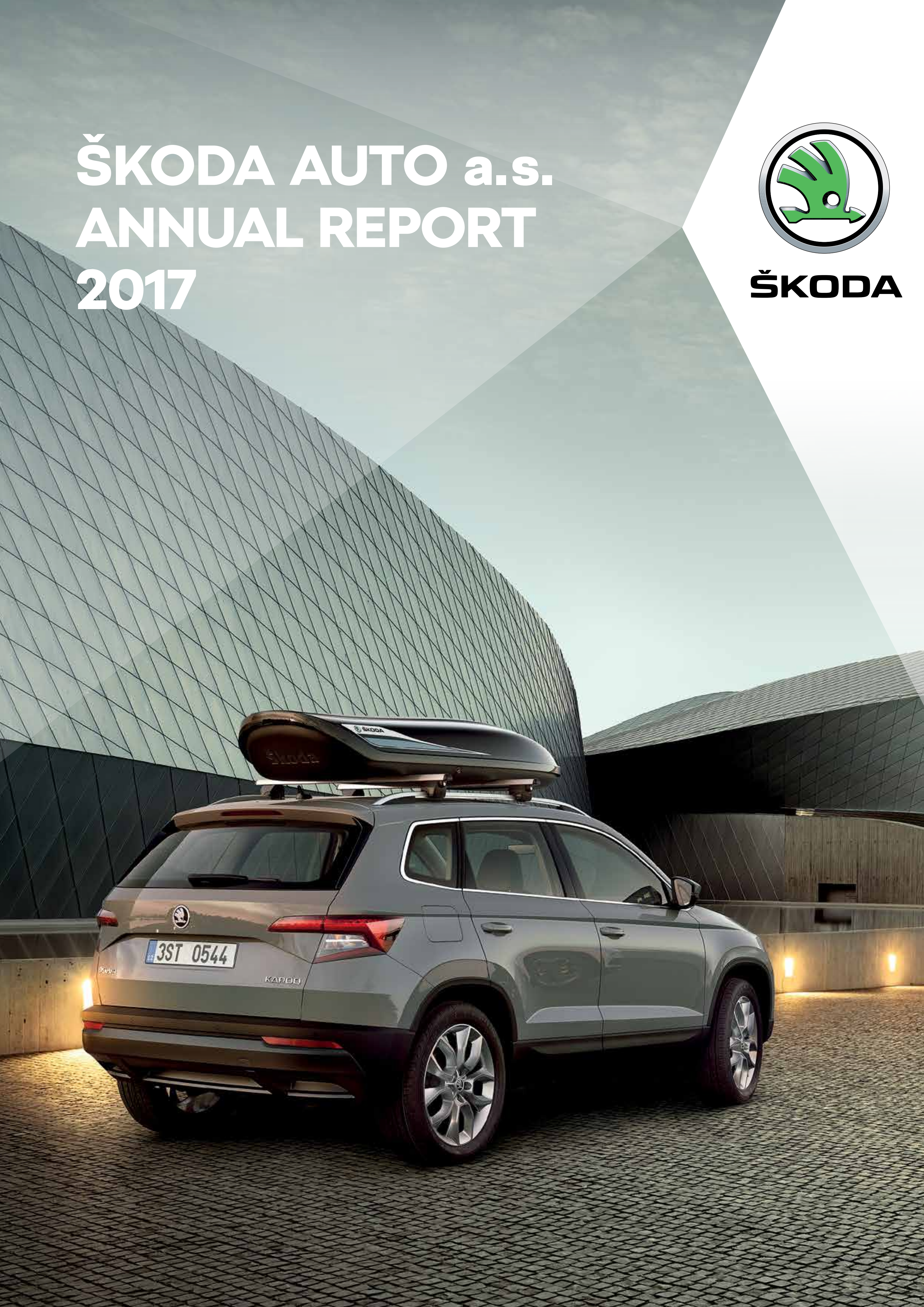
ŠKODA AUTO a.s. ANNUAL REPORT 2017

ŠKODA



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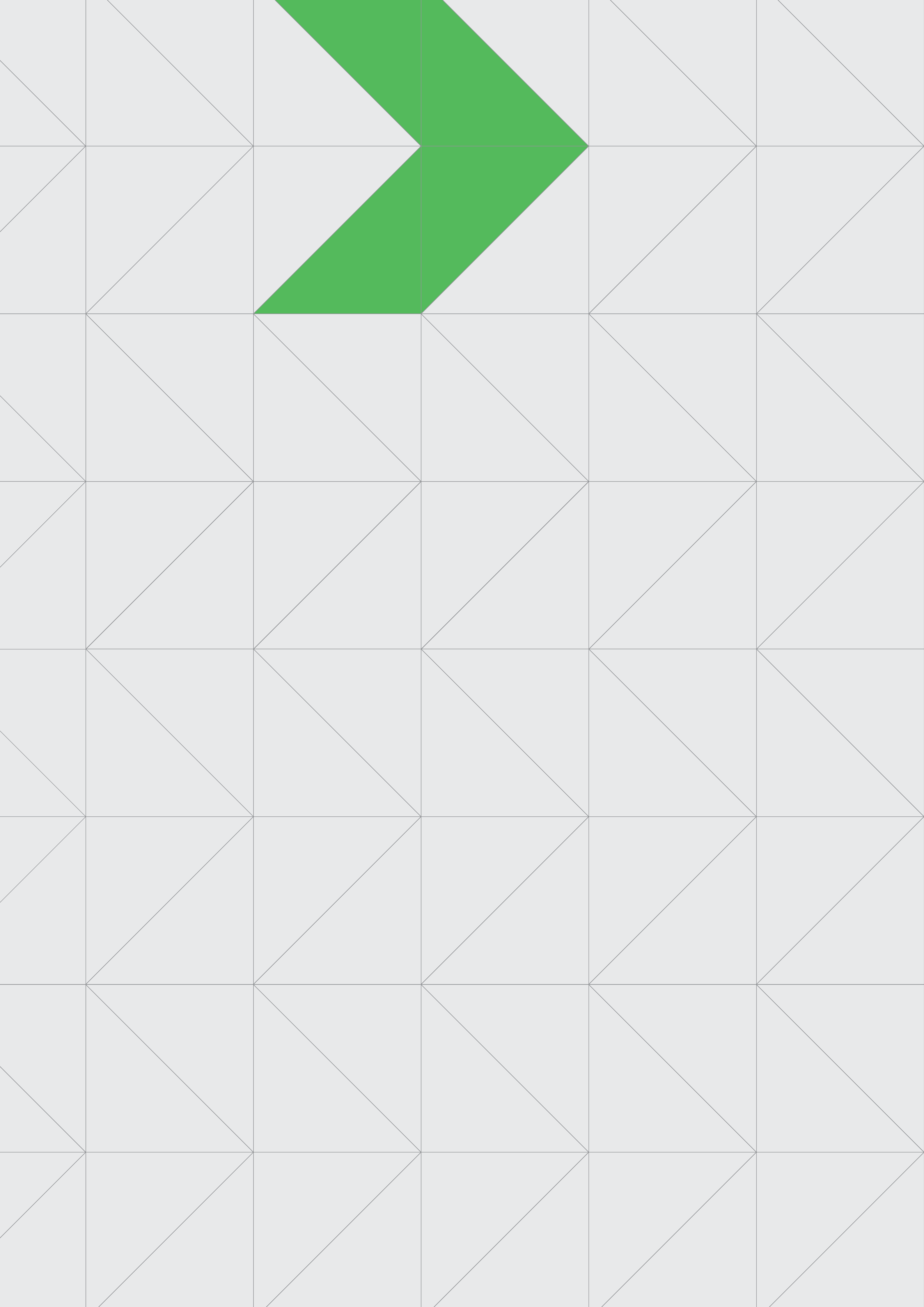

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Foreword

Ladies and Gentlemen,

Digitalisation, e-mobility, autonomous driving and artificial intelligence are fundamentally reshaping not only how we move around, but also how we do business. The automotive industry is investing billions to make motor transport even safer, more comfortable and environmentally friendly.

We at ŠKODA AUTO, guided by our Strategy 2025, are following a path that will mould this riveting future for our customers. This is encapsulated by the goal we have set ourselves: ŠKODA AUTO, is keen to be a "Simply Clever" company delivering the finest mobility solutions. And this is precisely what we have once again spent the past year working hard on in all areas of our business.

The ŠKODA VISION E study, a fully electric concept study offering semi-autonomous driving, offers a glimpse of tomorrow's world. In 2017, it garnered widespread international media coverage when we showcased it at the motor shows in Shanghai and Frankfurt. In 2020, the ŠKODA VISION E will be marketed as the first purely electric ŠKODA, paving the way for a portfolio of ten electric models by 2025. Our customers can look forward to stunning, yet affordable, e-mobility.

The great acclaim enjoyed by our current products shone through yet again in 2017. We reported the best ever sales and financial performance in our 122-year history. I would like to thank all employees for their fine commitment and our customers for the faith they place in us. We view this success as a great incentive to persevere with our growth strategy as we move forward. This will be reflected, in one way, by the launch of 19 new or facelifted models by the end of 2020. A vital role is played by our SUV offensive, which we continued successfully in 2017 by introducing the ŠKODA KAROQ, a compact SUV newly developed from top to bottom. But that's not all. We are making headway with our ŠKODA VISION X, an urban crossover we recently unveiled at the Geneva Motor Show as we prepare to launch it next year but one. In the coming years, we will focus even more on the growth markets of China, Russia and India.

For ŠKODA, 2017 was also a year of monumental strategic decisions, three of which I would like to highlight in particular. We will be making our future electric ŠKODA models in the beating heart of the brand in the Czech Republic. This is a major step towards securing the future of our business and of the Czech Republic as a hub of car production. The development of the MQB A0 IN platform will provide the VOLKSWAGEN Group with global architecture for small and compact cars – we will initially be targeting India. We have taken our ŠKODA AUTO DigiLab branch to a new level by establishing a joint-venture in Israel.

Last year, ŠKODA reached significant milestones in the pursuit of its strategy. And we will spare no effort in the future. On the contrary, we will continue to pick up to pace and, through our new products and mobility services, and by capturing new markets, we will prepare all the more earnestly for the challenges before us. ŠKODA will keep to the roadmap it has charted in the implementation of Strategy 2025.

With kind regards,

Bernhard Maier

Bernhard Maier
Chairman of the Board, ŠKODA AUTO a.s.

Report of the Supervisory Board

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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 21 March 2017, 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 2017 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 2017. Other information included in the annual report for 2017 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.

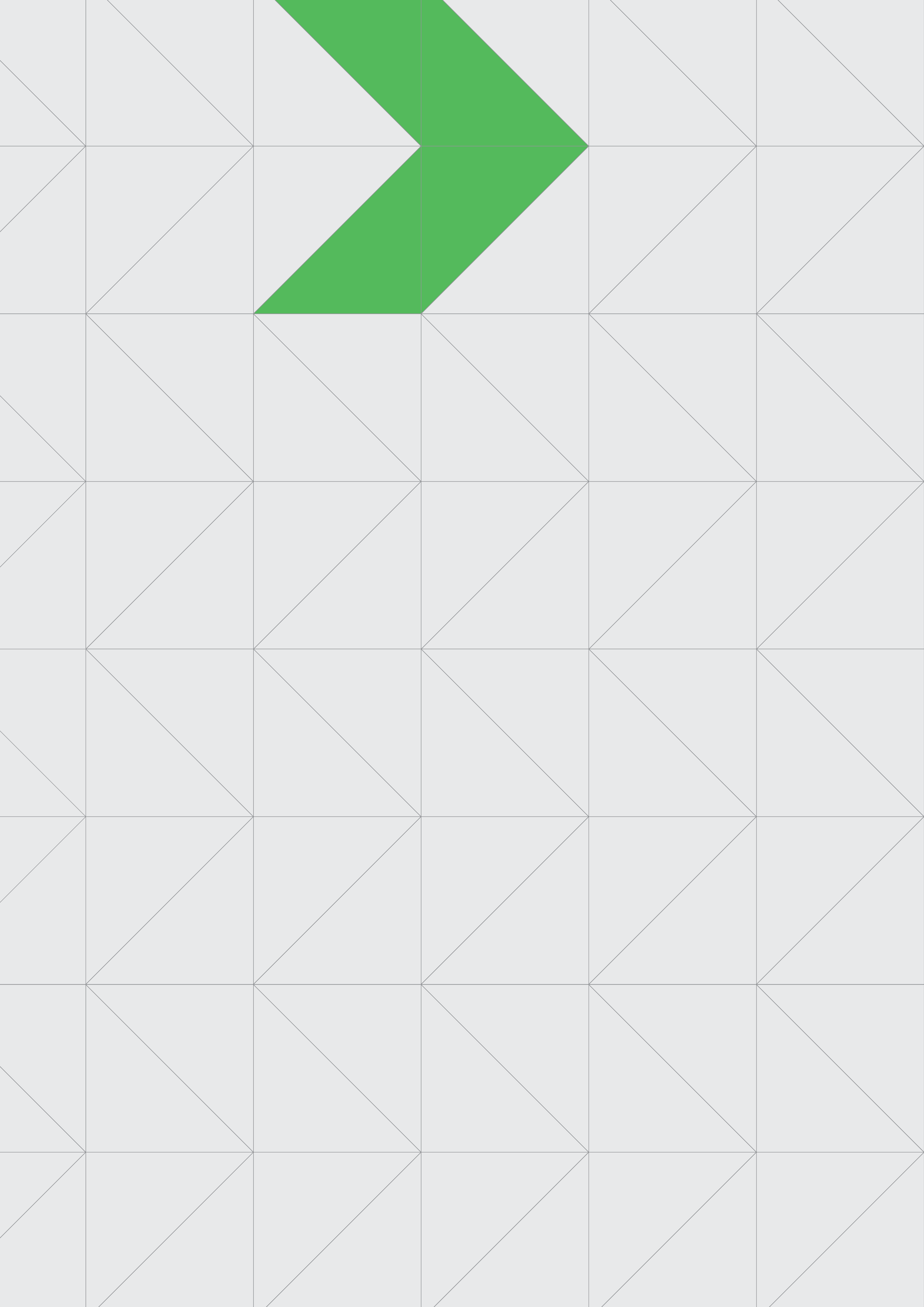
The chairman of the Supervisory Board was duly informed by the auditor about the scope, the execution and the results of the audit.

On 20 December 2017, the Supervisory Board assessed the proposal of the Board of Management for the decision of the sole shareholder, in the exercise of the powers of the General Meeting, to pay out a dividend from retained earnings relating to the previous accounting periods of CZK 38.52 billion. The Supervisory Board expressed an affirmative opinion on this proposal.

At its meeting on 28 February 2018, 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 at 31 December 2017 pursuant to IFRS as adopted by the EU.

The Supervisory Board also reviewed the report on relations between affiliated persons for 2017 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2017 and the proposal for the distribution of profits to the sole shareholder, VOLKSWAGEN FINANCE LUXEMBURG S.A., for approval.

Frank Witter
Chairman of the Supervisory Board



Management Report

ŠKODA AUTO Company Profile

The Company's principal business activities are the development, production and sale of ŠKODA cars, components, genuine parts and accessories, and the provision of servicing.

ŠKODA AUTO a.s. ("the Company" or "ŠKODA AUTO"), headquartered in Mladá Boleslav, is an industrial heavyweight in the Czech Republic and one of the world's oldest car makers. Its origins go back to 1895, when Václav Laurin and Václav Klement set up a firm paving the way for more than a century of Czech car production. ŠKODA AUTO currently employs more than 31,600 people in the Czech Republic.

The ŠKODA brand has been part of the VOLKSWAGEN Group for more than 25 years. During this time, ŠKODA AUTO deliveries have increased substantially and its product portfolio has expanded significantly.

The Company's principal business activities are the development, production and sale of ŠKODA cars, components, genuine parts and accessories, and the provision of servicing.

The sole shareholder of ŠKODA AUTO a.s. is VOLKSWAGEN FINANCE LUXEMBURG S.A., established in Strassen, Luxembourg. VOLKSWAGEN FINANCE LUXEMBURG S.A. is a subsidiary of VOLKSWAGEN AG.

ŠKODA AUTO runs production plants in the Czech Republic. ŠKODA-branded cars are also manufactured in China, Russia, India, Slovakia, Ukraine and Algeria. This international presence will be the springboard for ŠKODA AUTO's planned growth over the next few years, the conditions for which are already in place: impressive automobiles, a strong brand, a motivated and capable team and the ability to turn innovations into "Simply Clever" customer benefits.

