SIMPLY CLEVER

ŠKODA

ŠKODA Annual Report 2014

ŠKODA AUTO a.s.

Contents

Foreword

Prof. Dr. h.c. Winfried Vahland
Chairman of the Board of Management

Ladies and Gentlemen,

2014 was a very successful year with new record results for ŠKODA. We continued our model initiative and, as a first in our company's almost 120-year history, we produced over one million vehicles and delivered them to customers worldwide – a new milestone for our brand. So 23 years after joining the Volkswagen Group, ŠKODA has secured a lasting spot in the volume segments of the international car markets. Sales and operating income reached a new record high as well.

The results achieved in 2014 attest the great strength of the ŠKODA brand and the high level of acceptance our cars enjoy. The most comprehensive model initiative in our corporate history is having more and more effect. Over the past four years, we have rejuvenated our product range and expanded it into new segments; at seven model series and over 40 model variants, we are now offering the most attractive ŠKODA portfolio of all times – ranging from our city runabout, the ŠKODA Citigo, to our flagship, the ŠKODA Superb.

We are going to keep up the momentum along our path. In 2014, we set the course: The ŠKODA design study Vision*C* was one of the stars of last year's Geneva Motor Show, giving an outlook of the new, modern and more emotional ŠKODA design language. The first series model to feature elements of this new design language, the new ŠKODA Fabia – our young and snappy small car – is popular with customers all around the world.

ŠKODA's ongoing success would not be possible without the vast expertise and untiring dedication of our close to 25,000 employees. The past years' unparalleled race to catch up with the competition has been a joint accomplishment of the entire Team ŠKODA. In all areas of the company – in development and sales, production and administration, design and motorsports – the people who work for ŠKODA share a passion for their brand and are willing to do what it takes to make it succeed.

Growth requires new models, and the unrivalled product highlight of the year is going to be launched very soon: the new ŠKODA Superb – the best ŠKODA of all times. Our new flagship heralds in a new era for ŠKODA. Our top model is a completely new development that revolutionizes the ŠKODA design. It also comes with the most spacious interior in the segment and the Volkswagen Group's innovative MQB technology. This model will help ŠKODA tap into new customer groups, expand market shares, and strengthen the brand's position in the global markets. We expect the new ŠKODA Superb to be popular with success-oriented private customers as well as business and fleet customers, thus underscoring our growth ambitions as much as pointing the way to the future of the brand.

As you can see, ŠKODA is stepping up its ambition, striving to place top-quality models at the top of their respective segments. ŠKODA's well-known brand values – such as functionality, spaciousness and excellent value for money – are strengthened further with the offer of improved performance data. ŠKODA aims at offering the best cars in the respective fields – cars that stand for the high value, rich tradition and future orientation of the brand while at the same time raising its popularity.

ŠKODA is on the right track. We have to deal with challenging markets and need to make up for the effects of various crises. Nevertheless, we have good reason to be confident: In close cooperation with Europe's leading automotive group, Volkswagen, with new models and a top team, we will continue to build on the success story of our brand in the future.

Yours

Prof. Dr. h.c. Winfried Vahland
Chairman of the Board of Management

Management Report

ŠKODA AUTO company profile

The company ŠKODA AUTO a.s. ("the Company" or "ŠKODA AUTO"), based in Mladá Boleslav, is one of the most important industrial companies in the Czech Republic and one of the oldest car makers in the world. Its origins go back to 1895, when Václav Laurin and Václav Klement set up the firm that laid the foundation for more than a century of Czech car production. Currently ŠKODA AUTO employs more than 24,600 people. The ŠKODA brand has been part of the Volkswagen Group for more than 20 years. During this time, ŠKODA AUTO deliveries have increased substantially and its product portfolio has expanded significantly.

The Company's business activities are chiefly the development, production and sale of ŠKODA cars, components, original parts, accessories and services.

As at 28 June 2014 the sole shareholder of ŠKODA AUTO a.s. is VOLKSWAGEN FINANCE LUXEMBURG S.A., with its registered office in Luxembourg, Luxembourg. VOLKSWAGEN FINANCE LUXEMBURG S.A. is a subsidiary of VOLKSWAGEN AG.

ŠKODA AUTO has production plants in the Czech Republic. ŠKODA brand cars are manufactured also in China, Russia, India, Slovakia, the Ukraine and Kazakhstan. This international presence will form the basis for the planned growth of ŠKODA AUTO over the next few years. The conditions for this are already in place: impressive automobiles, a strong brand, a motivated and capable team and the ability to turn innovations into "Simply Clever" customer benefits.

Report of the Supervisory Board

In the past fiscal year, the Supervisory Board was regularly and extensively informed by the Board of Management of the operations of ŠKODA AUTO a.s. and its subsidiaries within the consolidated group, their financial performance, and their business policies.
Business processes which, due to legal regulations or the Articles of Association, require the Supervisory Board's approval or briefing, or which were of extraordinary importance, were discussed in detail at meetings of the Supervisory Board. Based on written and oral reports from the Board of Management, the Supervisory Board was able to continuously oversee the activities of the ŠKODA AUTO a.s. management as well as that of the entire consolidated group, thus duly executing its powers entrusted to it under the law.
Under its resolution of 25 March 2014, Volkswagen International Finance N.V., as the sole shareholder of ŠKODA AUTO a.s., approved a proposal for commissioning PricewaterhouseCoopers Audit, s.r.o. to carry out an audit of the financial statements for the 2014 accounting period.
An unqualified audit opinion was issued on separate financial statements of the ŠKODA AUTO a.s. pursuant to IFRS as adopted by the EU as at 31 December 2014. Report on relations between affiliated persons for 2014 pursuant to Section 82 of the Act on Business Corporations is, according to the auditor, consistent in all material respects with the financial statements of the ŠKODA AUTO a.s.
At its meeting on 5 March 2015, the Supervisory Board discussed the financial results and favourably assessed a proposal of the Board of Management for distribution of the ŠKODA AUTO a.s. profits based on the annual financial statements pursuant to IFRS as adopted by the EU. The Supervisory Board also reviewed the report on relations between affiliated persons for 2014 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2014 and the proposal for the distribution of profits to the sole shareholder, VOLKSWAGEN FINANCE LUXEMBURG S.A., for approval.

Christian Klingler
Chairman of the Supervisory Board

ŠKODA AUTO bodies

Supervisory Board

Christian Klingler (*1968)
Chairman of the Supervisory Board since 22 June 2012
(Member of the Supervisory Board since 6 November 2010)
Member of the Board of Management for Sales and Marketing, VOLKSWAGEN AG

Prof. Dr. rer. nat. Martin Winterkorn (*1947)
Member of the Supervisory Board since 1 January 2010
Chairman of the Board of Management, VOLKSWAGEN AG

Ing. Martin Jahn (*1970)
Member of the Supervisory Board since 1 April 2009
Head of International Fleet Sales, VOLKSWAGEN AG

Jaroslav Povšík (*1955)
Member of the Supervisory Board since 16 April 1993
Chairman of the KOVO Trade Union Works Council of ŠKODA AUTO a.s.

Ing. Jan Miller (*1948)
Member of the Supervisory Board since 16 April 1993
Secretary of the KOVO Trade Union Works Council of ŠKODA AUTO a.s.

Board of Management

Prof. Dr. h.c. Winfried Vahland (*1957)
Chairman of the Board of Management since 1 September 2010, Central Management
Previous positions:
- President and CEO, Volkswagen China Investment Company Ltd. (2005–2010) and Global Vice President, VOLKSWAGEN AG (since 2006)
- Member of the Board of Management for Commercial Affairs, ŠKODA AUTO (2002–2005) and Vice-Chairman of the Board of Management, ŠKODA AUTO (2003-2005)

Dipl.-Kfm. Winfried Krause (*1962)
Member of the Board of Management since 1 April 2010, Commercial Affairs
Previous position:
Head of Group Controlling, VOLKSWAGEN AG (2006–2010)

Werner Eichhorn (*1963)
Member of the Board of Management since 1 September 2012, Sales and Marketing
Previous positions:
Head of Sales and Marketing Germany, VOLKSWAGEN AG (2008–2012)

Dipl.-Ing. Michael Oeljeklaus (*1963)
Member of the Board of Management since 1 August 2010, Production and Logistics
Previous position:
Member of the Board of Management for Production and Technical Development, Shanghai Volkswagen Automotive Company Limited (2005–2010)

Dr.-Ing. Frank Welsch (*1964)
Member of the Board of Management since 1 September 2012, Technical Development
Previous position:
Head of Engineering Exterior, Interior and Vehicle Safety, Volkswagen Passenger Cars (2011–2012)

Dipl.-Wirt.-Ing. Dieter Seemann (*1957)
Member of the Board of Management since 1 October 2014, Purchasing
Previous position:
Member of the Board of Management for Purchasing, Seat S.A. (2010–2014)

Ing. Bohdan Wojnar (*1960)
Member of the Board of Management since 1 January 2011, Human Resources Management
Previous position:
Member of the Board of Management for Human Resources, Volkswagen Slovakia, a.s. (2009–2010)

Audit Committee

Martin Mahlke (*1962)
Audit Committee Chairman since 27 April 2010
(Audit Committee member since 1 April 2010)
Head of Group Controlling, VOLKSWAGEN AG

Dr. Ingrun-Ulla Bartölke (*1967)
Audit Committee Member since 1 January 2010
Head of Group Accounting and External Reporting,
VOLKSWAGEN AG

Bernd Rumpel (*1959)
Audit Committee Member since 1 January 2010
Head of the ŠKODA Liaison Office, VOLKSWAGEN AG

Changes to the Supervisory Board, Board of Management and Audit Committee:

Dismissed from the Supervisory Board:
Dr. h.c. Michael Macht – Member of the Supervisory Board
from 6 November 2010 to 31 August 2014

Appointed to the Supervisory Board, effective as at
1 January 2015:
Bernd Osterloh (*1956)
Daniell Peter Porsche (*1973)
Florina Louise Piëch (*1987)

Resigned from the Board of Management:
Karlheinz Hell – Member of the Board of Management from
1 January 2010 to 30 September 2014

Appointed to the Board of Management:
Dieter Seemann – Member of the Board of Management
since 1 October 2014

Declaration of Compliance with the Code of Corporate Governance

ŠKODA AUTO is aware of its unique position within the Czech business environment and the growing respect it enjoys within the Volkswagen Group and among competing manufacturers in the automotive sector. It therefore attaches the utmost importance to being perceived by its employees, business partners, all its customers and the general public as a successful and transparent company sharing information. It is conscious of its long tradition and reputation built up over a long period, which the company regards as key asset for further successful development of its business activities.
In the light of these factors, ŠKODA AUTO has been committed to the relevant recommendations and rules of the Code of Corporate Governance of OECD-based companies ("the Code") since 2007 in the format updated under the auspices of the Securities Commission in 2004. The Company aims to continuously improve internal processes and rules in accordance with the Code to further encourage transparency and compliance with regulations and ethical behaviour within business practices in the Czech Republic.

Level of compliance with recommendations of the Code of Corporate Governance

In line with best practice at the Volkswagen Group, the majority of the Company's internal management and control processes have, over the long term, been established in accordance with the Code. With regard to the Company's shareholding structure (only one shareholder – VOLKSWAGEN FINANCE LUXEMBURG S.A.), VOLKSWAGEN AG organisational structure (see VOLKSWAGEN AG website) and the fact that the Company is not listed, some recommendations of the Code are not relevant or, in the interest of efficiency and synergy, are transferred at the appropriate level to the corporation level.
At the same time, Company policies are based on "Code of Conduct at ŠKODA Group — Member of the Volkswagen Group" (henceforth referred to as "the Code of Conduct") that was adopted and distributed to employees in the third quarter of 2012. The Code of Conduct highlights rules resulting from legal regulations with the maximum impact on the Company and it supports employees in complying with generally recognised social values.
Hence, in an understandable form, the Code of Conduct formulates the Company's general requirements for employee behaviour, reminds them of their role in preserving the Company's reputation, and provides detailed rules for preventing conflicts of interest and corruption and handling Company information and assets. The Code of Conduct also outlines basic rules for behaviour towards business partners and third parties and clearly formulates the Company's interest in protecting fair competition. Among the Company's other liabilities covered in detail by the Code of Conduct are health and safety in the workplace and environmental protection.
The Company does not fully comply with the recommendation of the Code pursuant to Section VI-E-2 (in relation to point 18 of the Code guidelines) that it should establish committees responsible for remuneration and nominations. With regard to the Company's specific shareholder structure, the activities associated with the committee are in synergy and to the effective degree transferred to Volkswagen Group level. The activities of the remunerations and nominations committee are carried out by VOLKSWAGEN AG Board of Management's committee for personnel matters. The Company is also not fully compliant with the recommendation of Chapter VI-E-1 of the Code (in connection with point 5 of the Code guidelines) that the Board of Management or Supervisory Board shall have a sufficient number of members not employed by the Company who are not in a close relationship with the Company or its management through significant economic, family or other ties.
The above conflict with the relevant provisions of the Code does not constitute a failure to comply with the mandatory requirements of Czech law or a legal risk for the Company.
A Governance, Risk and Compliance unit has been active within the Company since 2011. The role of this unit is, amongst other things, to provide guidance on issues of governance and compliance and to introduce a prevention programme for the Company and its affiliates. It also supports the Internal Audit unit in the enforcement of internal standards and legal requirements.

Strategy

ŠKODA growth strategy – new models with strong emotional appeal

The objective of the ŠKODA growth strategy is to increase worldwide sales to at least 1.5 million vehicles per year. To achieve this objective, ŠKODA AUTO will release a new or updated model every six months. In 2014, the Company introduced the new ŠKODA Octavia G-TEC and ŠKODA Octavia Scout, as well as three new sporty Monte Carlo editions of the ŠKODA Citigo, the ŠKODA Rapid Spaceback and the ŠKODA Yeti. With the launch of the new ŠKODA Fabia, a compact car that was completely redesigned, the Czech car manufacturer has paved the way for the further growth of the brand. The new ŠKODA Fabia is the first series-produced model to showcase the emotional and expressive evolution of the brand's design language. For the first time in series production the designers implemented impressive design elements from the Vision*C* study, which was presented at the Geneva Motor Show in March.

The emotional design of the new generation of the ŠKODA Fabia is also in response to our customer's expectations. In recent years, ŠKODA AUTO has acquired a reputation as a manufacturer of practical, clever and safe vehicles that represent excellent value for money. The latest Euro NCAP crash tests rated the new ŠKODA Fabia with 5 stars, which is the highest possible score. That will not change. However, customers also want distinctive design in a new car. The new ŠKODA Fabia meets this requirement down to the last detail.

ŠKODA AUTO set a new sales record in 2014. For the first time in its 119-year company history, the brand delivered more than 1 million ŠKODA brand vehicles. Worldwide deliveries to customers increased by 12.7% to 1,037,226 vehicles in 2014. Deliveries in Europe rose by 9.8% and in China by 24.0%. The new ŠKODA Octavia is doing exceptionally well. The deliveries of the brand's bestseller rose by 22.4% in Western Europe in the period until the end of December. The number of ŠKODA Rapid and ŠKODA Yeti deliveries also recorded a sharp rise.

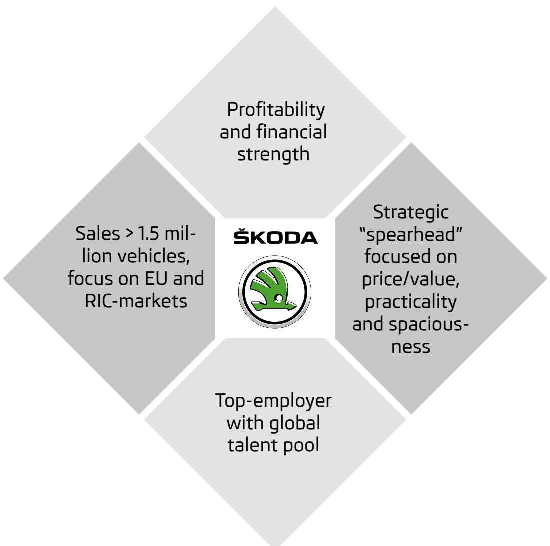
The ŠKODA model offensive has been supported by significant investments, both on world markets and in the domestic Czech market. The new ŠKODA Octavia and ŠKODA Rapid Spaceback have been rolling off the production line in China, the largest single market for ŠKODA, for several months. In 2014, the ŠKODA model range in China expanded to six models manufactured locally in collaboration with Shanghai Volkswagen (SVW) at three Chinese plants.

In Russia, ŠKODA brand vehicles are manufactured at two locations - Nizhny Novgorod, where ŠKODA collaborates with the Russian GAZ Group, and in Kaluga, where it operates at the Volkswagen Group Russia plant.

At the beginning of September, ŠKODA AUTO opened a new engine centre in Mladá Boleslav, in the Czech Republic. The Company invested more than EUR 45 million in expanding capacity at the Technology and Development Centre near the main ŠKODA plant in Mladá Boleslav. Construction work took a mere two years. With the opening of the new engine centre, ŠKODA AUTO continues to increase its expertise in the development and production of engines and drivetrains in collaboration with the Volkswagen Group.

"Simply Clever" – the Company's mission

All ŠKODA AUTO activities are defined by the motto "Simply Clever". This slogan is the core of the ŠKODA brand. It captures the essence of the Company's mission and shapes its products and processes. In the eyes of our customers, ŠKODA AUTO is "Simply Clever", a symbol of practical, refined and smart solutions.



Product portfolio

ŠKODA Citigo
The smallest ŠKODA model, with its fashionable three or five-door body, is especially ideal for the city. Since its introduction in 2011, it has won the hearts of many city-dwellers, mainly due to its agility, economy and safety. Thanks to its many surprising details, the ŠKODA Citigo is a modern everyday car that also offers an enjoyable driving experience. An attractive, sporty Monte Carlo version of the ŠKODA Citigo was introduced for the first time in 2014.

ŠKODA Fabia and ŠKODA Fabia Combi
With more than 3.5 million cars sold since 1999, the ŠKODA Fabia is the brand's second-highest-selling car after the ŠKODA Octavia. Its outstanding features make it one of the most popular models in its class.
The new ŠKODA Fabia, a newly developed compact car from Mladá Boleslav, celebrated its double world premiere at the Paris Motor Show in October 2014, when it was presented in both hatchback and estate versions at the same time. The latest generation of the Fabia model, this successful ŠKODA compact car, with its clearly defined and sporty proportions, is extremely eye-catching. The Fabia incorporates the advanced safety and comfort elements and infotainment systems of higher class cars. The new ŠKODA Fabia is lighter, more economical and offers more interior space than previous models, and boasts the largest luggage compartment in its class.

ŠKODA Roomster
As the name suggests, the spacious luggage compartment of the ŠKODA Roomster is its most important feature and the key to its success with customers. Its hallmark is the clean design and versatile interior. Since its market launch in 2006, ŠKODA has also been represented in the compact MPV category.

ŠKODA Rapid and ŠKODA Rapid Spaceback
The ŠKODA Rapid bridges the gap in the model range between the ŠKODA Fabia and Octavia. The interior features a range of clever details and provides a generous amount of space. With specific versions for India and China, the ŠKODA Rapid is a key model in the ŠKODA growth strategy. The Rapid Spaceback joined the Rapid range in autumn 2013 and is the first ŠKODA model with a hatchback body in the lower medium class. Introduced in 2014, the Monte Carlo edition Rapid Spaceback responds to increased customer demand for exceptional-looking ŠKODA cars.

ŠKODA Yeti
The Yeti model underwent significant modernisation in late 2013 and is now available in two variants. The Yeti model is intended primarily for the city, while the more adventurous Yeti Outdoor is aimed mainly at off-road use. The range of sporty Monte Carlo models was also expanded in 2014 to include the ŠKODA Yeti Monte Carlo.

ŠKODA Octavia and ŠKODA Octavia Combi
The ŠKODA Octavia and ŠKODA Octavia Combi are the most successful models in the history of ŠKODA. A completely new model, introduced by ŠKODA at the end of 2012, follows in the footsteps of previous generations of the ŠKODA Octavia. In the last two years, a range of derivatives and variants have been introduced to round out the line-up of this key model series.
In June 2014, the ŠKODA Octavia G-TEC was launched – the first Octavia with standard drive train powered by compressed natural gas (CNG). Another key addition to the Octavia range in 2014 was the ŠKODA Octavia Scout. This exceptional and versatile vehicle is highly driveable, even on poor surfaces, has a distinctive look, excellent climbing power, traction options and an ultramodern four-wheel drive system.
Since autumn 2014, the four-wheel drive option is no longer exclusive to the Octavia Combi model, but is also available in the other Octavia models.

ŠKODA Superb and ŠKODA Superb Combi
The ŠKODA Superb offers extraordinary quality for its class at an attractive price. The vehicle is also spacious and technologically advanced. The bodywork is both sporty and elegant at the same time. Significant modernisation of the ŠKODA flagship model to reflect the new design language took place in spring 2013. In addition to the improved look and new equipment features, new engine and gearbox combinations were also added.

Overview of automotive market developments

Positive developments on the global automobile market

In 2014, the global automotive market continued to grow. The positive development was driven mainly by growth in markets such as China and North America, as well as most countries in the Middle East and South Korea. 2014 also saw a slight recovery in demand for new cars in Europe. Exceptions here were the markets in Ukraine and Russia, which were among the few European countries to show a significant drop in demand for passenger cars throughout almost the whole year.

The positive developments, not only in China and North America, but also in Central and Western Europe, were the main drivers behind the year-on-year increase in car sales of 3.8%, reaching a volume of approximately 84.1 million cars, of which about 73.4 million were passenger cars.

Central Europe

The Central European market developed positively and exceeded expectations in 2014 with a year-on-year increase of 14.1%. The Czech automobile market experienced significant growth compared with the previous year, with a total of 192,314 vehicles sold, representing a year-on-year increase of 16.7%. An increase was also recorded in Slovakia, where 72,250 cars were sold (+9.5%), and in Poland, with 325,641 vehicles sold (+13%). Other Central European markets, such as Hungary, Slovenia and Croatia also reported growth in sales, with 75,052 cars sold in Hungary (+20.8%), 52,379 cars in Slovenia (+5.5%) and 34,093 cars in Croatia (+22.6%).

Western Europe

After several years of decline, Western Europe experienced a recovery in demand. The number of cars sold increased year-on-year by 4.9%. This positive development was stable throughout the year. The fastest growing market in this region, for the third consecutive year, was Great Britain, with 2,476,435 vehicles sold (+9.4%). The automotive market in Southern Europe also saw a revival in 2014, with growth recorded particularly in Spain (+17.6%), Italy (+4.9%), Portugal (+34.8%), Greece (+21,4%) and France (+0.5%).

The strongest Western European economy – the German market – recorded an increase in sales of 2.9%. Other markets with year-on-year growth in 2014 were the Scandinavian countries, in particular Sweden (+12,8%), Denmark (+3.8%) and Finland (+2.7%).

In contrast to this positive development, some Western European markets demonstrated a negative trend in 2014, with a decline in the number of cars sold: the Netherlands (-6.8%), Austria (-4.9%), Switzerland (-1.9%) and Belgium (-0.6%).

Eastern Europe

Largely due to negative economic and political influences on the Ukrainian and Russian markets, the automotive market in Eastern Europe decreased by 11.1% in 2014. Russia registered a year-on-year decrease of 10.0% and Ukraine 54.9%.

In contrast to this, significant positive development was recorded by the market in Romania, which grew by 20.8%, after several years of decline in sales. The Baltic countries also developed positively, with the car market growing by 16.2% in 2014.

Overseas/Asia

The most important driving force for international automotive sales were the fast-growing Asian and overseas markets – which reported a total sales increase of 5.1% in 2014.

The Chinese economy has been growing strongly for many years. In the automotive sector, there was a year-on-year increase of 12.1% in cars sold.

The Indian market stabilized in 2014 and, thanks to a positive economic and monetary situation, it achieved an increase in passenger car sales of 2.2%.

The development in other overseas/Asian countries was also generally positive, with a total increase of 2.3%. A significantly positive result was achieved in the Israeli market, for example, with a year-on-year increase of 13.7%.

The financial situation of ŠKODA AUTO

The ŠKODA AUTO financial results are reported according to IAS/IFRS.

2014 was the most successful financial year in the history of ŠKODA AUTO. The Company achieved record sales, revenues, operating profit, net cash flow and liquidity. In 2014, as a result of increasing sales and successful measures to improve efficiency, the Company further enhanced its financial performance.

ŠKODA AUTO sales revenue increased year-on-year by 22.9% to CZK 299.3 billion, which is the highest result in the Company's history. Operating profit improved significantly and reached CZK 21.6 billion. Profit after income tax amounted to CZK 18.4 billion.

Company business performance

In 2014 a total of 1,037,226 ŠKODA brand cars was delivered to customers worldwide and for the first time exceeding one million delivered vehicles within a single year. This represents a year-on-year increase of 12.7%. Year-on-year, Company sales climbed by 13.4% to 773,791 cars. Company sales revenue rose to CZK 299.3 billion. In the reporting period, car sales accounted for 84.1% of total Company revenue (2013: 84.2%). The top-selling models were the ŠKODA Octavia, ŠKODA Rapid and ŠKODA Fabia. The original parts and accessories business comprised 5.6% of total sales (2013: 6.8%). The remaining 10.3% (2013: 9.0%) represents sales from the supply of components to Volkswagen Group companies and other sales.

The cost of sales increased by 21.7% year-on-year to CZK 254.9 billion, mainly due to the increase in production volumes. The increase was largely the result of material costs (raw material costs, consumed materials and purchased goods), production-related services and depreciation. Distribution expenses, despite the increase in sales, remained at almost the same level, increasing year-on-year by 3.1% to CZK 13.5 billion. Administrative expenses amounted to CZK 6.9 billion in 2014, increasing by 3.9% year-on-year.

Compared to the previous year, gross profit increased by 30.2% to CZK 44.4 billion. Gross margin (the ratio of gross profit to revenues) increased to 14.8% and, compared to 2013, improved by 0.8 percentage points. Company operating profit increased significantly in the reporting period by 72.3% to CZK 21.6 billion, which was the result of higher deliveries, an improved model mix and other cost optimisation. The Company's financial result amounted to a loss of CZK 249 million, which was mainly the result of accounting revaluation and settlement of financial currency instruments. Profit before tax reached CZK 21.3 billion, representing a year-on-year increase of 64.9%. Profit after tax climbed by CZK 7.0 billion (+61.8%) to CZK 18.4 billion. Return on sales before tax was 7.1%.

Company cash flows

In 2014, operating cash flows amounted to CZK 45.2 billion. There was a year-on-year increase in net liquidity of 48.7%, reaching CZK 41.5 billion as at 31 December 2014.

Company asset and capital structure

As at 31 December 2014, the Company's balance sheet totalled CZK 176.9 billion, which, compared to the previous year's balance, corresponds to an increase of CZK 24.9 billion, or 16.4%. This result was mainly due to an increase in non-current assets. As of the date of the closing balance, non-current assets totalled CZK 105.1 billion, exceeding the 31 December 2013 figure by 19.6%. The value of tangible and intangible assets increased by CZK 8.2 billion, which represents an increase of 9.8%. Due to the provision of long-term loans within the framework of the VW Group, growth was also reported in other long-term receivables. Current assets increased by 11.9% compared to 2013, reaching CZK 71.7 billion. The positive development in net liquidity is the most involved in this growth.

The Company's capital structure – defined by the ratio of equity and liabilities to total equity – reported a slight year-on-year change. Equity increased during the year by CZK 9.7 billion to a total of CZK 100 billion. In 2014, profit after taxes increased equity by CZK 18.4 billion, while the dividend payment decreased equity by CZK 5.7 billion. Non-current liabilities recorded an increase of 46.2% compared to the previous reporting period. The Company's current liabilities rose by CZK 9.4 billion to CZK 58.5 billion, mainly due to an increase in trade payables of CZK 6.4 billion related to higher production volumes.

In 2014, capital expenditures (excluding development costs) amounted to CZK 19.2 billion, falling slightly compared to 2013. The largest share consisted of product investment related to new models and engine ramp-ups.

Balance sheet (CZK million)

	31. 12. 2014	31. 12. 2013	2014/2013
Non-current assets	105,139	87,923	19.6%
Current assets	71,730	64,078	11.9%
Total assets	**176,869**	**152,001**	**16.4%**
Equity	100,001	90,316	10.7%
Non-current liabilities	18,407	12,594	46.2%
Current liabilities	58,461	49,091	19.1%
Total liabilities	**176,869**	**152,001**	**16.4%**

Profit and loss account (CZK million)

	2014	2013	2014/2013
Sales revenue	**299,318**	**243,624**	**22.9%**
Cost of sales	254,944	209,538	21.7%
Gross profit	**44,374**	**34,086**	**30.2%**
Distribution expenses	13,466	13,067	3.1%
Administrative expenses	6,939	6,679	3.9%
Other operating income	5,130	6,024	– 14.8%
Other operating expenses	7,501	7,827	– 4.2%
Operating profit	**21,598**	**12,537**	**72.3%**
Financial result	– 249	413	> 100%
Profit before income tax	**21,349**	**12,950**	**64.9%**
Income tax expense	2,928	1,564	87.2%
Profit after income tax	**18,421**	**11,386**	**61.8%**

Development of Company financing (CZK million)

	2014	2013	2014/2013
Opening balance of cash and cash equivalents	**31,926**	**34,738**	**– 8.1%**
Cash flows from operating activities	**45,158**	**28,965**	**55.9%**
Cash flows from investing activities	**– 25,512**	**– 25,148**	**1.4%**
Cash flows from financing activities	**– 8,693**	**– 6,629**	**31.1%**
Gross liquidity	**42,878**	**31,926**	**34.3%**
Balance of financial liabilities*	– 1,426	– 4,055	– 64.8%
Net liquidity	**41,452**	**27,871**	**48.7%**

* The position Balance of financial liabilities contains in addition to financial liabilities also liabilities to a factoring company within the Volkswagen group in the amount of CZK 1,426 million (2013: CZK 949 million).

