	141 508	0	0	95 700	237 208
Short-term provision	0	0	71 393	99 974	171 367
31 December 2019	**141 508**	**0**	**71 393**	**195 674**	**408 575**

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. All these cases ended in 2018.

Liabilities related to personnel
At 31 December 2019, 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 2020 when it will reach 42% of the provision made (kHUF 171,367; long-term: kHUF 237,208).

Note 16 Long-term financial liabilities

This note contains information about the terms and conditions of the Group's interest bearing borrowings, loans and long-term leases. 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 26.

Interest expenses relating to loans and borrowings for the reporting period amounted to HUF 60 million and exchange rate losses arising from changes to currency rates totalled HUF 295 million.

Repayment schedule of long-term financial liabilities:

	31 Dec 2018	**31 Dec 2019**
Within one year	2 186 268	5 436 999
Over one year	5 915 784	3 566 784
Between one and five years	*5 915 784*	3 566 784
Long-term financial liabilities, total	**8 102 052**	**9 003 783**

The Group did not sign any new borrowing contract in 2019 as the existing bank loans provided sufficient funds.

Loans and borrowings:

Type	**Currency**	**Matures in**	**31 Dec 2018**	**31 Dec 2019**
Bank loan 2009/081	EUR	2020	0	1 983 120
Bank loan G3M-073260	EUR	2020	771 624	396 624
Bank loan G3M-078125	EUR	2021	1 929 060	1 983 120
Bank loan 2017/051	EUR	2022	1 543 248	1 189 872
Bank loan G3M-080047	EUR	2023	1 929 060	1 586 496
Bank loan TCF-DK-26/2018	EUR	2023	1 929 060	1 586 496
Lease payable	EUR		0	278 055
Long-term financial liabilities, total			**8 102 052**	**9 003 783**

In 2019, the weighted average interest rate of the loans was 0.7 % (2018: 0.8 %).
The Group incurred financial lease liabilities as of 2019 as a result of applying IFRS16 Leases.
The Group's bank loans are backed by collaterals.

77% of the Group's loans are mid-term amortising loans at fix interest rates and were taken to fund exports.
The rest of the loans are short-term, revolving current asset loans at variable interest rates.

The Group incurred lease liabilities starting from the year 2019 as a result of the adoption of IFRS 16 Leases. The aged analysis by term of lease is presented in Note 29.

Mortgages at 31 December 2018:

Company	Bank	Asset category	Aset 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

Mortgages at 31 December 2019:

Company	Bank	Asset category	Asset value* (HUF million)
Rába Nyrt.	CIB	property	4 190
Rába Nyrt.	RAIFFEISEN	property	505
Rába Nyrt.	COMMERZBANK	insurance policy	n.a.
Rába Futómű Kft.	RAIFFEISEN	inventory	4 920
Rába Futómű Kft.	CIB	trade receivables	192
Rába Futómű Kft.	RAIFFEISEN	trade receivables	535
Rába Járműalkatrész Kft.	COMMERZBANK	property	3 097
Rába Jármű Kft.	CIB	trade receivables	194
Diagonal Valor Kft.	MKB	property	438

* 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 but one borrowing member of the Group as at 31 December 2019, the date of assessment. The Company has filed for exemption, which was accepted by the bank after the balance sheet date. As a result, kHUF 793,248 was reclassified from non-current financial liabilities to the current part of Loans and borrowings.

Note 17 Trade and other payables

	31 Dec 2018	31 Dec 2019
Creditors	8 898 492	5 561 366
Advances received	220 694	109 310
Accrued expenses	688 334	417 898
Deferred income	154 268	291 734
Deferred government subsidy	1 263 079	3 178 272
Payroll cost and related taxes	825 231	874 950
Vat liability	182 126	149 944
Lease liability	0	82 575
Mortgage right	0	51 380
Other*	284 867	211 661
Trade and other payables	**12 517 091**	**10 929 090**

* In the financial statements for 2018, innovation contribution was presented among trade and other payables, and was reclassified in 2019 to income tax assets (as a deductible item).

Deferred income from subsidies:

	Subsidies received	Used in previous years	Opening balance	Subsidy received in the year	Used in the year	Closing balance
Rába Futómű Kft.	1 720 732	1 181 599	539 133	2 027 302	133 326	2 433 109
Rába Járműalkatrész Kft.	623 552	211 366	412 186	0	34 373	377 813
Rába Jármű Kft.	644 043	332 283	311 760	115 398	59 808	367 350
Total	**2 988 327**	**1 725 248**	**1 263 079**	**2 142 700**	**227 507**	**3 178 272**

Management believes that no circumstance prevailed on 31 December 2019, based on which the subsidies could have been reclaimed from any of the Group companies.

Breakdown of creditors by currency:

Tradey payables	31 Dec 2018	31 Dec 2019
HUF	2 594 509	1 849 204
EUR	6 245 405	3 687 262
USD	58 063	11 637
GBP	0	12 901
SEK	502	357
RUB	13	5
Total	8 898 492	5 561 366

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 December 2018	**Axle**	**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*	-328 374	-212 756	-229 356	-273 137	12 637	-1 030 986
Other operating expenses	**-4 239 919**	**-1 669 045**	**-2 094 618**	**-732 261**	**172 302**	**-8 563 541**
Operating profit or loss	**652 892**	**733 140**	**670 175**	**387 452**	**-637 085**	**1 806 574**
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*	-189 221	-124 342	-169 717	-17 415	0	-500 695
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
Trade and other payables*	7 919 336	3 462 526	3 169 583	5 442 736	-7 477 090	12 517 091
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

* In the financial statements for 2018, innovation contribution was presented among trade and other payables, and was reclassified in 2019 to income tax assets (as a deductible item); in the profit and loss account it was reclassfied from other expenses to income taxes.

31 December 2019	Axles	Vehicle	Components	Unallocated	Intersegment elimination	Consolidated
Extra-segment revenues	23 091 565	10 766 125	15 608 042	315 925		49 781 657
Intersegment revenues	697 691	360 048	866 129	1 301 625	-3 225 493	0
Sales revenues, total	**23 789 256**	**11 126 173**	**16 474 171**	**1 617 550**	**-3 225 493**	**49 781 657**
Direct cost of sales	**-19 608 724**	**-9 058 274**	**-13 815 312**	**-395 418**	**2 415 115**	-40 462 613
Gross profit	**4 180 532**	**2 067 899**	**2 658 859**	**1 222 132**	**-810 378**	**9 319 044**
Selling and marketing costs	-319 741	-504 828	-31 219	-30 375	0	-886 163
General and administrative costs	-3 583 559	-1 044 576	-1 969 882	-1 137 469	800 861	-6 934 625
Other income	460 622	131 146	87 602	221 065	-215 188	685 247
Other expenses	-370 505	-189 169	-81 193	-206 713	4 159	-843 421
Other operating expenses	**-3 813 183**	**-1 607 427**	**-1 994 692**	**-1 153 492**	**589 832**	**-7 978 962**
Operating profit or loss	**367 349**	**460 472**	**664 167**	**68 640**	**-220 546**	**1 340 082**
Interest income	6 152	15 048	1 193	54 998	-66 659	10 732
Interest expense	-49 471	-21 112	-16 266	-25 360	25 726	-86 483
Tax expense	-155 258	-78 457	-179 634	-19 252	0	-432 601
Assets						
Property, plant and equipment	13 598 571	2 231 607	3 549 948	6 185 702	-171 825	25 394 003
Intangible assets	79 648	38 452	16 315	13 294	0	147 709
Investment property	0	0	0	815 632	0	815 632
Other non-current assets	118 318	10 630	7 516	1 426 812	-1 414 417	148 859
Inventories	4 919 226	1 069 345	1 690 099	8 103	-35 531	7 651 242
Trade and other receivables	4 719 937	4 562 629	1 539 469	2 986 150	-7 320 511	6 487 674
Cash and cash equivalents	247 640	2 989	4 899	548 982	0	804 510
Liabilities						
Provisions	71 393	215 518	8 598	113 066	0	408 575
Trade and other payables	8 871 150	1 634 139	2 941 615	4 751 317	-7 269 131	10 929 090
Capital expenditures	7 110 099	998 269	766 532	248 070	0	9 122 970
Depreciation and amortisation	1 088 168	276 513	509 629	232 925	7 768	2 115 003

