2019

ŠKODA AUTO
ANNUAL REPORT

ŠKODA AUTO
ANNUAL REPORT
2019


902 km
THE TOTAL WLTP-MEASURED RANGE IN COMBINED MODE OF ŠKODA SUPERB iV
CZ 4SR 2689

FOREWORD OF THE CHAIRMAN OF THE BOARD OF MANAGEMENT

DEAR LADIES AND GENTLEMEN,
the year 2019 was a litmus test for the automotive industry. Numerous manufacturers and suppliers announced profit warnings, job cuts and factory closures. Some companies are planning mergers because they cannot manage the transformation process alone. However, that's not all – climate protection protests have criticised the car itself. At the same time, the trade conflict has accentuated the onset of the economic downturn, especially in China, where the car market has shrunk noticeably. In short, 2019 demanded a lot from us.

Despite the decline in China, we have maintained our global deliveries at close to last year's level. In Europe, we could sell significantly more vehicles if we had enough production capacity. Our financial result is strong; we are increasing our efficiency and competitiveness.

2019 was a strong year for ŠKODA. We demonstrated resilience and flexibility and made great strides in implementing our Strategy 2025+. I would like to thank almost the 42,000 Škodians for their daily commitment and our customers for their trust.

The most comprehensive product campaign in our company's history is making an impact. We launched electromobility with two models. In 2020, we will be bringing out the first 100% electric model based on the VOLKSWAGEN Group's Modular Electrification Toolkit. We are making it the flagship of a new era at ŠKODA.

We have also set ourselves very clear and ambitious goals along the entire value chain. We will be reducing the CO_2 emissions of our fleet by 30% between 2015 and 2025. And all the energy ŠKODA uses to manufacture vehicles and components at the Czech plants will be CO_2 neutral within the second half of this decade.

The digital transformation is also gaining momentum: we already have a bundle of mobility and vehicle-on-demand solutions. After the home and workplace, the car itself is quickly becoming the 'perfect third place', and, as a highly intelligent mobile device, is becoming one of the most significant suppliers of the most valuable data. This enables us to make the car even safer, more comfortable and individual.

ŠKODA AUTO DigiLab has entered into new partnerships with promising start-ups in Israel, and our third DigiLab spin-off went online in Beijing. We can count on strong partners, and we are taking vital steps towards our target vision that we defined in Strategy 2025+, ŠKODA – the Simply Clever Company for the Best Mobility Solutions.

The transformation in our industry is profound and is progressing at a remarkable speed and requires significant investments. This is why we will be continuing our Performance Programme in the new year. Our goal is to improve our result by almost five billion euros cumulatively by 2025 so that we can continue to invest sustainably in products, markets and people.

2020 will be the 'year of truth'. The upheavals in geopolitics and the global economy are going to keep us on our toes. In addition, the new EU Commission is discussing further intensification of EU fleet regulations. What we need is a positive momentum and reliable agreements so that the electric car can gain broad acceptance. Our product campaign includes 30 new models, variants, derivatives and product upgrades, ten of which will be electric.

For our company, 2020 is an exceptional year for another reason: ŠKODA is celebrating its 125th anniversary. To date, only five other car brands have reached this milestone. This reminds us of our responsibility to lead ŠKODA towards a secure and prosperous future. This is exactly what we are working on with passion and our 'clever together' mindset in all areas.

Yours

Bernhard Maier
CHAIRMAN OF THE BOARD OF MANAGEMENT
ŠKODA AUTO A.S.

FOREWORD OF THE CHAIRMAN OF THE SUPERVISORY BOARD

DEAR LADIES AND GENTLEMEN,
2019 was a good year for ŠKODA. Despite shrinking markets, the brand successfully continued the largest model initiative in its history and made an important contribution to the VOLKSWAGEN Group's positive annual results.

The brand and product strategy is taking effect. The company is therefore well positioned to successfully continue its growth in the segment of price- and function-oriented customers.

Within the Volume brand group, ŠKODA will in future be responsible for the development of the new VOLKSWAGEN Passat and ŠKODA SUPERB generation. The aim is to develop technical solutions for the entire model family in a uniform manner. This will save costs and effort for prototypes and test vehicles.

In addition, the colleagues have been committed to driving forward the Group project INDIA 2.0. The new development centre has been opened and the merger of the individual companies to form SKODA AUTO Volkswagen India Private Limited has been completed. With two ŠKODA and two VOLKSWAGEN models each developed for the local market and produced locally, the brand now bears overall responsibility for the important Indian market. ŠKODA gave an outlook on the new INDIA 2.0 model portfolio at the Delhi Motor Show.

The brand has also taken over the regional management responsibility for the Russia region within the Group.

ŠKODA is well positioned. As the Chairman of the Supervisory Board, I would like to thank Bernhard Maier, his management team and the employees for a successful year 2019. Stay on course. The VOLKSWAGEN Group needs strong brands like ŠKODA to shape the new era of individual mobility together.

Yours

Herbert Diess
CHAIRMAN OF THE SUPERVISORY BOARD
ŠKODA AUTO A.S.

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., its financial performance and its 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, thus duly executing its powers entrusted to it under the law.

Under its resolution of 20 March 2019, VOLKSWAGEN FINANCE LUXEMBURG S.A., 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 2019 accounting period.

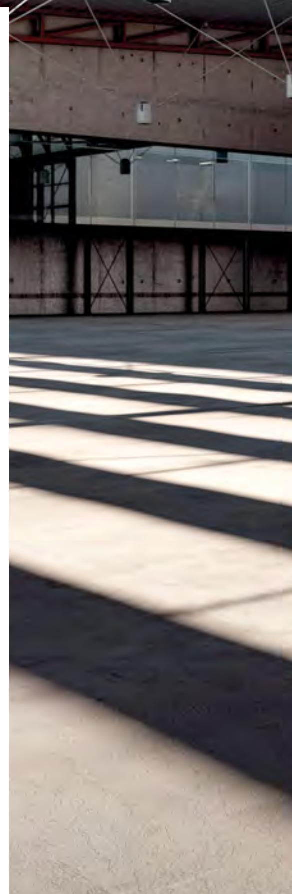
An unqualified audit opinion was issued on separate financial statements of the ŠKODA AUTO a.s. pursuant to IFRS as adopted by the EU as of 31 December 2019.

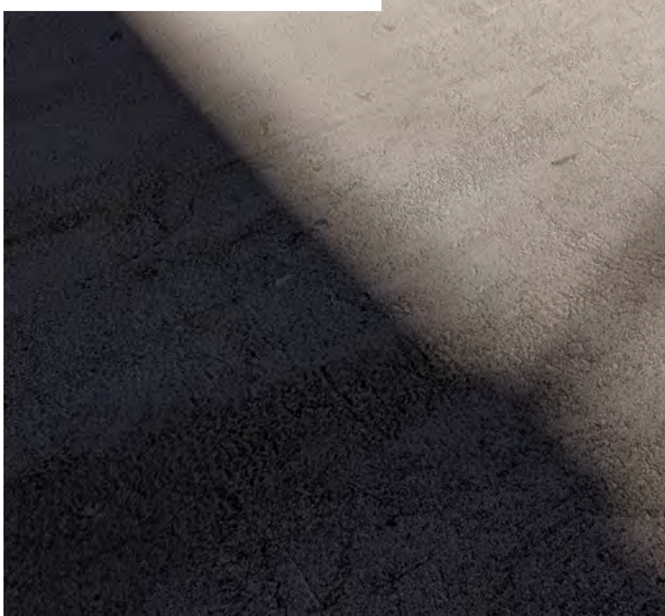
Other information included in the annual report for 2019 but not the financial statements or the independent auditor's report is, according to the auditor, consistent in all material respects with the financial statements of the ŠKODA AUTO a.s.

The Supervisory Board was duly informed by the auditor about the scope, the execution and the results of the audit.

At its meeting on 5 March 2020, 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 as of 31 December 2019 pursuant to IFRS as adopted by the EU.

The Supervisory Board also reviewed the report on relations between affiliated persons for 2019 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2019 and the proposal for the distribution of profits to the sole shareholder, VOLKSWAGEN FINANCE LUXEMBURG S.A., for approval.





H. Diess

Herbert Diess
CHAIRMAN OF THE SUPERVISORY BOARD
ŠKODA AUTO A.S.


2019
4SI 1693

MANAGEMENT REPORT

ŠKODA AUTO COMPANY PROFILE

ŠKODA AUTO a.s. (hereinafter the "Company" or "ŠKODA AUTO") is one of the oldest car manufacturers in the world. Its history stretches back to 1895 when Václav Laurin and Václav Klement set up a company that gave rise to a tradition of manufacturing Czech cars which has continued for over a hundred years. The position of the Company in the automotive industry has always been and always will be unmistakable, in a large part because it has been part of the VOLKSWAGEN Group (hereinafter the "Group") for almost 30 years. It has become a strong, internationally successful company that is active on more than 100 markets and offers its customers a total of nine model lines.

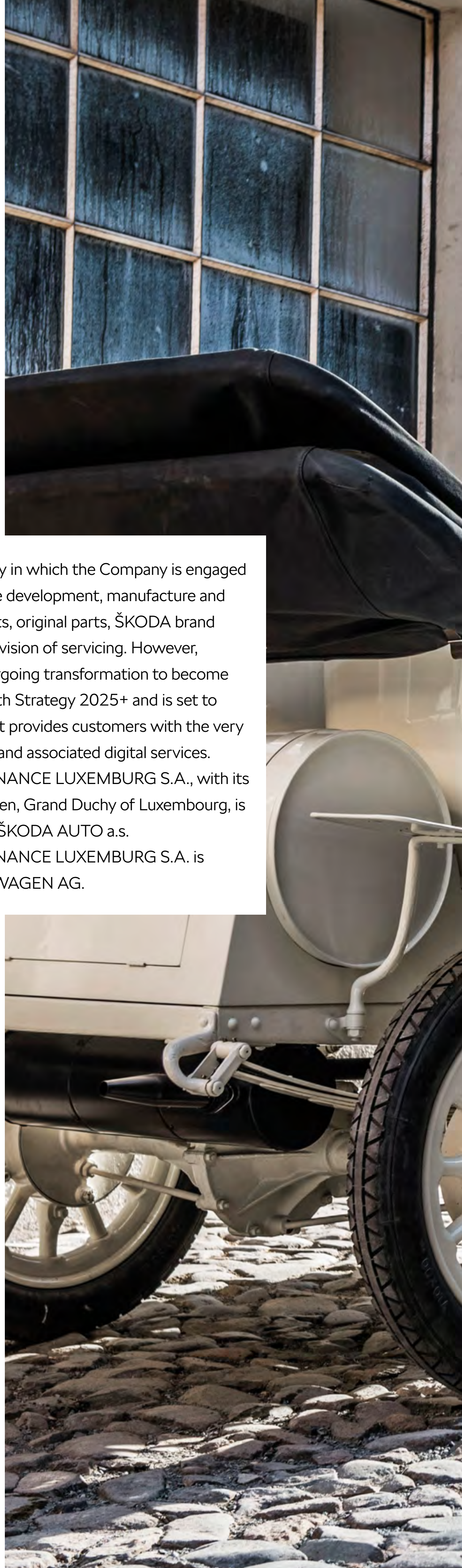
ŠKODA AUTO has long been one of the pillars of the Czech economy, currently employing more than 34,800 people in the Czech Republic. It also makes sure it is a good neighbour in all the regions where it is active. The Company's extraordinary standing is reflected in its regular success in the Czech 100 Best awards, occupying the top spot in 2019 for the nineteenth time in the twenty-three--year history of the award.

The Company is based in Mladá Boleslav, where one of its production plants is also located, another two can be found in Kvasiny and Vrchlabí. However, vehicles bearing the winged arrow are also manufactured in China, Russia, Slovakia, Germany, Algeria and India, mostly via Group partnerships, and in Ukraine and Kazakhstan, in collaboration with local partners.

The business activity in which the Company is engaged primarily focuses on the development, manufacture and sale of cars, components, original parts, ŠKODA brand accessories and the provision of servicing. However, ŠKODA AUTO is undergoing transformation to become Simply Clever in line with Strategy 2025+ and is set to become a company that provides customers with the very best mobility solutions and associated digital services.

VOLKSWAGEN FINANCE LUXEMBURG S.A., with its principal office in Strassen, Grand Duchy of Luxembourg, is the sole shareholder in ŠKODA AUTO a.s.

VOLKSWAGEN FINANCE LUXEMBURG S.A. is a subsidiary of VOLKSWAGEN AG.




1908
THE YEAR IN WHICH
THE L&K BSC SPORTS
MODEL LEFT THE
FACTORY GATES

MISSION

Driven by inventiveness. For almost 125 years we dedicate our entrepreneurial spirit and passion to individual mobility. And we will keep on doing it in future!

VISION

ŠKODA – Simply Clever company for the best mobility solutions. For families, entrepreneurs, commuters or simply connoisseurs who want to enjoy the pleasure of driving, ŠKODA is the smart choice. Clever ideas for individual mobility have kept us moving for almost 125 years. Now it is time to invent the best mobility solutions for the future.


CZ
4ST 6022
99 PROBLEMS

CORPORATE GOVERNANCE
ŠKODA AUTO BODIES

SUPERVISORY BOARD

Dr. Herbert Diess
(*1958)
— Chairman of the Supervisory Board since 30 May 2018 (Member of the Supervisory Board since 14 May 2018)
— Chairman of the VOLKSWAGEN AG Board of Management

Frank Witter
(*1959)
— Vice Chairman of the Supervisory Board since 30 May 2018 (Member of the Supervisory Board since 9 November 2015 and Chairman of the Supervisory Board since 12 November 2015 to 29 May 2018)
— Member of the VOLKSWAGEN AG Board of Management responsible for Finance and IT

Prof. Dr. Jochem Heizmann
(*1952)
— Member of the Supervisory Board since 1 February 2019 (and previously from 1 January 2017 to 10 January 2019)
— Independent advisor

Miloš Kovář
(*1964)
— Member of the Supervisory Board since 1 May 2015
— KOVO ŠKODA AUTO a.s. Trade Union Production Coordinator

Martin Lustyk
(*1965)
— Member of the Supervisory Board since 14 January 2019
— Chairman of the base KOVO Trade Union Kvasiny

Bernd Osterloh
(*1956)
— Member of the Supervisory Board since 1 January 2015
— Chairman of the General and Group Works Council of VOLKSWAGEN AG

Daniell Peter Porsche
(*1973)
— Member of the Supervisory Board since 1 January 2015
— Entrepreneur and owner of PDP GmbH holding

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

Melanie Leonore Wenckheim
(*1967)
— Member of the Supervisory Board since 9 November 2018
— Entrepreneur and shareholder of Porsche Piëch Holding GmbH

BOARD OF MANAGEMENT

Bernhard Maier
(*1959)
— Chairman of the Board of Management since 1 November 2015, responsible for Central Management
Previous positions:
— Member of the Executive Board, Sales and Marketing, Dr. Ing. h.c. F. Porsche AG (2010–2015)
— CEO, Porsche Deutschland GmbH (2001–2010)

Alain Favey
(*1967)
— Member of the Board of Management since 1 September 2017, responsible for Sales and Marketing
Previous position:
— Director, PORSCHE HOLDING SALZBURG (2012–2017)

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

Dipl.-Kfm. Klaus-Dieter Schürmann
(*1963)
— Member of the Board of Management since 1 August 2016, responsible for Finance and IT
Previous position:
— Member of the Board of Management, Finance and IT, VOLKSWAGEN Commercial Vehicles (2008–2016)

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

Dipl.-Ing. Christian Strube
(*1963)
— Member of the Board of Management since 1 December 2015, responsible for Technical Development
Previous position:
— Head of Engineering for Exterior, Interior and Safety, VOLKSWAGEN Passenger Cars (2012–2015)

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

CHANGES TO THE SUPERVISORY BOARD AND THE BOARD OF MANAGEMENT

Elections of the members of the Supervisory Board appointed by employees were held at ŠKODA AUTO a.s. from 12 December 2018 to 4 January 2019.

Resigned from the Supervisory Board:
— Prof. Dr. Jochem Heizmann – Member of the Supervisory Board from 1 January 2017 to 10 January 2019
— Miloš Kovář – Member of the Supervisory Board from 1 May 2015 to 13 January 2019
— Jaroslav Povšík – Member of the Supervisory Board from 16 April 1993 to 13 January 2019

Appointed to the Supervisory Board:
— Prof. Dr. Jochem Heizmann – Member of the Supervisory Board from 1 February 2019

Elected to the Supervisory Board:
— Miloš Kovář – Member of the Supervisory Board from 14 January 2019
— Martin Lustyk – Member of the Supervisory Board from 14 January 2019
— Jaroslav Povšík – Member of the Supervisory Board from 14 January 2019

DECLARATION OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

ŠKODA AUTO, aware of its unique position within the Czech business environment and the ever-growing respect it commands within the VOLKSWAGEN Group and among rivals in the automotive sector, attaches the utmost importance to being perceived by its employees, business partners, all of its customers and the general public as a successful, transparent and open company. The Company is keenly aware of the long-standing tradition and reputation that it has cultivated over the years and treasures it as a key asset for the further successful development of its business activities.

In view of the facts above, since 2007 ŠKODA AUTO has embraced the relevant recommendations and rules of the Code of Corporate Governance of OECD-based Companies ("the Code"), in the form issued in 2018 under the auspices of the Czech Institute of Directors in partnership with Deloitte, with the assistance of the Ministry of Justice of the Czech Republic and other prominent institutions. 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 in business 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 governance processes have long been configured in accordance with the Code. Bearing in mind the Company's shareholding structure (comprising a single shareholder – VOLKSWAGEN FINANCE LUXEMBURG S.A.), VOLKSWAGEN AG's organisational structure (see the VOLKSWAGEN AG website at www.volkswagenag.com) and the fact that the Company is not the subject of trading on the public market, certain recommendations under the Code are irrelevant or, in the interests of efficiency and synergy, have been duly transferred to the Group level for handling.

Company policies also draw on the Code of Conduct at ŠKODA AUTO Group ("the Code of Conduct"), adopted and distributed to employees at the end of 2017. The Code of Conduct briefs employees on rules deriving from legislation that could bear down most heavily on the Company. It also encourages employees to comply with universally recognised social values.

In this respect, the Code of Conduct clearly formulates the Company's general requirements regarding the behaviour of its employees, reminds them of their role in protecting the Company's reputation, and details rules on the prevention of conflicts of interest and corruption

2007

THE YEAR WHEN ŠKODA AUTO ENDORSED THE RELEVANT RECOMMENDATIONS AND RULES OF THE CODE OF CORPORATE GOVERNANCE

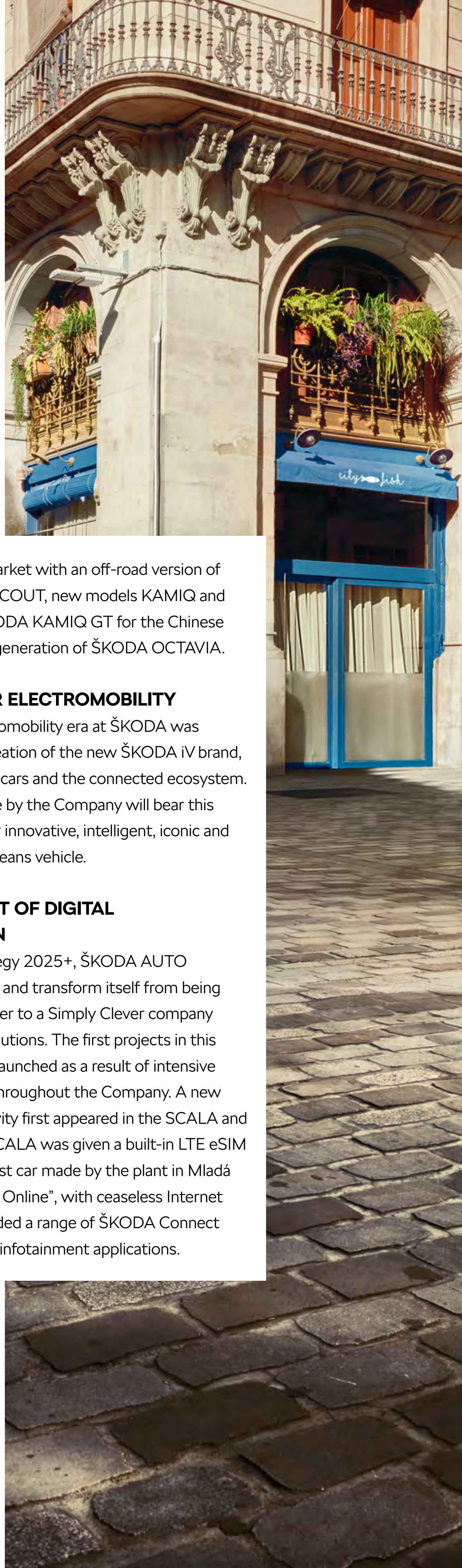
and on the handling of Company's information and assets. The Code of Conduct also outlines basic yardsticks of behaviour towards business partners and other parties and clearly formulates the Company's interest in protecting fair competition. Other Company's commitments, covered by the Code of Conduct, include occupational health and safety and environmental protection.

The Company is not fully in line with the recommendations of the Code of Corporate Governance according to paragraph 6.2, under which the Supervisory Board should have a minimum of three members and a sufficient number of those members should be independent. According to the subsequent provisions of subparagraph 6.2.1, a member of the Supervisory Board should only be deemed independent when he/she has no commercial, familial or other ties to the company, its majority shareholder or company management and/or is not influenced by other circumstances which could lead to a conflict of interests that would impair his/her judgment. Neither is the Company fully compliant with the recommendations made in the Code under paragraph 9.2, under which the supervisory board or administration board should set up its activity as non-executive committees, primarily a committee for appointments, a committee for remuneration, a committee for risks and a committee for audits, so that the effectiveness of its activity may be improved. In light of the shareholder structure in place at the Company, the activities associated with the committees fall within the remit of the Supervisory Board or are delegated to Group level to an effective extent.

The above incomplete fulfillment of the respective provisions of the Code does not constitute a failure to comply with the mandatory requirements of Czech law and poses no legal risk to the Company.

Governance, Risk & Compliance, a unit active within the Company since 2011, is tasked, among other things, with providing guidance on issues of governance and compliance and with introducing a prevention programme for the Company and its subsidiaries. It also supports Internal Audit in the enforcement of internal standards and legislative requirements.

BUSINESS OPERATIONS STRATEGY



Last year, ŠKODA AUTO continued to implement Strategy 2025+ which defines the primary direction that the car manufacturer will take in its ongoing development. The pillars of this strategy include electromobility, digitalisation, including new business models, expansion in capacities and new markets, sustainability and improving efficiency. The ŠKODA Strategy 2025+ is a flexibly-adapted, long-term conceptual plan, which is implemented through specific strategic projects. The Company carefully monitors developments in the automotive industry and across the world, considers the future impact of the advent of artificial intelligence and autonomous driving on the population and adapts its strategic plans to dynamic development as appropriate. In 2019, additional strategic input was also provided to the Company by the updated TOGETHER 2025+ Group strategy.

THE PRODUCT PORTFOLIO IS CHANGING

The Company is adapting its product portfolio to be compliant with European Union emission standards. The first electric cars, specifically the all-electric ŠKODA CITIGO^{e} iV, the ŠKODA SUPERB iV with plug-in hybrid drive and the VISION iV concept car, which will result in the first electric car built on the MEB platform, were presented to the public. The Company also focused on the essential development of charging infrastructure at its Czech plants and their surroundings. ŠKODA continued a product offensive in 2019 which aims to introduce 30 new models, derivatives and facelifts by the end of 2022. In addition to the electric cars already mentioned, it has already provided the market with an off-road version of the ŠKODA SUPERB SCOUT, new models KAMIQ and SCALA, the sporty ŠKODA KAMIQ GT for the Chinese market and the fourth generation of ŠKODA OCTAVIA.

A SUB-BRAND FOR ELECTROMOBILITY

The arrival of the electromobility era at ŠKODA was accompanied by the creation of the new ŠKODA iV brand, which unites electrified cars and the connected ecosystem. All electrified cars made by the Company will bear this name. The “i” stands for innovative, intelligent, iconic and inspirational. The “V” means vehicle.

THE DEVELOPMENT OF DIGITAL TRANSFORMATION

By implementing Strategy 2025+, ŠKODA AUTO aims to realise its vision and transform itself from being purely a car manufacturer to a Simply Clever company for the best mobility solutions. The first projects in this area were successfully launched as a result of intensive digital transformation throughout the Company. A new generation of connectivity first appeared in the SCALA and KAMIQ models. The SCALA was given a built-in LTE eSIM card and became the first car made by the plant in Mladá Boleslav that is “Always Online”, with ceaseless Internet access. The KAMIQ added a range of ŠKODA Connect services, including new infotainment applications.

80%

THE CAPACITY OF THE CITIGO^e iV BATTERY THAT CAN BE CHARGED IN 1 HOUR

2025+

ŠKODA AUTO REGULARLY UPDATES ITS CORPORATE STRATEGY

The Company is developing partnerships in the area of artificial intelligence which have the potential to improve the customer experience, increase the effectiveness of work and make advanced products or services possible. In May, for example, it became a partner to the ambitious prg.ai initiative, which aims to establish Prague as one of the world centres of AI. ŠKODA AUTO is also preparing for new trends in individual mobility. In September, the ŠKODA AUTO DigiLab innovation centre in Prague put the shared electric BeRider scooter service into pilot operation and continued to develop the HoppyGo car-sharing service.

OFFENSIVE ON STRATEGIC MARKETS

China has been the largest global market for the Czech car manufacturer for nine years now. Every fourth ŠKODA car produced in 2019 was sold there. Market slowdown relating to geopolitical events motivated the Company to plan a number of steps to improve its position in the region. It prepares an investment of more than CZK 50 billion and opened the third ŠKODA AUTO DigiLab spin-off in Beijing. This is primarily aimed at developing innovative mobility solutions and customised online services. The portfolio was also broadened to include the KODIAQ GT and KAMIQ GT, meaning that ŠKODA AUTO sells five SUV models exclusively on the Chinese market. It also plans to sell cars with alternative powertrains in this region in the future.

ŠKODA was tasked up by the VOLKSWAGEN Group with responsibility for all Group activities in India. A merger of three Indian companies – Volkswagen India Private Ltd., Volkswagen Group Sales India Private Ltd. and SKODA AUTO India Private Ltd. – to become SKODA AUTO Volkswagen India Pvt. Ltd. in the autumn of 2019 (the effective date of the merger is 1 April 2019) led to more effective management and utilisation of synergies that shall result in further positive development in this important growth market. The opening of a new Technology Centre in the city of Chakan in January 2019 was a major step towards developing models tailored to the needs of Indian customers. Around 200 Indian developers are responsible for project management, electronics, infotainment, design, interior, chassis and development of the car as a whole. ŠKODA AUTO is as close to the market as possible by applying a high degree of localisation, in that almost all car components are made in India. The first model for India will be an SUV in the small cars segment. This will be introduced in 2020.

The trust showed by the Group in the ŠKODA brand also led to the Company being charged with the management of the Russia region.

In light of the full utilisation of its production capacities, the Company worked strenuously to increase the effectiveness of production and ensure additional capacities, for example at other Group production plants. The Company was also involved in preparing a project to develop a new multi-brand production plant. The final location has still to be confirmed and construction is awaiting approval.

FOCUS ON INNOVATIONS AND EMPLOYEES

Inherent part of the Strategy 2025+ are also activities promoting innovations, open and agile corporate culture and enhancing employee qualifications as well as applying modern ways of working. The Company continued in these activities in 2019 for instance through the work of innovation management team, ŠKODA Academy training centre and the ŠKODA AUTO University. A range of training sessions was conducted to prepare employees e.g. for assembling electric cars or for other upcoming technologies. Employees were also able to utilize new innovative premises and become directly involved in innovations and shape the transformation of the whole Company.

EMPHASIS ON SUSTAINABILITY

Within its Strategy 2025+ and a newly defined Sustainability strategy, the Company has created conditions for sustainable and long-term growth, with key focus on environmental aspects covered by an internal GreenFuture program. One of the most prominent goals in this area is to achieve reduction of vehicle fleet CO_2 emissions by 30% till 2025 and to transform the Czech production facilities to achieve CO_2 neutral balance of consumed energies by 2030. Both of these measures aim towards a long-term reduction of greenhouse gases in the entire lifecycle of our products and contribute to the Group ambition to become a fully carbon neutral company by 2050.

ŠKODA AUTO is also actively involved in a range of social sustainability projects. At the end of 2018, the Company founded a dedicated ŠKODA AUTO Endowment Fund, with financial resources of CZK 780 million, to support projects that sustainably improve the quality of life around our production facilities, mainly in the Mladá Boleslav area.

In the area of integrity, the Company focused in the current year on strengthening the compliance and ecology standards. An example from the Procurement area are new sustainability compliance criteria applied to our potential suppliers – these criteria will have an equal importance in supplier qualification as the suppliers' performance in quality or logistics.

PRODUCT PORTFOLIO

2019 saw ŠKODA AUTO enter the era of electromobility – an important milestone in the Company's 124-year history. The first electrified ŠKODA cars were the ŠKODA SUPERB iV plug-in hybrid and the all-electric ŠKODA CITIGO^{e} iV. The first ŠKODA based on the VOLKSWAGEN Group's electric MEB platform will follow in 2020. The following pages outline both new products as well as product updates that ŠKODA introduced to its customers in 2019.

ŠKODA CITIGO / ŠKODA CITIGO^{e} iV

The arrival of the ŠKODA CITIGO^{e} iV marked the beginning of a new era for the car manufacturer. This four-seater mini car is the first batch-produced ŠKODA car to be equipped with an all-electric powertrain. But not only that, the zero-emission ŠKODA CITIGO^{e} iV featuring a 36.8-kWh lithium-ion battery can cover up to 260 km in the WLTP cycle. The ŠKODA CITIGO^{e} iV is thus an excellent solution for driving in modern cities. Serial production of this environmentally friendly city car began in late 2019.

ŠKODA FABIA

One of the brand's key models, the ŠKODA FABIA comes exclusively with a choice of any of the efficient 1.0-litre three-cylinder engines and is available as a hatchback or an estate. Even in the small car segment, ŠKODA offers state-of-the-art technology and the highest level of safety. This includes LED headlights, a wide range of assistance systems and numerous Simply Clever features. FABIA customers can also opt for a variety of customisation options, such as a two-tone body and attractive special editions like the ŠKODA FABIA MONTE CARLO or ŠKODA FABIA COMBI SCOUTLINE.

ŠKODA RAPID

Excellent value for money, a generously sized interior and boot are some of the key characteristics of both the RAPID and RAPID SPACEBACK. In 2019, European production of these models was terminated, but the Company continues to manufacture special versions of the RAPID locally in China, India and Russia. The picture shows a new version of the ŠKODA RAPID for the Russian market.

ŠKODA SCALA

New character, new technologies, new name – the ŠKODA SCALA was the brand's highlight in 2019. This all-new compact model offers a high standard of active and passive safety, full LED headlights and tail lights, a generously sized passenger compartment and boot, as well as a wealth of Simply Clever features. A choice of five engines is available with power outputs ranging between 66 kW and 110 kW. This five-door hatchback combines an emotive design, high functionality and state-of-the-art connectivity.

ŠKODA OCTAVIA

The OCTAVIA is the brand's global bestseller, and late 2019 saw the world premiere of its fourth generation. A new design language, supreme aerodynamic properties, advanced assistance systems, an exceptionally spacious interior despite compact dimensions, and a wide range of engine configurations including hybrid solutions are some of the key characteristics of the new-generation OCTAVIA. The all-new ŠKODA OCTAVIA is scheduled to be launched in the markets in the first half of 2020.

ŠKODA KAMIQ

By launching the ŠKODA KAMIQ, the brand has added a third model to its successful European SUV portfolio while entering the dynamically growing city SUV segment. The KAMIQ combines the usual benefits of an SUV such as increased clearance and a higher seating position with the agility of a compact car and ŠKODA's typically emotive design. Boasting state-of-the-art assistance and infotainment systems, a generously sized interior and a multitude of Simply Clever features, the new KAMIQ meets all the requirements of lifestyle-oriented individuals and families – in the typical ŠKODA style.

ŠKODA KAMIQ GT

ŠKODA has expanded its SUV family in China by presenting the new ŠKODA KAMIQ GT in Tianjin in November 2019. It is the brand's second SUV coupé and, like the larger ŠKODA KODIAQ GT, is exclusively available in China. The new ŠKODA KAMIQ GT is a sporty coupé variant of the compact KAMIQ city SUV. Its dynamic appearance, generous space and practical features have been tailored to suit lifestyle-oriented, young customers with a focus on the joy of driving, everyday practicality and an emotive design. Advanced connectivity solutions and a modern infotainment system are also part of the standard equipment.

ŠKODA KAROQ

The ŠKODA KAROQ is a compact, 4.38-m-long SUV whose "crystalline look" is based on the ŠKODA SUV design language. The car's many benefits include a boot offering a capacity of up to 1,630 l, full LED headlights and the customisable Virtual Cockpit, which made its ŠKODA debut in this model. The car also features plenty of Simply Clever details, including VarioFlex rear seats, a Virtual Pedal for contactless tailgate opening and ŠKODA Connect services. The 2020 model year vehicle came with several improvements and new features, the most obvious being the large ŠKODA lettering on the tailgate instead of the usual winged arrow logo.

ŠKODA KODIAQ

In addition to a length of 4.70 m, up to seven seats and one of the largest boots in its segment, ŠKODA's first large SUV offers the complete package of ŠKODA Connect services plus a variety of new features and innovative Simply Clever technologies usually seen in higher-tier cars. In 2019, Side Assist was added to the portfolio – a new system designed to warn the driver of vehicles in their blind spot up to 70 m away. Just like in the models mentioned above, the new ŠKODA lettering now adorns the tailgate.

ŠKODA KODIAQ GT

Made exclusively for the Chinese market, this car combines the robust exterior and versatility of an SUV with the elegance and dynamics of a coupé, while being the first production model to feature the new ŠKODA lettering in the centre of the tailgate. The engine portfolio consists of two powerful petrol engines, a 2.0 TSI delivering 137 kW combined with front-wheel drive and a 2.0 TSI with a power output of 162 kW, four-wheel drive and a seven-speed DSG. To ensure maximum safety, the vehicle features a wide range of assistance systems, including Blind Spot Detect, Front Assist and ACC (Adaptive Cruise Control) with a Stop&Go function.

