

Flash Report of Rába Rt. for 2002

Unaudited Consolidated Flash Report, IAS

Key company data

| | |
|---------------------|----------------------------|
| Name: | RÁBA Automotive Group |
| Address: | H-9027 Győr, Budai u. 1-5. |
| Industry: | Automotive industry |
| Period: | Year 2002 |
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Summary

The Rába Group completed its restructuring programme launched in 2001 in a period riddled with automotive industry recession and adverse macroeconomic conditions.

Its sales revenue and operating profit figures were **affected** by the following economic, market and operating factors in 2002.

- The remarkable (9.5%) weakening of the US dollar against the Hungarian forint relative to the average mean rate of exchange in the same period last year reduced both the sales revenue and the operating profit of the Rába Group by over HUF 2 bn.
- Defying more ambitious customer forecasts, deliveries made in late 2001 and Q1 2002 were sufficient to satisfy shrinking demand in the Iranian market. As a result, both sales revenue and gross profit dropped significantly.
- The shift in models and seat models implemented by Rába's largest domestic component customer led to a sales revenue and gross profit reduction of HUF 2,9 bn and HUF 600 million, respectively, in domestic and foreign orders.
- The divestiture of non-core businesses (foundry, fireplace and bus manufacturing) completed last year reduced sales revenue by HUF 4.2 bn.
- The restructuring programme launched at Rába Rt. in 2001 gained momentum in 2002.
 - Costs incurred by the reorganisation of business processes, headcount reduction and efficiency enhancement exceeded HUF 900 million in 2002.
 - The costs of market development and comprehensive customer service amounted to HUF 450 million in the same period.
 - In addition to the headcount reduction costs of nearly HUF 100 million reported in Q4 2002, Rába allocated provisions of HUF 626 million for layoffs to be implemented in 2003.
- Q4 saw the disposal and writing off of inventories and assets left behind by the divestiture programme completed in the past two years – initially intended to be sold – at a value of HUF 663 million.
- For the sake of conservative calculation, Rába allocated provisions of HUF 431 million for expected warranty obligations upon closing year 2002.

Results were improved by the operating profit and cash flow of over HUF 700 million realised by Rába selling intangible assets related to the Power Business in December 2002.

Profit after tax was **improved** by closed hedge transactions completed to offset the adverse impact of a weakening dollar (HUF 1.65 bn), the net profit gained from revaluing open hedge positions for 2003 and 2004 (HUF 921 million) and revenues from selling business shares. Adding up the impact of the above factors, Rába Group reported after tax losses close to HUF

2.5 bn.

Prospects

Given the current political/market environment, and contracted customer orders, Q1 2003 is likely to see a sales revenue figure somewhat lower than in Q4 2002 in the Axle Business. This business is expected to be boosted by the economic upswing and new projects envisaged to start from the second half of 2003.

The impact of the weak dollar will be reflected also in the net profit of the Group, as open hedge positions were revalued based on the closing exchange rate of year-end 2002 in compliance with IAS requirements (IAS 39).

The Group will continue its restructuring and cost cutting programme in Q1 2003, but results are not expected to be reduced by further one-off items and write-offs in this period.

| Consolidated figures in HUF million (IAS) | 2002 | 2001 |
|--|---------------|---------------|
| Net sales revenue | 39,403 | 57,286 |
| of which exports | 24,983 | 34,605 |
| of which domestic sales | 14,420 | 22,681 |
| Operating profit | -4,402 | 2,316 |
| Profit before tax | -2,477 | 2,218 |
| Profit after tax | -2,477 | 1,802 |

| Financial ratios | 2002 | 2001 |
|-----------------------------|--------------|--------------|
| EBIT (%) | -11.2 | 4.0 |
| EBITDA (%) | -4.4 | 8.3 |
| After-tax profit (%) | -6.3 | 3.1 |
| Liquidity ratio (%) | 121.7 | 122.1 |
| Quick ratio (%) | 6.9 | 5.0 |
| ROA (%) | -6.0 | 3.7 |
| ROE (%) | -11.2 | 6.8 |

Consolidated sales revenue amounted to HUF 39.4 bn in 2002, which marks a 31 percent reduction over 2001. Operating profit was HUF -4,402 million or -11.2 percent of the sales revenue in 2002. Operating profit for the reporting period includes profit from asset sales.

| Operating profit | Q1 2002 | Q2 2002 | Q3 2002 | Q4 2002 | 2002 |
|---|----------------|----------------|----------------|----------------|---------------|
| Axle Business | 452 | -620 | -475 | -2 327 | -2,970 |
| Components Business | -271 | -299 | -106 | -384 | -1,060 |
| Engine Business | -68 | -109 | -145 | -139 | -461 |
| Vehicle Business | -165 | -199 | -60 | -223 | -647 |
| Other | 18 | -101 | -113 | -183 | -379 |
| Result of operations | -34 | -1,328 | -899 | -3,256 | -5,517 |
| Result of asset and real property sales | 113 | 158 | 94 | 750 | 1115 |
| Operating profit | 79 | -1170 | -805 | -2506 | -4402 |

Net financial profit was reversed from loss to profit relative to the base year due to the combined impact of several factors, the most important being the profit realised on hedge transactions (HUF 1,655 million). Other factors included the profit from selling the Fireplace Business and other minor business shares (HUF 248 million) and dividends received (HUF 66 million). Financial revenue was largely increased by the net profit gained from revaluing open

hedge positions for 2003 and 2004 (HUF 921 million), but it was reduced by the net exchange rate loss realized on exchange holdings and forex loan repayment (HUF –187 million) and interest payment (HUF 832 million, net). Besides net financial profit (HUF 1,841 million altogether) profit before tax was also increased by dividends received from associated companies (HUF 85 million).