Corporate Governance

ŠKODA AUTO BODIES

SUPERVISORY BOARD

Frank Witter (*1959)
Chairman of the Supervisory Board since 12 November 2015 (member of the Supervisory Board since 9 November 2015)
Member of the VOLKSWAGEN AG Board of Management responsible for Finance and Controlling

Prof. Dr. Jochem Heizmann (*1952)
Member of the Supervisory Board since 1 January 2017
Member of the VOLKSWAGEN AG Board of Management responsible for China

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

Matthias Müller (*1953)
Member of the Supervisory Board since 1 November 2015
Chairman of the VOLKSWAGEN AG Board of Management

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

Florina Louise Piëch (*1987)
Member of the Supervisory Board since 1 January 2015
Designer

Daniell Peter Porsche (*1973)
Member of the Supervisory Board since 1 January 2015
Teacher and Music Therapist

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

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)

Dipl.-Ing. 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 responsible for Production and Technical Development, Shanghai-Volkswagen Automotive Co., Limited (2005-2010)

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

Dipl.-Wirt.-Ing. Dieter Seemann (*1957)
Member of the Board of Management since 1 October 2014, responsible for Purchasing
Previous position:
- Member of the Board of Management responsible for Purchasing, 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 Resources Management
Previous position:
- Member of the Board of Management responsible for Human Resources, VOLKSWAGEN SLOVAKIA, a.s. (2009-2010)

CHANGES TO THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Resigned from the Supervisory Board:
Ing. Martin Jahn – member of the Supervisory Board from 1 April 2009 to 31 December 2016

Appointed to the Supervisory Board:
Prof. Dr. Jochem Heizmann – member of the Supervisory Board since 1 January 2017

Resigned from the Board of Management:
Werner Eichhorn – member of the Board of Management from 1 September 2012 to 31 August 2017

Appointed to the Board of Management:
Alain Favey – member of the Board of Management since 1 September 2017

Since **2007** ŠKODA AUTO has embraced the relevant recommendations and rules of the Code of Corporate Governance of OECD-based Companies.

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.

Against this backdrop, since 2007 ŠKODA AUTO has embraced the relevant recommendations and rules of the Code of Corporate Governance of OECD-based Companies ("the Code"), as updated under the guidance of the Czech Securities Commission in 2004. The Company aims to continuously improve internal processes and rules in accordance with the Code to further encourage transparency and compliance with regulations and ethical behaviour 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.

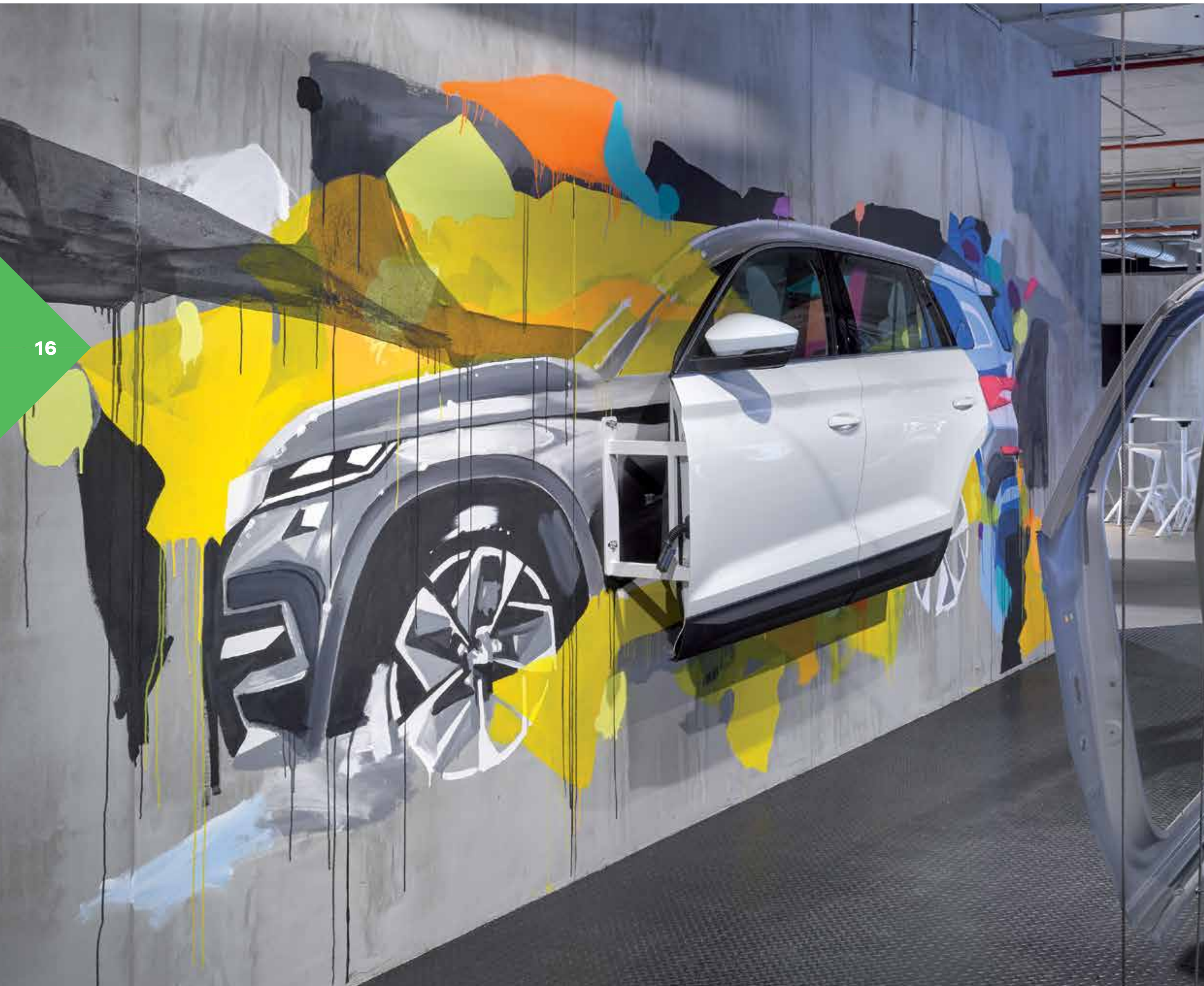
In this respect, the Code of Conduct clearly formulates the Company's general requirements regarding the behaviour of its employees, reminds them of their role in protecting the Company's reputation, and details rules on the prevention of conflicts of interest and corruption and on the handling of Company's 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 does not fully comply with the recommendation of the Code of Corporate Governance under Section VI-E-2 (in conjunction with paragraph 18 of the Code annotations) that it should establish committees responsible for remuneration and nomination. In view of the Company's shareholder structure, committee-related activities are concertedly ceded to the Group level as far as this is effective. The activities of the remuneration and nomination committee, including relevant disclosures, are carried out by the VOLKSWAGEN AG Board of Management's Human Resources Committee. Nor is the Company fully compliant with the recommendation of Section VI-E-1 of the Code (in conjunction with paragraph 5 of the Code annotations) that the Board of Management or Supervisory Board should have a sufficient number of members who are not employed by the Company and are not in a close relationship with the Company or its management through significant economic, family or other ties.

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



In the future, the ŠKODA brand is keen to not only offer vehicles, but also to complement its portfolio with mobility services.

STRATEGY

We live in an era of rapid technological overhaul. New scientific and technical discoveries are being made every day. These innovations and the resulting technical progress change not only people's daily routines, but also the industry. Megatrends such as digitalisation, electromobility or urbanisation pose the question of how ŠKODA AUTO will shape mobility in the future. Our objective: we will not only respond to changing customer needs and growing competition – sometimes even from completely new players – but we will set the trends ourselves.

Last year, we developed the Strategy 2025 and communicated it across the whole Company to ensure ŠKODA AUTO will remain one of the most successful companies in the automotive industry in future. In years to come, the ŠKODA brand will not only offer cars. We are realigning our portfolio and complementing it in particular with mobility services and other earnings from digital sources. ŠKODA is transforming from a car manufacturer into a mobility services provider. This transformation is also outlined in ŠKODA's vision: "The 'Simply Clever' company for the best mobility solutions." The ingenuity that has marked ŠKODA AUTO throughout its history of more than 120 years will also successfully power this further development of the Company.

The Strategy 2025 defines the brand's direction and objectives up to 2025. ŠKODA has already developed and implemented many of its key elements in the past year. The strategy's important pillars include electromobility, the digitalisation of products and services, entry into new markets and complementing conventional car production with many other mobility-related services.

THE FUTURE OF ŠKODA IS ALSO ELECTRIC

In its pursuit of e-mobility, ŠKODA AUTO unveiled the brand's first-ever study of a purely electric-drive car, the ŠKODA VISION E, at Auto Shanghai. It made arrangements for not only the production of electric motors and electrical components but also for a purely electric-drive vehicle at the Mladá Boleslav and Kvasiny plants to cover the needs of the Company and the Group as a whole. Internally manufactured electric motors and electrical components will soon pave the way for the launch of another five purely electric models by 2025, contributing, among other things, to improvements in the environment. While the first mass-produced purely electric car will leave the factory gates in 2020, ŠKODA's customers will be able to drive hybrid cars from 2019 onwards. The first such car will be a plug-in hybrid version of the ŠKODA's flagship, the ŠKODA SUPERB.

The **Digitalisation department** covers testing and developing services related to vehicle connectivity and mobility concepts.

In February 2017, the carmaker invited a number of high-ranking political figures, economists and trade unionists to its headquarters in Mladá Boleslav to discuss important issues and opportunities for the future of the domestic automotive industry at the AutoSAP seminar held by the Automotive Industry Association. These discussions resulted in the Memorandum on the Future of the Automotive Industry in the Czech Republic, signed in October 2017. The Memorandum has now advanced to the stage of actual implementation. The agreement includes an Action Plan that encompasses 25 measures on core themes such as e-mobility, autonomous driving and digitalisation, as well as cross-cutting themes such as support for education and R&D. These topics are also defined as key topics in Strategy 2025.

As also indicated by the Memorandum, an active focus on the latest trends is also essential. When it comes to digitalisation, ŠKODA AUTO customers are becoming increasingly digital and expect the products offered by the Company to keep pace. Great strides in artificial intelligence mean that ŠKODA AUTO customers will gain a better understanding and range of new products and services coinciding with their wishes and inclinations at just the right moment.

Another area in the future automotive industry is autonomous driving. Artificial intelligence will open up new opportunities for customers and carmakers and take them to a higher level. ŠKODA AUTO has taken important steps here, too, and is heavily engaged in such matters.

Besides thinking about the future, the Company also continues to develop in traditional areas. ŠKODA AUTO is working on entering further markets and segments and winning new customers. Naturally, the Company is also consolidating its position on current markets.

THE COMPANY'S KEY DRIVER IS DIGITALISATION

In 2016, ŠKODA AUTO ushered in a new Digitalisation department to develop new digital areas of business. In 2017, this department was responsible, in collaboration with specialist departments across the Company, for testing and developing services related to vehicle connectivity and mobility concepts. Guided by the digitalisation of the Company and its processes, conditions important for ŠKODA AUTO's future were created to reflect the intensifying orientation towards Industry 4.0 principles in production, the use of virtual reality in technical development and to collate data on sales-related trends and customers' wishes. Digitalisation also entails a change of culture throughout the Company.

ŠKODA AUTO DigiLab – the birthplace of innovation
This is where ŠKODA AUTO DigiLab, opened in Prague in early 2017, plays an extraordinary role. This is a creative workshop spearheading the search for ideas and trialling new business models, taking into account the evolving needs of customers, such as car-pooling, carsharing and smart parking. The goal is to extend the business model to cover such solutions.

An important part is played not only by ŠKODA AUTO DigiLab itself, but also by a far-reaching partner network of startups, tech companies, universities and the public sector. ŠKODA AUTO DigiLab has sponsored a number of events in the Czech Republic and, more broadly, Europe to build up this network and spot new ideas and talents. At the Smart Mobility Hackathon in Prague, for example, 20 teams of 13 nationalities spent four days developing creative concepts for „Smart Cities", green mobility and connectivity.

Innovation partnership in Israel
Cooperation is not limited to the Czech Republic or even Europe. An international aspect in the search for new innovative ideas emerged in August 2017 when an innovation partnership was established with Champion Motors Ltd., an Israeli importer of ŠKODA cars. Israel is regarded as one of the world's digital startup hubs. By cooperating with a partner who has good contacts in this area, ŠKODA AUTO will gain direct access to innovative projects, hi-tech startups and talents in IT. Documents establishing the joint venture between ŠKODA AUTO DigiLab and Champion Motors in Tel Aviv were signed in Prague on 14 December 2017.

THE ŠKODA KAROQ IS A GLIMPSE INTO THE FUTURE

At the turn of 2016 and 2017, the manufacture of the Company's first large SUV, the ŠKODA KODIAQ, began. Soon after the start of production, two new variants, the ŠKODA KODIAQ SPORTLINE and the ŠKODA KODIAQ SCOUT, were debuted at the Geneva Motor Show in March. In May, ŠKODA AUTO introduced the brand new ŠKODA KAROQ compact SUV. The impressive premiere of this model, hosted by Stockholm's Artipelag cultural centre, was witnessed by thousands of people around the world because it was filmed and broadcast online. At the end of July, the first mass-produced ŠKODA KAROQ rolled off the line at ŠKODA AUTO's Czech plant in Kvasiny.

ŠKODA AUTO has incorporated state-of-the-art technologies into the ŠKODA KAROQ, including an optional digital instrument panel, which replaces the analogue indicators in ŠKODA cars for the first time. Drivers can customise the digital display by taking their pick of several different configurations, so they only see what they want and deem necessary. ŠKODA CONNECT offers remote access to the vehicle. The fuel status can be monitored, comparisons can be run with historical data from previous drives, and the parked vehicle can be located on a map, all by means of a smartphone. Another essential feature is the ability to make plans for a future route, with a smartphone then keeping track of the current traffic situation to ensure that the driver leaves in time.

The brand new compact SUV ŠKODA KAROQ combines design and modern technologies in harmony with the vision **"Simply Clever"**.

In 2017, selected models of ŠKODA AUTO were **modernised** to fully meet new trends in the Company.

PRODUCT PORTFOLIO

ŠKODA CITIGO

The ŠKODA CITIGO facelift was launched in mid-2017. The whole fascia has a new look, with changes to the radiator grille, bonnet, headlamps and front bumper. The interior has also been redesigned. For safer driving, especially in crowded city streets, City Safe Drive with automatic emergency braking is available.

The ŠKODA CITIGO is a three- or five-door city car that comes with optional LED daytime running lights and Climatronic air-conditioning. ŠKODA's city car is available in several economical petrol engine versions. Alternatively, there is the ŠKODA CITIGO G-TEC, a vehicle powered by compressed natural gas to make it particularly environmentally friendly. Customers have a choice of manual or semi-automatic five-speed transmission.

ŠKODA FABIA

The dynamic new 1.0 TSI three-cylinder engines introduced to the ŠKODA FABIA in 2017 consume up to six per cent less fuel than previous engines. The optional ŠKODA CONNECT enables passengers to be online at all times in the ŠKODA FABIA. SmartLink+ transfers smartphone apps, music or navigation data to the ŠKODA FABIA's centre display. Several ŠKODA FABIA models offer ample opportunity for customisation, including two-tone bodywork and a wide range of engines. ŠKODA FABIA MONTE CARLO and ŠKODA FABIA COMBI SCOUTLINE versions are also available.

ŠKODA RAPID

In 2017, ŠKODA revamped its compact ŠKODA RAPID visually and technically. A modernised fascia, bi-xenon headlights, ŠKODA CONNECT online services, and new 1.0 TSI engines – these are but a few examples from the list of innovations in the second most popular ŠKODA model series. The ŠKODA RAPID has retained its very spacious passenger and luggage compartments and its undeniably international disposition. In fact, special versions of this model have been engineered for the key markets of China, India and Russia, where it is also made.

ŠKODA OCTAVIA

The ŠKODA OCTAVIA, ŠKODA's bestseller and its beating heart, was thoroughly revamped in 2017. The grille, air intakes and headlights are all newly designed. The outer lights are used for the dipped beam, while the inner ones – following on from the radiator grille – are for the full beam. Full LED headlights are an option from the Ambition trim level upwards. The ŠKODA OCTAVIA also features a newly shaped rear bumper. The C-shaped tail light is illuminated uniformly throughout thanks to the use of LED technology in the rear light clusters. ŠKODA CONNECT services are also available, along with a completely new range of mobile online services and other "Simply Clever" elements. The ŠKODA OCTAVIA range of models is highly varied. Besides the liftback and the estate, it includes the adventurous ŠKODA OCTAVIA SCOUT, the extremely economical ŠKODA OCTAVIA G-TEC running on natural gas, and RS models, now delivering engine power of 230 hp and 245 hp, which, like the higher trim levels, are increasingly attracting customer interest.