Technical development

In 2014, ŠKODA AUTO invested CZK 13.25 billion in technical development. The volume of the revenue from external orders in 2014 stood at CZK 1.21 billion, corresponding to a growth of almost 100% compared to the previous year. 1,653 employees were involved in the development of new models at the Company's headquarters, as well as 43 colleagues abroad.

Vision*C*

At the start of 2014, the Company unveiled its design vision for products for launch in the near future. The Vision*C* concept, in the Company's signature green, was one of the stars of the Geneva Motor Show. Design head Jozef Kabaň, pointed out some of the features to look forward to upcoming models in the concept car. The first of these can already be seen in the new generation of the ŠKODA Fabia. The concept car also highlights the new direction for the interior – with simple surfaces reflecting the growing importance of display technologies for driver interaction and passenger entertainment. The car is powered by a highly economical CNG engine which, together with its aerodynamic aspects, achieves CO_2 emissions of 92 g/km. It already meets 2020 CO_2 emissions standards for European states with all the convenience of a conventional vehicle.

New ŠKODA Fabia

At the Paris Motor Show, the Company introduced the third generation of its offering in the compact car category – the ŠKODA Fabia, both in the hatchback version and the elegant Combi version. This compact vehicle, with perfectly balanced proportions, has the clean-cut lines already presented in the Vision*C* concept car. The front of the vehicle, with new features on the bonnet recesses, comes in a sportily-cut lateral silhouette with characteristic side door recesses. The rear light clusters, with their precise C-design and 3D effect, accentuate the modern shape of the tailgate with its characteristic triangular recesses. The "colour concept" was developed to satisfy customer requirements in this dynamic segment – with a wide range of colour combinations for both the exterior and the interior permitting a high level of individualisation, especially for younger customers.

The new generation is based on the proven Volkswagen Group platform with a number of newly developed components. This concept offers all the latest technology, and yet still offers excellent value for money, which is very important in this segment. All newly developed engines meet the strict EU6 emissions standard.

In terms of safety, the vehicle has already achieved the highest five-star rating in the independent EuroNCAP test, meeting its recently raised evaluation standards.

The car is the first to introduce new connectivity concepts, such as links between the vehicle and the user's mobile devices. The new generation of infotainment equipment enables smartphone content mirroring thanks to the newly-developed MirrorLink technology. Applications for this purpose are certified by the CCC (Car Connectivity Consortium) with respect to the strict requirements for the use of equipment in the vehicle while driving. As a result, each customer can individually expand the capabilities of the car as desired, while simultaneously ensuring that it is safe to use mobile devices in the vehicle. Another new feature is the SmartGate device, which sends operating data directly to the smartphone for possible additional processing. The Company has itself developed several applications for the Android and iOS mobile operating systems that, among other things, extend the capabilities of the integrated multifunctional indicator or monitor the driving style of the driver to suggest a more economical driving style.

The highly-economical GreenLine version also will be offered in the new generation of the ŠKODA Fabia. Fuel consumption is expected to be lower than for its predecessor.

Environmental issues

ŠKODA AUTO continues the long-term implementation of its plans on sustainable development and sensitivity to nature. Emissions from manufactured cars are being reduced in line with emission objectives to ensure mobility for a wide range of customers. The Company has expanded its range of alternative fuel CNG models to include the ŠKODA Octavia. The Company's best-selling car has achieved CO_2 emissions of 97 g/km with this drive train. The Company is closely following the development of hybrid technologies, particularly the mild and plug-in hybrid, and is considering specific concepts for its future models.

ŠKODA Motorsport stellar season

The series of wins by the ŠKODA Fabia Super 2000 continued in the 2014 rally season. The ŠKODA Motorsports factory team of Esapekka Lappi/Janne Ferm won the European Champions title in the ERC. The second factory team of Jan Kopecký/Pavel Dresler dominated the Asia Pacific APRC championship. ŠKODA dominated in the manufacturers' title here also, for the third time in a row. Privately-owned ŠKODA Fabia Super 2000 cars were also winners of five national championships.

Purchasing

New products and projects

Clearly, the most important milestone of 2014 for ŠKODA AUTO was the start of production of the third generation of the ŠKODA Fabia. The basis for problem-free production start had already been established the previous year when both the selection procedure for providing purchased parts and the technology for domestic production were completed. By purchased parts was also secured the start of production of the ŠKODA Octavia Scout and Octavia GreenTec derivatives.
Another milestone was the start of unique collaboration between ŠKODA and SEAT on joint production of a SEAT brand SUV model in Kvasiny. This unique project brings not only additional production and increased employment at the Kvasiny plant, but also for the region as a whole. This was also achieved by convincing key suppliers to localise all or part of their production closer to Kvasiny, thereby increasing flexibility and supply security and reducing logistics costs.
General purchasing also focused chiefly on the Kvasiny plant. The most important task was the purchase of moulding tools and welding lines.
Key purchasing tasks naturally include cost optimisation. Together with technical development, and in collaboration with the Volkswagen Group, several measures were introduced that succeeded in reducing the material costs of individual ŠKODA cars.

International collaboration with suppliers

Purchasing also continued collaborating with various organisations in 2014 to optimise its supplier portfolio. In addition to innovative workshops and supplier days, a joint workshop was held with the Czech-German Chamber of Trade and Industry (ČNOPK) on the theme of "Innovative concepts to reduce CO_2 emissions", which was held with the participation of ŠKODA AUTO Purchasing and technical development managers.
The ŠKODA AUTO purchasing department is firmly committed to the Group-wide "Sustainability in Supplier Relations" project. In this project suppliers are acquainted with and trained in the Volkswagen Group's conditions in the field of sustainable development. New for 2014 were the first audits to examine how suppliers respond in real situations to challenges arising from sustainable development.

Situation on the raw materials market

As in the previous year, raw materials prices developed more favourably than expected. Risks associated with developments on the raw material markets were significantly reduced in close cooperation with the Volkswagen Group's Purchasing department.

Supply of materials

In 2014, ŠKODA AUTO spent a total of CZK 167.4 billion in purchasing production materials. This represents an annual increase of CZK 26.9 billion. A large proportion of this volume originates in the Czech Republic (49.7%), followed by Germany, which accounts for about a quarter (27.9%) of the production materials purchased.
The total volume of general purchasing reached CZK 28.7 billion, which represents an increase of 2.4% year-on-year. This mainly stems from the investments into the ramp-up of new models in Kvasiny.

Production and logistics

Expansion of production capacity to promote worldwide growth

For ŠKODA AUTO, 2014 meant a continuation of its growth strategy, focusing mainly on a further model offensive and expansion of production capacity worldwide to satisfy customer demand and interest in ŠKODA cars. 14 new or revised models entered production in the Czech Republic, Russia, India and China in 2014.

ŠKODA growth strategy and new car production in Russia, India and China

Foreign plants around the world prepared for production of new or revised vehicles in 2014.

Plants in Russia mastered two production ramp-ups in 2014. The Kaluga production plant began producing the ŠKODA Rapid in early 2014. Production of this model involves a high level of localisation from domestic production sources for CKD (completely knocked down) production.

At the Nizhny Novgorod plant, serial production of the modernised ŠKODA Yeti was launched in February 2014. This ensures local production of all key ŠKODA models for the Russian market.

In January 2014, the Indian assembly plant in Aurangabad began production of the revised ŠKODA Superb. In August, this car was followed by another updated car, the ŠKODA Yeti.

In response to the success of ŠKODA models in China, 2014 saw a significant increase in production at Chinese plants.

In February 2014, serial production of the new ŠKODA Octavia for the Chinese market got underway at the Ningbo plant. In the same month, production of the new ŠKODA Rapid Spaceback began at another Chinese plant – Yizheng. The Anting and Nanjing plants are also preparing to ramp up production of other ŠKODA models in 2015.

The Bratislava production plant also started production of a revised model in 2014. In May 2014 the Citigo, the smallest car in the ŠKODA range, rolled off the assembly line in the Monte Carlo version for the first time.

Production of new models in the Czech Republic

For ŠKODA AUTO plants in the Czech Republic, 2014 was characterised by extensive building alterations, expansion of production capacity and, not least, the start of production of several new models in almost all vehicle classes for the ŠKODA brand.

In the first half of 2014, production of several new versions of the ŠKODA Octavia started at the parent plant in Mladá Boleslav including the Octavia L&K (Laurin and Klement), designed for the most demanding customers, and the Octavia CNG, powered by compressed natural gas. In August 2014, these two models were followed by the Octavia Scout, the off-road version with four-wheel drive and safety features.

At the same time, preparations were underway for production of the third generation of hatchback and Combi versions of the ŠKODA Fabia which started in the second half of 2014.

In November 2014, the ŠKODA Octavia sedan range was expanded to include a 4x4 version. In the same month, the ŠKODA Rapid Spaceback was also added to the successful Monte Carlo range.

The Kvasiny plant underwent further building alterations in 2014 in preparation for the start of production of the largest ŠKODA model, the new ŠKODA Superb, scheduled for the first half of 2015.

Mladá Boleslav – main facility with future prospects

With its more than 14,000 employees and production of almost 500,000 vehicles a year, the production plant in Mladá Boleslav occupies a key position in the production of ŠKODA cars.

In March 2014, the number of vehicles built in Mladá Boleslav passed the 11 million mark.

With 277,000 cars produced per year, the ŠKODA Octavia is the most successful model. Together with the ŠKODA Rapid, daily production of these two models reached 1,169 vehicles, utilising the plant's full production capacity.

In connection with the above-mentioned production start, a new manufacturing facility was opened in May 2014 to produce ŠKODA Octavia cars running on CNG (Compressed Natural Gas). CNG powered cars represent a key technology for further reduction of CO_2 emissions from ŠKODA AUTO vehicles.

In November 2014, production facilities were also modified to assemble the special ŠKODA Rapid Spaceback Monte Carlo model.

The whole plant prepared for the changes required for the production launch of EU6 engines in May 2015.

The MB II production plant underwent reconstruction: in August, the third-generation ŠKODA Fabia model and, in November, the third-generation ŠKODA Fabia Combi were added to the existing ŠKODA Fabia second-generation and ŠKODA Rapid Spaceback models. Parallel production of the old and new generations of the Fabia models continued until the end of 2014, when production of the previous generation of the Fabia ceased. The complexity of parts increased and production processes sped up to cope with the increase in the model variants and accessories. The number of sequences and the fleet of automated guided vehicles were increased at the M1 facility in view of these requirements.

In September ŠKODA AUTO Logistics came 1st in the "European Gold Medal in Logistics" competition for the top quality and highly effective ŠKODA international structured logistics system. In December 2014 an offensive was launched to increase the productivity of logistics by the gradual deployment of up to 120 automated guided vehicles at individual ŠKODA plants, including innovative control systems. At the next level of improvement, the quality of the preparation of parts for production processes was improved through an increase of "Pick by systems" usage in logistics warehouses by 30% in 2014.

ŠKODA AUTO plant in Kvasiny

In 2014 about 3,200 employees were involved in production of the ŠKODA Yeti, Superb and Roomster models in Kvasiny. Production at this plant reached the level of 178,000 vehicles per year and daily production was 716 vehicles with three-shift operation. In 2014 this East Bohemian plant was modernised and expanded. The Company built a new welding shop, fully equipped with the latest technology, expanded the final assembly area and started construction of a new fire station.

On 15 June 2014 the plant in Kvasiny celebrated 80 years of vehicle production.

The Kvasiny plant also undertakes educational projects on the environment, focusing on primary school pupils. The scope of the certification of the energy management system (EnMS), which is part of the Integrated Management System (IMS), was expanded in 2014 to include this plant.

Components production

In 2014 ŠKODA AUTO manufactured a total of 1,002,527 gearboxes, including 343,999 MQ 200 gearboxes, 304,069 MQ/SQ 100 gearboxes and 354,459 DQ 200 gearboxes.

Since April 2014 production of DQ 200 gearboxes at the Vrchlabí plant has reached its full capacity of 1,500 units per day.

Since the start of production in October 2012 the milestone half-millionth DQ 200 gearbox was produced on 3 November 2014.

In 2014 the Company produced a total of 624,876 engines, including 55,321 EA 111 1.2 HTP engines, 288,198 EA 111 1.2 TSI engines, 17,199 EA 111 1.4 SRE engines, 99,449 EA 189 2.0 engines, 38,220 EA 211 1.2 TSI engines, 44,022 EA 211 1.4 TSI engines, 27,026 EA 211 1.6 MPI engines and 55,441 EA 211 1.0 MPI engines.

ŠKODA AUTO manufactures components not only for internal consumption, but also for other group brands. In 2014 331,190 engines and 687,494 gearboxes were produced for other group brands (68.5% of total manufactured gearboxes).

In December ŠKODA AUTO celebrated an important milestone in the production of components, namely 1,500,000 engines and gearboxes made in 2014. As a result of production of the new ŠKODA Fabia model the production of axles was also increased. More than 5,500 axles can now be produced per day on the assembly lines. In total about 1.6 million axles were produced for ŠKODA brand vehicles in 2014.

Production of ŠKODA cars

In 2014, 1,049,409 ŠKODA cars were built worldwide.

At the Indian Pune Volkswagen plant, 10,887 vehicles were built, which, compared to the same period last year, represents a decrease of 28.9%.

40,048 cars were produced at the Nizhny Novgorod plant during the year.

At the Russian Kaluga plant, 31,702 vehicles were manufactured, which is a year-on-year decrease of 4,0%.

Chinese partner plants produced a total of 277,138 ŠKODA Octavia, Fabia, Superb, Rapid and Yeti cars in 2014. Compared to the previous year, production of ŠKODA brand cars in China increased by 8.6%.

ŠKODA Citigo

ŠKODA Citigo production saw a reduction of 2.3% in 2014. At the Bratislava Volkswagen plant, a total of 41,974 ŠKODA Citigo cars were built (2013: 42,971 cars).

ŠKODA Fabia

As a result of the start of production of the new generation of the ŠKODA Fabia, this year 162,504 cars were produced worldwide, representing a year-on-year decrease of 17.4% (2013: 196,732 cars).

ŠKODA Roomster

There was a decrease in production of the ŠKODA Roomster at the Kvasiny plant in 2014. A total of 29,983 cars of this ŠKODA model series were built, a decrease of 4.6% compared to 2013 (2013: 31,425 cars).

ŠKODA Octavia

In 2014, the ŠKODA Octavia remained the most important ŠKODA AUTO model. 397,610 cars of this model series were built worldwide, which represents an increase in production of 11.7% compared to last year (2013: 356,040 cars). The ŠKODA Octavia accounts for the largest share of total annual production of ŠKODA brand cars at 37.9%.

ŠKODA Yeti
The ŠKODA Yeti experienced an increase in production in 2014, with a year-on-year increase of 26.5%. A total of 106,853 ŠKODA Yeti cars were produced (2013: 84,498 cars).

ŠKODA Rapid
Compared to the previous year, the ŠKODA Rapid reported a significant increase in production of more than 84.6% in 2014. A total of 228,273 ŠKODA Rapid and Rapid Spaceback cars were produced (2013: 123,634 cars).

ŠKODA Superb
Within its segment, the ŠKODA Superb experienced a slight decrease in demand. In 2014, a total of 82,212 ŠKODA Superb cars were built, which represents a decrease of 14.6% (2013: 96,321 vehicles).

Portfolio of models manufactured worldwide (1. 1. - 31. 12. 2014)

	Citigo	Fabia	Rapid	Roomster	Octavia	Yeti	Superb	Seat
Mladá Boleslav (Czech Republic)		●	●		●			●
Kvasiny (Czech Republic)				●		●	●	
Bratislava (Slovakia)	●							
Kaluga (Russia)		●	●					
Nizhny Novgorod (Russia)					●	●		
Aurangabad (India)					●	●	●	
Pune (India)			●					
Anting (China)		●			●	●		
Yizheng (China)			●					
Ningbo (China)					●		●	

ŠKODA production worldwide

	2014	2013	2014/2013
Production of ŠKODA cars			
Fabia*	103,548	110,881	– 6.6%
Fabia Combi	38,997	47,505	– 17.9%
Fabia total	**142,545**	**158,386**	**- 10.0%**
Rapid*	64,013	51,321	24.7%
Rapid Spaceback	57,792	18,542	> 100%
Rapid total	**121,805**	**69,863**	**74.3%**
Roomster	27,728	29,338	– 5.5%
Roomster Praktik	2,255	2,087	8.0%
Roomster total	**29,983**	**31,425**	**- 4.6%**
Octavia*	120,661	119,920	0.6%
Octavia Combi	156,742	108,541	44.4%
Octavia total	**277,403**	**228,461**	**21.4%**
Yeti*	**88,693**	**74,658**	**18.8%**
Superb*	21,772	21,442	1.5%
Superb Combi	37,209	33,883	9.8%
Superb total	**58,981**	**55,325**	**6.6%**
Total ŠKODA brand	**719,410**	**618,118**	**16.4%**
Production of SEAT cars			
Seat	16,541	21,771	– 24.0%
Total ŠKODA AUTO Company production	**735,951**	**639,889**	**15.0%**
ŠKODA brand production worldwide			
Production of ŠKODA cars in Pune			
Fabia	–	2,098	–
Rapid	10,887	13,212	– 17.6%
Total ŠKODA Pune	**10,887**	**15,310**	**- 28.9%**
Production of ŠKODA cars in Bratislava			
Citigo	41,974	42,971	– 2.3%
Total ŠKODA Bratislava	**41,974**	**42,971**	**- 2.3%**
Production of ŠKODA cars in China			
Fabia	19,959	36,248	– 44.9%
Rapid	95,581	40,559	> 100%
Octavia	120,207	127,579	– 5.8%
Yeti	18,160	9,840	84.6%
Superb	23,231	40,996	– 43.3%
Total ŠKODA China	**277,138**	**255,222**	**8.6%**
Total ŠKODA worldwide	**1,049,409**	**931,621**	**12.6%**
Total ŠKODA worldwide incl. SEAT	**1,065,950**	**953,392**	**11.8%**

* including kits shipped to foreign production plants outside the ŠKODA AUTO Company

Sales and marketing

2014 was the most successful year in the history of the brand

The year 2014 ended with a new sales record for the ŠKODA brand: A total of 1,037,226 ŠKODA brand cars were delivered worldwide. For the first time in its 119-year history, the Company topped the figure of one million vehicles delivered in a single year.
The number of vehicles delivered to customers in Western and Central Europe increased, whereas the number delivered in Eastern Europe was somewhat lower than the previous year. As a whole, the European region increased its market share, year-on-year, by 7.6%.

Central Europe

In Central Europe, the ŠKODA brand remains on track for growth. The Company increased total sales again and gained additional market share. Total deliveries to customers amounted to 149,874 vehicles, which represents an increase of 18.5%. In the Czech Republic, ŠKODA AUTO confirmed its leading position with a total of 70,200 vehicles delivered to customers, a year-on-year increase of 16.9%.

Outside the Czech Republic, a positive development in deliveries was also achieved in all other Central European markets. In Poland, the ŠKODA brand reaffirmed its position as market leader. A record number of 46,650 cars were delivered (+20.5%). Record customer deliveries were also achieved in Slovenia, with a total of 5,005 cars (+38.2%) delivered. Positive results were also reported in the markets of Slovakia (+10.6%), Hungary (+12.7%) and Croatia (+71.9%). In Slovakia, the ŠKODA brand recorded deliveries of 16,402 cars and is ranked first in the market.

Eastern Europe

As a result of the negative market trend in passenger cars, particularly in the markets of Ukraine and Russia, customer deliveries of ŠKODA brand vehicles declined in Eastern Europe. The Company delivered a total of 119,186 vehicles, which represents a year-on-year decrease of 4.9%.
A significant fall in demand was recorded in 2014 in Ukraine, where 4,700 cars were delivered to customers. This represents a year-on-year decrease of 60.2%. The Russian market, affected by an economic downturn, also saw a decline in

Deliveries to customers – largest markets

	Deliveries to customers (vehicles)		Change in %
	2014	2013	2014/2013
Total ŠKODA brand	**1,037,226**	**920,750**	**12.7%**
China	281,412	226,971	24.0%
Germany	149,538	136,415	9.6%
Russia	84,437	87,456	– 3.5%
Great Britain	76,027	66,029	15.1%
Czech Republic	70,200	60,042	16.9%
Poland	46,650	38,710	20.5%
France	21,054	20,400	3.2%
Austria	20,487	20,073	2.1%
Netherlands	18,567	13,597	36.6%
Switzerland	17,820	16,984	4.9%
Belgium	17,807	15,482	15.0%
Spain*	17,783	13,421	32.5%
Slovakia	16,402	14,827	10.6%
India	15,538	22,563	– 31.1%
Israel	15,118	14,387	5.1%

* excluding the Canary Islands

demand. Over the last year, 84,437 vehicles were delivered, which represents a decrease of 3.5%. Despite this negative development, 2014 was the Company's third most successful year ever.

The ŠKODA brand registered double-digit growth in Romania. With 7,305 vehicles delivered and year-on-year growth of 32.6%, the Company defended its position as the second-strongest importer.

ŠKODA AUTO also saw a positive development in customer deliveries in the Baltic countries, with year-on-year growth of 16.3%.

In Kazakhstan, ŠKODA AUTO increased its deliveries by 18.2% and, despite negative economic developments at the end of the year, a record number of 5,544 cars were delivered.

Western Europe

Despite the difficult economic situation in some of the Eurozone countries, a total of 413,184 vehicles were delivered in this region, representing a year-on-year increase of 11.8%. Following several years of declining passenger cars sales, 2014 saw a recovery in demand, with the ŠKODA brand also following this positive trend. The brand again strengthened its position and increased its market share in Western Europe by 6.6%.

In Germany, the largest European market, the ŠKODA brand increased its market share. With 149,538 vehicles delivered (+9.6%) in Germany, the Company recorded the second-best result in its history and ŠKODA remained the largest import brand in the market.

In Great Britain, the ŠKODA brand delivered 76,027 vehicles to customers (+15.1%). Together with an increase in market share, it recorded its best-ever sales result. Record deliveries were also reported in Ireland, with 6,310 cars (+27.5%).

The Company also achieved good results in other key Western European markets. In Spain, the ŠKODA brand reported a record market share of 2.2%, with 17,783 vehicles delivered (+32.5%). In France, which in recent years has been hit by declining demand for passenger cars, ŠKODA AUTO also increased deliveries in 2014 by 3.2% to 21,054 vehicles, thus achieving a record market share. Positive sales results were also observed in other Southern European markets: Italy (+17.3%), Portugal (+32.7%) and Greece (+2.3%). The ŠKODA brand achieved record market share in Switzerland and Austria, with 17,820 (+4.9%) and 20,487 (+2.1%) cars delivered respectively. Among the Scandinavian countries, Sweden recorded its largest year-on-year growth, with 13,610 cars delivered (+10.5%). Despite the decline in the passenger car market in the Netherlands and Belgium, ŠKODA AUTO managed to consolidate its position in both countries with record market share and customer deliveries of 18,567 cars (+36.6%) in the Netherlands and 17,807 (+15.0%) cars in Belgium.

Overseas/Asia

The Overseas/Asia region plays a key role in the ŠKODA growth strategy, particularly the growing market in China. Deliveries of ŠKODA vehicles here totalled 354,982, which represents a year-on-year increase of 18.6%.

The driving force behind this positive development was primarily China, the largest global market for ŠKODA AUTO, where a record number of 281,412 vehicles (+24.0%) were delivered in 2014. The new ŠKODA Octavia, which was only introduced to the Chinese market in mid-2014, is enjoying extremely strong demand here.

In contrast, in India ŠKODA AUTO recorded a decline in deliveries of 31.1% in 2014, with a total of 15,538 cars delivered in India.

In the other markets of the Overseas/Asia region, a total of 58,032 ŠKODA cars were delivered to customers in 2014, which represents an annual increase of 16.6%. Record deliveries were achieved, for example, in Israel (+5.1%), Turkey (+9.4%), Australia (+8.4%), Algeria (+21.2%) and New Zealand (+16.1%).

Deliveries to customers by region

	Deliveries to customers (vehicles)		Change in %	% share of passenger car market**	
	2014	2013	2014/2013	2014	2013
Central Europe*	149,874	126,481	18.5%	19.8%	19.1%
Eastern Europe	119,186	125,359	– 4.9%	4.2%	3.9%
Western Europe	413,184	369,598	11.8%	3.4%	3.2%
Overseas/Asia	354,982	299,312	18.6%	1.3%	1.1%
Total ŠKODA brand	**1,037,226**	**920,750**	**12.7%**	**1.4%**	**1.3%**

* including the Czech Republic ** total markets

Customer deliveries according to model lines

ŠKODA Citigo
The ŠKODA Citigo is the brand's smallest model and the first in the recent history of the brand to offer both three-door and five-door versions.
In 2014, 42,494 customers bought this attractive compact mini car, which has been offered without major changes since 2012. This represents a year-on-year decrease of 6.0%. In the coming year, the model will gradually see new product measures.

ŠKODA Fabia
The ŠKODA Fabia model, which, thanks to its qualities, is among the most popular cars of its type, saw the current generation approach the end of its lifecycle in 2014, with the highly anticipated launch of a new generation. A completely newly-developed third generation was introduced in autumn in both hatchback and combi versions. A modern and dynamic ŠKODA Fabia with strong emotional appeal entered European markets in November. The ŠKODA Fabia Combi will follow in early 2015. The number of delivered ŠKODA Fabia cars, 160,518 (-20.5%), was impacted in 2014 by the launch and phase-out of the current generation of models. Of this volume, 3,110 vehicles of the new version were delivered and it appears likely that sales of the new model will surpass those of the previous generation.

ŠKODA Roomster
In 2014, 29,643 cars from this line were delivered (-11%), 2,189 of which were the Praktik utility version. The ŠKODA Roomster model, which has been available since 2006, is reaching the end of its lifecycle. Demand for this small MPV has remained stable for years, thanks to its high utility and competitive price.

ŠKODA Rapid
The ŠKODA Rapid and the ŠKODA Rapid Spaceback are among the most attractive compact cars on the market. The ŠKODA Rapid was introduced globally in 2012. The ŠKODA Rapid Spaceback, the brand's first compact hatchback, has been on the market since late 2013. In 2014, deliveries of the ŠKODA Rapid/Rapid Spaceback models increased by 113.3% to 221,363 vehicles. The ŠKODA Rapid became the second best-selling range in 2014, behind the ŠKODA Octavia.

ŠKODA Octavia
The ŠKODA Octavia reaffirmed its global position as the most successful model in the ŠKODA product portfolio. This model forms the central pillar of the ŠKODA growth strategy, and total deliveries of 389,257 cars in 2014 (+8.3%) confirm the global success of the model. The third generation of the ŠKODA Octavia model, launched in early 2013, sets the standard in its class, as evidenced by production of more than half a million cars of this generation so far. Due to the wide variety of designs and its excellent qualities, the ŠKODA Octavia is especially successful among customers in Western Europe where year-on-year deliveries increased by 22.4%.

ŠKODA Yeti
The ŠKODA Yeti underwent a thorough facelift at the end of 2013 and is now available in two versions: the ŠKODA Yeti, an elegant, stylish city version, and an "adventure" version – the ŠKODA Yeti Outdoor. The ŠKODA Yeti model is among the most popular vehicles in the compact SUV category and was delivered to 102,867 customers in 2014, representing a year-on-year increase of 24.8%.

ŠKODA Superb
The ŠKODA Superb is the brand's flagship model. At the end of 2013, it also underwent successful modernisation, with the third generation of the brand flagship scheduled to enter the market in early 2015. In 2014, 91,084 vehicles were delivered globally, which is 3.5% less than in 2013. In European markets, however, despite the phase-out of the current generation, customer deliveries rose by 5.7%.