PK2. Companies in the consolidated group

| Name | Share capital/registered capital in HUF thousand | Ownership share (%) | Voting rate | Category ¹ |
|---|--|---------------------|-------------|-----------------------|
| RÁBA Futómű Kft. (Axle Business) | 9.762.800 | 100.00 | 100.00 | L |
| RÁBA Járműipari Alkatrészgyártó Kft. (Components Business) | 300,000 | 100.00 | 100.00 | L |
| Rába Jármű Kft. (Vehicle Business) | 835,100 | 100.00 | 100.00 | L |
| RÁBA Ipartechnika Szolgáltató Kft. (Maintenance) | 266,860 | 100.00 | 100.00 | L |
| RÁBA-Szolgáltatóház Kft. (Service House) | 615,000 | 100.00 | 100.00 | L |
| RÁBA Vagyonkezelő Kft. (Asset Management) | 11,000 | 100.00 | 100.00 | L |
| RÁBA Detroit Diesel Magyarország Kft. | 51,000 | 50.00 | 50.00 | K |
| BPW-RÁBA Futóműgyártó Kft. | 1,780,000 | 25.00 | 25.00 | T |

¹Fully owned (L); Jointly managed (K); Associated (T)

The Rába Group has several manufacturing and service providing subsidiaries, and some strategic investments retained even after the divestiture programme. To make the consolidated figures of 2001 and 2002 comparable, the following factors need to be observed:

1/ Rába Vagyonkezelő Kft. established in 2001 was added to the group of consolidated companies in 1 January 2002. As a result, the number of consolidated companies was higher at the end of 2002 than a year before.

2/ The figures of sold subsidiaries RÁBA-KÉSZ Kft. and Motor Kft. were included in consolidated results on a pro-rata basis until August 2002 and December 2002, respectively.

3/ Rába Mór Kft. and Rába Sárvár Kft. were merged with Rába Járműipari Alkatrészgyártó Kft. as of 30 September 2002.

PK. 4. CONSOLIDATED PROFIT AND LOSS ACCOUNT, IAS

HUF thousand

| Item | 2002 | 2001 | Index |
|---|-------------------|-------------------|----------------|
| Domestic sales | 14,420,416 | 22,680,539 | 63.6% |
| Export sales | 24,982,679 | 34,605,388 | 72.2% |
| Sales revenue | 39,403,095 | 57,285,927 | 68.8% |
| Direct cost of sales | 23,141,739 | 31,650,455 | 73.1% |
| Gross profit | 16,261,356 | 26,563,472 | 63.4% |
| Cost of sales | 1,006,929 | 1,002,620 | 100.4% |
| General and administrative costs | 23,889,476 | 24,414,342 | 97.9% |
| Other revenues | 4,232,722 | 2,097,550 | 201.8% |
| Other expenses related to operations | 20,663,683 | 23,319,412 | 88.6% |
| Operating profit before interest and taxes | -4,402,327 | 2,316,060 | -190.1% |
| Net result of financial revenues and expenses | 1,840,786 | -354,224 | 620.1% |
| Profit from external companies | 84,862 | 256,178 | 33.1% |
| PROFIT BEFORE TAX | -2,476,679 | 2,218,014 | -111.6% |
| Corporate tax liability | 529 | 415,575 | 0.1% |
| PROFIT AFTER TAX | -2,477,208 | 1,802,439 | -137.4% |
| Payments due to minority shareholders | 0 | 0 | |
| RETAINED PROFIT | -2,477,208 | 1,802,439 | -137.4% |

I. Analysis of profit and loss account items**1. SALES AND MARKET POSITION****1.1. Sales revenue**

Rába posted a total sales revenue of HUF 39,403 million in 2002: HUF 11,886 million, HUF 10,328 million, HUF 8,348 million and HUF 8,841 million in Q1, Q2, Q3 and Q4, respectively. Exports account for 63.4 percent of total sales revenue compared to 60.4 percent in 2001.

EXPORT:

USA: The United States is the Rába Group's largest export market. Following a drop in sales due to seasonal changes and the economic downturn, the market recovered but real upswing is expected only from the second half of 2003.

The volume of new, class-8 heavy trucks sold in the North American market increased by nearly 4.6 percent. Rába exports to this market grew in excess of 17 percent.

Note that sales revenue from strategic US customers increased at a rate beyond the above percentage figures.

Rába's customer oriented approach has improved the Company's market and sales position in the US markets for heavy trucks and special vehicle axles.

The **US market** generated a total sales revenue of USD 50.6 million in 2002, which marks a notable increase relative to USD 43.1 million in 2001.

South America: Rába sales demonstrated a significant decline in this market. Export value decreased by 61 percent from USD 9.3 million in 2001 to a modest USD 3.6 million in 2002.