Note 19 Revenues

Revenues by geographical segment were as follows:

	31 Dec 2018	31 Dec 2019
Europe	44 041 965	43 388 975
- of which: Hungary	15 826 737	16 141 530
American continent	2 866 299	3 431 745
Asia	1 713 793	2 948 453
Australia	9 776	12 484
Revenues, total	**48 631 833**	**49 781 657**

Revenues by type of operations were as follows:

	31 Dec 2018	31 Dec 2019
Sale of goods	46 622 748	48 069 870
Services rendered	1 843 292	1 536 504
Rental income	165 793	175 283
Revenues, total	**48 631 833**	**49 781 657**

Note 20 Operating costs

	31 Dec 2018	31 Dec 2019
Materials	30 107 447	31 043 983
Services used	6 636 254	7 200 402
Payments to personnel	8 234 326	8 466 543
Depreciation and amortisation	2 039 511	2 115 003
Capitalised own performance	-854 001	-542 530
Operating costs, total	**46 163 537**	**48 283 401**

Direct cost of sales	38 261 718	40 462 613
Sales and marketing costs	814 449	886 163
General and administrative costs	7 087 370	6 934 625
Operating costs, total	**46 163 537**	**48 283 401**

Note 21 Payments to personnel

	31 Dec 2018	31 Dec 2019
Payroll costs	6 182 837	6 404 429
Payroll taxes	1 330 203	1 354 828
Other payments to personnel	721 286	707 286
Payments to personnel, total	**8 234 326**	**8 466 543**

The average number of staff in 2019 was 1,380 (2018: 1,452).

Note 22 Other income and expenses

	31 Dec 2018	31 Dec 2019
Gains on fixed asset disposals	4 599	117 178
Damages and penalty payments received	70 780	79 420
Government subsidies**	218 519	380 754
Barred liabilities	6 843	31 092
Other**	68 523	76 803
Other income, total	**369 264**	**685 247**
Taxes*	-149 863	-150 521
Impairment of inventories	-266 175	-233 094
Inventories scrapped	-175 396	-155 341
Fixed assets scrapped, extraordinary depreciation	-64 520	-20 233
Impairment of debtors	-9 789	-26 132
Provisions	-274 738	-102 996
Provisions not fulfilled	62 447	94 816
Compensation and damages	-82 647	-61 804
Other	-70 305	-188 116
Other expenses, total	**-1 030 986**	**-843 421**
Other income and expenses, total	**-661 722**	**-158 174**

Other income and expenses included items incurred in the normal course of business in 2019. Following a review of tangible and intangible assets, a total impairment loss of HUF 20 million was recognised on some of the assets.

* In the financial statements for 2018, innovation contribution was presented among other expenses and was reclassified in 2019 to income taxes.

**Expensed government subsidies were reclassified from Others to Subsidies within Other income.

Note 23 Financial income and expenses

	31 Dec 2018	31 Dec 2019
Interest received	7 629	10 732
Foreign exchange gains on debtors	171 462	110 366
Other	0	4 768
Financial income, total	**179 091**	**125 866**
Interest expense	-63 175	-86 483
Foreign exchange loss on trade payables	-38 937	-135 762
Foreign exchange loss on foreign currencies	-178 612	-318 510
Other	-7 321	3 535
Financial expenses, total	**-288 045**	**-537 220**
Financial income and expenses, total	**-108 954**	**-411 354**
Profit or loss from the acquisition of subsidiary	0	105 623

Interest income in 2018 and 2019 was typically from cash and cash equivalents.

In 2019, Rába Járműipari Holding Nyrt. purchased 100% of Diagonal Valor Kft. The effect of the transaction is reflected among Profit or loss on the acquisition of subsidiaries line in the profit and loss account. The effect of the acquisition of 24.9% of Rekard Hajtómű Kft. is reflected among Profit or loss on the acquisition of associates in the profit and loss account.

Note 24 Income tax

Income tax expense for the period:

	31 Dec 2018	31 Dec 2019
Actual tax expenses	85 691	22 335
Local business tax	321 542	332 984
Innovation contribution*	55 963	57 484
Deferred tax	37 499	19 798
Income tax expense, total	**500 695**	**432 601**

* In the financial statements for 2018, innovation contribution was presented among other expenses and was reclassified in 2019 to income taxes.

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

Rába is a Hungarian taxpayer and, therefore, is required to pay corporate income tax on its net profit. In 2019, 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 2019, the Group's balance of corporate income tax and local business tax assets and liabilities was a net income tax asset of kHUF 62,489 (a tax asset of kHUF 35,987 at 31 December 2018), which reflects the reclassification of innovation contribution in the basis period.

Deferred tax is calculated based on the expected time of recovery based on the tax rate known in 2019, which is 9%.

At 31 December 2019, deferred tax assets totalled kHUF 62,489 (31 December 2018: kHUF 35,897), and the deferred tax liability totalled kHUF 113,276 (31 December 2018: kHUF 103,531).

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

	31 Dec 2018	Increase	Decrease	31 Dec 2019
Losses carried forward	**266 942**	**0**	**-14 545**	**252 397**
Rába Futómű Kft.	183 564			183 564
Rába Járműalkatrész Kft.	83 378		-14 545	68 833
Leases	**0**	343		**343**
Rába Nyrt.	0	12		12
Rába Futómű Kft.	0	153		153
Rába Jármű Kft.	0	107		107
Rába Járműalkatrész Kft.	0	71		71
Long-term receivables	**1 344**	**0**	**-532**	**812**
Rába Futómű Kft.	1 163		-460	703
Rába Jármű Kft.	106		-42	64
Rába Járműalkatrész Kft.	75		-30	45
Trade and other receivables	**2 468**	**2 094**	**-231**	**4 331**
Rába Futómű Kft.	1 513	2 094		3 607
Rába Jármű Kft.	0			0
Rába Járműalkatrész Kft.	955		-231	724
Provisions	**44 095**	**10 864**	**-7 837**	**47 122**
Rába Nyrt.	15 072		-4 896	10 176
Rába Futómű Kft.	4 500	1 925		6 425
Rába Jármű Kft.	20 808	8 939		29 747
Rába Járműalkatrész Kft.	3 715		-2 941	774
Property, plant and equipment	**-80 426**	**-34 043**	**-2 230**	**-116 699**
Rába Nyrt.	8 623	185		8 808
Rába Futómű Kft.	-98 686	-34 228	0	-132 914
Rába Jármű Kft.	4 701		-2 038	2 663
Rába Járműalkatrész Kft.	4 936		-192	4 744
Receivables from asset disposals	**-11 737**	**11 737**	**0**	**0**
Rába Nyrt.	-11 737	11 737		0
Development reserve	**-304 154**	**-7 889**	**22 472**	**-289 571**
Rába Nyrt.	-6 985			-6 985
Rába Futómű Kft.	-126 180		22 472	-103 708
Rába Jármű Kft.	-95 020	-311		-95 331
Rába Járműalkatrész Kft.	-75 969	-7 578		-83 547
Deferred tax, net	**-81 468**	**-16 894**	**-2 903**	**-101 265**
Rába Nyrt.	**4 973**	**11 934**	**-4 896**	**12 011**
Rába Futómű Kft.	**-34 126**	**-30 056**	**22 012**	**-42 170**
Rába Jármű Kft.	**-69 405**	**8 735**	**-2 080**	**-62 750**
Rába Járműalkatrész Kft.	**17 090**	**-7 507**	**-17 939**	**-8 356**
Deferred tax asset (+) liability (-)	**-103 531**			**-113 276**
Deferred tax asset (+) liability (-)	**22 063**			**12 012**

Group level tax losses carried forward totalled kHUF 15,692,241 at 31 December 2019 and can be used as follows: kHUF 141,503 until 2020, kHUF 96,999 until 2022, kHUF 416,473 until 2024 and the remaining amount until 2030 (2018: kHUF 15 437 376 of which kHUF 141,543 could be used until 2020). The Group uses carried forward losses on a FIFO basis.