Deliveries to customers by model

	2014	2013	2014/2013
Citigo	**42,494**	**45,225**	**– 6.0%**
Fabia	118,975	152,248	– 21.9%
Fabia Combi	41,543	49,741	– 16.5%
Fabia total	**160,518**	**201,989**	**– 20.5%**
Rapid	148,991	95,787	55.5%
Rapid Spaceback	72,372	7,994	> 100%
Rapid total	**221,363**	**103,781**	**> 100%**
Roomster	27,454	31,149	– 11.9%
Roomster Praktik	2,189	2,146	2.0%
Roomster total	**29,643**	**33,295**	**– 11.0%**
Octavia	235,486	244,812	– 3.8%
Octavia Combi	153,771	114,766	34.0%
Octavia total	**389,257**	**359,578**	**8.3%**
Yeti	**102,867**	**82,449**	**24.8%**
Superb	53,282	59,315	– 10.2%
Superb Combi	37,802	35,118	7.6%
Superb total	**91,084**	**94,433**	**– 3.5%**
Total ŠKODA brand	**1,037,226**	**920,750**	**12.7%**

Human resources management

ŠKODA AUTO significantly increased its attractiveness as an employer in 2014 and was among the highest-ranked companies in various surveys in the Czech Republic.

The goal for human resources management remains to continue to support the ŠKODA growth strategy and the specific objectives set in all areas. For HR, the main objective of corporate strategy is to maintain the Company's position as the most attractive employer, with an international pool of talent. The HR strategy also includes vital personnel support for special areas, recruitment of highly qualified new employees, effective development of all staff and strengthening employee loyalty.

High performance organisation for securing future development

ŠKODA AUTO follows trends in the automotive industry very closely, and HR must also respond to the changing environment. The objective is to strengthen the Company's future competitiveness and support employees in key strategic areas. At the same time, it is necessary to ensure effectiveness, flexibility and long-term employment.

The organisational structure of the Company, including the whole management structure, was simplified to speed up information and decision-making processes.

Expert and project career paths have been enhanced. Managers, experts and project managers will follow specific career paths. Cooperation at the highest level will support shared interdepartmental objectives. With regard to these objectives, the system for targeted horizontal development of employees and their rotation through various areas for indirect positions has been further developed.

Important work is also being done to reduce bureaucracy for employees. "Smart IT Support" is intended to simplify processes and permanently reduce bureaucracy. This frees up capacity to resolve newly arising strategic matters, without the need to increase indirect staff.

The success of the project was secured by a close and constructive dialogue with the KOVO Trade Union Works Council of ŠKODA AUTO a.s. and by timely communication with employee target groups.

The Company places great emphasis on the long-term retention of its qualified employees. Proven practices include a guarantee of long-term employment, work-life balance, healthcare coverage and support for all groups of employees. The Company is strongly committed to the advancement of female staff and the personal development of employees of all ages.

Qualifications and the further education of employees

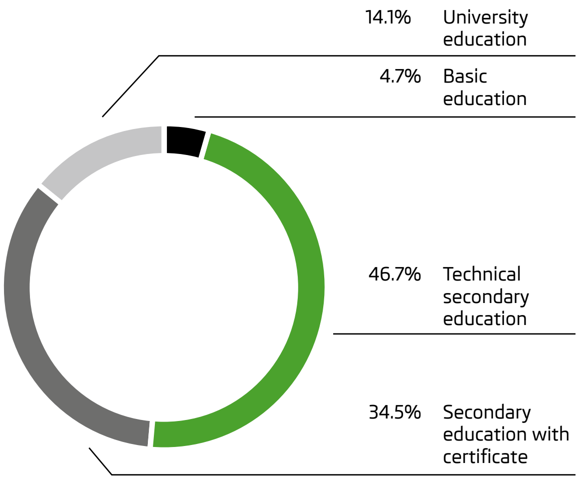
An important element of human resources management at ŠKODA AUTO is employee qualification, with particular emphasis on further training. The ŠKODA Academy is the umbrella for the Company's educational activities from vocational training to adult education.

With regard to employee qualification, ŠKODA AUTO is preparing for the requirements and demands of "Industry 4.0", the fourth industrial revolution. Company representatives meet regularly with national institutions to discuss these matters and thereby encourage public debate over quality and modern technical education.

The Company also has a keen interest in the professional and post-professional training of workers. Nearly 4,500 people completed 400 training courses in 2014, enabling them to enhance their qualifications considerably. ŠKODA AUTO is also strongly committed to new forms of training. A very popular educational method is eLearning – over 50,000 people enrolled in 90 different courses in 2014.

In 2014, ŠKODA AUTO was preparing around 900 students for their future careers at its Secondary Vocational School of Engineering. The Company is also active at university level. The ŠKODA AUTO University focuses on further internationalisation, English-language teaching and cooperation with other partners. Emphasis is placed on increasing the quality of studies, which can be seen by the acquisition of international ACBSP accreditation, amongst other things. The school currently has about 1,200 students from 24 countries.

Qualification structure of the Company's permanent employees



Key indicator – employer attractiveness

In 2014, ŠKODA AUTO was one of the most popular companies in the Czech Republic, according to public opinion surveys. The Company once again took first place in the CZECH TOP 100 and Czech 100 Best rankings and is therefore the most highly regarded company in the Czech Republic.

ŠKODA AUTO is also extremely popular with university graduates. It topped the "Czech Republic Trendence Graduate Barometer" in both technology and business categories, based on the votes of students in technical and economic fields. The Company also took part in the Universum company survey for the first time in 2014. It was the top choice among 10,000 students from 60 Czech universities for technology students and third for economics students. These results confirm that the right strategy has been adopted for the long term in the area of employee care, social dialogue and employer attractiveness.

Company workforce

	31. 12. 2014	31. 12. 2013	2014/2013
ŠKODA AUTO Company – permanent employees	**23,748**	**23,689**	**0.2%**
of which:			
– Mladá Boleslav plant	19,754	19,560	1.0%
– Vrchlabí plant	754	755	– 0.1%
– Kvasiny plant	3,240	3,374	– 4.0%
ŠKODA AUTO Company – apprentices	883	859	2.8%
ŠKODA AUTO Company – employees total*	**24,631**	**24,548**	**0.3%**

* Number of employees as at 31 December, excluding temporary staff, including apprentices.

Sustainability

ŠKODA AUTO makes a crucial contribution to the Volkswagen Group's aim of becoming the world's most sustainable automobile company by 2018. Sustainable development is a fundamental business strategy for ŠKODA AUTO that is integrated throughout the added value chain. ŠKODA AUTO is an integral part of this priority and makes every effort towards achieving it. The Company has established a GreenFuture strategy for the environment to make a more effective contribution to sustainable development, and a social responsibility strategy for social issues and ethical and transparent behaviour, which is the responsibility of the Compliance division. At ŠKODA AUTO the top management receives its information on sustainability management issues through the so called "Advisory Board on Environment and Sustainability".

ŠKODA AUTO and environmental protection

Consistent environmental protection forms an integral part of all ŠKODA AUTO activities. The Company's sustainable management is based on a consistent balance between economic, social and environmental issues. Over the long-term ŠKODA AUTO strives to minimise the impact of products on the environment throughout their lifecycle. Key environmental impact indicators are systematically monitored and evaluated, and appropriate measures continually implemented on the basis of the results. ŠKODA AUTO has, for the first time, received ISO 50001 energy management system certification (EnMS) as part of its integrated management system.

Environmental investments

ŠKODA AUTO's new investment activities focused on the environment in 2014: Construction of the environmentally-friendly engine centre was completed, employing the latest technologies, to enable the heat and electrical energy produced by engine testing to be used. The entire building is located on a redeveloped brown-field site. In addition, a green façade and roofs planted with climbing plants allow the maximum amount of vegetation and enhance the aesthetic qualities of the building. The engine centre will also serve for testing alternative fuel engines.
An important milestone was the start of operations at the CNG fuel vehicle assembly plant. After the ŠKODA Citigo, manufactured at the VW sister plant in Bratislava, the ŠKODA Octavia was the second ŠKODA model to use this type of drive train and the first to be produced at a ŠKODA AUTO plant.

Air protection

The main pollutants released into the atmosphere when cars are made are volatile organic compounds (VOC). Reducing these emissions is therefore a top priority in the area of air protection.
In 2014, the impact of the gradual introduction of these measures has become fully apparent in paint shop operations, the major source of these pollutants.
By choosing the appropriate measures and constantly improving painting processes, the quantity of VOC released per m^2 of painted surface can be kept well below the statutory limit of 45 g/m^2. In 2014, levels of 20.2 g/m^2 were achieved. The heat generated by thermal elimination of VOC emissions is used to heat the equipment in the paint shops.

Soil and water protection

ŠKODA AUTO has successfully dealt with the damaging legacy of past environmental pollution. Reconditioning is now only planned on the site of the Mladá Boleslav plant, where groundwater is also monitored twice a year. Reconditioning at other plants has already been completed.
An obvious issue is safe handling of materials that may contaminate the soil or groundwater in the event of leakage. For this reason, safety rules for handling these materials, such as multiple barrier protection, are observed. If technologically possible, less hazardous materials are preferred.
Technological procedures and processes, including reuse of water, are selected to minimise consumption, with the aim of reducing water consumption per vehicle produced.

Waste management

In the area of waste management, the waste management hierarchy is respected to the maximum possible degree by preventing the occurrence of waste.
Any waste produced is consistently separated, enabling the preferred solution of waste recovery. Where this is not possible, waste is used as an energy source. Only then is non-utilisable waste disposed of in the most environmentally-friendly way. ŠKODA AUTO is constantly looking for ways to minimise waste and increase the percentage of reused waste. The effectiveness of these adopted principles is reflected in the positive trend in the quantity of waste per vehicle produced. The percentage of waste material reused is approx. 93%.

Employee motivation and awareness

As part of the process of continually improving its environmental profile, ŠKODA AUTO pays the utmost attention to motivating its employees, particularly in the areas of saving energy, water, reducing waste and VOC and CO_2 emissions.
Employees are motivated through targeted awareness campaigns and training, as well as workshops and committees. They can also actively contribute to measures through the GREEN ZEBRA employee suggestion programme for improving the environment.
Since 2007, the Company has regularly published its Sustainability Report, which provides information about its activities in this field. Reports are produced in accordance with the Global Reporting Initiative (GRI) standards to allow comparison and to ensure transparency.

Social responsibility

According to the Deloitte TOP 500 study, ŠKODA AUTO is the largest manufacturer in Central Europe and one of the largest private sector employers in the Czech Republic. For this reason, the Company has a considerable responsibility to the regions in which it operates, its customers, employees, its sole shareholder, business partners and the general public. ŠKODA AUTO has always regarded corporate social responsibility as one of its key concerns. The Company also maintains good relations with suppliers and continues to follow the legacy of its founders, Messrs Laurin and Klement, who declared that "... only our best is good enough for our customers."

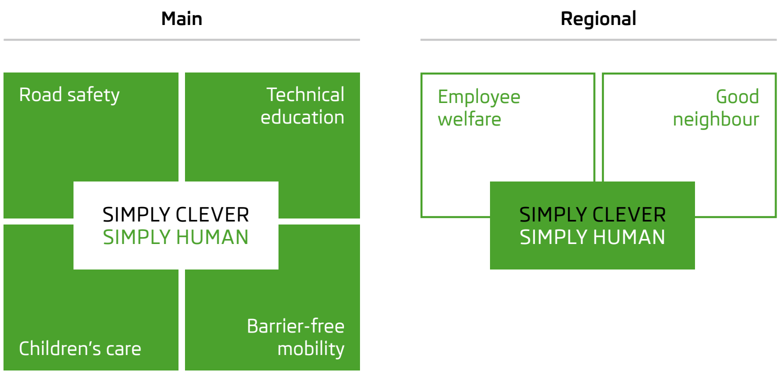
Strategy

The concept of Corporate Social Responsibility (CSR) is closely linked to its business strategy. In the social area, ŠKODA AUTO focuses on four main priorities (road safety, technical education, aid for children and barrier-free mobility) and two regional priorities (employee welfare and cooperation with the region). Each priority focuses on the main problems in a given area, which are then resolved through individual projects. Corporate Social Responsibility is managed at ŠKODA AUTO by the CSR Advisory Board, chaired by the member of the Board of Management responsible for human resources management. Project teams are active at the working level, whereas the financial supervision is covered by specialized committee.

Road safety

As a responsible car manufacturer, ŠKODA AUTO has long been involved in road safety education. In 2014, the Company continued to implement two regional grant programmes, aimed at supporting road safety education and enhancing traffic safety and mobility in villages. 19 projects have received funding. Another unique educational initiative in this field is the educative internet application "ŠKODA hrou" ("Playful ŠKODA"), which encourages children to behave correctly on the road. Linked to this is another site "Bezpecnecesty.cz" ("Saferoads"), which is aimed at drivers and informs them about road safety and safe roads in the Czech Republic. In 2014, ŠKODA AUTO was once again the main partner of the "Roads through Cities" traffic competition organised by the Partnership Foundation. This competition, which includes an award by ŠKODA AUTO itself, recognises the involvement of villages and cities in road safety education, as well as well-designed traffic solutions The Company's own unique "Road Safety Research" initiative, in which it collaborates with the fire service, the police

Priorities



and healthcare professionals, serves primarily to increase the safety of ŠKODA cars .

Support for technical education

Within the technical education field, ŠKODA AUTO promotes dual education. It cooperates on specific projects with many schools at all educational levels. Popularisation of technical education at primary and secondary schools and close collaboration with universities at home and abroad is aimed at supporting the creativity of children at nursery and primary schools in the "Young Designer" project. A total of 11 projects were supported by grants in 2014. ŠKODA AUTO also has its own secondary vocational school and is the first company in the Czech Republic with its own university. Since 2014, ŠKODA AUTO has also directed its activities towards teachers of technical subjects at primary schools. The objective of the "Science has future" project is their development, education and motivation to teach science and technology. The Company is also active in national debates and projects related to the overall educational concept in the Czech Republic.

Children's care

As a family-oriented brand, ŠKODA is also actively involved in projects designed to help children – particularly the less fortunate. The Company has been an active supporter for many years of the "Clown Doctors" organisation, which arranges for clowns to visit seriously ill children. In partnership with the Tereza Maxová children's foundation, it supports disadvantaged children from children's homes aged 11 to 15 through the new project "ROZJEDU TO! (Get Started!)". The aim is to give children better access to a working life through personal assistance and training. Another initiative supported by ŠKODA AUTO is the "New Job New Life" project, which aims to help young people from children's homes be more successful in the labour market through work experience and careers advice. 12 projects were supported by the grant ŠKODA for children programme.

Barrier-free mobility

In order to support the mobility for people with disabilities, the Company has set up the "ŠKODA Handy" project to provide comprehensive advice for the disabled in the area of personal mobility. ŠKODA AUTO has actively supported the Paraplegic Centre, which helps people to return to a normal life with the greatest possible independence after spinal cord injuries, for many years. The Company also collaborates with the Czech Association of Paraplegics on mobile applications and websites "Vozejkmap.cz", which shows barrier-free places in the Czech Republic. Eight projects received grants in 2014. The Company affirms its commitment to barrier-free sports as a partner for Paralympic athletes in the Czech Republic.

Caring for employees and cooperation with the region

ŠKODA AUTO has a strong bond, not only with its employees and their families, but also with the people living near its plants. Therefore, in collaboration with the KOVO Trade Union Works Council of ŠKODA AUTO a.s., the Company participates in specific projects for their benefit. ŠKODA AUTO is involved in projects directly associated with the region in which it operates, based on the "good neighbour" principle. The range of activities includes, for example, improvement of infrastructure, the environment and funding for leisure activities, as well as regular meetings with regional representatives. ŠKODA AUTO attaches great importance to the welfare of its employees and provides them with a wide range of social benefits, comprehensive healthcare, work-life balance, and also the possibility of further professional development. The Company complies with the applicable occupational health and safety standards and offers a unique system of in-company training and professional development.

ŠKODA AUTO is also involved in sponsorship at local, regional and national level. It supports a variety of social, cultural and humanitarian projects as part of its cooperation with leading foundations and charitable organisations. In 2014, employees had the opportunity to contribute to Company-supported employee collections for one of five non-profit organisations they chose themselves. In total, employees donated almost CZK 800 thousand and the Company doubled this amount. A new grant programme called "This is my home" was launched and supported 22 projects, emphasising solidarity with the region and the local community. Employees who proposed projects also played an active part in their realisation. In the environmental field, the project "One tree planted for each car sold in the Czech Republic" continued in 2014. By involving employees and their families, the Company actively promotes environmental protection in the regions where it operates. Since the project began in 2007, more than 50 partners, chiefly local government and non-profit organisations, have participated. More than 480 thousand trees have been planted in total. 2014 culminated with the donation of the millionth car produced to one of the collaborating non-profit organisations chosen by the employees themselves. The car was won by the organization "Život dětem" (Life for children) and will be used to support their activities in helping children hospitals and health centres.

Culture and the arts

In 2014, ŠKODA AUTO's traditional partners were once again prestigious cultural and social institutions, such as the Czech Philharmonic, the National Theatre, the National Museum and the National Technical Museum where, after the change in management, the Company was pleased to note a further increase in the professionalism and quality of artistic production. There is a range of joint proactive projects, especially with the National Theatre and the Czech Philharmonic. The Company also supported selected international events held outside of Prague, such as the Smetana's Litomyšl international opera festival and the International Film Festival for Children and Youth in Zlin. ŠKODA AUTO continued its partnership with the Prague German Language Theatre Festival, the Mladá Boleslav Municipal Theatre and the respected photographic exhibition World Press Photo in the Czech Republic. The Company has supported the Arnošt Lustig Prize since 2012 and, in 2014, sponsored the "Memory of Nations" awards for the first time. Both awards are dedicated to powerful human values such as courage, bravery, humanity and justice. ŠKODA AUTO through a partnership with the international non-profit organisation ASPEN Institut Praha supports the exchange of ideas, fosters open society and promotes values-based leadership.

Corporate Governance & Compliance

The division's aim is to manage the Company in a reliable, qualified, and transparent manner, which is focused on the long-term success of the Company and protection of the interests of the interested groups. Corporate Governance is a system which manages and controls the Company. It defines the distribution of rights and duties between the interested parties of the Company, as the shareholders, executive management, ŠKODA AUTO bodies, employees, and customers.

Within the Compliance, the Company gives special considerations to its responsibility to comply with legal standards, internal regulations, ethical principles and voluntary commitments. Compliance encompasses not only to the area of business relations, but to all activities both within and outside the Company. The ŠKODA AUTO Company strongly emphasizes the application of and the compliance with all ethical and legal standards in the areas of competition, finance, tax, environmental and employee protection and equality.

Risk management system

The global operations of ŠKODA AUTO in automotive markets pose numerous risks that may have a negative impact on its financial performance and business success. At the same time, economic and legislative changes may lead to a variety of opportunities that the Company strives to utilise to strengthen and further improve its competitive position.

Risk management organisation

The risk management structure at ŠKODA AUTO is based on the common principle of risk management within the Volkswagen Group, which complies with German legislative requirements for monitoring and transparency of a company's activities (KonTraG). Risk management, as an operative component of the corporate process involves identification of individual risks in detail, assessment of their scope, and the introduction of measures to minimise or eliminate them and provide evidence of their effectiveness.

The overall risk management is coordinated centrally by the Controlling division in collaboration with the Governance, Risk & Compliance Department. The joint implementation of the risk management system is described and ensured by the "Risk management system and internal control system" guidelines and the "Operational risk management system" and "Regular GRC process" methodology.

The risk monitoring system is based on decentralised responsibilities. Every year, standardised questions for evaluating risk situations are forwarded to employees who handle risks in individual organisational units. Based on their feedback, the complete picture of the potential risk situation is updated. For each identified risk, a qualitative probability of occurrence and the probable impact are determined. Appropriate countermeasures are implemented to minimise or eliminate each risk and are specified in internal regulations. These internal regulations are clearly defined and are usually available online. Management is regularly provided with a report containing a description of the most significant risks. In accordance with strategic aims, countermeasures to eliminate or reduce risks are proposed and subsequently implemented. These countermeasures are continuously monitored and evaluated by managers of the organisational units. The effectiveness and sufficiency of the system is regularly verified, integrated into the planning, controlling and business processes system, and continuously optimised as part of the risk management process. In this case, the same importance is assigned to internal and external requirements, particularly the German Accounting Law Modernisation Act (BilMoG). The system is optimised to achieve continuous monitoring of the major risk areas, including the responsibilities of individual organisational units.

Risk description and management

The most significant risks the Company faces are financial and sector-specific risks, risks arising from changes in the overall economic and political conditions and changes in legislation, operational risks and other risks, such as those arising from changes in quality and risks in the area of human resources.

Economic, political and legislative risks

With regard to the Company's business activities, its financial position both as an exporter and as a local manufacturer is significantly influenced by general economic conditions and those in individual markets, such as the state of the economy and the related economic cycle, legislative changes, and also the political situation, terrorist activities or pandemics in the countries where the Company is active.

This is accompanied by a persistent threat of risks related to a high level of public debt, high rates of unemployment and fluctuations in prices of precious metals, oil and plastics. Other significant risks that could affect the Company's business activity in global markets include a divergent pace of economic growth in specific countries or regions and a vulnerable banking system. Exports to countries carrying potential territorial and political risks are identified well in advance and hedged using standard, approved products of the financial and insurance markets. In this field, partners are the Czech and international banking organisations, including EGAP.

The economic situation may also be adversely affected by additional costs for technical development as a result of changes in legislation, such as stricter legislative requirements for vehicle safety, fuel consumption or emissions of harmful substances, as well as adjustments in standard vehicle specifications. In the area of legislation pertaining to environmental protection, it is necessary to anticipate tightening of EU legislation governing exhaust gas emissions.

Demand risks

Growing and more aggressive competition in the automotive sector is reflected in increasing support for sales. This is further exacerbated by market risks due to changes in customer demand, since customer purchase behaviour depends not only on actual conditions, such as real wages, but also on psychological factors. To mitigate these risks as far as possible, the Company continuously analyses competition and customer behaviour.

Purchase risks

Close and economically beneficial collaboration between car makers and their suppliers poses procurement-related risks that may disrupt production and possibly cause significant financial loss. These include late delivery, failure to deliver and quality defects, or in extreme cases a supplier becoming insolvent and dropping out of the supply chain. Other risks arise from growing competition in the supply industry. To mitigate these risks, ŠKODA AUTO has teamed up with additional suppliers to source parts for vehicle assembly, so that it is able to respond to any negative developments. In addition, preventive measures are being adopted within the risk management system to address possible supplier insolvency and the financial stability of suppliers is continuously reviewed. All these measures, both preventive and reactive, help maximise the reduction of risk in the Company's relationship with its suppliers.

Financial risks

Financial risks and how they are managed have been one of the most closely monitored aspects of ŠKODA AUTO risk management activities.

In terms of materiality, the risk from exchange rate fluctuations against the Czech crown and their impact on cash flows and the financial and economic performance of the Company is of primary importance. The risk and impact of exchange rate fluctuations are regularly analysed, planned and managed using standard hedging instruments (primarily foreign exchange forwards). The products and strategies used are discussed and agreed by internal and Volkswagen Group committees. These trades meet the requirements of international accounting standards for hedge accounting.

Risks arising from buying aluminium, copper and lead, i.e. raw materials purchased for manufacturing ŠKODA AUTO products are resolved using similar procedures and strategies.

An integral component of risk management is also the active management of the possible impact of interest rate fluctuations on the Company's financial activities and liquidity management.

ŠKODA AUTO uses standard procedures and instruments to manage liquidity risk and ensure sufficient coverage for the period required, as defined by its internal rules. The funding is based on the Company's financial resources and resources of Volkswagen Group companies. The Company prevents credit risk using hedging instruments, both preventive (for example, reserving right of ownership, advance payment, documentary credit, etc.) and additional ones (such as recognition of a commitment, payment instalment or bill of exchange).

Research and development risks

New products carry the inherent risk that customers might not accept them. For this reason, the Company conducts extensive analyses and customer surveys. Trends are identified early, and their relevance for customers is tested. The risk arising from the potential inability to start production of new products within the scheduled timeline, in the required quality and with target expenditures is mitigated by performing ongoing project checks and comparison with specifications, allowing necessary action to be taken in the event of an identified deviation.

Quality risks

Due to growing competitive pressures, the increasing complexity of production technologies and the large number of suppliers, quality assurance is an important part of the manufacturing process. Despite maintaining an effective and systematic approach to quality assurance, risks cannot be ruled out. The quality of products, processes and the Company management system is reviewed annually through an audit carried out by an independent accredited certification company. Quality control system certificates, which ŠKODA AUTO has successfully advocated since 1993, are a guarantee of operating processes and are also one of the input documents for product homologation.

A network of qualified auditors and test technicians is constantly updated for the purposes of timely identification of variations in internal processes and those of suppliers. Department managers regularly report to Company management on the status of testing and measurement.

ŠKODA AUTO is aware of its responsibility for its own products. The quality management department constantly monitors customer satisfaction and provides information on the latest market developments. In the event of negative deviations, measures are immediately taken to minimise risks.

Human resources risks

In the context of the dynamically evolving automotive industry and growing competition, the Company needs to ensure its future competitiveness in the form of a stable, qualified and flexible workforce, in both the direct and indirect area.

This can only be achieved by an appropriate long-term strat-

egy covering the entire HR process from planning, through to staff recruitment, training and motivation.
At the same time, possible risks must be correctly analysed and prevented: for example, loss of qualified staff responsible for key business processes, risks arising from legislative changes, legal risks or risks associated with long-term demographic changes.

Information technology (IT) risks

In the area of information systems and technologies the Company takes great care to protect itself against risks involving data availability, confidentiality and integrity. Increased attention is paid to unauthorised access to and misuse of data through the implementation of various measures relating to employees, the organisation, applications, systems and data networks. Within ŠKODA AUTO, an Information Security Management System (ISMS) has been established to minimise information security risks and their impact on business objectives. Corporate guidelines for the handling of information and safe use of information systems apply to all employees. Additionally, standard technical measures have been implemented against external and internal threats (anti-virus protection, secure internet access, allocation of access permission, etc.).

Legal risks

ŠKODA AUTO conducts business activities in more than one hundred countries worldwide, which can involve risks pertaining to legal disputes against suppliers, dealers and customers, as well as risks of administrative proceedings related to particular areas of the Company's business activities.

Other operating risks

Aside from the aforementioned risks, there are factors of influence that cannot be predicted and that may affect the Company's future development. Such events include natural disasters, epidemics and other threats.

Short-term and long-term outlook

Expected development of the automotive market

The short-term prognosis for the development in demand for passenger cars indicates that, in Europe, the recovery will continue at a moderate pace. At the same time, it is highly probable that, in absolute terms, the European market will be overtaken by the dynamic growth in China.
In Russia, due to the political and economic crisis, a slump in demand for new cars is anticipated.
In contrast, the Indian market is expected to stabilise or grow slightly, compared to 2014.
Globally, a lower rate of growth in demand for new vehicles is forecast than in the previous period.

Czech Republic

In the Czech Republic, market development is expected to remain roughly at the level of 2014.

Europe

A slight increase in demand is expected in Germany, which is the most important European market for ŠKODA AUTO. Sales in Western Europe will most likely reflect the regional economic situation and a slight year-on-year increase is anticipated. A slight increase in demand for passenger cars is also forecast for Central Europe.
The development of the Eastern European passenger car market is likely to be impacted by a significant drop in demand in Russia and a further small decline in Ukraine. For other Eastern European markets, forecasts agree on stable development, with a possible slight recovery in demand for new cars.

Overseas/Asia

The growth in demand for passenger cars in China is consistent with the economic boom in this country of more than a billion people. For 2015, a year-on-year increase of at least one million is forecast. Trends in economic indicators in India suggest that demand for new cars will remain slightly above the level of 2014.

Overview of planned activities and objectives

Technical development

Building on the success of one million ŠKODA brand cars delivered in one year, the Company continues to improve its products worldwide. Technical development is focused on the introduction of new information technologies for safety, comfort and infotainment, taking into account the varied needs of its customers. From 2015, all models will meet the EU6 emissions standard and ŠKODA AUTO will continue to introduce additional measures to reduce CO_2 emissions.
The Company will unveil a completely new model of its flagship – the ŠKODA Superb – in 2015. The third generation of this model will be surprising in its self-assured, completely revised appearance. The new generation will offer the brand's typical spaciousness, and an exceptionally high level of comfort and modern engine technology, safety and support- and multimedia systems.
In the first half of 2015, the ŠKODA Motorsport factory team will focus on completing the main development phase and approval of the new ŠKODA Fabia R5 competition car, which will become the new representative of the ŠKODA brand in the rally world. Following approval, the car looks set to build on the successes of the ŠKODA Fabia Super 2000 both in rally championships as well as in the customer programme for sale to private teams.

Production and logistics

The ŠKODA growth strategy is on a successful course for 2015 and has set ambitious targets for the coming years. In the next few years, ŠKODA AUTO will concentrate on expanding its production capacity at the Kvasiny plant in the Czech Republic. Production of the successor to the ŠKODA Superb will start in 2015 and the Kvasiny plant will prepare to start production of an SUV model for SEAT. A new welding plant was built in 2014 at Kvasiny for this purpose. Expansion of the plant will not stop there, as annual production volumes continue to rise. ŠKODA AUTO will therefore be ready to face the challenges associated with the launch of new models in the years to come.

Logistics also continues to support the ŠKODA growth strategy by optimising logistic processes and costs, and introducing innovative solutions and measures to protect the environment.