ŠKODA SUPERB

Three and a half years after the launch of its third generation, ŠKODA's flagship underwent extensive modernisation, primarily in terms of technology and design. Moreover, the top-end ŠKODA is now also available as a SCOUT variant and, since the beginning of 2020, also as a plug-in hybrid SUPERB iV. Thanks to new technologies such as the full LED Matrix headlights and an extended range of innovative assistance systems, the ŠKODA SUPERB is one of the safest and most comfortable cars in its segment whilst also continuing to set the benchmark for interior spaciousness.

FINANCIAL SITUATION

Financial results at ŠKODA AUTO are reported in accordance with IFRS as adopted by the European Union.

To date, 2019 was the most successful financial year in the history of ŠKODA AUTO in many areas. The Company achieved record sales and turnover; operating profit reached the second best value of all time. In doing so, it maintained its outstanding financial performance and stability. This was particularly due to the rising volume and better structure of sales and the successful measures put in place to increase effectiveness.

THE COMMERCIAL DEVELOPMENT OF THE COMPANY

A total of 1,243 thousand ŠKODA cars were delivered to customers in 2019, including deliveries in China, meaning that the brand was able to surpass the milestone of one million cars delivered during a single year for the sixth time in succession (2018: 1,254 thousand cars).

ŠKODA AUTO sales rose by 1.7% year-on-year to 948 thousand cars. Meanwhile, Company revenues rose 10.2% year-on-year to CZK 459.1 billion. Car sales accounted for 83.4% of the overall turnover of the Company during the year under consideration (2018: 83.3%). The best-selling models were the ŠKODA OCTAVIA and ŠKODA FABIA. Deliveries of components and sets of disassembled cars to companies in the VOLKSWAGEN Group accounted for 8.4% of total revenues (2018: 8.2%). Business in original parts and accessories accounted for 5.1% of overall revenues (2018: 5.1%). The remaining 3.1% (2018: 3.4%) were revenues from the sales of services (e.g. ŠKODA Connect), licences and other yields.

The cost of sales rose solidly by 10.5% year-on-year to CZK 397.1 billion. Material and personnel costs accounted for the lion's share of the increase. Gross profit rose by 8.3% on the previous year to CZK 62.0 billion.

Distribution costs stood at CZK 14.7 billion, entailing a year-on-year increase of 4.9%. Meanwhile, administrative costs were CZK 13.2 billion in 2019, meaning a year-on-year increase of 7.0%. As in the previous year, purchases of services associated with digitalisation at the Company and the processes involved in this were primarily accountable for the rise in administrative costs.

The operating profit at the Company during the period under consideration was CZK 37.2 billion, marking a year-on-year increase of 10.0%. Profit before tax stood at CZK 38.5 billion (2018: CZK 35.1 billion). Profit after tax was CZK 31.7 billion (2018: CZK 28.9 billion). Return on sales before tax stood at 8.4% (2018: 8.4%).

CASH FLOW AT THE COMPANY

Cash flow from operating activities in 2019 was CZK 66.2 billion, meaning a year-on-year increase of 47.8%. Net liquidity was CZK 42.3 billion at 31 December 2019 (CZK 43.3 billion at 31 December 2018). ŠKODA AUTO paid out a dividend in 2019 on profit from the year 2018 of CZK 28.9 billion (2018: CZK 31.8 billion on profit from the year 2017 and a further CZK 38.5 billion from retained earnings).

OTHER INFORMATION

THE ASSET AND CAPITAL STRUCTURE AT THE COMPANY

The Company balance sheet total at 31 December 2019 was CZK 241.6 billion, representing an increase of CZK 22.3 billion on the balance-sheet total at the end of the previous year. The value of non-current assets rose by 19.1% against the comparable period to CZK 141.5 billion. Current assets stood at CZK 100.1 billion on the record date (CZK 100.4 billion at 31 December 2018). The increase in the balance-sheet total on the asset side mainly occurred as a result of an increase in non-current assets.

Equity fell slightly by CZK 2.0 billion in 2019 to a total of CZK 109.6 billion.

The value of non-current liabilities rose by 27.0% against the comparable period to CZK 24.9 billion. The reason for this was the inclusion of liabilities from future leasing payments and increase in provisions. Current liabilities also rose, to CZK 107.1 billion (21.7%), in comparison with the previous year. This was caused by the increase in trade liabilities.

COMPANY INVESTMENT ACTIVITY

Investments in 2019 (excluding development costs) accounted for a total of CZK 32.1 billion (CZK 22.6 billion in 2018). The majority of this was expended on product investments connected with the launch of new models, aggregates and production of batteries.

The Company spent CZK 25.2 billion on research into and the development of new products in 2019 (CZK 22.5 billion in 2018).

In the past, certain ŠKODA vehicles were produced with 1.2 litre, 1.6 litre and 2.0 litre EA189 diesel engines. In 2015, the competent authorities raised questions about software that detects when these vehicles are running in test conditions. This software was found in approximately 1.2 million ŠKODA brand vehicles.

ŠKODA AUTO decided to launch a servicing campaign to update the vehicles.

Technical measures were developed and prepared for these modifications so that servicing could begin in 2016. Technical measures were drawn up for all of the ŠKODA vehicles in question and were presented to the competent homologation authorities. The servicing campaign will continue in 2020.

Servicing campaign costs were taken into account in the financial statements for previous periods. In 2019, the costs had no significant impact on profit for the year.

TECHNICAL DEVELOPMENT

Technical Development plays an important part in the achievement of Strategy 2025+ at ŠKODA AUTO, a fact witnessed in the level of expenditures on technical development, which in 2019 alone stood at CZK 25.2 billion. The advent of electromobility and digital technology in the automotive industry places considerable demands on Technical Development which requires a wide range of skills, knowledge and activities. This need primarily concerns strategically important areas, such as assistance systems, digitalisation, connectivity and particularly electronics. This is accompanied by the need to expand the Technical Development team to include experts from entirely new areas and professions. The ever--wider portfolio of products sold by the Company also requires the involvement of experts from many fields. For this reason, 788 new positions have opened up in Technical Development in the past three years. Some 2,309 employees worked in this area at the end of the year, with an ever-higher degree of internationalisation.

Technical Development celebrated the 120th anniversary of the launch of engine development and production in November 2019, with considerable participation by the general public and journalists. The celebrations took place on the premises of the Engine Centre, where a number of historic exhibits were on display.

TECHNICAL DEVELOPMENT STRATEGY

A number of work meetings and workshops were held over the course of 2019 to focus on updating the Technical Development Strategy. Given that the basis of the vision, which dates back to 2016, is subject to significant external influences, the Company had to react to the situation and modify the objectives, and the vision itself, in line with new external factors. The new Technical Development Strategy 2025+ was presented to all the employees of the department at the annual meeting in July. The main pillars of the strategy include people and organisation, an innovative workforce, regions, key competencies and product sustainability.

REGIONAL BUILDING DEVELOPMENT

The Company worked intensively in 2019 on developing the Česana complex which celebrated its two-hundredth year of existence. It completed building work on a new parking centre for employees which will provide up to 450 parking spaces, as well as chargers for electric cars. A trial operation will be launched in January 2020 and the ceremonial opening is planned for May 2020, once aesthetic work on the outer facade has been completed.

2020

THE VISION IN SHOW CAR WON THE BEST CONCEPT CAR 2020 AWARD IN DELHI

425 Nm

THE MAXIMUM TORQUE OF THE PROPULSION UNIT THAT POWERS THE FABIA R5 EVO

The building at the test track in Úhelnice near Husí Lhota, in which Technical Development invested more than CZK 375 million, was also completed. The new crash laboratory will make it possible to conduct demanding safety tests on cars, including electric cars. The test capacity has also been increased and the track for testing vehicles has been extended to 200 metres. Construction work also continued on a modern building for vehicle construction, which provides workshop and office space for up to 110 Technical Development staff.

Work on expanding the Technology Centre began in August, with 430 jobs for development experts to be created in the new annexe. The building has also been designed as a space for laboratories involved in the development of electronic cars, lamp technology and testing the interior, exterior and safety of vehicles. Construction of the building itself will continue to the end of 2020, after which the new laboratories will come into use in stages. Construction work on a building for the construction of test vehicles is also continuing and will eventually provide space for up to 110 workers and a new workshop area. Investment of CZK 640 million should be completed at the end of 2020. The Company also thought about its employees when planning changes to the complex, and for this reason, opened a café in the very centre where employees can go for a coffee and some cake.

FUTURE OF THE BRAND

An in-house Innovation Fair (IVET) was held in 2019 to support and develop customer-focused and technical innovations. Innovations and innovative concepts from all areas of Technical Development at ŠKODA AUTO were introduced in the presence of the members of the Board of Management and management at Technical Development. IVET 2019 took place at the test track in Úhelnice. Visitors to the presentation stand were able to learn about more than forty different topics, divided into six areas – electrification, automated driving, connectivity and its ecosystem, the environment and sustainability, virtual development and everyday use. The fair was further enhanced by an outdoor exhibition with more than ten dynamic examples of the future of mobility from the perspective of Technical Development, including the "Innovation Incubator". The link between most of the innovations presented was the planned new generation KODIAQ, which will reach the market in a few years' time and will be filled with ground-breaking solutions, including Simply Clever innovations that will meet the needs of sportsmen and women, travellers and families with children.

THE NEW ŠKODA FABIA R5 EVO SCORES POINTS

ŠKODA Motorsport launched an improved version of its ŠKODA FABIA R5 evo race car during the season, with an updated headlamp design and an even more distinctive appearance for the front of the car, drawing on the current generation of the ŠKODA FABIA. The new race car has been fitted with a more powerful engine in comparison with its predecessors. In addition, the turbocharged four-cylinder engine has an improved torque. Customers began snapping up the second generation of this special race car in July, with the first ŠKODA FABIA R5 evo going to Toni Gardemeister, a former factory driver for

ŠKODA Motorsport and now the owner of the TGS Worldwide team. More than 320 unique ŠKODA FABIA R5 and ŠKODA FABIA R5 evo cars have been sold since the spring of 2015.

The ŠKODA Motorsport factory team built on previous successes in the FIA World Rally Championships in 2019. The world title in the new WRC 2 Pro category was captured this year in the manufacturer's category and in the crew category, with Kalle Rovanperä and Jonne Halttunen excelling. The ŠKODA was also victorious in the WRC 2 category for private teams, with a crew of Pierre-Louis Loubet and Vincent Landais coming out on top in a FABIA R5. Jan Kopecký earned another victory for the factory team, becoming Czech rally champion for the seventh time. In what was the most successful season in the 118-year history of the brand, ŠKODA won 5 titles in FIA competitions and 23 national titles.

ŠKODA cars were also used in competition by a Chinese rally team for the very first time in December. DA-Motorsport ŠKODA FABIA R5 Rally tested the race car at the Chinese championships during the rally at Dongshan Bay Rim. The Company expects that this cooperation will also further strengthen the position of the ŠKODA brand in China.

PROCUREMENT

ŠKODA Procurement is responsible for securing material, components and services in a quantity and quality that enables ŠKODA AUTO to satisfy customer demands and to build a positive brand image. The Procurement Strategy is fully in line with Strategy 2025+ which defines the development of the Company plans.

SUPPORT FOR BATCH PRODUCTION AND NEW LAUNCHES

The launch of new vehicles - SCALA, KAMIQ, SUPERB iV, CITIGO^{e} iV – and the fourth generation of the OCTAVIA model required maximum endeavour from our employees in this area. The Procurement team secured 3,024 new parts for these cars from suppliers, in all existing colour variations. As part of the tender process, 33 new suppliers were nominated for ŠKODA AUTO. Procurement staff had to respond in time to the decreasing popularity of diesel engines among drivers (primarily in Western Europe) and the increasing popularity of petrol engines by inviting tenders for petrol engine components to make sure that ŠKODA was able to continue satisfying customer demand. Meanwhile, the success of the KAROQ and KODIAQ models resulted in the need to increase deliveries from suppliers. Tenders for parts procured for new models and the increased procurement of digital services were also given priority.

The most important assignments for General Procurement in the year 2019 included construction work at Technical Development (Česana) and specifically the construction of a new sample testing building and development of the technology centre. Construction work on both projects began in 2019. A further key task in 2019 was securing 132 automatic transport carriers for all ŠKODA AUTO plants in the Czech Republic. General Procurement were also involved in ensuring the successful launch of operations at the new paint shop, which was ceremonially opened in August 2019.

The Service Procurement Department addressed the demands in the sphere of marketing. In light of the fact that 2019 marked the beginning of the electric car era at ŠKODA AUTO, one priority for the team was to fully implement campaigns to introduce the first CITIGO^{e} iV electric car and the first plug-in hybrid SUPERB iV.

3,024

NEW PARTS FOR CAR LAUNCHES IN 2019

CAR FOR INDIA

A major milestone in 2019 was the merger of former Group subsidiaries active on the local market into a SKODA AUTO Volkswagen India Pvt. Ltd. The Company will launch the first ŠKODA car in the A0 SUV segment at the beginning of 2020 as part of the INDIA 2.0 model offensive. The car was specifically developed to meet the needs of Indian customers and should appeal to customers in terms of price and their specific requirements. The year 2019 was particularly important for this project in terms of developing new parts and nominating suppliers. Procurement was successful in sourcing local suppliers for most components.

LOOKING FOR NEW OPPORTUNITIES

ŠKODA AUTO does not limit itself to simply monitoring the latest trends – it shapes these trends itself. To this end, Procurement stages annual TechDays which are innovation days where leading suppliers present their technical visions for the coming years to Company management, particularly in relation to electromobility, connectivity and digitalisation. Procurement organised two such innovation gatherings in 2019.

VOLUME OF EXPENDITURES

ŠKODA AUTO spent CZK 217 billion on production material in 2019, resulting in a year-on-year increase of CZK 4.7 billion. The lion's share of this was spent in the Czech Republic (39.8%) and in Germany, where Procurement purchased approximately one fifth (19.8%) of the overall quantity of production material. The total volume of General Procurement was CZK 39 billion, meaning a slight increase of 3.7% in comparison with 2018. The Production Procurement database contained 1,950 suppliers from all over the world in 2019. Moreover, General Procurement had on record more than 6,250 cooperating suppliers from all over the world.

MARKET PRICES OF KEY MATERIALS

ŠKODA AUTO and the VOLKSWAGEN Group faced up to the changes in the market prices of materials in 2019. However, cooperation with the Group's Procurement Division meant that the risks associated with developments in the materials markets could be reduced to a considerable extent. There was another significant increase in the price of rhodium, palladium and nickel in comparison with the previous year. Despite these influences, the Company was able to achieve significant cost optimisation which proved significant in helping the brand achieve a positive overall result.

PRODUCTION AND LOGISTICS

ŠKODA AUTO manufactured 1,243,222 ŠKODA cars worldwide in 2019 and in April celebrated manufacturing 22 million vehicles since 1905. The Company expanded and modernised the production and servicing technology at its plants in 2019. This upgrade involved robotisation, automation and digitalisation of production processes in line with the Industry 4.0 concept.

THE ŠKODA PRODUCTION STRATEGY ABROAD

Production plants abroad prepared themselves for the production launch of new and innovated models, which rolled on to the production lines in 2019. The Company launched the production of the modernised ŠKODA SUPERB at a Chinese partner plant in Nanjing in May 2019. In October, at the same plant, it launched the production of the fifth ŠKODA SUV for the Chinese market, the ŠKODA KAMIQ GT, a sports version of the ŠKODA KAMIQ, which has been in production since March 2018.

Production of the CITIGO^{e} iV, the first fully electric model made by ŠKODA AUTO, began at the plant in Bratislava in November. This was also the same month that production of the second ŠKODA KAROQ SUV was launched at the Russian partner plant in Nizhny Novgorod. One month later, production of the updated ŠKODA RAPID simultaneously began at the Russian plant in Kaluga and the Chinese plant in Yizheng.

PRODUCTION OF NEW MODELS IN THE EU

ŠKODA AUTO launched the production of the new compact SCALA model, the first model to use the VOLKSWAGEN Group MQB A0 platform, at its plant in Mladá Boleslav in February. The model was also designed and developed at the main production plant. In July, production of the new urban KAMIQ SUV began, again in Mladá Boleslav, the Company's third SUV for the European market. A historic event was to follow in September 2019, when the first electrified batch of SUPERB iV with plug-in hybrid drive rolled off the production line at the plant in Kvasiny.

MLADÁ BOLESLAV – PARENT PLANT WITH PROSPECTS

The Company currently manufactures the FABIA, SCALA, OCTAVIA, KAROQ and KAMIQ at the plant in Mladá Boleslav. The Company's parent plant reached a number of milestones in 2019. The 250,000th ŠKODA KAROQ rolled off the production line in September 2019 – just two years after production launch. The jubilee car was a KAROQ 1.0 TSI 85 kW in a metallic black Magic finish. This was followed in November with the manufacture of the 2,500,000th third-generation OCTAVIA.

The rising volume of production goes hand in hand with increasing demands for the expansion and modernisation of production and logistics capacities. The Company put a new paint shop into operation at the main production plant in Mladá Boleslav in August – one of the most up-to-date and environmentally-friendly facilities of its kind in Europe. Up to 168,000 car bodies will be painted there each year and the total painting capacity will rise to 812,000 units a year. A total of 66 robots took on or supported a number of work steps and employee workplaces now meet the most exacting demands on ergonomics due to the application of innovative technologies.

The most important investments in the Company's future include the construction of a new press line, including a new try-out press, which will replace technology that has become obsolete. The foundation stone of the new Central Pilot Hall, which should be completed in March 2021, was laid in September. Investments will also be directed toward social infrastructure. Building preparation got underway in 2019 for the construction of a central kitchen, a modern, large-capacity facility.

DYNAMICALLY DEVELOPING PLANT IN KVASINY

The Company plant in Kvasiny is an important pillar in the car manufacturer's network of production capacities where it currently manufactures the ŠKODA SUPERB, ŠKODA SUPERB iV, ŠKODA KAROQ, ŠKODA KODIAQ and SEAT ATECA models. The unique dProduction project was launched in April 2019 as part of the digitalisation of production within the scope of introducing Industry 4.0. This supports employees using multimedia content, so that they take the correct assembly steps, notifies them of changes in the production process and acts as a quality control document. This system prevents errors and enables greater product complexity. The company was given the prestigious Automotive Lean Production Award for the dProduction project.

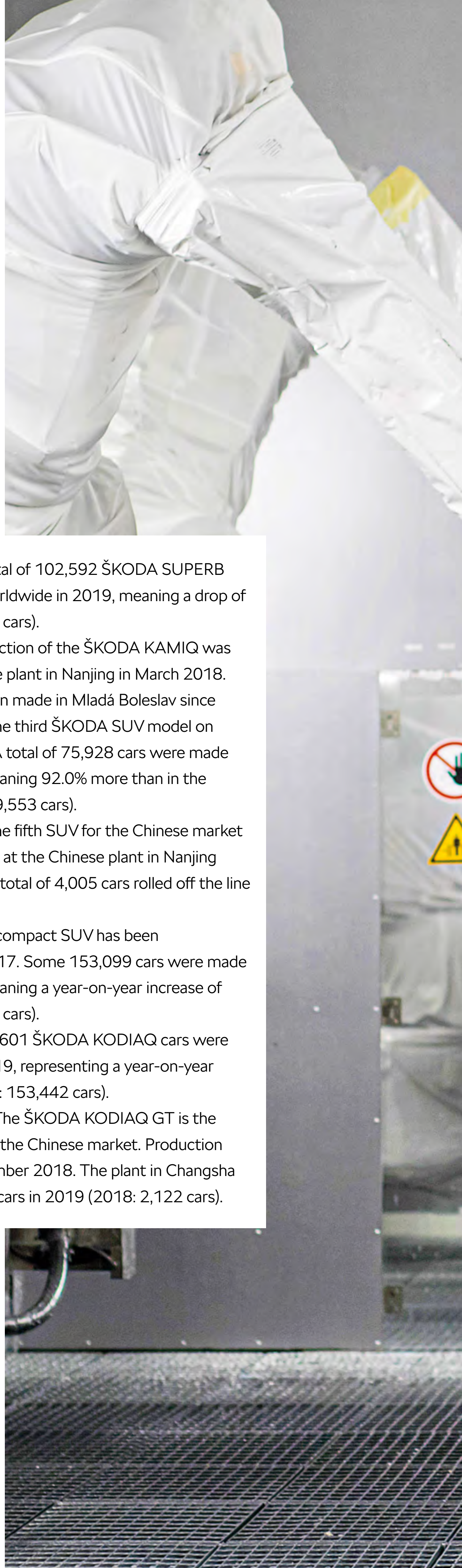
The plant in Kvasiny reached two significant milestones in 2019. The 500,000th third-generation ŠKODA SUPERB rolled off the production line in March. In September, the Kvasiny plant entered the electromobility era, with the first ŠKODA SUPERB iV with plug-in hybrid drive rolling off the production line. This model is manufactured on the same production line as the ŠKODA SUPERB models that run on combustion engines.

COMPONENT PRODUCTION

A total of 1,125,159 gearboxes were made at ŠKODA AUTO in 2019: 387,101 MQ200 gearboxes, 182,200 MQ/SQ100 gearboxes and 555,858 DQ200 gearboxes plus 568,825 engines and 3,975 batteries for plug-in hybrids. The Company produces components for its own needs as well as for the needs of other Group brands. In total, it manufactured 278,910 engines (49% of the total number of aggregates made) and 665,540 gearboxes (59% of the total number of gearboxes produced) for other brands within the Group.

ŠKODA AUTO also celebrated several important jubilees in the production of components. It manufactured the 2,500,000th EA211 engine at Mladá Boleslav plant in May. The Company has been making these engines since the end of 2012, both for ŠKODA and for other vehicles from the VOLKSWAGEN Group. ŠKODA AUTO then reached the milestone of 12 million gearboxes made in June. September was an important milestone for the electromobility era. The batch production of components for the electric cars made by the VOLKSWAGEN Group was launched at the plant in Mladá Boleslav – high-voltage traction batteries for plug-in hybrids based on the MQB modular platform. More than 3,500 batteries had been batch-produced by the end of 2019, with more than 250 in pre-production. A capacity of 180,000 pieces a year is planned for 2020. November was the month in which the three millionth DQ200 gearbox was manufactured at the plant in Vrchlabí.

The production of axles, of which ŠKODA AUTO currently makes 7,600 a day, is another integral part of component production. A total of 1.83 million axles for the production plants in Mladá Boleslav, Kvasiny and India were made in 2019.



PRODUCTION OF ŠKODA CARS ABROAD

Some 5,993 ŠKODA cars were made at the Aurangabad plant in India in 2019 and 9,529 at the plant in Pune. At the Company's partner plant in Nizhny Novgorod in 2019, 64,270 cars rolled off the line, 22.1% more than in 2018. The Kaluga plant in Russia produced 40,654 ŠKODA cars, meaning an increase of 6.7%. And a total of 266,377 cars were manufactured at partner plants in China in 2019.

PRODUCTION BY MODEL

ŠKODA CITIGO There was a 26.3% drop in the production of ŠKODA CITIGO cars. Some 27,333 ŠKODA CITIGO cars were made at the VOLKSWAGEN plant in Bratislava (37,101 in 2018).

ŠKODA FABIA A total of 166,237 ŠKODA FABIA cars were made worldwide in 2019, meaning a year-on-year drop of 10.7% (186,213 vehicles in 2018).

ŠKODA RAPID 123,656 ŠKODA RAPID cars were manufactured worldwide in 2019. Production of the RAPID SPACEBACK model came to an end in the Czech Republic in February 2019 along with the RAPID liftback model in June 2019, which resulted in a drop in production on the previous year of 36.7% (195,270 in 2018).

ŠKODA SCALA Batch production of the new, compact ŠKODA SCALA began in February 2019, with 54,839 cars manufactured in Mladá Boleslav during the year.

ŠKODA OCTAVIA The ŠKODA OCTAVIA was again the most prominent model at ŠKODA AUTO in terms of volume in 2019. A total of 358,364 cars of this model were made worldwide, meaning a drop of 10.5% (2018: 400,210). This model also accounted for the largest share in the annual worldwide production of ŠKODA cars, with 28.8%.

ŠKODA SUPERB A total of 102,592 ŠKODA SUPERB cars were produced worldwide in 2019, meaning a drop of 25.1% (2018: 136,985 cars).

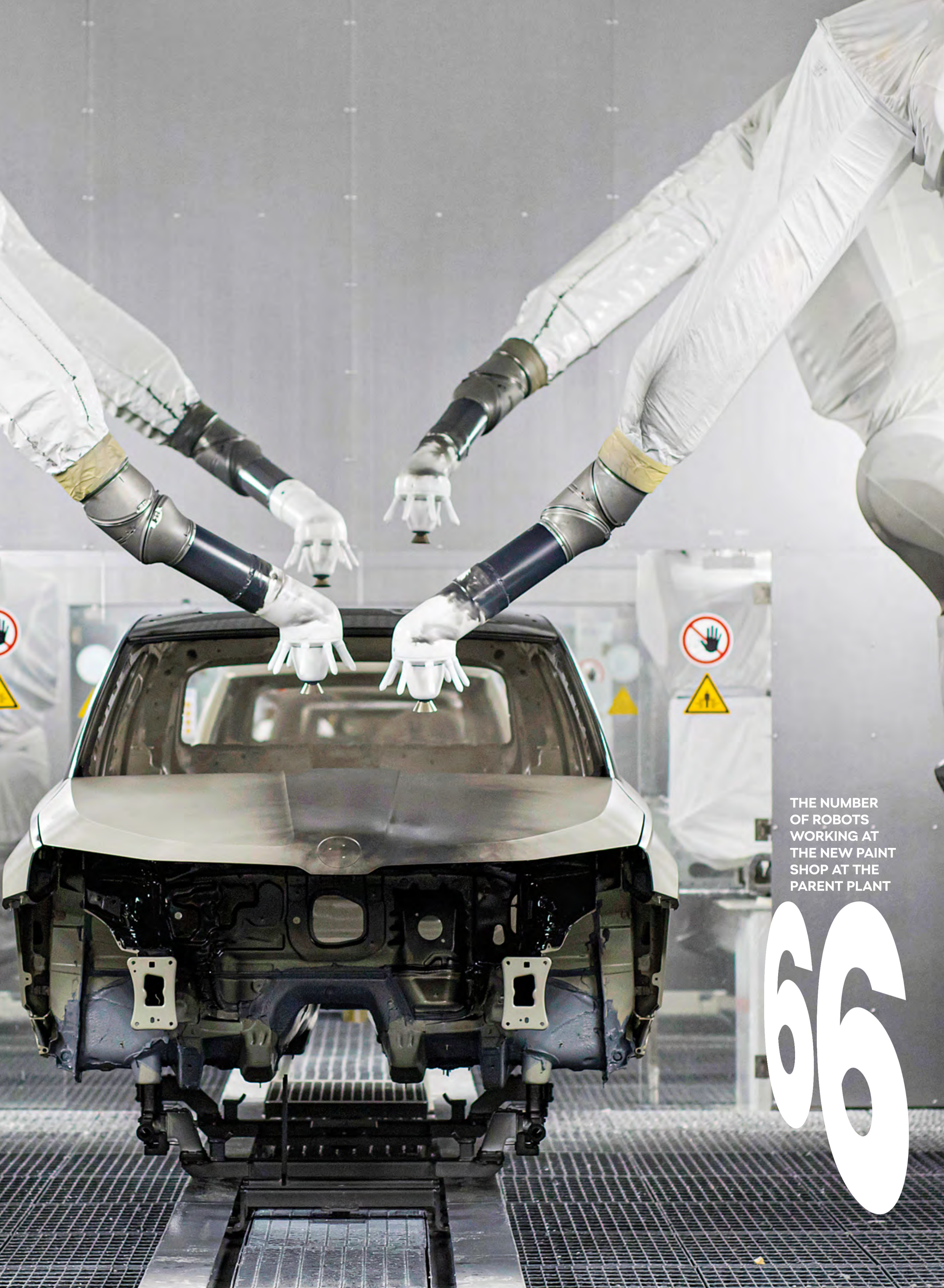
ŠKODA KAMIQ Production of the ŠKODA KAMIQ was launched at the Chinese plant in Nanjing in March 2018. The model has also been made in Mladá Boleslav since July 2019, becoming the third ŠKODA SUV model on the European market. A total of 75,928 cars were made worldwide in 2019, meaning 92.0% more than in the previous year (2018: 39,553 cars).

ŠKODA KAMIQ GT The fifth SUV for the Chinese market has been manufactured at the Chinese plant in Nanjing since October 2019. A total of 4,005 cars rolled off the line there in 2019.

ŠKODA KAROQ This compact SUV has been manufactured since 2017. Some 153,099 cars were made worldwide in 2019, meaning a year-on-year increase of 14.7% (2018: 133,463 cars).

ŠKODA KODIAQ 164,601 ŠKODA KODIAQ cars were made worldwide in 2019, representing a year-on-year increase of 7.3% (2018: 153,442 cars).

ŠKODA KODIAQ GT The ŠKODA KODIAQ GT is the fourth ŠKODA SUV on the Chinese market. Production was launched in September 2018. The plant in Changsha made 12,568 of these cars in 2019 (2018: 2,122 cars).



THE NUMBER OF ROBOTS WORKING AT THE NEW PAINT SHOP AT THE PARENT PLANT

66

PRODUCTION OF CARS AT ŠKODA AUTO COMPANY*	VEHICLES 2019	VEHICLES 2018	CHANGE (%) 2019/2018
PRODUCTION OF ŠKODA CARS			
ŠKODA FABIA	109,653	112,863	(2.8%)
ŠKODA FABIA COMBI	56,584	64,800	(12.7%)
ŠKODA FABIA TOTAL	**166,237**	**177,663**	**(6.4%)**
ŠKODA RAPID	15,511	28,813	(46.2%)
ŠKODA RAPID SPACEBACK	4,374	47,187	(90.7%)
ŠKODA RAPID TOTAL	**19,885**	**76,000**	**(73.8%)**
ŠKODA SCALA	**54,839**	**—**	**—**
ŠKODA OCTAVIA	93,419	83,070	12.5%
ŠKODA OCTAVIA COMBI	169,047	174,962	(3.4%)
ŠKODA OCTAVIA TOTAL	**262,466**	**258,032**	**1.7%**
ŠKODA SUPERB	29,298	40,575	(27.8%)
ŠKODA SUPERB COMBI	49,715	50,912	(2.4%)
ŠKODA SUPERB TOTAL	**79,013**	**91,487**	**(13.6%)**
ŠKODA KAMIQ	**29,301**	**—**	**—**
ŠKODA KAROQ	**94,739**	**100,249**	**(5.5%)**
ŠKODA KODIAQ	**101,586**	**81,697**	**24.3%**
ŠKODA BRAND TOTAL	**808,066**	**785,128**	**2.9%**
PRODUCTION OF SEAT CARS			
SEAT TOLEDO	**1,506**	**10,151**	**(85.2%)**
SEAT ATECA	**98,370**	**90,824**	**8.3%**
SEAT BRAND TOTAL	**99,876**	**100,975**	**(1.1%)**
TOTAL ŠKODA AUTO PRODUCTION	**907,942**	**886,103**	**2.5%**

*Production in the Czech Republic only in the Company’s plants in Mladá Boleslav and Kvasiny.

ŠKODA BRAND PRODUCTION WORLDWIDE	VEHICLES 2019	VEHICLES 2018	CHANGE (%) 2019/2018
PRODUCTION OF ŠKODA CARS IN INDIA			
ŠKODA RAPID	9,529	9,989	(4.6%)
ŠKODA OCTAVIA	2,731	2,891	(5.5%)
ŠKODA SUPERB	1,415	1,752	(19.2%)
ŠKODA KODIAQ	1,847	2,224	(17.0%)
TOTAL ŠKODA IN INDIA	**15,522**	**16,856**	**(7.9%)**
PRODUCTION OF ŠKODA CARS IN SLOVAKIA			
ŠKODA CITIGO / ŠKODA CITIGOᵉ iV	27,333	37,101	(26.3%)
TOTAL ŠKODA IN SLOVAKIA	**27,333**	**37,101**	**(26.3%)**
PRODUCTION OF ŠKODA CARS IN GERMANY			
ŠKODA KAROQ	21,000	1,458	1340.3%
TOTAL ŠKODA IN GERMANY	**21,000**	**1,458**	**1340.3%**
PRODUCTION OF ŠKODA CARS IN RUSSIA			
ŠKODA RAPID	40,654	38,109	6.7%
ŠKODA OCTAVIA	28,071	33,677	(16.6%)
ŠKODA YETI	—	910	—
ŠKODA KAROQ	200	—	—
ŠKODA KODIAQ	35,999	18,043	99.5%
TOTAL ŠKODA IN RUSSIA	**104,924**	**90,739**	**15.6%**
PRODUCTION OF ŠKODA CARS IN CHINA			
ŠKODA FABIA	—	8,550	—
ŠKODA RAPID	53,588	71,172	(24.7%)
ŠKODA OCTAVIA	65,096	105,610	(38.4%)
ŠKODA SUPERB	22,164	43,746	(49.3%)
ŠKODA KAMIQ	46,627	39,553	17.9%
ŠKODA KAMIQ GT	4,005	—	—
ŠKODA KAROQ	37,160	31,756	17.0%
ŠKODA KODIAQ	25,169	51,478	(51.1%)
ŠKODA KODIAQ GT	12,568	2,122	492.3%
TOTAL ŠKODA IN CHINA	**266,377**	**353,987**	**(24.7%)**
TOTAL ŠKODA BRAND WORLDWIDE*	**1,243,222**	**1,285,269**	**(3.3%)**
TOTAL ŠKODA PRODUCTION WORLDWIDE, INCLUDING OTHER GROUP BRANDS	**1,343,098**	**1,386,244**	**(3.1%)**

* Including production of ŠKODA cars at ŠKODA AUTO company as well as at foreign plants in the rest of the world.

SALES AND MARKETING

ŠKODA AUTO delivered a total of 1,242,767 cars to customers in 2019. This meant that the Company surpassed the one-million-car mark for the sixth year in succession. However, deliveries to customers fell by 0.9% (2018: 1,253,741 cars). The main reason for this was a drop in sales on the Chinese market. ŠKODA increased deliveries to customers on other markets by 5.3% to 960,729 cars. In fact, the Company registered another record year in Europe (+5.8%) and in Russia (+8.8%). It was also able to increase its global market share despite the overall market downturn. The Company succeeded in modernising and broadening its attractive range of models in 2019 with the SCALA, the KAMIQ, the SUPERB iV with a plug-in hybrid powertrain and the new, fourth-generation OCTAVIA. ŠKODA cars excite customers with their remarkable spaciousness, maximum functionality, modern design, their range of Simply Clever solutions and an outstanding price-to-performance ratio.