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 252,397 on a tax loss of kHUF 2,804,411 at 31 December 2019 (2018: kHUF 266,942 deferred tax asset on a tax loss of kHUF 2,966,022).

	31 Dec 2018	31 Dec 2019
Profit before tax*	1 697 620	1 004 473
Calculated corporate income tax	147 749	90 403
Local business tax	321 542	332 984
Innovation contribution*	55 963	57 485
Losses and permanent differences with no deferred tax recognised	-24 611	-48 271
Increase in deferred tax on losses carried forward	52	0
Tax expense, total	500 695	432 601
	29%	43%

*In the financial statements for 2018, innovation contribution was presented among other expenses and was reclassified in 2019 to income taxes.

In 2019, Rába Group's applicable statutory tax rate was 9%, therefore 9% was the effective tax rate considered for tax caluation purposes. In the reporting year, the Group used a tax allowance of kHUF 31,409 on energy saving capital projects.

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 **at 31 December**		Balance **at 31 December**	
	2018	**2019**	**2018**	**2019**
Salaries paid to key management	229 255	245 771	100 205	47 180
Remuneration paid to Board members	26 982	23 832	0	0
Remuneration paid to Supervisory Board members	13 759	16 518	0	0

Key management personnel at 31 December 2019:

Name	**Position**	**Boa**	SB	AC	Management
Pintér István	Chairman of the Board	x			
Bánócziné Dr. Csernák Ibolya Virág	Board member	x			
Major János	Board member	x			
dr. Pálvölgyi Ákos Mátyás	Board member	x			
Sebők Roland	Board member	x			
dr. Tóth Tamás	Board member	x			
Wáberer György	Board member	x			
dr. Pafféri Zoltán Lajos	Chairman of the SB		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
Deák Attila	Strategis acquidition and business development director				x
Urbányi László	Rába Járműalkatrész Kft. CEO				x
Torma János	Rába Jármű Kft. CEO				x
Horváth Gábor	Diagonal Valor 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 chairman		x		
Boldis Géza	Rába Jármű Kft. SB member		x		
dr. Baranyay Pál Péter	Diagonal Valor Kft. SB member		x		
Steszli Ádám	Diagonal Valor Kft. SB member		x		
Balog Béla	Diagonal Valor Kft. SB member		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.

	2018	**2019**
Revenues	4 606 675	4 589 763

	31 Dec 2018	**31 Dec 2019**
Trade and other receivables	1 090 811	-115 000

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

Note 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 2018	**31 Dec 2019**
Receivables from asset disposals	130 399	0
Trade receivables	6 976 340	4 861 825
Cash and cash equivalents	683 530	804 510

Debtors, net, by geographical segment at 31 December 2018 and 2019:

	31 Dec 2018	**31 Dec 2019**
Europe	6 004 444	3 582 761
- of which: Hungary	2 388 272	750 993
American continent	698 256	626 025
Asia	244 955	496 386
Australia	1 258	1 253
Receivables, total	**6 948 913**	**4 706 425**

Aged list of net debtors at 31 December 2018 and 2019:

	31 Dec 2018	31 Dec 2019
Not yet due	*6 102 928*	*3 869 194*
1-90 days overdue	789 327	797 547
91-180 days overdue	35 177	33 378
181-365 days overdue	21 437	5 961
Due over 365 days	44	345
Overdue total	*845 985*	*837 231*
Total	**6 948 913**	**4 706 425**

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

impairment loss recognised	9 789
impairment loss written off	-4 742
31 December 2018	**27 427**
impairment loss reversed	0
impairment recognised for the previous period upon the acquisition of Diagonal Valor Kft.*	107 273
impairment loss recognised	26 132
impairment loss written off	-5 432
31 December 2019	**155 400**
impairment recognised for the previous period upon the acquisition of Diagonal Valor Kft.*	107 273

*During the acquisition, the Company found that some of the receivables in Diagonal Valor Kft's books could not be recovered in the foreseeable future and were, therefore, impaired.

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 2018

	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Present value of future cash flows
Bank loan G3M-073260	771 624	780 112	392 178	387 934	0	0	771 129
Bank loan TCF-DK-26/2018	1 929 060	1 964 844	397 965	395 264	1 171 615	0	1 920 010
Bank loan G3M-080047	1 929 060	1 964 844	397 965	395 264	1 171 615	0	1 920 010
Bank loan G3M-078125	1 929 060	1 953 494	655 880	650 736	646 878	0	1 918 734
Bank loan 2017/051	1 543 248	1 566 204	395 264	392 564	778 376	0	1 533 412
Loans and borrowings, total	**8 102 052**	**8 229 498**	**2 239 252**	**2 221 762**	**3 768 484**	**0**	**8 063 295**

31 December 2019

	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Present value of future cash flows
Bank loan TCF-DK-26/2018	1 586 496	1 610 095	406 341	403 565	800 189	0	1 577 963
Bank loan G3M-080047	1 586 496	1 610 095	406 341	403 565	800 189	0	1 577 963
Bank loan G3M-073260	396 624	398 805	398 805	0	0	0	395 876
Bank loan 2017/051	1 189 872	1 189 872	1 189 872	0	0	0	1 189 872
Bank loan G3M-078125	1 983 120	1 998 985	1 003 459	995 526	0	0	1 977 042
Bank loan 2009/081	1 983 120	1 989 565	1 989 565	0	0	0	1 974 951
Lease liability	278 055	278 055	82 575	134 354	61 126	0	278 055
Loans, borrowings and leases, total	**9 003 783**	**9 075 473**	**5 476 959**	**1 937 010**	**1 661 504**	**0**	**8 971 722**

The Group's bank loans are secured.

Trade and other payables mature as follows:

31 December 2018

	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Present 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*	2 201 252	2 201 252	2 201 252	-	-	-	2 201 252
Total	**11 099 744**	**11 099 744**	**11 099 744**	**0**	**0**	**0**	**11 099 744**

* In the financial statements for 2018, innovation contribution was presented among other expenses and was reclassified in 2019 to income tax assets (as a deductible item).

31 December 2019

	Book value	Contractual cash flows	within 1 year	1-2 years	2-5 years	Over 5 years	Present value of future cash flows
Trade payables	5 561 366	5 561 366	5 561 366	-	-	-	5 561 366
Amounts payable to employees and other liabilities	1 897 718	1 897 718	1 897 718	-	-	-	1 897 718
Total	**7 459 084**	**7 459 084**	**7 459 084**	**0**	**0**	**0**	**7 459 084**

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 2018		31 December 2019	
	kHUF	**percentage of revenue affected**	**kHUF**	**percentage of revenue affected**
EUR	4 127 690	8,0%	4 227 736	8,5%
USD	135 377	0,3%	203 664	0,4%

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	
	2018	**2019**	**2018**	**2019**
EUR	318,87	325,35	321,51	330,52
USD	270,25	290,65	280,94	294,74

iv) Interest rate risk

The Group's interest bearing financial instruments included 77% of fix interest rate instruments presented in Note 16.