Environmental protection
In 2015, ŠKODA AUTO will continue to develop its GreenFuture strategy, which is part of the ŠKODA growth strategy. Under the GreenFuture strategy, the Company plans to continually improve sustainability. In addition to economical vehicles with low fuel consumption, the focus is mainly on careful use of resources throughout the Company.

Markets, sales and marketing
In 2015, ŠKODA AUTO will strive to increase its market share and deliveries in key markets.
The ŠKODA AUTO model offensive will continue at a high pace in 2015. The new ŠKODA Fabia, and from mid-January the ŠKODA Fabia Combi, will be gradually introduced to global markets. Another highlight this year will undoubtedly be the world premiere of the new ŠKODA Superb and its sales launch from mid-2015. The current ŠKODA models are also awaiting exciting innovations and technical improvements.

Employees
In 2015, ŠKODA AUTO will focus on several fundamental issues in the area of human resources. In particular, these will include speeding up the Company's response to new trends, ensuring the necessary skills by developing existing employees, meeting requirements arising from "Industry 4.0" and maintaining its position as the most attractive employer in the Czech Republic. All of these themes are to some extent inter-related. Under the High Performance Organisation project, bureaucracy will be further reduced and the introduction of smart IT support will continue.
The Company plans to develop three production sites in the Czech Republic in the near future. New technologies, continuing digitalisation and demands associated with Industry 4.0 create the need to further develop existing employees and recruit the best specialists for the direct and indirect areas. The Company is particularly interested in highly qualified candidates with excellent language skills, who can work in the worldwide network of various Group companies. ŠKODA AUTO will also seek technically trained, high-quality employees for various positions in the direct area. New forms of learning will play an increasingly important role in the area of staff development. Employees will be able to make use of the expert and project career paths for their professional development. The Company closely cooperates on all issues with the KOVO Trade Union Works Council of ŠKODA AUTO a.s. ŠKODA AUTO welcomes 2015 being declared the year of industry and technical education in the field of technical training support. Cooperation with the towns and regions where it operates is also important to the Company. This cooperation is especially necessary with regard to the development of individual plants. It is essential for the Company to be attractive as an employer, in addition to its other activities in the field of personnel marketing and social services.

Finance
In 2015, ŠKODA AUTO will continue the modernisation of its model range. 2015 will be impacted by expenditures related to the launch of the new ŠKODA Superb generation and roll-out preparations for an SUV model. However, investment in new products is essential for the future of ŠKODA AUTO.
In 2015, ŠKODA AUTO will strive to achieve solid results and maintain financial stability. Optimisation of processes and production expenditures, while maintaining a high level of productivity, are the main measures designed to ensure the Company meets its financial targets. The Company also plans to focus on targeted management of expenditures and liquidity, which will be achieved through careful planning of expenditure targets, optimised use of working capital and consistent monitoring of investment objectives.

Milestones of the year 2014

January

31. 1. The ŠKODA Octavia and ŠKODA Superb top the reader's survey in "Auto Motor und Sport" magazine as the "Best car of 2014".

February

2. 2. European Rally Championship (ERC): The ŠKODA brand wins thanks to the crew of Lappi-Ferm at the Latvian Rally.

5. 2. The modernised ŠKODA Superb and ŠKODA Yeti are presented at the New Delhi Motor Expo in India.

March

3. 3. "ŠKODA VisionC" Design Study – representing the next phase of the ŠKODA model offensive – is presented to the public for the first time at the Geneva Motor Show.

3. 3. Other premières in Geneva: ŠKODA Octavia Scout, ŠKODA Octavia G-TEC, Monte Carlo versions derived from the ŠKODA Yeti, Rapid Spaceback and Citigo.

3. 3. Start of production of the ŠKODA Rapid in Russia

4. 3. Agreement on official partnership between ŠKODA AUTO and the Tour de France until 2018 signed in Geneva.

17. 3. ŠKODA AUTO presents financial results for 2013 at the press conference in Mladá Boleslav.

21. 3. Fiftieth birthday of the ŠKODA 1000 MB model: This compact car was unveiled on 21 March 1964.

April

10. 4. Record first quarter: ŠKODA AUTO delivered 247,200 cars to customers from January to March.

13. 4. Asia-Pacific Rally Championship (APRC): ŠKODA wins first and second place at the Whangarei Rally in New Zealand.

19. 4. ERC: ŠKODA places first and second at the Irish Rally.

20. 4. The ŠKODA Octavia celebrates its Chinese premiere at the Auto China 2014 motor show in Beijing.

May

2. 5. ŠKODA AUTO manufactures its three-millionth 1.2 HTP engine.

7. 5. Czech President Miloš Zeman and German President Joachim Gauck visit the ŠKODA AUTO plant in Mladá Boleslav.

9. 5. ŠKODA sponsors the IIHF Ice Hockey World Championship for the twenty-second consecutive year. This time the venue is Belarus.

18. 5. APRC: Kopecký and Gill win ŠKODA the second double of the season.

30. 5. The Mladá Boleslav plant starts producing the new 1.0 MPI EA 211 series petrol engine.

June

2. 6. The ŠKODA CitiJet design concept – the dream car of ŠKODA apprentices – and the ŠKODA Yeti Xtreme are presented at Wörthersee.

21. 6. ERC: ŠKODA celebrates its fifth consecutive win in the Belgian "Ypres Rally".

22. 6. APRC: The third consecutive triumph for the ŠKODA brand. Kopecký also wins the International Rally of Queensland in Australia.

July

2. 7. ŠKODA AUTO sponsors the Tour de France for the eleventh year. The core of its support is a fleet of about 250 ŠKODA cars for transporting teams and organisers.

9. 7. The innovative compact ŠKODA Rapid Spaceback wins the "Red Dot" award for high-quality product design. The ŠKODA Octavia RS earns an honourable mention for design.

10. 7. ERC: 40 years of the ŠKODA RS at the Rally Bohemia – two ŠKODA Fabia Super 2000s are on the starting line in the design of the ŠKODA 180 RS and 200 RS.

12. 7. ERC: European Champion Kopecký wins to crown ŠKODA's triple win at the home Rally Bohemia.

17. 7. The first design sketch of the new ŠKODA Fabia model shows a young town car with characteristic ŠKODA genes.

29. 7. Gerhard Plattner drives a ŠKODA Octavia G-TEC car 1,172 km from Berlin to Jesolo in Italy for less than EUR 40.

August

17. 8. APRC: In Malaysia, Gaurav Gill celebrates the fourth win by a ŠKODA car in the fourth race of the season.

21. 8. Start of production of the new ŠKODA Octavia Scout

28. 8. ŠKODA AUTO celebrates the start of production of the new-generation ŠKODA Fabia at the main plant in Mladá Boleslav.

29. 8. Chinese Vice Premier Zhang Gaoli visits ŠKODA AUTO.

September

4. 9. ŠKODA AUTO starts operation of the new engine centre in Mladá Boleslav. Together with the Volkswagen Group, the Company invested about EUR 45 million in expanding the existing technology and development centre in Mladá Boleslav.

9. 9. ŠKODA is the official sponsor of the new European Champions Hockey League. The partnership with the new Champions League covers the 2014/2015 and 2015/2016 seasons.

19. 9. The ŠKODA AUTO logistics system wins the "European Gold Medal in Logistics and Supplier Chain".

23. 9. The ŠKODA AUTO plant in Kvasiny celebrates the 80th anniversary of its founding. Vehicles have been produced at the East Bohemian plant since 1934 and ŠKODA vehicles since 1947. Currently about 3,200 employees build ŠKODA Superb, Yeti and Roomster models in Kvasiny.

28. 9. APRC: With the early win of two titles in the FIA Asia-Pacific Rally Championship in Japan, ŠKODA Motorsport is rewriting motorsports history. For the third consecutive year, ŠKODA wins both the APRC brand and driver competitions.

October

1. 10. ŠKODA Fabia celebrates its world premiere at the Volkswagen Group Night, the night before the opening of the Paris Motor Show.

1. 10. Dieter Seemann joins the Board of Management, with responsibility for Purchasing. He succeeds Karlheinz Hell.

2. 10. The new ŠKODA compact cars are the stars of the Paris Motor Show. Shortly after the première of the ŠKODA Fabia, the Fabia Combi also celebrates its world première.

14. 10. ŠKODA World Dealer Conference in Valencia: ŠKODA dealers from around the world get to know the new ŠKODA Fabia, at an impressive 11 day-event with 4,600 participants and 200 vehicles.

17. 10. ŠKODA Felicia celebrates its 20th anniversary. 20 years ago the first ŠKODA car rolled off the production line after joining the Volkswagen Group. From 17 October 1994 until 2001 more than 1.4 million ŠKODA Felicia vehicles were produced at the plants in Mladá Boleslav, Vrchlabí and Kvasiny in hatchback, combi, pick-up, Vanplus and Fun versions.

25. 10. ERC: At the Swiss Rally, factory driver Lappi repeats his victory of last year and secures ŠKODA the European Championship title.

29. 10. Four-wheel drive option now available for the ŠKODA Octavia sedan.

November

5. 11. The new ŠKODA Fabia is awarded the maximum five-star rating in the renowned Euro NCAP crash tests.

6. 11. The ŠKODA Vrchlabí plant produces the 500,000th DQ 200 dual-clutch transmission since October 2012.

7. 11. ERC: ŠKODA secures the title at the FIA European Rally Championship for the third consecutive year. ŠKODA driver Esapekka Lappi is the European champion.

9. 11. APRC: By winning the "China Rally Longyou", ŠKODA concludes the FIA Asia-Pacific Rally Championship with a perfect track record of six wins in six races.

17. 11. Chinese premiere of the "ŠKODA VisionC" design study at the Guangzhou Motor Show.

26. 11. For the first time ŠKODA shows the concept rally car of the future, the ŠKODA Fabia R5, at the Essen Motor Show.

December

6. 12. Big day for the ŠKODA Motorsport team: At the FIA prize-giving in Doha, the ŠKODA drivers are crowned rally champions of Asia-Pacific and Europe for the third consecutive year.

10. 12. ŠKODA produces more than 1 million vehicles in one year for the first time in its company's history. The millionth vehicle manufactured in 2014 is a ŠKODA Fabia 81 kW 1.2 TSI in Moon White.

11. 12. The beginning of a new era: The new ŠKODA Superb successfully passes the last technical acceptance runs. ŠKODA announces the world premiere for the middle of February. Its market launch is planned for mid-2015.

15. 12. Production start of the new ŠKODA Fabia Combi in Mladá Boleslav.

15. 12. ŠKODA produces the 500,000th third-generation ŠKODA Octavia.

Financial Section

Financial Section

Auditor’s report on the annual report

Independent auditor’s report to the shareholder of ŠKODA AUTO a.s.

We have audited the separate financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") for the year ended 31 December 2014 disclosed in the annual report on pages 48 to 109 and issued the opinion dated 10 February 2015 and disclosed on pages 46 and 47.

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2014 is consistent with the separate financial statements which are included in this annual report. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the separate financial statements based on our verification procedures.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

Auditor's Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2014 is consistent, in all material respects, with the separate financial statements.

10 March 2015

PricewaterhouseCoopers Audit, s.r.o.
represented by

Ing. Jiří Zouhar
Partner

Ing. Pavel Kulhavý
Statutory Auditor, Licence No. 1538

Note:
Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version

Auditor´s report on the separate financial statements

Independent auditor's report to the shareholder of ŠKODA AUTO a.s.

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company"), which comprise the balance sheet as at 31 December 2014, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the separate financial statements").

Board of Directors' Responsibility for the Separate Financial Statements

The Board of Directors is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic
T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic,
Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637,
and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the financial statements that give a true and fair view 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 internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the European Commission's interpretation as described in Note 1.1.

10 February 2015

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Ing. Jiří Zouhar
Partner

Pavel Kulhavý
Ing. Pavel Kulhavý
Statutory Auditor, Licence No. 1538

Note:
Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Separate financial statements for the year ended 31 December 2014

Income statement for the year ended 31 December 2014 (CZK million)

	Note	2014	2013
Sales	**18**	**299,318**	**243,624**
Cost of sales	27	254,944	209,538
Gross profit		**44,374**	**34,086**
Distribution expenses	27	13,466	13,067
Administrative expenses	27	6,939	6,679
Other operating income	19	5,130	6,024
Other operating expenses	20	7,501	7,827
Operating profit		**21,598**	**12,537**
Financial income		2,367	2,007
Financial expenses		2,616	1,594
Financial result	**21**	**(249)**	**413**
Profit before income tax		**21,349**	**12,950**
Income tax expense	23	2,928	1,564
Profit for the year		**18,421**	**11,386**

Statement of comprehensive income for the year ended 31 December 2014 (CZK million)

	Note	2014	2013
Profit for the year, net of tax		**18,421**	**11,386**
Cash flow hedges	13	(3,043)	(2,743)
Other comprehensive income / (loss) for the year, net of tax*		**(3,043)**	**(2,743)**
Total comprehensive income for the year		**15,378**	**8,643**

* Other comprehensive income/(loss) includes only such items which will be subsequently reclassified to income statement.

The notes on pages 52 to 109 are an integral part of these financial statements.

Balance sheet as at 31 December 2014 (CZK million)

	Note	31 December 2014	31 December 2013
Assets			
Intangible assets	5	25,168	21,488
Property, plant and equipment	6	65,916	61,446
Investments in subsidiaries	7	49	247
Investments in associates	8	2,352	2,352
Other non-current receivables and financial assets	9	9,047	866
Deferred tax asset	15	2,607	1,524
Non-current assets		**105,139**	**87,923**
Inventories	10	12,326	11,092
Trade receivables	9	11,941	11,290
Other current receivables and financial assets	9	4,387	9,727
Prepaid income tax		–	43
Cash and cash equivalents	11	42,878	31,926
		71,532	**64,078**
Assets classified as held for sale	7	198	–
Current assets		**71,730**	**64,078**
Total assets		**176,869**	**152,001**

	Note	31 December 2014	31 December 2013
Equity and liabilities			
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Retained earnings	13	86,890	74,162
Other reserves	13	(5,176)	(2,133)
Equity		**100,001**	**90,316**
Other non-current liabilities	14	7,898	4,820
Non-current provisions	16	10,509	7,774
Non-current liabilities		**18,407**	**12,594**
Current financial liabilities	14	–	3,106
Trade liabilities	14	35,741	29,314
Other current liabilities	14	10,280	6,183
Current income tax liabilities		1,559	–
Current provisions	16	10,881	10,488
Current liabilities		**58,461**	**49,091**
Total equity and liabilities		**176,869**	**152,001**

The notes on pages 52 to 109 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2014 (CZK million)

	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2013	**16,709**	**1,578**	**69,405**	**610**	**88,302**
Profit for the year	–	–	11,386	–	11,386
Other comprehensive income/(loss)	–	–	–	(2,743)	(2,743)
Total comprehensive income for the year	**–**	**–**	**11,386**	**(2,743)**	**8,643**
Transactions with owners					
Dividends paid	–	–	(6,629)	–	(6,629)
Balance as at 31 December 2013	**16,709**	**1,578**	**74,162**	**(2,133)**	**90,316**
Balance as at 1 January 2014	**16,709**	**1,578**	**74,162**	**(2,133)**	**90,316**
Profit for the year	–	–	18,421	–	18,421
Other comprehensive income/(loss)	–	–	–	(3,043)	(3,043)
Total comprehensive income for the year	**–**	**–**	**18,421**	**(3,043)**	**15,378**
Transactions with owners					
Dividends paid	–	–	(5,693)	–	(5,693)
Balance as at 31 December 2014	**16,709**	**1,578**	**86,890**	**(5,176)**	**100,001**

* Explanatory notes on Other reserves are presented in Note 13.

The notes on pages 52 to 109 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2014 (CZK million)

	Note	2014	2013
Cash and cash equivalents as at 1 January	**17**	**31,926**	**34,738**
Profit before income tax		21,349	12,950
Depreciation and impairment of non-current assets	5, 6	16,397	14,502
Change in provisions		3,324	1,682
Gain on disposal of non-current assets		(15)	(9)
Net interest (income) / expense	21	87	518
Change in inventories		(1,288)	(1,578)
Change in receivables		(534)	(1,049)
Change in liabilities		8,336	4,272
Income tax paid from operating activities		(1,694)	(1,057)
Interest paid		(327)	(312)
Interest received		118	57
Dividends income	21	(1,074)	(584)
Unrealised (gains) and losses from derivatives and other adjustments for non-cash transactions		478	(427)
Cash flows from operating activities		**45,158**	**28,965**
Purchases of non-current assets		(17,373)	(19,920)
Additions to capitalised development costs	5	(5,428)	(4,326)
(Increase) / decrease in short-term deposits*	9	4,500	(1,500)
Increase in long-term loans*	9	(8,300)	–
Proceeds from sale of non-current assets		15	14
Proceeds from dividends		1,074	584
Cash flows from investing activities		**(25,512)**	**(25,148)**
Net cash flows (operating and investing activities)		**19,646**	**3,817**
Dividends paid	12	(5,693)	(6,629)
Repayments of loans received		(3,000)	–
Cash flows from financing activities		**(8,693)**	**(6,629)**
Net change in cash and cash equivalents		**10,952**	**(2,812)**
Cash and cash equivalents as at 31 December	**17**	**42,878**	**31,926**

* Loans and deposits which do not meet criteria of cash equivalents according to IAS 7.

The notes on pages 52 to 109 are an integral part of these financial statements.

Notes to the separate financial statements 2014

Company information

Foundation and company enterprises

ŠKODA AUTO a.s. ("the Company") was incorporated as a joint-stock company on 20 November 1990. The Company's principal business activities are the development, production and sale of vehicles and related accessories.

Registered office: Tř. Václava Klementa 869
293 60 Mladá Boleslav
Czech Republic
IČ: 00177041
www address: www.skoda-auto.cz

The Company is registered in the Commercial Register maintained with the Municipal Court in Prague, Section B, Insert 332, with File No. Rg. B 332.

The organisational structure of the Company is divided into the following main areas:

- Central management department
- Technical development
- Production and logistics
- Sales and marketing
- Commercial affairs
- Human resource management
- Purchasing

The Company has its main production plant in Mladá Boleslav and two other production plants in Vrchlabí and Kvasiny.

ŠKODA AUTO a.s. is a subsidiary of VOLKSWAGEN FINANCE LUXEMBURG S.A. included in the consolidation group of its ultimate parent company and its ultimate controlling party, VOLKSWAGEN AG ("Volkswagen Group"), with its registered office in Wolfsburg, the Federal Republic of Germany (for details see Note 31).

Note

The financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these financial statements takes precedence over the English version.

1. Summary of significant accounting policies and principles

1.1 Compliance statement

These financial statements are separate financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2014 and relate to the consolidated financial statements of Volkswagen Group for the year ended 31 December 2014, which includes financial statements of ŠKODA AUTO a.s. and financial statements of its subsidiaries and associates.

The Company as a controlled entity is required to be consolidated by its ultimate parent company VOLKSWAGEN AG in its financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union that are available for public use. The Company prepares the separate financial statements in accordance with IFRS as adopted by the European Union ("IFRS") based on the Company's sole shareholder's decision in accordance with paragraph 19a Article 7 of Act No. 563/1991 Coll. on Accounting.

The Company released these separate financial statements as its only financial statements prepared in accordance with IFRS, and relied on the exemption from consolidation under paragraph 4(a) of IFRS 10 and exemption from applying the equity method in accordance with paragraph 17 of IAS 28.

Users of these separate financial statements should read them together with the consolidated financial statements of Volkswagen Group for the year ended 31 December 2014 in order to obtain full information on the financial position, results of operations and changes in financial position of the ŠKODA AUTO Group as a whole. The consolidated financial statements of Volkswagen Group prepared in accordance with IFRS will be publicly available on the Web after their approval* at:

http://www.volkswagenag.com/content/vwcorp/info_center/de/publications/publications.html

The Company publishes only separate financial statements in Collection of documents of respective court maintaining the commercial register based on the exemption from consolidation under paragraph 62 Article 2 and 3 of Decree No. 500/2002 Coll. Consolidated financial statements of VOLKSWAGEN AG and the auditor's report responsible for their verification will be published in Czech language in the collection of documents in the Commercial register.

For more information about the Company refer to the preceding note "Company information".
For more information about the ultimate parent company VOLKSWAGEN AG refer to note 31.

*At the time of approval of these separate financial statements, the approved consolidated financial statements of Volkswagen Group have not been available. The Company applied an interpretation contained in the agenda paper issued by the European Commission Internal Market and Services for the meeting of the Accounting Regulatory Committee (document ARC/08/2007) about relationship between the IFRS regulation and the 4th and 7th Company Law Directives. The Commission Services Department was of the opinion that, if a company chooses or is required to prepare its annual financial statements in accordance with IFRS as adopted by the European Union, it can prepare and file them independently from the preparation and filing of its consolidated financial statements.

1.2 Adoption of new or revised standards, amendments and interpretations to existing standards

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on 1 January 2014

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2014, which are applied by the Company:

IFRS	Standard/Interpretation	Effective in EU	Description	Effect
IAS 32	Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014	The amendments to IAS 32 deal with offsetting financial assets and liabilities. It clarifies conditions under which the offsetting may be applied. Financial asset and related financial liability should be offset and the net amount reported when, and only when, an entity has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments also clarify definition of legally enforceable right. Legal right must be enforceable both in the normal course of business, but also in the event of default, insolvency or bankruptcy of any contractual counterparty.	The Company implemented amendments to IAS 32 dealing with offsetting financial assets and financial liabilities in the statement of financial position for the year ended 31 December 2014. As a result, carrying value of receivables and liabilities presented in the statement of financial position was increased by CZK 1,168 million as at 31 December 2014. This increase represents the amount of receivables and liabilities that are not eligible for offsetting according to the amendment.

There are no other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on or after 1 January 2014 which have material impact on the separate financial statements of the Company.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on or after 1 January 2014

New standards, amendments and interpretations to existing standards, which will be relevant for the Company but have not been early adopted by the Company:

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IFRS 9	Financial instruments	1 January 2018*	New standard IFRS 9 "Financial instruments" should ultimately replace IAS 39 and some financial instruments disclosure requirements based on IFRS 7. The project to replace IAS 39 is implemented in three phases: Phase 1: Classification and measurement of financial assets and financial liabilities IFRS 9 classifies all financial assets currently under the scope of IAS 39 into three categories: assets subsequently carried at amortized costs using effective interest rate method, assets subsequently measured at fair value through other comprehensive income and assets subsequently measured at fair value through profit or loss. The classification must be performed at the time of acquisition and on initial recognition of financial assets and depends on entity's business model and the contractual cash flow characteristics of the financial instrument. Debt instrument that (i) is held within a business model which objective is to collect contractual cash flows, and (ii) that has contractual cash flows represented only by payments of principal and interest on the outstanding principal amount (ie. financial instrument has only "basic loan features") are generally measured at amortized costs. Debt instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other debt instruments should be measured at fair value recognised in profit and loss. Equity instruments under the scope of IFRS 9 are subsequently measured at fair value. Gains or losses arising from equity instruments are always included in profit and loss except for equity instruments that are not held for trading. An entity may irrevocably elect for these instruments on initial recognition that realized and unrealized gains and losses arising from the investment will be recognized in other comprehensive income. Dividends are included in profit and loss only if they represent a return on investment. This decision may be done separately for each equity instrument. Phase 2: Impairment methodology New IFRS 9 has introduced more progressive loss impairment model that will require more timely recognition of expected credit losses compared to incurred loss model under IAS 39. Phase 3: Hedge accounting Hedge accounting requirements were amended to ensure a better link with risk management activity. The standard enables a choice between applying IFRS 9 and continuing with the application of IAS 39 to all hedging relationships as the current standard does not deal with macro hedging.	The Company expects that the new IFRS 9 will have impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. The Company expects further impact of impairment methodology of financial instruments. New IFRS 9 may also influence method of proving the economic relationship between the hedged item and the hedging instrument. However, it is not possible to perform a reliable estimate of all impacts above without detailed analysis as at the date of the financial statements. The Company does not expect early adoption of this standard. The disclosure of information in the area of financial instruments will be set by IFRS 7 para. 44S to 44W.

* Not yet adopted by the European Union as at 31 December 2014 (the specified date relates to effective date as per IASB).

IFRS	Standard/Interpretation	Effective in EU	Description	Effect
IAS 1	Disclosure Initiative - Amendments	1 January 2016*	The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.	The Company is currently assessing the impact of the amendments on the disclosures in the notes to the final statements.
IFRS 15	Revenue from Contracts with Customers	1 January 2017*	IFRS 15 introduces the new core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. The goods or services are transferred when the customer obtains control of these. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. Variable consideration should be involved into transaction price at such amount to avoid significant risk of considerable revenue reversal in the future. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.	The Company expects that the new standard IFRS 15 will have impact especially on amount of recognised revenues as a result of new recognition criteria and new conditions for determining amount of variable consideration. However, it is not possible to perform a reliable estimate of such an impact without detailed analysis as at the date of the financial statements.

* Not yet adopted by the European Union as at 31 December 2014 (the specified date relates to effective date as per IASB).

The following standards, amendments and interpretations to existing standards will not be relevant for the Company or are not expected to have a significant impact on the Company's operations:

IFRS	Standard/Interpretation	Effective in EU	Description
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments	1 January 2016*	This amendment has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because these methods reflect rather generating of economic benefits from business activities that include the use of an asset then expected consumption of economic benefits in the future.
IAS 16 and IAS 41	Bearer plants - Amendments	1 January 2016*	The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.
IAS 19	Defined Benefit Plans: Employee Contributions - Amendments	1 February 2015	The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, e.g. employee contributions that are calculated according to a fixed percentage of salary. The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered (instead of attributing the contributions to the periods of service).
IAS 27	Equity Method in Separate Financial Statements - Amendments	1 January 2016*	The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	1 January 2016*	These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments clarify that the gain or loss, which results from the sale or contribution to an associate or a joint venture or which results from the loss of control of a business if a joint control or significant influence over the transactions involving the associate or joint venture is maintained, is recognised to the extent that depends on whether assets or subsidiary constitute a business as defined in IFRS 3 Business combinations.
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception - Amendment	1 January 2016*	The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

* Not yet adopted by the European Union as at 31 December 2014 (the specified date relates to effective date as per IASB).

IFRS	Standard/Interpretation	Effective in EU	Description
IFRS 11	Acquisitions of Interests in Joint Operations - Amendments	1 January 2016*	This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
IFRS 14	Regulatory Deferral Accounts	1 January 2016*	IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.
IFRIC 21	Levies	17 June 2014	The interpretation clarifies the accounting for an obligation to pay a levy imposed by the legislation and which is not income tax. The interpretation defines the point when the liability should be recognized and the obligating event that gives rise to a liability.

* Not yet adopted by the European Union as at 31 December 2014 (the specified date relates to effective date as per IASB).

Improvements to International Financial Reporting Standards (cycle 2010 – 2012), mandatory for accounting periods beginning on or after 1 February 2015 will not be relevant for the Company or are not expected to have a significant impact on the Company's operations:

IFRS	Standard/Interpretation	Description
IFRS 2	Share-based Payment: Definition of vesting conditions	Amendment to IFRS 2 changes the definition of a "vesting condition" and a "market condition". Furthermore, definitions of a "performance condition" and a "service condition" which were previously included in the definition of a "vesting condition".
IFRS 3	Business Combinations: Contingent considerations	The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at the reporting date, with changes in fair value recognised in profit and loss.
IFRS 8	Operating Segments: Aggregation of operating segments	The amendment requires disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics.
IFRS 8	Operating Segments: Reconciliations	The amendment clarifies that a reconciliation of the sum of assets of reportable segments with an entity's assets should be performed only when information about the segment assets are regularly provided to the chief operating decision maker.
IFRS 13	Fair Value Measurement: Short-term receivables and payables	The amendment clarifies that even after issue of IFRS 13 an entity can measure short--term receivables and payables, for which interest rate is not stipulated, at invoice amount without discounting where the impact of discounting is immaterial.
IAS 16 IAS 38	Property, Plant and Equipment and Intangible Assets: Revaluation model	The amendment clarifies how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
IAS 24	Related Party Disclosures: Key management personnel	The amendment requires to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ("the management entity"), and to disclose the amounts charged to the reporting entity by the management entity for services provided.

Improvements to International Financial Reporting Standards (cycle 2011 – 2013), mandatory for accounting periods beginning on or after 1 January 2015 will not be relevant for the Company or are not expected to have a significant impact on the Company's operations:

IFRS	Standard/Interpretation	Description
IFRS 1	First-time adoption of International Financial Reporting Standards: "Current version of IFRSs"	The amendment clarifies that a first-time adopter can (but does not have to) apply a new IFRS not yet mandatory, provided that the IFRS is available for early adoption. If a first-time adopter chooses to early apply a new IFRS, that new IFRS will be applied throughout all the periods presented in its first IFRS financial statements on a retrospective basis, unless IFRS 1 provides an exemption or an exception that permits or requires otherwise.
IFRS 3	Business Combinations: Scope exceptions for joint ventures	Scope of IFRS 3 was adjusted to clarify that it does not apply to the accounting for the formation of any joint arrangement in the financial statements of the joint arrangement itself.
IFRS 13	Fair Value Measurement: Scope (the "portfolio exception")	The amendment relates to the portfolio exception, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis and clarifies that the exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32.
IAS 40	Investment Property: Clarification of the interrelationship between IAS 40 and IFRS 3	The amendment clarifies that an entity which acquired property must make a judgement to distinguish (a) whether the property meets definition of investment property as per IAS 40 and (b) whether the transaction meets definition of business combination as per IFRS 3.