CENTRAL EUROPE

The ŠKODA brand maintained its forward direction in Central Europe and was able to increase overall sales in the region. The Company delivered a total of 215,784 cars to its customers, some 1.3% more than in the previous year. ŠKODA AUTO supplied 94,152 cars to customers in the Czech Republic, meaning a year-on-year increase of 0.6%. ŠKODA succeeded in increasing its market share to 37.7%, the highest figure for the past ten years. The Czech Republic again occupied the third position among the Company's biggest markets. The only market in the region that showed double-figure growth was Croatia, where 5,893 cars were sold (+11.3%). There was also an increase in sales in Slovakia (22,632 cars; +3.4%), in Hungary (14,720 cars; +6.6%) and in Slovenia (7,639 cars; +4.7%).

EASTERN EUROPE

ŠKODA delivered 88,609 cars to customers in Russia in 2019, an improvement of 8.8% on the previous year (2018: 81,459 cars). Therefore, the Russian market held fourth place in terms of deliveries on world markets. The Company registered double-figure growth in 2019 in Ukraine (6,151 cars; +16.8%) and in Kazakhstan (1,043 cars; +27.5%). In total, sales in Eastern Europe (excluding Russia) rose by 8.9%.

WESTERN EUROPE

Deliveries of cars in Western Europe rose by 7.0% to 520,475 in the year 2019. In Germany, the Company's second-largest market in the world, deliveries to customers rose in 2019 by 8.3% to 191,213 cars (2018: 176,638 cars). This allowed the Company to successfully consolidate its position as one of the most important wholesale brands. The Company achieved double-digit growth in France (37,239 cars; +16.2%), in Switzerland (22,605 cars; +27.5%), in the Netherlands (19,156 cars; +12.8%) and in Denmark (15,598 cars; +14.6%). ŠKODA delivered 0.9% more cars in Great Britain (75,159 cars) than in the year before, meaning that the UK retained its position in the brand's TOP 5 most significant markets.

CUSTOMER DELIVERIES LARGEST MARKETS	VEHICLES 2019	VEHICLES 2018	CHANGE (%) 2019/2018
CHINA	282,038	341,000	(17.3%)
GERMANY	191,213	176,638	8.3%
CZECH REPUBLIC	94,152	93,586	0.6%
RUSSIA	88,609	81,459	8.8%
UNITED KINGDOM	75,159	74,512	0.9%
POLAND	70,748	71,057	(0.4%)
FRANCE	37,239	32,035	16.2%
SPAIN*	27,830	27,017	3.0%
AUSTRIA	27,355	24,939	9.7%
ITALY	26,928	26,401	2.0%
SLOVAKIA	22,632	21,894	3.4%
SWITZERLAND	22,605	17,724	27.5%
BELGIUM	20,934	20,032	4.5%
ISRAEL	19,526	20,949	(6.8%)
NETHERLANDS	19,156	16,985	12.8%
ŠKODA BRAND TOTAL	**1,242,767**	**1,253,741**	**(0.9%)**

* excluding the Canary Islands

CUSTOMER DELIVERIES BY REGION	VEHICLES 2019	VEHICLES 2018	CHANGE (%) 2019/2018	MARKET SHARE (%) 2019**	MARKET SHARE (%) 2018**
CENTRAL EUROPE*	215,784	212,928	1.3%	18.0%	18.3%
EASTERN EUROPE	138,791	127,533	8.8%	5.9%	5.8%
WESTERN EUROPE	520,475	486,356	7.0%	3.6%	3.4%
OVERSEAS/ASIA	367,717	426,924	(13.9%)	0.6%	0.7%
ŠKODA BRAND TOTAL	**1,242,767**	**1,253,741**	**(0.9%)**	**1.6%**	**1.5%**

* including the Czech Republic
** shares on passenger cars, total markets

OVERSEAS/ASIA

In China, the Company's largest market in the world, deliveries to customers fell on the previous year by 17.3% to 282,038 cars (2018: 341,000 cars). The decline in the Chinese passenger car market continued in general, as did uncertainty and purchasing restraint. ŠKODA delivered a total of 15,121 cars to customers in India in 2019, meaning a drop of 12.3% on the previous year. The unstable political and economic situation led to the collapse of the market in Turkey as a whole, with the number of ŠKODA cars delivered falling year-on-year by 27.5% to 15,464. The Company achieved positive sales results, for example, in Algeria (10,210 vehicles and an increase of 143.1%), in Australia (7,001 cars and an increase of 20.6%), and in Egypt (3,600 cars; +111.8%).

DELIVERIES BY MODEL

ŠKODA CITIGO This is the Company's smallest model. Some 31,132 customers bought one of these compact mini-vehicles by August 2019, when production came to an end, meaning 20.5% fewer than in the previous year. The model was most successful in France. Batch production of the ŠKODA CITIGO^{e} iV, an environmentally-friendly urban car powered exclusively by an electric engine, was launched in October 2019. The Company delivered 67 of these cars to customers by the end of the year.

ŠKODA FABIA Since its market launch in 2014, the ŠKODA FABIA has maintained its position at the summit and continues to conquer its competitors as a result of its quality execution, the size of the interior and the luggage space, its excellent range of equipment and its excellent steering. Some 172,793 ŠKODA FABIA cars were delivered, making it the second most successful model in the ŠKODA portfolio. This is despite experiencing a drop of 9.5% on the previous year. The greatest interest in the FABIA was shown in Serbia and in Taiwan.

ŠKODA RAPID The ŠKODA RAPID liftback model was launched on the world markets in 2012, with the ŠKODA RAPID SPACEBACK one year later. The production of models for European markets came to an end in May 2019. However, special versions of the RAPID are still made for China, India and Russia and are also manufactured in those countries. Some 142,118 ŠKODA RAPID and ŠKODA RAPID SPACEBACK cars were delivered to customers in 2019, entailing a year-on-year decrease in deliveries of 25.8%. The model registered record deliveries on the markets of Bulgaria, Russia, Belarus, Singapore and Algeria.

ŠKODA SCALA This model was the key innovation of the brand in 2019. The Company launched the MONTE CARLO line in the fourth quarter of the year, a line with special fittings that was available in combination with all types of engines in the range. Such fittings include sunset tinted rear windows, a panoramic roof and extended fifth--door windscreen with a black roof spoiler. Some 39,071 SCALA models were delivered to customers from February 2019 onwards.

ŠKODA OCTAVIA The model was upgraded in 2018 and the OCTAVIA G-TEC, which runs on natural gas, underwent a technical transformation. The fourth generation of the model enjoyed its world premiere at the end of 2019. The ŠKODA OCTAVIA has long been the Company's best-selling model, a situation that did not change in 2019. However, with a total of 363,722 cars delivered in 2019, the ŠKODA OCTAVIA experienced a drop of 6.3% in the number of cars delivered in one year. Record deliveries were registered on the markets of Hungary, Croatia, Bulgaria, Austria, Belgium, Singapore and Algeria.

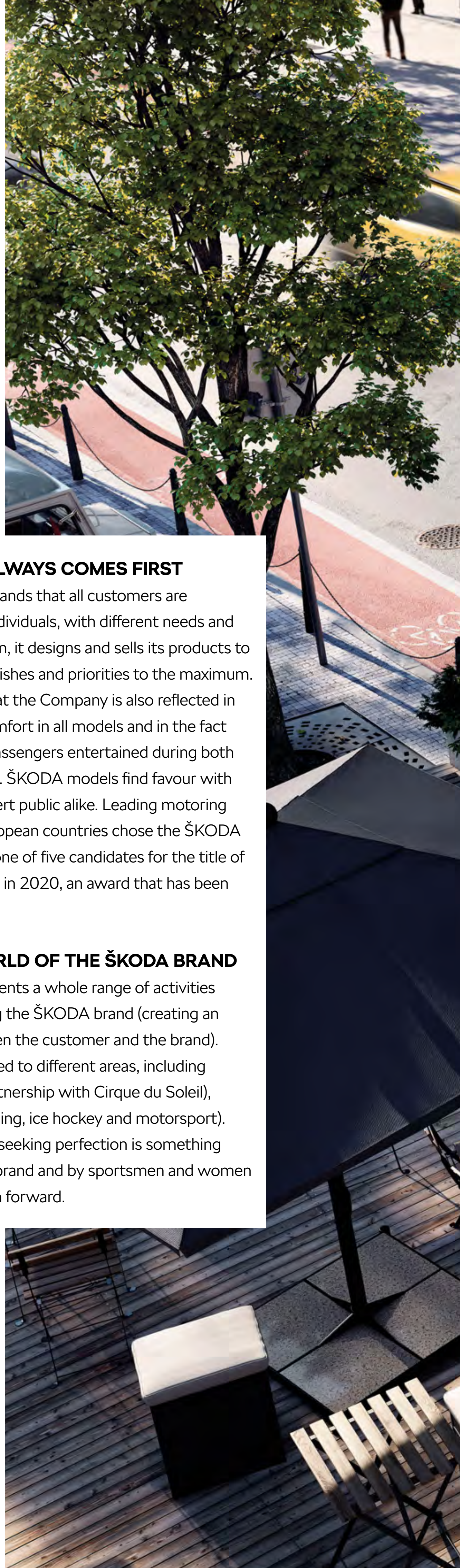
ŠKODA SUPERB ŠKODA entered a new era with its third-generation ŠKODA SUPERB, launched in 2015. The ŠKODA flagship underwent considerable modernisation in 2019, primarily in the areas of technology and design. The model was also made in a SCOUT version for the first time. However, the number of cars delivered fell in 2019 by 24.2% to 104,755. The model was most popular on the markets of Hungary, Bulgaria, Latvia and Singapore.

CUSTOMER DELIVERIES BY MODEL	VEHICLES 2019	VEHICLES 2018	CHANGE (%) 2019/2018
ŠKODA CITIGO / ŠKODA CITIGOᵉ iV	**31,199**	**39,161**	**(20.3%)**
ŠKODA FABIA	115,480	123,356	(6.4%)
ŠKODA FABIA COMBI	57,313	67,524	(15.1%)
ŠKODA FABIA TOTAL	**172,793**	**190,880**	**(9.5%)**
ŠKODA RAPID	121,374	132,671	(8.5%)
ŠKODA RAPID SPACEBACK	20,744	58,806	(64.7%)
ŠKODA RAPID TOTAL	**142,118**	**191,477**	**(25.8%)**
ŠKODA SCALA	**39,071**	**—**	**—**
ŠKODA OCTAVIA	186,587	210,482	(11.4%)
ŠKODA OCTAVIA COMBI	177,135	177,749	(0.1%)
ŠKODA OCTAVIA TOTAL	**363,722**	**388,231**	**(6.3%)**
ŠKODA SUPERB	55,108	86,143	(36.0%)
ŠKODA SUPERB COMBI	49,647	51,998	(4.5%)
ŠKODA SUPERB TOTAL	**104,755**	**138,141**	**(24.2%)**
ŠKODA KAMIQ	**64,597**	**27,868**	**131.8%**
ŠKODA YETI	**10**	**13,063**	**(99.9%)**
ŠKODA KAROQ	**152,708**	**115,725**	**32.0%**
ŠKODA KODIAQ	**171,794**	**149,195**	**15.1%**
ŠKODA BRAND TOTAL	**1,242,767**	**1,253,741**	**(0.9%)**

ŠKODA KAMIQ The world premiere of the ŠKODA KAMIQ urban SUV for the Chinese market took place in Beijing in 2018. Customers in Europe were also able to buy the KAMIQ in 2019. Therefore, the Company broadened its successful range of European SUVs with a third model and for the first time added to the rapidly expanding urban SUV segment. 64,597 cars were delivered to customers in 2019.

ŠKODA KAROQ The new, compact ŠKODA KAROQ SUV was launched in 2017 and the Company introduced new versions in 2018: the sports-tuned KAROQ SPORTLINE and the adventure-ready KAROQ SCOUT. Customers all over the world have been delighted with this compact SUV ever since its market launch, with demand significantly outstripping supply. Production also commenced at the plant in Nizhny Novgorod in December 2019. Interest in this SUV rose by 32% year-on-year, with 152,708 cars delivered to customers in 2019. This made the ŠKODA KAROQ an important engine of growth.

ŠKODA KODIAQ The Company's first large SUV, the ŠKODA KODIAQ, was given its premiere in 2016 and again had a hugely successful year. The range was broadened in 2018 to include the ŠKODA KODIAQ RS, the Company's first family RS with SUV body, and the ŠKODA KODIAQ GT, its first SUV coupé. The new Side Assist system, which warns of vehicles in the blind spot, was first offered in 2019. The Company delivered a total of 171,794 cars to its customers, some 15.1% more than in the previous year. This makes the ŠKODA KODIAQ another key engine of growth alongside the ŠKODA KAROQ.



THE MARKETING STRATEGY OF THE ŠKODA BRAND

The brand marketing strategy is built on knowing our customers and adapting to them in the inventive and imaginative way so typical of the ŠKODA brand. The global communication strategy of the ŠKODA brand has also been adjusted and targeted more precisely within Strategy 2025+. The concept for this draws on the mission and vision in place at the Company, which builds on a near 125-year tradition of success built on consistent inventiveness and the ability to find clever solutions to new challenges. ŠKODA must now adapt to the changing needs of its customers and find persuasive answers to the digitalisation and electrification of the automotive industry.

ŠKODA CARS ARE THE RESULT OF INVENTIVE THINKING

Looking for better solutions has always been an endless source of motivation for the ŠKODA brand. Its two founders, Václav Laurin and Václav Klement, started the company in 1895 out of pure necessity – the mother of all invention. It is in this tradition of curiosity and invention that the brand continues to this day. It has remained faithful to the combination of smart engineering and the human approach throughout its history and as a result, its products and services are quite exceptional. Inventiveness is what distinguishes ŠKODA AUTO from its competitors. The Company provides solutions that make its customers' lives easier and that bring positive changes to their lives by providing the highest quality and products that offer an outstanding price-to-utility ratio.

THE CUSTOMER ALWAYS COMES FIRST

ŠKODA AUTO understands that all customers are different. They are all individuals, with different needs and interests. For this reason, it designs and sells its products to satisfy its customers' wishes and priorities to the maximum. The human dimension at the Company is also reflected in caring for customer comfort in all models and in the fact that it is able to keep passengers entertained during both short and long journeys. ŠKODA models find favour with customers and the expert public alike. Leading motoring journalists from 31 European countries chose the ŠKODA KAMIQ urban SUV as one of five candidates for the title of Best Buy Car of Europe in 2020, an award that has been presented since 2001.

THE EMOTIVE WORLD OF THE ŠKODA BRAND

ŠKODA AUTO implements a whole range of activities aimed at emotionalising the ŠKODA brand (creating an emotional bond between the customer and the brand). These activities are linked to different areas, including culture (such as the partnership with Cirque du Soleil), but primarily sport (cycling, ice hockey and motorsport). A common passion for seeking perfection is something shared by the ŠKODA brand and by sportsmen and women and is what drives them forward.


0.26 Cx
THE TOP VALUE OF THE DRAG COEFFICIENT OF THE OCTAVIA COMBI CHASSIS
CRÊPES SARRASIN
SALADES
CRÊPES FROMENT
GLACES
BOISSONS

ENTERING THE ELECTRIC ERA

A new strategy, entitled "Recharge life", was compiled with the aim of communicating the issue of electromobility and electric models. The mission of this strategy is clear: to re-focus on the important things in life – on people and on the moments that make life worth living. One aim of the strategy is to raise awareness of the ŠKODA brand as one that offers solutions in the sphere of electromobility among existing and potential customers. The ŠKODA iV branding campaign and the subsequent iV product campaign will both draw on this strategy.

ADORNING MOTOR SHOWS

The marketing presentation of innovations at ŠKODA in 2019 focused on models and on the issues of electromobility and sustainability. ŠKODA AUTO was presented at the Geneva Motor Show in March as a Simply Clever company for innovative mobility solutions. The VISION iV study and the two-wheel electric concept that is KLEMENT, addressing urban mobility at the micro-level, offered visitors an interesting insight into the electric future of the ŠKODA brand. The Company also launched the new urban KAMIQ SUV and the compact new SCALA at the show. Motorsport enthusiasts were also drawn by the evolution of the ŠKODA FABIA R5.

At the IAA car show in Frankfurt in September, ŠKODA AUTO presented its first electrified models and an electromobility solution consisting of an ecosystem of services and products designed to provide customers with the most pleasant and most comfortable experience on the road while also reducing CO_2 emissions. The purely electric ŠKODA CITIGO^{e} iV and the ŠKODA SUPERB iV with plug-in hybrid drive were both given their premieres. They were joined on the stand by an off-road version of the Company's flagship model, the ŠKODA SUPERB COMBI SCOUT. The Company also introduced new versions of the KAMIQ and SCALA. These are cars with an environmentally-friendly G-TEC engine, which runs on natural gas, and attractive MONTE CARLO sports and lifestyle accessories.

BROADENING THE FLEET IN CHINA

The Company simply had to participate in this major motor show in Shanghai, given that China is its biggest market. ŠKODA was presented as a brand with an electric, innovative and sustainable future. By introducing the ŠKODA KODIAQ GT, KODIAQ, KAROQ and KAMIQ models, the Company presented its full range of SUVs, for the time being at least. And since 60 years had passed since the production of the first OCTAVIA, this legendary range of models was also on hand to represent the Company. Then in Tianjin in November 2019, the fifth ŠKODA SUV for the Chinese market was given its world premiere. The sporty ŠKODA KAMIQ GT and its distinctive lines suit the taste of young Chinese customers.

LAURA - AT YOUR SERVICE

Anyone driving a KAMIQ, SCALA or OCTAVIA with a top--of-the-line Amundsen infotainment system will no longer need any buttons. From September, they can simply give instructions to a digital assistant. She answers to the name of Laura and fluently understands whole sentences in six languages. The Company thus confirmed its position as a pioneer in the sphere of infotainment systems and connectivity.

4 kg

THE WEIGHT OF THE TROPHY FOR THE WINNER OF THE TOUR DE FRANCE, CREATED BY CZECH GLASSMAKERS

OCTAVIA FULL OF INNOVATION

The fourth generation of the Company's best-selling model was given its premiere in November 2019. The new ŠKODA OCTAVIA was launched at the Trade Fair Palace in Prague, with a whole range of practical, innovative technologies. It is the first car in the history of the brand to feature a head-up display, a shift-by-wire system and ergonomic seats that are kind to the back. Customers appreciate its emotive appearance, generous space, new assistance services and a higher level of connectivity.

THE DRIVE OF SPORT

16 YEARS IN THE SADDLE OF THE TOUR DE FRANCE

A ŠKODA SUPERB once again rode at the head of the peloton of the Tour de France as the "Red Car" in 2019. The Company provided organisers and management with a total of 250 cars.

In addition, the Company sponsored the Green Jersey, meaning that the jersey worn by the leading rider on points bore the ŠKODA logo on the race around France for the fifth consecutive time. The Company was also responsible for making the 60-cm high trophy weighing 4 kilograms for the winner, which was created by Czech glassmakers. ŠKODA AUTO designers take inspiration from new sensations every year when designing the surface of the trophies. The 2019 trophy was created in honour of a traditional cut pattern known as Spitzstein. ŠKODA AUTO became an official partner of the race in 2019 and supplied the official vehicles for the sixteenth time.

In addition to the Tour de France, the Company supported the La Vuelta, Paris-Nice, Critérium du Dauphiné, Paris-Roubaix, La Flèche Wallonne, Liège-Bastogne-Liège and L'Etape du Tour cycle races, as has become the tradition, and for the first time, the Paris-Tours and Volta Catalunya races.

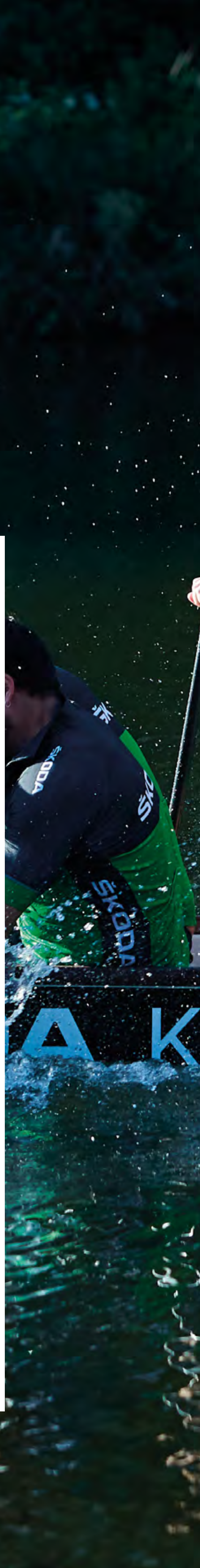
FROM THE NATIONAL TEAM TO THE GENERAL PUBLIC

The ŠKODA brand has had strong links to cycling since its very inception – after all, a bicycle was the first product that the Company made back in 1895. For this reason, it also sponsored a number of amateur races for the general public, including the Kolo pro život (Bike for Life) series of mountain bike races, and remained as the general partner to the Czech national team in all cycling disciplines. Thanks to its links to the Czech Cycling Federation, the Company became the general partner to national teams in all eight cycling disciplines. This follows on from its involvement in the sport to date, intensifying it as a collective concept with the emphasis on the national team.

A STRONG PARTNER FOR FAST SPORTS

However, ŠKODA AUTO does not focus solely on cycling and is involved in other popular sports. Since 1992, it has been the general partner of the IIHF World Ice Hockey Championship. The Company used this event for the world premiere of new models for the first time in 2019, introducing the significantly re-worked ŠKODA SUPERB on the day of the quarter-finals in Bratislava. ŠKODA AUTO also supports the development of hockey in the Czech Republic and is an official partner to the Czech Team, the Czech Ice Hockey Association – Czech Ice Hockey Team and the Tipsport extraliga, the elite-level league in the country. In terms of motorsport, its factory team successfully competes in the FIA World Rally Championship.

HUMAN RESOURCE MANAGEMENT



Human Resource Management plays a key role in the fulfilment of Strategy 2025+ and in the successful transformation of the Company at a time of fundamental change in the automotive industry. Among the main tasks in 2019 were the preparation of employees for the advent of electromobility, the promotion of an open corporate culture and a welcoming work environment, the introduction of digital tools in the everyday work assignments of employees and the recruitment of new workers. In addition to recruiting production workers, Human Resource Management is also endeavouring to secure technically-educated, highly-qualified specialists to work in all areas of the Company.

RECORD EMPLOYMENT

The Company achieved record employment in 2019, with more than 41,800 permanent and agency staff worldwide. The primary reason for this increase was the consolidation of Indian companies under ŠKODA AUTO. Further expansion of the Company team was due to the need for new skills in technical development, IT and joint Group projects.

EDUCATION IN ELECTROMOBILITY

ŠKODA AUTO launched the production of its first car with a hybrid powertrain and batteries for Group plug-in hybrids in 2019. The Company will build on this in 2020 with the production of an all-electric car. Human Resource Management is also supporting the development of electromobility in the area of education. It is systematically and pointedly preparing its employees, pupils at vocational schools, workers at supply firms and agency employees for the new demands involved. The Company's ŠKODA Academy and assembly training centres provided training in electric mobility to 4,400 participants in 2019, including external workers, agency staff and pupils at vocational school. Therefore, a total of 15,355 people have undergone traditional classroom-based training since May 2016. Some 1,639 employees also studied basic information and skills in electronic format. The ŠKODA Academy developed the curricula for individual target groups in collaboration with specialised departments to ensure that the qualifications match the legislation in force.

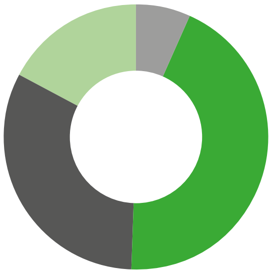
ŠKODA AUTO prepared a three-tier qualification programme for employees. The first tier of training is for employees who work with non-active high-voltage components – predominantly for logistics or production staff – with training provided in standard classrooms and meeting rooms. Neither does the second tier require a vehicle for instruction. The target group is specialists without electrotechnical education, such as car bodywork smiths and painters. The third tier of training is provided at the electromobility laboratory and takes in a number of practical steps on an actual vehicle. This tier of qualification is intended for employees with electrical qualifications and students of electrical disciplines who also work on car electrical systems.

AN ACTIVE ROLE IN THE SPHERE OF EXTERNAL RELATIONS

The successful transition of the automotive sector, the engine of Czech industry, to low-emission mobility requires close cooperation with the energy industry, IT and telecommunications and, last but not least, intensive dialogue with public administration.

41,800

THE NUMBER OF PERMANENT AND AGENCY EMPLOYEES WORKING AT ŠKODA AUTO WORLDWIDE



QUALIFICATION STRUCTURE OF THE COMPANY'S PERMANENT EMPLOYEES AS OF 31 DECEMBER 2019

PRIMARY SCHOOL 6.8%
VOCATIONAL SCHOOL 44.0%
HIGH SCHOOL WITH A LEVELS 32.2%
UNIVERSITY GRADUATE 17.0%

ŠKODA AUTO actively supports the coaction of all sides involved and discusses measures with public institutions to ensure the gradual transition to alternative propulsion. The second colloquium on the future of the automotive industry in the Czech Republic took place on 18 March 2019 on the ŠKODA AUTO premises in Mladá Boleslav. The meeting was attended by representatives of automotive companies, members of the government, including the Prime Minister and key ministers, representatives of the regions, energy and telecommunications companies, the academic community, trade unions and others. The discussion focused on trends and needs in the sphere of clean and smart mobility, and the new measures that will ensue from them. Those in attendance at the meeting also debated the results of the implementation of the measures already in place within the scope of a Memorandum and Action Plan on the Future of the Automotive Industry in the Czech Republic.

THE DIGITALISATION OF INTERNAL PROCESSES

Digitalisation is one of the key pillars of Strategy 2025+ at ŠKODA AUTO. We can also find examples at the Human Resources Department itself, where the elimination of monotonous administrative work will provide staff with more time for contact and communication with employees. The Company began using a virtual HR Assistant, in cooperation with experts in artificial intelligence. This provides job applicants with the opportunity to pass on their personal data to the Company through a virtual conversation instead of filling in lengthy paper forms. Employees also benefited from the development of digitalisation, with the Company launching a number of practical applications to make their lives easier.

Flexibility in planning shifts brings with it the need to find one's way around a number of different calendars. The eSměny (eShifts) mobile application is used to display the timetabling of working time. Members of an employee's family can also download this application, meaning that they can easily plan time off together with their family. The ŠKODA Space employee portal, which was put into full operation at the beginning of December, brought new functions, a modern appearance and, above all, access for all employees wherever they might be – from any fixed or mobile device connected to the Internet.

AWARD-WINNING EMPLOYER

ŠKODA AUTO was again awarded the title of Employer of the Year in 2019. In addition to the Grand Prix, the Company also took second place in the category of Most Popular Employer Among Students in the Central Bohemia and Hradec Králové regions.

The Company also regularly features in the leading positions in other surveys that evaluate the attractiveness of employers. It was successful for the eighth consecutive year in the TOP Employers 2019 study, the results of which are decided by almost 12,000 university and college students. In addition to coming top overall, the Company also won, for the fourth time, the Clear Choice Award for the company that gained the most votes during the voting process.

In October, ŠKODA AUTO was again, for the sixth time in succession, named the most attractive employer among students of technical disciplines. It also fared well in the categories of economic disciplines and IT, in which it came second and fifth respectively. The prestigious Universum survey confirmed that students are also beginning to regard

COMPANY WORKFORCE*	HEADCOUNT 31 DECEMBER 2019	HEADCOUNT 31 DECEMBER 2018	CHANGE (%) 2019/2018
ŠKODA AUTO – PERMANENT EMPLOYEES	**33,881**	**32,738**	**3.5%**
OF WHICH:			
— MLADÁ BOLESLAV PLANT	26,044	24,678	5.5%
— VRCHLABÍ PLANT	845	857	(1.4%)
— KVASINY PLANT	6,992	7,203	(2.9%)
ŠKODA AUTO – APPRENTICES	**948**	**958**	**(1.0%)**
ŠKODA AUTO TOTAL**	**34,829**	**33,696**	**3.4%**
ŠKODA AUTO – TEMPORARY STAFF	**3,232**	**2,789**	**15.9%**

* company workforce in ŠKODA AUTO a.s. in the Czech Republic only
** actual number of employees at the end of the year, including apprentices, excluding temporary staff, excluding subsidiaries

the Czech automotive company as an important company in the sphere of information technology.

DIVERSITY STRATEGY

ŠKODA AUTO consistently promotes a fair and equal approach to all employees and is particularly active in the issue of diversity. Support for diversity is an important prerequisite for the Company in remaining successful and recruiting talented people.

The Company, together with other leading Czech enterprises, signed the European Diversity Charter in May, on the occasion of the Diversity Day conference at the Parliament of the Czech Republic. This initiative aims to take the recognition, appreciation and integration of diversity into the organisational structure to a new level and to develop a tolerant work environment irrespective of the age, faith, gender, ethnic origin, sexual orientation or medical condition of employees. The Company also has equal opportunities and equal treatment anchored in its Code of Ethics. ŠKODA AUTO developed its work with diversity in 2019 in the form of workshops. This training is part of the Group's Diversity wins @ VOLKSWAGEN initiative. The programme is specifically aimed at managers to help them take a more active approach to managing diversity and inclusion.

MORE OPEN CORPORATE CULTURE

An open corporate culture, a friendly work environment, the opportunity for career growth and a higher degree of independence are all among the fundamental requirements of the new generation of employees. This is one of the reasons why work continued last year on reinforcing the corporate culture at the Company. The corporate culture was also promoted by communicating the Principles of the VOLKSWAGEN Group which present the fundamental rules of conduct for all Group brands and companies. Another phase of the Role Model programme was prepared for Company management which aims to reinforce the openness of all employees at the Company and to facilitate contact between workers across the Company hierarchy. Acquisition of the seven principles was undertaken in team dialogues where managers went through the corporate values with their team members and discussed whether their particular team keeps to the principles while also looking at ways of improvement.

THE SOCIAL INFRASTRUCTURE INVESTMENTS

ŠKODA AUTO also works regularly with its social partner, the KOVO Trade Union, on improving working and social conditions for employees. The catering facilities in Mladá Boleslav and Kvasiny were expanded and modernised in 2019 and employees were able to begin using more kiosks and food trucks. New parking spaces for employees were provided, the reconstruction of social amenities continued, a new cycle path was created from Rychnov nad Kněžnou to the gates of the plant and investment was also made in the reconstruction of the recreational facilities in Jetřichovice and Světlanka.

SUSTAINABILITY

Sustainability at the Company is built on social, economic and environmental pillars, which include the GreenFuture strategy. This brings together the flawless management and effective control of all activities associated with environmental protection from the organisational perspective, which then determines the individual measures related to production, products and processes.

The Company proceeds at all stages of the product life cycle in accordance with ISO 14001 (environmental management) and ISO 50001 (energy management systems) standards with regard to sustainability. Auditors from TÜV NORD renewed important certificates for all three ŠKODA AUTO plants in the Czech Republic in 2019. This involved certification of environmental management according to EN ISO 14001:2015 and the energy management system according to EN ISO 50001:2018.

CORPORATE GOVERNANCE & COMPLIANCE

Corporate governance and compliance endeavours to ensure that the business is run in a way which is responsible, qualified and transparent and focuses on achieving the long-term success of the Company and protecting the interests of the parties involved. Corporate governance is the system used to ensure that the Company is properly managed and supervised. It defines the distribution of rights and duties among those involved in the Company, such as shareholders, executive management, Company bodies, employees and customers.

Compliance is the area in which the Company pays particular attention to its obligation to respect legal regulations, internal regulations, codes of ethics and other rules that the Company has voluntarily adopted. Compliance is not limited solely to commercial relationships: it applies to all activities inside and outside the Company, making clear that its actions will always comply with the requirements of legal and ethical rules in place for economic competition, financial and tax matters, environmental protection and relationships with employees (including equal opportunities). The division that attends to corporate governance and compliance ensures that employees receive crucial training in compliance matters: for example, training in the Code of Ethics, anti-corruption training, training in personal data protection and training in fraud prevention.

The Company has built on its activities in 2018 and put considerable effort into activities associated with the positive development of the corporate culture in 2019, stressing the application of the principles of integrity. This resulted in a number of campaigns and events that focused on specific areas so that employees at all levels from all areas of the Company became involved in dialogue concerning integrity and the importance of adhering to regulations, took part in a number of workshops and discussed corporate principles. Together with management, they helped to establish the principles of integrity throughout the Company. A variety of training sessions were conducted under the auspices of Governance, Risk & Compliance, which were designed to bring the principles of integrity and compliance closer to employees. New employees at the Company are familiarised with these when joining the Company, whereas existing personnel, including managers, discuss them within the bounds of targeted development programmes. These activities were not restricted to the Company alone and also concerned selected ŠKODA AUTO subsidiaries. The employees at such subsidiaries also adopted the defined measures and took part in discussions, workshops and other activities, and in doing so, spread the concept of the integrity programme.

SOCIAL RESPONSIBILITY

CREATING A BETTER FUTURE

The concept of social responsibility is one of the fundamental pillars of the sustainability strategy at ŠKODA AUTO. The Company cares for its employees, their families and for the people that live in the areas in which it has its production plants. ŠKODA AUTO has long cared for its employees as part of its social activities and has worked on increasing the attractiveness of the regions in which it is active – in Mladá Boleslav, Kvasiny and Vrchlabí – together with its social partner, the KOVO trade unions. At the same time, the Company focuses on four main pillars at a national and a global level: traffic safety, technical education, support for children and barrier-free mobility.

SUPPORT FOR COMPREHENSIVE DEVELOPMENT OF THE ATTRACTIVENESS OF REGIONS

As part of its cooperation with the municipalities in the regions in which ŠKODA AUTO is active, ŠKODA provides tens of millions of Czech crowns in the areas of culture, sport and other leisure time activities each year to support the quality of the life of the people living there. It also invests in traffic safety, social and health services, technical education, developing public areas and the environment.