An increase in interest rates would have affected 23% of loans at the balance sheet date for 2019. A 1% increase would have caused a kHUF 19,831 increase in interest paid.
The weighted average interest rate of the loans was 0.7% in 2019 (0.8% in 2018).

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 2018	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**
Other non-current assets	202 217	148 859	202 217	148 859
Receivables from asset disposals	130 399	0	130 399	0
Other investments	205	45 027	205	45 027
Debtors and other receivables	12 265 856	6 487 674	12 265 856	6 487 674
Cash and cash equivalents	683 530	804 510	683 530	804 510
Long-term financial liability	8 102 052	8 921 208	8 063 295	8 881 925
Trade and other payables*	12 517 091	10 929 090	12 517 091	10 929 090

*In the financial statements for 2018, innovation contribution was presented among trade and other payables and was reclassified in 2019 to income tax assets (as a deductible item).

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 2019 were calculated based on the profit for the year of kHUF 571,872 (2018: profit of kHUF 1,196,925) and on the weighted average number of ordinary shares outstanding which was 1,352765 in 2019 (2018: 13,352,765 shares) as follows:

	2018	**2019**
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	1 196 925	571 872
Basic earnings per share (HUF/share)	90	43

ii) Diluted earnings per share

	2018	**2019**
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	1 196 925	571 872
Diluted earnings per share (HUF/share)	90	43

As the share option program ended during 2016 and no callable options remained, share options do not have a diluting effect. There was no movement in treasury shares in 2019.

Note 28 Capital commitments and contingencies

At 31 December 2019, the Company had future commitments from capital projects and other services totalling kHUF 6,625,348 (31 December 2018: kHUF 15,282,979).

The Group did not have any contingent liabilities at 31 December 2018 or at 31 December 2019.

Note 29 Lease liabilities

Following adoption of IFRS16 Leases as of 1 January 2019, all operating leases under the accounting policies were reclassified as lease.

Aged analysis of leasing fees payable:

	31 Dec 2018	31 Dec 2019
Within one year	102 312	82 575
1-5 years	123 984	_195 480_
Over five years	-	-
Leases total	**226 296**	**278 055**

The Company leases certain production machinery and vehicles through 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 2019.

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 2019 is kHUF 1,900 +VAT.

In 2019, the Group used other assurance services, tax advisory services and other non-audit services provided by Ernst & Young Advisory Kft. All the services were approved by the Audit Committee and included the following: review of the financial statements and the tax position, tax advisory services related to subsidies. The fee of the services was kHUF 5,600 + VAT.

v) Recommendation for profit distribution:

The Board of Directors recommends to the shareholders' meeting to make a resolution about paying dividends of HUF 20 per share.

We engineer, you drive

CONSOLIDATED MANAGEMENT REPORT / CONSOLIDATED BUSINESS REPORT

on the financial year ended December 31, 2019

1. Introduction of the Company

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

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

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

The Holding is a listed company registered in Hungary.

The consolidated accounts of the Holding include the holdings of the Holding and its subsidiaries (the “Group”).

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

The Group is seated at: H-9027 Győr, Martin út 1.

Its branches are located at: H-8060 Mór, Ipartelep
H-9600 Sárvár, Ipartelep 6.

1.1. Subsidiaries of the Group

Rába Axle Ltd. (wholly owned subsidiary)
Rába Automotive Components Ltd. (wholly owned subsidiary)
Rába Vehicle Ltd. (wholly owned subsidiary)
Diagonal Valor ltd. (wholly owned subsidiary

1.2. Profile, product groups

<u>Rába Axle Ltd.</u>

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

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

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

Rába Automotive Components Ltd. consolidates the component and parts manufacturing plants of the group of companies into one organisational unit. it has substantial experience in manufacturing seats and components for passenger cars and commercial vehicles. The individual sites have different technologies, independent product profiles and customers. The Mór plant manufactures seat components for passenger vehicles, as well as seats and seat components for commercial vehicles. A considerable portion of the market volume is represented by passenger car seat components. The Sárvár plant produces components and parts for commercial vehicles, as well as machined parts for heavy vehicles. The on-line plant in Esztergom provides logistical services (“just-in-sequence” delivery) to the Hungarian Suzuki Co. Ltd.

<u>Rába Vehicle Ltd.</u>

The scope of activities of the Company includes the sale of trucks, vehicle sets, offroad trucks of smaller rolling weight and offroad passenger vehicles, as well as the production and sale of metal structures.

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

<u>Diagonal Valor Ltd.</u>

Core activity: letting and operating owned, leased real property

1.3. Philosophy of the Rába Group

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

We remain in the leading edge of the automotive industry through the continuous improvement of our adaptability.

2. Main events and results in the current year

Rába Axle Ltd.

The operation of the 2019 business year was defined fundamentally by volatile and continuously declining demand, as well as by further increase in the wage pressure, which has been exerting considerable pressure on production activities for years and by markedly increasing energy prices. At the same time, mention must be made of the strategic investments concluded in 2019, owing to which production can proceed using modern and efficient technology in several areas during the coming years.

Rába Vehicle Ltd.

In 2003, the Company came in as the winner of the military offroad truck tender issued within the Motorvehicle Procurement Programme of the Hungarian Army. A 15-year Supply Framework Agreement was signed with the Ministry of Defense. This agreement laid the foundation for the Company's future for the next 15 years. The vehicle delivery, carried over to 2019, as set in the Supplementary Agreement No. 2018-09, concluded on the basis of the Ministry of Defense – Rába (2003-2018) Framework Agreement was fulfilled, the last vehicle as set in the framework agreement, was delivered in October 2019.

The Supply Framework Agreement for the period 2019-2026, as per the new procedure launched by the Ministry of Defense, has been concluded. Based on the Framework Agreement, the supply of military vehicles, together with the services necessary for their operation, can continue in the strategic period. The supplementary agreement linked to the Supply Framework Agreement for the period 2019-2026 has not been concluded and no deliveries occurred in 2019.

Key objectives of the period include:

- Discharge of obligations included in the Supplementary Agreement, delivery of products in the agreed quality, by the deadline,
- Fullest possible compliance with the demands of the Ministry of Defense, through the already concluded and new Supplementary Agreements,
- Further increase of the sales of civilian products, increase of their share within total sales revenue,
- Continuous efficiency increase through the use of state-of-the-art production organisational methods, e.g.: LEAN
- Keeping the profitability and financial positions achieved thus far.

Rába Automotive Components Ltd.

Rába Automotive Components Ltd. concluded an agreement with a key customer (Magna) in 2019. Following a complete technology transfer, the customer will be served welded seat frames from our Mór site.

At our Sárvár plant, we successfully concluded the approval procedure of the spindle package with our customer NAF. Serial production was launched.

Results of the current year

The figures for Q4 of 2019 on our external markets duly represent the slow-down of global economic activities in almost all main segments. This is particularly true for the European truck market and for the segment of agricultural vehicles, which suffered from substantial declines in demand during the last quarter of the year. As regards the whole of 2019, the key markets of the Rába Group showed either stagnation or loss of activity. In terms of production costs, further acceleration of the wage pressure, manifest for years and the energy price level showing marked growth have put substantial strain on the operation, as well as on financial profitability.