The prolonged devaluation of the Brazilian national currency, the real, improved the competitive position of the Brazilian industry, and as a result one of Rába's major customers opted for in-house axle production from 2002.

Asia: 2002 exports were slightly above USD 12.6 million which marks a 58 percent drop on a year-on-year basis. The Iranian, South Korean, Chinese and Japanese markets have a USD 9.7 million, USD 1.5 million, USD 0.7 million and USD 0.7 million share in total Asian sales, respectively. Large-scale bus axle deliveries to Iran are not expected to be renewed in the first half of 2003 either.

Europe: Rába sales decreased by over 24 percent to USD 29.2 million relative to the base year in European markets.

The Axle, Components and Engine Businesses contributed USD 14.8 million, USD 12 million and USD 2.4 million to the total, respectively.

In the Western and South European market sales declined from USD 27.3 million to USD 18.8 million. Axles and automotive components had a 36 percent and 64 percent share in the total, respectively.

Reasons for the drop in sales in Western Europe:

- Figures of the Components Business no longer include the sales of the divested Fireplace Business amounting to USD 3.9 million on a pro-rata basis.
- The seat model shift implemented by one of Rába's largest Hungarian component customers reduced seat component deliveries to Lear Co. by USD 4.8 bn.
- Front axle deliveries to Volvo were terminated, which marks a lost sales revenue of USD 2 million on an annual basis.

In Eastern and Central European markets Rába posted a total export sales revenue of 10.5 million which marks a 6 percent increase over the USD 11.2 million reported in 2001.

Axle sales contributed USD 8.2 million to this amount (up from USD 8.1 million in 2001), while engine/engine spare part deliveries accounted for USD 2.3 million.

Group-level domestic sales revenue declined from HUF 22,625 million in 2001 to HUF 14,420 million in 2002.

The majority (56.7 percent) of this amount came from the Components Business, the Axle Business (axle and axle parts delivered to Ikarusbus and PBW Rába Kft.) accounted for 24.9 percent, while self-carrying bus chasses sold in the first half of 2002 and engine sales had a 3.9 percent and 10 percent share in the total, respectively.

The two main reasons behind the drop in sales revenue:

- The largest Hungarian component customer of Rába Group launched a model and seat model shift project to be implemented in 2002 and 2003. The value of Rába deliveries to this key customer decreased by about HUF 1.67 bn in 2002.
- At the end of 2001, the management of Rába Rt. decided to discontinue loss-making bus assembly activities and sold Kispesti Öntöde as part of its divestiture programme. These moves resulted in a lost sales revenue of HUF 4.2 bn relative to 2001.

1.2. Sales by business

Based on Rába Rt.'s performance measurement results, the Axle and Components Businesses are the highest-performing units of the Company. Other units evaluated include the Vehicle, Engine and Other Businesses. The below table shows sales revenue figures and ratios by business in 2001 and 2002:

| Sales revenue by business | 2002 (HUF million) | Ratio (%) | 2001 (HUF million) | Ratio (%) |
|---|-----------------------|--------------|-----------------------|--------------|
| Axle Business | 25,267 | 51.5 | 32,973 | 48.3 |
| Components Business* | 12,425 | 25.4 | 17,395 | 25.5 |
| Vehicle Business** | 932 | 1.9 | 4,449 | 6.5 |
| Engine Business | 2,188 | 4.5 | 4,249 | 6.2 |
| Other Business | 8,193 | 16.7 | 9,201 | 13.5 |
| Total non-consolidated sales revenue | 49,005 | 100.0 | 68,267 | 100.0 |

* The 2001 sales revenue of the Components Business includes the figures of Rába Mór Kft, Rába Sárvár Kft, the Fireplace Business and Kispesti Öntöde (Kispest Foundry).

The 2002 sales revenue of the Components Business includes the figures of Rába Mór Kft., Rába Sárvár Kft. and Györi Alkatrészgyártó Kft.

**The 2001 sales revenue of the Vehicle Business includes the figures of the subsidiary transformed into Györi Alkatrészgyártó Kft. in December 2001.

2. COSTS AND OTHER REVENUE

2.1. Direct costs

The direct costs of Rába decreased to a lesser degree than its revenues. The drop in revenue attributable to the weakening dollar and customer discounts from Q2 led to an increase in direct costs.

The introduction of a new consolidation method more suited to the changed holding structure – as indicated in Q4 2001 – resulted in different cost adjustments for the two years, which generated a HUF 781 million increment in direct costs between 2001 and 2002. The direct cost increase calculated for accounting purposes was 3.5 percentage points.

Rába launched a project to more accurately identify its direct costs related to manufacturing. As a first step under this project, Rába accounted the costs of manufacturing waste and those of production lead-up time as a direct cost item rather than as indirect cost.

2.2. Gross profit

Gross profit decreased from HUF 25,636 million to HUF 16,261 million due to the combined effect of shrinking sales revenue (HUF –8,004 million), rising costs (HUF –590 million) and the above mentioned newly introduced consolidation method (HUF –781 million).