ŠKODA KAROQ

In 2017, the ŠKODA KAROQ expanded the range of SUV models with a completely newly developed compact SUV 4.38 m in length. Its crystalline design is fully in line with the new SUV design language. Its numerous features include a luggage compartment with a capacity of up to 1,630 litres, full LED headlights and a freely programmable digital instrument panel, available for the first time in a ŠKODA. Customers can choose from five engine variants with power ranging from 85 kW to 140 kW. In addition, the new ŠKODA KAROQ offers ingenious pieces of equipment, such as the VarioFlex rear seats and a virtual pedal for contactless boot opening. Also available are a glass-design capacitive touchscreen and a set of ŠKODA CONNECT services, i.e. Infotainment Online, used to elicit a wealth of important transport and weather information, and the Care Connect assistance system, incorporating an emergency call service. In addition, the car can create a local wi-fi network so that all passengers enjoy a connection to the internet.

Among the advantages of ŠKODA KAROQ is a luggage compartment with a capacity of up to **1,630 litres**.

ŠKODA KODIAQ

The first big SUV, 4.70 m long, with up to seven seats and the largest luggage compartment in its class, offers exceptional interior space and a complete set of ŠKODA CONNECT services. It also boasts a whole range of new functional and “Simply Clever” details and innovative technologies that are usually found only in higher-end cars. The ŠKODA KODIAQ spearheaded ŠKODA’s major SUV offensive when it was launched in February. Two derived versions were also showcased at the Geneva Motor Show in March. The ŠKODA KODIAQ SPORTLINE, offering four petrol and diesel engines delivering power of up to 140 kW, black painted body elements, specially designed nineteen- and twenty-inch alloy wheels, and other specific equipment, and the ŠKODA KODIAQ SCOUT, also with four petrol and diesel engines providing power of up to 140 kW, which – courtesy of its sophisticated details and specifically tuned equipment – is also suited to off-road driving.

ŠKODA SUPERB

The ŠKODA SUPERB has always been a pioneer in its class. The third generation of this model, unveiled in 2015, heralded a new era for the ŠKODA brand. With two body versions and the VOLKSWAGEN Group’s advanced MQB technology, the ŠKODA SUPERB has completely redefined ŠKODA’s design language and ascended to a new plane of comfort and technology. The new ŠKODA SUPERB impressively combines space, functionality, connectivity and emotion.


2SX 5645
3SC 4898
3SZ 9372
3SI 9161


3SZ 8155
3SZ 2568
2SU 2849

In **2017**, ŠKODA AUTO reported record sales, record turnover, record operating profit and record operating cash flow.

FINANCIAL SITUATION

ŠKODA AUTO's financial results are reported according to IFRS.

In many respects, 2017 was the most successful financial year in ŠKODA AUTO's history, yielding record sales, turnover, operating profit and operating cash flow. The Company's further improvements in financial performance in 2017 were built on its expanding sales and successful efficiency-boosting measures.

COMPANY BUSINESS PERFORMANCE

1,201 thousand ŠKODA brand vehicles were delivered to customers worldwide (including deliveries in China) in 2017, up 6.6% year on year, making this the fourth year in a row in which it had broken through the million-delivery mark. Company sales climbed by 13.7% year on year to 910 thousand cars. Sales revenue rose by 17.1% year on year to CZK 407.4 billion. In the reporting period, vehicle sales accounted for 84.3% of the Company's total turnover (2016: 84.0%).

The top-selling models were the ŠKODA OCTAVIA, the ŠKODA FABIA, and the ŠKODA SUPERB. The ŠKODA KODIAQ also reported robust sales. The genuine parts and accessories business constituted 5.2% of total sales revenue (2016: 5.6%). The remaining 10.5% (2016: 10.4%) was made up of receipts from the supply of components and kit cars to VOLKSWAGEN Group companies and other revenues.

In absolute terms, the cost of sales increased by 17.7% year on year to CZK 347.5 billion. Much of this increase can be attributed to material costs (the cost of raw materials, consumables and purchased goods). Compared to the previous year, gross profit increased by 13.5% to CZK 59.9 billion.

Distribution costs climbed by 11.4% year on year to CZK 15.0 billion. In 2017, administrative costs were 23.8% higher year on year at CZK 9.7 billion. These administrative costs were pushed up in particular by the purchase of IT services to digitalise the Company and its processes.

The Company's CZK 40.5 billion operating profit in the reporting period was 31.2% higher than in the previous year. Profit before tax came to CZK 39.1 billion (2016: CZK 30.8 billion). Profit after tax was CZK 31.8 billion (2016: CZK 25.2 billion). The profit before income tax-to-revenues ratio was 9.6% (2016: 8.9%).

COMPANY CASH FLOWS

In 2017, cash flow from operating activities climbed by 20.6% year on year to CZK 60.8 billion. There was a 34.1% year on year increase in net liquidity to CZK 95.1 billion as at 31 December 2017.

COMPANY ASSET AND CAPITAL STRUCTURE

As at 31 December 2017, the Company's total assets amounted to CZK 250.9 billion, a 9.9% increase, equal to CZK 22.7 billion, on the previous year-end balance. The value of non-current assets was up just slightly when juxtaposed with the comparative period (+1.8%), standing at CZK 106.7 billion. The rise on the asset side of the balance sheet can be attributed in particular to an increase in current assets. This development mainly reflected the upbeat trend in net liquidity. As at the reference date, current assets stood at CZK 144.2 billion, up 16.9% on the figure reported as at 31 December 2016.

Equity dipped during 2017 by CZK 20.1 billion to a total of CZK 117.5 billion. The drop in equity was prompted by the sole shareholder's decision to draw on retained earnings in order to pay out dividends of CZK 38.5 billion.

The dividend decision was also behind the hike in current liabilities to CZK 116.6 billion as at 31 December 2017 (31 December 2016: CZK 72.1 billion) as the dividends were not paid out before the year end. Non-current liabilities, on the other hand, were nudged down by 9.1% year on year to CZK 16.8 billion.

COMPANY INVESTMENT ACTIVITY

In 2017, capital expenditures (net of development costs) amounted to CZK 18.9 billion, the largest proportion of which was channelled into product investment related to the launch of new models and engines.

The Company spent CZK 15.4 billion on new product research and development in 2017 (2016: CZK 10.0 billion).

As at 30 March 2017, the Company established ŠKODA AUTO DigiLab s.r.o., registered office: Jankovcova 1603/47a, Holešovice, 170 00 Praha 7, and became its sole partner.

The Company spent **CZK 15.4 billion** on new product research and development in 2017.

OTHER INFORMATION

In the past, certain ŠKODA vehicles were produced with 1.2 litre, 1.6 litre and 2.0 litre EA 189 diesel engines. 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 hold 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 2018.

Servicing campaign costs were taken into account in the financial statements for 2016 and 2017.

TECHNICAL DEVELOPMENT

In 2017, ŠKODA AUTO invested CZK 15.4 billion in technical development. Revenue from external orders in 2017 came to CZK 1.3 billion. 1,928 employees at the Company's headquarters were involved in the development of new models in 2017. ŠKODA AUTO also continued to expand Technical Development, entailing the creation of 240 new jobs.

The internal Innovation Fair (IVET) was held in 2017 to support and develop customer and technical innovations. With the participation of members of the Board of Management, spearheaded by Bernhard Maier and Christian Strube, and Technical Development managers, innovations and innovative concepts from across ŠKODA AUTO Technical Development were showcased. Over an area of more than 1,000 m^2, the carmaker presented the topics pursued by Strategy 2025, with an emphasis on electrification, CO_2 abatement, roadside assistance systems, mobile services and "Simply Clever" solutions. Visitors could get a hands-on grasp of most of these topics by trying out static exhibits, demonstrators, and prototype cars.

SHANGHAI GETS ITS FIRST VIEW OF ŠKODA VISION E STUDY

April's Auto Shanghai 2017 motor show was a major event for ŠKODA AUTO. It was here that the Company introduced the ŠKODA VISION E study, with purely electric drive and autonomous driving, for the first time. The study dovetails fully with the e-mobility concept under Strategy 2025. It sheds light on the outlook for drive technology, design and automotive transport in the near future, and also defines the concept of digitalisation and the use of virtual reality.

Top speed 180 km/h and **500 km per charge**. That is the ŠKODA VISION E study.

The ŠKODA VISION E study, based on the Group's MEB modular kit for electric vehicles, has a system capacity of 225 kW. Two powerful electric motors enable the car to reach a top speed of 180 km/h. It draws on economical and powerful lithium-ion batteries and smart recuperation, which in practice equates to a range of up to 500 km per charge. The study also entertains the possibility of inductive charging batteries, fast charging to give an 80% charge in 30 minutes, and autonomous driving.

The ŠKODA VISION E study has impressive dimensions, measuring 4.65 metres in length, 1.9 metres in width and 1.6 metres in height. The ŠKODA KODIAQ, for example, is of a similar size, indicating that the ŠKODA VISION E's interior is exceptionally large and well-appointed. The electric car's parameters allow for different bodywork design and an alternative interior layout. Like other electric vehicles, the ŠKODA VISION E does not have a classic radiator grille. Instead, the bonnet is elongated, reaching below the lights until it reaches the bumper. The study has rear suicide doors, the B-pillar has been taken out completely, and the seats are tilted 20 degrees outwards when the door is opened. The ŠKODA VISION E concept has no wing mirrors. These are replaced by cameras, which capture what is going on around the car and screen this on an interior display. With its wide range of other sensors and cameras, the ŠKODA VISION E has been designed for level-3 driving automation. This means it can move autonomously in heavy traffic, use autopilot to drive along motorway sections, keep to a lane or overtake, and independently search for free parking spots, which it can automatically enter and exit.

The ŠKODA VISION E study also incorporates all of the customary ŠKODA driver-assist technology, along with features developed specifically for the autonomous driving of an electric vehicle. For example, the park pilot is self-learning via Educated Parking, a system that remembers and then seeks out the driver's preferred parking position. Nor have the infotainment systems, range of ŠKODA CONNECT services and "Simply Clever" solutions been forgotten.

ŠKODA VISION E is a concept that visitors to Shanghai's spring motor show and the IAA's autumn International Motor Show Germany in Frankfurt were able to explore. The study has outlined the approach to development that ŠKODA AUTO will continue to follow intensively in the coming years. In addition to its plug-in hybrid models, the carmaker will launch five electrically powered cars by 2025.

NOT ONLY DEVELOPMENT BENEFITS FROM VIRTUAL REALITY

Virtual reality is a technology already successfully used in many different fields, starting with the video game industry and ending with the automotive industry. ŠKODA AUTO has been using this technology for almost 20 years and expects to continue harnessing it in the future in technical development and other areas of the Company as part of its Strategy 2025 digitalisation. A practical example of virtual reality's potential use outside of development was the introduction of the ŠKODA VISION E study in Shanghai, which could be witnessed by essentially the whole world. Thanks to new technologies and the ŠKODA Virtual Reality App, anyone interested was able to explore the study and experience the future of mobility from the comfort of home. Simultaneously with the presentation of the ŠKODA VISION E study at the Auto Shanghai motor show, the carmaker invited guests to thematic events in selected cities around the world. Here, visitors were able to watch the presentation by putting on the latest HTC VIVE virtual reality headset and headphones. This gave those interested the chance to learn about the innovative electric drive, explore the futuristic design of the emotionally designed coupe, and even take a digital test drive.

At ŠKODA AUTO, the use of virtual reality in the development of new car parts and models also works on the principle of research by means of projectors, computers, headsets and a tracking system that detects the position of the observer in relation to what they are observing. Most commonly, virtual reality helps to assess the look, design and structure, including aerodynamics and body strength. To simulate the interior, a "cave" is used – this is a multi-screen projection with 3D glasses.

THE AWARD-WINNING AND TECHNOLOGY PACKED ŠKODA KAROQ

For Technical Development, 2017 (especially the autumn) saw the culmination of work on the ŠKODA KAROQ. In October, this model was awarded the prestigious Autonis award for the best new design of a compact SUV. The European New Car Assessment Programme (Euro NCAP), an independent organisation, assessed the ŠKODA KAROQ's safety. This compact SUV is another of the Czech carmaker's models to earn five stars, making the ŠKODA KAROQ one of the safest compact SUVs around today. The car magazine Autobild and the Sunday newspaper Bild am Sonntag awarded the ŠKODA KAROQ a Golden Steering Wheel. Readers from more than 20 European countries propelled the ŠKODA KAROQ to the final of the "small SUV" category with their votes. After challenging test drives, the expert jury eventually selected the new ŠKODA KAROQ as the compact SUV category winner. The ŠKODA KAROQ performed well not only in ŠKODA's well-known domains of comfort and spaciousness, but also in connectivity: it has the latest infotainment system with a capacitive touchscreen and an individually programmable digital instrument panel. The car also thrilled test drivers with its impressive powertrains and well-tuned chassis. The ŠKODA KAROQ's other new features to enhance passenger comfort are "Simply Clever" solutions, such as the third-generation virtual pedal to open the fifth door. Gently moving a foot under the wing automatically opens and closes the luggage compartment. All of the mobile online services offered by ŠKODA CONNECT and SmartLink+ are available as a matter of course, enabling passengers to use both their smartphones and the onboard touch-based infotainment systems with navigation.

NEW EMISSIONS CENTRE SOUTH FOR DEVELOPMENT

One of ŠKODA AUTO's largest current development investments is the new Emissions Centre South, which took more than a year and a half to build and was opened in the spring of 2017. The total construction cost was EUR 15 million, i.e. more than CZK 400 million, including three new emission measuring boxes. The Emissions Centre South will be used not only by the Development department, but also by the Quality department to run prescribed checks of mass produced vehicles. It has the capacity to cover the expanding development and inspection activities necessitated by the increasing quantities of cars being made. The opening of this centre has created twenty new jobs.

The modern Emissions Centre South has been designed and built to meet, as much as possible, increasingly stringent legislative requirements for measuring pollutants in exhaust gases. In this respect, the carmaker is preparing for changes expected in the use of drives, fuel and measurement technology, and for new markets with different emissions legislation.

The contest for the prestigious prize **"Autonis"** is decided by readers of the German technical magazine Auto Motor und Sport. ŠKODA KAROQ succeeded in excelling amongst seventeen competitors.

ŠKODA AUTO is assuming full responsibility for the development of the **MQB A0 IN** platform for the VOLKSWAGEN Group.

At the new Emissions Centre South, emissions are measured at various temperatures. Besides the "normal" temperature of +23 °C, measurements are taken at temperatures of +14 °C and -7 °C. Two of the three measuring boxes can be used for special measurements over a wide temperature range from -40 °C to +65 °C. All three measuring boxes are equipped with chassis dynamometers for 4x4 drive vehicles. These simulate tyre rolling resistance and the car's aerodynamic resistance, replicating real road driving conditions. Braking is simulated by electric motors, each with an output of 220 kW. The input power per device is 650 kW. The car is cooled by air, the flow of which can be simulated proportionally up to a speed of 135 km/h. The chassis dynamometer can then be used to simulate driving up to 250 km/h. During the measurement, the exhaust gases are collected in an analytical system, where the total volume and concentration of the individual pollutants are measured.

The construction of the Emissions Centre South reflects the trust the VOLKSWAGEN Group has in ŠKODA AUTO and the demands it places on the Company. The construction significantly fortifies the Company's competence in this area and guarantees the cultivation of our know-how and our leading position internationally.

DEVELOPMENT OF THE NEW MQB A0 IN PLATFORM FOR THE INDIAN MARKET IN ŠKODA AUTO'S HANDS

At the end of 2016, it was decided that ŠKODA AUTO would take over the full development of the VOLKSWAGEN MQB A0 IN platform, designed for developing countries. A newly formed unit within Technical Development is responsible for this project. The new platform needs to be adapted to climatic conditions, local requirements and standards pinned down further to an analysis of the Indian market. Particular requirements include the temperature range of the air-conditioning and the interior design. Local resources are preferred for the development of the new platform and cars, and production will be localised. During 2017, several workshops were held with local suppliers to recruit strong partners for quality cooperation in development activities. Preparations surrounding the platform and the Indian market are not restricted to Technical Development, but involve all areas of the Company. The assumption of development responsibility for the new platform shows that ŠKODA AUTO is a strong partner within the VOLKSWAGEN Group.