In terms of the exchange rate environment, in Q1-Q4 of 2019, growth was manifest for both the USD sales, representing a smaller portion within the company's FX sales and for the EUR, a dominant part in the company's FX sales: the average exchange rate of the USD increased by 7.5 per cent, the average exchange rate of the EUR increased by 2.0 per cent compared to the levels of one year before.

The Rába Group achieved an EBITDA of HUF 3.5 billion and profits of HUF 572 million in 2019, upon a 2.4 per cent increase in sales revenue.

2.1. Changes in the Group

In 2019, in addition to the minority stake acquired in the Rekard group, Rába Plc. purchased a 100% stake in Diagonal Valor Ltd.

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

Data in th HUF

	December 31, 2018	***December 31, 2019***
Revenues	48 631 833	49 781 657
Direct cost of sales	-38 261 718	-40 462 613
Gross profit	10 370 115	9 319 044
Sales and marketing expenses	-814 449	-886 163
General and administrative costs	-7 087 370	-6 934 625
Other income	369 264	685 247
Other expenditures	-1 030 986	-843 421
Total other operating expenditures	-8 563 541	-7 978 962
Profit from operating activities	1 806 574	1 340 082
Financial income	179 091	125 866
Financial expenses	-288 045	-537 220
Profit or loss on the acquisition of subsidiary	0	105 623
Profit or loss on the acquisition of associates	0	-29 878
Profit before tax	1 697 620	1 004 473
Taxation *	-500 695	-432 601
Profit for the year	1 196 925	571 872
Total comprehensive profit for the year	1 196 925	571 872
Basic earnings per share (HUF)	90	43
Diluted earnings per share (HUF)	90	43

* *In 2018, innovation contribution is shown under other expenditures. In 2019, this was regrouped to profit taxes.*

At the level of business units, in terms of the accumulated sales for the period, the Components and the Vehicle business units achieved growth of 9.3 and 8.2 per cent respectively, while the Axle business unit, with the biggest export exposure, registered a 4.9 per cent decline in sales. On the whole, the sales revenue at group level exceeded the level of the base period by HUF 1.1 billion and amounted to HUF 49.8 billion.

The drastic increase in energy prices experienced during Q1 of 2019 seemed to slow down during the remainder of the year, even so, however, the energy price level of the period exceeded the level of the previous year by 4.2 per cent.

In terms of the exchange rate environment, in Q1-Q4 of 2019, growth was manifest for both the USD sales, representing a smaller portion within the company's FX sales and for the EUR, a dominant part in the company's FX sales: the average exchange rate of the USD increased by 7.5 per cent, the average exchange rate of the EUR increased by 2.0 per cent compared to the levels of one year before.

In Q4 of 2019, the 11.0 per cent lower steel price affected the production activity, resulting in a 5.1 per cent decline in average price level of Q1-Q4 of 2019, compared to the base period.

The balance of other revenues and expenditures amounted to a loss of HUF 158 million during the review period, against the loss of HUF 662 million in the same period of the previous year.

In spite of the volatile market conditions and their consequences, all businesses registered a profit at operating level in 2019, although the operating results failed to reach the level of the base period. Key measures aimed at maintaining the profitability of the operation were controlling the pressure exerted by the labour market and the elimination of the impact of price pressure exerted by suppliers for the same reason. Operating profit reached HUF 1,340 million at group level, to which the Axle business unit contributed HUF 367 million, the Components business unit contributed HUF 664 million and the Vehicle business unit contributed HUF 460 million, whereas the contributions of the Plc. and of Diagonal Valor were HUF 38 million and HUF 32 million in profit respectively (consolidation elimination: HUF 221 million).

Financial profit in Q1-Q4 of 2019 amounted to a loss of HUF 411 million, compared to the loss of HUF 109 million registered in the same period of the previous year. The financial result during the reporting period was influenced by the exchange rate loss by HUF 319 million and by the interest burden in the amount of HUF 76 million.

At group level, tax liabilities amounted to HUF 433 million during the reporting period. Of this, corporate tax amounts to HUF 23 million, trade tax liability amounts to HUF 333 million, innovation contribution is HUF 57 million and the deferred tax expenditure during the reporting period was HUF 20 million.

The total aggregate income and the profit during Q1-Q4 of 2019, the reporting year amounted to a profit of HUF 572 million, upon a 52.2 per cent decline.

In terms of cash generating efficiency, in 2019 the group of companies generated an EBITDA of HUF 3,455 million upon an efficiency ratio of 6.9 per cent. The 1.0 percentage point loss of efficiency is due to the wage and energy costs exceeding the base period and to the decline in demand on the target markets. The contribution of the various businesses to the group-level EBITDA was as follows: Components business: HUF 1,174 million, Axle and Vehicle business units: HUF 1,456 million and HUF 737 million respectively, Plc.: HUF 263 million, DV: HUF 38 million (consolidation elimination: HUF 213 million). In Q4 of 2019 all businesses had a positive EBITDA, resulting in a Group-level EBITDA of HUF 709 million.

The level of net borrowings in Q1-Q4 of 2019 increased by HUF 503 million compared to the base period, which matches the trajectory forecast by the Company. As a result of the profitable operation, the declining working capital and the financing of the investments of strategic significance, the level of net borrowings reached HUF 7.9 billion. The revaluation of loans in the amount of HUF 232 million, resulting from the movements in exchange rates, involving no cash movements, also contributed to the increase in net borrowings.

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

Data in th HUF

Assets	***December 31, 2018***	***December 31, 2019***
Property, plant and equipment	19 144 678	25 394 003
Intangible assets	182 827	147 709
Investment property	338 217	815 632
Receivables from asset disposals	205	45 027
Deferred tax assets	22 063	12 012
Other non-current assets	332 616	148 859
Total Non-current assets	**20 020 606**	**26 563 242**
Inventories	9 071 589	7 651 242
Trade and other receivables	12 265 856	6 487 674
Income tax assets	35 987	62 489
Cash and cash equivalents	683 530	804 510
Total current assets	**22 056 962**	**15 005 915**
Total assets	***42 077 568***	***41 569 157***
Equity and liabilities		
Issued capital	13 473 446	13 473 446
Treasury shares	-108 952	-108 952
Share-based payment reserve	7 500 457	7 832 514
Retained earnings	**20 864 951**	**21 197 008**
Total equity	245 476	237 208
Provisions	5 915 784	3 566 784
Long-term loans and borrowings	103 531	113 276
Deferred tax liability	**6 264 791**	**3 917 268**
Total Long-term liabilities	244 467	171 367
Provisions	2 186 268	5 354 424
Loans and borrowings payable within one year	12 517 091	10 929 090
Creditors and other accounts payable	**14 947 826**	**16 454 881**
Total Current liabilities	***42 077 568***	***41 569 157***
Total Equity and liabilities	19 144 678	25 394 003

** Innovation contribution in the 2018 report was shown under trade and other liabilities, following the modification, though, it is now reclassified as profit tax receivable (as a reducing item).*

In 2019, the total assets and liabilities decreased by 1.2 per cent compared to 2018. On the assets side, non-current assets were approximately 16.3 percentage point higher than in the previous year (2019: 63.9%, 2018: 47.6%). The expenditure on real properties, machines and equipment in the current year was HUF 5,822 million more than the depreciation recorded for the year. The 16.3 percentage point decrease of the ratio of the current assets is arising from the 0.3 per cent increase of cash and cash equivalents, the 13.5 per cent decrease of account receivable and the 3.1 per cent decrease of inventories.