ŠKODA AUTO also invests considerable sums in the essential development of transport and technical infrastructure at a public level as part of its understanding of social responsibility. Using the importance of its position as a significant contributor toward the state budget and the largest exporter in the Czech Republic, the Company also helped the Mladá Boleslav, Vrchlabí and Kvasiny regions prepare and negotiate purposeful public investment, which was approved by a resolution of the Government of the Czech Republic.

The Company supported 34 projects in the Mladá Boleslav region in 2019 in the areas of sport, culture, social services and education. The Company also aided the Kvasiny region, where the specific features of plant development require close cooperation with the municipalities. Therefore, it was able to support 63 projects in the sphere of safety, traffic safety, education, social services and leisure time. In the Vrchlabí region, ŠKODA AUTO supported 24 projects in the areas of transport infrastructure, technical education, sport and culture. The aim of these activities is to increase the attractiveness of the regions in which the Company is active as these are viewed as fundamental to the sustainability and onward development of these areas.

ŠKODA AUTO ENDOWMENT FUND

In 2018, the Company management took the decision to provide the sum of CZK 780 million to develop the attractiveness of the Mladá Boleslav region. This money will be invested over time through the ŠKODA AUTO Endowment Fund. Based on the results of the “10 Weeks for a New Boleslav Region” public opinion survey, the ŠKODA AUTO Endowment Fund supported projects with a sum in excess of CZK 63 million in 2019, with a further CZK 18 million allocated to the required development studies. This was done in cooperation with the relevant partners.

Projects that concern safety were generally favoured over others. Money was provided, for example, for the renovation and expansion of the CCTV system in Mladá Boleslav. The “Safe Friday in the Mladá Boleslav Region” campaign was launched at the end of the year, which

focuses on educating children and raising traffic safety awareness among the general public. The general public were able to become involved by adding their own suggestions – highlighting dangerous places – while pupils at selected primary schools became involved in the "safe journey to school" project.

The second major priority was support for active leisure time. Mladá Boleslav became only the third venue in the Czech Republic to host the innovative Mini Maker Fair community workshops. Around 2,000 visitors attended the main hall at the Secondary School of Industry to enjoy the diverse weekend programme, coming into contact with traditional trades and more contemporary technologies, such as 3D printing. The pilot operation of Rekola sharing pink bikes was also a great success. The pilot ran in Mladá Boleslav from June to November, with more than 11,000 users taking at least one ride. Many projects involving children's play areas and sports complexes were also given a helping hand, particularly in the smaller towns and villages in the Mladá Boleslav area (for example, a BMX starting ramp in Benátky nad Jizerou, new skittle lanes in Kosmonosy, a multi-purpose complex and children's play areas in Bělá pod Bezdězem). In terms of health and prevention, the Endowment Fund supported the organisation of Health Days and the Festival of Wellbeing. Further support in the region was provided to various community projects as part of a two-round grant call (48 projects supported). The Endowment Fund also contributed toward new equipment at the urological outpatient clinic at Klaudián Hospital and financed an architectural study of a bridge over the river Jizera for cyclists and new cycle paths along the banks.

TRAFFIC SAFETY

In this area, the Company concentrates on the safety of ŠKODA cars, the safety of infrastructure and educational activities. The year 2019 saw the continuation of the "Safe Friday" project, which aims to make Czech roads a safer place. The project relies on the many years of experience of experts from a unique traffic safety survey. This has been ongoing at ŠKODA AUTO since 2008 with the survey analysing in-depth the causes, circumstances and events of various road traffic accidents and assessing how a vehicle can eliminate the consequences of an accident or prevent an accident entirely.

TECHNICAL EDUCATION

Technical education is a strategic area at ŠKODA AUTO and permeates the entire Company. The Company works on specific projects with dozens of schools at all levels and runs its own secondary vocational school, Company university and ŠKODA Academy, focusing on providing employees with further education. These activities ensure that the Company can train its own experts, given that there is a shortage of such people on the market.

Since 2013, ŠKODA has been a partner to the Science Has a Future programme run by AISIS, a non-profit organisation. The aim of the programme is to increase the motivation of teachers, principals and education advisors at primary and secondary schools and to raise the attractiveness of scientific and technical specialisations for their pupils. Some 143 teachers and 56 school principals have become involved in the project over the past six years. A further 47 participants have signed up for the 2019/2020 academic year.

THE NUMBER OF REKOLA SHARED BICYCLE USERS IN MLADÁ BOLESLAV

11,000

The year 2019 saw the third year of a unique questionnaire issued to primary schools in the three regions in which ŠKODA AUTO is active, the aim being to define the strengths and weaknesses of individual schools. A strategic list of projects that a school will carry out with the financial assistance of the Company was then compiled based on the results. This project allows the Company to monitor whether aid is being directed toward regional schools with the maximum possible effect and whether there is any onward development in the teaching of subjects such as mathematics and IT. Pupils from a total of 25 schools in the Mladá Boleslav, Kvasiny and Vrchlabí regions took part in the project in 2019.

Announced by ŠKODA under the auspices of ŠKODA Design, 373 creative entries were submitted in the seventh annual Young Designers competition by children attending the first five years of primary school from all over the Czech Republic. The Company is looking for potential talents with the aim of supporting the creative spirit of children, their relationship with technology and the ability to work as part of a team. The theme, as in previous years, was the Smart Little Car of the Future.

BARRIER-FREE MOBILITY

Helping people that have not had quite as much luck in life as others is another project in the social responsibility policy. The ŠKODA Handy project has been supporting disabled people and their families since 2010. More and more authorised dealers have joined up over time and those interested can find them under the name ŠKODA Handy centrum. These specially-trained dealers help clients choose the right car and modifications and assist with applications for government contributions. The Company has been collaborating with the Czech Paraplegic Association (CZEPA) since 2014, primarily in creating the “VozejkMap” information database, which assists handicapped people with planning journeys. ŠKODA AUTO has also lent the Czech Paraplegic Association two OCTAVIA COMBI cars to ensure greater mobility for clients.

The ŠKODA NEŘÍDIT programme (which translates as “a pity not to drive”) aims to provide financial support to people with disabilities to help them obtain a driving licence. Some 34 grant applicants were provided with support in 2019.

CARING FOR CHILDREN

Caring for children is something the Company has done throughout its history, with the Laurin & Klement company looking after disadvantaged children in the distant past. ŠKODA AUTO has moved this concept forward by investing its know-how in it, and now primarily supports children in their education and preparation for a future career.

The aim of the ROZJEDU TO! (SET IT IN MOTION!) project is to effectively motivate young people from children’s homes aged between 11 and 15 to follow a path of education and personal and professional growth. Regular additional tuition and a tailored network of motivation and support help them improve their results at school. The programme has supported 120 children from six children’s homes since 2013. Children older than 15 can use the ŠKODA AUTO Education Fund, which contributes toward learning materials, accommodation, travel, transportation, special courses and driving licences. Some 118 children have been supported by this project.

ŠKODA AUTO was the general partner to the TERIBEAR charity for the fifth time in 2019, which is an

912,000

TREES HAD BEEN PLANTED BY THE END OF 2019 UNDER ŠKODA TREES GRANT PROGRAMME

event organised by the Tereza Maxová Foundation. Some 23,889 people took part this year. The Run with TERIBEAR in Prague, in which 20,657 walkers and runners took part (a new record), helped disadvantaged children with the sum of CZK 12,215,880. 3,232 participants took to the running track for a charity run in Štěpánka Forest Park, between them running or walking 27,121.2 km in a single day. ŠKODA AUTO converted each kilometre into CZK 20, rounding off the final amount to CZK 600,000 and in doing so supported disadvantaged children from children's homes.

Collaboration also continued with Zdravotní klaun (Health Clown), a non-profit organisation that brings laughter and joy to children in the hospital and to the clients of retirement homes. The Company contributed CZK 500,000 to this project in 2019 and provided the clowns with cars for their journeys.

ŠKODA GRANT PROGRAMMES

ŠKODA AUTO distributed more than CZK 4.6 million among 103 interested parties through seven grant programmes (Transport Education, Traffic Safety, My Home is Here, Region Without Barriers, ŠKODA for Children, Support for Technical Education, ŠKODA Trees) for the seventh consecutive year in 2019. The programmes aim to improve the quality of life, particularly in the areas around the Company's three Czech plants. The Company also enhanced the Czech landscape with new trees by doing so for the thirteenth time. The ŠKODA Trees grant programme was launched in 2007 when the Company decided to plant one tree for every ŠKODA car sold in the Czech Republic. More than 912,000 trees had been planted by the end of 2019, meaning almost 190 hectares of new forest. In recent years, employees and their families have been joined in the project by trainees and students at the ŠKODA AUTO Secondary Vocational School of Engineering.

LET'S CLEAN UP THE WORLD, LET'S CLEAN UP CZECHIA

ŠKODA AUTO has been the main partner to the national clean-up campaign known as "Let's clean up the world, let's clean up the Czech Republic" for the last five years. In 2019, more than 320 volunteers from Mladá Boleslav and Kvasiny (employees, representatives of the KOVO trade unions, trainees and students of the vocational school) gave up their free time to collect around 2 tons of waste. Moreover, 170 employees took part in the Clean Giant Mountains project in collaboration with the Giant Mountains National Park at the Vrchlabí area.

EMPLOYEE COLLECTIONS

This was the sixth year of involving employees in charity activities and employee collections. In 2019, each and every member of staff at ŠKODA AUTO once again had the opportunity to voluntarily contribute a sum deducted from their monthly salary to one or more of six non-profit organisations as part of the long-term employee collections project. ŠKODA AUTO doubles these funds, with a fifth of the sum topped-up by the Company going to technical education and English lessons for children at the Vasantrao Naik children's home in Aurangabad in India.

Almost 3,000 employees have been involved in the second round of collections since 2016 and their donations to Employee Collections have raised CZK 10 million in the space of four years. Including the money added by the Company, donations now total CZK 20 million.

22,000 m^3

THE TOTAL CAPACITY OF RAINWATER RETENTION TANKS

ENVIRONMENTAL PROTECTION

ŠKODA AUTO endeavours to minimise environmental impacts throughout the life cycle of all products and mobility solutions – from the extraction of minerals to the end of the lifetime – to make sure that ecosystems remain untouched and to create a positive impact on society. Adherence to environmental regulations, standards and voluntary undertakings are fundamental prerequisites of all Company activities.

ENERGY FROM RENEWABLE SOURCES

The Company invests heavily in constructing new technologies and buildings and in achieving environmental targets within the management systems that are in line with ISO 14001 and ISO 50001 standards. The mandatory Best Available Technique (BAT) principle is therefore applied to each new investment.

In addition to reducing CO_2 emissions, the car manufacturer has also undertaken to ensure that balance of all the energy used in the production of vehicles and components at Company's plants in the Czech Republic will be CO_2 neutral within the second half of this decade.

The recycling or reasonable repeat use of batteries as energy storage sites to drive vehicles will become a new environmental and economic milestone in connection with the electrification of ŠKODA cars.

ŠKODA AUTO has, and will, continue to participate in mobility that is considerate to the environment and the climate even without the production of cars. The Company will support the construction of an internal charging structure with close to 1,500 charging points at its plants in Mladá Boleslav, Kvasiny, Vrchlabí and their surroundings by 2022.

The Company also takes a responsible approach to environmental protection at the plants in India for which it assumed responsibility in 2019. An example is the opening of a rooftop solar power plant at the factory in Pune. With a maximum output of 8.5 MW, it covers up to 15% of the annual electricity consumption at the plant and makes a significant contribution toward the carbon neutrality of local production.

MEASURES TO REDUCE ATMOSPHERIC EMISSIONS

A fundamental step in protecting the atmosphere in 2019 was the construction of a new paint shop, fitted with the very latest technology for cleaning waste air. The technology for dry-trapping paint overspray into powdered limestone significantly reduces the number of solid pollutants in atmospheric emissions in comparison with paint shops using wet separation. The system also makes it possible to fit adsorption wheels to remove volatile organic compounds (VOC) from the atmosphere. VOC from the spray booths are concentrated on these wheels, which makes it possible to then burn them off in special equipment. This leads to a fundamental reduction of VOC to less than one-third of the valid emission limit of 45 g per m^2 of the painted area.

The additional installation of equipment for the thermal limitation of VOC from the process of hardening in acetylene on an ALD vacuum hardening line at the hardening plant in Mladá Boleslav is another significant investment from the perspective of atmospheric protection. It is expected that the effectiveness of limiting VOC emissions will be in excess of 98%.

The Company also pays maximum attention to reducing nitrogen oxide (NO_X) and carbon monoxide (CO) emissions produced when burning natural gas. Replacing the existing natural gas burners at the paint shops in Kvasiny and Mladá Boleslav with low-emission burners has significantly helped reduce the emission of those substances. The new apparatus will make it possible to comply with the new emission limits, which have fallen to one-half.

SOIL AND WATER PROTECTION

The Company makes a considerable effort to protect water sources and land from pollution. Total water consumption, which was 1.56 million cubic metres, has only risen minimally since 2010, even though ŠKODA AUTO manufactures 72% more cars than in 2010.

The Company uses advanced technology that complies with the European criteria for the Best Available Technique and reduces water consumption. Examples of this include the dry separation technique mentioned above and other technologies at the new paint shop.

ŠKODA AUTO also pays attention to handling rainwater from hard surfaces, particularly by the controlled drainage of rainwater through rain retention tanks. The number of retention tanks increased to 22 in 2019 with an overall capacity of more than 22,000 m^3.

The Company also places considerable emphasis on safely handling substances that could threaten soil or underground water if allowed to escape. Strict adherence to safety rules is standard: for example, the application of multiple barrier protection. These principles were also applied when building the new paint shop and putting it into operation, in the production of traction batteries at the plant in Mladá Boleslav and in the production of the SUPERB iV at the Kvasiny plant. When technology allows, ŠKODA AUTO uses substances that are considerate to the environment or applies effective technology to eliminate the production of hazardous substances.

WASTE AS A RESOURCE

The Company primarily endeavours to prevent the production of waste and the considerate use of raw material sources. When waste is produced as a result of a production process, a hierarchy of waste handling is consistently applied – material and energy use is favoured over dumping. The application of these principles made it possible to minimise the quantity of production waste stored at the dump to 0.35 kg per manufactured vehicle. Since October 2019, no waste from the production processes in place at the Company’s plants in the Czech Republic has been dumped.

ŠKODA AUTO is actively engaged in applying the principles of a circular economy. Such a circular economy involves, for example, the use of recycled thinners and oil filtration equipment. This extends the lifetime of the primary raw materials and minimises the production of hazardous waste.

REPORT ON RISKS AND OPPORTUNITIES

It is crucial to ensure long-term success at ŠKODA AUTO that the Company is able to recognise, forecast and manage any potential risks and opportunities that may arise from its business. To this end, it has built a comprehensive risk management system and an internal control system (hereinafter referred to as "RMS" and "ICS"). The objective of RMS/ICS is to identify potential risks from the very outset so that ŠKODA AUTO can take appropriate counter-measures in time, prevent any damage and loss and preclude any risks that could threaten the very existence of the Company. Given that the likelihood and impact of future events are accompanied by a degree of uncertainty, not even the best RMS is able to predict all possible risks, in the same way that the best ICS cannot fully prevent any unforeseeable incidents.

STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND THE INTERNAL CONTROL SYSTEM

The structure of RMS/ICS in place at ŠKODA AUTO draws on the uniform principle of risk management at the VOLKSWAGEN Group, which follows on from the internationally-recognised COSO Enterprise Risk Management Framework (COSO: Committee of Sponsoring Organizations of the Treadway Commission). RMS/ICS is centrally managed by the Governance, Risk & Compliance Division, in collaboration with the Controlling Division. The principles, responsibilities and individual component parts of the entire process are regulated by the Group guideline Risk Management System and Internal Control System and by the Regular GRC Process and Operative Risk Management System methodical guidelines. The final responsibility for the risk management system lies with the Board of Management at ŠKODA AUTO. The day-to-day implementation of the system is a matter for decentralised responsibility at the Company. Each organisational unit must, at least once a year, assess and recognise risks, which are evaluated from the perspective of their potential negative impact on accomplishing the objectives of the unit and the Company as a whole. When assessing risks, consideration must be made of possible financial losses, possible damage to the Company's reputation, legal repercussions and the likelihood that such risks will occur, as well as any other significant factors. Sub-proposals are then created, and counter-measures put into place to reduce the likelihood that a risk will occur, or moderate its potential impacts, and management employees check and assess such counter-measures on a regular basis. RMS/ICS also involves regular risk reporting to the Board of Management at the Company and to management at VOLKSWAGEN AG with the aim of securing information on the overall picture of a particular risk situation. The adequacy, effectiveness and transparency of the whole system are regularly and independently checked within processes that make up an integrated part of RMS/ICS. The quality of all processes is currently undergoing improvement under the supervision of the VOLKSWAGEN Group, with the focus on documenting activities in relation to RMS/ICS.

RISKS AT ŠKODA AUTO

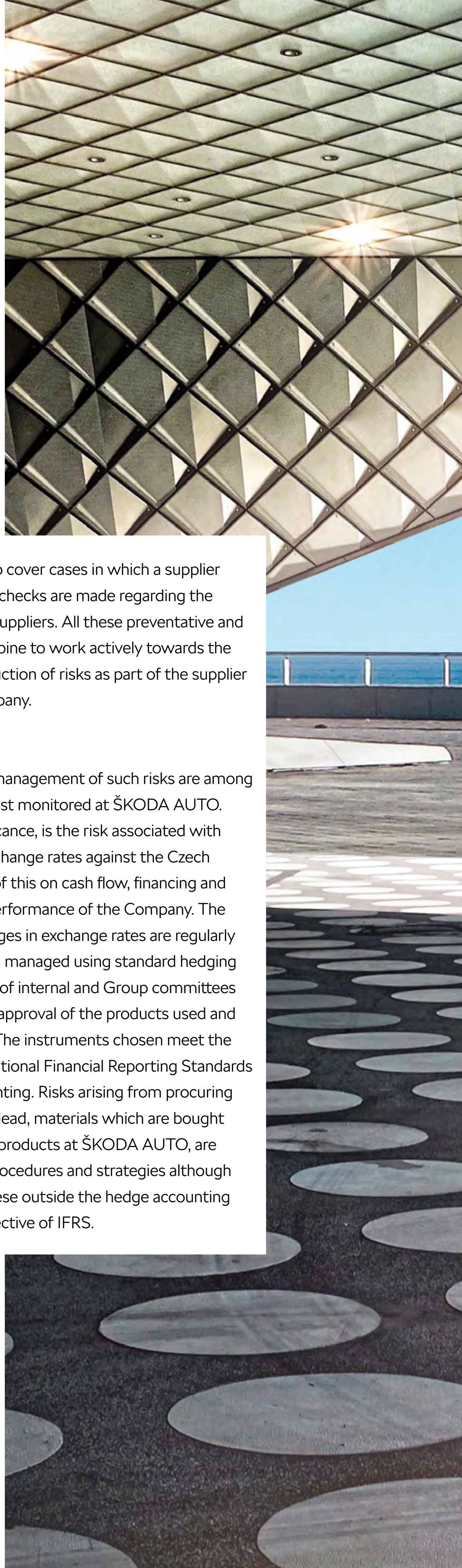
The risks at ŠKODA AUTO are divided into systematic risks and operative risks. The occurrence of serious systematic risks (risks of a long-term or permanent nature) is recorded by the regular GRC process, i.e. the regular process of updating and, when required, identifying new systematic risks. Governance, Risk & Compliance informs the Board of Management of the Company of these once a year. It also provides information on efficiency testing and on any measures taken in the process, also once a year. Operative risks are primarily considered to be short-term risks that generally pose a threat within a timescale of two years. These are the most significant and urgent situations for which countermeasures must be taken. Governance, Risk & Compliance informs the Board of Management at the Company of current threats on a quarterly basis when reporting operative risks.

ECONOMIC, POLITICAL AND LEGISLATIVE RISKS

From the financial perspective, ŠKODA AUTO is both an exporter and a local manufacturer and is influenced by general global and European economic conditions and by the situation in particular economies. These include the condition of the economy and the associated economic cycle, amendments to legislation and changes to the political situation in those countries where the Company is active. This brings with it a constant threat of risks associated with a high level of public debt, unemployment and fluctuations in the prices of precious metals, crude oil and plastics. Other significant risks that can influence the Company's commercial activities on global markets are the uneven economic development in different states or regions and a vulnerable banking system. ŠKODA AUTO identifies, in advance, export contracts to countries with a potential territorial and political risk and hedges them with approved financial and insurance products as standard. Czech and international banking institutions, including EGAP, are partners of the car plant in Mladá Boleslav in this area. A further negative influence on the economic activity at the Company can arise in the form of additional technical development costs caused by amendments to legal regulations, for example, stricter legislative requirements on the safety of cars, fuel consumption or emissions of pollutants, as well as modifications to the standard specifications of vehicles. In terms of laws regarding environmental protection, the Company must count on the fact that EU legislation regarding exhaust fume emissions will become stricter in the future.

LEGISLATION REGARDING EMISSIONS

One significant risk which ŠKODA AUTO faces is the failure to adhere to the statutory limits for the average values of CO_2 emissions, particularly in the EU Member States, in Norway and in Iceland. Sanctions of EUR 95 for each gram exceeded per vehicle sold in the relevant calendar year in these countries may be imposed by the European Union. In spite of all planned and approved technical measures, achieving the required values comes with a high degree of uncertainty, particularly in the years 2020 and 2025 when legislation regarding CO_2 limits will become stricter. Another risk related to CO_2 (alongside the failure to comply with legislative targets) is the loss of competitiveness, which might result from insufficient offer of fully or partially electrified vehicles as well as conventional models favourable to CO_2 emissions. CO_2 limits exist also in other countries and regions. An analysis of the current development of expected CO_2 emissions is regularly presented to the Board of Management as a source of basic



information for decision-making on the future product portfolio of the conventional as well as the electrified models and their planned quantity in the form of annual or quarterly reports as part of risk management.

DEMAND RISKS

Rising and escalating competition in the automotive industry demands ever-increasing sales promotion. This situation is further affected by the market risks associated with a change in consumer demand as consumer purchasing behaviour depends on actual influences such as real wages, and on psychological influences. ŠKODA AUTO regularly analyses how customers and competitors behave, and in doing so minimises these particular risks.

PROCUREMENT RISK

Extremely close and economically-advantageous collaboration between vehicle manufacturers and their suppliers brings with it procurement risks that could disrupt the fluidity of production or lead to considerable financial losses. Examples of such risks are a delay in deliveries, failure to deliver goods or qualitative defects to goods or, in extreme cases, when suppliers become insolvent and disappear from the supply chain. Other risks arise from fiercer competition in the supply industry. Therefore, ŠKODA AUTO collaborates with a number of suppliers when taking assembly components to make sure that it is able to operatively react to any negative developments. Moreover, preventative measures are taken within the risk management system to cover cases in which a supplier is insolvent and regular checks are made regarding the financial stability of its suppliers. All these preventative and reactive measures combine to work actively towards the maximum possible reduction of risks as part of the supplier relations with the Company.

FINANCIAL RISKS

Financial risks and the management of such risks are among those which are the most monitored at ŠKODA AUTO. First, in terms of significance, is the risk associated with the development of exchange rates against the Czech crown and the impact of this on cash flow, financing and the overall economic performance of the Company. The risk and impact of changes in exchange rates are regularly monitored, planned and managed using standard hedging instruments. Members of internal and Group committees discuss and ensure the approval of the products used and the strategies applied. The instruments chosen meet the requirements of International Financial Reporting Standards (IFRS) for hedge accounting. Risks arising from procuring aluminium, copper and lead, materials which are bought for the manufacture of products at ŠKODA AUTO, are handled using similar procedures and strategies although the Company keeps these outside the hedge accounting regime from the perspective of IFRS.

THE TOTAL POWER OUTPUT OF THE VISION iV ALL-WHEEL-DRIVE VARIANT IN KILOWATTS

225

Active management of the potential impact on financing activity at the Company and managing liquidity are also among the key elements of risk management. The liquidity risk is managed using standard procedures and instruments so that it is possible to sufficiently cover activities and obligations for the required period of time. The financial resources in place at ŠKODA AUTO and the resources from the companies of the VOLKSWAGEN Group are the base. The Company manages the export risk using standard hedging instruments, for example, documentary letters of credit, standby letters of credit, bank guarantees and the like.

RESEARCH AND DEVELOPMENT RISKS

For new products, there is a risk that customers will not accept the product in question. In order to eliminate this risk, extensive analyses and customer surveys are conducted, which help the Company to identify trends and check their relevance to the customers. The risk associated with a situation where new products are not launched at the planned time, in the envisaged quality and at the targeted cost is minimised by regularly checking the project and comparing it with the desired condition. The result of this is that the required measures can be taken when any deviations are found. Key areas of future activity at the enterprise are electromobility, autonomous steering and digitalisation, which are all vital for successful and sustainable development. For the Company to be able to cope with the forthcoming transformation processes, support is required for research and development through targeted support programmes, such as making it possible to test autonomous vehicles under real conditions and on test tracks or government support for cars with alternative propulsion, in particular, electric cars. Other important steps are the deployment of charging infrastructure and high-speed Internet coverage on traffic routes. Certain specific risks come with these steps, risks that must be assessed on a regular basis. Internal risks include, for example, the development of new technologies and the need to change existing processes. External risks include economic policy, technical legislation and unpopularity among customers.

QUALITY RISKS

The Company places huge emphasis on the risk management system in relation to quality on account of ever-rising competitive pressure, the increasing complexity of production technologies, the high number of suppliers and the use of Group-wide systems. It endeavours to identify and remove as quickly as possible any problems regarding quality from the very first stages of product development to ensure there are no delays in launching production. It also ensures long-term quality and timely supplies from the very start of the supply chain using the risk management system, which helps the Company meet customer expectations. The quality of the products, processes and management system at the Company is audited every year. Such audits are conducted by an independent, accredited certification company. The quality management system certificates, which ŠKODA AUTO has successfully retained since 1993, guarantee that the processes work. At the same time, they are used as input documents for product approval. In order to timely identify deviations in internal procedures and at suppliers, the Company continually develops a qualified network

1993

THE COMPANY HAS SUCCESSFULLY RETAINED THE QUALITY MANAGEMENT SYSTEM CERTIFICATES SINCE THEN

of auditors and test engineers while regional managers regularly inform Company management of the status of tests and measurements. ŠKODA AUTO is aware of its responsibility for its products and the Quality Management Division continually monitors the development of customer satisfaction and collates information on the current developments on particular markets. If negative deviations are found, measures are immediately implemented to ensure that any damage is kept to the minimum.

HUMAN RESOURCE RISKS

The dynamic development of the automotive industry and ever-fiercer competition have forced the Company to secure a competitive advantage into the future in the shape of stable, qualified and flexible personnel in direct and indirect areas. This can only be achieved by adopting the correct long-term strategy which focuses on the full HR process, from human resource planning through recruitment and education to employee motivation. At the same time, there is the need to correctly analyse and prevent potential risks, which include losing qualified staff who ensure key processes in the Company, risks stemming from amendments to legislation, legal risks and risks associated with long-term demographic changes.

INFORMATION TECHNOLOGY RISKS

Information technology (IT) has an increasingly important role at ŠKODA AUTO, a global company that is focused on continued growth. IT risks can include unauthorised access to data or abuse of sensitive electronic data, restricted access to systems and failure to comply with regulatory requirements (for example, GDPR). Heightened attention is paid at the Company to the risk of unauthorised access to data and various measures are implemented in relation to employees and organisations, as well as applications, systems and data networks. These can take the form of a firewall, restricting the allocation of access rights to systems and backing-up crucial data sources. The Company employs only technical resources that have been tried and tested on the market and which comply with internal standards. An Information Security Management System (ISMS) has been put in place at ŠKODA AUTO to minimise the risks relating to IT and their potential impact on Company objectives.

LEGAL RISKS

ŠKODA AUTO conducts its business activities in more than 100 countries throughout the world and this can lead to risks associated with judicial disputes with suppliers, dealers, employees, investors and customers, as well as the risk of administrative proceedings that concern individual areas of Company business.

OTHER OPERATING RISKS

There are influences alongside the risks mentioned above which are unforeseeable and could potentially affect onward development. These primarily include natural disasters, epidemics, terrorism and the like.

SHORT-TERM AND LONG-TERM OUTLOOK

With our broad product range, technologies and services, we are well prepared for future challenges in the mobility business.

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENT IN THE GLOBAL ECONOMY

Our forecasts are based on the assumption that global economic growth in 2020 will be at the same level as in the preceding year. We still believe that risks will continue to arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively affected by continuing geopolitical tensions and conflicts. We estimate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2021 to 2024.

EUROPE

In Western Europe, economic growth in 2020 is likely to decline slightly compared to the reporting year. Resolving structural problems continues to pose a major challenge, as does the uncertain impact of the United Kingdom's exit from the EU. In Germany, our biggest European market, we expect that gross domestic product (GDP) will increase only at a low rate in 2020. The situation in the labour market will probably remain stable and bolster consumer spending.

In Central Europe, we estimate that growth rates in 2020 will remain approximately at the level of those for the past fiscal year. In the Czech Republic, our third biggest market worldwide, we expect slight slowdown in economic growth, which will be still almost twice stronger than EU28 average. Very tense situation in the labour market will, on the other hand, probably support consumer spending.

The economic situation in Eastern Europe should stabilize, providing the conflict between Russia and Ukraine does not worsen. The Russian economy is expected to see only muted growth.

CHINA

In 2020, the Chinese economy is expected to continue growing at a relatively high level, but will lose some of its momentum compared to prior years. Fiscal policy by the government and the agreement on trade matters with the United States are likely to have a stabilizing impact.

The outbreak of the coronavirus has particularly affected the economy in China. For ŠKODA AUTO, there is a risk that disruptions in the supply of parts in the coming weeks and months may occur, and thus also production restrictions in our Czech plants. The concrete effects for the whole year cannot be assessed at this point in time.

INDIA

For India, we anticipate an expansion rate on a similar scale to the previous years.

10

THE NUMBER OF MODELS WITH VARYING DEGREES OF ELECTRIFICATION THAT ŠKODA WILL LAUNCH ON THE MARKET BY 2022

TRENDS IN THE GLOBAL MARKET FOR PASSENGER CARS

We expect trends in the markets for passenger cars in the individual regions to be mixed in 2020. Overall, the volume of global demand for new vehicles will probably match the 2019 level. We are forecasting growing demand for passenger cars worldwide in the period from 2021 to 2024.

EUROPE

For 2020, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly below that recorded in the reporting period. The uncertain impact of the United Kingdom's exit from the EU is likely to further exacerbate the ongoing uncertainty among consumers, continuing to dampen demand. We expect a moderate decline on the British market in 2020. After a positive performance overall in recent years, we expect demand in the German passenger car market to fall noticeably year-on-year in 2020.

Sales of passenger cars in 2020 are expected to fall slightly short of the prior-year figures in markets in Central and Eastern Europe. In the Czech Republic, we expect a slight decline in sales of passenger cars from 2019 to continue in 2020. In Russia, we anticipate a market volume that is slightly higher than in the previous year. The number of new registrations should recede in most of the other markets in this region.

CHINA

In 2020, the passenger car markets in the Asia-Pacific region are expected to be at the prior-year level. We expect demand in China to be slightly up on the previous year's level. For as long as there is no resolution in sight, the trade dispute between China and the United States will continue to weigh on business and consumer confidence.

INDIA

We anticipate a slight decrease in the Indian market compared with the previous year.

DEVELOPMENT PLANS OF ŠKODA AUTO

ŠKODA AUTO will again be manufacturing at the very limits of its capacity in 2020 – demand for brand models continues to outstrip the current production capacities at the Company. The Company will continue its investment in new products, stressing electromobility, and in the associated infrastructure.

ŠKODA AUTO will also be celebrating the 125th anniversary of the foundation of the automotive company in 2020. It is one of only a handful of car manufacturers in the world that is able to celebrate such a significant milestone, a celebration of a long line of successes and a major commitment for the future.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF ŠKODA AUTO A.S.

OPINION

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s., with its registered office at tř. Václava Klementa 869, Mladá Boleslav ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the balance sheet as at 31 December 2019, the income statement, the statement of other comprehensive income, changes in equity and cash flows for the year ended 31 December 2019 and notes to the separate financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 of its financial performance and its cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the separate financial statements and auditor's report thereon. The Board of Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information. In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge about the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the separate financial statements is, in all material respects, consistent with the separate financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

RESPONSIBILITIES OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD OF THE COMPANY FOR THE SEPARATE FINANCIAL STATEMENTS

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

In preparing the separate financial statements, the Board of Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of the Company is responsible for overseeing the financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

— Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.

— Conclude on the appropriateness of the Board of Management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate financial statements, including the notes, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Management and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Audit, s.r.o.

REPRESENTED BY

Ing. Jiří Zouhar

Ing. Ivana Říhová
STATUTORY AUDITOR, LICENCE NO. 2485

This report is addressed to the shareholder of ŠKODA AUTO a.s.