2.3. Sales costs

Sales costs virtually remained intact: they amounted to HUF 1,007 million and HUF 1,002 million in 2002 and 2001, respectively. Rába's sales costs include the costs of packaging and logistics, operating costs of customer service units and foreign representative offices, and various costs related to customer relationship management. The remarkable difference between Q1 and Q2/Q3/Q4 sales costs (HUF 193 million, HUF 251 million, HUF 263 million and HUF 300 million, respectively) is due to massive market development efforts.

2.4. General and administrative costs

Rába's general and administrative costs include administration costs (2002: HUF 7,256 million; 2001: HUF 8,944 million), other general costs (2002: HUF 10,903 million; 2001: HUF 12,690 million), and various expenses not related ordinary business activities (2002: HUF 5,730 million; 2001: HUF 2,780 million). The total reduction in indirect costs was insignificant: 2.1 percent. Costs related to ordinary business activities decreased to a much higher extent (16.1 percent) than other cost items of which the new consolidation method accounts for only 4 percent – the outstanding share represents actual cost savings. Costs not related to ordinary business activities for 2002 include a nearly HUF 1.5 bn technical item incurred by the establishment of a uniform Components Business. This line includes also provisions and accrued costs related to headcount reduction and warranty obligations envisaged for 2003, as well as disposal, devaluation and loss of value for invested assets, inventories and accounts receivable.

When evaluating the reduction in costs related to ordinary business activities please note that this item includes accounted depreciation (which was HUF 2,651 million in 2002 compared to HUF 2.456 million a year before) and one-off disbursements related to headcount reduction (HUF 747 million).

2.5. Other revenue

Other revenue amounted to HUF 4,233 million in 2002 which is 101.8 percent (HUF 2,135 million) higher than in 2001. The increase is due mostly to the fact that this amount includes HUF 1.3 bn other revenues not related to ordinary business activities incurred by the Components merger (technical item) and revenue gained from selling the Power Business.

3. OPERATING PROFIT (PROFIT BEFORE INTEREST AND TAXES)

Rába's profit before interest and taxes was HUF –4,402.3 million in 2002 (2001 figure: HUF 2,316 million). Savings in general costs (HUF 525 million) and the surplus in other revenue (HUF 2,135 million) were not enough to offset the drop in gross profit (HUF 9,374 million). Profitability declined from 4.0 percent in the base period to –11.2 percent. The impact of lower

profitability on EBITDA was smaller than that: -4.4/8.3 percent.

4. FINANCIAL REVENUE

4.1. Net financial revenue

Rába had a net financial revenue of HUF 1,841 million in 2002 (2001 figure: HUF -354 million). Net financial revenue is the net result of interest received, dividends received from non-consolidated (external) companies, other financial revenue, interest paid and other financial expenses. The below table includes the major components of net financial revenue:

| | 2002 (HUF million) | 2001 (HUF million) |
|---|-----------------------|-----------------------|
| Dividends received | 66 | 70 |
| Net interest | -832 | -1,260 |
| Other items, net | 1,686 | 537 |
| Non-realized net forex gain of hedge transactions | 921 | 297 |
| Net financial revenues | 1,841 | -354 |

Within net financial revenue, other items, net include revenue from selling business shares and forex gain/loss on foreign exchange items, the risk of which was reduced by hedge transactions. Hedge transactions had a net foreign exchange gain of HUF 1,655 million in 2002. Due to a change IAS requirements (IAS 39), the unrealised gain of these hedge transactions (HUF 921 million) was also entered into the line of net financial revenues. This HUF 921 million is the balance of the write-back of non-realised foreign exchange gain accounted in the previous period (HUF -297 million) and non-realised foreign exchange gain reported at the end of the year (HUF 1,218 million).

4.2. Profit from external companies

Profit from external companies indicated in the IAS consolidated profit and loss account of Rába includes the share accruing to the parent company from the net profit of associated companies. It was HUF 85 million in 2002 (2001 figure: HUF 256 million). The drop can be attributed to the heavily reduced activity of RÁBA-DDC Kft. included in this group of companies.

5. PRE-TAX AND NET PROFIT FIGURES

Profit before tax amounted to HUF -2,477 million in 2002 which is HUF 4,279 million less than in 2001 due to the combined effect of factors described in paragraphs 2.1 to 4.2. Pre-tax profitability corresponds to a ROS of -6.3 percent, compared to 3.1 percent in the base period.

As group-level tax liability is virtually zero, both consolidated profit after tax and net profit correspond to profit before tax.

6. IAS-HAS DIFFERENCES

Differences between the figures of Rába's profit and loss account based on Hungarian Accounting Standards (HAS) and International Accounting Standards (IAS) are due to the following factors:

- write-back of the previous year's upward valuation of cash, receivables and liabilities denominated in foreign currency;
- revaluation, as at the balance sheet date, of cash, receivables and liabilities denominated in foreign currency;
- off-setting of revenue from the sale and repurchase of own shares against equity;
- removal of loss in value for own shares from net financial revenue;
- inclusion of forex gain not realised due to the closing-date revaluation of open hedge positions in net financial revenue.