On the liability side, the liabilities decreases by 1.4 per cent point compared to the previous year. Within the liabilities, the ratio of accounts payable and other liabilities decreased from 29.7 per cent to 26.3 per cent and the share of loans increased from 19.3 per cent to 21.5 per cent, the provisions ratio changed from 1.2 per cent to 1.0 per cent.

The equity ratio decreased from 49.6 per cent to 51.0 per cent.

Equity

The shareholders' equity (HUF 21 197 million) developed as follows since the previous year (HUF 20 865 million) (data in th HUF):

	Share capital	**Treasury share**	**Sharebased payment reserve**	**Total shareholders' equity**
Balance as of 31 December 2017	**13 473 446**	**-108 952**	**6 613 450**	**19 977 944**
Profit for the year			1 196 926	1 196 926
Dividend payment			- 309 919	- 309 919
Balance at 31 December 2018	**13 473 446**	**-108 952**	**7 500 457**	**20 864 951**
Profit for the year			571 872	571 872
Dividend payment			- 239 815	- 239 815
Balance at 31 December 2019	**13 473 446**	**-108 952**	**7 832 514**	**21 197 008**

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

The financial position and liquidity of the Company as at 31 December 2018 and 31 December 2019 are illustrated by the following financial indicators

Financial status, liquidity indicators:

Indicators	**2018**	**2019**
Cash liquidity indicator: *Cash and cash equivalents / Short-term liabilities*	4,57%	4,89%
Quick liquidity indicator: *(Current assets - Inventories) / Short-term liabilities*	86,87%	44,70%
Liquidity indicator: *Current assets / Short-term liabilities*	147,56%	91,19%
Net working capital (M HUF): *Current assets / Short-term liabilities*	7 109	-1 449

Assets and liabilities and the capital structure

Indicator	**2018**	**2019**
Ratio of long-term invested assets %: *Invested assets/Total assets*	47,58%	63,90%
Coverage of invested assets %: *Equity / Invested assets*	104,22%	79,80%
Debt ratio %: *Liabilities/Shareholders' equity*	101,67%	96,11%
Solvency ratio %: *Equity / Total liabilities*	49,59%	50,99%

Profitability

Indicators on profit and loss:

Indicator	**2018**	**2019**
Return on equity % *Profit/loss in the current year/Shareholders' equity*	5,74%	2,70%
Return on assets % *Profit of the current year/Total assets*	2,84%	1,38%
Return on sales % *Profit of the current year/Net sales revenues*	2,46%	1,15%

The profitability indicators exceeded the values in the base period, mainly due to a decrease in the current year's profit (HUF 625 million decrease in 2019 compared to 2018). The liquidity indicators and the capital structure also declined mostly compared to the previous year.

3. Strategy, development potentials

3.1. RÁBA Automotive Holding Plc.

RÁBA Plc. has considerable real assets. The aim of the real estate management strategy is to ensure the optimum use of these assets, in a way that best supports the core activities.

In this context, rationalisation of the use of the premises located in the Rába Industrial Park, as well as the sale and lease of the properties not needed for the operation are ongoing tasks.

The Company has concentrated its industrial activities in Győr into one site. Thus, a plot of more than 40 hectares, suitable for property development has been vacated in the vicinity of downtown Győr. The aim is to sell the premises boasting excellent characteristics and located on the Danube Bank, at the highest possible price. While maintaining the civilised and safe environment, re-cultivating the area and integrating it into the circulation of the town is one of the key tasks.

As a first step of this process, after a long time, the Company is in advanced negotiations with one of Europe's leading multinational trading companies regarding the sale of a portion of the property. The value of the transaction may exceed HUF 2 billion.

Renovations are ongoing on the buildings and structures of the Company.

3.2. Rába Axle Ltd.

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

The dynamism is based on the following factors:

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

3.3. Rába Vehicle Ltd.

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

- On demand, development and production of vehicles for special defence and civilian needs.
- Search for new customers within the fields of chassis and component manufacturing.
- Market expansion for welded and assembled iron structures.
- Continuation of the strategic cooperation with suppliers representing the leading edge of truck manufacturing (Daimler AG, MAN, Volvo etc).
- Continuous upkeep of the existing MSZ EN ISO 9001:2015, ISO 14001:2015 and MSZ EN ISO 3834-2:2006, as well as AQAP 2110:2016 quality assurance accreditations and the ISO 45001: 2018 MEBIR certificates.

- In addition to product development and the development of the supplier chain and of human resources, there is strong emphasis on customer service activities.

3.4. Rába Automotive Components Ltd.

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

Strategic goals:

- maintenance of the volume of products for Suzuki and increase of product portfolio
- Expanding the strategic relationship with the Fehrer group in the field of metal components and the supply of arm rest covers. In recent years the plant consolidation program was closed, as a results of this Fehrer installed two foaming lines and enlarged its storages. Rába built a new sewing workshop.
- Because of the take-off of the markets served by our German customers, we take a significant volume growth into account as a result of the enlargement of the forestry and special construction demand in 2019. Resolving currents supply problems remains a key task, together with operating the jointly developed supply model in the long run.
- rethinking the supply chain with certain customers, establishing new grounds for the relation by a long-term agreement
- Relocation of the production of axle parts, rationalization of pressed components by a portfolio cleaning

3.5 Diagonal Valor Ltd.

Due to its size and activity, it does not make sense to keep the company alive in the long run, since its activity is covered by other members of the group of companies.

The goal is to integrate the activity into other members of the group.

4. Research and Development

Axle Business Unit

The purpose of the Rába Development Institute, in accordance with the strategy of the company, is to strengthen the research and development capacity. Through the institute, the company wishes to increase the share of complex products representing high added value and it expanded the range of products supplied in the previous year.

Since the company wishes to achieve its strategic goals primarily through the development and production of axles and components in the future as well, it is important that a portfolio-based, comprehensive R+D concept forming an integral part of the Company's strategy has replaced the earlier practice of one-off, project based developments serving customer needs.

Through the cooperation with the Experimental plant, the Development Institute developed and validated a number of products last year in 2019, as well. One of our main aspirations is to allow engineers to detect potential defects with high efficiency already in the design phase, using modern simulation methods. Owing to this and the tests, product reliability and safety will increase.

In 2019, a number of existing products were further developed, with which the Company intended to enter new markets. This year, the development of the new concept axle for midi-buses, meeting the challenges of modern urban transport and fitting into global bus market trends continued. The development of this new concept axle aims to increase vehicle speed, thus increasing the potential areas of application of the midi-bus.

The agricultural segment brought new challenges in 2019. Claas, our strategic partner on the German market contacted us this year, with a demand for a new axle developed based on the existing one. After preliminary design and developing the engineering concept, the project continues in 2020.

Last year substantial efforts were made to expand our product portfolio through the development of the disc-brake axle optimised for the American standard. Through this product the Company expects to gain further market share. These projects, together with the new models, lay the foundation for increased orders in the future, as well as for further joint projects.

The development project launched in the framework of an EU R+D+I support application was successfully continued in 2019. This allowed for the development of novel technologies, the future use of which will considerably increase the added value of the Rába products.

Of our quality improvement developments and test, the renewal of the design-calculation method for spiral bevel gears stands out. This has led to substantial improvement in our design efficiency. In 2019, a truck load spectrum was adopted, which allows further considerable internal developments. This is indispensable for further enhancing our testing and calibrating methods. The primary objective of these projects is ongoing quality development and increasing customer satisfaction, which is one of the goals of our Company.

Rába Development Institute played a key role in the expansion of the product range of the Company and in following the market trends. Based on the internal technical drawing database prepared the year before, an electronic system of the list of materials was prepared in 2019 which will form the basis for additional future. The use of modern simulation and computation systems will contribute to more efficient operation and to the production of more competitive products by reducing the time necessary for development and by cutting the number of development cycles. We intend to raise the standard of our products in the future even further by further developing such mechatronic, simulation an drive train sizing competences.