Improvements to International Financial Reporting Standards (cycle 2014), mandatory for accounting periods beginning on or after 1 January 2016* will not be relevant for the Company or are not expected to have a significant impact on the Company's operations:

IFRS	Standard/Interpretation	Description
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal	Amendment adds specific guidance for cases in which an entity reclassifies assets (or disposal groups) "held for sale" to "held for distribution" (or vice versa) and cases in which held-for-distribution accounting is discontinued. These reclassifications should not be considered changes to the sales plan or plan of distribution to owners. Assets that neither meet criteria to be classified as "held for distribution" nor to be classified as "held for sale" should be recognised as assets which cease to be classified as held for sale.
IFRS 7	Financial instruments: disclosure: Servicing contracts	Amendments clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required by IFRS 7.
IFRS 7	Financial instruments: Disclosure: Applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.	The aim of the amendments to IFRS 7 was to remove uncertainty in requirements for offsetting disclosures for financial assets and financial liabilities in condensed interim financial statements. These amendments clarify that the offsetting disclosures are not specifically required for all interim periods. However, disclosure in the interim financial statements is required in some cases in order to meet other requirements of IAS 34 Interim Financial Reporting.
IAS 19	Employee benefits: Discount rate	The amendment to IAS 19 clarifies that the high quality corporate bonds used for estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
IAS 34	Interim financial reporting: Disclosure of information 'elsewhere in the interim financial report'	The amendment clarifies the requirements for IAS 34 information that are disclosed "elsewhere in the interim report" and are not included in the interim financial statements. The amendments require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report" to be available to users under the same conditions and at the same time as the interim financial statements.

* Not yet adopted by the European Union as at 31 December 2014 (the specified date relates to effective date as per IASB).

2. Basis of preparation of financial statements

These separate financial statements have been prepared under the historical cost convention, except for fair value measurement of available-for-sale financial assets, of financial assets and financial liabilities at fair value through profit or loss, and of all derivative contracts.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Company's accounting policies. Amounts in the financial statements including the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

2.1 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency.
Foreign currency transactions are translated into the functional currency using the exchange rates published by the Czech National Bank prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates published by the Czech National Bank are recognised in the income statement.

2.2 Intangible assets

Purchased intangible assets are recorded at cost less cumulative amortisation and impairment losses. All research costs are recognised as expenses within the income statement when incurred. In accordance with IAS 38, all development costs of new ŠKODA models and other products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility, and costs can be measured reliably. Capitalised development costs and other internally generated intangible assets are carried at cost less accumulated amortisation and impairment losses. If the criteria for recognition as an asset are not met, the costs are recognised in the income statement in the year in which they are incurred. Tooling rights are capitalised as intangible assets. Capitalised costs include all direct costs as well as an appropriate portion of development-related overheads.
The cost of qualifying intangible assets also includes borrowing costs represented by interest and other costs that an entity incurs in connection with borrowing funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use. The Company ceases capitalising borrowing costs when the qualifying asset is ready for its intended use or sale.
The development costs are amortised using the straight-line method from the start of production over the expected life cycle of the models or components. Amortisation recognised during the year is allocated to the relevant functions in the income statement.
Intangible assets are amortised applying the straight-line method over their estimated useful lives as follows:

- Capitalised development costs 2 – 12 years according to the product life cycle
- Software 3 years
- Tooling rights 8 years
- Other intangible fixed assets 3 – 5 years

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.
Intangible assets not yet available for use are tested annually for possible impairment and are carried at cost less accumulated impairment losses. Intangible assets are derecognised on sale or when no future economic benefits are expected from their use or sale. The gains or losses arising from the derecognition of an intangible asset, which are determined as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the assets are derecognised.

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less cumulative depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.
All repairs and maintenance costs are charged to the income statement during the reporting period in which they are incurred. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.
The cost of qualifying tangible assets also includes borrowing costs represented by interest and other costs that an entity incurs in connection with borrowing of funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use. The Company ceases capitalising of borrowing costs when the qualifying asset is ready for its intended use or sale.
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives as follows:

– Buildings	9 – 50 years
– Technical equipment and machinery (incl. special tooling)	2 – 18 years
– Other equipment, operating and office equipment	3 – 23 years
– Means of transport	5 – 25 years

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.
Items of property, plant and equipment are derecognised on sale or when no future economic benefits are expected from their use. The gains or losses arising from the derecognition of items of property, plant and equipment, which are determined as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the assets are derecognised.

2.4 Impairment of assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.5 Financial instruments

2.5.1 Financial assets

Classification

The classification depends on the purpose for which the financial assets were acquired. Management of the Company determines the classification of its financial assets at initial recognition.
The Company classifies its financial assets in the following categories:

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial assets valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting periods 2014 and 2013, the Company only had financial derivatives within this category (Note 2.5.3).

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables, or other receivables and financial assets in the balance sheet (Note 9).

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Dividend income from these activities is included in financial income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as financial income or expenses. In the accounting period 2014 (2013), the Company only had, within the category of available-for-sale financial assets, investments to equity instruments that did not have quoted price in an active market.

Recognition and measurement

Purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Financial assets, with the exception of financial assets carried at fair value through profit or loss, are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Equity instruments that do not have quoted prices in an active market and their fair value cannot be reliably measured are valued at cost net of impairment, if any. Long-term loans and receivables are carried at amortised cost using the effective interest method.

Impairment

The Company determines at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets which are not carried at fair value through profit or loss is impaired. Initially the Company determines, in line with IAS 39, if objective evidence exists that individually material financial assets are impaired and performs the same assessment individually or collectively for individually immaterial financial assets. In the event that the Company does not find objective evidence of impairment for individually assessed financial assets, whether material or not, these assets are included in the group of financial assets with common credit risk characteristics and the group of financial assets is assessed collectively for impairment. Individual assets for which objective evidence of impairment has been identified are not included in a group of assets that are assessed collectively for impairment.

Trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Company will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable. The creation of the allowance is recognised in the income statement within Other operating expenses. When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit or loss and the allowance is utilised.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.5.2 Financial liabilities

Classification
The classification depends on a purpose for which financial liabilities have been concluded. The Company management designates the appropriate classification of financial liabilities on initial recognition.
The Company classifies its financial liabilities into following categories:

a) Financial liabilities measured at fair value through profit or loss
Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2014 (2013), the Company only had financial derivatives in this category (Note 2.5.3).

b) Financial liabilities measured at amortised cost
Financial liabilities are measured at fair value net of transaction costs at initial recognition. Subsequent measurement is at amortised cost by applying the effective interest rate method.

Derecognition
The Company derecognises financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or expire. The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

2.5.3 Financial derivatives
The Company uses derivatives to hedge currency and price risks. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Company designates as hedging instruments only those which fulfil the requirements of hedge accounting.
The Company uses derivatives to hedge future cash flows. The hedged items in this case are highly probable future transactions. The Company is hedging against changes in cash flows from highly probable future transactions caused by changes in foreign exchange spot rates and other price changes (arising especially from the combination of commodity and currency risk).
The changes in the spot component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in the forward points component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised as a gain or loss in the income statement.
The changes in fair value of commodity swaps that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in fair value of commodity swaps that do not qualify as effective cash-flow hedging instruments are recognised in the income statement and classified as a gain or loss.
The cumulative balances recognised in other comprehensive income are recycled into the income statement as a gain or loss in the periods when the hedged item affects the income statement. If the timing of the hedged cash flow is deferred, in compliance with its hedging strategy the Company prolongs the maturity of the original hedging instrument. In such case the spot component of the original derivative contract is held in equity until the hedged item affects the income statement. At this moment, the balance of the spot component is recycled from other comprehensive income to the income statement and recognised as a gain or loss.
When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income from the effective part of the hedging instrument at that time remains in other comprehensive income and is reclassified to the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as the net present value of future cash flows. The fair value of currency forwards and swaps is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. The fair value of commodity swaps is calculated as the present value of future cash flows based on the rates of LME (London Metal Exchange).

2.5.4 Offsetting of financial instruments

The Company presents financial assets and financial liabilities offset in statement of financial position in net amount only when it has currently a legally enforceable right to set off the recognised financial asset and liability and intends to settle on net basis or to realise the asset and settle the liability simultaneously. Legal right must be enforceable both in the normal course of business, but also in the event of default, insolvency or bankruptcy of any contractual counterparty.

2.6 Investments in subsidiaries and associates

Subsidiaries are investees (including structured entities) that are controlled by the Company.
The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
The significant subsidiaries controlled by the Company as at 31 December 2014 (as at 31 December 2013), see note 7:
- ŠKODA AUTO Deutschland GmbH (100%);
- ŠKODA AUTO Slovensko s.r.o. (100%);
- Skoda Auto India Private Ltd. (100%).

Associates are all entities in which the Company has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. This power is generally connected with ownership of 20 to 50 per cent of the voting power or is usually evidenced in one or more of the following ways:
(a) representation on the board of directors or equivalent governing body of the investee;
(b) participation in policy-making processes, including participation in decisions about dividend or other distributions;
(c) material transactions between the investor and the investee;
(d) interchange of managerial personnel; or
(e) provision of essential technical information.

The ŠKODA AUTO a.s. had significant influence as at 31 December 2014 (as at 31 December 2013) in the associates (see Note 8):
- OOO VOLKSWAGEN Group Rus,
- ŠKO-ENERGO FIN, s.r.o.

Recognition, measurement and derecognition

Investments in subsidiaries and associates are carried in the separate financial statements at cost less any impairment loss. The Company recognises a dividend from a subsidiary or associate in financial income when its right to receive the dividend is established.
Investments in subsidiaries and associates are presented in accordance with IFRS 5 Non-current assets held for sale and discontinued operations if classified as held for sale (or included in a disposal group classified as held for sale). Net gains or losses from sale of shares in subsidiaries and associates are included in financial income or expenses.

Impairment

The Company determines at each reporting date whether there is objective evidence that the value of share on equity of subsidiaries and associates is impaired. In case investments in subsidiaries and associates are impaired, the impairment loss is presented in the line financial expenses in income statement.

2.7 Current and deferred income tax

The income tax expense consists of current income tax and deferred income tax. The tax expense is recognised in the income statement with the exception of cases when it relates to items recognised in other comprehensive income or directly in equity. In such cases the current income tax and deferred income tax are recognised in other comprehensive income or directly in equity.

2.7.1 Current income tax

Current tax liabilities (receivables) for the current period and preceding periods are recognised in the amount of expected payments to or claims from tax offices, using the tax rates (and tax laws) valid in the respective period. Current income tax relating to the current accounting period and to preceding periods reduced by the amount already paid is recorded as a liability. If the amount already paid in the current and in preceding periods exceeds current income tax related to these periods, the difference is recorded as a receivable.
The situations, in which the expected amount of payment to the tax authorities (or expected receipt from them) is based on the interpretation of tax laws, are regularly reassessed and the expected payments to tax authorities (or expected receipt from them)

are adjusted accordingly to reflect the best estimate of the amount to be paid to tax authorities (or to be received from them) based on legislation enacted or substantially enacted by the balance sheet date.

2.7.2 Deferred income tax

Deferred income tax is determined using the balance-sheet liability method, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates and tax laws, that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In accordance with IAS 12, deferred tax assets and liabilities are offset if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority, and where the Company has the enforceable right to offset the current tax assets and liabilities.

Deferred tax relating to items recognised in other comprehensive income (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges) is also recognised in other comprehensive income.

The Company recognises deferred income tax assets relating to unused tax credits from investment incentives against deferred tax income in the income statement to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

2.8 Inventories

Purchased inventories (raw materials, consumables, supplies and materials used in production, goods) are stated at the lower of cost and net realisable value. Costs include purchase costs and other acquisition costs (e.g. transport and packaging).

Inventories generated from own production, i.e. work in progress and finished goods, are stated at lower of own production costs or net realisable value. Own production costs include direct material, direct wages and production overheads. The administration overhead expenses are not included in the valuation of work in progress and finished goods.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion less applicable variable selling expenses. Net realisable value reflects all risks of obsolete and redundant raw materials and excessive original parts.

A weighted-average calculation is used to account for the consumption of materials.

2.9 Provisions for employee benefits

Provisions for other long-term employee benefits

The following types of long-term employee benefits are included in the provision for other long-term employee benefits:

- service jubilee
- other long-service benefits

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period or up to the moment of a certain work anniversary of the employee. The amount of provision corresponds with the present value of long-term employee benefits for past service at the balance sheet date determined using the projected unit credit method.

These obligations are valued annually by independent qualified actuaries. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are charged or credited to the income statement.

The present value of long-term employee benefits is determined by discounting the estimated future cash outflows arising from their settlement using interest rates equalling market yield of treasury bonds because there is no deep market of high-quality corporate bonds denominated in CZK. The term and currency of these corporate or treasury bonds are consistent with the currency and term of the respective other long-term employee benefits.

2.10 Other provisions

In accordance with IAS 37, provisions are recognised where a present obligation exists to third parties as a result of a past event; where a future outflow of resources is probable; and where a reliable estimate of that outflow can be made. Future outflows are estimated with respect to particular specific risks. Provisions not resulting in an outflow of resources within one year are recognised at their settlement value discounted to the balance sheet date. Discounting is based on current market interest rates. Where there is a number of similar obligations, the likelihood that an outflow occurs upon the settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.11 Revenue and expense recognition

Revenue comprises the fair value of consideration received or receivable for the goods sold and services provided, net of value-added tax, rebates and discounts.
Sales of goods are recognised only when the goods have been delivered, that is, when the significant risks and rewards have passed to the customer, the sales price is agreed or determinable and receipt of payment is probable. This corresponds generally to the date when the products are provided to dealers outside the Company or to the delivery date in the case of direct sales to consumers.
Revenues from one-off licences are recognised only when the intellectual rights are transferred or when partial delivery has been completed (e.g. delivery of technical documentation, technical support, etc.). Revenues from per-piece licences are recognised based on the number of cars produced in the current accounting period. Dividend income is generally recognised on the date at which the dividend is legally approved and when the payment is probable.
Costs of sales include production costs, costs of goods purchased for resale, and additions to warranty provisions. Research and development costs not eligible for capitalisation in the period, depreciation and impairment charges for capitalised development costs and production equipment are likewise presented as cost of sales.
Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.
Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

2.12 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.13 Investment incentives and subsidies

Subsidies of entrepreneurial activities and of employee training and retraining costs are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants, including non-monetary grants related to the purchase of tangible and intangible assets, are recognised at fair value as reduction in the value of tangible and intangible assets.

2.14 Related parties

A related party is a person that has control or joint control over the reporting entity; has significant influence over the reporting entity; or is member of the key management personnel of the reporting entity or of a parent of the reporting entity. A related party is also an entity which is a member of the same group as the reporting entity and other entities as defined by IAS 24 article 9 par. b.

2.15 Share capital

The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statement of financial position. Ordinary shares are classified as share capital. The Company typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.
The transaction costs of an equity transaction are accounted for as a deduction from equity (net of related income tax deduction) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.
Share premium is represented by the difference between the nominal value of shares issued on share capital increase and the market price of shares and is recognised within equity.

2.16 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including the realistic assessment of future developments. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Capitalisation of development costs

The Company continuously invests in research and development of new products, which are either developed internally within the Company's research and development centre or within the Volkswagen Group. In compliance with IAS 38, for each development project the Company performs an assessment whether the project meets the development costs recognition criteria, especially the probability that the asset will generate future economic benefits. The Company's assessment is based on assumptions and estimates for the next five and more years with respect to the products future sales, development of the individual markets and automotive industry itself. Although the Company's analyses are based on the best currently available information, the risk of future changes and uncertainty with respect to future development of the assumptions applied remain significant. Please refer to Note 5 for additional information including the respective amounts.

Impairment of non-current assets

In the course of the product life cycle and in exceptional situations also before its commencement, there may be circumstances which indicate that "cash generating units" (tangible and intangible assets employed for production of vehicles of a certain model) might have suffered impairment. To determine any possible impairment, the Company estimates value in use of the cash generating units which is calculated as discounted expected future cash flows associated with the employment of the cash generating units. For determination of the estimated future cash flows, the Company applies estimates and assumptions regarding future sales of a particular product, economic development of the individual markets and development of the automotive industry during the next five and more years. Although the Company estimates the value in use of the cash generating units based on the best information and data currently available to the Company, the risk of future changes and uncertainty with respect to the future development of the applied assumptions in the following years remains significant. More detailed information about impairment losses is included in Note 5 and Note 6 in the section Impairment reviews.

Provision for warranty claims

The Company recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially good-will repairs. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line.

The rates for the basic guarantee are determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair trademark policy with regard to specifics of individual countries.

The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end. More detailed information about the provision for warranty claims is included in Note 16.

Provision for litigation risks

Certain events relating to the economic activities of the Company might result in disputes resolved in court and out-of-court proceedings. The risk that future cash outflows will be required to settle the claim (damages, court fees, etc.) is assessed by the Company once it becomes involved in any court or out-of-court proceedings. The risk is assessed based on the Company's experience with similar legal actions, reflecting the latest developments in the proceedings. A provision is recognised if it is more likely than not that an outflow of economic benefits will occur in the future. The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 16 for additional information.

Provision for other risks

Due to own economic activities in various countries, the Company faces risks related to customs and tax legislation (other than income taxes). The risk is assessed based on the Company's experience with similar cases, reflecting the actual circumstances. A provision is recognised if it is more likely than not that an outflow of economic benefits will occur in the future. The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 16 for additional information.

Useful lives

The estimated useful lives of individual tangible and intangible assets or classes of assets are determined based on the Company's experience with similar assets and in accordance with the expected future economic benefits of the assets, taking into account also changes in production plan and expected utilisation of these assets. Intangible assets show the highest uncertainty in estimating the useful life. Net book value of intangible assets was CZK 25,168 million as at 31 December 2014 (as at 31 December 2013: CZK 21,488 million). Average useful life of intangible assets was 7 years in 2014 (in 2013: 7 years).

Royalty income

Based on license agreements with certain contractual parties the royalties may be returned if licence is not utilized by the counterparty. This royalty income is recognised in the contracted amount taking into account the estimate of the risk of royalty income refund.

3. Financial risk management

The Company operates in the automotive industry, sells its products in many countries around the world and performs transactions connected with a variety of financial risks. The objective of the Company is to minimise these risks through application of a flexible hedging strategy with utilisation of various instruments. The structure of risk management in the Company is based on the unified principle of risk management applied in the Volkswagen Group. The Volkswagen Group's risk management principles are in compliance with the requirements of the German Act on Control and Transparency in Enterprises (KonTraG).
In compliance with the Volkswagen Group policy all hedging operations are agreed and implemented in cooperation with the Treasury department of the Volkswagen Group.
Management of the Company is regularly informed of current financial and other related risks (liquidity, foreign exchange rates, interest rates, invoice currencies, payment conditions, taxes etc.), which is achieved through regular "liquidity meeting" attended by representatives from Treasury, Controlling and Accounting, Volkswagen Group Treasury, representatives of subsidiaries and management of the Commercial affairs department. These meetings have predefined agenda, which includes also information on the main macroeconomic indicators from all important countries, in which the Company sells its products. Meetings have a formalised structure and all minutes including the decisions are recorded and their fulfilment is periodically reviewed.

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss to other party by failing to discharge an obligation.
Credit risk arises in the normal course of the Company's operations, as well as through activities connected with financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by the Company Treasury through determination of maximal limits for individual counterparties.
The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. In assessing these risks, attention is paid to the country in which the headquarters of the counterparties are situated. The credit rating of these countries is monitored closely and attention is focused on the analysis of macroeconomic indices. Apart from the Volkswagen Group's Risk Management Department, the Company also uses the services of external agencies (D&B, Creditreform, Reuters, etc.).
The acceptance of new business partners is reliant on standard approval procedures. The Company's involvement with counterparties is managed by means of credit limits that are monitored and reassessed on a regular basis. Adhering to these limits is monitored and evaluated on a regular basis.
Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers and Volkswagen Group entities. Receivables are secured by preventative and supplemental instruments.
Receivables secured by preventative security instruments are used mainly when the customer contracts are concluded. An ob-

ligatory security instrument incorporated in the written contracts is interest on default payments and furthermore selected trade receivables are secured by an ownership title to the sold goods until full settlement of the purchase price.

Trade receivables from Volkswagen Group companies and from associates are considered to bear the least risk. Therefore the supplies of goods are performed on credit terms or the receivables are transferred through factoring to factoring companies within the Volkswagen Group.

Trade receivables from customers located abroad include receivables from general importers and other customers. The receivables from general importers are secured by the following instruments: payments in advance, letters of credit, documentary collection, bank guarantees, standby letters of credit and transfer of receivables to factoring without recourse or with partial recourse. Only an immaterial part of receivables from other customers arises on credit terms.

Receivables from domestic customers are divided into two groups: receivables from contractual partners bound by sales or service agreements, and from other domestic customers. The receivables arising from sales of new and used vehicles to contractual partners are transferred to factoring without recourse or with partial recourse. Credit limits are set up for the supplies of new and used vehicles, original parts and accessories. The deliveries of goods are automatically blocked in case the customer fails to settle outstanding balances on maturity and upon the set limit is exceeded. Supplies to other domestic customers are realised on credit terms.

Different combinations of the following instruments are used as an additional security of high-risk receivables: confirmation of debt prolonging the statute of limitation, payment schedules, bills of exchange, pledges, or executory note.

Loans to employees are secured by other employee guarantees.

As at 31 December 2014 (as at 31 December 2013), the Company did not hold any collateral for loans given.

In the following table, the reported figures represent either the carrying value of secured trade receivables, or the collateral value if this value is lower, determined individually for each instrument:

CZK million	**2014**	**2013**
Retention of legal ownership title to sold cars	786	808
Bank guarantees	443	888
Letters of credit	1,732	1,369
Documentary collection	108	175
Accepted deposit	–	6
Total	**3,069**	**3,246**

3.1.1 Maximum exposure to credit risk (CZK million)

The maximum exposure to credit risk in case of activities connected to business operations, granting of loans, supplier credits provided to customers and deposits in companies within Volkswagen Group and bank deposits is calculated as the gross carrying amount of the above mentioned financial assets less any impairment provisions.
The exposure to credit risk of derivatives is measured at fair value of the derivative.

	Carrying amount as at 31 December 2014		
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Total
Loans to employees	591	–	591
Loans to and deposits in Volkswagen Group companies	48,606	–	48,606
Positive fair value of financial derivatives	712	–	712
Other receivables and financial assets	100	–	100
Trade receivables	11,035	906	11,941
Cash	2,578	–	2,578
Total	**63,622**	**906**	**64,528**

	Carrying amount as at 31 December 2013		
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Total
Loans to employees	592	–	592
Deposits in Volkswagen Group companies	34,583	–	34,583
Positive fair value of financial derivatives	1,154	–	1,154
Other receivables and financial assets	193	–	193
Trade receivables	10,297	993	11,290
Cash	1,926	–	1,926
Total	**48,745**	**993**	**49,738**

The line items Loans to and deposits in Volkswagen Group companies and Deposits in Volkswagen Group companies include loans and deposits with original maturity over three months in total amount of CZK 8,306 million (as at 31 December 2013: CZK 4,583 million) included in balance sheet in the line Other receivables and financial assets (see Note 9) and deposits with original maturity less than three months in total amount of CZK 40,300 million (as at 31 December 2013: CZK 30,000 million) included in balance sheet in the line Cash and cash equivalents (see Note 11).
The amount of guarantees provided by the Company is CZK 41 million as at 31 December 2014 (as at 31 December 2013: CZK 61 million).

3.1.2 Risk concentration

The Company monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Company to foreign exchange risk is disclosed in Note 3.4.1. During the accounting period 2014 (2013) the Company did not identify any significant risk concentration on the basis of distribution region.

A significant portion of financial assets is of an intra-group nature. The Company loaned and deposited free cash only through Volkswagen Group companies.

The total volume of loans to and deposits in Volkswagen Group companies amounted to CZK 51,177 million as at 31 December 2014 (as at 31 December 2013: CZK 36,499 million), out of which:

- loans with original maturity from one to five years included in balance sheet in the line Other receivables and financial assets (see Note 9) in total amount of CZK 8,306 million (as at 31 December 2013: CZK 0 million),
- deposits with original maturity from one to five years included in balance sheet in the line Other receivables and financial assets (see Note 9) in total amount of CZK 0 million (as at 31 December 2013: CZK 3,081 million),
- deposits with original maturity from three months to one year included in balance sheet in the line Other receivables and financial assets (see Note 9) in total amount of CZK 0 million (as at 31 December 2013: CZK 1,502 million),
- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 11) in total amount of CZK 40,300 million (as at 31 December 2013: CZK 30,000 million), and
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 11) in total amount of CZK 2,571 million (as at 31 December 2013: CZK 1,916 million).

In 2014 (2013), the Company did not consider it probable that a default could occur in connection with the free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

3.1.3 Credit quality of financial assets neither past due nor impaired (CZK million)

The Company uses the following criteria when setting ratings of financial assets that are neither past due nor impaired. Solvency class 1 includes receivables, loans to and deposits in Volkswagen Group companies, secured receivables from third parties and receivables that will be subject to factoring without recourse. There is no objective evidence indicating impairment of these receivables. Solvency class 2 includes unsecured trade receivables from third parties for which there is no objective evidence indicatingimpairment (unsecured receivables from dealers).

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2014			
Loans to employees	591	–	591
Loans to and deposits in Volkswagen Group companies	48,606	–	48,606
Positive fair value of financial derivatives	712	–	712
Other receivables and financial assets	100	–	100
Trade receivables	10,705	330	11,035
Cash	2,578	–	2,578
Total	**63,292**	**330**	**63,622**

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2013			
Loans to employees	592	–	592
Deposits in Volkswagen Group companies	34,583	–	34,583
Positive fair value of financial derivatives	1,154	–	1,154
Other receivables and financial assets	193	–	193
Trade receivables	10,008	289	10,297
Cash	1,926	–	1,926
Total	**48,456**	**289**	**48,745**

3.1.4 Carrying amount of financial assets past due and not impaired (CZK million)

	Months past due			
	Less than 1 month	1 – 3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2014	**267**	**339**	**300**	**906**
Balance as at 31 December 2013	412	267	314	993

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Company did not identify any need for impairment of these receivables. Out of the total amount of receivables from group companies which were past due as at 31 December 2013 (CZK 868 million), CZK 118 million were still not paid as at 31 December 2014.

3.1.5 Valuation allowance for receivables and other financial assets (CZK million)

Impairment status and development of other receivables and trade receivables has been analysed as follows:

	2014	2013
Other receivables and financial assets		
Gross balance as at 31 December	167	176
Valuation allowance:		
Balance as at 1 January	(176)	(151)
Additions	–	(27)
Utilised	9	2
Released	–	–
Balance as at 31 December	**(167)**	**(176)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	197	199
Valuation allowance:		
Balance as at 1 January	(199)	(194)
Additions	(34)	(15)
Utilised	29	2
Released	7	8
Balance as at 31 December	**(197)**	**(199)**
Net balance as at 31 December	–	–

During the accounting period 2014 (2013) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2014 (2013) the Company had valuation allowances only on financial assets included in the category of loans and receivables.

3.1.6 Transferred financial assets where the Company has continuing involvement

The Company has concluded a factoring contract with the company ŠkoFIN s.r.o., under which the majority of risks and rewards relating to ownership of receivables arising from sale of new or used cars are transferred to ŠkoFIN s.r.o. Under certain conditions, the company ŠkoFIN s.r.o. can claim compensation relating to realized credit losses up to 2% of the total amount of transferred receivables during the year, however, not more than 49% of these losses and not more than CZK 41 million in 2014 (in 2013: CZK 61 million). This amount represents carrying amount and fair value of the recognised continuing involvement in these receivables, and related financial liabilities. At the same time, this amount represents the maximum exposure to credit risk. The loss recognised at the date of transfer of the assets was CZK 22 million in 2014 (in 2013: CZK 20 million).

3.1.7 Offsetting of financial assets and financial liabilities

Balance as at 31 December 2014	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial liabilities/ assets set off in the balance sheet	Net amount of financial assets/ liabilities presented in the balance sheet	Related amount not set off in the balance sheet*	Net amount**
Receivables from financial derivatives	712	–	712	(703)	9
Liabilities from financial derivatives	11,142	–	11,142	(703)	10,439

Balance as at 31 December 2013	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial liabilities/ assets set off in the balance sheet	Net amount of financial assets/ liabilities presented in the balance sheet	Related amount not set off in the balance sheet*	Net amount**
Receivables from financial derivatives	1,154	–	1,154	(1,144)	10
Liabilities from financial derivatives	7,657	–	7,657	(1,144)	6,513
Trade receivables	12,426	(1,136)	11,290	–	11,290
Trade liabilities	29,720	(1,136)	28,584	–	28,584

* Comprises the financial assets / liabilities (other than cash collateral) that are the subject of an enforceable master netting agreement or similar agreement, and which were not recognized on a net basis in the statement of financial position.