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 2019

BALANCE SHEET AS AT 31 DECEMBER 2019

Assets (CZK million)	Note	31 December 2019	31 December 2018
Intangible assets	4	39,422	30,589
Property, plant and equipment	5	87,316	72,767
Investments in subsidiaries	6	594	149
Investments in associates	7	2,356	2,356
Other non-current receivables and financial assets	8	9,473	11,469
Deferred tax asset	14	2,363	1,541
Non-current assets		**141,524**	**118,871**
Inventories	9	24,863	20,211
Trade receivables	8	21,686	22,614
Other current receivables and financial assets	8	831	3,869
Current non-financial assets	8	6,978	6,127
Prepaid income tax		–	1,780
Cash and cash equivalents	10	45,753	45,846
Current assets		**100,111**	**100,447**
Total assets		**241,635**	**219,318**

Equity and liabilities (CZK million)	Note	31 December 2019	31 December 2018
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	87,877	85,078
Other reserves	12	3,462	8,309
Equity		**109,626**	**111,674**
Non-current financial liabilities	13	2,864	259
Non-current non-financial liabilities	13	6,837	6,207
Non-current provisions	15	15,169	13,120
Non-current liabilities		**24,870**	**19,586**
Trade liabilities	13	70,267	57,600
Other current financial liabilities	13	1,752	492
Current non-financial liabilities	13	15,212	9,542
Current income tax liabilities		691	–
Current provisions	15	19,217	20,424
Current liabilities		**107,139**	**88,058**
Total equity and liabilities		**241,635**	**219,318**

The notes on pages 86 to 155 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Note	2019	2018
Sales	**16**	**459,122**	**416,695**
Cost of sales	24	397,086	359,421
Gross profit		**62,036**	**57,274**
Distribution expenses	24	14,735	14,046
Administrative expenses	24	13,234	12,366
Other operating income	17	8,143	8,690
Other operating expenses	18	4,990	5,712
Operating profit		**37,220**	**33,840**
Financial income		1,959	1,793
Financial expenses		681	502
Net financial result	**19**	**1,278**	**1,291**
Profit before tax		**38,498**	**35,131**
Income tax expense	21	6,809	6,239
Profit for the year		**31,689**	**28,892**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Note	2019	2018
Profit for the year, net of tax		**31,689**	**28,892**
Items that will be reclassified to profit or loss:			
Net fair value gain / (loss) net of tax on financial derivatives designated as hedging instruments	12	(3,689)	(3,766)
Items that will not be reclassified to profit or loss:			
Net fair value gain / (loss) net of tax on equity instruments	12	(1,158)	1,055
Other comprehensive income / (loss) for the year, net of tax		**(4,847)**	**(2,711)**
Total comprehensive income for the year		**26,842**	**26,181**

The notes on pages 86 to 155 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2018	**16,709**	**1,578**	**88,026**	**11,020**	**117,333**
Profit for the year	—	—	28,892	—	28,892
Other comprehensive income / (loss)	—	—	—	(2,711)	(2,711)
Total comprehensive income for the year	**—**	**—**	**28,892**	**(2,711)**	**26,181**
Dividends**	—	—	(31,840)	—	(31,840)
Balance as at 31 December 2018	**16,709**	**1,578**	**85,078**	**8,309**	**111,674**
Balance as at 1 January 2019	**16,709**	**1,578**	**85,078**	**8,309**	**111,674**
Profit for the year	—	—	31,689	—	31,689
Other comprehensive income / (loss)	—	—	—	(4,847)	(4,847)
Total comprehensive income for the year	**—**	**—**	**31,689**	**(4,847)**	**26,842**
Dividends**	—	—	(28,890)	—	(28,890)
Balance as at 31 December 2019	**16,709**	**1,578**	**87,877**	**3,462**	**109,626**

* Explanatory notes on Other reserves are presented in Note 12.
** The detailed information about dividends is presented in Note 11.

The notes on pages 86 to 155 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Note	2019	2018
Cash and cash equivalents as at 1 January	**10**	**45,846**	**97,201**
Profit before tax		38,498	35,131
Depreciation, amortisation, impairment loss and reversal of impairment loss of non-current assets	4, 5	20,942	17,020
Change in provisions		842	(2,845)
(Gain) / loss of tangible and intangible assets		34	51
Net interest (income) / expense	19	(289)	50
Dividend income	19	(1,143)	(1,099)
Adjustments for non-cash transactions on derivatives and other adjustments for non-cash transactions		(722)	(267)
Change in inventories		(4,184)	(2,606)
Change in receivables		1,140	(5,280)
Change in liabilities		14,769	13,914
Income tax paid from operating activities		(4,025)	(9,256)
Interest paid		(346)	(230)
Interest received		635	180
Cash flows from operating activities		**66,151**	**44,763**
Purchases of tangible and intangible assets	4, 5	(26,213)	(18,491)
Purchase of subsidiary	6	(5)	—
Payment for increase in equity of a subsidiary	6	(439)	(70)
Additions to capitalised development costs	4	(11,436)	(8,328)
Proceeds from sale of tangible and intangible assets		38	32
Proceeds from dividends		1,143	1,099
Cash flows from investing activities		**(36,912)**	**(25,758)**
Net cash flows (operating and investing activities)		**29,239**	**19,005**
Dividends paid	11	(28,890)	(70,360)
Repayments of lease liabilities - principals		(442)	—
Cash flows from financing activities		**(29,332)**	**(70,360)**
Net change in cash and cash equivalents		**(93)**	**(51,355)**
Cash and cash equivalents as at 31 December	**10**	**45,753**	**45,846**

Total cash outflow from lease liabilities and from low-value assets leases in 2019 was CZK 841 million. For non-cash transactions from investing activities relating to leases under IFRS 16 refer to Note 5.

The following table shows the changes in liabilities arising from financing activities according to the classification as cash and non-cash transactions:

(CZK million)	Balance as at 1 January 2019*	Cash-effective changes	Non-cash changes - additions	Balance as at 31 December 2019
Lease liabilities - interest	—	(69)	69	—
Lease liabilities - principals	886	(442)	1,663	2,107
Lease liabilities total	**886**	**(511)**	**1,732**	**2,107**

* Adoption of new standard IFRS 16 – Leases refer to Note 1.3.

The notes on pages 86 to 155 are an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS 2019

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 01 Mladá Boleslav
Czech Republic
Identification number: 00177041
website: 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
— Finance and IT
— Human Resources Management
— Procurement

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 29).

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 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 2019. Financial statements of the Company, its subsidiaries and associates are included in the consolidated financial statements of VOLKSWAGEN Group for the year ended 31 December 2019.

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 the International Financial Reporting Standards as adopted by the European Union ("IFRS") based on the Company's sole shareholder's decision in accordance with provisions of paragraph 19a Article 7 Act No. 563/1991 Coll., on Accounting.

The Company publishes 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.

The consolidated financial statements of VOLKSWAGEN Group prepared in accordance with IFRS will be publicly available on the following website after their release at: http://www.volkswagenag.com/en/media/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 provisions of paragraph 22aa Article 1 and 2 Act No. 563/1991 Coll., on Accounting, (effective as at 31 December 2019). Consolidated financial statements of VOLKSWAGEN AG and the auditor's report thereon 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 29.

*The Company prepares the separate financial statements in accordance with IFRS as adopted by the European Union and as interpreted by 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, which were subsequently replaced by Directive 2013/34/EU of the European Parliament and of the Council. The Commission Services Department was of the opinion that, if a company chooses or is required to prepare its annual separate 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 consolidated financial statements. At the time of approval of these separate financial statements, the approved consolidated financial statements of VOLKSWAGEN Group have not been available.

1.2 NEW 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 2019

New standards, amendments and interpretations to existing standards that are effective for the financial year beginning on 1 January 2019 applied by the Company:

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IFRS 16	Leases	1 January 2019	New standard IFRS 16 fully replaces recognition of leases in accordance with IAS 17. Significant changes concern in particular the lessees' reporting of leases. IFRS 16 provides a single accounting model for reporting of all lease transactions on lessee side. It requires lessee to recognise a right-of-use asset and a lease liability in the balance sheet. Lessor's recognition is more or less comparable with the IAS 17.	The Company has applied IFRS 16 Leases for the period beginning on 1 January 2019 using a modified retrospective method and with a cumulative impact reported as of 1 January 2019. The comparatives for the previous period were not adjusted. Detailed information on the application of the individual IFRS 16 transition provisions and other impacts from the transition to the new standard refer to Note 1.3.

Other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on 1 January 2019 had no 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 1 JANUARY 2019

New standards, amendments and interpretations to existing standards, which standards are published not yet effective for accounting periods beginning on 1 January 2019 will have no material impact on the separate financial statements of the Company.

1.3 IMPACT OF TRANSITION TO IFRS 16 LEASES

The Company first applied IFRS 16 for the accounting period beginning on 1 January 2019. In its initial application, the Company applied modified retrospective approach without restating the comparatives.

At the date of initial application, the Company used the following simplifications:

- relied on previous impairment assessments (as of 1 January 2019, there were no onerous contracts from leasing transactions, an impairment was not identified);
- classified operating leases with remaining lease term less than 12 months as of 1 January 2019 as short-term leases;
- applied hindsights in determining lease term if a contract included an option to extend or terminate a lease; and
- the Company also decided not to reassess whether a contract includes a lease at the date of initial application and for contracts concluded before initial application relied on its assessment under IAS 17 and IFRIC 4.

As of 1 January 2019, the Company recognized lease liabilities of CZK 886 million in respect of leases that were classified as "operating leases" under IAS 17 after applying the exceptions to short-term and low-value assets. As at the date of transition, lease liabilities were measured at the present value of the remaining lease payments using an incremental borrowing rate. The weighted average incremental borrowing rate applied to the lease liabilities was 3.15% as at 1 January 2019.

The Company recognized lease liabilities and related right of use assets in the same amounts of CZK 886 million as of 1 January 2019, see Note 5. No deferred tax liability or deferred tax asset were recognized upon transaction to IFRS 16.

Reconciliation of lease payments for non-cancellable operating leases as at 31 December 2018 presented in Note 23 to lease liabilities recognised as at 1 January 2019:

(CZK million)	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018 (Note 23)	**1,137**
Future lease payments that are a result of a different treatment of extension and termination options	148
Effect of discounting to present value	(96)
Short-term leases not recognised as a liability	(47)
Less low-value leases not recognised as a liability	(256)
Total lease liabilities recognised as at 1 January 2019	**886**

Lease liabilities by maturity:

(CZK million)	**1 January 2019**
Short-term lease liabilities	168
Long-term lease liabilities	718
Total	**886**

1.4 NEW DEFINITION OF CASH-GENERATING UNIT

With respect to significant changes in economic and legal environment of entities operating in automotive industry, the Company's management reassessed the definition of a cash-generating unit (CGU) for car production in 2019.

In previous years the CGU was defined on the basis of vehicle models (at the level of tangible and intangible assets used to manufacture vehicles of a particular model). Due to the stricter carbon dioxide fleet emission limits, mainly in the European Union, the Company's individual models will become largely interdependent in terms of cash flows. In particular, the fact that emission regulations are being tightened worldwide means that the cash flows of the individual products influence each other to an increasing extent. The Company's management considered that cash flows from individual models cannot any longer be identified as independent and therefore redefined the CGU as being at the brand level (the level of tangible and intangible assets used for the automotive-related business of the Company).

As a result of the change in the definition of the CGU, the basis for the impairment test of tangible and intangible fixed assets was changed in 2019. The change led to one-off reversal of impairment loss of CZK 2,443 million. Further detailed information is presented in Notes 4 and 5 in the Impairment test subchapters.

The change in the definition of the CGU also had a prospective effect on the conditions for capitalization of internally generated intangible assets and on the annual impairment testing of the related intangible assets (intangible assets that are not yet ready for use and intangible assets with indefinite useful lives). The Company anticipates that a change in the definition of the CGU will lead to an increase in the activation quota in the future.

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 equity instruments measured at fair value through other comprehensive income, 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 and unless the cash-generating unit (see Note 2.4) to which the relevant intangible assets can be allocated is fully amortized. 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 1–7 years according to the product life cycle
- Software 3 years
- Tooling rights 1–8 years according to the product life cycle
- Other intangible fixed assets 3–8 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 and intangible assets with indefinite useful lives are tested annually for possible impairment and are carried at cost less accumulated impairment losses. To determine the return on these intangible assets, the higher of their value in use and fair value less costs to sell the cash-generating unit to which the relevant intangible assets can be allocated is used (see Note 2.4). 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 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 according to the product life cycle)	3–18 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.

Property, plant and equipment also includes right of use assets arising from leases, see Note 2.13.

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.

Assets are grouped at the lowest levels for which are separately identifiable cash inflows (cash-generating units) for purpose of impairment assessment. For 2018, the cash-generating unit was determined at the level of tangible and intangible assets used for the production of vehicles of a particular model. The definition of the cash-generating unit changed in 2019 (see Note 1.4). The cash-generating unit is established at the level of tangible and intangible assets used for the automotive-related business of the Company (the brand level).

2.5 FINANCIAL INSTRUMENTS

2.5.1 FINANCIAL ASSETS

2.5.1.1 CLASSIFICATION AND MEASUREMENT

CLASSIFICATION AND MEASUREMENT IN ACCORDANCE

The Company classifies financial assets at the time of acquisition at initial recognition of financial asset. The Company classifies its financial assets into two primary groups, which are debt and equity instruments.

Separate group of financial assets are financial derivatives with positive fair value.

Debt financial instruments

Debt instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity. Financial assets are classified based on entity's business model and the contractual cash flow characteristics of the financial instrument. As a part of the business model test, the Company verifies that the goal of holding of a financial asset is to collect all cash flows from it (the "hold to maturity" model) or whether the goal is to hold a financial asset and sell it (the "hold and sell" model). Furthermore, the Company examines and determines whether the contractual characteristics related to the right to cash flows have only the character of principal and interest i. e. whether the debt instrument has only "basic loan features". Interest is compensation for the time value of money and credit risk associated with granting a loan for a given period in accordance with IFRS 9.

Within debt instruments, the Company classifies financial assets into the following categories:

(a) Financial assets subsequently measured at amortised cost determined using the effective interest method (Financial assets at amortised costs);

(b) Financial assets measured at fair value with changes in fair value included in other comprehensive income (Financial assets at fair value through other comprehensive income);

(c) The financial assets measured at fair value with change in fair value included in profit or loss (Financial assets at fair value through profit or loss).

Financial assets at amortised cost (portfolio AC)

In this category, the Company presents debt instruments, which are held under a business model, which aim is to collect all contractual cash flows and which also have contractual cash flows representing solely principal and interest on the outstanding principal. Subsequently, they are measured at amortised cost, as determined by the effective interest rate method (hereinafter the amortised cost). During the accounting period 2019 (2018), the Company had in this category other receivables and financial assets (refer to Note 8.1), trade receivables (refer to Note 8.2), loans to and deposits in VOLKSWAGEN Group companies and cash. Loans and deposits in VOLKSWAGEN Group companies are included in cash equivalents (refer to Note 10).

Financial assets at fair value through other comprehensive income (portfolio FVOCI)

In this category, the Company presents debt financial instruments if they meet both of the following conditions: (a) they are held within a business model aimed at both to collect contractual cash flows and to sell financial assets (b) which have contractual cash flows representing solely principal and interest on the outstanding principal. They are measured at fair value through other comprehensive income.

Financial assets at fair value through profit or loss (portfolio FVPL)

Within this category, the Company classifies all other debt instruments, which cannot be classified in the above-mentioned categories. These financial assets are held for trading purposes or their contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding. Subsequently, they are measured at the fair value through profit or loss. Within the debt instruments, the Company had only trade receivables in this category that were held for sale through factoring arrangement during the 2019 (2018) accounting period. The realised and unrealised losses from the changes in the fair value of these receivables were included in the financial expenses in 2019 (2018).

Derivatives are classified in category FVPL, provided that they do not meet the conditions of hedge accounting. During the accounting period 2019 (2018), the Company had receivables from trading derivatives in this category (refer to Note 2.5.3). The realised and unrealised gains and losses from changes in the fair value of financial derivatives held for trading were included in other operating income or other operating expenses in the year 2019 (2018).

Equity instruments

Equity instrument is a contract evidencing a residual interest in the assets after deducting all of its liabilities. The Company subsequently measures equity investments in other entities that are in the scope of IFRS 9 at fair value. Gains and losses arising from the equity instruments are always included in profit or loss, with the exception of equity instruments which are not held for trading. When these equity instruments were initially recognised, the Company opted that the realised and unrealised gains and losses resulting from the investments in the equity instruments would be reported in other comprehensive income. Realised gains or losses on these equity investments are reclassified between the revaluation reserve and retained earnings directly in equity. Dividends are included in profit or loss only if they represent return on the investment.

In this category, the Company only held investments in equity instruments that did not have an observable price in an active market in 2019.

2.5.1.2 IMPAIRMENT

IMPAIRMENT

The Company applies a model for the impairment which reflects expected credit loss (ECL). The expected loss model requires recognising an allowance before a credit loss is incurred. With the exception of trade receivables, the Company applies a general approach for impairment to the relevant financial assets (the debt instruments reported at the amortised cost in the portfolio AC and debt instruments in the portfolio FVOCI), i.e. general approach for impairment. The Company used the option to apply a simplified approach using an impairment matrix for trade receivables.

General approach to impairment

Under the general approach, an entity recognises an allowance for the life-time expected credit loss (ECL) of the financial instrument if there is a significant increase in a credit risk (determined by a probability of default) since initial recognition of a financial asset. If a credit risk of a financial instrument has not significantly increased since the initial recognition at the date of the financial statements, the entity reports an allowance based on 12-month expected credit loss. The life-time expected credit loss indicates the expected credit loss arising from all potential defaults till the expected maturity of the financial instrument. 12-month expected credit loss is a part of life-time expected credit which arises as a result of the financial instrument default which may occur within next 12 months after the balance sheet date.

The Company uses the three stages ECL model. When a financial asset is initially recognised, if there is no evidence of default, the Company will include the financial asset in stage 1 and will report an allowance corresponding to the 12-month expected loss. If a credit risk related to a financial instrument has not increased significantly since the initial recognition date, the financial asset will remain at stage 1 and an allowance at the balance sheet date will be quantified at the amount of 12-month expected loss. If there has been a significant increase in credit risk since the date of initial recognition, the Company will include the financial asset in stage 2 and will report the allowance at the balance sheet date at the amount of life-time expected credit loss of financial asset. If a financial asset is in default, the Company will move it to stage 3 and continues reports allowances at the amount of life-time expected credit loss of the financial asset.

The Company defines potential default cases when it will not be able to collect all amounts due according to the originally agreed conditions. The indicators of default are considered by the Company to be significant financial difficulties of a debtor, a likelihood of the debtor entering bankruptcy or financial restructuring, failure to comply with the maturity or being past due of the debt.

The Company calculates the expected credit loss as the probability-weighted results using the following formula for selected future scenarios of possible development:

Expected credit loss (ECL) = probability of default (PD) x loss given default (LGD) x exposure at default (EAD)

Simplified approach to impairment

The simplified approach allows the Company to report the life-time expected credit loss without the need to identify a significant increase in credit risk. For trade receivables and contract assets that do not contain a significant financial element, an entity recognises allowances for life-time expected credit loss (i.e. an entity must always apply the so-called simplified approach).

Simplified approach using provision matrix

The Company determines the amount of allowances using provision matrix for trade receivables without a significant financing element. The provision matrix is based on the application of the appropriate loss rate to the outstanding balances of trade receivables (i.e. the aging analysis of receivables).

The Company applies the following steps to estimate impairment allowances using the simplified approach. The Company first divides its individual trade receivables into groups of receivables with similar credit risk characteristics. The Company identifies the most important factors driving the credit risk of each group. In the second step, the Company establishes a historical loss rate for each group with similar credit risk characteristics. This rate is based on past 3 consecutive accounting periods. In the next step, the Company determines the expected loss rate for each group of receivables, which is further divided into subcategories based on the number of days past due (e.g. the loss rate for receivables that are not due, the loss rate for receivables 1–30 days past due, loss rate for receivables 31–60 days past due, etc.). When determining the expected loss rate, the Company takes into account whether the historical loss rates were incurred under economic conditions that correspond to the expected conditions during the exposure period of the given portfolio of receivables at the balance sheet date. In the last step, the Company calculates the amount of impairment allowances based on the current gross amount of receivables multiplied by the expected loss rate.

If a trade receivable is categorised as irrecoverable, the allowance is set for 100% of amount of trade receivable. A creation of allowances is recognised in other operating expenses in profit or loss. In cases where a receivable can no longer be subject to enforcement activity (e.g. the receivable ceases to exist, as a result of court resolution due to the lack of assets in the bankruptcy, the debtor perished without a legal successor, etc.), the receivables are written off against the impairment allowances.

2.5.1.3 DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership of the Company neither transferred nor retained substantially all risks and rewards but transferred control.

2.5.2 FINANCIAL LIABILITIES

Classification

The classification depends on the nature and purpose of financial liabilities. The Company's management determines appropriate classification of financial liabilities on initial recognition.

The Company classifies financial liabilities into the 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 at fair value through profit or loss were included in the other operating income in 2019 or in the other operating expenses. During the accounting period 2019 (2018), 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. In this category, the Company also recognizes lease liabilities in 2019, for which specific valuation procedures apply at initial recognition. Such procedures are described in paragraph 2.13.

Derecognition

The Company derecognises financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or expired. 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 remeasured 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 hedges against changes in cash flows from highly probable future transactions caused by changes in foreign exchange spot rates. The Company is using foreign currency forwards and swaps to hedge this risk. The hedge ratio established is 100%. The main sources of ineffectiveness are:

- reduction in the total amount or price of the hedged item;
- significant change in the credit risk of either party to the hedging relationship;
- different discounting of the spot component of the hypothetical derivative and the hedging instrument;
- different maturities of hedged item and hedging instruments.

Group Treasury monitors companies' and the banks' credit risk so the effect of credit risk does not dominate the value changes that result from the economic relationship between hedged item and hedging instrument at reporting date.

The changes in the spot component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. Hedge ineffectiveness is recognised in profit or loss. Until 31 December 2017 the Company recognised the changes in the forward points component of currency financial derivatives that qualify as effective cash-flow hedging instruments as a gain or loss in the income statement. Since 1 January 2018, the Company has recognised the changes in the value of the forward component of currency financial derivatives that qualify as effective cash-flow hedging instruments in other comprehensive income.

When a hedged forecast transaction subsequently results in the recognition of a non-financial asset (such as inventory), the Company transfers the amount from the cash flow hedge reserve in equity and includes it directly in the initial cost of the non-financial asset. The cumulative balance recognised in other comprehensive income is recycled into the income statement as a gain or loss in the period when the hedged item affects the income statement for other hedges (such as hedges of future sales).

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 cases the spot component of the original derivative contract is retained in equity. Until 31 December 2017 when the hedged item affected the income statement, the previously retained balance was recycled from other comprehensive income to the income statement and recognised as a gain or loss. Since 1 January 2018 this approach is used only for hedges where a hedge item does not result in recognition of a non-financial asset. The Company transfers the amount from the cash flow hedge reserve in equity and includes it directly in the initial cost of the non-financial asset when a non-financial asset is recognised.

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 using rules defined in paragraph above when the forecasted transaction is ultimately recognised. When a forecasted 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 Company economically hedges a commodity risk using commodity swaps, however, its hedge accounting is not used. 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 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, if any) 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 subsidiaries directly controlled by the Company as at 31 December 2019 (see Note 6):

— ŠKODA AUTO Slovensko s.r.o. (100%);
— ŠKODA AUTO DigiLab s.r.o. (100%);
— UMI Urban Mobility International Česká republika s.r.o. (100%) – established in 2019;
— Smart City Lab s.r.o. (100%) – acquired in 2019.

The subsidiaries directly controlled by the Company as at 31 December 2018 (see Note 6):

— ŠKODA AUTO Slovensko s.r.o. (100%);
— ŠKODA AUTO DigiLab s.r.o. (100%);
— SKODA AUTO India Private Ltd. (100%)*.

* Subsidiary of SKODA AUTO India Private Ltd. merged with other VOLKSWAGEN Group companies in 2019 and ceased to exist. As part of this merger, the Company became a shareholder of the successor company SKODA AUTO Volkswagen India Private Limited. As a result of the agreed share exchange ratio between the parties of the merge, the Company's share in the equity and voting rights in the successor company decreased and the financial investment was reclassified from the interests in subsidiaries to interests in associates. Although the Company's share of the successor company equity decreased in overall, the carrying amount of the financial investment remained unchanged. For further information on this transaction, see Notes 6, 7 and 25.

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 significant influence 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 Management 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 Company had significant influence as at 31 December 2019 in the following associates (see Note 7):
— OOO Volkswagen Group Rus;
— ŠKO-ENERGO-FIN s.r.o.;
— ŠKO-ENERGO s.r.o.;
— Digiteq Automotive s.r.o.;
— SKODA AUTO Volkswagen India Private Limited acquired by merger in 2019*.

The ŠKODA AUTO a.s. had significant influence as at 31 December 2018 in the following associates (see Note 7):
— OOO Volkswagen Group Rus;
— ŠKO-ENERGO-FIN s.r.o.;
— ŠKO-ENERGO s.r.o.;
— Digiteq Automotive 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.

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 the 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.

* Subsidiary of SKODA AUTO India Private Ltd. merged with other VOLKSWAGEN Group companies in 2019 and ceased to exist. As part of this merger, the Company became a shareholder of the successor company SKODA AUTO Volkswagen India Private Limited. As a result of the agreed share exchange ratio between the parties of the merge, the Company's share in the equity and voting rights in the successor company decreased and the financial investment was reclassified from the interests in subsidiaries to interests in associates. Although the Company's share of the successor company equity decreased in overall, the carrying amount of the financial investment remained unchanged. For further information on this transaction, see Notes 6, 7 and 25.

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 (prepaid income tax).

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, where the Company has the enforceable right to offset the current tax assets and liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same tax authority. Deferred tax assets and deferred tax liabilities from lease transactions are initially recognised on gross basis refer to Note 14 and offset later at balance sheet level.

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) and hedging effects (see Note 2.5.3).

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 CASH AND CASH EQUIVALENTS AND CASH FLOW STATEMENT

The cash and cash equivalents disclosed in the cash flow statement also comprise, in addition to cash and short-term deposits in banks, short-term deposits in VOLKSWAGEN Group companies (mainly in Volkswagen International Belgium SA (VIB), the Regional Treasury Center) with original maturity of less than three months, which are readily convertible to known amounts of cash, the risk of changes in value is not significant and are held to meet short-term financial liabilities rather than for investment or other purposes.

Detailed information relating to cash and cash equivalents is disclosed in Note 10.

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.

2.10 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 benefits;
- termination gratuity benefit payable before retirement from the Company.

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 to 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 remeasurements arising from changes in actuarial assumptions and experience adjustments are charged or credited to the income statement.

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

2.11 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. Discount rates reflect the current market interest rates and the specific risks of the respective liabilities.

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.

2.12 REVENUE AND EXPENSE RECOGNITION

Revenue recognition

At first, all contracts with customers are analysed to identify all performance obligations to a customer. Subsequently, the transaction price is determined which is, in case of identified multiple performance obligations, allocated according to a relevant key. Consequently, the revenue is recognised for the particular performance obligation in the appropriate amount either at a certain point in time or the revenue is deferred as a contract liability and afterwards allocated over certain time.

Revenue from the sale of cars, spare parts and car components is recognised when the control is transferred to the customer depending on the particular contractual terms where the amount of the revenue is agreed or can be reliably determined and the collection of the consideration is probable. This generally corresponds to the point when products are transferred to resellers or when they are transferred to final customers in case of direct sales.

If discounts are granted for sold cars (typically as sales support), the discount amount is estimated as reliably as possible already at the time of the sale of the car and thus the revenue from the sale of the cars is reduced by this amount. The consideration received (or receivable) from customer arising from the sold car, which represents an uninvoiced sales support for the Company (i.e. amounts not included in the transaction price) is recognised as a refund liability within trade liabilities.

The Company provides to other car manufacturers licences for the production of ŠKODA cars. These are divided into two main groups: one-off licences and per-piece licences. Because the transfer of the licence can be determined and the licence provides the right to use intellectual property, the performance obligation is fulfilled at a certain point in time.

Revenue from one-off licences is recognised only when the intellectual rights are transferred i.e. when the intellectual property is transferred or when partial delivery has been completed (e.g. delivery of technical documentation, technical support, etc.). Revenue from per-piece licences is recognised based on the number of cars produced in the respective reporting period.

Based on licence agreements with certain contractual parties, the royalties may be returned if licence is not utilised by the counterparty. This royalty revenue is recognised in the expected amount taking into account the estimate of the risk of a royalty refund.

Revenue arising from separate rendering of services (e.g. revenues from the sale of the prolongation of ŠKODA Connect services) is recognised when the services are rendered or on a straight-line basis over the period of time when the services are provided via an indeterminate number of acts over a specific time period. At first, the received consideration is recognised as a contract liability from the considerations received and subsequently the respective revenue is recognised on a straight-line basis depending on the duration of the service contract.

Revenue arising from rendering of services, which are sold together with a car but are separable from it (e.g. revenue from the sale of extended guarantee or of ŠKODA Connect services) which will be provided in future periods is identified as distinct performance obligation including the duration period. Subsequently, the transaction price is determined which is allocated between the car and other services. The transaction price attributable to the services is derived from the market prices at which these services can be purchased separately. Subsequently, a contract liability from the consideration received is recognised and the respective revenue is recognised depending on the way of consuming of the services by customers.

Expense recognition

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.

2.13 LEASES

The company rents office space, storage facilities, transport equipment, transport pallets, office technical equipment (e.g. computers, multifunctional equipment, etc.) and other assets which are needed to operate its business activities.

Leases where the Company is a lessee according to IAS 17 (until 31 December 2018)

A lease is classified as an operating lease if a substantially all the risks and rewards incidental to ownership of the leased asset are not retained by the lessor. Operating lease payments are charged to profit or loss on a straight line basis over the lease term. As at 31 December 2018, the Company reported all identified leases in the operating lease category.

Leases where the Company is a lessee according to IFRS 16 (since 1 January 2019)

The Company assesses whether a contract is in a substance a lease or is a contract for a provision of services at lease inception. A contract is in substance a lease if the Company controls the use of an identifiable asset. The Company reassesses, whether a contract is a lease in substance; only when the terms and conditions of the contract change.

The Company has decided not to use the available exemption and for contracts; that contain both a lease and a non-lease component, the consideration is allocated to the individual components on the basis of their relative standalone prices.

Short-term leases (leases for which the lease term is less than 12 months and cannot be extended) and leases of low-value assets are charged to profit or loss on a straight line basis over the lease term (see Note 24). Assets with an acquisition cost of approximately less than EUR 5,000 when new are considered to be low-value assets by the Company.

For other leases, the Company reports a right of use asset and a lease liability.

Lease liability

At the date of commencement of the lease, the Company recognises a lease liability at a present value of future lease payments not settled at that date and which include:

a) fixed payments less any lease incentives receivable;
b) variable lease payments depending on an index or a rate;
c) amounts expected to be paid by the Company under residual value guarantees;
d) the exercise price of a purchase option if it is reasonably certain that the Company will exercise the option;
e) penalties for the termination of a lease, provided that the lease term reflects the fact that the Company will exercise the option to terminate the lease.

Subsequently, the Company reports a lease liability using the effective interest method. Interest is included in profit or loss within finance costs.

The Company discounts lease payments over the lease term using incremental borrowing rate. The Company considers the maximum enforceable period of time, which is reasonably certain, as the lease term.

Refer to Note 13 for further information on lease commitments.

Right of use assets

At the date of commencement of a lease, the Company recognised a right of use asset at acquisition cost. The acquisition cost includes the amount lease liability at lease commencement date, any lease payments made at or before the lease commencement date, less any lease incentives received, including any initial direct costs and an estimate of costs of restoring the underlying asset to the condition required by the terms of the lease contract.

Subsequently, the Company reports the right of use asset at cost less accumulated depreciation and impairment losses and adjusted for effects of remeasurements of lease liability upon lease modifications. The right of use asset is generally depreciated straight line over a shorter of useful life of the asset and the lease term. If the Company is reasonably certain to exercise the purchase option, the right of use the asset is depreciated over the useful life of the underlying asset.

Depreciation rates are determined based on estimated useful life. The estimated useful lives are as follows:

— Buildings	33 years
— Other equipment, operating and office equipment	5 years
— Means of transport	5 years

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Refer to Note 2.4. Further information on the rights of use assets can be found in Notes 5 and 24.

2.14 SUBSIDIES

Subsidies of entrepreneurial activities and of employee training and retraining costs are recognised as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate. 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.

2.15 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.

2.16 EQUITY

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.

2.17 SHARE-BASED PAYMENTS

Share-based payments consist of performance shares. At a time of granting, an annual target amount is converted on a basis of an initial reference price of preference shares of VOLKSWAGEN AG into performance shares that are allocated to a relevant beneficiary for calculation purposes only. The resulting payment amount corresponds to the final number of performance shares multiplied by the closing reference share price at the end of a three-year period plus the dividend return equivalent for the relevant period. The payment amount under the Performance Shares Plan is capped at 200% of the target amount.

Each Performance Period of the Performance Shares Plan lasts three years. Cash settlement is done at the end of the three-year period of the Performance Shares Plan.

Obligations arising from the share-based payment transactions are accounted for as cash-settled share-based payments in accordance with IFRS 2. Cash-settled share-based payment transactions are recognised as liabilities carried at a fair value until they are settled. The fair value is determined using recognised valuation methods. The costs are attributed to the period when service is rendered by the employee and are reported in administrative expenses in the income statement and as personnel costs in the analysis by nature of expenses in Note 24.

2.18 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.

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" (see Note 2.4) 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 generated by the business attributable to each cash-generating unit. For determination of the estimated future cash flows, the Company applies estimates and assumptions regarding future sales of its products, economic development of the individual markets and development of the automotive industry during the next five or 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 4 and Note 5 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 and service actions. 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 amount of the provision for service actions is determined on the basis of a management estimate, particularly of material, personnel and possible other expenses necessary for eliminating the defects.

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 15.

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 risk is assessed as medium or high). The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 15 for additional information. If the risk is assessed to be low (possible but not remote), the Company discloses further information on litigation risks under contingent liabilities. Information on contingent liabilities that represent claims related to the EA189 issue through individual or class action lawsuits against the Company is disclosed in Note 27.

Other provisions

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 15 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 39,422 million as at 31 December 2019 (as at 31 December 2018: CZK 30,589 million). Average useful life of intangible assets was 6 years in 2019 (in 2018: 6 years).

Cash equivalents

The Company deposits free cash with VOLKSWAGEN Group companies. These deposits are classified as cash equivalents if the Company concludes that the deposits meet criteria of cash equivalents according to IAS 7 and that they are readily convertible to known amounts of cash, they are subject to an insignificant risk of changes in value and they are held for the purpose of meeting short-term financial commitments rather than investment or other purposes. When intragroup deposits are classified as cash equivalents, the Company also assess the solvency of the Group companies in which free liquidity is deposited and takes into consideration the overall performance of the VOLKSWAGEN Group.

Functional currency

Items included in the Company's financial statements are measured in accordance with IAS 21 using the functional currency. The functional currency means the currency of the primary economic environment in which the entity operates. The Company operates primarily in the economic environment of the Czech Republic, but as a result of its foreign activities it is exposed also to other economic environments. The Company regularly performs analyses of the functional currency criteria in accordance with IAS 21. When determining the functional currency, the Company's management follows the general definition and other supporting criteria. In particular, it monitors the proportion of currencies that have a major impact on the selling prices of goods and services and evaluates the currency mix of costs. In determining the functional currency, the Company's management also takes into account the currency, in which sources of financing are generated and in which the operating income from the Company's activities is retained. The Company also regularly monitors and evaluates all indications and trends in the primary economic environment that could affect functional currency in the future.