THE ŠKODA MOTORSPORT TEAM ENJOYED ANOTHER SUCCESSFUL SEASON

ŠKODA has had another excellent season in motorsport. The factory crew of Jan Kopecký and Pavel Dresler ran out winners of the 2017 Czech championship in their ŠKODA FABIA R5. A ŠKODA FABIA R5 crewed by Gaurav Gill and Stéphane Prévot won the Asia-Pacific Rally Championship (APRC), with ŠKODA AUTO winning the 2017 APRC Manufacturers' Cup. In the WRC2 category, Pontus Tidemand and Jonas Andersson were named 2017 world champions. The ŠKODA Motorsport team won the WRC2, which is the most important companion rally series to the World Rally Championship.

ŠKODA FABIA R5s were victorious not only in the colours of the ŠKODA Motorsport factory team, but also chalked up huge success among customers purchasing the ŠKODA FABIA R5. More than 170 of these unique cars have been sold since spring 2015. This racing model has been bought by 76 teams from 27 countries. Consequently, the ŠKODA FABIA R5 is a regular participant in rally championships in 50 countries.

On 12 December 2017, more than 70 leading journalists and VIP guests attended a press conference where the factory drivers for the upcoming 2018 season were introduced. The winners of a competition also had a unique opportunity to take a ride in the ŠKODA FABIA R5 at the Mladá Boleslav plant.

More than **170 unique racing cars** of the ŠKODA FABIA R5 have already been sold.

In 2017, ŠKODA AUTO's outlay on production material purchasing totalled **CZK 217 billion**, consistent with a year on year increase of CZK 39 billion.

PROCUREMENT

Procurement is responsible for all needs and requirements cropping up in everyday work at ŠKODA AUTO, whether in production or non-production, and oversees the optimisation of costs. In this respect, the procurement strategy drew on Strategy 2025, adopted the year before.

NEW CAR LAUNCHES

One of the most important events of 2017 was the start of production of the ŠKODA KAROQ, the new compact SUV, in Kvasiny. Procurement oversaw the procurance of 2,100 new parts specifically for this model, which were made and delivered by more than 600 suppliers. Increased demand for the ŠKODA KAROQ and ŠKODA KODIAQ and their specific features also made it necessary to expand capacity and to work with other departments to safeguard the smooth launch of the car. Procurement was also responsible for purchasing parts for ŠKODA's facelifted models – the ŠKODA CITIGO, the ŠKODA RAPID and the ŠKODA RAPID SPACEBACK – and for the ŠKODA OCTAVIA, which was to undergo the biggest revamp of all.

The ŠKODA KAROQ's launch was the last part of a multi-year project that had also encompassed the SEAT ATECA as a sister model. ŠKODA proved, in this way, that the VOLKSWAGEN Group's various brands are able to work well together. Both models are currently made at the Kvasiny plant.

Demand for general procurement centred on the construction of a new paint shop block at the Mladá Boleslav plant, with a daily capacity of 300 painted vehicles (expandable to 600). This was the biggest investment of 2017 and will be put into operation in 2019. Other investments include the upgrading and expansion of welding lines, extensions to the production halls, and the construction of a new logistics and quality centre at the Kvasiny plant. Another major infrastructure investment was the opening of a new multistorey car park in the immediate vicinity of Gate 6. The car park, with an investment value of more than EUR 6 million, has 1,150 parking spaces spread over five floors. This means that there are now 5,444 employee parking spaces around the Mladá Boleslav production plant.

The General Procurement department handled marketing requirements. As ŠKODA AUTO put the ŠKODA KAROQ in the spotlight in 2017, the investment in this compact SUV's world première at Stockholm's Artipelag art hall in May was a particularly important event.

Strategy 2025, with its emphasis on digitalisation and e-mobility, focused mainly on securing the procurement of all parts needed for the smooth expansion of ŠKODA CONNECT services. This is because all ŠKODA models, aside from the ŠKODA CITIGO, have featured online services since 2017. The groundwork to make these services available to smaller cars had been laid a year earlier with, for example, the purchase of software solutions capable of effortlessly handling millions of users' connections to all online services. The Procurement department is currently paving the way for the carmaker to roll out its first electric vehicle in 2020.

PROCUREMENT GROWTH, RISING MARKET PRICES OF KEY RAW MATERIALS

In 2017, ŠKODA AUTO's outlay on production material purchasing totalled CZK 217 billion, consistent with a year on year increase of CZK 39 billion. Much of this material continues to be sourced in the Czech Republic (48.8 %), followed by Germany, which accounts for about a quarter (24.8 %) of the production materials purchased. General procurement aggregated CZK 41 billion, equal to a CZK 5 billion increase year on year.

ŠKODA AUTO and the VOLKSWAGEN Group saw the market prices of their raw materials rise in 2017. The price of rhodium, for example, shot up by almost 100% year on year to USD 1,500 per troy ounce. Palladium prices registered a leap of at least 40% to break through USD 1,000 per troy ounce. The only precious metal to develop along positive pricing lines was platinum, which hovered around USD 900-1,000 per troy ounce. The year on year growth in copper, aluminium and lead prices, though significant, was not as steep as for other materials. Regardless of these factors, costs were radically optimised and this was instrumental in the brand's sound overall performance.

In September, ŠKODA heralded another milestone when worldwide production since 1905 surpassed **20 million vehicles**. The breakthrough car in this sense was the ŠKODA KAROQ.

PRODUCTION AND LOGISTICS

The Company continued to pursue the Strategy 2025 in 2017. The SUV offensive is part and parcel of that strategy. A major event was the start of production of the ŠKODA KAROQ, the new compact SUV. Alongside this, ŠKODA AUTO kept up production of the ŠKODA KODIAQ and innovated many aspects of the ŠKODA RAPID, ŠKODA CITIGO and ŠKODA OCTAVIA. To meet increased customer demand, the Company increased its production capacities even further in 2017.

Concurrently with this, the carmaker expanded and upgraded the production and servicing technology at its plants. This modernisation project was characterised by advances in robotics, automation, and the digitalisation of manufacturing processes in line with the Industry 4.0 concept.

ŠKODA PRODUCTION STRATEGY ABROAD

Foreign plants around the world braced themselves to start making new or innovated models on their production lines in 2017.

In China, production of the ŠKODA KODIAQ started in February. This was followed by the launch of production of the facelifted ŠKODA OCTAVIA and ŠKODA OCTAVIA SCOUT in May and the revamped ŠKODA RAPID and ŠKODA RAPID SPACEBACK in August. The ŠKODA KAROQ, the new compact SUV, started being produced in China in November.

The Aurangabad plant in India started producing the revamped ŠKODA OCTAVIA in May, followed by the ŠKODA KODIAQ in August.

Production of two models was also launched in Russia – the facelifted ŠKODA OCTAVIA at the Nizhny Novgorod plant in March, and then the innovated ŠKODA RAPID at the Kaluga plant in June.

A month before that, the production of the rejuvenated ŠKODA CITIGO began in Slovakia.

PRODUCTION OF NEW MODELS IN THE CZECH REPUBLIC

The Company's domestic plants increased their capacity in 2017. Production was ramped up significantly at the Kvasiny plant in particular, with production of the ŠKODA KAROQ starting in July.

At the parent plant in Mladá Boleslav, the first distinctively revamped ŠKODA OCTAVIAs rolled off the production line in February, followed in May by the innovated ŠKODA RAPID. Capacity utilisation was made more efficient in July when production of the ŠKODA RAPID was switched from the MB I plant to the MB II plant.

MLADÁ BOLESLAV – A PARENT FACILITY WITH PROSPECTS

In 2017, global production of ŠKODAs numbered 1,232,042 cars, up 79,734 on 2016. In September, ŠKODA heralded another milestone when worldwide production since 1905 surpassed 20 million vehicles. The breakthrough car in this sense was a ŠKODA KAROQ.

One of the brand's most popular cars, the ŠKODA OCTAVIA, hailing from the MB I plant, also passed several major milestones in 2017. Production of the distinctively revamped ŠKODA OCTAVIA started in February. Come May, employees had made one and a half million of this third-generation car. In June, the six millionth ŠKODA OCTAVIA since 1959 rolled off the line. The ŠKODA OCTAVIA saw its average daily output climb to 1,121 units, a 3% rise on the previous year.

The ŠKODA FABIA, made at the MB II plant, is now a fixture on the automotive market, as evidenced by the annual production of 196,022 cars, equating to average daily output of 813 units. The 500,000th third-generation ŠKODA FABIA rolled off the line in June. Capacity utilisation was made more efficient in July when production of the ŠKODA RAPID was switched from the MB I plant to the MB II plant.

The rising volume of production necessitated the expansion and upgrading of production capacities at the plant in Mladá Boleslav. In response, ŠKODA AUTO put its state-of-the-art PXL II servo-press line into operation. The main advantages of this press line are the possibility of pressing aluminium parts and the speed at which tools can be replaced. Up to 20,000 press parts for various models can be turned out every day here. The PXL II makes the production process a lot more flexible and consumes 15% less energy than normal systems, so it is important for the GreenFuture environmental strategy. The new press line resulted in the creation of 140 new jobs in Mladá Boleslav. The PXL II was officially put into service in January 2017.

Another key investment in the Company's future has been the new paint shop. The foundation stone of the new paint shop at the Mladá Boleslav plant, with a planned painting capacity of 600 bodies per day, was laid in December 2017. When it is put into operation in June 2019, it will be one of the most modern and most environmentally friendly paint shops anywhere in Europe. Numerous work operations will be taken over or assisted by robots. The high degree of automation will make it possible to lay out the various workstations extremely economically.

The Kvasiny plant has produced **2 million cars since 1947**.

THE DYNAMICALLY DEVELOPING KVASINY PLANT

The Kvasiny plant's portfolio currently boasts the ŠKODA SUPERB, ŠKODA SUPERB COMBI and ŠKODA KODIAQ. These were joined in July by a compact SUV, the ŠKODA KAROQ. The Kvasiny plant responded to the expansion in production capacity by recruiting new employees and switching to an 18-shift operation. In July, the plant also put its new AKL automatic small-parts warehouse into operation (it takes its name from the German – AKL stands for Automatisches Kleinteilelager). The construction of the AKL has been one of the biggest logistics projects in the Company's modern history. This automatic small-parts warehouse will streamline the way the mounting complexity of material types is handled and will make the plant's logistics processes even more flexible.

The Kvasiny plant also marked two significant milestones. The two millionth vehicle – a Moon White-coloured ŠKODA KODIAQ – was built here in early 2017. In addition, the plant celebrated the 70th anniversary of its opening, with ŠKODA cars having rolled off the production line in Kvasiny since 1947. Today, 8,500 employees make an average of 1,052 vehicles per day.

COMPONENT PRODUCTION

In 2017, ŠKODA AUTO made 1,168,306 gearboxes, of which 366,287 were MQ 200 gearboxes, 272,019 were MQ/SQ 100 gearboxes, and 530,000 were DQ 200 gearboxes. By the end of 2017, production at the Vrchlabí plant was running at full capacity of 2,200 units per day.

The Company also produced 577,346 engines in 2017. ŠKODA AUTO makes components not only for internal consumption, but also for the needs and requirements of other Group brands. In total, 248,123 engines and 757,611 gearboxes (65% of all gearboxes manufactured) were produced for other Group brands.

In 2017, ŠKODA AUTO celebrated three milestones in the production of its components. In February, the Mladá Boleslav plant chalked up the production of 13 million engines since 1899. In the same month, the Vrchlabí plant made its one-and-a-half-millionth DQ 200 gearbox. In October, the Company recorded the 10-millionth gearbox to have been made at the Mladá Boleslav and Vrchlabí plants since 2001.

Axle production is integral to the manufacture of components. ŠKODA AUTO currently makes 6,950 of them every day. Overall, 1.721 million axles were made for the assembly plants in Mladá Boleslav, Kvasiny and India in 2017.

INCREASED PRODUCTION OF ŠKODA CARS ABROAD

At the Group's Pune plant in India, 11,800 vehicles were made, a 22.8% year on year rise. The partner plant in Nizhny Novgorod produced 44,042 vehicles in 2017, 50.5% more than in 2016. The Kaluga plant made 32,956 cars, equal to 14.7% growth. Chinese partner plants produced a combined total of 332,275 ŠKODA FABIAs, ŠKODA RAPIDs, ŠKODA OCTAVIAs, ŠKODA YETIs, ŠKODA KAROQs, ŠKODA KODIAQs and ŠKODA SUPERBs in 2017. Compared to the year previous, car production in China was up by 1.3%.

PRODUCTION BY MODEL

ŠKODA CITIGO

ŠKODA CITIGO production fell by 6.1%. VOLKSWAGEN's Bratislava plant made 38,749 ŠKODA CITIGOs (2016: 41,247).

ŠKODA FABIA

In 2017, 209,471 ŠKODA FABIAs were made worldwide (2016: 203,308), a 3.0% year on year rise.

ŠKODA RAPID

In 2017, 209,836 ŠKODA RAPIDs were made worldwide (2016: 216,773), a 3.2% dip.

ŠKODA OCTAVIA

In 2017, the ŠKODA OCTAVIA once again remained ŠKODA's most important model. Worldwide production of this model was reported at 420,811 units, tantamount to a 5.5% drop (2016: 445,415 units). This model accounted for the lion's share of the total annual worldwide production of ŠKODA cars, coming in at 34%.

ŠKODA YETI
In 2017, 66,625 ŠKODA YETIs were made worldwide (2016: 95,426). Production of this model ended in the Czech Republic and China.

ŠKODA KAROQ
Production of the ŠKODA KAROQ, the new compact SUV, started in the Czech Republic in July 2017 and in China in November. Overall, 15,445 of these cars were made.

ŠKODA KODIAQ
Production of ŠKODA AUTO's first large SUV started in October 2016. Worldwide production in 2017 amounted to 124,002 vehicles (2016: 1,259).

ŠKODA SUPERB
In 2017, 147,103 ŠKODA SUPERBs were built worldwide (2016: 148,880), a modest 1.2% dip.

PRODUCTION OF CARS AT ŠKODA AUTO COMPANY

	VEHICLES 2017	VEHICLES 2016	CHANGE (%) 2017/2016
Production of ŠKODA-branded cars			
ŠKODA FABIA	119,730	117,397	2.0%
ŠKODA FABIA COMBI	76,292	75,479	1.1 %
ŠKODA FABIA total	**196,022**	**192,876**	**1.6%**
ŠKODA RAPID	31,561	31,715	(0.5%)
ŠKODA RAPID SPACEBACK	49,553	52,975	(6.5%)
ŠKODA RAPID total	**81,114**	**84,690**	**(4.2%)**
ŠKODA OCTAVIA	89,667	90,130	(0.5%)
ŠKODA OCTAVIA COMBI	180,102	176,093	2.3%
ŠKODA OCTAVIA total	**269,769**	**266,223**	**1.3%**
ŠKODA YETI	**24,555**	**61,038**	**(59.8%)**
ŠKODA SUPERB	47,697	46,775	2.0%
ŠKODA SUPERB COMBI	57,211	58,540	(2.3%)
ŠKODA SUPERB total	**104,908**	**105,315**	**(0.4%)**
ŠKODA KODIAQ	**76,108**	**1,167**	**–**
ŠKODA KAROQ	**14,998**	**–**	**–**
Total ŠKODA brand	**767,474**	**711,309**	**7.9%**
Production of SEAT-branded cars			
SEAT TOLEDO	13,146	18,029	(27.1%)
SEAT ATECA	77,483	35,833	116.2%
Total SEAT brand	**90,629**	**53,862**	**68.3%**
Total ŠKODA AUTO production	**858,103**	**765,171**	**12.1%**

ŠKODA BRAND PRODUCTION WORLDWIDE*

	VEHICLES 2017	VEHICLES 2016	CHANGE (%) 2017/2016
Production of ŠKODA cars in India			
ŠKODA RAPID	11,800	9,608	22.8%
ŠKODA OCTAVIA	2,406	2,356	2.1%
ŠKODA SUPERB	1,502	1,825	(17.7%)
ŠKODA KODIAQ	838	–	–
Total ŠKODA in India	**16,546**	**13,789**	**20.0%**
Production of ŠKODA cars in Slovakia			
ŠKODA CITIGO	38,749	41,247	(6.1%)
Total ŠKODA in Slovakia	**38,749**	**41,247**	**(6.1%)**
Production of ŠKODA cars in Russia			
ŠKODA RAPID	32,956	28,743	14.7%
ŠKODA OCTAVIA	21,479	22,356	(3.9%)
ŠKODA YETI	22,543	6,914	226.0%
ŠKODA KODIAQ	20	–	–
Total ŠKODA in Russia	**76,998**	**58,013**	**32.7%**
Production of ŠKODA cars in China			
ŠKODA FABIA	13,449	10,432	28.9%
ŠKODA RAPID	83,966	93,732	(10.4%)
ŠKODA OCTAVIA	127,157	154,480	(17.7%)
ŠKODA YETI	19,527	27,474	(28.9%)
ŠKODA SUPERB	40,693	41,740	(2.5%)
ŠKODA KODIAQ	47,036	92	–
ŠKODA KAROQ	447	–	–
Total ŠKODA in China	**332,275**	**327,950**	**1.3%**
Total ŠKODA worldwide**	**1,232,042**	**1,152,308**	**6.9%**
Production of other Group brands in India***			
VW	1,134	519	118.5%
AUDI	6,513	5,667	14.9%
Total other Group brands in India	**7,647**	**6,186**	**23.6%**
Total ŠKODA worldwide, including other Group brands	**1,330,318**	**1,212,356**	**9.7%**

* Including other Group brands
** Including production of ŠKODA cars at ŠKODA AUTO company (as stated on page 38) as well as at foreign plants in the rest of the world
*** Production at the subsidiary Skoda Auto India Private Ltd.