PK. 3. CONSOLIDATED BALANCE SHEET PURSUANT TO IAS

| Item | HUF thousand | | |
|------|--------------|------|-------|
| | 2002 | 2001 | Index |
| | | | |

| | | | |
|--|-------------------|-------------------|---------------|
| Real property, machines and equipment | 19,584,767 | 19,881,135 | 98.5% |
| Intangible assets | 413,527 | 338,130 | 122.3% |
| Long-term participation | 1,719,281 | 1,718,732 | 100.0% |
| Other participation | 523,942 | 548,579 | 95.5% |
| Other investments | 41,451 | 15,427 | 268.7% |
| Deferred taxes | 387,454 | 387,454 | 100.0% |
| Total invested assets | 22,670,422 | 22,889,457 | 99.0% |
| Securities | 2,465 | 1,510 | 163.2% |
| Inventory | 5,459,275 | 7,596,546 | 71.9% |
| Receivables due to taxation | 1,417,245 | 1,790,963 | 79.1% |
| Receivables | 11,002,968 | 15,764,481 | 69.8% |
| Cash, cash deposits | 1,067,716 | 901,895 | 118.4% |
| Total current assets | 18,949,669 | 26,055,395 | 72.7% |
| TOTAL ASSETS | 41,620,091 | 48,944,852 | 85.0% |
| Share capital | 12,687,766 | 12,687,766 | 100.0% |
| Capital reserve | 6,463,899 | 6,463,899 | 100.0% |
| Retained profit | 2,906,054 | 7,302,669 | 39.8% |
| Total capital and reserves | 22,057,719 | 26,454,334 | 83.4% |
| Long-term liabilities | 3,987,001 | 1,145,024 | 348.2% |
| Total long-term liabilities | 3,987,001 | 1,145,024 | 348.2% |
| Short-term loans and credits | 8,383,669 | 13,095,089 | 64.0% |
| Short-term liabilities | 7,191,702 | 8,250,405 | 87.2% |
| Total short-term liabilities | 15,575,371 | 21,345,494 | 73.0% |
| TOTAL LIABILITIES (equity plus liabilities) | 41,620,091 | 48,944,852 | 85.0% |

II. Analysis of key balance sheet items and their changes

1. INVESTED ASSETS

1.1. Real property, machines and equipment

Real property, machines and equipment accounted for a dominant share (86.4 percent) of the Group's invested assets in 2002. (As of 31 December 2001 their ratio was 86.9 percent.) Their consolidated net value dropped from a closing balance of HUF 19,881 million in 2001 to HUF 19,584 million. This decline was due to removal of items under Rába's divestiture programme (sale of subsidiaries) and real property sales.

Real property contributes more than half of this group of assets (56.6 percent on 31 December 2002 and 56.4 percent on 31 December 2001). Despite the accounting of large-scale real property sales and depreciation, their net value decreased by only HUF 32 million, while their share slightly increased. This is due to major refurbishment projects implemented by Rába on real properties in 2002.

The total net value of machines and equipment and work in progress falls short of the previous year's figure by HUF 30 million, while reduction due to changes in the consolidated group of companies amounts to HUF 602 million. The value of completed (capitalised) investments was HUF 3.0 bn (while accrued depreciation totalled HUF 2.6 bn).

1.2. Intangible assets

Rába's intangible assets include licences, the capitalised value of research, the capitalised value of company establishment and restructuring and negative goodwill. The net value of intangible assets was HUF 414 million, which marks a HUF 76 million increase over the base period.

1.3. Long-term participation

This line includes the parent company's share in associated companies. Its value amounted to HUF 1,719 million as at 31 December 2002.

1.4. Other participation

Other participation includes non-consolidated subsidiaries and ownership shares in other companies below 25 percent. Their closing value as at 31 December 2002 was HUF 523.9 million (figure as at 31 December 2001: HUF 548.6 million). The increment includes the book value of a newly established non-consolidated subsidiary (Mérnöki Kft: HUF 3 million) and that of other participations, the impact of revaluing participations denominated in foreign currency as at the balance sheet date, and the effect of selling or consolidating (Vagyonkezelő Kft.: HUF 11 million) participations in the period between the two reporting dates.

1.5. Other investments

The closing value of other investments was HUF 41 million, 168.7 percent higher than in the previous year. The increment was generated by the long-term investment of liquid financial assets.

1.6. Deferred taxes

Tax receivable related to consolidation adjustments originating mainly from the upward valuation of real property, machines and equipment contributed in kind and to a lesser degree from the exclusion of interim results which will be offset in the years following the in-kind contribution by the accounted higher depreciation and by the selling of balance sheet-date Group inventories in the next reporting period. Deferred taxes totalled HUF 387 million on 31 December 2002 – the same as on 31 December 2001. (The share pertaining to this period from the difference in the revaluation of in-kind contributions and tax related to the revaluation of Group inventories were not accounted because they would have created a negative tax liability.)

2. CURRENT ASSETS

2.1. Inventories

The closing value of inventories was HUF 5,459 million as at 31 December 2002 (31 December 2001: HUF 7,597 million). The decline observed between the two reporting dates is due to the sale of inventories unnecessary for Rába's operation, the introduction of advanced inventory management methods and depreciation of idle inventories. The ratio of self-produced versus purchased inventories was 49.2 percent and 50.8 percent, respectively.

2.2. Receivables due to taxation

Most of the receivables due to taxation (HUF 1,417 million) were incurred by the tax rebate related to export sales.