3. FINANCIAL RISK MANAGEMENT

The Company operates in the automotive industry, sells its products in many countries around the world and therefore performs transactions connected with a variety of financial risks. The objective of the Company is to manage 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, prices of commodities, invoice currencies, payment conditions, etc.), which is achieved through regular "liquidity meeting" attended by member of the Board of Management for Finance and IT (CFO), representatives from Treasury, Controlling, Accounting. Inputs for meetings and decision making are discussed with VOLKSWAGEN Group Treasury, especially such that concerns FX hedging and commodity risks. These meetings have predefined agenda, which includes also information on the macroeconomic indicators. Meetings have a formalised structure and all minutes including the decisions are recorded and their fulfilment is periodically evaluated.

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 VOLKSWAGEN Group 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 indicators. 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.

Credit enhancement instruments for receivables are used mainly when the customer contracts are concluded. An obligatory 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 foreign 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. For some domestic and foreign customers (scrap collection, motorsport) is also used proforma invoicing tool. 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 2019 (as at 31 December 2018), 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 (both to third parties and related parties) presented in Note 8.2:

(CZK million)	**2019**	**2018**
Retention of legal ownership title to sold cars	839	795
Bank guarantee	1,013	1,213
Letters of credit	1,383	2,917
Documentary collection	5	30
Total	**3,240**	**4,955**

3.1.1 MAXIMUM EXPOSURE TO CREDIT RISK

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 and the value of guarantees unrecognised in the balance sheet. The exposure to credit risk of derivatives is measured at fair value of the derivative.

The amount of guarantee provided by the Company is CZK 75 million as at 31 December 2019 (as at 31 December 2018: CZK 75 million). Detailed information on the guarantee is listed in Note 3.1.6.

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 2019 (2018) 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 deposited free cash only in VOLKSWAGEN Group companies.

The total volume of deposits in VOLKSWAGEN Group companies amounted to CZK 45,750 million as at 31 December 2019 (as at 31 December 2018: CZK 45,842 million), out of which:

- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 37,500 million (as at 31 December 2018: CZK 41,500 million);
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 8,250 million (as at 31 December 2018: CZK 4,342 million).

The Company did not consider probable that a default could occur in connection with the free cash deposited in 2019 (2018). Expected credit loss for any potential default is immaterial.

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

The Company uses the following criteria when setting ratings of financial assets. Solvency class 1 includes receivables 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 a default of these receivables. Solvency class 2 includes unsecured trade receivables from third parties for which there is no objective evidence indicating a default (unsecured receivables from dealers). Solvency class 3 includes unsecured trade receivables for which there is an objective evidence of a default and for which there are individual valuation allowances.

Credit quality of financial assets at amortised cost

(CZK million)	General approach to impairment: Stage 1 12-month ECL*	General approach to impairment: Stage 3 lifetime ECL* – individually impaired	Simplified approach to impairment: Lifetime ECL* based on provision matrix	Simplified approach to impairment: Lifetime ECL* – individually impaired	Total
Balance as at 31 December 2019					
Solvency class 1, of which:	**46,351**	**—**	**18,695**	**—**	**65,046**
Trade receivables	—	—	18,695	—	18,695
Cash equivalents	37,503	—	—	—	37,503
Cash pooling	8,250	—	—	—	8,250
Other	598	—	—	—	598
Solvency class 2, of which:	**—**	**—**	**373**	**—**	**373**
Trade receivables	—	—	373	—	373
Solvency class 3, of which:	**—**	**111**	**—**	**1,066**	**1,177**
Trade receivables	—	—	—	1,066	1,066
Other	—	111	—	—	111
Total	**46,351**	**111**	**19,068**	**1,066**	**66,596**

* ECL – expected credit loss

(CZK million)	General approach to impairment: Stage 1 12-month ECL*	General approach to impairment: Stage 3 lifetime ECL* – individually impaired	Simplified approach to impairment: Lifetime ECL* based on provision matrix	Simplified approach to impairment: Lifetime ECL* – individually impaired	Total
Balance as at 31 December 2018					
Solvency class 1, of which:	**47,240**	**—**	**18,421**	**—**	**65,661**
Trade receivables	—	—	18,421	—	18,421
Cash equivalents	41,500	—	—	—	41,500
Cash pooling	4,342	—	—	—	4,342
Other	1,398	—	—	—	1,398
Solvency class 2, of which:	**—**	**—**	**425**	**—**	**425**
Trade receivables	—	—	425	—	425
Solvency class 3, of which:	**—**	**115**	**—**	**163**	**278**
Trade receivables	—	—	—	163	163
Other	—	115	—	—	115
Total	**47,240**	**115**	**18,846**	**163**	**66,364**

* ECL – expected credit loss

Besides the amounts presented above in the table Credit quality of financial assets at amortised cost, the Company included in Solvency class 1 also receivables that will be subject to factoring without recourse (portfolio FVPL) in the amount of CZK 2,253 million (as at 31 December 2018: CZK 3,976 million). In stage 2 of ECL model the Company included no financial assets in 2019 (2018).

3.1.4 CREDIT RISK ANALYSIS

Gross carrying amount of financial assets at amortised cost

(CZK million)	General approach to impairment: Stage 1 12-month ECL*	General approach to impairment: Stage 3 lifetime ECL* – individually impaired	Simplified approach to impairment: Lifetime ECL* based on provision matrix	Simplified approach to impairment: Lifetime ECL* – individually impaired	Total
Trade receivables					
Balance as at 1 January 2019	**—**	**—**	**18,846**	**163**	**19,009**
Collected	—	—	(18,726)	(58)	(18,784)
Additions	—	—	18,948	961	19,909
Balance as at 31 December 2019	**—**	**—**	**19,068**	**1,066**	**20,134**
Cash equivalents and cash pooling					
Balance as at 1 January 2019	**45,842**	**—**	**—**	**—**	**45,842**
Collected	(45,842)	—	—	—	(45,842)
Additions	45,753	—	—	—	45,753
Balance as at 31 December 2019	**45,753**	**—**	**—**	**—**	**45,753**
Other receivables and financial assets					
Balance as at 1 January 2019	**1,398**	**115**	**—**	**—**	**1,513**
Collected	(950)	(4)	—	—	(954)
Additions	150	—	—	—	150
Balance as at 31 December 2019	**598**	**111**	**—**	**—**	**709**

* ECL – expected credit loss

(CZK million)	General approach to impairment: Stage 1 12-month ECL*	General approach to impairment: Stage 3 lifetime ECL* – individually impaired	Simplified approach to impairment: Lifetime ECL* based on provision matrix	Simplified approach to impairment: Lifetime ECL* – individually impaired	Total
Trade receivables					
Balance as at 1 January 2018	**—**	**—**	**16,124**	**184**	**16,308**
Collected	—	—	(16,035)	(27)	(16,062)
Additions	—	—	18,757	6	18,763
Balance as at 31 December 2018	**—**	**—**	**18,846**	**163**	**19,009**
Cash equivalents and cash pooling					
Balance as at 1 January 2018	**97,196**	**—**	**—**	**—**	**97,196**
Collected	(97,196)	—	—	—	(97,196)
Additions	45,842	—	—	—	45,842
Balance as at 31 December 2018	**45,842**	**—**	**—**	**—**	**45,842**
Other receivables and financial assets					
Balance as at 1 January 2018	**1,059**	**115**	**—**	**—**	**1,174**
Collected	(609)	—	—	—	(609)
Additions	948	—	—	—	948
Balance as at 31 December 2018	**1,398**	**115**	**—**	**—**	**1,513**

* ECL – expected credit loss

In stage 2 of ECL model the Company included no financial assets in 2019 (2018).

3.1.5 IMPAIRMENT OF FINANCIAL ASSETS

Allowances for trade receivables

(CZK million)	Lifetime ECL* based on provision matrix	Lifetime ECL* – individually impaired	Total
Allowances for trade receivables			
Balance as at 1 January 2019	**(208)**	**(163)**	**(371)**
Additions	(193)	(399)	(592)
Reversals	204	58	262
Balance as at 31 December 2019	**(197)**	**(504)**	**(701)**

* ECL – expected credit loss

(CZK million)	Lifetime ECL* based on provision matrix	Lifetime ECL* – individually impaired	Total
Allowances for trade receivables			
Balance as at 1 January 2018	**(150)**	**(184)**	**(334)**
Additions	(127)	(6)	(133)
Reversals	69	27	96
Balance as at 31 December 2018	**(208)**	**(163)**	**(371)**

* ECL – expected credit loss

Impairment matrix for trade receivables

		Months past due			
(CZK million)	Not due	Less than 1 month	1–3 months	More than 3 months	Total
Balance as at 31 December 2019					
Expected loss rate (%)	0.95	2.00	2.50	3.00	—
Gross carrying amount	18,018	478	191	381	19,068
Loss allowance provision	**(171)**	**(10)**	**(5)**	**(11)**	**(197)**

		Months past due			
(CZK million)	Not due	Less than 1 month	1–3 months	More than 3 months	Total
Balance as at 31 December 2018					
Expected loss rate (%)	1.00	1.50	2.50	4.00	—
Gross carrying amount	17,190	820	577	259	18,846
Loss allowance provision	**(172)**	**(12)**	**(14)**	**(10)**	**(208)**

Allowances for lifetime expected credit loss for other receivables and financial assets were CZK 3 million in stage 1 (as at 31 December 2018: CZK 6 million) and CZK 111 million in stage 3 (as at 31 December 2018: CZK 115 million).

During the accounting period 2019 (2018) the Company had valuation allowances only on financial assets included in the category of financial assets at amortised cost.

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 realised credit loss 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 75 million in 2019 (in 2018: CZK 75 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 transfer of the assets was CZK 98 million in 2019 (in 2018: CZK 61 million). This loss concerns the obligation to compensate for realised credit loss incurred by ŠkoFIN s.r.o.

3.1.7 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Balance as at 31 December 2019 (CZK million)	**Gross amount of financial assets / liabilities recognised in the balance sheet**	**Gross amount of financial assets / liabilities set off in the balance sheet**	**Net amount of financial assets / liabilities recognised in the balance sheet**	**Related amount not set off in the balance sheet***	**Net amount of financial assets / liabilities****
Receivables from financial derivatives	1,234	—	1,234	(990)	244
Liabilities from financial derivatives	2,509	—	2,509	(990)	1,519

Balance as at 31 December 2018 (CZK million)	**Gross amount of financial assets / liabilities recognised in the balance sheet**	**Gross amount of financial assets / liabilities set off in the balance sheet**	**Net amount of financial assets / liabilities recognised in the balance sheet**	**Related amount not set off in the balance sheet***	**Net amount of financial assets / liabilities****
Receivables from financial derivatives	4,042	—	4,042	(667)	3,375
Liabilities from financial derivatives	751	—	751	(667)	84

* 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 recognised on a net basis in the statement of financial position.

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

As at 31 December 2019 (as at 31 December 2018) 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.

There was no collateral held or given in respect of derivative financial assets / liabilities as at 31 December 2019 (as at 31 December 2018). The total amount of collateral value of trade receivables was CZK 3,240 million as at 31 December 2019 (as at 31 December 2018: CZK 4,955 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 member of the Board of Management for Finance and IT (CFO), representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the information about development of liquidity and its structure. The Company's management is also presented with the short-term forecasts of the liquidity development.

Cash management

The Company is integrated into the "Global Treasury Platform" of VOLKSWAGEN Group (GTP) which is operated by Volkswagen International Belgium SA (VIB), the Regional Treasury Center, 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.

In the GTP, the outgoing payments are processed on behalf of the Company by VIB, based on payment orders placed by the Company and are transferred from a bank accounts held by VIB. The incoming payments are credited to Company's bank accounts and subsequently at the end of each working day they are automatically transferred to VIB's bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VIB. All incoming payments are credited to the Company's bank accounts at the "Inhouse Bank" (IHC) operated by VIB, 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 and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured through resources from other VOLKSWAGEN Group companies integrated into the GTP.

The Company has not drawn any credit line from the VOLKSWAGEN Group as at 31 December 2019 (as at 31 December 2018).

The Company has not drawn any credit line from the external banks as at 31 December 2019 (as at 31 December 2018).

Contractual maturity analysis

(CZK million)	Within 1 year	1–5 years	Total
Balance as at 31 December 2019			
Trade liabilities	(70,267)	—	(70,267)
Leasing liabilities	(1,768)	(534)	(2,302)
Derivatives with negative fair value:			
Currency forwards and swaps	(61,209)	(62,667)	(123,876)
Commodity swaps	(153)	(100)	(253)
Total	**(133,397)**	**(63,301)**	**(196,698)**

(CZK million)	Within 1 year	1–5 years	Total
Balance as at 31 December 2018			
Trade liabilities	(57,600)	—	(57,600)
Derivatives with negative fair value:			
Currency forwards and swaps	(17,741)	(8,157)	(25,898)
Commodity swaps	(214)	(83)	(297)
Total	**(75,555)**	**(8,240)**	**(83,795)**

For derivatives that are realised in brutto amounts (currency forwards and swaps), there are inflows against the outflows but these inflows are not reflected in this maturity analysis.

3.3 MARKET RISK

Market risk is a risk that the fair value of future cash flows 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 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 member of the Board of Management for Finance and IT (CFO), representatives of the Treasury, Controlling and Accounting. Inputs for meetings and decision making are discussed with VOLKSWAGEN Group Treasury, especially such that concerns FX hedging and commodity risks. 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 VOLKSWAGEN Group Treasury. The risk resulting from changes in exchange rates against CZK is hedged for a total of 14 currencies. The most important trading currencies are EUR, GBP, PLN, CHF and USD. 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 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 bank's interest rates in the countries 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 and factoring transactions with receivables.

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 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 reduce 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 price risk commodities include primarily aluminium, copper, palladium, lead, platinum and rhodium. Those risks are mitigated 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) using commodity swaps (for copper, lead and aluminium) and currency forwards. The sensitivity analysis to changes in other price risks is disclosed in Note 3.4.3.

3.3.4 DERIVATIVE FINANCIAL INSTRUMENTS

Nominal and fair value of derivatives

	Nominal value of derivatives		Fair value of derivatives			
	Balance as at 31 December 2019	Balance as at 31 December 2018	Balance as at 31 December 2019		Balance as at 31 December 2018	
(CZK million)	With positive and negative fair value	With positive and negative fair value	Positive	Negative	Positive	Negative
Currency instruments						
Currency forwards and swaps for trading	10,451	6,708	115	223	181	166
Currency forwards and swaps – cash flow hedging	162,846	117,113	990	2,034	3,838	287
Commodity instruments						
Commodity swaps for trading	6,867	3,432	129	252	23	298
Total	**180,164**	**127,253**	**1,234**	**2,509**	**4,042**	**751**

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.

Nominal amount of derivatives in detail per currencies

Balance as at 31 December 2019	Due date		
(CZK million)	Within 1 year	1–5 years	Total
Currency instruments			
Currency forwards and swaps – cash flow hedging			
EUR	25,626	—	25,626
AUD	1,446	1,733	3,179
GBP	19,458	30,117	49,575
CHF	8,046	11,354	19,400
JPY	719	140	859
NOK	1,977	2,889	4,866
PLN	17,425	21,594	39,019
RUB	1,409	—	1,409
SEK	4,838	9,325	14,163
TWD	1,760	2,642	4,402
USD	348	—	348
Total	**83,052**	**79,794**	**162,846**

Balance as at 31 December 2018 (CZK million)	**Due date**		
	Within 1 year	**1–5 years**	**Total**
Currency instruments			
Currency forwards and swaps – cash flow hedging			
EUR	5,767	—	5,767
AUD	2,296	806	3,102
GBP	19,707	20,633	40,340
CHF	8,211	10,178	18,389
JPY	747	540	1,287
NOK	6,680	5,315	11,995
PLN	9,471	2,373	11,844
RUB	2,916	—	2,916
SEK	5,854	10,493	16,347
TWD	1,818	2,358	4,176
USD	—	950	950
Total	**63,467**	**53,646**	**117,113**

Volume of hedged cash flows

Balance as at 31 December 2019 (CZK million)	**Volume of hedged cash flows**		
	Within 1 year	**1–5 years**	**Total**
Currency risk exposure			
Hedging of cash flows – future revenues	56,706	79,654	136,360
Hedging of cash flows – future purchases	(26,345)	(140)	(26,485)
Total	**30,361**	**79,514**	**109,875**

Balance as at 31 December 2018 (CZK million)	**Volume of hedged cash flows**		
	Within 1 year	**1–5 years**	**Total**
Currency risk exposure			
Hedging of cash flows – future revenues	55,220	51,163	106,383
Hedging of cash flows – future purchases	(10,779)	(312)	(11,091)
Total	**44,441**	**50,851**	**95,292**

For additional information on hedging of currency risk exposure refer to Note 2.5.3 and for information about movement in reserve for cash flow hedges refer to Note 12.1.

3.4 SENSITIVITY ANALYSIS

3.4.1 SENSITIVITY TO EXCHANGE RATES

The Company is exposed to the foreign currency risk arising mainly from transactions denominated in foreign currencies (especially EUR, GBP, CHF, SEK and PLN) and with transaction with business partners 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. The sensitivity analysis is based on assumed possible exchange rate movements. As at 31 December 2019 the Company considers as reasonably possible the movements of exchange rates EUR, USD, CHF, GBP, SEK and PLN against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK). As at 31 December 2018 the Company considered as the reasonably possible movements of exchange rates EUR, USD, CHF GBP, RUB and PLN against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK).

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

2019 (CZK million)	CZK appreciation by 10% EUR	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	1,989	(19)	(6)	5	1	36	(336)
Derivative financial instruments	—	(690)	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	(2,566)	34	1,951	4,879	1,405	3,790	1,274

2019 (CZK million)	CZK depreciation by 10% EUR	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	(1,989)	19	6	(5)	(1)	(36)	336
Derivative financial instruments	—	690	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	2,566	(34)	(1,951)	(4,879)	(1,405)	(3,790)	(1,274)

2018 (CZK million)	CZK appreciation by 10% EUR	USD	CHF	GBP	RUB	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	1,144	(36)	(3)	(29)	(206)	(20)	(16)
Derivative financial instruments	—	28	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	(1,009)	53	1,808	4,945	259	1,231	2,073

2018 (CZK million)	CZK depreciation by 10% EUR	USD	CHF	GBP	RUB	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	(1,144)	36	3	29	206	20	16
Derivative financial instruments	—	(28)	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	1,009	(53)	(1,808)	(4,945)	(259)	(1,231)	(2,073)

3.4.2 SENSITIVITY TO INTEREST RATES

The Company is exposed to interest risk mainly in relation to current 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 current 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 100 basis points of the yield curve in 2019 (2018: +100/ -100 basis points). Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered in 2019 (2018). If the calculated interest rates for the sensitivity analysis are negative, the interest rate 0% is used for calculation. Profit of 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 before tax of expected increase or decrease of interest rates:

2019 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 100 basis points**
Profit before tax		
Non-derivative financial instruments	438	(429)
Other comprehensive income before tax		
Derivative financial instruments	12	(12)

2018 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 100 basis points**
Profit before tax		
Non-derivative financial instruments	445	(214)
Other comprehensive income before tax		
Derivative financial instruments	(30)	30

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 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 2019 the Company assumes reasonably possible movements in prices of particular commodities in the following period of +/-10% (2018: +/-10%).

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 before tax of expected increase or decrease of copper, aluminium and lead prices:

2019 (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	430	(430)	232	(232)	41	(41)

2018 (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	119	(119)	189	(189)	—	—

3.5 CAPITAL MANAGEMENT

The Company's capital is controlled at the VOLKSWAGEN Group level. The objective of the capital management is to maintain the continuous Company's value growth for the shareholders. Management of the Company defines the capital as the equity presented in these financial statements.

4. 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 2019	**29,571**	**13,432**	**16,626**	**59,629**
Additions	6,033	5,403	3,343	14,779
Disposals	—	—	(14)	(14)
Transfers	9,008	(9,008)	—	—
Balance as at 31 December 2019	**44,612**	**9,827**	**19,955**	**74,394**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2019	**(18,279)**	**(76)**	**(10,685)**	**(29,040)**
Amortisation	(5,025)	—	(2,603)	(7,628)
Reversal of impairment losses	893	76	713	1,682
Disposals	—	—	14	14
Balance as at 31 December 2019	**(22,411)**	**—**	**(12,561)**	**(34,972)**
Carrying amount as at 31 December 2019	**22,201**	**9,827**	**7,394**	**39,422**

(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 2018	**32,193**	**7,452**	**14,470**	**54,115**
Additions	485	7,843	2,848	11,176
Disposals	(4,970)	—	(692)	(5,662)
Transfers	1,863	(1,863)	—	—
Balance as at 31 December 2018	**29,571**	**13,432**	**16,626**	**59,629**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2018	**(19,937)**	**(1,087)**	**(9,594)**	**(30,618)**
Amortisation	(3,306)	—	(1,541)	(4,847)
Impairment losses	—	(76)	(419)	(495)
Reversal of impairment losses	—	1,081	178	1,259
Disposals	4,970	—	691	5,661
Transfers	(6)	6	—	—
Balance as at 31 December 2018	**(18,279)**	**(76)**	**(10,685)**	**(29,040)**
Carrying amount as at 31 December 2018	**11,292**	**13,356**	**5,941**	**30,589**

Category Other intangible assets includes mainly tooling rights, software and licences.

Amortisation and impairment losses of intangible assets of CZK 7,397 million (2018: CZK 5,216 million) are included in the cost of sales, CZK 139 million (CZK 2018: 55 million) in distribution expenses, and CZK 92 million (2018: CZK 71 million) in administrative expenses.

IMPAIRMENT REVIEWS

Impairment reviews in 2019

With respect to significant changes in economic and legal environment of entities operating in automotive industry, the Company's management reassessed the definition of a cash-generating unit (CGU) for car production in 2019, which has led to a change in the level of the cash-generating unit (see Note 1.4). Due to the changes in definition of CGU (automotive-related business of the Company) the Company performed impairment review of assets relating to this newly defined cash-generating unit in 2019. The comparison of the carrying amount with the relevant recoverable amount for the redefined cash-generating unit resulted in a reversal of impairment loss of CZK 1,682 million allocated to intangible assets, which has been posted to the income statement (within the line Cost of sales) for the year ended 31 December 2019. The recoverable amount of the cash-generating unit has been determined based on the calculation of the value in use applying cash flow projections of the cash-generating unit reflecting financial plans approved by the Company's management for the following 5 years and growth rate used to estimate cash flow after the end of the planning period (1.0%). For discounting cash flows, the WACC (5.7%) has been applied in 2019, reflecting the specific risks associated with the sector in which the Company operates.

Impairment reviews in 2018

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 2018 a decrease in the planned cash inflows relating to five cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. Due to substantial changes in the market environment, the Company has experienced in 2018 an increase in the planned cash inflows relating to one cash-generating unit (production of cars of a certain model). Impairment review of assets relating to this cash-generating unit has 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 of the cash-generating unit applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans approved by the Company's management for following 5 years.

For discounting cash flows, the pre-tax discount rate of 5.5% has been applied in 2018, reflecting the specific risks associated with the sector in which the Company operates. The comparison of the carrying amounts with the relevant recoverable amounts for five cash-generating units resulted in impairment loss of CZK 495 million allocated to intangible assets, which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2018. The comparison of the carrying amount with the relevant recoverable amount for the one cash-generating unit resulted in a reversal of impairment loss of CZK 1,259 million allocated to intangible assets, which has been posted to the income statement (within line Other operating income) for the year ended 31 December 2018.

CAPITALISATION OF BORROWING COSTS

No borrowing costs have been capitalised in the cost of intangible assets in 2019 or 2018 as they were not material.

THE FOLLOWING AMOUNTS WERE RECOGNISED IN THE INCOME STATEMENT AS RESEARCH AND DEVELOPMENT EXPENSES

(CZK million)	2019	2018
Research and development costs expensed	13,808	14,186
Amortisation and impairment losses of development costs	5,025	3,382
Research and development costs recognised in profit or loss	**18,833**	**17,568**

5. PROPERTY, PLANT AND EQUIPMENT

(CZK million)	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Leases	Advances paid and assets under construction*	Total
Costs						
Original balances at 1 January 2019	**46,343**	**85,301**	**82,244**	**—**	**18,969**	**232,857**
Effect of adoption of IFRS 16	—	—	—	886	—	886
Balance as at 1 January 2019	**46,343**	**85,301**	**82,244**	**886**	**18,969**	**233,743**
Additions	976	6,164	9,538	1,688	10,396	28,762
Disposals	(95)	(2,121)	(1,494)	(35)	—	(3,745)
Transfers	2,537	6,276	5,633	—	(14,446)	—
Balance as at 31 December 2019	**49,761**	**95,620**	**95,921**	**2,539**	**14,919**	**258,760**
Accumulated depreciationand impairment losses						
Balance as at 1 January 2019	**(22,293)**	**(68,223)**	**(69,484)**	**—**	**(90)**	**(160,090)**
Depreciation	(1,799)	(6,520)	(6,962)	(476)	—	(15,757)
Reversal of impairment losses	—	—	671	—	90	761
Disposals	95	2,072	1,462	13	—	3,642
Balance as at 31 December 2019	**(23,997)**	**(72,671)**	**(74,313)**	**(463)**	**—**	**(171,444)**
Carrying amount as at 31 December 2019	**25,764**	**22,949**	**21,608**	**2,076**	**14,919**	**87,316**

(CZK million)	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Leases	Advances paid and assets under construction*	Total
Costs						
Balance as at 1 January 2018	**43,513**	**86,893**	**79,026**	**—**	**12,273**	**221,705**
Additions	985	3,223	4,564	—	10,954	19,726
Disposals	(61)	(7,167)	(1,346)	—	—	(8,574)
Transfers	1,906	2,352	—	—	(4,258)	—
Balance as at 31 December 2018	**46,343**	**85,301**	**82,244**	**—**	**18,969**	**232,857**
Accumulated depreciation and impairment losses						
Balance as at 1 January 2018	**(20,760)**	**(69,042)**	**(65,132)**	**—**	**(711)**	**(155,645)**
Depreciation	(1,575)	(6,318)	(5,047)	—	—	(12,940)
Impairment losses	—	—	(156)	—	(90)	(246)
Reversal of impairment losses	—	—	—	—	249	249
Disposals	42	7,137	1,313	—	—	8,492
Transfers	—	—	(462)	—	462	—
Balance as at 31 December 2018	**(22,293)**	**(68,223)**	**(69,484)**	**—**	**(90)**	**(160,090)**
Carrying amount as at 31 December 2018	**24,050**	**17,078**	**12,760**	**—**	**18,879**	**72,767**

* As at 31 December 2019 advances paid amount to CZK 2,793 million (as at 31 December 2018: CZK 1,325 million) from the total amount of Advances paid and assets under construction.

Right-of-use assets (by class of assets)

(CZK million)	Land and buildings	Tooling, office and other equipment	Total
Costs			
Balance as at 1 January 2019, the date of adoption of IFRS 16	**542**	**344**	**886**
Additions	1,019	669	1,688
Disposals	—	(35)	(35)
Balance as at 31 December 2019	**1,561**	**978**	**2,539**
Accumulated depreciation and impairment losses			
Balance as at 1 January 2019	**—**	**—**	**—**
Depreciation	(256)	(220)	(476)
Disposals	—	13	13
Balance as at 31 December 2019	**(256)**	**(207)**	**(463)**
Carrying amount as at 31 December 2019	**1,305**	**771**	**2,076**

IMPAIRMENT REVIEWS

Impairment reviews in 2019

With respect to significant changes in economic and legal environment of entities operating in automotive industry, the Company's management reassessed the definition of a cash-generating unit (CGU) for car production in 2019, which has led to a change in the level of the cash-generating unit (see Note 1.4). Due to the changes in definition of CGU (automotive-related business of the Company) the Company performed impairment review of assets relating to this newly defined cash-generating unit in 2019. The comparison of the carrying amount with the relevant recoverable amount for the redefined cash-generating unit resulted in a reversal of impairment loss of CZK 761 million allocated to tangible fixed assets, which has been posted to the income statement (within the line Cost of sales) for the year ended 31 December 2019. The recoverable amount of the cash-generating unit has been determined based on the calculation of the value in use of the assets applying cash flow projections of the cash-generating unit reflecting financial plans approved by the Company's management for the following 5 years and growth rate used to estimate cash flow after the end of the planning period (1.0%). For discounting cash flows, the WACC (5.7%) has been applied in 2019, reflecting the specific risks associated with the sector in which the Company operates.

Impairment reviews in 2018

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 2018 a decrease in the planned cash inflows relating to two cash-generating units (production of cars of certain model). Impairment reviews of assets relating to those cash-generating units have been performed. Due to substantial changes in the market environment, the Company has experienced in 2018 an increase in the planned cash inflows relating to one cash-generating unit (production of cars of a certain model). Impairment review of assets relating to this cash-generating unit has 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 of the assets applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans approved by the Company's management for following 5 years.

For discounting cash flows, the pre-tax discount rate of 5.5% has been applied in 2018, reflecting the specific risks associated with the sector in which the Company operates. For two cash-generating units, 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 246 million, which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2018. For the one cash-generating unit, the comparison of the carrying amount with the relevant recoverable amount resulted in a reversal of impairment loss allocated to tangible assets in the amount of CZK 249 million, which has been posted to the income statement (within line Other operating income) for the year ended 31 December 2018.

CAPITALISATION OF BORROWING COSTS

No borrowing costs have been capitalised in the cost of property, plant and equipment in 2019 or in 2018 as they were not material.

6. INVESTMENTS IN SUBSIDIARIES

		Shareholding %	
Subsidiaries	**Country of incorporation**	**2019**	**2018**
ŠKODA AUTO Slovensko s.r.o.	Slovakia	100	100
SKODA AUTO India Private Ltd.	India	—	100
ŠKODA AUTO DigiLab s.r.o.	Czech Republic	100	100
UMI Urban Mobility International Česká republika s.r.o.	Czech Republic	100	—
Smart City Lab s.r.o.	Czech Republic	100	—

The subsidiaries in which the Company holds an equity interest paid dividends to the Company in the total amount of CZK 65 million in 2019 (2018: CZK 62 million).

With effect from 5 October 2019, the subsidiary SKODA AUTO India Private Ltd. ceased to exist as a result of a merger of three VOLKSWAGEN Group companies and the Company became a shareholder of the successor company SKODA AUTO Volkswagen India Private Ltd., which is an associated company (see Note 7 and 25).

With effect from 11 December 2019, the Company established UMI Urban Mobility International Česká republika s.r.o. Further, the Company provided the newly established company with a contribution outside the registered capital in the total amount of CZK 217 million in 2019 (see Note 25).

With effect from 13 December 2019, the Company acquired a 100% stake in Smart City Lab s.r.o. In the same year, the Company provided the newly acquired company with a contribution outside the registered capital contribution totalling CZK 153 million (see Note 25).

The Company increased equity of its subsidiary ŠKODA AUTO DigiLab s.r.o. through other capital contributions in total amount of CZK 69 million in 2019 (see Note 25).

7. INVESTMENTS IN ASSOCIATES

The Company's share in the registered capital of the company OOO Volkswagen Group Rus as at 31 December 2019 was 16.8% (31 December 2018: 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 2019 (as at 31 December 2018: CZK 1,823 million). The recoverable amount of the associate is significantly higher than its carrying amount as at 31 December 2019 (as at 31 December 2018).

The Company's share in the registered capital of the company ŠKO-ENERGO-FIN, s.r.o. as at 31 December 2019 was 31.25% (as at 31 December 2018: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2019 (as at 31 December 2018: CZK 529 million). ŠKO-ENERGO-FIN, s.r.o. paid dividends to the Company in the amount of CZK 99 million (2018: CZK 152 million).

The Company's share in the registered capital of the company ŠKO-ENERGO s.r.o. as at 31 December 2019 was 44.5% (as at 31 December 2018: 44.5%). The carrying amount of the Company's share totalled CZK 4 million as at 31 December 2019 (as at 31 December 2018: CZK 4 million). ŠKO-ENERGO s.r.o. paid dividends to the Company in the amount of CZK 1 million (2018: CZK 1 million).

The Company's share in the registered capital of the company Digiteq Automotive s.r.o. as at 31 December 2019 was 49% (as at 31 December 2018: 49%). The carrying amount of the Company's share totalled CZK 98 thousand as at 31 December 2019 (as at 31 December 2018: CZK 98 thousand). Digiteq Automotive s.r.o. paid dividends to the Company in the amount of CZK 49 million (2018: CZK 18 million).

With effect from 5 October 2019, the Company became a shareholder of SKODA AUTO Volkswagen India Private Ltd. (see Note 25). The share of the Company on registered capital of SKODA AUTO Volkswagen India Private Ltd. was 8.13% as at 31 December 2019. The Company has significant influence over SKODA AUTO Volkswagen India Private Ltd. based on 26.46% voting rights held as at 31 December 2019. While the Company's share in the share capital is based on the proportion of the Company's shares in all shares issued by SKODA AUTO Volkswagen India Private Ltd., its share in voting rights are based on the ratio of the Company's shares held to all voting shares.

8. OTHER RECEIVABLES, FINANCIAL ASSETS, TRADE RECEIVABLES AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

8.1 OTHER RECEIVABLES AND FINANCIAL ASSETS

Balance as at 31 December 2019 (CZK million)	**Financial assets at fair value through profit or loss**	**Financial assets at amortised cost**	**Financial assets at fair value through other comprehensive income**	**Financial instruments designated as hedging instruments**	**Total**
Other non-current receivables and financial assets					
Loans to employees	—	429	—	—	429
Positive fair value of financial derivatives	23	—	—	546	569
Investments in equity instruments	—	—	8,475	—	8,475
Other non-current receivables and financial assets in total	**23**	**429**	**8,475**	**546**	**9,473**
Other current receivables and financial assets					
Loans to employees	—	56	—	—	56
Positive fair value of financial derivatives	(14)	—	—	679	665
Other	—	110	—	—	110
Other current receivables and financial assets in total	**(14)**	**166**	**—**	**679**	**831**
Total	**9**	**595**	**8,475**	**1,225**	**10,304**

Balance as at 31 December 2018 (CZK million)	**Financial assets at fair value through profit or loss**	**Financial assets at amortised cost**	**Financial assets at fair value through other comprehensive income**	**Financial instruments designated as hedging instruments**	**Total**
Other non-current receivables and financial assets					
Loans to employees	—	445	—	—	445
Positive fair value of financial derivatives	(179)	—	—	1,299	1,120
Investments in equity instruments	—	—	9,904	—	9,904
Other non-current receivables and financial assets in total	**(179)**	**445**	**9,904**	**1,299**	**11,469**
Other current receivables and financial assets					
Loans to employees	—	57	—	—	57
Positive fair value of financial derivatives	(387)	—	—	3,309	2,922
Other	—	890	—	—	890
Other current receivables and financial assets in total	**(387)**	**947**	**—**	**3,309**	**3,869**
Total	**(566)**	**1,392**	**9,904**	**4,608**	**15,338**

There are not any significant restrictions regarding the rights of use imposed on financial assets. Potential risks of delay or default are taken into account through accumulated impairment losses except for those financial assets that are carried at fair value.