ŠKODA AUTO also broke its sales record by delivering **1,200,535** vehicles to customers in 2017 to make it the most successful year in the brand's history.

SALES AND MARKETING

ŠKODA AUTO ended 2017 with the new sales record, making it the brand's most successful year ever. Worldwide, a record 1,200,535 ŠKODAs were delivered to customers, up 6.6% on the previous year. This was the fourth year in a row in which the Company made more than a million vehicle deliveries in a single calendar year. Europe reported growth in the overall number of vehicles delivered to customers, a result rooted in the expanding automotive market combined with thriving progress in the model offensive. The European region, taken as a whole, saw sales climb by 8.3% year on year.

CENTRAL EUROPE

In Central Europe, the ŠKODA brand has kept to its growth trajectory. The Company pushed up overall sales and enjoyed a 12.7% rise in its market share here, with customers taking possession of 207,143 vehicles. In the Czech Republic, ŠKODA AUTO underpinned its market leadership by delivering 95,017 cars to customers on its way to 8.0% year on year growth. Looking beyond the Czech Republic, sales figures were also sound in all other Central European markets. In Poland, a record 66,582 ŠKODAs were delivered, reporting a double-digit 18.5% increase on 2016. This confirmed ŠKODA as the number-one brand in Poland and continued to rank the country among the Company's five largest markets for sales. In Slovakia, too, ŠKODA led the field, delivering 21,017 vehicles. Another place where customers took receipt of record numbers of vehicles was Slovenia, with Company deliveries up 12.7% to 7,121. ŠKODA AUTO also reported an upbeat 12,658 vehicle deliveries (+16.2%) in Hungary.

CUSTOMER DELIVERIES – LARGEST MARKETS

	VEHICLES 2017	VEHICLES 2016	CHANGE (%) 2017/2016
Total ŠKODA brand	**1,200,535**	**1,126,477**	**6.6%**
China	325,009	317,088	2.5%
Germany	173,302	165,196	4.9%
Czech Republic	95,017	88,016	8.0%
United Kingdom	80,056	80,325	(0.3%)
Poland	66,582	56,180	18.5%
Russia	62,302	55,386	12.5%
France	27,272	23,013	18.5%
Turkey	24,996	28,893	(13.5%)
Italy	24,700	20,530	20.3%
Austria	24,254	20,563	17.9%
Spain*	24,230	23,241	4.3%
Israel	23,351	20,402	14.5%
Slovakia	21,017	18,860	11.4%
Belgium	19,240	18,925	1.7%
Switzerland	18,853	18,579	1.5%

* excluding the Canary Islands

EASTERN EUROPE

With the car market in Russia recovering, ŠKODA reported an upswing in customer deliveries in Eastern Europe. Deliveries were up 14.6% year on year to 103,634 vehicles. ŠKODA deliveries on the Russian market levelled out after the previous years' developments. In fact, they began to rise, with customers taking possession of 62,302 vehicles, tantamount to a 12.5% rise year on year. In Ukraine, the resurgence on the car market continued in 2017. This was echoed in the uptick in ŠKODA deliveries, which, at 6,113 vehicle sales, was 69.4% higher than in the previous year.

Positive trends also abounded elsewhere in Eastern Europe in 2017. In Romania, for example, ŠKODA registered double-digit growth, delivering 11,632 vehicles, up 13.1% on the previous year. ŠKODA made good headway in customer deliveries in the Baltic countries, too, reporting 13.3% year on year growth to 7,417 vehicles. In Estonia, the ŠKODA brand sold a record 3,754 vehicles as it defended its second-place ranking among makes of cars here.

WESTERN EUROPE

Western Europe's automotive market continued its growth trajectory in 2017. ŠKODA also tapped into the spiralling demand by delivering a record 477,735 cars to Western Europe, equal to 5.2% growth on the previous year.

In Germany – the largest European market – ŠKODA wound up with a record 5.0% market share. Taking delivery of 173,302 vehicles (+4.9%), Germany reported the best result ever, with ŠKODA remaining the market's bestselling import brand.

In 2017, in the United Kingdom, ŠKODA clinched a record 3.2% market share. It also enjoyed a record 6.9% market share in Ireland. Other positive developments were reported in Belgium, with 19,240 cars (+1.7%), and Sweden, where ŠKODA delivered 17,408 vehicles (+8.4%).

On the French, Finnish and Norwegian markets, ŠKODA AUTO reported not only its highest sales ever, amounting to 27,272 (+18.5%), 11,519 (+4.0%), and 8,606 (+11.7%) vehicles respectively, but also carved out its biggest ever market shares (1.3%, 9.7% and 5.4%).

The Company also performed well on other key Western European markets. ŠKODA celebrated a year of thriving sales in Italy, achieving double-digit growth (+20.3%) by delivering 24,700 vehicles. ŠKODA also did well elsewhere in Southern Europe, clocking up 24,230 customer deliveries in Spain as it made a 4.3% gain over the year. In Austria, too, ŠKODA AUTO nudged up deliveries to 24,254 vehicles in 2017, and in doing so netted a record 6.9% market share. In Switzerland, the final number of deliveries stood at 18,853, a small 1.5% year on year increase. The market share here was at its highest ever level (6.0%).

OVERSEAS / ASIA

The Overseas / Asia region, and especially the growing market in China, plays a pivotal role in the ŠKODA growth and product offensive. In all, 412,023 ŠKODAs were delivered to customers here, up 3.5% on the previous year.

This productive trend was spearheaded by China, globally ŠKODA's biggest market, where we succeeded in delivering a record of 325,009 cars (+2.5%) in 2017. The ŠKODA OCTAVIA is most in demand here, and the new ŠKODA SUPERB flagship unveiled towards the end of 2015 has also been a success story.

Israel is another country where ŠKODA celebrated record sales, delivering 23,351 cars (+14.5%). Other progressive sales results in the Overseas / Asia region in 2017 were reported as far afield as Australia (5,350) and Taiwan (5,117). In India, the final number of sales stood at 17,113, up 31.4% on 2016.

CUSTOMER DELIVERIES BY REGION

	VEHICLES	VEHICLES	CHANGE (%)	SHARE OF PASSENGER CAR MARKET (%)**	
	2017	**2016**	**2017/2016**	**2017**	**2016**
Central Europe*	207,143	183,770	12.7%	19.0%	18.9%
Eastern Europe	103,634	90,446	14.6%	5.3%	5.3%
Western Europe	477,735	454,001	5.2%	3.3%	3.3%
Overseas / Asia	412,023	398,260	3.5%	0.6%	0.6%
Total ŠKODA brand	**1,200,535**	**1,126,477**	**6.6%**	**1.4%**	**1.4%**

* including the Czech Republic
** total markets

DELIVERIES BY MODEL

ŠKODA CITIGO

The ŠKODA CITIGO is the brand's smallest model and currently the only one available in both three-door and five-door versions. In 2017, it was given a facelift and the interior was upgraded. This compact city car was purchased by 37,115 customers in 2017, down by 8.8% on the previous year.

ŠKODA FABIA

Since hitting the market in the autumn of 2014, the third-generation ŠKODA FABIA has kept ahead of the pack, triumphing over the competition thanks to its high-quality workmanship, roomy interior and luggage compartment, sumptuous range of equipment and excellent handling. The available engine combinations were also innovated in 2017. An extremely popular model on the markets, in 2017 deliveries rose by 2.1% year on year to 206,499. The emotionally tuned ŠKODA FABIA MONTE CARLO, teeming with features, is another version of this model that has won plaudits.

ŠKODA RAPID

The ŠKODA RAPID and the ŠKODA RAPID SPACEBACK fuse the practicality of ŠKODA cars with a fresh and appealing design. The liftback ŠKODA RAPID was rolled out globally in 2012, followed by the ŠKODA RAPID SPACEBACK a year later. This was another model to be modernised in 2017. In all, 211,480 ŠKODA RAPIDs / ŠKODA RAPID SPACEBACKs were delivered to customers in 2017, equal to a 0.6% year on year decline, i.e. deliveries of this model stalled. In 2017, the ŠKODA RAPID range of models remained the second bestselling in the portfolio, just after the ŠKODA OCTAVIA.

ŠKODA OCTAVIA

In 2017, there were 418,767 ŠKODA OCTAVIA deliveries. This was a slight 3.9% drop in the number of annual deliveries. The third generation of what has long been the top-selling ŠKODA model entered the market in 2013, and in 2017 was treated to a major product and design overhaul. The ŠKODA OCTAVIA also has a decent track record with its sporty incarnation, the ŠKODA OCTAVIA RS, and its more rugged offering, the ŠKODA OCTAVIA SCOUT.

ŠKODA YETI / ŠKODA KAROQ

There were 69,467 customer deliveries of the first-generation ŠKODA YETI in the year of its retirement, tantamount to a 27.3% year on year decline. In its place, the ŠKODA KAROQ, a compact new SUV, saw the light of day in 2017, debuting with 6,335 customer deliveries. Sales of this model were officially launched in October 2017.

ŠKODA KODIAQ

Having premiered in 2016, the ŠKODA KODIAQ, the brand's first large SUV, enjoyed a hugely successful inaugural year by chalking up 99,961 customer deliveries. Further growth is forecast in 2018.

ŠKODA SUPERB

The third-generation ŠKODA SUPERB, unveiled in 2015, saw the ŠKODA brand enter a new era. Customer deliveries rose in both 2016 and 2017. Last year, 150,910 ŠKODA SUPERBs were delivered worldwide, equating to year on year growth of 8.7% and a personal best for this model.

CUSTOMER DELIVERIES BY MODEL

	VEHICLES 2017	VEHICLES 2016	CHANGE (%) 2017/2016
ŠKODA CITIGO	**37,115**	**40,674**	**(8.8%)**
ŠKODA FABIA	130,186	127,325	2.2%
ŠKODA FABIA COMBI	76,313	74,978	1.8%
ŠKODA FABIA total	**206,499**	**202,303**	**2.1%**
ŠKODA RAPID	136,729	133,583	2.4%
ŠKODA RAPID SPACEBACK	74,751	79,073	(5.5%)
ŠKODA RAPID total	**211,480**	**212,656**	**(0.6%)**
ŠKODA ROOMSTER	1	20	–
ŠKODA ROOMSTER PRAKTIK	0	9	–
ŠKODA ROOMSTER total	**1**	**29**	**–**
ŠKODA OCTAVIA	236,309	262,863	(10.1%)
ŠKODA OCTAVIA COMBI	182,458	173,111	5.4%
ŠKODA OCTAVIA total	**418,767**	**435,974**	**(3.9%)**
ŠKODA YETI	**69,467**	**95,540**	**(27.3%)**
ŠKODA KAROQ	**6,335**	**0**	**–**
ŠKODA KODIAQ	**99,961**	**447**	**–**
ŠKODA SUPERB	94,522	81,288	16.3%
ŠKODA SUPERB COMBI	56,388	57,566	(2.0%)
ŠKODA SUPERB total	**150,910**	**138,854**	**8.7%**
Total ŠKODA brand	**1,200,535**	**1,126,477**	**6.6%**

A BRAND MARKETING STRATEGY BUILT ON RESOURCEFULNESS

ŠKODA's global communication strategy was transformed within the framework of Strategy 2025. It has been conceived on the basis of the Company's mission and vision. The upshot is a brand identity defined by the yearning to invent and offer products that are about people and for people, and that are also brimming with spirit.

ŠKODA AUTO Makes Life Easier

The brand is devoted to "Simply Clever" solutions, i.e. minor details that make using a ŠKODA easier for customers. These include a virtual pedal for contactless boot opening, a magnetic torch in the luggage compartment, spaces for plastic drinks bottles, including special grooves to hold a bottle in place so that it can be opened with one hand, a net restraint system in the boot to prevent items from sliding around, and intuitive control of the dashboard.

ŠKODA AUTO Springs Surprises

The Company offers high-quality emotionally-designed cars with a plethora of resourceful features that will surprise customers. Beyond the "Simply Clever" solutions, there are ŠKODA CONNECT services, the cars are always very roomy and boast market-beating luggage compartments, and a range of vehicles are available with 4x4 drive. And yet ŠKODA products remain affordable.

ŠKODA AUTO is a People Company

Mindful of the fact that customers are individuals, ŠKODA AUTO offers products chiming with their needs and requirements. The Company also pursues this human aspect in its care for customer comfort in all ŠKODA cars and in its ability to keep passengers entertained no matter how short or long their journey. The ŠKODA brand strategy also centres on e-mobility issues. The aim is to heed the customer's view of this area and to adapt products and services accordingly.

SUVS – PROOF OF INVENTIVENESS EVEN WHERE IT IS NOT EXPECTED

Key events for ŠKODA AUTO in 2017 were unquestionably the sales launch of its first large SUV, the ŠKODA KODIAQ, and the May unveiling of the ŠKODA KAROQ as a compatible, yet highly emotionally charged SUV.

Both of ŠKODA AUTO's SUVs captivated customers not only with their technical prowess and handling, but also with their names, concealing an ingenious symbolic dimension. The name ŠKODA KODIAQ alludes to the Kodiak, a bear living on an island of the same name off southern Alaska's coastline. The written form of this name is derived from the language of the indigenous Aleut people, and fully articulates the nature of both the bear and the car, i.e. its size, strength and exceptional outdoor capabilities. The Kodiak bear also inspired the designers to incorporate bold muscular lines into the new SUV. Confirmation that the Company was on the right track with its ŠKODA KODIAQ design came in the form of a Red Dot Award, a prize recognised around the world as the benchmark for high-quality product design. This award is one of the world's best-known prizes in the realm of design.

Although the ŠKODA KODIAQ was introduced in 2016, it continued to play a central role in events last year. One prime example was the World Dealer Conference in Bilbao, Spain, where ŠKODA partners had the opportunity to discover more about this car in person. At the Geneva Motor Show in March and the IAA Motor Show in Frankfurt in September, ŠKODA showcased its two new versions of the large ŠKODA KODIAQ SUV – the ŠKODA KODIAQ SPORTLINE and ŠKODA KODIAQ SCOUT.

Car and arrow.
That is the basis of the name KAROQ.

The second – more compact – ŠKODA SUV, called the ŠKODA KAROQ, is steeped in the concept of power and outdoor prowess, which is why the people of the Kodiak Island once again served as inspiration for the name. The description of the new SUV reminded them of the word "uyowoq", which means "little brother" in their traditional language. The word "qarruk" alludes to the arrow forming the centrepiece of the ŠKODA logo. The final impetus came from the mind of a 12-year-old boy, who came up with the term "kaaraq" – which means "automobile" in the islanders' language. This combination of "kaaraq" (automobile) and "qarruk" (arrow) formed the basis for the name of the ŠKODA KAROQ.