Vehicle Business Unit

The focus of development within the Company is shifting towards the production technology of welded frame structures.

Components Business Unit

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

Major experimental development projects during the year included:

- Acquiring the right to produce the cover for the front armrest in motor vehicles
- Production of truck axles and related components

5. Environmental protection

Adequate waste management is a precondition for high-standard environmental performance and positive economic impact. The waste balance of the Rába Group in 2019 was as follows:

- Reusable wastes
  Volume: 16 298 tons
  Revenue: HUF 1 026 million
- Non-reusable wastes
  Volume: 277 tons
  Cost: HUF 9.6 million
- Hazardous wastes
  Volume: 6 227 tons
  Cost: HUF 71 million

There is no environmental damage control liability in either the Mór or the Sárvár Plant of the Rába Automotive Component Ltd. The review and monitoring period of remediation carried out during previous years is still under-way, with costs in 2019 at nearly HUF 835 400 at the Rába level. Such remediation efforts are currently taking place in the following area: Győr Airfield site of Rába Automotive Holding Plc. In 2019 the values remained under the limit values. The remained monitoring wells are put in consolidated water rights permission.

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

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

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

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

Environmental investments and projects in 2019:

- The environmental-focused management system as per the ISO 14001 standard has been in operation at the Mór Plant of the Rába Automotive Component Ltd. since 2000 and since 2003 in the Sárvár Plant. Implementation of the audits as per the new ISO 14001:2015 standard (Rába Group)
- More efficient energy consumption (Rába Group)
- Implementation of the tasks relating to the environmental product fee (Rába Group)
- Further expansion of selective waste collection (Rába Group)
- Use of a statutory regulation change monitoring service (Rába Vehicle Ltd.).
- Investigation of the potential applications of the refillable paint sprays (Rába Vehicle Ltd.)
- Procurement of new waste collection containers (Rába Vehicle Ltd.)
- Audit of the report on CO_2 emission
- Completion of the measurements (wastewater) defined in the self-audit plan (Rába Axle Ltd., Rába Automotive Components Ltd.)
- Revision of the wastewater emission self-audit plan and operational damage control plan (Rába Axle Ltd.)
- New salvage basin for the Forging plant, the Components Assembly Plant and for the Tooling Plant (Rába Axle Ltd.)
- Measurement of pollutants at the point sources of the ELFO and HAFE electrical discharge machines within the tooling plant (Rába Axle Ltd.)
- Cleaning the WP pre-treatment facility (Rába Axle Ltd.).
- Permission documentation for the new forging production line, noise measurement and the measurement of the pollutant emission of the point source have taken place (Rába Axle Ltd.)
- In December 2017, a new environmental investment was launched in the Sárvár plant to eliminate the underground tank collecting the oil emulsion and to install a new container for HUF 6,400,000. The contract has been concluded, the implementation will be completed in 2020.
- Reducing the quantity of abrasion sludge generated during abrasion through the installation of a sludge spinner (Rába Automotive Components Ltd.)

6. Employment policy

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

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

In addition to the quantitative and structural deficit and the increasingly expensive labour force, there are changes on the labour market on which it is required to react at the strategic level. Besides the automatization and the digitalization, the demographic changes and the ever-changing expectations of the labour force are the background to the change of operation. The technological development raises to a new level and changes the world of work. The primary arena of Industry 4.0 is production but fundamental changes must be anticipated in other areas of corporate operation as well. To utilise new opportunities as soon as possible, the role of the person in the individual processes has to be clearly designated and work has to be reorganised, jobs have to be adjusted and employees have to be trained accordingly. To achieve this in 2019

- forced training was routinely introduced for all employee groups;
- within the intellectual career path programme available in all business units, some 50 people participate in personalized professional and competency development in conformity with the strategic and business objectives; in addition to general development, we have also made expert and management further training programmes available;
- we continue to closely cooperate with institutions of middle and higher education providing qualified workforce;
- in the tight labour market environment, we managed to ensure the necessary headcount using new recruitment methods reaching a wider range of people and applying digital tools;
- group motivation and individual performance incentive programmes continued alongside a basic salary increase;
- organisational changes were implemented to support business objectives

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

The average headcount figure of the employees of the Group was 1 381 in 2019.

7. Risk management

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

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

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

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

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

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

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

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

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

The Group assumes a foreign exchange risk in relation to any loan taken in any currency other than HUF. The currencies entailing a risk include primarily EUR and USD. Natural hedge is the primary instrument to reduce foreign exchange risks: the Company tries to make sure that the currency composition of the expenses match the currency composition of revenues to the highest possible extent.

The exchange rate risks are hedged according to the currently effective hedge strategy, approved by the Board of Directors of Rába Plc. In 2019, the exchange rate hedge strategy did not change. The Group may enter into futures and options currency exchange deals in order to minimise the risk of exchange rate fluctuation. At Rába 70% of the net currency exposure, projected for the subsequent 6 months, may be hedged with forward deals and options. The Group did not enter into such deals in 2019.

At the end of 2019, the Group did not have any forward FX deals.

In line with the Group's risk management strategy, USD and EUR loans could be taken, which are reported among the financial liabilities and function as hedge deals to cover the risks of USD/HUF and EUR/HUF exchange rates inherent in the USD and EUR revenues, projected according to the sales contracts ("Underlying transaction"). The transactions that are hedged effectively are cash flow hedge transactions. The results of those cash flow hedge transactions are recorded in the other overall profit/loss. The Group did not classify its loans recorded at the end of 2019 as cash-flow hedge transactions.

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

8. Events after the cut-off date

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

9. Miscellaneous: rights related to the shares, management, owners

RÁBA Plc. has no shares granting special management rights.

Rába's shares are traded on the Budapest Stock Exchange. The shares of the Company are freely transferable.

The supreme organ of the Company is the General Meeting of Shareholders, made up of all of the shareholders. Shareholders are entitled to exercise shareholder's rights against the Company, if they have been entered into the share registry and if they can prove their status as shareholders through an owner's certificate. The voting and owner's right of the owners of the Company coincide: one share equals one vote. Treasury shares owned by the Company do not grant voting rights. Shareholders are entitled to dividends, the pro-rata portion of the profit as per the balance sheet, ordered to be distributed by the General Meeting of Shareholders. Those listed in the Share Registry on the date set forth in the resolution of the General Meeting of Shareholders are entitled to a dividend. The right to claim uncollected dividends expires five years after the due date of the dividend. Detailed rules pertaining to the way shareholder's rights can be exercised, as well as those of the tasks, competences and of conducting meetings of the General Meeting of Shareholders, are shown in the Articles of Association of Rába Plc.

The Board of Directors is the executive organ of the Company. It is not an operative management body and is not involved in the day-to-day business operation of the Company. It makes decisions and acts upon all matters pertaining to the management and business operation of the Company that do not fall under the exclusive competence of the General Meeting of Shareholders or other corporate organs, pursuant to the Articles of Association of the Company, or the provisions of relevant regulations. The Board of Directors of the Company is made up of 7 members. 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 5 years. Members of the Board of Directors can be recalled from their position at any time without justification and they can be reelected after their mandate expires. The Board of Directors holds its meetings at least quarterly. Detailed rules pertaining to the tasks, competences and operation of the Board of Directors are set forth in the Articles of Association of Rába Plc. and in the procedures of the Board of Directors.