2.3. Receivables

The closing value of receivables was HUF 11,003 million in December 2002 which marks a 30 percent reduction relative to the base period (HUF 15,764 million). Major reasons for the change in receivables:

- HUF 921 million net generated by the revaluation of hedge transactions;
- increase in advances for investment projects launched at the end of the year (HUF 1,032 million);
- drop in accounts receivable due partly to lower revenues and partly to reduced collection times (HUF 5,750 million).

2.4. Cash and cash deposits

The closing value of cash and cash deposits was 1,067.7 million on 31 December 2002 (31 December 2001: HUF 902 million).

3. CAPITAL AND RESERVES

3.1. Share capital

The share capital of Rába Rt. is made up of ordinary shares with a face value of HUF 1,000 which entitle their holders to receive dividends announced at regular intervals and cast one vote per share at Rába's General Meetings. The company's share capital amounted to HUF 12,688 million on 31 December 2002 – the same as a year before.

3.2. Capital reserve

Rába had a capital reserve of HUF 6,464 million on 31 December 2002.

3.3. Retained profit

Retained profit decreased from HUF 7,303 million to HUF 2,906 million from 2001 to 2002 due to the following reasons:

- dividend for external owners (HUF 1.9 bn),
- losses for the period under survey (HUF 2.5 bn).

4. LONG-TERM LIABILITIES

The closing value of long-term liabilities increased from HUF 1,145 million in 2001 to HUF 3,987 million by 31 December 2002 due to efforts to internally restructure the Group's loan portfolio. Long-term liabilities include credits and loans for development purposes (expressed in HUF million):

| | Parent company | Subsidiaries |
|----------------------------------|----------------|--------------|
| Investment and development loans | 136 | 512 |
| Other long-term loans | | 3,327 |
| Long-term credits | 12 | |

5. SHORT-TERM LIABILITIES

5.1. Short-term loans and credits

The 36 percent decline in the amount of short-term loans and credits (from HUF 13,095 million in 2001 to HUF 8,384 million in 2002) is attributable partly to the restructuring referred to in paragraph 4, and partly to the improved collection of accounts receivable.

5.2. Short-term liabilities

The amount of short-term liabilities declined from HUF 8,250 million in 2001 to HUF 7,191 million in 2002 due to reductions in accounts payable and other short-term liabilities.

PK 5. CONSOLIDATED CASH FLOW STATEMENT FOR 2002

| | HUF thousand | |
|--|------------------|-------------------|
| | 2001 | 2002 |
| <u>Cash flow from ordinary business activities</u> | | |
| Profit before tax | 769,597 | -2,476,679 |
| Revenues and expenses not influencing the cash flow from ordinary business activities | 1,081,299 | 2,085,445 |
| Change in assets and liabilities related to ordinary business activities | -685,289 | 6,213,799 |
| Tax paid in the reporting year | -371,936 | -529 |
| | 793,671 | 5,822,036 |
| <u>Cash flow from financial transactions</u> | | |
| Sale of own shares | 2,658,582 | 1,514,057 |
| Purchase of own shares | -2,633,150 | -1,456,427 |
| Net decrease/ (increase) of securities | -181,177 | -955 |
| Net increase/ (decrease) of loans and credits | 1,926,435 | -1,869,443 |
| Dividends paid | -1,980,298 | -1,977,037 |
| | -209,608 | -3,789,805 |
| <u>Cash flow from investment activities</u> | | |
| Revenue from the sale of invested assets | 775,082 | 1,185,574 |
| Purchase of invested assets | -1,000,297 | -3,051,984 |
| | -225,215 | -1,866,410 |
| Cash flow | 358,848 | 165,821 |
| <u>Revenues and expenses not influencing the cash flow from ordinary business activities</u> | | |
| Depreciation | 1,838,170 | 2,650,885 |
| Loss (gain) from the sale of invested assets | -759,971 | -565,440 |
| Write-off of invested assets | 3,100 | 0 |
| | 1,081,299 | 2,085,445 |
| <u>Change in assets and liabilities related to ordinary business activities</u> | | |
| Decrease / (increase) in inventories | 491,547 | 2,131,271 |
| Changes in receivables/liabilities | -1,176,836 | 4,076,528 |
| | -685,289 | 6,213,799 |

PK6. Major off-balance sheet items

| Item | Value (HUF) |
|---------------------------------------|-------------|
| According to separate listing* | |

* Forward exchange transactions performed to hedge exchange rate related risks of export sales: sale of EUR 75 million against HUF, purchase of EUR 59 million against USD.

III. KEY FACTORS AND MAJOR CHANGES**RS1. Ownership structure with ratio of participation**

| Type of shareholder | Total share capital | | | | Series for public offering ¹ | | | |
|--|--------------------------------|-------------------|--------------------------------|-------------------|---|-----|---------------|-----|
| | Start of period (1 October) | | End of period (31 December) | | Start of period | | End of period | |
| | % | No. of shares | % | No. of shares | % | No. | % | No. |
| Domestic institutional investors/companies | 30.69 | 3,895,777 | 30.75 | 3,903,207 | | | | |
| Foreign institutional investors/companies | 26.45 | 3,357,282 | 26.06 | 3,307,282 | | | | |
| Foreign private investors | 0.12 | 15,138 | 0.12 | 15,138 | | | | |
| Domestic private investors | 17.22 | 2,185,143 | 17.55 | 2,227,893 | | | | |
| Own shares | | 781,460 | | 781,460 | | | | |
| State | 13.99 | 1,776,200 | 13.99 | 1,776,200 | | | | |
| International development institutions | 11.52 | 1,462,446 | 11.52 | 1,462,446 | | | | |
| Other | | | | | | | | |
| T O T A L | 100.00 | 13,473,446 | 100.00 | 13,473,446 | | | | |