This compact SUV first saw the light of day in Stockholm, Sweden, in May. It made its exhibition debut in Frankfurt in September. At this motor show, the ŠKODA KAROQ featured alongside another 15 models, including the new versions of the ŠKODA KODIAQ and the ŠKODA VISION E study. This set of exhibits was spread out over more than 2,350 m² and took 27 days to put together. It required 70 tonnes of steel, five and a half kilometres of electrical wiring and 12.5 kilometres of LAN cable, all transported to Germany by 29 lorries and assembled by a 98-member team.

ŠKODA AUTO OPENS ITS FIRST DIGITAL SHOWROOM

Digitalisation is a thread running through all areas of ŠKODA AUTO, and Marketing department is no exception. In January 2017, the Company opened a digital showroom as a pilot project in Spain designed to let customers explore all ŠKODA models. Now, on the Spanish ŠKODA website, visitors can chat online with a ŠKODA expert and learn about the brand's latest models live on the screen of a computer, tablet or smartphone. Using a simple icon on the homepage, they can call the number provided themselves or ask for a consultant to call them back either immediately or at a time of their choosing. A video call enables the expert to take the caller around the exhibition live. Twelve stationary cameras and four mobile cameras show off the cars from several perspectives. The consultant can present car exteriors and interiors, point out "Simply Clever" solutions, explain details such as the logic behind the infotainment system menu, and answer any individual questions. For example, if prospects are interested in the luggage compartment, the consultant can use a mobile camera to guide them to the rear of the vehicle and show them the boot in a live transmission.

In 2017, ŠKODA AUTO harnessed the internet for promotional purposes that went beyond the digital showroom, also using it as a communication channel to reach out to the general public. Besides redesigning its website, the Company also maintains an active presence on social media. It has its own YouTube channel featuring interesting "story" videos and serials. The Company posts its latest photographs and news on Instagram, its new releases and behind-the-scenes peeks on Twitter, and many other interesting features and campaigns on Facebook.

Final Touches to the Global Modernisation of Showrooms

At the same time as it decided to build a virtual showroom, the Company also chose to revamp its conventional showrooms in 2016, in a process that extended into 2017. The new concept placed a particular emphasis on personal, direct and open communication with customers. This dictated the overall look of the dealerships, making them inviting inside and out and easy to navigate. The design relies on simple shapes, ŠKODA's signature colours, i.e. green and white, and modern lighting. To optimise customer care, the sales and service sections of showrooms have been closely interlocked in the new layout. The operating structures and sales processes have also been optimised.

ŠKODA AUTO IS HANDS ON IN NUMEROUS PROJECTS

The marketing strategy includes seeking out and supporting activities that resonate with ŠKODA AUTO's heart and soul. Reflecting the fact that the Company taps into emotionality, resourcefulness, the desire to triumph, and fair play, in its marketing campaigns it has associated its name primarily with sports such as ice hockey, rally racing and motorsport at large, and cycling, and has recently moved into acrobatics. The main impetus here is to support athletes and artists while trying to motivate them to perform better and better.

The ŠKODA KAROQ in the Himalayas

In this vein, ŠKODA AUTO – as a long-standing sponsor of cycling – supported four extreme athletes' wildly courageous attempt to set an unorthodox record. The plan was to cycle the highest mountain road in the Himalayas in record time. The cyclists were accompanied by a ŠKODA KAROQ, which maintained the exact speed reported for the current record holder. This compact SUV was alongside the cyclists right up to the finish of the 40-km long mountain stage. This route's average 5% gradient makes it one of the most difficult in the world.

ŠKODA KAROQ Accompanies Cyclists on the Tour de France and La Vuelta

Within the framework of these most prestigious of cycling races, the ŠKODA KAROQ took to the road at the 2017 Tour de France. In its capacity of service vehicle, it took the cyclists of three teams to the start: Team Dimension Data (South Africa), Team Lotto NL - Jumbo (the Netherlands), and Lotto Soudal (Belgium). This initial stage of the Tour – a 14-km stretch – started at the exhibition centre in Düsseldorf, progressed along the famous Königsallee and ran by the Rhine, before returning to the exhibition centre.

Come September, it was La Vuelta's turn. The ŠKODA KAROQ, as the service car, accompanied the cycling star Alberto Contador on an individual time trial. The compact SUV carried the cyclist's technical team and spare parts for Contador's race bike. ŠKODA singled out the race's most prestigious 16th stage for this debut. The route between Circuito de Navarra and the town of Logroño not only marked the ŠKODA KAROQ's introduction to La Vuelta, but was also the very first time this model had been seen on Spanish roads.

The Company Establishes Long-term Partnership with Cirque du Soleil

In 2017, ŠKODA AUTO expanded its brand promotion to include a far-reaching partnership with the world-famous Cirque du Soleil. The Canadian entertainment troupe is renowned for its fascinating live performances and highly talented artistes. This partnership is underpinned by the fact that ŠKODA and Cirque du Soleil subscribe to the same values, and each of them is people-oriented and striking. Other common denominators are their innovativeness and the way they combine human traits such as the desire to be inspired, creativity and the will to create something new. Both partners are also characterised by their innovative thinking and approach, making our world a better place to live. A further bond is their passion, a basic ingredient that can be found in both the automotive industry and art. With all this in mind, the new partnership between ŠKODA AUTO and Cirque du Soleil is a prime example of how innovative ideas can even be successfully promoted and championed in areas such as e-mobility.

ŠKODA AUTO **builds on emotions**. That is why the Company supports sportsmen and artists from many fields.

ŠKODA AUTO supports **the interest of students** in technical areas.

HUMAN RESOURCES MANAGEMENT

Building on ŠKODA Strategy 2025, which establishes the objectives to be pursued and the direction to be taken by the Company as a whole in the coming years, the human resources management strategy was also revised and updated. This is why, in 2017, HR focused both on numerous activities within the Company and on key areas to safeguard the future of the automotive industry at large.

ŠKODA AUTO also engaged in earnest dialogue with representatives of the political sphere. Working in tandem with the Automotive Industry Association, it initiated and launched a discussion on the future of automotive industry in February. By signing the government's October memorandum, it sent out a clear signal that it was already addressing forms of future mobility.

A major role was played by corporate social responsibility, focusing in particular on a long-term sustainability and competitiveness strategy. In addition, Human Resources contributed to the digitalisation and gradual transformation of the whole Company through its many innovative activities. HR was also a driver of change in management culture. In its HR marketing, the Company introduced modern unconventional recruitment campaigns aimed at finding new Technical Development and IT employees.

STUDENT INTEREST IN TECHNICAL FIELDS IS ESSENTIAL

In its HR marketing, the Company focused on a wide range of candidates, concentrating on hiring experts for Technical Development and meeting Production's personnel requirements. In 2017, ŠKODA AUTO used targeted recruitment campaigns and a host of unconventional and alternative channels to attract new employees in both production and non-production areas. It used classic forms of HR marketing alongside unconventional social networking campaigns geared towards candidates for Technical Development (called Echoes of the Future) and IT (where sci-fi stories incorporating elements of the ŠKODA IT environment were gradually published).

If ŠKODA AUTO is to have enough high-quality technically educated employees in the future, it needs to work intensively with secondary schools today. In addition to recruitment roadshows at secondary schools and colleges, ŠKODA AUTO is also involved in long-term collaboration directly with many schools, for example, on a system of dual education.

Modernising the Secondary Vocational School of Engineering in Preparation for the Future

Training and readiness for change are the key to future success. This is one of the reasons why ŠKODA AUTO completed the three-year modernisation of its Secondary Vocational School of Engineering in Mladá Boleslav in February. Overall, the Company spent CZK 260 million on modernisation, which included besides other things the construction of a robotics centre, a multipurpose hall, and a language centre. With an eye to the production of electric vehicles, due to start in 2020, further changes will gradually be made to vocational training. Forms of self-learning are also advancing, with a major emphasis on new trends in the digitalisation of teaching, including the use of the latest technological resources.

The ŠKODA AUTO Secondary Vocational School also celebrated its 90th anniversary of uninterrupted vocational education in 2017. In that time, almost 23,000 students have been trained up here. Some 950 students, in all forms of study, are currently enrolled at the school, which is a Company facility. In June, the ŠKODA Academy hosted a special colloquium, where experts from the professional community and industry representatives debated, among other things, the benefits of dual study. At this meeting, ŠKODA presented the concept of dual education it employs at ŠKODA AUTO University (ŠKODA AUTO Vysoká škola o.p.s.), combining a bachelor's course and targeted long-term work experience with elements of vocational education. In 2017, the university also opened a new Global Management in Automotive Industry MBA programme. This programme has been devised in cooperation with foreign universities and multinational enterprises under the auspices of the Automotive Industry Association and the Czech-German Chamber of Industry and Commerce.

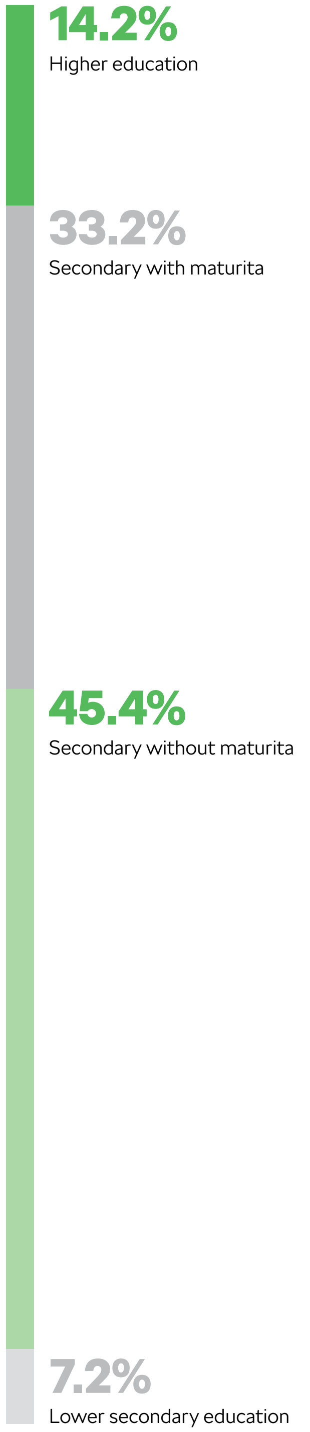
In 2017, the ŠKODA Academy also focused on the further training of employees, especially in new technologies and the preparations for e-mobility. Close attention was paid to language lessons and multidisciplinary training. In total, more than 5,400 courses were run. The advantage of concentrating all educational activities at the ŠKODA Academy is that synergy can be created between secondary vocational education and adult education.

STABILISATION OF THE KVASINY REGION

By developing the Kvasiny plant, ŠKODA AUTO is writing a new chapter in the modern history of the whole region. In connection with the development of this plant, which has ushered in higher employment and major investment by ŠKODA AUTO, in June 2017 the Company and the Czech Government thrashed out a deal to increase the public resources earmarked for projects to develop transport infrastructure, a new industrial zone, regional development, the health sector, education, security and the construction of rental housing from CZK 3 billion to CZK 6 billion.

The HR priority at Kvasiny focused on stabilising the personnel here, reducing employee turnover, investing in the development of social services, establishing shuttle services, improving transport infrastructure, and promoting the Company's interest in integrating non-local workers. ŠKODA AUTO's current SUV offensive safeguards long-term job stability in the region. By agreement with the KOVO Trade Union, the Company's social partner, 18-shift operations were launched at the Kvasiny plant in January. As part of its "Good Neighbour" CSR strategy, the Company also promotes regional development and improvements in the quality of life, with an accent on culture, sports and leisure. For the region, all of these measures – by both ŠKODA AUTO and the state – guarantee stability.

QUALIFICATION STRUCTURE OF THE COMPANY'S PERMANENT EMPLOYEES



In 2017, ŠKODA AUTO reported a record level of employment despite the tricky labour market situation in the Czech Republic. In Vrchlabí, the Company also concentrated on supporting the regional education sector and working with the town on the Smart City project. In Mladá Boleslav, the Company boosted staffing in all areas.

All of these activities by ŠKODA AUTO helped the Company to win several important awards once again. In 2017, strong employer branding was affirmed by top spot in the Universum assessment of engineering students from all universities in the Czech Republic and in the TOP Employers survey, where it was named the most popular employer, earning the title of Clear Choice, and won the Automotive and Engineering Industry category. The Company was once again named the "Most Admired Company in the Czech Republic" and, in December, was announced as the Czech Republic's Exporter of the Year for the twenty-third time in a row. In October, Bohdan Wojnar, the member of ŠKODA AUTO's Board of Management responsible for human resources, received the "TOP Responsible Leader of the Year 2017" award at a gala evening.

COMPANY WORKFORCE

	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	CHANGE (%)
	31 December 2017	**31 December 2016**	**2017/2016**
ŠKODA AUTO – permanent employees	**30,690**	**27,462**	**11.8%**
of which:			
— Mladá Boleslav plant	22,932	21,240	8.0%
— Vrchlabí plant	861	831	3.6%
— Kvasiny plant	6,897	5,391	27.9%
ŠKODA AUTO – apprentices	**936**	**911**	**2.7%**
ŠKODA AUTO total*	**31,626**	**28,373**	**11.5%**

* Actual number of employees as at 31 December, including apprentices, excluding temporary staff, excluding subsidiaries.

	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	CHANGE (%)
	31 December 2017	**31 December 2016**	**2017/2016**
ŠKODA AUTO – temporary staff	**2,802**	**3,467**	**(19.2%)**

The **Green Future** Strategy is geared towards environmental friendliness with a view to making production at ŠKODA AUTO 60% greener by 2025.

SUSTAINABILITY

ŠKODA AUTO actively promotes the enduring harmonisation of its economic and social development with existing ecosystems and the preservation of natural values, including biodiversity, for the present and future generations. Company sustainability rests on social, economic and environmental pillars. These pillars include the CSR strategy, the Green Future environmental strategy, and principles of ethical and transparent conduct.

The top management is kept informed of progress in the Company's sustainability management. On the basis of this policy, since 2007 ŠKODA AUTO has published a report on its activities in this field every two years. In 2017, the sixth report, covering 2015 and 2016 was published according to internationally recognised Global Reporting Initiative (GRI) guidelines.

ENVIRONMENTAL PROTECTION

Steadfast environmental protection is one of the central pillars of sustainable development and is deployed in all Company activities. Environmental responsibility therefore influences the way ŠKODA AUTO conducts itself in all areas, encompassing the development of cars, production, sales and recycling.

The Company systematically monitors and evaluates all key environmental parameters and, on the basis of the results, takes permanent measures aimed at improvements.

Within the scope of its integrated management system, ŠKODA AUTO's environmental management system has been certified as compliant with ISO 14001 and its energy management system has been certified as compliant with ISO 50001.

Environmental Investments Reduce Consumption

The Environmental Forum regularly evaluates and approves energy-saving measures. One major project in 2017 was the introduction of intelligent power regulation at various production sites. Prior to this change, body paint ovens at the Mladá Boleslav paint shop would be operated at full power even when no bodywork was passing through them. When the amount of air heated is regulated, the power varies depending on the number of bodies to be dried. Aeration fan control is another area where savings are being made. With frequency inverters, measurements found that the amount of intake and exhaust air could be reduced by 10% without impairing the quality of the bodies painted. This meant that the fan speeds could be reduced. Both changes (to the ovens and aeration systems) at the Mladá Boleslav paint shop will make annual savings of approximately 4,500 MWh in electricity and 740,000 m^3 in natural gas, sparing the Company some CZK 11.2 million per year in energy costs.

Compressed air is the driving force of the production plants. The greatest savings can be achieved by reducing the consumption of pneumatic energy in casting, machining and maintenance processes, in particular by preventing compressed air leaks, optimising day-to-day facility operations, consistently disconnecting unused equipment from the compressed air network, and adjusting the pressure or timing. In 2017, compressed air consumption at the foundry was cut by 15 per cent, equating to CZK 1.5 million per year. This had a positive impact on the price of each cast marketed by ŠKODA AUTO.

New Emission Abatement Equipment Delivers Improved Air Protection
The main pollutants released into the atmosphere when cars are made are volatile organic compounds (VOCs, NOx and CO). Consequently, reducing these emissions is a top air protection priority at the Company. Replacing the emission control equipment on Lines 1 and 2 during plastisol coating and gelation at the Mladá Boleslav paint shop significantly reduced VOC, NOx and CO emissions. The original equipment for the thermal after-burning of VOCs in a natural gas stream has been in operation for more than 20 years. NOx and CO emissions will also be cut substantially by the replacement of the boiler used to heat wax for cavity sealing. In the wake of these measures, car production was up by 12%, yet the associated increase in VOC emissions was tightly reined in, climbing by just 7%. In addition, the quantity of VOCs emitted per m^2 of painted area fell to less than 36% of the 45 g/m^2 statutory limit. What is more, the heat recuperated from VOC thermal after-burning is used to warm up drying technology in the paint shops.