** This is the net value of financial assets / liabilities recognized in the statement of financial position decreased by the value of related financial liabilities / assets that were not recognized on a net basis in the statement of financial position.

As at 31 December 2014 the Company did not offset any trade receivables and trade liabilities in balance sheet because none of the trade receivables and trade liabilities fulfilled criteria for offsetting according to amendment to IAS 32.

Possibility of offsetting assets and liabilities may exist for specific business relations in accordance with applicable legislation, which governs the business relationship. The Company has not disclosed any value in column "Related amount not set off in the balance sheet" as at 31 December 2014 (as at 31 December 2013) due to the fact that the cost to determine this value would significantly exceed the benefit of providing the information.

There was no collateral held or given in respect of derivative financial assets / liabilities as at 31 December 2014 (as at 31 December 2013). The total amount of collateral value of trade receivables was CZK 3,069 million as at 31 December 2014 (as at 31 December 2013: CZK 3,246 million). Details related to types of collateral are presented in Note 3.1.

3.2 Liquidity risk

Liquidity risk is a risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.
The objective of liquidity risk management is to ensure the balance between the funding of operating activities and financial flexibility in order to ensure that all claims of the Company's suppliers and creditors are settled timely.
Management of the Company monitors the liquidity and its development at regular monthly meetings, so called "liquidity meetings", attended by representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the information about daily development of liquidity and its structure. The Company's management is also presented with the short-term forecasts of the liquidity development.

Cash management

Since 2010, when the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS) located in Brussels, centralisation and optimisation of processes is ensured within the Volkswagen Group in the areas of cash management, payments system and liquidity management.
The GTP implementation resulted in changes in the system of outgoing and incoming payments. The outgoing payments are processed on behalf of the Company by VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS. The incoming payments are credited to Company's bank accounts and subsequently at the end of each working day they are automatically transferred to VGS' bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS. All incoming payments are credited to the Company's bank accounts at the "Inhouse Bank" (IHC) operated by VGS, where the differences between debit and credit balances on the collected financial resources are netted-off.
Major instruments used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (credit lines) and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured mainly through resources from other Volkswagen Group companies integrated into the GTP and, to a limited extent, through credit lines arranged with external banks.
The total amount of credit lines from banks as at 31 December 2014 was CZK 700 million (as at 31 December 2013: CZK 700 million). All credit lines are contracted in Czech crowns. The Company has not utilised any agreed bank credit lines as at 31 December 2014 (as at 31 December 2013).
The credit line from the Volkswagen Group in the total amount of CZK 3,000 million was drawn in the whole amount as at 31 December 2013. In 2014, this credit line has been repaid in the full amount.
The information about financial conditions of credit lines drawn is included in Note 14.

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2014					
Cash	2,578	–	–	–	2,578
Loans to and deposits in Volkswagen Group companies	40,300	–	8,384	–	48,684
Other receivables and financial assets (except derivatives)	80	138	398	85	701
Trade receivables	11,800	141	–	–	11,941
Financial liabilities	–	–	–	–	–
Trade liabilities	(34,980)	(256)	–	–	(35,236)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	2,784	9,097	2,940	–	14,821
Outflow of financial resources	(2,650)	(8,762)	(2,732)	–	(14,144)
Commodity swaps	–	–	–	–	–
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	10,438	29,613	54,271	–	94,322
Outflow of financial resources	(11,907)	(33,833)	(60,583)	–	(106,323)
Commodity swaps	(29)	(99)	(116)	–	(244)
Total	**18,414**	**(3,961)**	**2,562**	**85**	**17,100**

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2013					
Cash	1,926	–	–	–	1,926
Deposits in Volkswagen Group companies	34,594	–	–	–	34,594
Other receivables and financial assets (except derivatives)	174	135	343	146	798
Trade receivables	11,162	128	–	–	11,290
Financial liabilities	(3,136)	–	–	–	(3,136)
Trade liabilities	(26,041)	(2,543)	–	–	(28,584)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	2,822	9,344	7,257	–	19,423
Outflow of financial resources	(2,656)	(8,772)	(7,082)	–	(18,510)
Commodity swaps	14	23	11	–	48
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	10,733	30,467	52,872	–	94,072
Outflow of financial resources	(11,716)	(33,352)	(57,255)	–	(102,323)
Commodity swaps	(122)	(60)	(42)	–	(224)
Total	**17,754**	**(4,630)**	**(3,896)**	**146**	**9,374**

3.3 Market risk

Market risk is a risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk includes three types of risks: currency risk, interest rate risk and price risk. Developments on the financial markets are considered to be the most significant risk factor, especially the fluctuation of exchange rates.

3.3.1 Currency risk

Currency risk is a risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The fluctuation of exchange rates represents significant risk in that the Company sells its products, and purchases material, parts and services concurrently in various foreign currencies. The Company actively manages this risk through continually updated market analysis, worldwide procurement of material and equipment and production of its products in some sales regions. Standard derivative hedging instruments are used by the Company to manage the currency risk.

The risk exposure, as determined by the analysis of income and expense structures by foreign currency, is hedged on the basis of expected future foreign currency cash flows. These expected cash flows are planned in the form of monthly foreign currency plans (FX plan), which are being updated regularly and they stretch over a time horizon up to 5 years.

The Company's management is regularly being updated about the currency risk status by means of the liquidity meeting, attended by representatives of the Treasury, Controlling and Accounting departments, Treasury Department of the Volkswagen Group, representatives of subsidiaries and management of Commercial affairs department. In addition to the update of foreign currency plans, actual development of foreign currency cash flows and exchange rates fluctuations against CZK, suggestions for additional hedging are presented and agreed during these meetings.

Forward exchange contracts and currency swaps are used as hedging instruments for elimination of currency risk. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted financial products (derivatives). Contracts are concluded upon the Company's request and in its name by the Treasury Department of the Volkswagen Group. The risk resulting from changes in exchange rates against CZK is hedged for a total of 11 currencies. The most important trading currencies are USD, EUR, GBP, CHF, PLN and RUB. The Company also applies hedge accounting for currency risk.

For the analysis of sensitivity to exchange rates please refer to Note 3.4.1.

3.3.2 Interest rate risk

Interest rate risk is a risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The objective of the interest rate risk management is to eliminate the risk arising from fluctuations of interest rates of financial liabilities and receivables with floating interest rates by maintaining an appropriate structure of financial liabilities and receivables.

The management of the Company monitors the interest rate risk at the regular monthly meetings attended by representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the following - information about current development of interbank interest rates (especially PRIBOR, EURIBOR and LIBOR) and information about central banks' interest rates in the regions where the Company operates. The Company's management is also presented with short-term forecasts of the interest rates development.

The exposure to interest rate risk arises from cash deposits at Volkswagen Group companies.

For the analysis of sensitivity to interest rates please refer to Note 3.4.2.

3.3.3 Price risk

Price risk is a risk that the fair value of future cash flows from the financial instruments will fluctuate because of changes in market prices, especially commodity prices (apart from that which results from currency and interest risk).

Due to continuous volatility in the prices of raw material commodities and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High risk commodities include primarily aluminium, copper, palladium, lead, platinum and rhodium. Those commodities identified as high risk are controlled at the Volkswagen Group level through long-term supply contracts with suppliers.

The Company hedges against price risks in general (as a consequence of changes in particular commodity prices and foreign exchange rates) through commodity swaps (for copper, aluminium and lead) and currency forwards. Those financial derivatives, except for commodity swaps for lead, are subject to hedge accounting – hedging of future cash flows.

3.3.4 Derivative financial instruments

Nominal and fair value of derivatives (CZK million)

	Nominal value of derivatives				Fair value of derivatives			
	Balance as at 31 December 2014		Balance as at 31 December 2013		Balance as at 31 December 2014		Balance as at 31 December 2013	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Currency instruments								
Currency forwards for trading	1,425	238	1,005	2,358	102	11	37	22
Currency forwards – cash flow hedging	8,935	87,953	12,546	86,378	470	9,029	753	6,825
Currency swaps – for trading	908	178	1,208	31	11	4	105	1
Currency swaps – cash flow hedging	3,407	17,954	4,552	13,587	129	1,855	213	643
Commodity instruments								
Commodity swaps for trading	–	107	205	–	–	12	18	–
Commodity swaps – cash flow hedging	–	1,757	386	1,618	–	231	28	166
Total	**14,675**	**108,187**	**19,902**	**103,972**	**712**	**11,142**	**1,154**	**7,657**

Nominal amount of commodity swap is defined as fixed amount, which the Company pays or receives before netting in currency specified within commodity swap multiplied by foreign exchange rate published by CNB (Czech National Bank) as of date of calculation.

The fair values of financial derivatives fulfil the criteria of level 2 in compliance with the IFRS 13 hierarchy (the fair values are derived from market quotations of forward exchange rates, commodity prices and yield curves, however the financial derivatives are not directly traded in active financial markets). For additional information on derivative financial instruments and their valuation methods refer to Note 2.5.3.

Volume of hedged cash flows (CZK million)

Balance as at 31 December 2014	Volume of hedged cash flows		
	Within 1 year	1 - 5 years	Total
Currency risk exposure			
Hedging of future cash flows – future receivables	52,626	62,346	114,972
Hedging of future cash flows – future liabilities	(3,950)	(191)	(4,141)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(694)	(789)	(1,483)
Total	**47,982**	**61,366**	**109,348**

Balance as at 31 December 2013	Volume of hedged cash flows		
	Within 1 year	1 - 5 years	Total
Currency risk exposure			
Hedging of future cash flows – future receivables	47,819	61,184	109,003
Hedging of future cash flows – future liabilities	(8,456)	(1,945)	(10,401)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(732)	(1,198)	(1,930)
Total	**38,631**	**58,041**	**96,672**

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

The Company is exposed to the foreign currency risk arising mainly from transactions performed with EU countries (EUR, GBP) and with countries using USD as transaction currency. The foreign currency risk is measured against the functional currency (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to CZK by applying the Czech National Bank exchange rate.

The sensitivity analysis includes analysis of exposure arising from derivative financial assets and liabilities and unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates compared to those published by Czech National Bank. As at 31 December 2014 the Company considers as reasonably possible the movements of exchange rates EUR, USD, CHF and GBP against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK) and as reasonably possible the movement of RUB against CZK in the following period of +40% (appreciation of CZK) and -40% (depreciation of CZK). As at 31 December 2013 the Company considered as reasonably possible the movements of exchange rates EUR, USD, CHF, GBP and RUB against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK).

The sensitivity analysis to exchange rate changes is based on the assumption of expected reasonably possible exchange rate movements.

The following tables present impact on profit or loss and on other comprehensive income before tax of expected possible appreciation or depreciation of CZK to foreign currencies:

	CZK appreciation by 10%					+40%
2014 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**Other currencies**	**RUB**
Profit before tax						
Non-derivative financial instruments	1,345	(122)	(1)	9	13	(610)
Derivative financial instruments	–	(9)	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	–	2,328	1,738	5,136	1,619	–

	CZK depreciation by 10%					(40)%
2014 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**Other currencies**	**RUB**
Profit before tax						
Non-derivative financial instruments	(1,345)	122	1	(9)	(13)	610
Derivative financial instruments	–	9	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	–	(2,328)	(1,738)	(5,136)	(1,619)	–

	CZK appreciation by 10%					
2013 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	1,209	(68)	(1)	6	(327)	2
Derivative financial instruments	–	(20)	–	–	–	2
Other comprehensive income before tax						
Derivative financial instruments	(582)	2,509	1,717	3,743	397	1,771

	CZK depreciation by 10%					
2013 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	(1,209)	68	1	(6)	327	(2)
Derivative financial instruments	–	20	–	–	–	(2)
Other comprehensive income before tax						
Derivative financial instruments	582	(2,509)	(1,717)	(3,743)	(397)	(1,771)

3.4.2 Sensitivity to interest rates

The Company is exposed to interest risk mainly in relation to short-term deposits provided to Volkswagen Group companies.
The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at balance sheet date in the same way as for the non-derivative financial assets and liabilities.
For short-term deposits provided to Volkswagen Group companies, bank deposits and currency forwards and swaps the Company assumed reasonably possible increase by 100 basis points of the yield curve and reasonably possible decrease by 25 basis points of the yield curve in 2014. Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered. In 2013 the Company assumed reasonably possible movements of the yield curve in the following period for short-term deposits provided to Volkswagen Group companies, bank deposits and currency forwards and swaps by +100/ -25 basis points. The Company is most sensitive to movements of the CZK yield curve.
In the case of derivative financial instruments, the Company measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For non-derivative financial instruments, the impact on profit or loss is determined on the basis of defined change in the interest rate, which would arise at the beginning of the next accounting period and based on the assumption that no other changes in the interest rate would occur during the entire accounting period.
The following tables present impact on profit or loss before tax of expected increase or decrease of interest rates:

2014 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Profit before tax		
Non-derivative financial instruments	493	(21)
Derivative financial instruments	114	(29)
Total	**607**	**(50)**

2013 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Profit before tax		
Non-derivative financial instruments	350	(87)
Derivative financial instruments	72	(18)
Total	**422**	**(105)**

3.4.3 Sensitivity to changes in other price risks

The Company is exposed to a combination of commodity and currency risks due to volatility in prices of particular commodities traded in foreign currencies. This risk of change in cash flows is hedged by a combination of commodity swaps and currency forwards. The sensitivity analysis to changes in commodity prices was determined based on the exposure to derivative financial assets and liabilities as at the balance sheet date.

In 2014 the Company assumes reasonably possible movements in aluminium, copper and lead prices in the following period of +/-10%. In 2013 the Company assumed reasonably possible movements in aluminium, copper and lead prices in the following period of +/-20%.

The Company considers changes in the fair values of derivative financial instruments due to changes in spot commodity prices. Other non-derivative financial assets and liabilities are deemed not to be sensitive to changes in commodity prices since the prices are fixed at the time of recognition of the financial liability or asset.

The following tables represent impact on profit or loss and on other comprehensive income before tax of expected increase or decrease of copper, aluminium and lead prices:

2014 (CZK million)	Increase of copper prices +10%	Decrease of copper prices (10)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%	Increase of lead prices +10%	Decrease of lead prices (10)%
Profit before tax						
Derivative financial instruments	–	–	–	–	9	(9)
Other comprehensive income before tax						
Derivative financial instruments	70	(70)	81	(81)	–	–

2013 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +20%	Decrease of aluminium prices (20)%	Increase of lead prices +20%	Decrease of lead prices (20)%
Profit before tax						
Derivative financial instruments	–	–	–	–	45	(45)
Other comprehensive income before tax						
Derivative financial instruments	179	(179)	192	(192)	–	–

3.5 Capital management

The optimal capitalisation of the Company is the result of a compromise between two interests: return on capital and the Company's capacity to meet all of its liabilities due for payment.
The Company's capital is controlled on the Volkswagen Group level. It is the objective of the capital management function to maintain an adequate owned to borrowed capital ratio to guarantee due payments of all financial liabilities while promoting continued growth of the Company's value for the shareholders. Management of the Company considers as capital equity presented in these financial statements.
The ratios of equity and of borrowed capital on total capital are shown in the following table:

(CZK million)	2014	2013
Equity	**100,001**	**90,316**
Equity ratio	56.5%	59.4%

4. Geographical information

The Company's head office and main production facilities are situated in the Czech Republic.
The Company's sales are generated from five basic geographical regions: the Czech Republic; Germany; Western Europe-other; Central and Eastern Europe; and Overseas/Asia/Africa/Australia. Overseas/Asia/Africa/Australia region is due to its immateriality reported as Other.

2014 (CZK million)	Czech Republic	Germany	Western Europe-other	Central and Eastern Europe	Other	Total
Sales – based on location of customers	27,323	73,836	110,857	56,669	30,633	**299,318**

2013 (CZK million)	Czech Republic	Germany	Western Europe-other	Central and Eastern Europe	Other	Total
Sales – based on location of customers	22,983	57,872	86,390	52,440	23,939	**243,624**

5. Intangible assets (CZK million)

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance as at 1 January 2014	**31,438**	**6,087**	**11,479**	**49,004**
Additions	1,959	3,469	1,875	7,303
Disposals	(8,802)	–	(84)	(8,886)
Transfers	2,174	(2,174)	–	–
Balance as at 31 December 2014	**26,769**	**7,382**	**13,270**	**47,421**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2014	**(21,286)**	**-**	**(6,230)**	**(27,516)**
Amortisation	(2,672)	–	(951)	(3,623)
Impairment losses	–	–	–	–
Disposals	8,802	–	84	8,886
Balance as at 31 December 2014	**(15,156)**	**-**	**(7,097)**	**(22,253)**
Carrying amount as at 31 December 2014	**11,613**	**7,382**	**6,173**	**25,168**

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance as at 1 January 2013	**30,973**	**2,226**	**9,849**	**43,048**
Additions	16	4,310	1,831	6,157
Disposals	–	–	(201)	(201)
Transfers	449	(449)	–	–
Balance as at 31 December 2013	**31,438**	**6,087**	**11,479**	**49,004**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2013	**(18,866)**	**-**	**(5,503)**	**(24,369)**
Amortisation	(2,410)	–	(880)	(3,290)
Impairment losses	(51)	–	(7)	(58)
Disposals	41	–	160	201
Balance as at 31 December 2013	**(21,286)**	**-**	**(6,230)**	**(27,516)**
Carrying amount as at 31 December 2013	**10,152**	**6,087**	**5,249**	**21,488**

Other intangible assets include mainly tooling rights, software and software licences.
Amortisation and impairment losses of intangible assets of CZK 3,518 million (2013: CZK 3,216 million) are included in the cost of sales, CZK 10 million (2013: CZK 13 million) in distribution expenses, and CZK 95 million (2013: CZK 119 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and their potential impact on the carrying amount of the Company's intangible assets. Due to substantial changes in the market environment, the Company has experienced in 2014 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Company's management.
For discounting cash flows, the pretax discount rate of 6.1% has been applied in 2014 (2013: 6.6%), reflecting the specific risks associated with the sector in which the Company operates. The comparison of the carrying amounts with the relevant recoverable amounts resulted in no impairment loss allocated to intangible assets in 2014. In 2013 for one cash-generating unit it resulted in impairment loss of CZK 58 million, which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2013.

Capitalisation of borrowing costs

No borrowing costs have been capitalised in the cost of intangible assets in 2014 or 2013 as they were not material.

The following amounts were recognised in the income statement as research and development expenses (CZK million)

	2014	2013
Research and non-capitalised development costs	7,542	4,248
Amortisation and impairment losses of development costs	2,672	2,461
Research and development costs recognised in the income statement	**10,214**	**6,709**

6. Property, plant and equipment (CZK million)

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Advances paid and assets under construction*	Total
Costs					
Balance as at 1 January 2014	**36,685**	**76,574**	**56,926**	**8,122**	**178,307**
Additions	1,241	4,918	6,784	4,332	17,275
Disposals	(95)	(1,286)	(1,200)	–	(2,581)
Transfers	1,420	2,361	3,733	(7,514)	–
Balance as at 31 December 2014	**39,251**	**82,567**	**66,243**	**4,940**	**193,001**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2014	**(15,319)**	**(56,672)**	**(44,870)**	**–**	**(116,861)**
Depreciation	(1,397)	(6,208)	(4,903)	–	(12,508)
Impairment losses	–	–	(266)	–	(266)
Disposals	76	1,281	1,193	–	2,550
Balance as at 31 December 2014	**(16,640)**	**(61,599)**	**(48,846)**	**–**	**(127,085)**
Carrying amount as at 31 December 2014	**22,611**	**20,968**	**17,397**	**4,940**	**65,916**

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Advances paid and assets under construction*	Total
Costs					
Balance as at 1 January 2013	**34,316**	**70,677**	**49,817**	**9,715**	**164,525**
Additions	900	5,602	4,723	6,298	17,523
Disposals	(59)	(2,223)	(1,459)	–	(3,741)
Transfers	1,528	2,518	3,845	(7,891)	–
Balance as at 31 December 2013	**36,685**	**76,574**	**56,926**	**8,122**	**178,307**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2013	**(14,127)**	**(53,847)**	**(41,443)**	**–**	**(109,417)**
Depreciation	(1,230)	(5,213)	(4,639)	–	(11,082)
Impairment losses	–	–	(72)	–	(72)
Disposals	38	2,388	1,284	–	3,710
Balance as at 31 December 2013	**(15,319)**	**(56,672)**	**(44,870)**	**–**	**(116,861)**
Carrying amount as at 31 December 2013	**21,366**	**19,902**	**12,056**	**8,122**	**61,446**

* Advances paid amount to CZK 2,378 million (as at 31 December 2013: CZK 1,125 million) from the total amount of Advances paid and assets under construction.

Depreciation and impairment losses of the buildings and equipment of CZK 11,945 million (2013: CZK 10,364 million) are included in the cost of sales, CZK 274 million (2013: CZK 227 million) in distribution expenses, and CZK 555 million (2013: CZK 563 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Company's non-current tangible assets. Due to substantial changes in the market environment, the Company has experienced in 2014 a decrease in the planned cash inflows relating to two cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed.
The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Company's management.
For discounting cash flows, the pretax discount rate of 6.1% has been applied in 2014 (2013: 6.6%), reflecting the specific risks associated with the sector in which the Company operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the amount of CZK 266 million (2013: CZK 72 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2014 (31 December 2013).

Capitalisation of borrowing costs

No borrowing costs have been capitalised in the cost of property, plant and equipment in 2014 or in 2013 as they were not material.

7. Investments in subsidiaries

	Country of incorporation	Shareholding %
Subsidiaries:		
ŠKODA AUTO Deutschland GmbH	Germany	100
ŠKODA AUTO Slovensko s.r.o.	Slovakia	100
Skoda Auto India Private Ltd.	India	100

The subsidiaries in which the Company has a financial investment paid dividends to the Company in the amount of CZK 927 million in 2014 (2013: CZK 504 million).
The Company reclassified the share in the subsidiary ŠKODA AUTO Deutschland GmbH of CZK 198 million from the item Investments in subsidiaries to Assets classified as held for sale in the statement of financial position based on the requirements of IFRS 5. Other information regarding the sale of the share is disclosed in notes 28 and 30.

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Company's financial investments in subsidiaries. The Company's management has performed an impairment review of the cash-generating unit, for which the development of the automotive industry and planned volumes of sold cars indicated a possible impairment loss. Carrying value of the financial investment in the subsidiary has been compared with the relevant recoverable amount. The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Company's management.
Cash flows beyond the five years period have been extrapolated with an estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. For determination of the value in use of the financial investment in 2014 (2013), estimated growth rate of 1% has been applied. The applied discount rate is pre-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2014, a discount rate of 6.5% (2013: 6.7%) has been applied. The carrying amount of financial investment has been compared with its recoverable amount as at 31 December 2014 (31 December 2013). The comparison has not resulted in any impairment losses recognized in current and previous year.

8. Investments in associates (CZK million)

	2014	2013
Total assets	38,326	61,235
Total liabilities	29,133	47,603
Total revenue	120,972	145,407
Profit (aggregated)	638	3,222

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o. The principal place of business and country of incorporation is the Russian Federation for OOO VOLKSWAGEN Group Rus and the Czech Republic for ŠKO-ENERGO FIN, s.r.o.

The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2014 was 16.8% (31 December 2013: 16.8%). The Company exercises significant influence in the company OOO VOLKSWAGEN Group Rus based on the following factors: the Company is participating in policy-making processes, including participation in decisions about distribution of profit; material transactions are conducted between both companies; an interchange of managerial personnel takes places between both companies and the Company is providing essential technical information to the company OOO VOLKSWAGEN Group Rus. The carrying amount of the Company's share totalled CZK 1,823 million as at 31 December 2014 (as at 31 December 2013: CZK 1,823 million).

The Company's share in the registered capital of the company ŠKO-ENERGO FIN as at 31 December 2014 was 31.25% (as at 31 December 2013: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2014 (as at 31 December 2013: CZK 529 million).

ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 147 million (2013: CZK 79 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Company's financial investments in associates. Based on performed analyses, no factors have been identified that would indicate a need to recognise impairment losses.

9. Other receivables, financial assets and trade receivables (CZK million)

Other receivables and financial assets

Balance as at 31 December 2014	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	591	–	–	–	591
Loans to and deposits in Volkswagen Group companies	–	8,306	–	–	–	8,306
Positive fair value of financial derivatives	(148)	–	–	860	–	712
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	3,252	3,252
Other	–	100	–	–	469	569
Total	**(148)**	**8,997**	**4**	**860**	**3,721**	**13,434**

* The category Other does not meet a definition of financial instruments in terms of IAS 32.
** Financial assets held for trading.

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2014, the forward component was negative.
Total in table Other receivables and financial assets may be reconciled to the statement of financial position as a sum of Other non-current receivables and financial assets and Other current receivables and financial assets.

Balance as at 31 December 2013	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	592	–	–	–	592
Deposits in Volkswagen Group companies	–	4,583	–	–	–	4,583
Positive fair value of financial derivatives	(91)	–	–	1,245	–	1,154
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	3,768	3,768
Other	–	193	–	–	299	492
Total	**(91)**	**5,368**	**4**	**1,245**	**4,067**	**10,593**

* The category Other does not meet a definition of financial instruments in terms of IAS 32.
** Financial assets held for trading.

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2013, the forward component was negative.
Total in table Other receivables and financial assets may be reconciled to the statement of financial position as a sum of Other non-current receivables and financial assets and Other current receivables and financial assets.

The carrying amount of loans to employees approximates their fair value. The fair value of loans to employees was calculated as the present value of future cash flows based on market interest rates existing at the balance sheet date. The fair value of loans to employees qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.

The line Deposits in Volkswagen Group companies comprises deposits in the amount of CZK 0 million (as at 31 December 2013: CZK 1,502 million) with original maturity from three months to one year. The line Loans to and deposits in Volkswagen Group companies comprises loans and deposits in the amount of CZK 8,306 million (as at 31 December 2013: CZK 3,081 million) with original maturity from one year to five years.

The weighted average effective interest rate based on the carrying amount of deposits with original maturity from three months to one year provided to Volkswagen Group companies as at 31 December 2014 was 0% (31 December 2013: 0.24%). The weighted average effective interest rate based on the carrying amount of loans and deposits with original maturity from one year to five years provided to Volkswagen Group companies as at 31 December 2014 was 0.364% (as at 31 December 2013: 1.58%). The carrying amount of loans to and deposits in Volkswagen Group companies approximates their fair value. The fair value of loans to and deposits in Volkswagen Group companies was calculated as the present value of future cash flows based on market interest rates existing at the balance sheet date. The fair value of loans to and deposits in Volkswagen Group companies qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13. All loans to and deposits in Volkswagen Group companies with original maturity from three months to five years are denominated in CZK.

Detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, is listed in Note 3.3.4.

Line Others in other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets. Cumulative impairment losses reflect the incurred risks of the debtors' delays or defaults. The carrying amount net of impairment loss for each class of financial assets which are not carried at fair value approximates their fair value due to the short-term nature of these items. The fair value of other financial assets qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.

Trade receivables

Balance as at 31 December 2014	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Available for sale financial assets**	**Financial assets designated as hedging instruments**	**Other**	**Total**
Trade receivables						
Third parties	–	2,744	–	–	–	2,744
Subsidiaries	–	923	–	–	–	923
Other related parties	–	8,274	–	–	–	8,274
Total	**–**	**11,941**	**–**	**–**	**–**	**11,941**

Balance as at 31 December 2013	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Available for sale financial assets**	**Financial assets designated as hedging instruments**	**Other**	**Total**
Trade receivables						
Third parties	–	1,638	–	–	–	1,638
Subsidiaries	–	627	–	–	–	627
Other related parties	–	9,025	–	–	–	9,025
Total	**–**	**11,290**	**–**	**–**	**–**	**11,290**

Due to their short term nature the carrying amount of trade receivables approximates the fair value as at the balance sheet date after the valuation allowance is taken into account. The fair value of trade receivable qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13. The allowance for the impairment of trade receivables of CZK 197 million (2013: CZK 199 million) has been deducted from the presented carrying values of trade receivables.

10. Inventories (CZK million)

	Carrying value as at 31 December 2014	Carrying value as at 31 December 2013
Structure of the inventories		
Raw materials, consumables and supplies	3,851	3,771
Work in progress	2,861	2,711
Finished products and goods	5,614	4,610
Total	**12,326**	**11,092**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2014 was CZK 247,741 million (2013: CZK 204,843 million).

11. Cash and cash equivalents (CZK million)

	2014	2013
Cash in hand	5	6
Cash pooling	2,571	1,916
Bank accounts	2	4
Cash equivalents	40,300	30,000
Total	**42,878**	**31,926**

The line Cash pooling also includes overnight deposits from the use of cash pooling (Note 3.2). The line Cash equivalents includes deposits in Volkswagen Group companies with original maturity less than three months. These deposits are included in the portfolio Loans and receivables in terms of IAS 39.
The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2014 was 0.011% (as at 31 December 2013: 0.004%). The weighted average effective interest rate based on the carrying amount of deposits in Volkswagen Group companies with original maturity less than three months as at 31 December 2014 was 0% (as at 31 December 2013: 0.01%). All deposits provided to Volkswagen Group companies with original maturity less than three months are denominated in CZK.