In 2019 (2018), a forward component of hedging derivatives fixed as at 31 December 2017 is recognised in retained earnings and is disclosed in the portfolio Financial assets at fair value through profit or loss and fair value of derivatives held for trading see Note 3.3.4.

Loans to employees and other financial assets are disclosed in the portfolio Financial assets at amortised cost. The carrying value of the loans to employees approximates their fair value. The fair value of the loans to employees was determined as the present value of future cash flows based on market interest rates at the balance sheet date. The fair value of loans to employees qualifies for Level 3 in accordance with IFRS 13.

In 2019 (2018), in the column Financial derivatives designated as hedging instruments there is the spot component and change in the forward component from 1 January 2019 (2018) to 31 December 2019 (2018) relating to the derivatives for currency risk hedging. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

Under the “Financial assets at fair value through other comprehensive income”, investments in the equity instruments of other entities are recognised.

Within these equity instruments, the Company holds 1% share in the company SAIC VOLKSWAGEN AUTOMOTIVE COMPANY LIMITED (hereinafter referred to as SAIC), which is related party (as a joint venture of VOLKSWAGEN Group and a third party). The Company plans to hold this investment for the foreseeable future and does not consider its sale, therefore, the Company opted that the relating realised and unrealised gains and losses would be recognised in other comprehensive income.

The fair value of the investment amounted to CZK 8,475 million as at 31 December 2019 (as at 31 December 2018: CZK 9,904 million). The fair value of the investment to SAIC was determined as the present value of future free cash flows (FCF) based on discount rate derived from weighted average cost of capital of SAIC (WACC). The fair value of the investment qualifies for Level 3 in accordance with IFRS 13.

As significant unobservable inputs, the assumptions regarding corporate planning (for example operating cash flows), the growth rates used to estimate cash flow after the end of the planning period, and the discount rate are taken into account when determining the fair value. In 2019 (2018) FCF have been extrapolated with a growth rate of 1.0% (1.0%). For discounting free cash flows, the WACC of 10.9% (10.3%) has been applied in 2019 (2018).

The following tables show the change of investments in equity instruments measured at fair value in Level 3:

(CZK million)

Balance as at 1 January 2019	**9,904**
Total change in fair value in the period	(1,429)
Balance as at 31 December 2019	**8,475**

(CZK million)

Balance as at 1 January 2018	**8,602**
Total change in fair value in the period	1,302
Balance as at 31 December 2018	**9,904**

The effect of the fair value measurement of the investment was recognised in other comprehensive income.

SENSITIVITY OF THE FAIR VALUE OF THE INVESTMENT TO THE CHANGE IN THE LONG-TERM GROWTH RATE

In 2019, the Company expects as reasonably possible the movement of long-term growth rate in the following period of +/- 0.5 percentage point (2018: +/- 0.5 percentage point).

The following tables present an impact on the balance sheet items at the expected increase or decrease in the long-term growth rate:

2019 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	292	(264)
Increase / (decrease) of the other comprehensive income before tax	292	(264)

2018 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	319	(287)
Increase / (decrease) of the other comprehensive income before tax	319	(287)

SENSITIVITY OF THE FAIR VALUE OF THE INVESTMENT TO THE CHANGE IN WACC

In 2019, the Company expects as reasonably possible the movement of WACC in the following period of +/- 0.5 percentage point (2018: +/- 0.5 percentage point).

The following tables present an impact on the balance sheet items at the expected increase or decrease of the WACC:

2019 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	(452)	501
Increase / (decrease) of the other comprehensive income before tax	(452)	501

2018 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	(480)	535
Increase / (decrease) of the other comprehensive income before tax	(480)	535

There are no significant interrelationships between significant unobservable inputs.

8.2 TRADE RECEIVABLES

Balance as at 31 December 2019 (CZK million)	**Financial assets at amortised cost**	**Financial assets at fair value through profit or loss**	**Total**
Trade receivables			
Third parties	2,023	—	2,023
Subsidiaries	671	—	671
Other related parties	16,739	2,253	18,992
Total	**19,433**	**2,253**	**21,686**

Balance as at 31 December 2018 (CZK million)	**Financial assets at amortised cost**	**Financial assets at fair value through profit or loss**	**Total**
Trade receivables			
Third parties	2,724	214	2,938
Subsidiaries	1,150	—	1,150
Other related parties	14,764	3,762	18,526
Total	**18,638**	**3,976**	**22,614**

Only trade receivable held to sell through factoring are disclosed in the portfolio Financial assets at fair value through profit or loss. The fair value of these receivables was determined as the present value of future cash flows based on market interest rates at the balance sheet date. The fair value of trade receivables held to sell through factoring qualifies for Level 2 in accordance with IFRS 13.

Other trade receivables held in order to collect contractual cash flows are disclosed in the portfolio Financial assets at amortised cost. Due to their current nature the carrying amount of these receivables after a deduction of allowance for impairment (if any) approximates their fair value. Allowances for trade receivables in amount of CZK 701 million (2018: CZK 371 million) are already included in these amounts.

8.3 NON-FINANCIAL ASSETS

(CZK million)	2019	2018
Current non-financial assets		
Tax receivables (excl. income tax)	6,025	4,758
Other	953	1,369
Total	**6,978**	**6,127**

The line "Other" includes in particular receivables from employees, advances paid and other receivables which do not meet the definition of a financial instrument.

9. INVENTORIES

(CZK million)	Carrying value as at 31 December 2019	Carrying value as at 31 December 2018
Structure of the inventories		
Raw materials, consumables and supplies	6,960	6,732
Work in progress	3,725	5,544
Finished products and goods	14,148	7,944
Hedges on inventories	30	(9)
Total	**24,863**	**20,211**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2019 was CZK 392,733 million (2018: CZK 355,321 million).

10. CASH AND CASH EQUIVALENTS

(CZK million)	2019	2018
Cash in hand	2	3
Cash pooling	8,250	4,342
Bank accounts	1	1
Cash equivalents	37,500	41,500
Total	**45,753**	**45,846**

The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2019 was 0.58% (as at 31 December 2018: 0.41%).

The line Cash pooling includes overnight deposits from the use of cash pooling (see Note 3.2). The line Cash equivalents includes other current deposits in VOLKSWAGEN Group companies with original maturity less than three months. These deposits including cash pooling deposits are included in portfolio Financial assets at amortised cost in accordance with IFRS 9.

The weighted average effective interest rate on current cash equivalents including cash pooling based on the carrying amount as of 31 December 2019 was 1.29% (31 December 2018: 0.47%). The carrying amount of cash equivalents including cash pooling approximates their fair value. Out of the total value of cash equivalents including cash pooling was denominated in CZK: CZK 42,980 million (31 December 2018: CZK 43,816 million) and in EUR: CZK 2,770 million (31 December 2018: CZK 2,026 million).

11. SHARE CAPITAL

The issued share capital consists of 1,670,885 ordinary shares at a par value of CZK 10,000 per share.

The sole shareholder of the Company is VOLKSWAGEN FINANCE LUXEMBURG S.A. based in Strassen, Grand Duchy of Luxembourg. 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.

The shareholder has the right for a share on liquidation balance upon a cancellation of the Company with liquidation. The liquidation balance is distributed among shareholders based on the ratio of the nominal value of their shares. The shareholder has the right for a share on profit (a dividend) which has been approved for distribution at the general meeting based on results of operations and in line with the respective stipulations of the Business Corporations Act. The shareholders do not have any right to claim their contribution back during the Company's existence even in case of its cancellation.

There was no movement in the Company's share capital during the accounting period 2019 (2018).

In 2019, the Company paid dividend in the amount of CZK 28,890 million from profit for the year 2018 (2018: CZK 31,840 million).

The dividend per share was CZK 17,290 in 2019 (2018: CZK 19,056).

12. OTHER RESERVES AND RETAINED EARNINGS

12.1 OTHER RESERVES

(CZK million)	2019	2018
Revaluation reserve from equity instruments*	715	1,873
Reserves for cash flow hedges*	(619)	3,070
Statutory reserve fund	3,366	3,366
Total	**3,462**	**8,309**

* net of deferred tax

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 equity instruments revaluation reserve:

(CZK million)	
Balance as at 1 January 2019	**1,873**
Total change in fair value in the period	(1,429)
Deferred tax on change in fair value	271
Balance as at 31 December 2019	**715**

(CZK million)	
Balance as at 1 January 2018	**818**
Total change in fair value in the period	1,302
Deferred tax on change in fair value	(247)
Balance as at 31 December 2018	**1,873**

Movement in reserve for cash flow hedges – currency risk exposure in accordance:

(CZK million)	**Spot component designated for hedging**	**Term component designated for hedging**	**Total**
Balance as at 1 January 2019	**3,500**	**(430)**	**3,070**
Total change in fair value in the period	(2,079)	(858)	(2,937)
Deferred tax on change in fair value	394	163	557
Total transfers to net profit in the period – effective hedging	(2,571)	811	(1,760)
Total transfers to net profit in the period – hedge ineffectiveness	52	62	114
Deferred tax on transfers to profit or loss – effective hedging	489	(154)	335
Deferred tax on transfers to profit or loss – hedge ineffectiveness	(10)	(12)	(22)
Basis adjustments to inventories carrying value – effective hedge	16	14	30
Deferred tax on transfers to inventories	(3)	(3)	(6)
Balance as at 31 December 2019	**(212)**	**(407)**	**(619)**

(CZK million)	**Spot component designated for hedging**	**Term component designated for hedging**	**Total**
Balance as at 1 January 2018	**6,836**	**—**	**6,836**
Total change in fair value in the period	(278)	(108)	(386)
Deferred tax on change in fair value	53	20	73
Total transfers to net profit in the period – effective hedging	(3,831)	(423)	(4,254)
Deferred tax on transfers to profit or loss	728	80	808
Basis adjustments to inventories carrying value – effective hedge	(10)	1	(9)
Deferred tax on transfers to inventories	2	—	2
Balance as at 31 December 2018	**3,500**	**(430)**	**3,070**

Transfers to profit or loss for the period – effective hedging:

(CZK million)	2019	2018
Sales	(2,082)	(3,542)
Cost of sales	124	(93)
Other operating income	(61)	(723)
Other operating expense	254	104
Total transfers to profit or loss in the period – effective hedging	**(1,765)**	**(4,254)**

In addition, in 2019, CZK 30 million was transferred from the reserves for cash flow hedges to balance sheet in line Inventories (2018: CZK -9 million).

12.2 RETAINED EARNINGS

From the total amount of retained earnings of CZK 87,877 million (as at 31 December 2018: CZK 85,078 million) profit for the year 2019, net of tax, amounts to CZK 31,689 million (2018: CZK 28,892 million).

In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2019 (determined in accordance with IFRS) is going to be allocated based on the decision of the Company's annual general meeting. At the date of approval of these financial statements, no dividend payments have been proposed, and the distribution of the Company's result for the year ended 31 December 2019 has not been approved.

13. FINANCIAL, OTHER AND TRADE LIABILITIES

13.1 FINANCIAL LIABILITIES

Balance as at 31 December 2019 (CZK million)	**Financial liabilities at fair value through profit or loss**	**Financial liabilities carried at amortised cost**	**Financial instruments designated as hedging instruments**	**Total**
Financial non-current liabilities				
Negative fair value of financial derivatives	187	—	1,045	1,232
Leasing liabilities	—	1,632	—	1,632
Financial non-current liabilities in total	**187**	**1,632**	**1,045**	**2,864**
Financial current liabilities				
Negative fair value of financial derivatives	292	—	985	1,277
Leasing liabilities	—	475	—	475
Financial current liabilities in total	**292**	**475**	**985**	**1,752**
Total	**479**	**2,107**	**2,030**	**4,616**

Balance as at 31 December 2018 (CZK million)	**Financial liabilities at fair value through profit or loss**	**Financial liabilities carried at amortised cost**	**Financial instruments designated as hedging instruments**	**Total**
Financial non-current liabilities				
Negative fair value of financial derivatives	97	—	162	259
Financial current liabilities				
Negative fair value of financial derivatives	390	—	102	492
Total	**487**	**—**	**264**	**751**

In 2019 (2018), a forward component of hedging derivatives recognised in retained earnings as at 31 December 2017 and fair value of derivatives held for trading are disclosed in the portfolio Financial liabilities at fair value through profit or loss (see also Note 3.3.4).

In the column Financial liabilities carried at amortised cost are reported lease liabilities recognised during transition to IFRS 16 in 2019 (see Note 2.13).

In the column Financial derivatives designated as hedging instruments there is the spot component and change in the forward component from 1 January 2019 (2018) to 31 December 2019 (2018) relating to the derivatives for currency risk hedging. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

None of the financial liabilities are secured by a lien.

13.2 TRADE LIABILITIES

All trade liabilities are current in nature.

Balance as at 31 December 2019 (CZK million)	**Financial liabilities carried at amortised cost**
Third parties	45,008
Subsidiaries	227
Other related parties	25,032
Total	**70,267**

Balance as at 31 December 2018 (CZK million)	**Financial liabilities carried at amortised cost**
Third parties	38,987
Subsidiaries	57
Other related parties	18,556
Total	**57,600**

Liabilities to a factoring company within the VOLKSWAGEN Group in amount of CZK 3,432 million as at 31 December 2019 (as at 31 December 2018: CZK 2,513 million) are disclosed in line Trade liabilities to other related parties. These liabilities originated 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.

None of the trade liabilities are secured by a lien.

As part of trade liabilities there are refundable considerations from customer contracts recognised as at 31 December 2019 in amount of CZK 13,278 million (as at 31 December 2018: CZK 10,204 million) which represents expected future payments to customers for sale bonuses.

13.3 NON-FINANCIAL LIABILITIES

(CZK million)	**2019**	**2018**
Non-current non-financial liabilities		
Contract liabilities from considerations received	6,837	6,207
Non-current non-financial liabilities from customer contracts in total	**6,837**	**6,207**
Current non-financial liabilities		
Contract liabilities from considerations received	3,287	2,486
Advances received	3,834	706
Current non-financial liabilities from customer contracts in total	**7,121**	**3,192**
Liabilities to employees	7,336	5,653
Social security	753	683
Tax liabilities	2	14
Current non-financial liabilities in total	**15,212**	**9,542**
Total	**22,049**	**15,749**

In 2019 (2018), contract liabilities from considerations received include mainly consideration received from extended warranty and ŠKODA Connect services which will be rendered in future periods. Increase in non-financial liabilities is driven mainly by increase in advances received, liabilities to employees and contract liabilities arising from extended guarantees.

14. DEFERRED TAX LIABILITIES AND ASSETS

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 income taxes charged by the same fiscal authority.

The movements in deferred tax liabilities and assets during the year, without taking into consideration the offsetting, are as follows:

(CZK million)	Depreciation	Right-of-use assets	Financial derivatives*	Investment incentives	Equity instruments	Other**	Total
Deferred tax liabilities							
Balance as at 1 January 2018	**(3,786)**	**—**	**(1,603)**	**—**	**(192)**	**—**	**(5,581)**
Credited / (debited) to the income statement	(1,101)	—	(101)	—	—	—	(1,202)
Charged to other comprehensive income	—	—	883	—	(247)	—	636
Balance as at 31 December 2018	**(4,887)**	**—**	**(821)**	**—**	**(439)**	**—**	**(6,147)**
Credited / (debited) to the income statement	(1,206)	(394)	2	—	—		(1,598)
Charged to othe comprehensive income	—	—	662	—	271	—	933
Balance as at 31 December 2019	**(6,093)**	**(394)**	**(157)**	**—**	**(168)**	**—**	**(6,812)**

(CZK million)	Depreciation	Lease liabilities	Financial derivatives*	Investment incentives	Equity instruments	Other**	Total
Deferred tax assets							
Balance as at 1 January 2018	**—**	**—**	**—**	**707**	**—**	**6,707**	**7,414**
Credited / (debited) to the income statement	—	—	—	(707)	—	981	274
Charged to other comprehensive income	—	—	—	—	—	—	—
Balance as at 31 December 2018	**—**	**—**	**—**	**—**	**—**	**7,688**	**7,688**
Credited / (debited) to the income statement	—	400	3	—	—	882	1,285
Charged to other comprehensive income	—	—	202	—	—	—	202
Balance as at 31 December 2019	**—**	**400**	**205**	**—**	**—**	**8,570**	**9,175**

(CZK million)	Depreciation	Leases under IFRS 16	Financial derivatives*	Investment incentives	Equity instruments	Other**	Total
Deferred tax liabilities and assets net							
Balance as at 31 December 2018	(4,887)	—	(821)	—	(439)	7,688	1,541
Balance as at 31 December 2019	**(6,093)**	**6**	**48**	**—**	**(168)**	**8,570**	**2,363**

* Further information on financial derivatives is disclosed in Note 2.5.3.
** The category Other includes mainly provisions, valuation allowances and temporary differences from accrued liabilities.

15. NON-CURRENT AND CURRENT PROVISIONS

(CZK million)	Provisions for warranty claims	Provisions arising from sales	Provisions for employee benefits	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 Jan 2018	**19,737**	**710**	**2,786**	**2,781**	**2,463**	**4,781**	**33,258**
Utilised	(3,344)	(315)	(259)	(18)	(338)	(90)	(4,364)
Additions	5,152	42	158	187	1,767	373	7,679
Interest expense	(286)	—	—	—	—	—	(286)
Reversals	(909)	—	—	(181)	(1,101)	(552)	(2,743)
Balance as at 1 Jan 2019	**20,350**	**437**	**2,685**	**2,769**	**2,791**	**4,512**	**33,544**
Utilised	(3,001)	(3)	(444)	(451)	(730)	(339)	(4,968)
Additions	4,413	—	2,597	179	1,863	174	9,226
Interest expense	(4)	—	—	—	—	—	(4)
Reversals	(875)	(431)	(92)	(1,403)	(267)	(344)	(3,412)
Balance as at 31 Dec 2019	**20,883**	**3**	**4,746**	**1,094**	**3,657**	**4,003**	**34,386**

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

(CZK million)	< 1 year	1–5 years	> 5 years	Total
Balance as at 31 December 2019				
Provisions for warranty claims	9,665	8,376	2,842	20,883
Provisions arising from sales	3	—	—	3
Provisions for employee benefits	795	751	3,200	4,746
Provisions for litigation risks	1,094	—	—	1,094
Provisions for purchase risks	3,657	—	—	3,657
Other provisions	4,003	—	—	4,003
Total	**19,217**	**9,127**	**6,042**	**34,386**

(CZK million)	< 1 year	1–5 years	> 5 years	Total
Balance as at 31 December 2018				
Provisions for warranty claims	9,493	8,522	2,335	20,350
Provisions arising from sales	437	—	—	437
Provisions for employee benefits	422	676	1,587	2,685
Provisions for litigation risks	2,769	—	—	2,769
Provisions for purchase risks	2,791	—	—	2,791
Other provisions	4,512	—	—	4,512
Total	**20,424**	**9,198**	**3,922**	**33,544**

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 (except for extended 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. Following emissions irregularities discovered at VOLKSWAGEN AG, provisions for warranty repairs include also provision for service action and other expenditures related to technical measures for cars equipped with EA189 engines. The total balance of the provision related to EA189 issue amounted to CZK 1,712 million in 2019 (as at 31 December 2018: CZK 2,061 million). Expenditures which relate to potential claim settlement will be partly reimbursed to the Company and in connection with the fact stated above, amount receivable from VOLKSWAGEN AG of CZK 263 million was reported in other receivables as at 31 December 2019 (as at 31 December 2018: CZK 491 million).

Provisions arising from sales include provisions for other obligations arising from sales. The additions to provisions for other obligations arising from sales decrease revenues.

Provisions for employee benefits consist mainly of provision for other long-term employee benefits and provision for termination benefits.

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 material 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 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 (other than income taxes) and customs risks in countries where the Company operates.

16. SALES

(CZK million)	**2019**	**2018**
Cars	382,122	347,256
Spare parts and accessories	23,572	21,459
Supplies of components within VOLKSWAGEN Group	38,631	34,249
Income from licence fees	3,479	2,307
Revenues from services	5,370	3,338
Other	3,866	4,544
Revenue from contracts with customers in total	**457,040**	**413,153**
Gains from derivative transactions - hedging of future sales	2,082	3,542
Total	**459,122**	**416,695**

In 2019 (2018) line Other relates mainly to sales of used cars, scrap and tooling.

The item Gains from derivative transactions - hedges of receivables includes effect from settlement of currency-risk hedging financial instruments upon selling of foreign currencies.

Revenue from contracts with customers by geographical regions:

2019 (CZK million)	Cars	Spare parts and accessories	Supplies of components within VOLKSWAGEN Group	Income from licence fees	Revenues from services	Other	Total
Main geographical regions							
Central and Eastern Europe	97,614	9,702	17,080	1,667	1,419	2,165	129,647
Western Europe	258,995	13,247	13,592	512	3,410	1,262	291,018
Overseas/Asia	25,513	623	7,959	1,300	541	439	36,375
Total	**382,122**	**23,572**	**38,631**	**3,479**	**5,370**	**3,866**	**457,040**
Timing of revenue recognition							
At a point in time	382,122	23,572	38,631	3,479	3,255	3,866	454,925
Over time	—	—	—	—	2,115	—	2,115
Total	**382,122**	**23,572**	**38,631**	**3,479**	**5,370**	**3,866**	**457,040**

2018 (CZK million)	Cars	Spare parts and accessories	Supplies of components within VOLKSWAGEN Group	Income from licence fees	Revenues from services	Other	Total
Main geographical regions							
Central and Eastern Europe	87,140	8,964	13,286	366	1,106	2,510	113,372
Western Europe	231,270	11,769	12,984	350	1,974	1,883	260,230
Overseas/Asia	28,846	726	7,979	1,591	258	151	39,551
Total	**347,256**	**21,459**	**34,249**	**2,307**	**3,338**	**4,544**	**413,153**
Timing of revenue recognition							
At a point in time	347,256	21,459	34,249	2,307	1,583	4,544	411,398
Over time	—	—	—	—	1,755	—	1,755
Total	**347,256**	**21,459**	**34,249**	**2,307**	**3,338**	**4,544**	**413,153**

The following table shows how much revenue recognised in current accounting period relates to transferred contract liabilities and how much relates to the performance obligations satisfied in prior periods:

(CZK million)	2019	2018
Revenue classified as contract liabilities at the beginning of the period	**2,256**	**1,575**
of which:		
Extended warranty	875	885
Services	716	514
Licence fees	665	176
Revenue recognised from the performance obligations satisfied in prior periods	**298**	**584**

The amount of the transaction price which has not yet been recognised as revenue at 31 December 2019 in relation to extended warranty, licences and services for which the realisation timing is more than one year is disclosed in the following table:

(CZK million)	2020	2021–2024
Revenue arising from contract liability expected to be satisfied in the following periods		
Extended warranty	1,707	6,031
Services	828	661
Licence fees	487	145
Total revenue	**3,022**	**6,837**

Contract liabilities expected to be satisfied in the following periods are disclosed in Note 13.3 Non-financial liabilities in the line Contract liabilities from consideration received.

(CZK million)	2019	2020–2023
Revenue arising from contract liability expected to be satisfied in the following periods		
Extended warranty	928	5,203
Services	716	539
Licence fees	688	464
Total revenue	**2,332**	**6,206**

In addition to Revenue arising from contract liability expected to be satisfied in the following periods the Company had in 2019 (2018) contract liabilities for cars. The Company did not use any practical expedient for revenue disclosures and did not incur any costs to obtain contracts with customers.

17. OTHER OPERATING INCOME

(CZK million)	2019	2018
Other operating income from provided services	—	733
Income from licence fees not relating to the ordinary activities	255	203
Foreign exchange gains	3,546	2,786
Gains from derivative transactions	811	1,813
Gains on non-current assets disposal	37	33
Reversal of impairment losses	—	1,508
Reversal of provisions and accruals	2,003	49
Reversal of loss allowance provision for receivables	267	144
Other	1,224	1,421
Total	**8,143**	**8,690**

Other in 2019 (2018) includes mostly re-invoicing of expenses.

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 translation as at the balance sheet date of these receivables and payables. Foreign exchange losses from these items are included in other operating expenses.

18. OTHER OPERATING EXPENSES

(CZK million)	2019	2018
Foreign exchange losses	2,408	3,461
Losses from derivative transactions	1,359	1,398
Receivables write-offs	473	101
Additions to provisions for litigation risks and other provisions	353	560
Other	397	192
Total	**4,990**	**5,712**

19. FINANCIAL RESULT

(CZK million)	2019	2018
Interest income	635	180
Foreign exchange differences from cash	116	133
Foreign exchange differences from spot operations	60	93
Dividend income	1,143	1,099
Other financial income	5	288
Total financial income	**1,959**	**1,793**
Interest expense of lease liabilities	69	—
Other interest expense	277	230
Foreign exchange differences from cash	244	155
Foreign exchange differences from spot operations	63	84
Other financial expenses	28	33
Total financial expenses	**681**	**502**
Net financial result	**1,278**	**1,291**

Dividend income in 2019 includes mainly dividend income of CZK 929 million from the investment in SAIC (2018: CZK 866 million).

20. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

(CZK million)	**2019**	**2018**
Financial instruments at fair value through profit or loss	(517)	(434)
Financial assets at amortised cost	1,285	(17)
Financial assets at fair value through other comprehensive income	929	866
Financial liabilities carried at amortised cost	634	(333)
Financial instruments designated as hedging instruments	1,651	4,254
Net gains / (losses) in profit or loss	**3,982**	**4,336**
Financial instruments designated as hedging instruments	(4,553)	(4,648)
Financial assets at fair value through other comprehensive income	(1,429)	1,302
Net gains / (losses) in profit or loss through other comprehensive income	**(5,982)**	**(3,346)**
Total net gains / (losses)	**(2,000)**	**990**

In portfolio Financial instruments at fair value through profit or loss, there are gains and losses from financial derivatives held for trading in 2019 (2018).

Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, net gains and losses from derivative hedging instruments, foreign exchange gains/losses from bank deposits, impairment losses on financial assets and dividends income from equity instruments. For information on net gains and losses from financial instruments through other comprehensive income refer to Note 12.

21. INCOME TAX

(CZK million)	**2019**	**2018**
Current tax expense	**6,496**	**5,311**
of which: adjustment in respect of prior years	162	103
Deferred tax	**313**	**928**
Income tax total	**6,809**	**6,239**

Statutory income tax rate in the Czech Republic for the 2019 assessment period was 19% (2018: 19%).

As at 31 December 2019 and 31 December 2018, 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)	**2019**	**2018**
Profit before tax	38,498	35,131
Expected income tax expense	**7,315**	**6,675**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(276)	(144)
Expenses not deductible for tax purposes	238	358
Tax allowances and other tax credits*	(770)	(548)
Adjustment to current tax expense relating to prior periods	162	103
Other taxation effects	140	(205)
Income tax expense	**6,809**	**6,239**
Effective income tax rate	18%	18%

* Tax allowances and other tax credits represent mainly tax credits from double deduction of research and development costs.

22. SUBSIDIES AND INVESTMENT INCENTIVES

In 2019, the Company recognised income from subsidies for non-investment projects in research and development, increased qualifications of employees and mobility of students and teachers from high schools (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 79 million (2018: CZK 68 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.

The following table summarises granted investment incentives and their use in 2019:

Investment incentive (CZK million)	**Maximum amount of the investment incentive**	**Recognised deferred tax asset from investment incentives**	**Utilisation of tax credits from investment incentives**
Enlargement of the production assortment for the production of electric vehicles	401	—	—
Total	**401**	**—**	**—**

The following table summarises granted investment incentives and their use in 2018:

Investment incentive (CZK million)	**Maximum amount of the investment incentive**	**Recognised deferred tax asset from investment incentives**	**Utilisation of tax credits from investment incentives***
Enlargement of the production assortment for the production of electric vehicles	401	—	—
Enlargement of welding shop by production technology used for bodies based on MQB platform – Kvasiny	707	—	707
Total	**1,108**	**—**	**707**

* The amount represents estimated utilisation of investment incentives as at 31 December 2018, which the Company included in the calculation of corporate income tax estimate for 2018.

23. COMMITMENTS AND CONTINGENCIES

Capital expenditure and lease commitments as at balance sheet date are as follows:

(CZK million)	**Payable until year 2020**	**Payable 2021–2024**	**31 December 2019**
Capital commitments – property, plant and equipment	15,104	1,718	16,822
Capital commitments – intangible assets	10,876	5,403	16,279
Future lease payments for short-term and low-value leases	214	715	929

(CZK million)	**Payable until year 2019**	**Payable 2020–2023**	**31 December 2018**
Capital commitments – property, plant and equipment	21,129	1,746	22,875
Capital commitments – intangible assets	12,903	8,648	21,551
Operating leasing payments for non-cancellable leases	400	737	1,137

In 2019, the Company leased especially office equipment and pallets for transport on the basis of short-term and low-value lease agreements. In 2018, the Company rented various machines and office equipment and buildings on the basis of non-cancellable operating lease agreements. In the case of termination of these agreements, all outstanding lease payments up to the original expiration date of the contract must be paid. At 31 December 2019, future cash outflows in relation to options to extend leases that were not considered as reasonably certain to be exercised and hence are not included in the lease liability recognised on the balance sheet amounted to CZK 292 million and such off balance sheet commitments in relation to options to terminate leases amounted to CZK 1 million.

24. EXPENSES BY NATURE – ADDITIONAL INFORMATION

(CZK million)	**2019**	**2018**
Material costs – raw materials and other supplies, goods	314,376	285,801
Production related services	15,563	15,733
Personnel costs	40,181	32,670
Wages	32,321	24,906
Pension benefit costs (defined contribution plans)	5,480	4,863
Social insurance and other personnel costs	2,380	2,901
Depreciation, amortisation, impairment losses and reversal of impairment losses	20,466	18,528
Depreciation, amortisation lease and impairment losses	476	—
Operating lease expense	—	697
Low-value leases expense	207	—
Short-term lease expense	125	—
Other services	33,661	32,404
Total cost of sales, distribution and administrative expenses	**425,055**	**385,833**
Number of employees		
Number of employees*	37,358	35,355

* average number of employees (including temporary employees)

25. RELATED PARTY TRANSACTIONS

The sole shareholder of the Company was VOLKSWAGEN FINANCE LUXEMBURG S.A. during the whole accounting period ended 31 December 2019 (31 December 2018).

VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period ended 31 December 2019 (31 December 2018).

Items in category Other related parties are companies under joint control of VOLKSWAGEN AG, however, for the purposes of compiling the Report on relations 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.

In 2019, the VOLKSWAGEN Group companies operating in India merged. Subsidiary of the Company SKODA AUTO India Private Ltd. merged with Volkswagen Group Sales India Private Ltd. and Volkswagen India Private Ltd. Since the effective date of the merger (1 April 2019), the assets, liabilities and equity of the merging companies (SKODA AUTO India Private Ltd. and Volkswagen Group Sales India Private Ltd.) have been transferred to the successor company Volkswagen India Private Ltd. On this date, the assets of merging companies were valued and the share exchange ratio was determined. Thereafter, the successor company Volkswagen India Private Ltd. was renamed to SKODA AUTO Volkswagen India Private Ltd. On 5 October 2019, the successor company was recorded in the Commercial Register in India and the legal effects of the merger came into force. As a result, the subsidiary SKODA AUTO India Private Ltd. ceased to exist on that date and the Company became a shareholder of the successor company SKODA AUTO Volkswagen India Private Ltd., which is its associated company (see Note 7).

In 2019, the Company established a new company UMI Urban Mobility International Česká republika s.r.o. In the same year, the Company provided to the newly established company contribution outside the registered capital in the total amount of CZK 217 million. For more information refer to Note 6.

In 2019, the Company purchased from its subsidiary ŠKODA AUTO DigiLab s.r.o. 100% share in Smart City Lab s.r.o. for CZK 5 million. In the same year, the Company provided to the newly acquired company contribution outside the registered capital in the total amount of CZK 153 million. For more information refer to Note 6.

The Company increased equity of its subsidiary ŠKODA AUTO DigiLab s.r.o. through other capital contributions in total amount of CZK 69 million in 2019 (CZK 44 million effective on 17 June 2019 and further CZK 25 million effective on 22 October 2019).

THE COMPANY PARTICIPATED IN THE FOLLOWING TRANSACTIONS WITH RELATED PARTIES:

Sales to related parties

(CZK million)	2019	2018
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	8,415	6,222
Subsidiaries		
SKODA AUTO India Private Ltd.	1,677	1,874
ŠKODA AUTO Slovensko s.r.o.	9,329	8,252
ŠKODA AUTO DigiLab s.r.o.	18	—
Smart City Lab s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	14,833	12,039
SKODA AUTO Volkswagen India Private Ltd.	1,107	—
ŠKO-ENERGO s.r.o.	13	—
ŠKO-ENERGO-FIN s.r.o.	1	—
Digiteq Automotive s.r.o.	4	—
Companies controlled by ultimate parent company	**299,782**	**274,804**
Other related parties	**367**	**782**
Total	**335,546**	**303,973**

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

In addition to revenue specified in the table Sales to related parties, in 2019 (2018) the Company also earned income from licence fees:

(CZK million)	2019	2018
Income from licence fees		
Ultimate parent company	—	—
Subsidiaries	15	38
Associates	1,675	366
Other related parties	1,789	1,903
Total	**3,479**	**2,307**

In addition to the revenue specified in the table Sales to related parties, in 2019 (2018) the Company also earned income from related parties transactions relating to interest from intercompany loans and deposits:

(CZK million)	2019	2018
Interest income from loans and deposits		
Ultimate parent company	—	—
Companies controlled by ultimate parent company	584	147
Total	**584**	**147**

Dividends received from subsidiaries are disclosed in Note 6. Dividends received from associates are disclosed in Note 7.

Dividends paid from other equity instruments are disclosed in Note 19.