An Emphasis Was also Placed on Soil and Water Protection
The Company attaches great importance to the safe handling of compounds that, if leaked, could contaminate the soil or groundwater. It is standard procedure to observe safety rules, such as multiple barrier protection. Where technologically feasible, ŠKODA AUTO uses substances that are less harmful to the environment or deploys effective technologies to eliminate adverse effects. In all circumstances, the Company selects technological procedures and processes to minimise water consumption with the aim of scaling down specific water consumption per vehicle produced. In 2017, reused (recycled) water accounted for more than 42% of overall consumption.

The Kvasiny and Vrchlabí Plants Manage Waste Environmentally
In waste management, the waste hierarchy is respected as much as possible, with a stress on prevention. In 2017, the outcome of tendering procedure fundamentally influenced waste management at the Kvasiny and Vrchlabí plants. Maximum waste recovery was one of the central requirements imposed on partner companies and prompted a drastic reduction in for-disposal waste generated from production processes to less than 1 kg per vehicle in 2017, down from 6.7 kg per vehicle in 2016. In the coming years, the Company plans to intensify the application of circular economy principles by transforming waste into resources.

Half of the Energy Consumed is from Renewable Sources
When we refer to energy consumed at ŠKODA AUTO production plants, we mean electricity, about 50% of which is from renewable sources, plus compressed air, heat supplied in hot water, and natural gas. Specific energy consumption per car produced was 1.48 MWh in 2017, an improvement thanks to the more efficient utilisation of production capacities and the deployment of a raft of energy-saving measures.

Key **CSR strategy** priorities include technical education, road safety, disabled mobility and care for children.

CORPORATE SOCIAL RESPONSIBILITY

ŠKODA AUTO, one of the oldest carmakers in the world, has traditions deeply entrenched in the Czech Republic. From the outset, the Company has focused not only on its commercial development, but also on relations with its employees, the regions in which it operates, business partners and, not least, customers. The CSR strategy focuses on activities related to the Company's core business that yield social and economic benefits and have a tangible impact on society and the community. ŠKODA AUTO holds dialogue with employees, trade unions, and municipalities in the vicinity of the production plants (this includes not only municipal representatives, but also, for example, the supply chain).

The CSR strategy's priorities are split into two categories. Key CSR strategy priorities include technical education, road safety, disabled mobility and care for children. One regional priority is the "Good Neighbour" project, encompassing the regions where ŠKODA AUTO has production plants, i.e. Mladá Boleslav, Kvasiny and Vrchlabí. A second regional priority is employee care, which includes all benefits, health care, staff collections, sheltered workplaces and volunteering. These two basic areas also included seven grant schemes.

Road Safety

ŠKODA AUTO has long been committed to the development of vehicle safety features and is traditionally involved in road safety awareness. In 2017, as in previous years, the Company ran two regional grant schemes in support of road safety education and enhancing traffic safety in towns and villages. Grants totalling CZK 1,175,000 were awarded to 14 projects. ŠKODA AUTO also continues to promote its own unique "Road Safety Research" initiative, in which it collaborates with the fire service, the state police and health professionals. Besides increasing the safety of ŠKODA cars, the aim of the research is to educate drivers and other road users, for example through interactive roadshows with "cross-section" ŠKODA cars throughout the Czech Republic, where both active and passive safety features are presented. Online education remained a traffic safety priority in 2017. This includes the children's website at "skodahrou.cz", which teaches how to behave correctly in road traffic. For adults, the "bezpecnecesty.cz" website focuses on prevention in this area. It informs drivers of the safety of Czech roads and provides them with useful advice.

Promotion of Technical Training and Education

ŠKODA AUTO supports a practical education system for technical training. The Company teams up with dozens of schools at all educational levels to work on specific projects, and also has its own secondary vocational school and corporate university. The Company continues to have a voice in nationwide debates and projects on the concept of the education system in the Czech Republic.

Strategic support for technical education in 2017 included the benchmarking of primary schools in Mladá Boleslav to define the strengths and weaknesses of individual schools with targeted surveying and personal interviews. This resulted in a strategic and individual list of projects for the various schools, which will be implemented in the first half of the next year. The carmaker plans to extend this project to all of its production regions in the future.

The fifth year of the "Young Designers" competition continued to foster the creativity and team spirit of primary school children. In 2017, it attracted almost 900 children, who created over 320 works shaping a vision of the future of cars. The "Science Has a Future" programme provides further training and motivation for primary school teachers, head teachers and education counsellors. Over the course of four years' support, this project has successfully involved over 100 teachers from more than 50 schools in the Central Bohemian, Hradec Králové and Liberec Regions. The partnership with the iQLANDIA science centre in Liberec engages with young people in fun ways as it popularises research, science and engineering among this demographic. The grant scheme here distributed an aggregate of CZK 600,000 among 10 projects.

Caring for Children
The Company has long had a hand in helping socially disadvantaged children from children's homes, and tries to guide them towards a decent education and employment. With this in mind, it continued its long-running cooperation with the Tereza Maxová Foundation. The "ROZJEDU TO!" ("GET STARTED!") project supports and motivates 11- to 15-year-olds from children's homes. In 2017, 45 children received assistance. The aim is to draw on a personal approach and education to forge better job opportunities for them. The ŠKODA AUTO and Tereza Maxová Foundation Education Fund, set up to provide education-related financial assistance for children over 15 years old, is a follow-up to this project. In 2017, the Fund supported 53 children from eight children's homes, contributing to tutoring, psychological care, study materials, driving licences or commuting.

In 2017, ŠKODA AUTO was once again the general sponsor of the unique "TERIBEAR Moves Prague" charity run, which is also organised by the Tereza Maxová Foundation. The ŠKODA team's members comprised almost 100 employees, who ran a combined 2,143 kilometres and raised CZK 107,160. It has now become a tradition for the Prague event to be followed by the regional TERIBEAR Moves Mladá Boleslav run, where 5,510 kilometres were clocked up and more than CZK 457,000 was raised. ŠKODA AUTO rounded this sum up to half a million crowns. These funds were shared equally by the children's home in Vrchlabí and the children's centre at Klaudian Hospital in Mladá Boleslav. Under this grant scheme for children, ŠKODA AUTO donated a total of CZK 600,000 to 15 projects last year.

The **"This is My Home"** grant scheme awarded funding to 25 projects placing a stress on solidarity with the region and local community.

For 16 years, ŠKODA AUTO has partnered the Clown Doctor (Zdravotní klaun) project, under which 86 specially trained and certified clowns visit children hospitalised in 64 hospitals across the Czech Republic and help them to overcome this difficult time in their lives by spreading happiness. The project has successfully expanded to include visits to seven retirement homes, as the clowns are a welcome diversification for lonely seniors. Besides its financial contributions, ŠKODA AUTO also provides the Clown Doctor organisation with four cars so that the clowns can make visits throughout the country. ŠKODA AUTO supported almost 4,000 performances in this way, working with the clowns to bring a smile to the faces of more than 70,000 children and seniors.

Disabled Mobility

The Company has set up the "ŠKODA Handy" project to assist the personal mobility of the disabled by providing them with comprehensive advice in this field. The Company also collaborates with the Czech Paraplegic Association on a mobile app and the website vozejkmap.cz, mapping disabled access sites in the Czech Republic. The CZEPA organisation benefits from two ŠKODA AUTO cars, which are made available to disabled drivers via a rental scheme. In 2017, the Company supported 12 projects with a total of CZK 600,000 under the grant scheme.

Employee Welfare and Cooperation with the Regions

ŠKODA AUTO has forged strong ties not only with its employees, but also with their families and those living near its plants. Reflecting this, it contributes to specific projects for regional development in partnership with trade union organisations active at the Company. The "Good Neighbour" strategic priority encompasses a wide range of activities, including improving infrastructure and the environment, supporting leisure activities, and negotiating with regional representatives. As part of a second regional priority, ŠKODA AUTO attaches great importance to the welfare of its employees and offers them a wide panoply of social benefits, comprehensive health care, a sound work-life balance and opportunities for professional advancement. The Company guarantees compliance with occupational safety and health standards and runs a unique system of corporate training and professional development. The "This is My Home" grant scheme awarded funding to 25 projects placing a stress on solidarity with the region and local community. Overall, CZK 670,000 was shared among these projects. Employees had an active role to play in nominating projects under this scheme.

ŠKODA AUTO is also involved in local, regional and national forms of sponsorship. In its work with frontline foundations and charities, the Company supports the full gamut of social, cultural and humanitarian projects. Employee collections, which are entirely voluntary, play a major role here. Employees support one of six non-profit organisations of their own choice by making a donation of at least CZK 25 each month. In 2017, employees donated a total of CZK 2,587,729 to Světluška, Život dětem, Helppes, Centrum Orion, and the conservation organisation ČSOP Klenice. The Company then doubled this amount.

The environmental project "One Tree Planted for Each Car Sold in the Czech Republic" celebrated its eleventh anniversary in 2017. Every year, grant award proceedings are held to award applicants funds for a number of seedlings equal to the annual number of new ŠKODA vehicles sold in the Czech Republic. Over the project's lifetime, nearly 730,000 trees have been planted, tantamount to about 150 hectares of new woodland. In the year up to the end of 2017, over 88,000 trees were planted. In 2017, the project was expanded to the whole of the Czech Republic. This was the first time a customer personally planted a tree upon collecting a car from a ŠKODA dealer in Mariánské Lázně. Important project partners include Krkonoše National Park, České Švýcarsko National Park, the environmental organisation Čmelák – Společnost přátel přírody and others. The ŠKODA Museum hosted an exhibition called "Voice of the Forest", interactively acquainting visitors with the project while providing them with a quiet place to relax. Everyone is welcome to continue composing their own forest symphony at "hlaslesa.cz".

ŠKODA AUTO and its employees also supported the clean-up event "Let's Tidy Up the Czech Republic". More than 150 employees volunteered their time to help clean up parks and forests by removing fly-tips and litter. In Mladá Boleslav, Kvasiny and Vrchlabí, employees collected 2.5 tonnes of waste overall, or approximately 15–16 kg of litter collected per volunteer.

Culture and the Arts
In 2017, ŠKODA AUTO's traditional partners once again featured prestigious Czech cultural and social institutions: the Czech Philharmonic and the National Theatre. The most interesting projects included the Czech Philharmonic's annual Open-air Concert in Prague's Hradčany Square and the opening concert to usher in the new season. The Company also sponsored top cultural events held outside Prague, such as the acclaimed Smetana's Litomyšl International Opera Festival and the International Film Festival for Children and Youth in Zlín, the largest such show in the world, which attracts over 100,000 visitors every year. The Company forged ahead with its sponsorship of the Prague German Language Theatre Festival and the Mladá Boleslav Municipal Theatre. ŠKODA AUTO also supported the Forum 2000 conference, focusing on the responsibility of leaders in public affairs, the respected Arnošt Lustig Prize, and Post Bellum's Memories of the Nation Prize. Both of these accolades celebrate powerful human values, such as courage, bravery, humanity and justice, and enjoy respect and repute among the general public.

CORPORATE GOVERNANCE AND COMPLIANCE

This division's aim is to engage in corporate governance in a reliable, qualified, and transparent manner dedicated to the Company's long-term success and the protection of stakeholders' interests. Corporate Governance is a system to manage and supervise the Company. It defines how rights and duties are distributed among ŠKODA AUTO stakeholders, including shareholders, executive management, Company bodies, employees, and customers.

Via the Compliance unit, the Company is particularly attentive to its responsibility to comply with legislation, internal regulations, ethical principles and other voluntary commitments. Compliance is not limited to business relations, but encompasses all activities both within and outside the Company. This is ŠKODA AUTO's way of showing that its actions will always respect the requirements of legal and ethical rules on competition, finances and taxes, environmental protection and employee welfare, including equal opportunities.

The department responsible for Corporate Governance and Compliance also organises several important compliance training sessions covering the Code of Ethics, Anti-Corruption Training and Personal Data Protection. These training courses are mandatory for management and all white-collar professions. Another compliance activity is specialised training on competition for selected employees within the Company.

ŠKODA AUTO has been supporting prestigious **cultural and social** institutions.

Report on Risks and Opportunities

The department Governance, Risk & Compliance deals with the management of short- and long-term risks.

ŠKODA AUTO's long-term success hinges on the early detection and predictable management of risks and opportunities stemming from the Company's activities. This is why a comprehensive risk management system and internal control system ("RMS/ICS") have been built. Only the timely identification, judicious assessment, and efficient and effective management of business risks and opportunities can ensure the Company's sustainable success. The objective of the RMS/ICS is therefore to identify potential risks early on in order to deploy appropriate countermeasures in a timely manner, to prevent potential damage and to eliminate any risks that could undermine the continued existence of the Company.

The probability and impact of future events is always cloaked in a degree of uncertainty. Not even the finest RMS can predict all potential risks, and not even the very best ICS can guard fully against unforeseen events.

STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM

The structure of ŠKODA AUTO's RMS/ICS draws on the VOLKSWAGEN Group's uniform risk management principle, which is based on the internationally recognised COSO Enterprise Risk Management Framework (COSO: Committee of Sponsoring Organisations of the Treadway Commission).

The RMS/ICS are centrally managed by Governance, Risk and Compliance department in collaboration with Controlling department. Principles and responsibilities and individual components in the risk management process and the internal control system are governed by the organisational standard "Risk Management System and Internal Control System" and the guidelines "Periodic GRC Process" and "Operational Risk Management System".

While the Board of Management has ultimate responsibility for the risk management system, responsibility for day-to-day risk management is decentralised within the Company. Each organisational unit must run risk assessments at least once a year. The risks detected must be assessed for their potential negative impact on the achievement of organisational units' targets and the Company's objectives. When assessing risks, it is necessary to take into account the possible financial damage, damage to the Company's reputation, legal consequences, the likelihood of occurrence, and other relevant factors. Subsequently, countermeasures are proposed and taken to mitigate the probability of a risk and/or to reduce the potential impacts. Managers constantly review and evaluate these countermeasures.

The RMS/ICS also include regular risk reporting to the Company's Board of Management and to VOLKSWAGEN AG in order to provide information painting an overall picture of the current risk situation. The adequacy, effectiveness and transparency of the entire system is periodically independently reviewed. This independent reviewing is an integrated part of the RMS/ICS.

RISKS AT ŠKODA AUTO

Risks at ŠKODA AUTO are split into systematic risks and operational risks. Systematic risks are assessed in the periodic GRC process and are treated as long-term or permanent risks. The periodic GRC process is an annual activity to capture or update relevant systematic risks. The Company's Board of Management is informed of systematic risks once a year. Governance, Risk and Compliance department is responsible for this reporting. Operational risks are primarily taken to be short-term risks, typically up to one year. The aim is to gain an overview of the most significant risks currently looming and to come up with countermeasures. The Company's Board of Management is kept informed of current risks on a quarterly basis through operational risk reporting provided by Governance, Risk and Compliance department.

Economic, Political and Legislative Risks

In view of ŠKODA AUTO's business activities, from a financial perspective its position both as an exporter and as a local manufacturer is influenced not only by general global and European economic conditions, but also by the conditions of local economies, such as the state of the economy and the related economic cycle, legislative changes, the political situation, terrorist activities and potential pandemics in the countries where the Company is active. This is fraught with the persistent threat of risks associated with high public debt ratios, high rates of unemployment and fluctuations in prices of precious metals, oil and plastics. Other significant risks that could affect the Company's business activities in global markets include divergent paces of economic growth in different countries or regions and a vulnerable banking system. Exports to countries carrying potential territorial and political risks are identified well in advance and hedged using standard approved products available on the financial and insurance markets. The Company's partners there are Czech and international banking organisations, including EGAP (the state-controlled export guarantee and insurance company). The Company's economic situation may also be adversely affected by additional technical development costs as a result of changes in legislation, such as stricter legislative requirements for vehicle safety, fuel consumption or emissions of pollutants, as well as adjustments to standard vehicle specifications. With environmental protection laws, it should be borne in mind that EU legislation on exhaust gas emissions is likely to be tightened.

Demand-side Risks

Growing and more aggressive competition in the automotive sector is reflected in increasing sales support. The situation is further exacerbated by market risks associated with changes in customer demand, since customers' purchasing patterns depend not only on actual conditions, such as real wages, but also on psychological factors. To minimise these risks, ŠKODA AUTO continuously analyses the customer and the competition behaviour.