12. Share capital

The issued share capital consists of 1,670,885 ordinary shares at a par value of CZK 10,000 per share.
Due to changes in organisational structure of the Volkswagen Group, Volkswagen International Finance N.V., the Kingdom of the Netherlands was succeeded by Global VW Automotive B.V. based in Amsterdam, the Kingdom of the Netherlands, which became the Company's sole shareholder on 13 May 2014, and VOLKSWAGEN FINANCE LUXEMBURG S.A. based in Luxembourg, Grand Duchy of Luxembourg on 28 June 2014. VOLKSWAGEN FINANCE LUXEMBURG S.A. is directly a 100% subsidiary of VOLKSWAGEN AG.
Rights to vote on the Company's general meetings and rights to receive dividends are attached to the ordinary shares.
There was no movement in the Company's share capital during the accounting period 2014 (2013).
The Company paid a dividend of CZK 5,693 million in 2014 (2013: CZK 6,629 million). The dividend per share was CZK 3,407 in 2014 (2013: CZK 3,968).

13. Other reserves and retained earnings (CZK million)

13.1 Other reserves

	2014	2013
Reserves for cash flow hedges*	(8,552)	(5,509)
Statutory reserve fund	3,366	3,366
Funds contributed by owner	10	10
Total	**(5,176)**	**(2,133)**

* Net of deferred tax from financial derivatives.

The Company has adopted the Business Corporations Act as a whole and has retained the rules for creation of statutory reserve fund. The statutory reserve fund may be used only to offset losses.
Movement in reserve for cash flow hedges:

Balance as at 1 January 2014 (CZK million)	**(5,509)**
Total change in fair value in the period	(6,247)
Deferred tax on change in fair value	1,187
Total transfers to net profit in the period – effective hedging	2,477
Total transfers to net profit in the period – ineffective hedging	13
Deferred tax on transfers to profit or loss	(473)
Balance as at 31 December 2014	**(8,552)**

Balance as at 1 January 2013 (CZK million)	**(2,766)**
Total change in fair value in the period	(3,837)
Deferred tax on change in fair value	729
Total transfers to net profit in the period – effective hedging	480
Total transfers to net profit in the period – ineffective hedging	(29)
Deferred tax on transfers to profit or loss	(86)
Balance as at 31 December 2013	**(5,509)**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2014 presented in the line Other operating expense in amount of CZK 3,459 million (2013: CZK 2,399 million) and in the line Other operating income in amount of CZK 982 million (2013: CZK 1,919 million).

13.2 Retained earnings

From the total amount of retained earnings of CZK 86,890 million (as at 31 December 2013: CZK 74,162 million) profit for the year 2014, net of tax, amounts to CZK 18,421 million (2013: CZK 11,386 million).
In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2014 (determined in accordance with IFRS) is going to be allocated based on the decision of the Company's annual general meeting. The approval of the allocation of the Company's profit for 2014 will follow an approval of Annual Report.

14. Financial, other and trade liabilities (CZK million)

Financial and other liabilities

Balance as at 31 December 2014	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and borrowings	–	–	–	–	–
Total	**-**	**-**	**-**	**-**	**-**
Other liabilities					
Negative fair value of financial derivatives	662	–	10,480	–	11,142
Liabilities to employees	–	–	–	3,121	3,121
Social security	–	–	–	410	410
Other	–	–	–	3,505	3,505
Total	**662**	**-**	**10,480**	**7,036**	**18,178**

* The category Other includes items that are not financial liabilities in terms of IAS 32.
** Financial liabilities held for trading.

Notes:
Negative fair value of financial derivatives consists of spot component disclosed in portfolio Financial liabilities designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial liabilities at fair value through profit or loss (see also Note 2.5.3).
Total in table Other liabilities may be reconciled to the statement of financial position as a sum of Other non-current liabilities and Other current liabilities.

Balance as at 31 December 2013	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and borrowings	–	3,106	–	–	3,106
Total	**-**	**3,106**	**-**	**-**	**3,106**
Other liabilities					
Negative fair value of financial derivatives	73	–	7,584	–	7,657
Liabilities to employees	–	–	–	1,669	1,669
Social security	–	–	–	410	410
Other	–	–	–	1,267	1,267
Total	**73**	**-**	**7,584**	**3,346**	**11,003**

* The category Other includes items that are not financial liabilities in terms of IAS 32.
** Financial liabilities held for trading.

Notes:
Negative fair value of financial derivatives consists of spot component disclosed in portfolio Financial liabilities designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial liabilities at fair value through profit or loss (see also Note 2.5.3).
Total in table Other liabilities may be reconciled to the statement of financial position as a sum of Other non-current liabilities and Other current liabilities.

The fair value of loans and borrowings was CZK 3,137 million as at 31 December 2013. The fair value was calculated as the present value of future cash flows based on market rate as at 31 December 2013, which was 0%. The fair value of loans and borrowings qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.
In the table below, the financial conditions attached to loans received are summarised at their carrying amounts:

Carrying amount as at 31 December 2013					Maturity			
Currency	**Interest terms**	**Interest commitment ending**	**Weighted average effective interest rate based on nominal amount**	**Nominal amount**	**< 1 year**	**1 – 5 years**	**> 5 years**	**Total**
CZK	fixed	< 1 year	4.53 %	3,000	3,106	–	–	3,106
Total financial liabilities				**3,000**	**3,106**	**–**	**–**	**3,106**

Detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, is listed in Note 3.3.4.
Due to the short term nature of other liabilities disclosed in Other liabilities, the carrying amount approximates the fair value. The fair value of other liabilities qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.
None of the financial liabilities are secured by a lien.

Trade liabilities

Balance as at 31 December 2014	**Financial liabilities at fair value through profit or loss**	**Financial liabilities carried at amortised cost**	**Financial liabilities designated as hedging instruments**	**Other**	**Total**
Trade liabilities					
Third parties	–	24,465	–	395	24,860
Subsidiaries	–	1,918	–	–	1,918
Other related parties	–	8,853	–	110	8,963
Total	**–**	**35,236**	**–**	**505**	**35,741**

Balance as at 31 December 2013	**Financial liabilities at fair value through profit or loss**	**Financial liabilities carried at amortised cost**	**Financial liabilities designated as hedging instruments**	**Other**	**Total**
Trade liabilities					
Third parties	–	19,934	–	730	20,664
Subsidiaries	–	1,137	–	–	1,137
Other related parties	–	7,513	–	–	7,513
Total	**–**	**28,584**	**–**	**730**	**29,314**

The line Trade liabilities to other related parties includes liabilities to a factoring company within the Volkswagen Group of CZK 1,426 million as at 31 December 2014 (as at 31 December 2013: CZK 949 million). These liabilities arose in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.
Due to the short term nature of trade liabilities, the carrying amount approximates the fair value. The fair value of trade liabilities qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.

15. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.
As at 31 December 2014 the Company recognised on the balance sheet deferred tax assets of CZK 2,607 million (as at 31 December 2013: deferred tax asset CZK 1,524 million).
The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax liabilities					
Balance as at 1 January 2013	**(3,555)**	**-**	**-**	**-**	**(3,555)**
Credited / (debited) to the income statement	(548)	–	–	–	(548)
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2013	**(4,103)**	**-**	**-**	**-**	**(4,103)**
Credited / (debited) to the income statement	(512)	–	–	–	(512)
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2014	**(4,615)**	**-**	**-**	**-**	**(4,615)**

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax assets					
Balance as at 1 January 2013	**-**	**652**	**920**	**2,995**	**4,567**
Credited / (debited) to the income statement	–	–	214	203	417
Charged to other comprehensive income	–	643	–	–	643
Balance as at 31 December 2013	**-**	**1,295**	**1,134**	**3,198**	**5,627**
Credited / (debited) to the income statement	–	–	24	857	881
Charged to other comprehensive income	–	714	–	–	714
Balance as at 31 December 2014	**-**	**2,009**	**1,158**	**4,055**	**7,222**

* Further information on financial derivatives is disclosed in Note 2.5.3.
** The category Other includes mainly provisions, valuation allowances and tax non-deductible accrued liabilities.

16. Non-current and current provisions (CZK million)

	Provisions arising from sales	Provisions for employee benefits	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2013	**10,998**	**2,457**	**853**	**268**	**1,690**	**16,266**
Utilised	(4,401)	(1,226)	–	(203)	–	(5,830)
Additions	5,211	1,395	286	412	993	8,297
Interest expense	314	–	–	–	–	314
Reversals	(33)	(170)	(92)	(65)	(425)	(785)
Balance as at 1 January 2014	**12,089**	**2,456**	**1,047**	**412**	**2,258**	**18,262**
Utilised	(4,584)	(1,253)	(93)	(105)	(13)	(6,048)
Additions	7,006	676	510	323	1,001	9,516
Interest expense	(99)	–	–	–	–	(99)
Reversals	(38)	(203)	–	–	–	(241)
Balance as at 31 December 2014	**14,374**	**1,676**	**1,464**	**630**	**3,246**	**21,390**

Non-current and current provisions according to the time of expected use of resources:

	< 1 year	1 – 5 years	> 5 years	Total
Balance as at 31 December 2014				
Provisions arising from sales	5,060	6,741	2,573	14,374
Provisions for employee benefits	481	403	792	1,676
Provisions for litigation risks	1,464	–	–	1,464
Provisions for purchase risks	630	–	–	630
Other provisions	3,246	–	–	3,246
Total	**10,881**	**7,144**	**3,365**	**21,390**

	< 1 year	1 – 5 years	> 5 years	Total
Balance as at 31 December 2013				
Provisions arising from sales	5,296	5,415	1,378	12,089
Provisions for employee benefits	1,475	351	630	2,456
Provisions for litigation risks	1,047	–	–	1,047
Provisions for purchase risks	412	–	–	412
Other provisions	2,258	–	–	2,258
Total	**10,488**	**5,766**	**2,008**	**18,262**

Provisions arising from sales include provisions for warranty repairs and provisions for other obligations arising from sales. The provisions for warranty repairs include provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty especially good-will repairs. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines.
Provisions for other obligations arising from sales include provisions for sale bonuses and similar allowances incurred, settlement of which is expected after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date. The additions to provisions for other obligations arising from sales are decreasing revenues.
Provisions for litigation risks relate mainly to provision for risks arising from legal disputes, legal fees, penalty interest and other litigation risks. The Company provides for the probable cash outflows for existing legal, arbitration or other proceedings by means of a relevant provision. The Company is not involved in any legal cases, arbitration or other proceedings for which no provision has been created and which could have a significant impact on the financial position and the financial results (financial statements) of the Company and there are no such proceedings expected in the near future.
Provisions for personnel costs consist mainly of provision for other long-term employee benefits, provision for termination benefits and provision for management remuneration.
Provisions for purchase risks include mainly provision for risks of retrospective changes in prices of raw materials and parts.
Other provisions include mainly provision for tax risks and customs risks in countries where the Company operates.

17. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash and short-term deposits in banks, short-term deposits in Volkswagen Group companies with original maturity of less than three months. The detailed information relating to the cash and cash equivalents can be found under Note 11.
Cash flows are presented in the cash flow statement and are classified into cash flows from operating activities, investing activities and financing activities.
Cash flows from operating activities are derived indirectly from profit before tax. Profit before tax is adjusted to eliminate non-cash expenses (mainly depreciation and amortisation) and income and changes in working capital.
Investing activities include additions to property, plant and equipment, financial assets, as well as to capitalised development cost.
Financing activities include in addition to the outflows of cash from dividend payments, redemption of liabilities from financing, also outflows and inflows from other borrowings.

18. Sales (CZK million)

	2014	**2013**
Cars	251,768	205,015
Spare parts and accessories	16,871	16,445
Supplies of components within Volkswagen Group	23,608	16,292
Revenues from license fees	2,128	2,352
Revenues from services	1,702	964
Other	3,241	2,556
Total	**299,318**	**243,624**

In 2014 line Other relates mainly to sales of used cars, scrap and tooling. In 2013 line Other related mainly to sales of scrap and tooling.

19. Other operating income (CZK million)

	2014	2013
Foreign exchange gains	1,512	1,867
Income from derivative transactions	982	1,178
Gains on non-current assets disposal	15	12
Reversal of provisions and accruals	690	1,339
Reversal of provision for receivables	7	8
Other operating income from provided services	820	896
Gains from license fees not relating to the ordinary activities	217	208
Other	887	516
Total	**5,130**	**6,024**

Foreign exchange gains include mainly gains from differences in exchange rates between the dates of recognition and payment of receivables and payables denominated in foreign currencies, as well as exchange rate gains resulting from revaluation as at the balance sheet date of these receivables and payables. Foreign exchange losses from these items are included in other operating expenses.
Other operating income from provided services includes mainly gains from consultancy and IT services not relating to ordinary activities of the Company.
Reversal of provisions and accruals resulted from changes in estimates driven mainly by the changed external conditions and circumstances on which the Company based the estimates.

20. Other operating expenses (CZK million)

	2014	2013
Foreign exchange losses	2,744	3,551
Losses from derivative transactions	3,459	2,753
Receivables write-offs	34	15
Other	1,264	1,508
Total	**7,501**	**7,827**

Line Other includes mainly additions to provisions for litigation risks.

21. Financial result (CZK million)

	2014	2013
Interest income	133	107
Foreign exchange gains from cash	3	16
Foreign exchange gains from spot operations	101	148
Income from investments	1,074	584
Gains on settlement and revaluation of financial derivatives - ineffective hedging (includes forward component of currency financial derivatives)	1,056	1,152
Financial income total	**2,367**	**2,007**
Interest expenses	220	625
Foreign exchange losses from cash	4	6
Foreign exchange losses from spot operations	120	160
Loss on settlement and revaluation of financial derivatives - ineffective hedging (includes forward component of currency financial derivatives)	2,272	803
Financial expenses total	**2,616**	**1,594**
Net financial result	**(249)**	**413**

22. Net gains and losses from financial instruments (CZK million)

	2014	2013
Financial instruments at fair value through profit or loss	(1,216)	357
Loans and receivables	(946)	514
Available for sale financial assets	1	1
Financial liabilities carried at amortised cost	(481)	(2,433)
Financial instruments designated as hedging instruments	(2,477)	(480)
Net gains / (losses) total	**(5,119)**	**(2,041)**

The portfolio of Financial instruments at fair value through profit or loss contains mainly gains and losses from term component of hedging derivatives and gains and losses from derivatives held for trading.
Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest income from loans and deposits in companies within Volkswagen Group, net interest loss from derivative hedging instruments, foreign exchange gains/losses from bank deposits and impairment losses on financial assets.

23. Income tax (CZK million)

	2014	2013
Current tax expense	**3,297**	**1,434**
of which: adjustment in respect of prior years	(39)	(501)
Deferred tax	**(369)**	**130**
Income tax total	**2,928**	**1,564**

Statutory income tax rate in the Czech Republic for the 2014 assessment period was 19% (2013: 19%).
As at 31 December 2014 and 31 December 2013, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% that corresponds with the statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected.

Reconciliation of expected to effective income tax expense (CZK million)

	2014	2013
Profit before income tax	21,349	12,950
Expected income tax expense	**4,056**	**2,460**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(268)	(181)
Expenses not deductible for tax purposes	433	495
Tax allowances and other tax credits	(430)	(495)
Adjustment to current tax expense relating to prior periods	(39)	(59)
Utilisation of tax credits from investment incentives relating to prior periods	–	(442)
Recognition of deferred tax assets from unused tax credits from investment incentives	(824)	(214)
Effective income tax expense	**2,928**	**1,564**
Effective income tax rate	14%	12%

Line Tax allowances and other tax credits represents mainly tax credits from double deduction of research and development costs.

24. Subsidies and investment incentives

In 2014, the Company recognised gains from subsidies relating to the promotion of an entrepreneurial activity, investments in energy-saving measures in production field, construction of employees-training premises, cooperation within research and development projects and support of private schools and cross-border mobility of students (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 70 million (2013: CZK 119 million).

Investment incentives

To be granted the investment incentives, the Company has to meet the General conditions of paragraph 2 art. 2 of the Act No. 72/2000 Coll., on Investment Incentives, as amended and conditions of paragraph 6a art. 2 and 5 of the same act and Special conditions paragraph 35b of the Act No. 586/1992 Coll., on Income Tax as amended. For the investment incentives granted to the Company, the total amount of the incentive is always dependent on the amount invested. In accordance with the Act on Investment Incentives and based on respective resolutions, the Company was granted the following investment incentives which can be utilised in the form of tax credit:

Model A-SUV

The total amount of the incentive is limited to the amount of CZK 561 million. The project was completed. The tax allowance in amount of CZK 442 million related to 2011 was additionally drawn in 2013.

Enlargement of production of parts of engine EA211 and its assembly

The total amount of the incentive is limited to CZK 800 million. The project was completed in 2014 and the Company expects utilisation of the investment incentive in the amount of CZK 800 million in 2014, and therefore, the incentive was included in current income tax in 2014. Relating deferred tax asset recognised as at 31 December 2013 was CZK 700 million.

Enlargement of production of transmissions - MQ100

The total amount of the incentive is limited to CZK 496 million. The project was completed and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2014 is CZK 420 million (31 December 2013: CZK 434 million).

Enlargement of technical development - Česana Jih premises

The total amount of the incentive is limited to CZK 306 million. The investment part of the project was completed in 2014. The respective deferred tax asset of CZK 306 million was not recognised because utilisation of the investment incentive was regarded by the Company as uncertain as at 31 December 2014.

Enlargement of current production by production of automatic transmissions – Vrchlabí

The total amount of the incentive is limited to CZK 738 million. The realization was completed and the Company expects utilisation of the investment incentive in the future. The respective deferred tax asset of CZK 738 million as at 31 December 2014 relates to amounts invested in prior periods. The deferred tax asset was not recognised as at 31 December 2013 because utilisation was regarded by the Company as uncertain.

Enlargement of Welding shop by production technology used for bodies based on MQB platform – Kvasiny

The total amount of the incentive is limited to CZK 707 million. The realization of the project has already begun. The respective deferred tax asset of CZK 435 million was not recognised because utilisation of the investment incentive was regarded by the Company as uncertain as at 31 December 2014.

25. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records subsequently to the reported tax year as governed by the respective legislation, and may impose additional tax assessments and penalties.

The Company's management is not aware of any circumstances that could result in material liabilities arising from the tax audits carried out at present or potentially in the future, except for the tax risks for which provision for tax risks has been created (see Note 16).

26. Contractual obligations and other future commitments (CZK million)

Future commitments as at balance sheet date are as follows:

	Payable until year 2015	Payable 2016 – 2019	31 December 2014
Investment commitments – property, plant and equipment	3,968	912	**4,880**
Investment commitments – intangible assets	3,863	6,692	**10,555**
Operating leasing payments	243	476	**719**

	Payable until year 2014	Payable 2015 – 2018	31 December 2013
Investment commitments – property, plant and equipment	6,165	820	**6,985**
Investment commitments – intangible assets	8,873	3,282	**12,155**
Operating leasing payments	236	361	**597**

On the basis of non-cancellable operating lease agreements, the Company rented various machines and office equipment and buildings. In the case of termination of these agreements, all outstanding lease payments up to the original expiration date of the contract must be paid.

27. Expenses by nature – additional information (CZK million)

	2014	2013
Material costs – raw materials and other supplies, goods	**202,137**	**166,407**
Production related services	**13,135**	**8,723**
Personnel costs	**19,680**	**18,576**
Wages	14,869	14,170
Pension benefit costs (defined contribution plans)	2,802	2,720
Social insurance and other personnel costs	2,010	1,686
Depreciation, amortisation and impairment losses	**16,397**	**14,502**
Other services	**24,000**	**21,076**
Total cost of sales, distribution and administrative expenses	**275,349**	**229,284**
Number of employees		
Number of employees*	26,765	27,089

* Average number of employees (including temporary employees) – full time equivalent.

28. Related party transactions

In 2014, there was a change in ownership structure of the Company. VOLKSWAGEN FINANCE LUXEMBURG S.A. became the sole shareholder of the Company on 28 June 2014. The category Parent company in the following tables includes transactions with all companies that were the shareholder of the Company during 2014. For more information about these companies and the change in ownership structure refer to note 12.
VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period.
Items in category Other related parties are companies under joint control of VOLKSWAGEN AG, however, according to the law they do not meet the definition of an entity controlled by the same controlling entity pursuant to paragraph 74 of the Act No. 90/2012 Coll., Business Corporations Act, as amended.

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2014	2013
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	7,279	6,831
Subsidiaries		
Skoda Auto India Private Ltd.	1,598	1,335
ŠKODA AUTO Deutschland GmbH	59,789	46,663
ŠKODA AUTO Slovensko s.r.o.	5,165	4,586
Associates		
OOO VOLKSWAGEN Group Rus	15,320	19,581
Companies controlled by ultimate parent company	117,555	89,775
Other related parties	1,417	1,439
Total	**208,124**	**170,210**

The above table Sales to related parties comprises only revenues from sales of vehicles, spare parts and supplies of vehicle components.

In addition to revenues specified in the table Sales to related parties, in 2014 (2013) the Company also realised revenues from royalties:

	2014	2013
Revenues from license fees		
Ultimate parent company	–	–
Subsidiaries	11	8
Associates	132	152
Companies controlled by ultimate parent company	–	–
Other related parties	2,077	2,192
Total	**2,220**	**2,352**

In addition to the revenues specified in the table Sales to related parties, in 2014 (2013) the Company also realised income with related parties relating to interest from intercompany loans and deposits:

	2014	2013
Interest income from loans and deposits		
Ultimate parent company	2	2
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	17	75
Other related parties	–	–
Total	**19**	**77**

Dividends received from subsidiaries are disclosed in Note 7. Dividends received from associates are disclosed in Note 8.

Purchases from related parties (CZK million)

	2014	2013
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	45,798	33,341
Subsidiaries		
Skoda Auto India Private Ltd.	521	309
ŠKODA AUTO Deutschland GmbH	974	944
ŠKODA AUTO Slovensko s.r.o.	124	97
Associates		
OOO VOLKSWAGEN Group Rus	486	535
Companies controlled by ultimate parent company	27,442	24,117
Other related parties	135	69
Total	**75,480**	**59,413**

The table Purchases from related parties comprises only purchases relating to trade activities.
The amount of dividends paid to the parent company is disclosed in Note 12.

Receivables from related parties (CZK million)

	31 December 2014	31 December 2013
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	630	592
Subsidiaries		
Skoda Auto India Private Ltd.	608	564
ŠKODA AUTO Deutschland GmbH	297	47
ŠKODA AUTO Slovensko s.r.o.	18	16
Associates		
OOO VOLKSWAGEN Group Rus	2,080	3,941
Companies controlled by ultimate parent company	3,842	3,046
Other related parties	1,722	1,446
Total	**9,197**	**9,652**

The above table comprises trade receivables and receivables from royalties. Receivables from royalties are specified below.

	31 December 2014	31 December 2013
Receivables from royalties		
Ultimate parent company	–	–
Subsidiaries	6	6
Associates	280	152
Companies controlled by ultimate parent company	210	210
Other related parties	1,696	2,260
Total	**2,192**	**2,628**

In addition to trade receivables and receivables from royalties, the Company also had loans to and deposits in companies controlled by ultimate parent company in the amount of CZK 48,600 million (31 December 2013: 34,500 million). Receivables from interest from the loans and deposits as at 31 December 2014 amounted to CZK 6 million (31 December 2013: CZK 83 million). Average interest rate relating to these loans and deposits is disclosed in Note 9 and Note 11.
Receivables from related parties are considered by the Company to be of the least risk. The products delivered to the related parties are supplied on credit terms or the resulting receivables are transferred to factoring companies.
No impairment loss was identified for any of the receivables from related parties.
Cash pooling balance with Volkswagen Group Services S.A. is disclosed in Note 11.
Investments in subsidiaries are disclosed in Note 7 and investments in associates are disclosed in Note 8.
Factoring of receivables with related parties is disclosed in Note 3.1 and 3.1.6.

Liabilities to related parties (CZK million)

	31 December 2014	31 December 2013
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,683	1,492
Subsidiaries		
Skoda Auto India Private Ltd.	422	19
ŠKODA AUTO Deutschland GmbH	1,443	992
ŠKODA AUTO Slovensko s.r.o.	54	126
Associates		
OOO VOLKSWAGEN Group Rus	174	46
Companies controlled by ultimate parent company	7,089	5,965
Other related parties	16	10
Total	**10,881**	**8,650**

Liabilities to related parties represent only trade liabilities for all the categories stated above.
In addition to the trade liabilities stated in the table above, the Company had a liability from a loan from VOLKSWAGEN AG of a total amount of CZK 3,000 million as at 31 December 2013. Interest payable relating to this loan amounts to CZK 106 million as at 31 December 2013. Details about the loan are specified in Note 14.

	31 December 2014	31 December 2013
Contractual obligations and other future commitments		
Ultimate parent company	10,530	11,813
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	163	433
Other related parties	–	–
Total	**10,693**	**12,246**

Contractual obligations to related parties include mainly commitments in respect of research and development costs and tooling rights.
The Company incurred future liabilities arising from conclusion of a contract on 16 December 2014 relating to the sale of its 100% interest in the subsidiary ŠKODA AUTO Deutschland GmbH with the effective date as at 1 January 2015 (see Note 30).

Information on key management personnel remuneration (CZK million)

	2014	2013
Salaries and other short-term employee benefits*	555	570
Pension benefit costs (defined contribution plans)	13	12
Total	**568**	**582**

* Salaries and other short-term employee benefits include besides wages, salaries, bonuses and non-monetary remuneration also health and social insurance paid by employer for employees.

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company.
The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes the remuneration paid, payable or provided by the Company in the form of wages, salaries, bonuses and non-monetary remuneration. CZK 306 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2014 (31 December 2013: CZK 307 million).

29. Other information (CZK million)

The compensation paid to the Company's auditors for the accounting period was CZK 24 million (2013: CZK 26 million) and covered the following services:

	2014	2013
Audit, other audit related and assurance services	21	21
Tax and related services	2	3
Other advisory services	1	2
Total	**24**	**26**

30. Significant events after the balance sheet date

On 1 January 2015, the Company sold its 100% share in subsidiary ŠKODA AUTO Deutschland GmbH to a related party of the Company. The selling price of the share exceeds the carrying amount of the investment. The change in ownership structure will have no impact on business activities and scope of operation of ŠKODA AUTO Deutschland GmbH and ŠKODA AUTO a.s. ŠKODA AUTO Deutschland GmbH will continue to operate on the German market as an importer of ŠKODA cars.
On 1 January 2015, the Company became an agent with the power to control and perform further managerial competencies in ŠKODA AUTO Deutschland GmbH on the basis of a management agreement between the Company and the new shareholder. The Company is entitled to a reward based on the agreement.
After the balance sheet date, there were no other events that could have a significant impact on the separate financial statements of the Company for the year ended 31 December 2014.

31. Information about Volkswagen Group

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG, with a registered office in Wolfsburg, the Federal Republic of Germany.
The Volkswagen Group consists of two divisions – Automotive and Financial Services. The activities related to the Automotive Division include the development of cars and aggregates, production and sale of passenger and commercial cars, trucks, buses and motorcycles as well as the business with spare parts, large-bore diesel engines, special gear units and turbomachinery. The following brands belong to Volkswagen Group: Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN, Porsche, Scania, SEAT, ŠKODA, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles.
The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services and the fleet management.
ŠKODA AUTO and its subsidiaries (ŠKODA AUTO Deutschland GmbH, ŠKODA AUTO Slovensko s.r.o. and Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN Group Rus are included in the consolidation of Volkswagen Group's financial statements. These consolidated financial statements, and other information relating to the Volkswagen Group, are available in the annual report of VOLKSWAGEN AG and on its internet site (www.volkswagenag.com).

Mladá Boleslav, 10 February 2015

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Dieter Seemann

Michael Oeljeklaus

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

Report on relations

Report on relations of the company ŠKODA AUTO a.s. pursuant to § 82 of the Business Corporation Act in the accounting period 1 January - 31 December 2014

The board of directors of ŠKODA AUTO a.s., having its registered office at Tř. Václava Klementa 869, 293 60 Mladá Boleslav, IČ: 00177041, registered in the Commercial Register kept by Municipal Court in Prague, Section B, insert 332 (hereinafter referred to as "the Company" or "ŠKODA AUTO"), prepared the following report on relations pursuant to § 82 Act No. 90/2012 Coll., on Business Corporations, as subsequently amended, in the accounting period 1 January 2014 – 31 December 2014 (hereinafter referred to as the "Period").