Purchases from related parties

(CZK million)	2019	2018
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	80,789	66,218
Subsidiaries		
SKODA AUTO India Private Ltd.	61	316
ŠKODA AUTO Slovensko s.r.o.	95	84
ŠKODA AUTO DigiLab s.r.o.	255	203
Smart City Lab s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	1,864	760
SKODA AUTO Volkswagen India Private Ltd.	856	—
ŠKO-ENERGO s.r.o.	2,447	2,407
ŠKO-ENERGO-FIN s.r.o.	—	1
Digiteq Automotive s.r.o.	608	424
Companies controlled by ultimate parent company	**38,943**	**32,754**
Other related parties	**224**	**700**
Total	**126,142**	**103,867**

Only purchases related to activities connected to business operations are included in the table Purchases from related parties, in particular costs for acquisition of raw materials, goods and services.

The amount of approved and paid dividends to the parent company is presented in Note 11.

Receivables from related parties

(CZK million)	31 December 2019	31 December 2018
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	3,222	1,209
Subsidiaries		
SKODA AUTO India Private Ltd.	—	510
ŠKODA AUTO Slovensko s.r.o.	667	600
ŠKODA AUTO DigiLab s.r.o.	3	40
Smart City Lab s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	3,936	2,589
SKODA AUTO Volkswagen India Private Ltd.	457	—
ŠKO-ENERGO s.r.o.	3	9
ŠKO-ENERGO-FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	—	1
Companies controlled by ultimate parent company	**10,125**	**12,974**
Other related parties	**1,252**	**1,744**
Total	**19,665**	**19,676**

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

(CZK million)	31 December 2019	31 December 2018
Receivables licence fees		
Ultimate parent company	—	—
Subsidiaries	—	29
Associates	522	341
Other related parties	1,082	1,603
Total	**1,604**	**1,973**

In addition to trade receivables and receivables from licence fees, the Company as at 31 December 2019 also had deposits including cash pooling in companies controlled by ultimate parent company in the amount of CZK 45,750 million (as at 31 December 2018: CZK 45,836 million). Receivables from interest from the loans as at 31 December 2019 amounted to CZK 70 million (as at 31 December 2018: CZK 31 million). The weighted average effective interest rate on current deposits with original maturity less than three months (including cash pooling) is disclosed in Note 10.

In addition to that, the Company also had receivable from its ultimate parent company VOLKSWAGEN AG amounting to CZK 366 million as at 31 December 2019 relating mainly to the claim refund necessary for settlement of the provision described in Note 15 (as at 31 December 2018: CZK 607 million).

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. Amount of allowances for receivables due as stated in credit terms is determined according to simplified approach using provision matrix described in Note 3.1.5. No impairment loss was identified for any of the receivables transferred to factoring companies. Information on Factoring of receivables with related parties is disclosed in Note 3.1 and 3.1.6.

Information on Investments in subsidiaries is disclosed in Note 6, information on Investments in associates is disclosed in Note 7 and information on Investments in equity instruments issued by related parties is disclosed in Note 8.

Liabilities to related parties

(CZK million)	31 December 2019	31 December 2018
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	6,442	5,721
Subsidiaries		
SKODA AUTO India Private Ltd.	—	7
ŠKODA AUTO Slovensko s.r.o.	169	15
ŠKODA AUTO DigiLab s.r.o.	58	38
Smart City Lab s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	72	180
SKODA AUTO Volkswagen India Private Ltd.	557	—
ŠKO-ENERGO s.r.o.	244	270
ŠKO-ENERGO-FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	153	93
Companies controlled by ultimate parent company	**16,845**	**11,693**
Other related parties	**719**	**596**
Total	**25,259**	**18,613**

Liabilities to related parties represent only trade liabilities for all the categories stated above.

(CZK million)	31 December 2019	31 December 2018
Contractual obligations and other future commitments		
Ultimate parent company	16,070	21,238
Subsidiaries	—	—
Associates	—	15
Companies controlled by ultimate parent company	1,063	521
Total	**17,133**	**21,774**

Contractual obligations to related parties include mainly commitments in respect of research and development costs and tooling rights.

Information on key management personnel remuneration

(CZK million)	2019	2018
Salaries and other short-term employee benefits*	764	853
Pension benefit costs (defined contribution plans)	20	16
Share-based payment	180	—
Total	**964**	**869**

* 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 Management, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company.

CZK 465 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2019 (31 December 2018: CZK 429 million).

In 2018, supervisory board of the Company decided to modify the remuneration system for certain key members of the Company's management, effective from 1 January 2019. The new system of remuneration of these key management members consists of a fixed and variable part. Variable remuneration consists of an annual bonus dependent on the ROI and ROS result for ŠKODA AUTO including its subsidiaries and for the VOLKSWAGEN Group within the one-year evaluation period and from long-term incentives in the form of so-called Performance Shares Plan with three-year period tied to the future development of priority shares of the company VOKLSWAGEN AG (share-based payments). For more details refer to Note 2.17.

For the first time, this payment from performance shares will be provided to certain key members of the Company's management in 2020 for 2019. A total of 35,944 performance shares were allocated to key management members.

The total target amounts for certain key members of the Company's management for the 2019-2021 performance period amounted (as of grant date 1 January 2019) to CZK 135 million. The corresponding costs of CZK 180 million were reported as personnel costs (Note 24). Should the beneficiaries of the Performance Shares Plan leave the Company as of 31 December 2019, the intrinsic value of the vested share-based payments would amount to a total of CZK 159 million.

26. OTHER INFORMATION

The compensation paid to the Company's auditors for the accounting period 2019 was CZK 42 million (2018: CZK 38 million) and covered the following services:

(CZK million)	2019	2018
Audit, other audit related and assurance services	26	22
Tax and related services	2	1
Other advisory services	14	15
Total	**42**	**38**

27. CONTINGENT LIABILITIES

The Company has noted contingent liabilities in connection with the EA189 issue representing claims made through lawsuits against the Company. These claims meet the criteria of a contingent liability, but their value could not be disclosed, because it is not possible to quantify the potential settlement conditions of such claims. Currently, these proceedings are still in the early stages. Claimants still have not specified the value of their claims or the final number of group members of collectively filed lawsuits. Chances of success of such claims may be currently assessed as generally less than 50%. The courts give the prosecutors and defendants room to find a settlement of disputes by dead of arrangement.

In some countries (Australia, Belgium, India, the Netherlands, the Czech Republic and the United Kingdom), there are judicial proceedings conducted on the basis of collective actions or legal instruments of similar nature against the Company and other companies of the VOLKSWAGEN Group or also against other persons, in which alleged entitlement to a refund and compensation, among other, are claimed. Since the proceedings are in the initial stage, the value of the claims cannot be quantified so far. The last year has not brought any significant new knowledge, which would enable reliable specification of the claims.

In addition to the above, individual actions were filed in some countries (in units or tens of cases) against the Company, in which the claimants mostly seek compensation for alleged damage or replacement of allegedly defective vehicles with defect-free vehicles.

Currently, it is impossible to estimate the number of customers who will use the possibility to bring their alleged claims against the Company by filing a lawsuit in the future, nor what the chances of success of such claims will be. Likewise, it is not possible to estimate how many customers bring their alleged claims against dealers, service partners and importers of ŠKODA brand, what actions they will seek and what will be the extent of their success. It can be expected that dealers, service partners and importers of ŠKODA brand who would not be successful in disputes started by customers, could then exercise alleged recourse claims against the Company.

All potential costs arising from claims and proceedings described above would be fully compensated to the Company by the VOLKSWAGEN AG.

The US traffic safety authority NHTSA (National Highway Traffic Safety Administration), together with the company Takata, announced on 5 May 2016 a further extension of the recall of various models of different manufacturers, wherein certain Takata airbags were installed.

In addition, recalls in Canada, Japan, South Korea, China and Australia were ordered by the local authorities. Some of the VOLKSWAGEN Group's models are affected by the above-mentioned recalls as well, including ŠKODA brand models. The Company expects an insignificant impact. Currently it is not possible to assess whether further expansion of the recall to other countries could occur. Due to ongoing technical investigations, it is not possible to specify further details as per IAS 37.86.

28. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, there were no events that could have a significant impact on the separate financial statements of the Company for the year ended 31 December 2019.

29. 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 (see Note 6) and its investments in associates (see Note 7) 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, 26 February 2020

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Anke Bujara

Martina Janebová-Ciencialová

REPORT ON RELATIONS

OF THE COMPANY ŠKODA AUTO A.S. PURSUANT TO § 82 OF THE ACT ON CORPORATION FOR THE ACCOUNTING PERIOD 1 JANUARY – 31 DECEMBER 2019

The Board of Management of ŠKODA AUTO a.s., having its registered office tř. Václava Klementa 869, Mladá Boleslav II, 293 01 Mladá Boleslav, identification number 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., Act on Corporations, as subsequently amended, in the accounting period 1 January – 31 December 2019 (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 VOLKSWAGEN FINANCE LUXEMBURG S.A. seated in Strassen, 19-21, Route d' Arlon, 8009, Grand Duchy of Luxembourg, which is the sole shareholder of ŠKODA AUTO company.

The Controlling Entity is the ultimate parent company of the Group, the activities of which comprise especially 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 (via brands Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN, Porsche, Scania, SEAT, ŠKODA, VOLKSWAGEN Passenger Cars and VOLKSWAGEN Commercial Vehicles). In addition, the Group engages in financial services segment in 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 2019, 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 participating interest are graphically illustrated in the Appendix.

As a result of the merger of the VOLKSWAGEN Group companies in India (effective date of the merger is 1 April 2019), SKODA AUTO India Private Limited and Volkswagen Group Sales India Private Limited were ceased on 5 October 2019. SKODA AUTO Volkswagen India Private Limited (formerly Volkswagen India Private Limited) became the universal legal successor of the two companies. The Company holds 8.13% share in SKODA AUTO Volkswagen India Private Limited.

On 11 December 2019, UMI Urban Mobility International Česká republika s.r.o. was established and its sole shareholder and founder became the Company.

Pursuant to the share transfer agreement dated 13 December 2019, the Company acquired 100% share in Smart City Lab s.r.o.

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

During the Period, the Company was indirectly controlled by the Controlling Entity through the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A.
The Company is controlled mainly through decision 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

The Company deposits surplus liquidity with Volkswagen Group Services S.A. in the form of deposits and cash pooling at the instigation of the Controlling Entity in the usual way applied within the Group.

ŠKODA AUTO paid a dividend of CZK 28,890 million to VOLKSWAGEN FINANCE LUXEMBURG S.A., as the sole shareholder, on 4 April 2019 based on the Decision of the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. from 20 March 2019.

The Company has not carried out any other transactions during the Period concerning assets exceeding 10% of the Company's equity per the last individual financial statements as at 31 December 2019.

In 2019, dividends and share in profit of CZK 65 million were paid out to the Company by the subsidiaries. In 2019, dividends and share in profit of CZK 149 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 sale of vehicles with the following companies:

- SEAT, S.A.
- ŠkoFIN s.r.o.

b) genuine parts

ŠKODA AUTO concluded new contracts regarding sales of genuine parts in the Period with the following companies:

- OOO Volkswagen Group Rus
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Croatia d.o.o.
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovenija d.o.o.
- SKODA AUTO India Pvt. Ltd.
- ŠKODA AUTO Deutschland GmbH
- ŠKODA AUTO Slovensko, s.r.o.
- Volkswagen Group Australia Pty. Ltd.
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group Ireland Ltd.
- Volkswagen Group Italia S.p.A.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.

c) others

ŠKODA AUTO entered into new contracts regarding sales of services, licenses, aggregates, bodyworks and other products with the following companies:

- AUDI AG
- Audi Hungaria Zrt.
- Connectivity Lab s.r.o.
- Mobility Lab s.r.o.
- OOO Volkswagen Group Rus
- SKODA AUTO India Pvt. Ltd.
- Smart City Lab s.r.o.
- ŠKODA AUTO Deutschland GmbH
- ŠKODA AUTO DigiLab s.r.o.
- ŠKODA AUTO Slovensko, s.r.o.
- ŠKO-ENERGO s.r.o.
- VOLKSWAGEN AG
- Volkswagen Group France S.A.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Slovakia, a.s.
- VW Kraftwerk GmbH

5.2 Purchase of goods, services and non-current assets

a) production material

ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:

- AUDI AG
- Audi Hungaria Zrt.
- Italdesign Giugiaro S.p.A.
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- SEAT, S.A.
- SITECH Sitztechnik GmbH
- SITECH Sp. z o.o.
- VOLKSWAGEN AG
- Volkswagen Argentina S.A.
- Volkswagen Autoeuropa, Lda.
- Volkswagen Automatic Transmission (Dalian) Co., Ltd.
- Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
- Volkswagen de México, S.A. de C.V.
- Volkswagen do Brasil Ltda.
- Volkswagen Group Services GmbH
- Volkswagen Group Services Kft.
- Volkswagen India Pvt. Ltd.
- Volkswagen Motor Polska Sp. z o.o.
- Volkswagen Motorsport GmbH
- Volkswagen Navarra, S.A.
- Volkswagen of South Africa (Pty) Ltd.
- Volkswagen Osnabrück GmbH
- Volkswagen Poznan Sp. z o.o.
- Volkswagen Sachsen GmbH
- Volkswagen Sarajevo d.o.o.
- Volkswagen Slovakia, a.s.
- Volkswagen Transmission (Shanghai) Co., Ltd.

b) overheads

ŠKODA AUTO entered into new contracts regarding purchases of indirect material and services (including research and development cooperation, IT services, software and hardware supplies, customer services consultancy) with following companies:

- AUDI AG
- Audi Electronics Venture GmbH
- Audi Hungaria Zrt.
- Digiteq Automotive s.r.o.
- Dr. Ing. h.c. F. Porsche AG
- IAV Fahrzeugsicherheit Verwaltungs GmbH
- MHP Management- und IT-Beratung GmbH
- OOO Volkswagen Group Rus
- Porsche Albania Sh.p.k.
- Porsche Automobil Holding SE
- Porsche BH d.o.o.
- Porsche Consulting GmbH
- Porsche Engineering Group GmbH
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovenija d.o.o.
- Porsche Werkzeugbau GmbH
- PTV Planung Transport Verkehr AG
- Scania Czech Republic s.r.o.
- SEAT, S.A.
- SKODA AUTO India Pvt. Ltd.
- ŠKODA AUTO Deutschland GmbH
- ŠKODA AUTO Slovensko, s.r.o.
- Volkswagen (China) Investment Co., Ltd.
- VOLKSWAGEN AG
- Volkswagen Argentina S.A.
- Volkswagen do Brasil Ltda.
- Volkswagen Finance Luxemburg S.A.
- VOLKSWAGEN FINANCIAL SERVICES AG
- Volkswagen Group Australia Pty. Ltd.
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group France S.A.
- Volkswagen Group Import Co., Ltd.

- Volkswagen Group Ireland Ltd.
- Volkswagen Group Italia S.p.A.
- Volkswagen Group Japan K.K.
- Volkswagen Group of America, Inc.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Services GmbH
- Volkswagen Group Services Kft.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen Infotainment GmbH
- Volkswagen Insurance Brokers GmbH
- Volkswagen Osnabrück GmbH
- Volkswagen Software Asset Management GmbH

c) genuine parts

ŠKODA AUTO entered into new contracts regarding purchases of genuine parts with the following companies:

- Audi Hungaria Zrt.
- OOO Volkswagen Group Rus
- SEAT, S.A.
- SITECH Sp. z o.o.
- VOLKSWAGEN AG
- Volkswagen Motor Polska Sp. z o.o.
- Volkswagen Sachsen GmbH
- Volkswagen Slovakia, a.s.
- Volkswagen Zubehör GmbH

d) non-current assets

ŠKODA AUTO entered into new contracts regarding purchases of non-current assets with the following companies:

- Digiteq Automotive s.r.o.
- Dr. Ing. h.c. F. Porsche AG
- MHP Management- und IT-Beratung GmbH
- Scania Czech Republic s.r.o.
- SKODA AUTO India Pvt. Ltd.
- VOLKSWAGEN AG
- Volkswagen Software Asset Management GmbH
- Volkswagen-Bildungsinstitut GmbH

5.3 Other contractual relationships

ŠKODA AUTO also established new contractual relationships (particularly marketing services, training, sales support, financial services, consultancy, production of cars, purchase of capital interests, system and other support) with the following companies:

- AUDI AG
- Audi Volkswagen Middle East FZE
- Audi Volkswagen Taiwan Co., Ltd.
- Autostadt GmbH
- Carmeq GmbH
- D'Ieteren Lease S.A.
- Digiteq Automotive s.r.o.
- Dr. Ing. h.c. F. Porsche AG
- Euromobil Autovermietung GmbH
- Greger Porsche Classic Cars Gmbh
- Italdesign Giugiaro S.p.A.
- MAN Truck & Bus SE
- MMI Marketing Management Institut GmbH
- Nardò Technical Center S.r.l.
- OOO Volkswagen Group Rus
- Porsche Albania Sh.p.k.
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Consulting GmbH
- Porsche Croatia d.o.o.
- Porsche Česká republika s.r.o.
- Porsche Engineering Group GmbH
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Chile SpA
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Inter Auto d.o.o.
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovenija d.o.o.
- Scania Czech Republic s.r.o.
- SEAT, S.A.
- SITECH Sp. z o.o.
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.

— SKODA AUTO India Pvt. Ltd.
— SKODA AUTO Volkswagen India Pvt. Ltd.
— ŠKODA AUTO Deutschland GmbH
— ŠKODA AUTO DigiLab s.r.o.
— ŠKODA AUTO Slovensko, s.r.o.
— ŠKO-ENERGO s.r.o.
— ŠkoFIN s.r.o.
— Volkswagen (China) Investment Co., Ltd.
— VOLKSWAGEN AG
— Volkswagen AirService GmbH
— VOLKSWAGEN FINANCIAL SERVICES AG
— Volkswagen Group España Distribución, S.A.
— Volkswagen Group France S.A.
— 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 Konzernlogistik GmbH & Co. OHG
— Volkswagen Sachsen GmbH
— Volkswagen Slovakia, a.s.
— Volkswagen Software Asset Management GmbH

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 Brussels S.A./N.V.
— Audi México S.A. de C.V.
— Audi Singapore Pte. Ltd.
— Bentley Motors Ltd.
— Bugatti Engineering GmbH
— Eurocar Italia S.r.l.
— EURO-Leasing GmbH
— INIS International Insurance Service s.r.o.
— MAN Latin America Indústria e Comércio de Veículos Ltda.
— Porsche Air Service GmbH
— Porsche Colombia S.A.S.
— Porsche Engineering Services GmbH
— Porsche Inter Auto GmbH & Co. KG
— Porsche Konstruktionen GmbH & Co. KG
— Porsche SCG d.o.o. Beograd
— Porsche Siebte Vermögensverwaltung GmbH
— Porsche Slovakia, spol. s r.o.
— SEAT CUPRA S.A.
— SEAT Deutschland GmbH
— Shanghai Volkswagen Powertrain Co., Ltd.
— ŠKO-ENERGO FIN s.r.o.
— VfL Wolfsburg-Fußball GmbH
— Volkswagen Bank GmbH
— Volkswagen Financial Services (UK) Ltd.
— Volkswagen Financné služby Slovensko s.r.o.
— Volkswagen Gebrauchtfahrzeughandels und Service GmbH
— Volkswagen Group Hong Kong Ltd.
— Volkswagen Group Malaysia Sdn. Bhd.
— Volkswagen Group Real Estate Czech Republic s.r.o.
— Volkswagen Immobilien GmbH
— Volkswagen IT Services India Pvt. Ltd.
— Volkswagen Original Teile Logistik GmbH & Co. KG
— Volkswagen Payments S.A.
— Volkswagen Vertriebsbetreuungsgesellschaft mbH
— Weser-Ems Vertriebsgesellschaft mbH

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, 26 February 2020

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

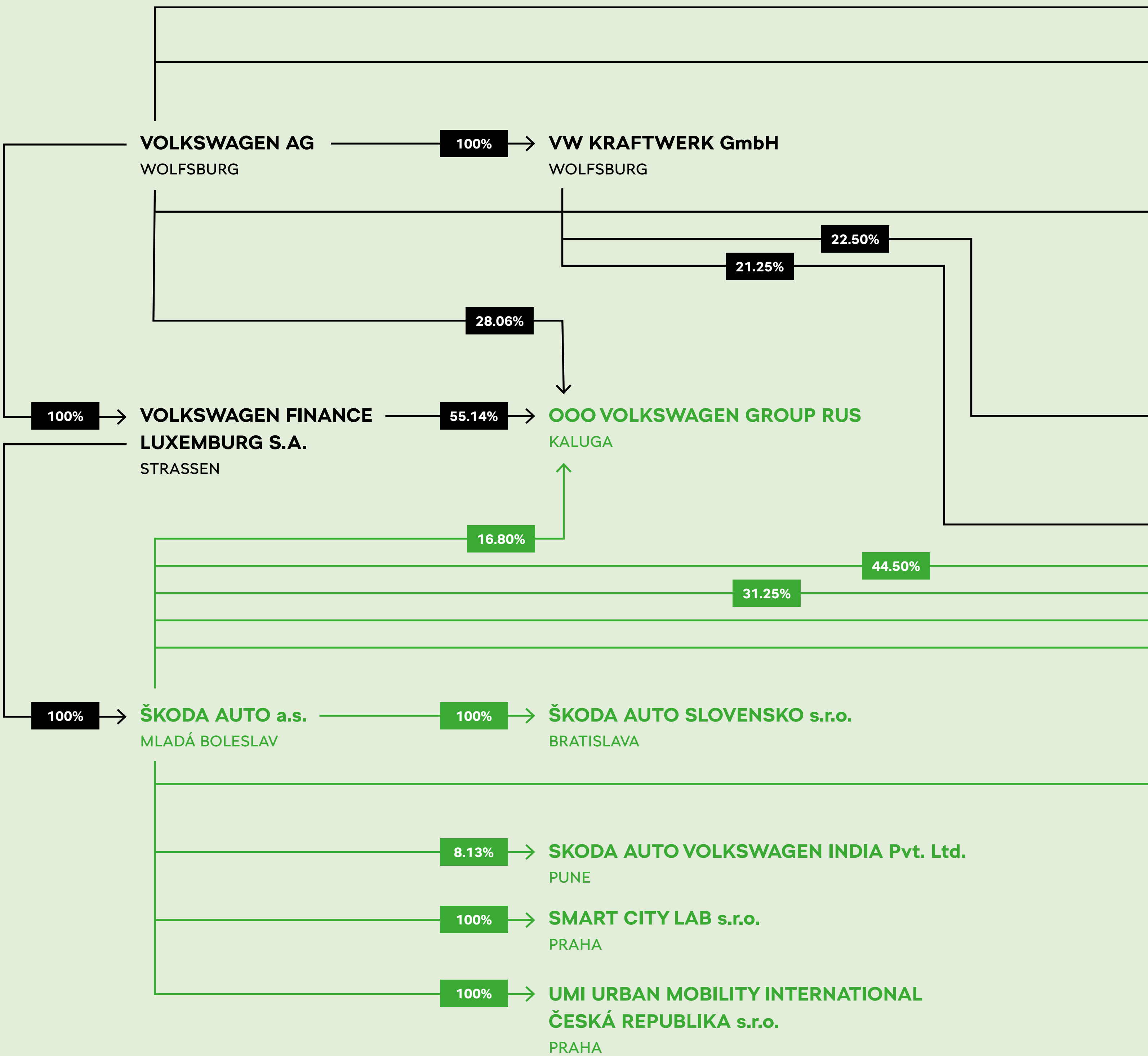
Klaus-Dieter Schürmann

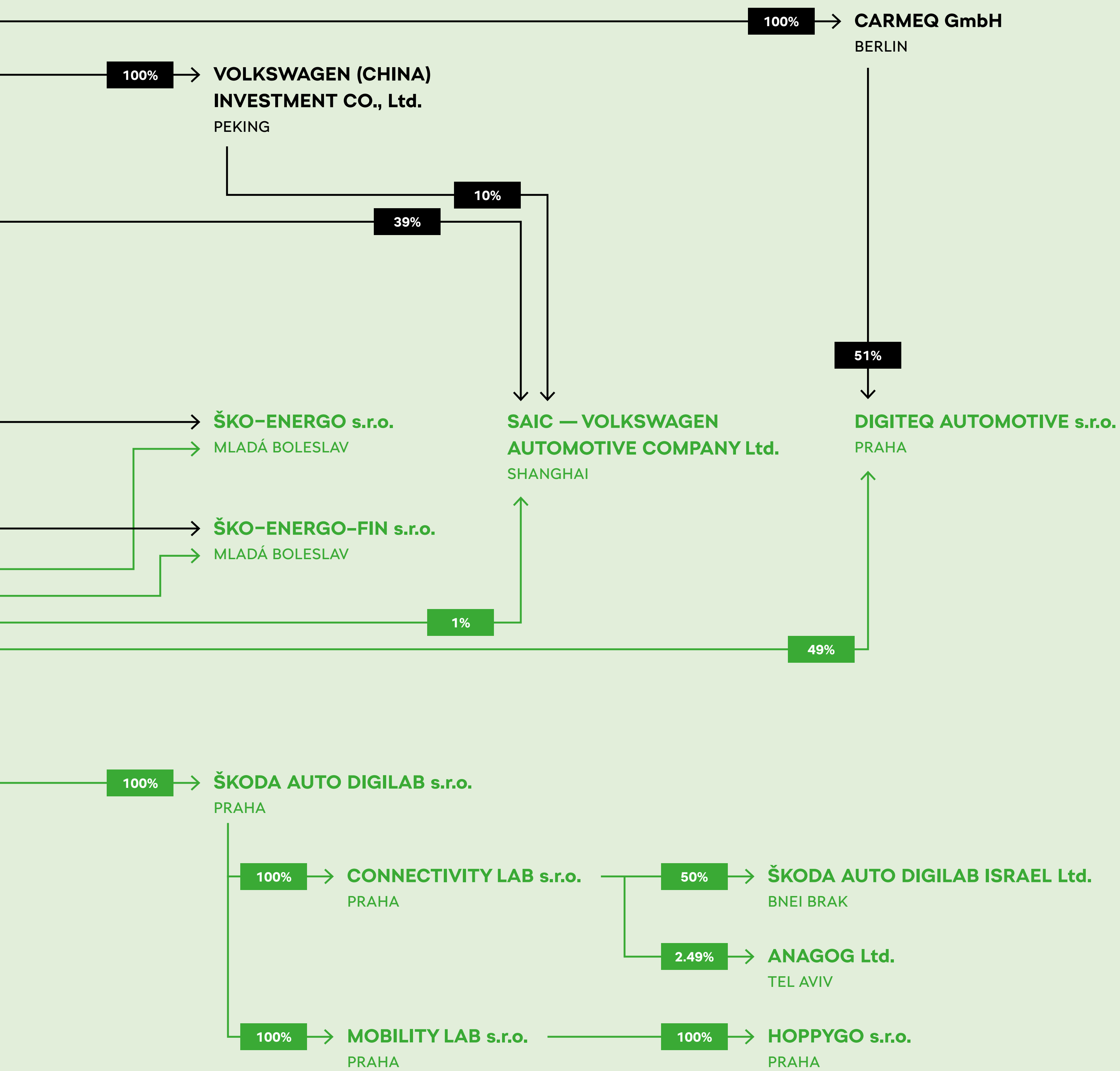
Dieter Seemann

Christian Strube

Bohdan Wojnar

OWNERSHIP STRUCTURE




100%
CARMEQ GmbH
BERLIN
100%
VOLKSWAGEN (CHINA) INVESTMENT CO., Ltd.
PEKING
10%
39%
51%
ŠKO-ENERGO s.r.o.
MLADÁ BOLESLAV
SAIC — VOLKSWAGEN AUTOMOTIVE COMPANY Ltd.
SHANGHAI
DIGITEQ AUTOMOTIVE s.r.o.
PRAHA
ŠKO-ENERGO-FIN s.r.o.
MLADÁ BOLESLAV
1%
49%
100%
ŠKODA AUTO DIGILAB s.r.o.
PRAHA
100%
CONNECTIVITY LAB s.r.o.
PRAHA
50%
ŠKODA AUTO DIGILAB ISRAEL Ltd.
BNEI BRAK
2.49%
ANAGOG Ltd.
TEL AVIV
100%
MOBILITY LAB s.r.o.
PRAHA
100%
HOPPYGO s.r.o.
PRAHA

GLOSSARY OF TERMS AND ABBREVIATIONS

BEV
Battery electric vehicle

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

CGU
Cash-generating unit; the smallest group of assets that independently generates cash flow defined by IFRS

CNG
Compressed natural gas; methane fuel

COMPANY
in the Annual Report, the term “the Company” is used as a synonym for the company ŠKODA AUTO a.s.

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

CUV
Crossover utility vehicle; vehicle combining features of a sport utility vehicle (SUV) with features from a passenger vehicle

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

GDPR
General Data Protection Regulation; general regulation on the protection of personal data

GRC
Governance, Risk management and Compliance

GROUP
in the Annual Report, the term “the Group” is used as synonym for the VOLKSWAGEN Group

HR
Human Resources

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

INFOTAINMENT
multimedia information system consisting of radio, navigation system and other multimedia devices in a vehicle

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

MEB
Modularer Elektrifizierungsbaukasten; modular platform for electric vehicles

MQB
Modularer Querbaukasten; modular platform

NET LIQUIDITY
gross liquidity (cash and cash equivalents) less liabilities to a factoring company within the VOLKSWAGEN Group

OECD
Organization for Economic Cooperation and Development

PHEV
Plug-in hybrid electric vehicle; hybrid electric vehicle that uses batteries that can be recharged by plugging it in to an external source of electric power

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

RMS/ICS
Risk Management System / Internal Control System

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

WLTP
Worldwide Harmonised Light Vehicle Test Procedure; new test cycle measuring CO_2 and other pollutant emissions as well as fuel consumption values

PERSONS RESPONSIBLE FOR THE ANNUAL REPORT AND EVENTS AFTER THE BALANCE SHEET DATE

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 company ŠKODA AUTO a.s. have been knowingly omitted or distorted.

Mladá Boleslav, 26 February 2020

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Anke Bujara

Martina Janebová-Ciencialová

KEY FIGURES AND FINANCIAL RESULTS

OF ŠKODA AUTO ACCORDING TO IFRS IN BRIEF

SALES, PRODUCTION AND WORKFORCE		2015	2016	2017	2018	2019
Deliveries to customers	**vehicles**	**1,055,501**	**1,126,477**	**1,200,535**	**1,253,741**	**1,242,767**
Sales*	**vehicles**	**778,416**	**799,938**	**909,567**	**932,035**	**947,531**
Sales of ŠKODA cars*	vehicles	758,742	746,551	818,976	831,067	847,655
Production*	**vehicles**	**736,977**	**765,171**	**858,103**	**886,103**	**907,942**
Production of ŠKODA cars*	vehicles	717,249	711,309	767,474	785,128	808,066
Employees	persons	25,452	28,373	31,626	33,696	34,829

* In 2016 the reporting method of sales and production was altered. Sales and production volumes are reported excluding kits shipped to foreign production plants not operated by ŠKODA AUTO company. These kits are reported as other intragroup deliveries.

INCOME STATEMENT		2015	2016	2017	2018	2019
Sales revenue	**CZK million**	**314,897**	**347,987**	**407,400**	**416,695**	**459,122**
Cost of sales	CZK million	268,184	295,232	347,519	359,421	397,086
	% of revenues	85.2	84.8	85.3	86.3	86.5
Gross profit	**CZK million**	**46,713**	**52,755**	**59,881**	**57,274**	**62,036**
	% of revenues	14.8	15.2	14.7	13.7	13.5
Distribution expenses	CZK million	13,272	13,503	15,040	14,046	14,735
Administrative expenses	CZK million	7,273	7,843	9,710	12,366	13,234
Net other operating result	CZK million	8,986	(517)	5,400	2,978	3,153
Operating profit	**CZK million**	**35,154**	**30,892**	**40,531**	**33,840**	**37,220**
	% of revenues	11.2	8.9	9.9	8.1	8.1
Net financial result	CZK million	(916)	(43)	(1,406)	1,291	1,278
Profit before tax	**CZK million**	**34,238**	**30,849**	**39,125**	**35,131**	**38,498**
Return on sales before tax	%	10.9	8.9	9.6	8.4	8.4
Income tax expense	CZK million	3,422	5,686	7,284	6,239	6,809
Profit for the year	**CZK million**	**30,816**	**25,163**	**31,841**	**28,892**	**31,689**
Return on sales after tax	%	9.8	7.2	7.8	6.9	6.9

BALANCE SHEET / FINANCING		**2015**	**2016**	**2017**	**2018**	**2019**
Non-current assets	CZK million	107,654	104,838	106,675	118,871	141,524
Current assets	CZK million	94,961	123,342	144,184	100,447	100,111
Equity	CZK million	117,482	137,580	117,484	111,674	109,626
Non-current and current liabilities	CZK million	85,133	90,600	133,375	107,644	132,009
Balance sheet total	**CZK million**	**202,615**	**228,180**	**250,859**	**219,318**	**241,635**
Net liquidity	**CZK million**	**60,077**	**70,910**	**95,078**	**43,333**	**42,319**
Cash flows from operating activities	CZK million	39,622	50,426	60,811	44,763	66,149
Cash flows from investing activities	CZK million	(6,467)	(24,051)	(17,996)	(25,758)	(36,912)
Net cash flows	**CZK million**	**33,155**	**26,375**	**42,815**	**19,005**	**29,237**
Investments	**CZK million**	**15,857**	**14,652**	**18,885**	**22,574**	**32,105**
Investment ratio	%	5.0	4.2	4.6	5.4	7.0
Equity ratio	%	58.0	60.3	46.8	50.9	45.4
Non-current asset to equity ratio	%	109.1	131.2	110.1	93.9	77.5

PUBLISHED BY:
© ŠKODA AUTO a.s., 2020
Tř. Václava Klementa 869, 293 01 Mladá Boleslav, Czech Republic
Identification No: 00177041
Incorporated by entry in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 332
Tel.: +420 326 811 111, Fax: +420 326 721 328
The Annual Report 2019 is published in Czech and English. In all matters of interpretation of information,
views or opinions, the Czech version takes precedence over the English version.
Both versions are available on the Company's website:
www.skoda-auto.cz
www.skoda-auto.com
Annual Report prepared in-house using firesys.

PRODUCTION:
© Boomerang Communication, s.r.o.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C020637