RS3. Shareholders with a business share exceeding 5% in the Company (at the end of the period)

| Name | Domestic/ Foreign | Profile | No. of shares held | Participation (%) | Remarks |
|----------------------|----------------------|-------------|--------------------|-------------------|---------|
| Municipality of Győr | D | State | 1,508,850 | 11.20 | |
| EBRD | F | Development | 1,462,446 | 10.85 | |
| DRB Hicom Group | F | Company | 1,462,446 | 10.85 | |
| Wallis Rt. | D | Company | 1,162,446 | 8.63 | |
| Own shares | D | Company | 781,460 | 5.80 | |

RS2. Changes in the amount of treasury stock (number of shares) in the reporting year

| 1 January | 31 March | 30 June | 30 September | 31 December |
|-----------|-----------|---------|--------------|-------------|
| 1,175,184 | 1,175,184 | 665,184 | 781,460 | 781,460 |

All repurchased shares are own shares directly held by the parent company.

TSZ2. Changes in the number of full time employees

| Company | | Group |
|--------------------|---------------------------|-------------------------|
| End of base period | Start of reporting period | End of reporting period |
| 5,668 | 5,668 | 4,445 |

Rába had a consolidated closing headcount of 4,445 people on 31 December 2002, which marks a 21.6 headcount reduction over the base period. This decrease includes also headcount reduction due to the sale of Kandalló Kft., Rábakész Kft., Motor Kft. and the Power Business effected in 2002.

TSZ3. Senior management and strategically important employees

| Body ¹ | Name | Position | Start of employment /mandate | End of mandate | No. of shares held in the company |
|-------------------|-------------------|------------------------------|------------------------------|----------------|-----------------------------------|
| IT | Péter Jancsó | BD chairman | 1998 | | 0 |
| IT | Abbas Mehad | BD member | 1998 | | 0 |
| IT | Merrick W. Taylor | BD member | 1998 | | 0 |
| IT | Antal Apró | BD member | 1998 | | 0 |
| IT | József Szabó | BD member | 2000 | | 414 |
| FB | József Patonai | SB chairman | 1996 | | 0 |
| FB | András Geszti | SB member | 2000 | | 0 |
| FB | Dr. Imre Czinege | SB member | 2000 | | 0 |
| SP | László Steiner | CEO | 2001 | | 2000 |
| SP | Gyula Kugler | Deputy CEO | 2000 | 2003 | 414 |
| SP | István Pintér | Deputy CEO | 2000 | | 414 |
| SP | Péter Lengyel | CFO | 2001 | 2002 | 0 |
| SP | Ferenc Vissi | HR Director | 2001 | | 0 |
| SP | Dr. János Megyeri | Technical and Sales Director | 2001 | 2002 | 0 |
| SP | Sándor Kocsis | TQM Manager | 2001 | | 0 |
| SP | László Csuport | Managing Director | 2001 | 2002. | 0 |
| SP | Ernő Udvardi | Managing Director | 2002 | 2002. | 0 |
| SP | Dr. Béla Fekecs | Managing Director | 2002 | | 0 |
| SP | Dr. János Megyeri | Managing Director | 2002 | | 0 |
| SP | Péter Lengyel | CFO | 2002 | | 0 |
| SP | Csaba Kovács | Managing Director | 2002 | | 0 |
| SP | Dr. Jenő Surányi | Managing Director | 2002 | | 0 |

Employee-related changes

The Board of Directors of Rába Rt. appointed László Steiner to CEO effective from 1 May 2001.

Following the retirement of Mihály Horváth, Mr. Steiner appointed Péter Lengyel to Chief Financial Officer effective from 15 May 2001.

Under the restructuring project of the Components Business, Rába Mór Kft. was managed by József Szabó, Managing Director of Rába Sárvár Kft., between February 2001 and 15 April 2002, and then this duty was assigned to Dr. János Megyeri. Managing Director positions in Mór and Sárvár were terminated by the completed merger.

Under the restructuring project of Rába Jármű Kft., László Csuport was assigned with management duties between February 2001 and 28 February 2002. Effective from 1 March 2002, Ernő Udvardi was appointed to Managing Director to be replaced by Csaba Kovács from 1 September 2002.

Effective from 1 September 2001, Ferenc Vissi and Dr. János Megyeri were appointed to HR Director and Technical, Sales and QM Director of Rába Rt., respectively.

Effective from 1 February 2002, Dr. Jenő Surányi replaced László Veress as Managing Director of Rába Szolgáltatóház Kft.

Effective from 1 April 2002, Dr. Béla Zoltán Fekecs replaced Gyula Kugler as Managing Director of Futómű Kft. Since that date Gyula Kugler has been working exclusively in the capacity of Deputy CEO responsible for managing manufacturing subsidiaries.