1. Structure of Relations

The Company has been a part of Volkswagen Group (hereinafter referred to as the "Group") for the whole Period, where the controlling entity is VOLKSWAGEN AG (hereinafter referred to as "Volkswagen" or the "Controlling Entity").
ŠKODA AUTO company was in the Period indirectly controlled by VOLKSWAGEN AG based at Berliner Ring 2, 384 40 Wolfsburg, Federal Republic of Germany through the following companies, which have gradually been always the sole shareholder of the Company. Initially it was through Volkswagen International Finance N.V. seated in Amsterdam, Herengracht 495, 1017, Kingdom of the Netherlands, since 13 May 2014 through Global VW Automotive B.V. seated in Amsterdam, Herengracht 495, 1017, Kingdom of the Netherlands, and since 28 June 2014 through VOLKSWAGEN FINANCE LUXEMBOURG S.A. seated in Luxembourg, 291, Route d'Arlon, L-1150, Grand Duchy of Luxembourg.
The Controlling Entity is the ultimate parent company of the Group which consists of two divisions – Automotive and Financial Services. The activities of the Automotive Division include mainly the development of vehicles and aggregates, the production and sale of passenger and commercial cars, trucks, buses, and motorcycles, as well as business with spare parts, large-bore diesel engines, special gear units and turbo machinery. The Group comprises the following brands: Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN, Porsche, Scania, SEAT, ŠKODA, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles. The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services, and the fleet management.
Information about the structure of relations is stated as at 31 December 2014, based on the information available to the statutory body of the Company acting with due managerial care. The ownership structure of ŠKODA AUTO and the structure of relations among companies in which the Company holds interest are graphically illustrated in the Appendix.

2. Function of the Company within the Group

The Company operates in the Automotive Division of the Group and focuses on the development, production and sale of vehicles of the ŠKODA brand, its spare parts and accessories, and the development and production of components for other Group companies. The Company holds interests in subsidiaries within ŠKODA AUTO Group and in other companies. The overview of the interests is illustrated in the Appendix.

3. Means of control

The Company was during the Period indirectly controlled by the Controlling Entity through several consecutive sole shareholders. It was at first through Volkswagen International Finance N.V., since 13 May 2014 through Global VW Automotive B.V. and since 28 June 2014 through VOLKSWAGEN FINANCE LUXEMBOURG S.A. The Company is controlled mainly through decisions of the sole shareholder during the general meetings. Important decisions influencing the Company's operations are approved within the Group's respective boards.

4. Overview of transactions realised at the instigation or in the interest of the Controlling Entity or entities controlled by the Controlling Entity

Effective from 1 January 2015, the Company sold its 100% share in subsidiary ŠKODA AUTO Deutschland GmbH to an Entity controlled by Volkswagen. The selling price of the share exceeds its carrying amount. The change in ownership structure will have no impact on business activities and scope of operation of ŠKODA AUTO Deutschland GmbH and ŠKODA AUTO a.s. ŠKODA AUTO Deutschland GmbH will continue to operate on the German market as an importer of ŠKODA cars.
The Company has not carried out any other transactions during the Period at the instigation of the Controlling Entity or entities controlled by the Controlling Entity concerning assets exceeding 10% of the Company's equity per the last financial statements.
ŠKODA AUTO paid a dividend of CZK 5,693 million to Volkswagen International Finance N.V., as the sole shareholder, on 4 April 2014 based on the Decision of the sole shareholder Volkswagen International Finance N.V. from 25 March 2014.
In 2014, dividends and share in profit of CZK 927 million were paid out to the Company by the subsidiaries. In 2014, dividends and share in profit of CZK 148 million were paid out to the Company by the associates.

5. Overview of the contracts within the Group

ŠKODA AUTO and Volkswagen, and ŠKODA AUTO and the companies controlled by Volkswagen concluded contracts in the following areas during the Period:

5.1 Sale of own products, goods and services

a) vehicles
ŠKODA AUTO entered into new contracts regarding sales of vehicles with the following companies:
AUDI TAIWAN CO., LTD.
Porsche Chile SpA
Porsche Croatia d.o.o.

b) genuine parts
ŠKODA AUTO did not conclude any new contracts regarding sales of genuine parts in the Period.

c) others
ŠKODA AUTO entered into new contracts regarding sales of services, licenses, aggregates, bodyworks and other products with the following companies:
AUDI AG
Bentley Motors Ltd.
Centro Técnico de SEAT, S.A.
e4t electronics for transportation s.r.o.
OOO VOLKSWAGEN Group Rus
Porsche Konstruktionen GmbH & Co. KG
SEAT, S.A.
Shanghai Volkswagen Powertrain Company Ltd.
ŠKO-ENERGO s.r.o.
VOLKSWAGEN AG
Volkswagen de México, S.A. de C.V.
Volkswagen India Private Ltd.
Volkswagen of South Africa (Pty.) Ltd.
VOLKSWAGEN SLOVAKIA, a.s.

5.2 Purchase of goods and services

a) production material and goods
ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:
AUDI HUNGARIA MOTOR Kft.
Gearbox del Prat, S.A.
SEAT, S.A.

VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen Autoeuropa, Lda.
VOLKSWAGEN Automatic Transmission (Dalian) Co., Ltd.
Volkswagen de México, S.A. de C.V.
Volkswagen Logistics GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Osnabrück GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SARAJEVO, d.o.o.
VOLKSWAGEN SLOVAKIA, a.s.

b) indirect material and services

ŠKODA AUTO entered into new contracts regarding purchases of indirect material and services (purchases of indirect material and services, research and development cooperation, IT services, software and hardware supplies, customer services consultancy) with the following companies:
Auto & Service PIA GmbH
AUDI AG
Audi Akademie GmbH
AUDI BRUSSELS S.A.
AUDI Electronics Venture GmbH
AUDI HUNGARIA MOTOR Kft.
AutoVision GmbH
AutoVision Magyarország Kft.
Bentley Motors Ltd.
Carmeq GmbH
Centro Técnico de SEAT, S.A.
Dr. Ing. h.c. F. Porsche AG
e4t electronics for transportation s.r.o.
Gearbox del Prat, S.A.
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o.
ITALDESIGN GIUGIARO BARCELONA SL
Italdesign-Giuagiaro S.p.A.
OOO VOLKSWAGEN Group Rus
Porsche Austria Gesellschaft m.b.H. & Co. OG
Porsche Consulting GmbH
Porsche Česká republika s.r.o.
Porsche Engineering Group GmbH
Porsche Inter Auto CZ spol. s r.o.
Porsche Macedonia dooel
Porsche Romania S.R.L.
Porsche Slovenija d.o.o.
Scania Czech Republic s.r.o.
SEAT, S.A.
Shanghai Volkswagen Powertrain Company Ltd.
SITECH Sitztechnik GmbH
SKODA AUTO India Private Ltd.
ŠKODA AUTO Deutschland GmbH
ŠKO-ENERGO s.r.o.
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen Autoeuropa, Lda.
Volkswagen Automobile Hamburg GmbH
Volkswagen (China) Investment Company Ltd.
Volkswagen de México, S.A. de C.V.

VOLKSWAGEN Group Japan K.K.
Volkswagen Group of America, Inc.
Volkswagen Immobilien GmbH
Volkswagen India Private Ltd.
Volkswagen Logistics GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Poznan Sp. z o.o.
Volkswagen Procurement Services GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SARAJEVO, d.o.o.
VOLKSWAGEN SLOVAKIA, a.s.

c) genuine parts

ŠKODA AUTO entered into new contracts regarding purchases of genuine parts with the following companies:
AUDI HUNGARIA MOTOR Kft.
OOO VOLKSWAGEN Group Rus
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen Sachsen GmbH

d) investments

ŠKODA AUTO entered into new contracts regarding purchases of investments with the following companies:
e4t electronics for transportation s.r.o.
ŠKO-ENERGO s.r.o.
VOLKSWAGEN AG
Volkswagen Procurement Services GmbH
VOLKSWAGEN SARAJEVO, d.o.o.

5.3 Other contracted relationships

ŠKODA AUTO also established new contractual relationships (particularly marketing services, training, sales support, financial services, system support, consultancy, and production of cars) with the following companies:
AUDI AG
Audi Vertriebsbetreuungsgesellschaft mbH
Autostadt GmbH
Intercar Austria GmbH
OOO VOLKSWAGEN Group Rus
Porsche Albania Sh.p.k.
Porsche Chile SpA
Porsche Croatia d.o.o.
Porsche Česká republika s.r.o.
Porsche Hungaria Kereskedelmi Kft.
Porsche Inter Auto CZ spol. s r.o.
Porsche Inter Auto GmbH & Co. KG
Porsche Macedonia dooel
Porsche Romania S.R.L.
Porsche Slovenija d.o.o.
SEAT, S.A.
SEAT Sport S.A.
Skoda Auto India Private Ltd.
ŠKODA AUTO Deutschland GmbH
ŠKODA AUTO Slovensko, s.r.o.
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen-Audi España S.A.
Volkswagen (China) Investment Company Ltd.

Volkswagen Financial Services N.V.
Volkswagen Group Australia Pty Ltd.
Volkswagen Group France S.A.
Volkswagen Group Hong Kong Ltd.
Volkswagen Group Import Company Ltd.
Volkswagen Group Ireland Ltd.
VOLKSWAGEN GROUP ITALIA S.P.A.
Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Singapore Pte. Ltd.
Volkswagen Group Sverige AB
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen India Private Ltd.
Volkswagen Motorsport GmbH
Volkswagen of South Africa (Pty.) Ltd.
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.

Transactions relating to contracts concluded in previous years
Besides companies disclosed in points 5.1, 5.2 and 5.3, the Company carried out transactions with the following companies, controlled by the same controlling entity, based on contracts concluded and presented in reports in relations of the Company in previous years:
Audi (China) Enterprise Management Co., Ltd.
AUDI HUNGARIA SERVICES Zrt.
AUTO Heller s.r.o.
MAN Truck & Bus AG
Porsche Holding Salzburg Automotive
Scania AB
ŠKO-ENERGO-FIN s.r.o.
VOLKSWAGEN Automatic Transmission (Tianjin) Co., Ltd.
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
VOLKSWAGEN FINANCIAL SERVICES AG
Volkswagen Group Malaysia Sdn. Bhd.
Volkswagen Group Sales India P.L.
Volkswagen Group Services S.A.
Volkswagen Navarra, S.A.
Volkswagen Original Teile Logistik GmbH & Co. KG
VOLKSWAGEN Transmission (Shanghai) Company Ltd.
Volkswagen-Versicherungsdienst Gesellschaft m.b.H.
Volkswagen Versicherungsvermittlung GmbH
Volkswagen Zubehör GmbH

6. Assessment of a detriment and its settlement

The Company did not suffer from any damage or detriment as a result of the contracts concluded in the Period between the Company and other Group companies, or as a result of other transactions or measures realised during the Period by the Company at the instigation or in the interest of these entities.

7. Evaluation of the relations and risks within the Group

7.1 Evaluation of advantages and disadvantages of the relations within the Group

Involvement in the Group leads mainly to advantages for the Company. The Group is a world-leading automotive manufacturer. Involvement in the Group brings economies of scale to the Company, realised through shared platforms and modern technologies. At the same time, it provides shared know-how and distribution channels.
Currently, there is no apparent disadvantage for the Company emerging from involvement in the Group.

7.2 There are no risks for the Company arising from the relations within the Group.

Mladá Boleslav, 10 February 2015

The Board of Management:

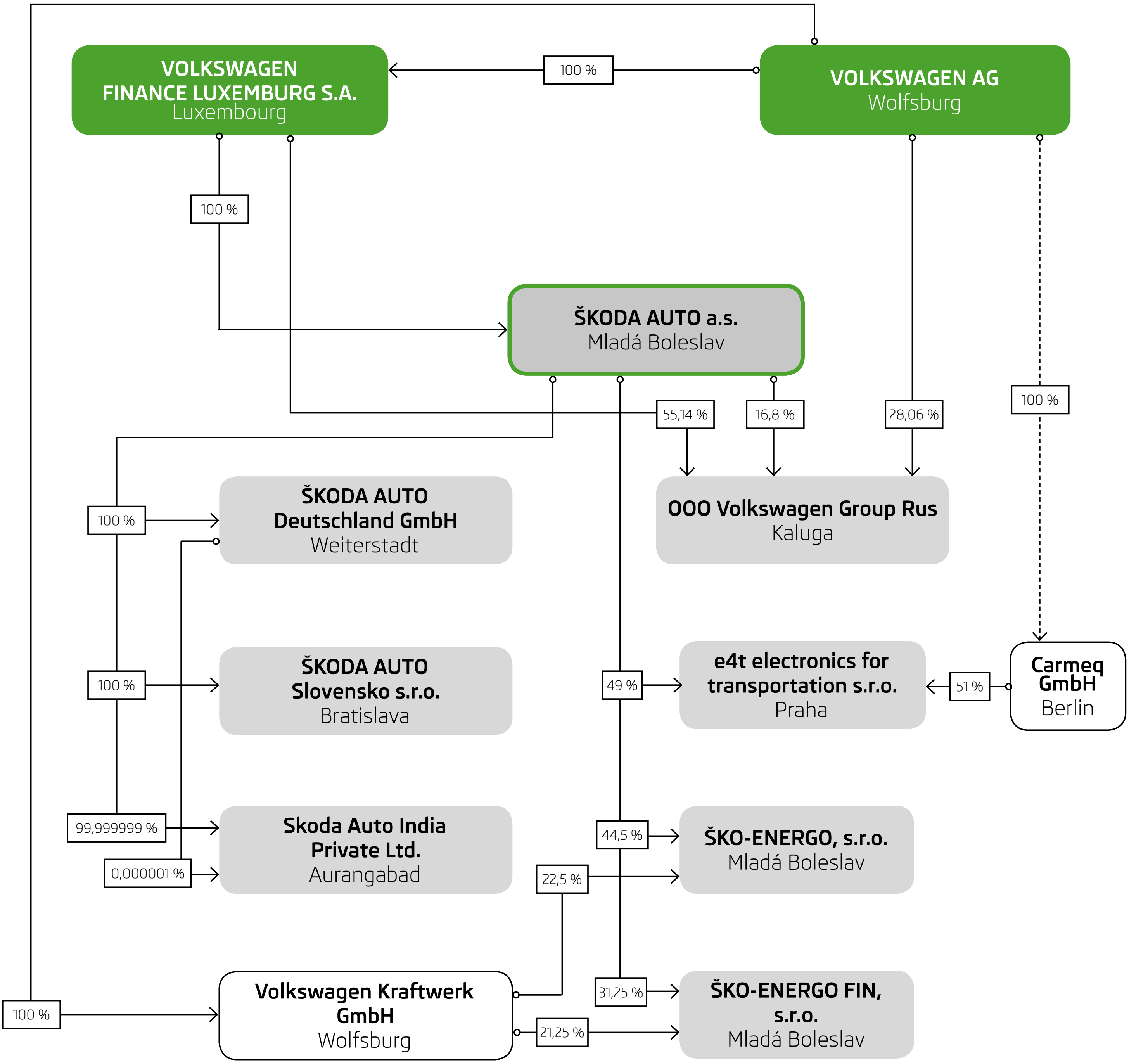
Winfried Vahland

Winfried Krause   Bohdan Wojnar   Frank Welsch

Werner Eichhorn   Dieter Seemann   Michael Oeljeklaus

Appendix

The ownership structure of ŠKODA AUTO and the structure of relations among companies in which the Company holds interest



Glossary of terms and abbreviations

ACBSP – Accreditation Council for Business Schools and Programs – global accrediting body providing specialized accreditations for business programs at all levels of higher education

ASPEN – Aspen Institute of Humanistic Studies – international nonprofit organization focusing on the open dialogue on current global issues

BilMoG – Bilanzrechtsmodernisierungsgesetz – German Accounting Act

CAS – Czech accounting standards for businesses and other accounting regulations valid in the Czech Republic, particularly Act No. 563/1991 Coll. on Accounting and Decree No. 500/2002 Coll., implementing selected provisions of the Accounting Act, as subsequently amended.

CKD – completely knocked down – pressed and welded parts of certain body sub-assemblies, all parts for assembly including engine, gearbox, chassis and fluids

CNG – compressed natural gas can be used as fuel for motor vehicles

Company – in the Annual Report, the term "the Company" is used as a synonym for the company ŠKODA AUTO

Consolidated group – in addition to ŠKODA AUTO a.s. with registered office in Mladá Boleslav, also includes all significant subsidiaries and associates

Deliveries to customers – number of ŠKODA brand vehicles delivered to end customers that were produced in ŠKODA AUTO Group and/or partner plants

EGAP – Exportní garanční a pojišťovací společnost, a.s. – Export Guarantee and Insurance Corporation

Euro NCAP – European New Car Assessment Programme, European consumer organisation that conducts safety tests

Gross liquidity – liquid funds, i.e. cash and cash equivalents

Group – in the Annual Report, the terms "the Group" and "the ŠKODA AUTO Group" are used as synonyms for the ŠKODA AUTO Consolidated Group

IAS / IFRS – International Accounting Standards / International Financial Reporting Standards as adopted by the European Union

IASB – International Accounting Standards Board – independent international group of accounting experts

Investment ratio – ratio of capital expenditures (less capitalised development expenses) to total sales revenues

KonTraG – Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – German Information Disclosure and Transparency Act

MPV – multi-purpose vehicle in the mid-range category of cars

Net liquidity – gross liquidity less financial obligations and liabilities to a factoring company within the Volkswagen Group

OECD – Organization for Economic Cooperation and Development

Production – number of vehicles produced. The total production figure also includes production of vehicles for the Volkswagen Group brand SEAT manufactured by the company ŠKODA AUTO. For accuracy, vehicle assembly kits are reported in the vehicles segment.

RIC – Russia, India, China

Sales – number of vehicles sold to importers and dealers. The unit sales figure also includes sales of vehicles of the Volkswagen Group brand SEAT manufactured by the company ŠKODA AUTO. For accuracy, vehicle assembly kits are reported in the vehicles segment.

SUV – Sport utility vehicle in the mid-range category of cars

Temporary employees – employees of a labour agency who are temporarily seconded to work for a different employer

Persons responsible for the annual report and post-balance sheet events

Events after the Balance Sheet Date

No material events have occurred between the balance sheet date and the date of preparation of this Annual Report that have had an impact on an assessment of the Company's assets, liabilities and equity or the results of its operations.

Affirmation

The persons stated below, responsible for the preparation of this Annual Report, hereby declare that the information contained in this Annual Report is factual and that no substantive matters that could influence an accurate and correct evaluation of the securities issuer have been knowingly omitted or distorted.

Mladá Boleslav, on 10 March 2015

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Dieter Seemann

Michael Oeljeklaus

Persons responsible for accouting:

Dana Němečková

Martina Janebová-Ciencialová

Key figures and financial results at a glance*

ŠKODA AUTO key figures and financial results according to CAS

Production, sales and technical data

		1999	2000	2001	2002	2003	2004
Deliveries to customers	**vehicles**	**385,330**	**435,403**	**460,252**	**445,525**	**449,758**	**451,675**
Sales	**vehicles**	**376,329**	**448,394**	**460,670**	**440,572**	**438,843**	**441,820**
Production	**vehicles**	**371,169**	**450,910**	**460,886**	**442,469**	**437,554**	**444,121**
Employees	persons	22,030	25,833	24,129	23,470	22,798	24,561

Profit and loss account

		1999	2000	2001	2002	2003	2004
Sales revenue	**CZK millions**	**110,409**	**136,283**	**153,271**	**145,694**	**145,197**	**153,550**
of which:							
Domestic	%	19	18	18	18	17	15
Export	%	81	82	82	82	83	85
Raw materials and consumables	CZK millions	80,426	105,996	116,350	109,868	108,283	115,382
	% of revenues	72.8	77.8	75.9	75.4	74.6	75.1
Value added	**CZK millions**	**18,513**	**18,977**	**22,296**	**22,056**	**23,343**	**24,884**
	% of revenues	16.8	13.9	14.6	15.1	16.0	16.2
Staff costs	CZK millions	6,629	7,465	7,583	7,834	8,060	8,500
Depreciation	CZK millions	6,516	7,768	9,646	10,826	10,296	10,606
Operating profit	**CZK millions**	**5,237**	**5,204**	**4,643**	**3,677**	**5,209**	**5,856**
	% of revenues	4.7	3.8	3.0	2.5	3.6	3.9
Financial result	CZK millions	(1,422)	(1,029)	(1,969)	(1,188)	(2,692)	(1,041)
Profit before income tax	**CZK millions**	**3,814**	**4,175**	**2,674**	**2,489**	**2,517**	**4,815**
Profit before income tax-to-revenues ratio	%	3.5	3.1	1.7	1.7	1.7	3.2
Tax on profit or loss	CZK millions	1,177	839	545	664	1,039	1,318
Profit for the year	**CZK millions**	**2,637**	**3,336**	**2,129**	**1,825**	**1,478**	**3,497**
Profit for the year-to-revenues ratio	%	2.4	2.4	1.4	1.3	1.0	2.3

* The financial result reported according to CAS are not comparable with the financial results reported according to IFRS.

Balance sheet/financing

		1999	2000	2001	2002	2003	2004
Fixed assets	**CZK millions**	**33,687**	**39,175**	**45,008**	**44,873**	**44,074**	**41,143**
Current assets and other assets	**CZK millions**	**21,923**	**27,486**	**21,603**	**21,945**	**22,077**	**30,694**
Equity	**CZK millions**	**22,700**	**26,032**	**28,157**	**29,817**	**31,758**	**32,844**
Liabilities and other liabilities	**CZK millions**	**32,910**	**40,629**	**38,454**	**37,001**	**34,393**	**38,993**
of which:							
Bonds	CZK millions	–	10,000	10,000	10,000	10,000	10,000
Provisions under special regulations	CZK millions	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	3,000	4,850	2,000	5,000	–	–
Assets	**CZK millions**	**55,610**	**66,661**	**66,611**	**66,818**	**66,151**	**71,837**
Net liquidity	**CZK millions**	**(1,339)**	**(4,007)**	**(798)**	**(4,660)**	**2,495**	**4,534**
Investments	**CZK millions**	**11,313**	**13,873**	**16,235**	**11,586**	**10,248**	**8,430**
Investment ratio	%	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1	79.8

ŠKODA AUTO key figures and financial results according to IFRS

Production, sales and technical data

		2005	2006	2007	2008	2009
Deliveries to customers	**vehicles**	**492,111**	**549,667**	**630,032**	**674,530**	**684,226**
Sales	**vehicles**	**493,119**	**555,202**	**623,085**	**622,090**	**539,382**
Sales of ŠKODA cars		493,119	555,202	623,085	622,083	539,380
Production	**vehicles**	**494,637**	**556,433**	**623,529**	**603,247**	**519,910**
Production of ŠKODA cars		494,637	556,433	623,529	603,247	519,910
Employees*	persons	26,014	26,738	27,753	25,331	24,817

		2010	2011	2012	2013	2014
Deliveries to customers	**vehicles**	**762,600**	**879,184**	**939,202**	**920,750**	**1,037,226**
Sales	**vehicles**	**583,780**	**676,787**	**691,853**	**682,402**	**773,791**
Sales of ŠKODA cars		583,780	676,785	686,948	660,634	757,330
Production	**vehicles**	**576,362**	**673,127**	**656,306**	**639,889**	**735,951**
Production of ŠKODA cars		576,362	673,127	651,306	618,118	719,410
Employees*	persons	23,308	24,936	24,788	24,548	24,631

* In 2010 the method of reporting the employee's headcount was altered. The number of employees is reported excluding temporary employees and including apprentices and represents actual number of employees as at 31 December.

Profit and loss account

		2005	2006	2007	2008	2009
Sales revenue	**CZK millions**	**177,822**	**189,816**	**211,026**	**188,572**	**170,666**
of which:						
Domestic	%	14.0	13.5	12.4	12.7	12.5
Export	%	86.0	86.5	87.6	87.3	87.5
Cost of sales	**CZK millions**	**159,187**	**167,709**	**180,865**	**165,600**	**155,868**
	% of revenues	89.5	88.4	85.7	87.8	91.3
Gross profit	**CZK millions**	**18,635**	**22,107**	**30,161**	**22,972**	**14,798**
	% of revenues	10.5	11.6	14.3	12.2	8.7
Distribution expenses	CZK millions	6,558	6,905	7,964	7,590	7,702
Administrative expenses	CZK millions	3,329	3,161	3,701	4,223	4,320
Balance of other operating revenues/costs	CZK millions	1,256	1,735	525	1,477	1,948
Operating profit	**CZK millions**	**10,004**	**13,776**	**19,021**	**12,636**	**4,724**
	% of revenues	5.6	7.3	9.0	6.7	2.8
Financial result	CZK millions	(564)	(216)	425	651	(343)
Profit before income tax	**CZK millions**	**9,440**	**13,560**	**19,446**	**13,287**	**4,381**
Profit before income tax-to-revenues ratio	%	5.3	7.1	9.2	7.0	2.6
Income tax expense	CZK millions	2,077	2,678	3,554	2,020	942
Profit for the year	**CZK millions**	**7,363**	**10,882**	**15,892**	**11,267**	**3,439**
Profit for the year-to-sales ratio	%	4.1	5.7	7.5	6.0	2.0

		2010	2011	2012	2013	2014
Sales revenue	**CZK millions**	**203,695**	**231,742**	**239,101**	**243,624**	**299,318**
of which:						
Domestic	%	10.7	9.5	9.2	9.4	9.1
Export	%	89.3	90.5	90.8	90.6	90.9
Cost of sales	**CZK millions**	**180,343**	**201,765**	**203,216**	**209,538**	**254,944**
	% of revenues	88.5	87.1	85.0	86.0	85.2
Gross profit	**CZK millions**	**23,352**	**29,977**	**35,885**	**34,086**	**44,374**
	% of revenues	11.5	12.9	15.0	14.0	14.8
Distribution expenses	CZK millions	9,449	11,613	13,724	13,067	13,466
Administrative expenses	CZK millions	4,666	5,504	6,155	6,679	6,939
Balance of other operating revenues/costs	CZK millions	1,798	4,364	998	(1,803)	(2,371)
Operating profit	**CZK millions**	**11,035**	**17,224**	**17,004**	**12,537**	**21,598**
	% of revenues	5.4	7.4	7.1	5.1	7.2
Financial result	CZK millions	180	(69)	(1,292)	413	(249)
Profit before income tax	**CZK millions**	**11,215**	**17,155**	**15,712**	**12,950**	**21,349**
Profit before income tax-to-revenues ratio	%	5.5	7.4	6.6	5.3	7.1
Income tax expense	CZK millions	1,811	2,867	2,453	1,564	2,928
Profit for the year	**CZK millions**	**9,404**	**14,288**	**13,259**	**11,386**	**18,421**
Profit for the year-to-sales ratio	%	4.6	6.2	5.5	4.7	6.2

Balance sheet/financing

		2005	2006	2007	2008	2009
Non-current assets	**CZK millions**	**55,023**	**53,936**	**56,903**	**60,119**	**59,926**
Current assets	**CZK millions**	**28,956**	**43,499**	**48,658**	**51,276**	**48,099**
Equity	**CZK millions**	**46,483**	**58,007**	**66,532**	**71,721**	**68,519**
Non-current and current liabilities	**CZK millions**	**37,496**	**39,428**	**39,029**	**39,674**	**39,506**
of which:						
Nominal value of bonds	CZK millions	5,000	5,000	2,000	2,000	2,000
Assets	**CZK millions**	**83,979**	**97,435**	**105,561**	**111,395**	**108,025**
Net liquidity	**CZK millions**	**6,070**	**19,352**	**26,283**	**18,353**	**23,350**
Cash flows from operating activities	**CZK millions**	**21,421**	**24,203**	**29,275**	**13,978**	**22,321**
Cash flows from investing activities	**CZK millions**	**(11,299)**	**(10,910)**	**(13,913)**	**(14,445)**	**(11,454)**
Investment ratio	%	4.8	4.3	4.9	5.4	6.0
Equity ratio	%	55.4	59.5	63.0	64.4	63.4
Equity-to-fixed assets ratio	%	84.5	107.5	116.9	119.3	114.3

		2010	2011	2012	2013	2014
Non-current assets	**CZK millions**	**59,989**	**64,441**	**81,586**	**87,923**	**105,139**
Current assets	**CZK millions**	**62,278**	**71,130**	**59,656**	**64,078**	**71,730**
Equity	**CZK millions**	**75,682**	**80,407**	**88,302**	**90,316**	**100,001**
Non-current and current liabilities	**CZK millions**	**46,585**	**55,164**	**52,940**	**61,685**	**76,868**
of which:						
Nominal value of bonds	CZK millions	–	–	–	–	–
Assets	**CZK millions**	**122,267**	**135,571**	**141,242**	**152,001**	**176,869**
Net liquidity	**CZK millions**	**35,047**	**41,399**	**30,872**	**27,871**	**41,452**
Cash flows from operating activities	**CZK millions**	**26,256**	**27,267**	**23,819**	**28,965**	**45,158**
Cash flows from investing activities	**CZK millions**	**(22,590)**	**(27,716)**	**(6,042)**	**(25,148)**	**(25,512)**
Investment ratio	%	4.9	6.0	8.6	7.9	6.4
Equity ratio	%	61.9	59.3	62.5	59.4	56.5
Equity-to-fixed assets ratio	%	126.2	124.8	108.2	102.7	95.1

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Tel.: +420 326 811 111
Fax: +420 326 721 328

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