The day-to-day operational management of the Company is performed by a 4-member management. The chief executive officer of the Company is the Chairman of the Board of Directors and at the same time a member of the management. The competence of the Chief Executive Officer of the Company includes all matters and decisions related to the management of the Company's activity not under the exclusive competence of or drawn under the competence of the General Meeting of Shareholders or of the Board of Directors. Detailed rules pertaining to the tasks, competences and operation of the Chief Executive Officer are set forth in the Articles of Association of Rába Plc.

The management of the Company is controlled by the Supervisory Board elected by the General Meeting of Shareholders. The Supervisory Board of the Company is made up of 3 members. The principal task of the Supervisory Board is to control the management of the Company for the General Meeting of Shareholders, in the interest of protecting the interests of the legal entity. The chairman and the members of the Supervisory Board are elected by the General Meeting of Shareholders of the Company. The members of the Supervisory Board are elected for a definite term, not exceeding five years. Members of the Supervisory Board can be re-elected and can be recalled from their position at any time, without justification. The General Meeting of Shareholders elects a three-member Audit Committee from among the independent members of the Supervisory Board. The Supervisory Board has its meetings at least quarterly. Detailed rules pertaining to the tasks, competences and operation of the Supervisory Board (and of the Audit Committee) are set forth in the Articles of Association of Rába Plc. and in the procedures of the Supervisory Board.

Internal Controlling System of the Company

The main purpose of the internal controlling is to ensure that the organisation fulfils its set tasks in the appropriate quality and that it performs its business activities in accordance with the rules, in an economical, efficient and profitable manner, in line with the relevant laws and regulations and that it meets customer demands in full and within the deadlines.

The internal controlling system of the Company is based on two main pillars:

- Internal management and regulation of activities – Internal controls are exercised by the management at the management fora of various levels and frequencies, measures are taken immediately to manage risks identified at the meetings. Processes are regulated by written rules of the management, as well as by rules of procedure and working orders.
- Internal control, under the management of the Supervisory Board, with work carried out based on the annual audit plan, supplemented by ad-hoc checks.

In 2019, the internal controlling system functioned efficiently in that it prevented material errors in the financial reports. The audits performed during 2019, revealed no shortcomings and breaches that would threaten the operation of the Company and harm the interests of the shareholders. Measures have been taken or are underway to eliminate the shortcomings revealed in the audit reports, recommendations formulated have been implemented.

Corporate Governance Declarations

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

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

The Company's corporate governance documents are public.

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

The Company digresses from the Recommendations as follows:

- According to the practices until now, prior to discussing agenda items concerning the amendment of the Articles of Association, the General Meeting did not pass a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific way, to ensure the smooth and efficient conduct of the meeting. According to the practices until now, the General Meeting passed one resolution on the amendment of the Articles of Association proposed by the Company and resolutions on each amendment of the Articles of Association proposed by shareholder motion separated, except when the General Meeting required differently, then passed a separate resolution on setting of the consolidated memorandum of the Articles of Association according to the amendments and submitting thereof to the Court of Registry. The amendment of the Articles of Association was not on agenda on the Company's General Meeting in 2019.
- The Remuneration Rules approved by the General Meeting and provided its opinion by the Supervisory Board is in force at the Company, which is not compiled by the Board of Directors or a committee consisting of Board of Directors.
- The assessment of the efficiency of the publication processes at the Company is not carried out by the Board of Directors but by the management and by an internal analysis which is not required to be published.
- The Company does not regulate, therefore does not publish, the procedure used for nominating the members of the Board of Directors; they are nominated pursuant to shareholder motion on the General Meeting.
- In case of nomination of the members of the Board of Directors and of the Supervisory Board, the information about the candidates does not make public before the General Meeting, the members are nominated and elected pursuant to shareholder motion on the General Meeting.
- The Company did not publish its guidelines concerning the independence of its Board of Directors and Supervisory Board as well as the applied independence criteria on its website, because the Company enforces the legal provisions.
- The Supervisory Board has a member, who was a member of the Board of Directors in 2016 and after his resignation from his position he was elected as a Supervisory Board member.

Ownership structure, ownership stakes in Rába Plc in 2019

Shareholder description	Total registered capital					
	Start of given year (1 January)			End of the given year (31 December)		
	% [1]	% [2]	pcs	% [1]	% [2]	pcs
Domestic institution/company	7.89	7.96	1 063 082	7.05	7.11	949 288
Foreign institution/company	2.24	2.26	302 409	2.15	2.17	289 697
Foreign private individual	0.08	0.08	10 805	0.07	0.07	9 804
Domestic private individual	14.41	14.54	1 941 856	15.25	15.39	2 054 773
Employees, executive officers	0.13	0.13	17 074	0.13	0.13	17 074
Own shares	0.90		120 681	0.90		120 681
Shareholder forming part of general government [4]	74.35	75.02	10 017 539	74.46	75.13	10 032 129
International Development Institutions[5]	0.00	0.00	0	0.00	0.00	0
Other [6]	0.00	0.00	0	0.00	0.00	0
TOTAL	**100.00**	**100.00**	**13 473 446**	**100.00**	**100.00**	**13 473 446**

[1] If the listed series equals the total share capital and it is indicated. there is no need to fill it in. If more than one series are listed at the Stock Exchange, the ownership structure must be specified for each series.
[2] Ownership ratio
[3] Voting right ensuring participation during the decision-making process at the general meeting of shareholders of the issuer. If the ownership ratio and the voting right are the same, only the column regarding the owner needs to be filled in/published while stating such fact.
[4] E.g.: MNV Zrt., Social Security, Local Government, 100% state-owned companies, etc.
[5] E.g.: EBRD, EIB, etc.

List of shareholders with a stake exceeding 5% (31.12.2019)

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

Number of treasury shares during the current year (pcs) 2019

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

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

10. Non-financial report

Business model

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

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

The real estates at the Győr site is owned by the parent company and are leased by Rába Axle Ltd. and Rába Vehicle Ltd. as needed to carry out their activities. In 2019 Rába Automotive Components Ltd. conducted its business in Sárvár, Mór and Esztergom in its own real assets.

The limited liability companies perform automotive manufacturing activities.

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

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

Environment protection

Environmental awareness, environmental strategy

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

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

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

Environmental policy

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

In order to ensure that we meet the environmental policy objectives, our companies have obtained the environmental accreditations: so far, we have acted upon the ISO 14001:2004 standard, which is now replaced by the new ISO 14001:2015 standard. As a result of the successful audit, Rába Axle Ltd. was accredited according to the new standard till 29.03.2021.

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

In 2019, Rába Vehicle Ltd. participated in a number of successful audits. (MIR supervisory as per 9001:2015, KIR supervisory as per 14001:2015, MEBIR recertification as per 45001:2018). The audits for 2020 include: (MIR renewal as per 9001:2015, KIR renewal as per 14001:2015, MEBIR supervisory as per 45001:2018).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Diversity policy

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

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

Pursuant to the statutes of Rába Plc., the company has a Board of Directors with 3-7 members and a Supervisory Board with 3 members. The current Board of Directors has 7 members and one of the members is a woman, while the Supervisory Board consists of 3 members, and one of the members is a woman. The management of Rába Plc. currently has 4 members, with no woman among them.

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

Non-financial performance indicators

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

Other consulting services used

In 2019, the Company used assurance engagement, tax advisory and other, non-audit services of Ernst & Young Tanácsadó Kft. The service was approved by the Audit Committee and included the following tasks: financial accounts, audit procedures related to tax position, as well as tax advisory services related to subsidies. The fee for the service amounted to HUF 5,600 thousand+VAT.

Declaration

We the undersigned hereby declare and warrant that

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

Győr, 17 March, 2020

István Pintér Chairman-CEO	Béla Balog CFO

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