Rába Rt. replaced its traditional internal supervisory system with a team of internal auditors headed by Csaba Hatvani since April 2002.

ST1. Special announcements published during the reporting period

| Date | Published in | Subject, summary |
|-----------|------------------|---|
| 8/1/2002 | MATÖKE Issue 5 | Announcement by Rába Rt. on its property development project |
| 25/1/2002 | MATÖKE Issue 18 | Staff changes at Rába Futómű Kft. (Dr. Károly Szőcs) |
| 8/2/2002 | MATÖKE Issue 28 | Rába Rt.'s Flash Report for 2001 |
| 7/3/2002 | MATÖKE Issue 47 | Rába Rt.'s sale of Rába Kandallógyártó Kft. |
| 22/3/2002 | MATÖKE Issue 57 | Invitation to the Annual General Meeting of Rába Járműipari Holding Rt. |
| 4/4/2002 | MATÖKE Issue 65 | Staff changes at the Rába Group |
| 8/4/2002 | MATÖKE Issue 67 | Rába Rt.'s disclosure on information disseminated by the media |
| 9/4/2002 | MATÖKE Issue 68 | Amendment to Rába Járműipari Holding Rt.'s AGM Announcement |
| 26/4/2002 | MATÖKE Issue 81 | Resolutions passed by the AGM of Rába Rt. (April 24) |
| 30/4/2002 | MATÖKE Issue 83 | Rába Rt.'s Annual Report for 2001 |
| 2/5/2002 | MATÖKE Issue 84 | Rába Rt.'s treasury stock transaction |
| 6/5/2002 | MATÖKE Issue 86 | Rába Rt.'s disclosure on business procedures bearing an impact on the Company's profits in the current year |
| 14/5/2002 | MATÖKE Issue 92 | Sale of ordinary shares by Rába Menedzsment Befektetési Kft. |
| 15/5/2002 | MATÖKE Issue 93 | Rába Járműipari Holding Rt.'s Flash Report for Q1 2002 |
| 21/5/2002 | MATÖKE Issue 96 | Dividend payment of Rába Járműipari Holding Rt. |
| 29/5/2002 | MATÖKE Issue 102 | Rába Rt.'s treasury stock transaction |
| 5/7/2002 | MATÖKE Issue 129 | Rába Rt. signs cooperation agreement with the Engel group |
| 16/7/2002 | MATÖKE Issue 136 | Rába Rt. reports on the events of 12 July: trading of Rába shares was suspended due to the announcement of the results of the MoD vehicle upgrade program (Special communication) |
| 31/7/2002 | MATÖKE Issue 147 | Rába Rt. performs capital reduction (pursuant to AGM resolution) (Special communication) |
| 13/8/2002 | MATÖKE Issue 156 | Rába Rt.'s Flash Report for the 1st half of 2002 |
| 3/12/2002 | MATÖKE Issue 232 | Rába Rt. sells Engine Business |
| 9/12/2002 | MATÖKE Issue 236 | Rába Rt. announces preliminary results for 2002 and plans for 2003 |

Other

The Annual General Meeting (AGM) of Rába Rt. held on 24 April 2002 decided to pay a gross dividend of HUF 100 per share for 2001. The payment of dividends commenced on 4 June 2002.

The AGM selected Deloitte & Touche Könyvvizsgáló és Tanácsadó Kft. (1051 Budapest, Nádor u. 21) as the Company's auditor. In compliance with the Articles of Association, the auditor is selected for a period of one year: its mandate expires on the day of the AGM following fiscal year 2002.

The AGM of 24 April 2002 decided to withdraw 393 724 own shares to carry out a capital reduction.

On 13 May 2002 Rába Menedzsment Kft. sold all of its 619,690 Rába ordinary shares on the stock exchange except for 3,000 shares.

Events subsequent to the balance sheet date

Based on its bid submitted to the tender invited by the Ministry of Defence for the supply of military vehicles, Rába Járműgyártó Kft. was selected as the strategic supplier of military off-road vehicles to the Hungarian Army. Rába expects to deliver about 8,000 vehicles during the 15-year term of the contract.

Deputy CEO Gyula Kugler was retired. With his retirement the Deputy CEO position for managing operative tasks was terminated.

PK1. General information on financial data

| | Yes | No | | | |
|-----------------------------|-------------------------------------|-------------------------------------|------------------|-------------------------------------|--|
| Audited | <input type="checkbox"/> | <input checked="" type="checkbox"/> | | | |
| Consolidated | <input checked="" type="checkbox"/> | <input type="checkbox"/> | | | |
| Accounting standards | | | Hungarian | <input type="checkbox"/> | |
| | | | IAS | <input checked="" type="checkbox"/> | |
| | | | Other | <input type="checkbox"/> | |

Miscellaneous:

With respect to this Flash Report please note that

- figures for 2002 have not been audited. They have been compiled based on the available data to the management's best knowledge.
- Rába has complied its Annual Report (Balance Sheet and Profit and Loss Account) pursuant to International Accounting Standards (IAS).
- Rába has effected no significant changes in the accounting policies of Group companies. The changes approved by the Board of Directors have no impact on authenticity and comparability. The accounting policies of newly consolidated companies are in line with those of other Group members.

Győr, 13 February 2003

László Steiner
CEO

Péter Lengyel
CFO