Risks in research and development are evaluated based on **extensive analysis** and **customer surveys**.

Procurement-related Risks

Close and economically beneficial collaboration between carmakers and their suppliers poses procurement-related risks capable of disrupting production and potentially triggering major financial losses. These include late goods delivery, failure to deliver and quality defects, or – in extreme cases – suppliers becoming insolvent and dropping out of the supply chain. Other risks stem from growing competition in the supply industry. To mitigate these risks, ŠKODA AUTO sources parts for vehicle assembly from multiple suppliers so that it is able to respond flexibly to any negative developments. In addition, preventive measures are adopted within the risk management system to address any supplier insolvency. The financial stability of suppliers is continuously reviewed. Taken as a whole, all these measures, both preventive and reactive, help to minimise risks in the Company's relations with suppliers.

Financial Risks

Financial risks and how they are managed are among the most closely monitored aspects of risk management at ŠKODA AUTO. From the perspective of materiality, the risk associated with exchange rate fluctuations in the Czech crown and their impact on cash flows, financing and the overall economic performance of the Company is of paramount importance. The risk and impact of exchange rate fluctuations are regularly monitored, planned and managed using standard hedging instruments. The products and strategies employed are discussed and agreed by internal and Group committees. This hedging instrument meets the requirements of International Financial Reporting Standards for hedge accounting.

Risks arising from the procurement of aluminium, copper and lead, i.e. raw materials purchased to manufacture products at ŠKODA AUTO, are tackled with similar procedures and strategies, but from the perspective of International Financial Reporting Standards these are reported outside the hedge accounting system.

Other integral risk control components are the active management of the potential impacts on the financing of the Company's activities, and liquidity management. The Company uses standard procedures and instruments to manage liquidity risk and ensure sufficient coverage of operations and liabilities for the period required, as defined by its internal rules. The mainstays here are ŠKODA AUTO's own funds and the resources of VOLKSWAGEN Group companies. The Company manages export risk using standard hedging tools, including documentary letters of credit, standby letters of credit, and bank guarantees.

Research and Development Risks

New products carry the inherent risk that customers might not accept them. For this reason, the Company conducts extensive analyses and customer surveys. Trends are identified early, and their relevance to customers is probed. The risk of the inability to launch new products according to the scheduled timeline, to the requisite quality and in line with target expenditures is minimised by ongoing project inspections and cross-checks with specifications, allowing necessary action to be taken in response to any deviations that are identified.

Quality Risks

In light of the ever intensifying competitive pressure, the increasing complexity of production technologies, the high number of suppliers, and the use of Group-wide systems, the Company places a huge emphasis on the risk management system when it comes to quality. From the outset of product development, it seeks to identify and eliminate quality-related problems as quickly as possible in order to avoid delays in the start of production. The Company safeguards durable quality and timely deliveries right from the start of the supply chain via its risk management system. This helps to meet customer expectations. As a result, the brand's reputation is strengthened, and sales and profits increase. Despite the Company's effective and systematic approach to quality in the risk management system, not all risks can be ruled out.

The quality of the Company's products, processes and management system is audited annually by an independent accredited certification company. Quality control system certificates, which ŠKODA AUTO has successfully held and maintained since 1993, are a guarantee of smoothly running processes and figure among the underlying documentation used in product homologation.

The Company is constantly updating its qualified auditor and test engineer network to ensure that deviations, internally or at suppliers, can be spotted in right time. Department managers regularly report to the executive management on testing and measurements.

ŠKODA AUTO is mindful of its responsibility for its own products. The quality management department keeps track of customer satisfaction and provides information on the latest developments in individual markets. Measures to minimise potential damage are instantly deployed in response to negative deviations from expectations.

Human Resources Risks

Against the backdrop of a dynamically evolving automotive industry and ever keener competition, the Company needs to secure its future competitiveness in the form of a stable, skilled and flexible workforce both on and behind the front line. This can only be achieved in the long run by an aptly composed strategy that covers the entire HR process, encompassing planning, recruitment, training and incentivisation. At the same time, potential risks – such as the loss of skilled staff responsible for key corporate processes, risks deriving from legislative amendments, legal risks or risks associated with long-term demographic changes – must be correctly analysed and averted.

Information Technology (IT) Risks

At ŠKODA AUTO, a global growth-focused corporation, IT is taking on increasingly important roles. IT risks may include unauthorised access to data or the misuse of sensitive electronic business data, limited system availability, or non-compliance with regulatory requirements (such as the GDPR). Particular attention is paid to the risk of unauthorised data access. This area is covered by various measures relating to employees, organisation, applications, systems and data networks. Examples include a firewall, restrictions on system access privileges, and the backup of critical data sources. ŠKODA AUTO uses only technical resources that have been tried and tested on the market and comply with internal standards.

ŠKODA AUTO has established an information security management system (ISMS) to minimise information IT risks and their impact on the Company's objectives.

Legal Risks

ŠKODA AUTO does business in more than a hundred countries worldwide, potentially running the risk of litigation with suppliers, dealers, employees, investors or customers, as well as the risk of administrative proceedings related to particular areas of the Company's business activities.

Other Operating Risks

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

Outlook

In 2018 ŠKODA AUTO will be focused on **Strategy 2025**. The Company wants to be a symbol of modern technologies and emotional perception.

SHORT-TERM AND LONG-TERM OUTLOOK

OVERVIEW OF PLANNED ACTIVITIES AND OBJECTIVES

Digitalisation
Major changes lie ahead of the automotive industry. One of the driving forces behind these changes is digitalisation. Although this poses significant challenges to the Company, a more important factor is that it is also an opportunity to move into new lines of business while enhancing efficiency. Company-wide digitalisation, connectivity and new mobility solutions are therefore pillars underpinning the digital strategy.

In the future, ŠKODA AUTO will be more than a manufacturer of ever improving, ever safer, and ever greener vehicles. It will also be a supplier of mobility services focusing on customer needs and user-friendliness. The importance of integrated mobility solutions will also increase within the framework of Smart City projects. This is already a key area of ŠKODA AUTO engagement, which is being pursued in collaboration with ŠKODA AUTO DigiLab, set up in 2017, and a number of partners from the private and public sector.

Besides all the new products and services derived from digitalisation, this process is also ushering in a change in culture. As they harness this new digital technology, the entire Company and all of its employees must be willing to adopt an open approach to new tasks and to capitalise on the resulting opportunities. The new technology will make ŠKODA AUTO even faster, more adroit, more adaptive, more precise and, consequently, more competitive.

Technical Development
Several world premieres are in the pipeline for ŠKODA cars in 2018. The first will be at the 82nd Geneva Motor Show, where Technical Development's all-new study, the ŠKODA VISION X, will be unveiled together with the facelifted ŠKODA FABIA and the Laurin & Klement version of the ŠKODA KODIAQ. Further new releases are planned for the 120th Paris Motor Show. With prospects on the Chinese SUV market growing all the time, ŠKODA rolled out a new crossover utility vehicle (CUV) in early 2018 as part of its SUV offensive. As 2018 progresses, more SUVs will be launched there.

The new-generation infotainment systems and the connectivity devised for the upcoming crop of vehicles are important development pillars. Another stage in development has been the expansion of the portfolio of services and features that ŠKODA customers will be able to enjoy in the future. In the coming year, Technical Development will continue to work in earnest on the virtual development methods that are now becoming a general fixture in the development process.

In 2017, ŠKODA Motorsport was enormously successful in the WRC2 (World Rally Championship 2), with the factory team winning both the driver and the constructor categories. In 2018, the ŠKODA FABIA R5 will benefit from further improvements and will now also be put on sale to customers. This year will also see the market launch of the ŠKODA FABIA R5 limited edition, perfected by Technical Development to celebrate the ŠKODA Motorsport factory team's world-beating season.

Now that the development of the brand new SUV, the ŠKODA KAROQ, has been brought to fruition so successfully, Technical Development will focus on electrification and the development of alternative drives. ŠKODA will unveil the very first plug-in ŠKODA SUPERB in mid-2019. In 2020, this will be joined at the Mladá Boleslav plant by the first purely electric drive car. Technical Development is hard at work on this model.

Major challenges facing Technical Development are the development and takeover of capacity for the VOLKSWAGEN Group's MQB A0 IN platform, and the engineering of cars for emerging markets. This move strengthens Technical Development's position within the Group and makes it a strong development partner. Linked to expanding development capabilities and headcount growth, this trend is set to continue in 2018.

Production and Logistics
The Strategy 2025, which has set ambitious targets for the coming years, is making headway in 2018. In the next few years, the Company will remould its production capacities at its plants so that it is able to provide greater manufacturing flexibility. One of the main projects in this process is the construction of a new paint shop in Mladá Boleslav. When it is put into operation in June 2019, it will be one of the most modern and most environmentally friendly paint shops anywhere in Europe. The Company will also move forward with its preparations to make electric vehicles. In tandem with this, in 2019 the Mladá Boleslav plant will introduce the production of electrical components for the plug-in hybrids of several VOLKSWAGEN Group brands.

Logistics will also continue to support the ŠKODA brand strategy by optimising logistics processes and costs, deploying innovative solutions, further automatization, and taking measures to protect the environment.

Environmental Protection
ŠKODA AUTO is progressing with its GreenFuture strategy, which is included in the Strategy 2025 as part of the Sustainable Development strategic objective. Since 2010, the Company has shrunk the environmental impact of its vehicle production considerably in five monitored key parameters. The Company continues to work on long-term goals for 2025. The aim is to support sustainability primarily by making sparing use of resources throughout the Company.

Markets, Sales and Marketing
In 2018, ŠKODA AUTO will focus on successfully driving forward its growth, expanding its market shares and increasing deliveries in key markets. The ŠKODA brand will continue to innovate its product portfolio at full stretch. This year, the ŠKODA KAROQ, the brand's baby, will continue conquering global markets, while the ŠKODA FABIA is in line for a modernising facelift. The plan behind the expanded and modernised portfolio of sports utility vehicles is for ŠKODA to gain a much firmer footing in this fastest-growing segment.

Autumn 2019 will see the launch of the **very first plug-in** ŠKODA SUPERB.

In the future, ŠKODA AUTO will be more than a manufacturer of **ever improving, ever safer, and ever greener vehicles**. It will also be a supplier of mobility services focusing on customer needs and user-friendliness.

ŠKODA AUTO's marketing will centre on continuing and developing a campaign to boost the emotional perception of the brand in partnership with Cirque du Soleil. The Company is also planning campaigns linked to e-mobility as one of the spearheads of its Strategy 2025. In sport, ŠKODA AUTO will continue to sponsor the Ice Hockey World Championships, the Tour de France and WRC2.

Employees

In 2018, ŠKODA AUTO will focus on several fundamental HR issues, especially the continued stabilisation of staff at the Kvasiny plant following its large-scale expansion in 2016. The Company will also pave the way for the start of production of the ŠKODA KAROQ in Mladá Boleslav. One of the top HR priorities in 2018 will be collaboration on the INDIA 2.0 project. This will also be a year of digitalisation. Intensive training will be provided on the digitalisation, automation and electrification of products and on the preparation of staff for the production of electric vehicles and electrical components. The Innovation Academy, enhancing employees' digitalisation skills, will be continued with the opening of new courses. The Company-wide strategy will see more of an emphasis on innovative culture devoted to performance, diversity and teamwork.

The Company plans to develop three production sites in the Czech Republic in 2018. Another goal will remain the recruitment of the best specialists available for frontline and other operations. The Company is particularly interested in highly skilled degree-holding candidates with excellent language skills who will be able to work in the worldwide network of Group companies, and in frontline experts. The Company works closely on all issues with the KOVO trade union organisations active at ŠKODA AUTO. Cooperation with the towns and regions where it operates remains important to the Company in 2018. Negotiations will be held with the Czech Government on the need to speed up the development of these places. Another prime objective is to maintain ŠKODA AUTO's lead in employer branding.

Finance

In 2018, ŠKODA AUTO will once again strive to achieve robust results and maintain its financial stability. The optimisation of processes and production costs while maintaining a high level of productivity will be central to meeting the Company's financial targets. The Company also plans to focus on the targeted management of costs and liquidity by consequently respecting planned cost targets, optimising the use of working capital and continuously monitoring investment objectives.

Financial Section

Auditor's Report

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 2017, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended 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 2017, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as modified by the European Commission's interpretation as described in Note 1.1 in notes to the separate financial statements.

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 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 is responsible for overseeing the Company's 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's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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.

20 February 2018

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar

Jiří Zouhar

Pavel Kulhavý

Pavel Kulhavý
Statutory Auditor, Evidence No. 1538

Separate Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

BALANCE SHEET AS AT 31 DECEMBER 2017 (CZK MILLION)

ASSETS	NOTE	31 DECEMBER 2017	31 DECEMBER 2016
Intangible assets	4	23,497	21,483
Property, plant and equipment	5	66,060	64,509
Investments in subsidiaries	6	79	49
Investments in associates	7	2,352	2,352
Other non-current receivables and financial assets	8	12,890	13,575
Deferred tax asset	14	1,797	2,870
Non-current assets		**106,675**	**104,838**
Inventories	9	17,614	16,093
Trade receivables	8	18,452	16,830
Other current receivables and financial assets	8	10,917	17,163
Cash and cash equivalents	10	97,201	73,256
Current assets		**144,184**	**123,342**
Total assets		**250,859**	**228,180**

EQUITY AND LIABILITIES	NOTE	31 DECEMBER 2017	31 DECEMBER 2016
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	88,177	113,726
Other reserves	12	11,020	5,567
Equity		**117,484**	**137,580**
Financial and other non-current liabilities	13	3,450	4,164
Non-current provisions	15	13,302	14,270
Non-current liabilities		**16,752**	**18,434**
Trade liabilities	13	44,278	41,903
Financial and other current liabilities	13	47,093	8,278
Current income tax liabilities		2,165	3,294
Current provisions	15	23,087	18,691
Current liabilities		**116,623**	**72,166**
Total equity and liabilities		**250,859**	**228,180**

The notes on pages 74 to 127 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017 (CZK MILLION)

	NOTE	2017	2016
Sales	**16**	**407,400**	**347,987**
Cost of sales	24	347,519	295,232
Gross profit		**59,881**	**52,755**
Distribution expenses	24	15,040	13,503
Administrative expenses	24	9,710	7,843
Other operating income	17	13,397	6,498
Other operating expenses	18	7,997	7,015
Operating profit		**40,531**	**30,892**
Financial income		3,373	2,777
Financial expenses		4,779	2,820
Net financial result	**19**	**(1,406)**	**(43)**
Profit before tax		**39,125**	**30,849**
Income tax expense	21	7,284	5,686
Profit for the year		**31,841**	**25,163**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (CZK MILLION)

	NOTE	2017	2016
Profit for the year, net of tax		**31,841**	**25,163**
Net fair value gain / (loss) net of tax on financial derivatives designated as hedging instruments	12	5,791	9,179
Net fair value gain / (loss) net of tax on available-for-sale financial assets	12	(338)	1,156
Other comprehensive income / (loss) for the year, net of tax*		**5,453**	**10,335**
Total comprehensive income for the year		**37,294**	**35,498**

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

The notes on pages 74 to 127 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (CZK MILLION)

	SHARE CAPITAL	SHARE PREMIUM	RETAINED EARNINGS	OTHER RESERVES*	TOTAL EQUITY
Balance as at 1 January 2016	**16,709**	**1,578**	**103,963**	**(4,768)**	**117,482**
Profit for the year	–	–	25,163	–	25,163
Other comprehensive income / (loss)	–	–	–	10,335	10,335
Total comprehensive income for the year	**–**	**–**	**25,163**	**10,335**	**35,498**
Dividends	–	–	(15,400)	–	(15,400)
Balance as at 31 December 2016	**16,709**	**1,578**	**113,726**	**5,567**	**137,580**
Balance as at 1 January 2017	**16,709**	**1,578**	**113,726**	**5,567**	**137,580**
Profit for the year	–	–	31,841	–	31,841
Other comprehensive income / (loss)	–	–	–	5,453	5,453
Total comprehensive income for the year	**–**	**–**	**31,841**	**5,453**	**37,294**
Dividends**	–	–	(57,390)	–	(57,390)
Balance as at 31 December 2017	**16,709**	**1,578**	**88,177**	**11,020**	**117,484**

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

The notes on pages 74 to 127 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017 (CZK MILLION)

	NOTE	2017	2016
Cash and cash equivalents as at 1 January	**10**	**73,256**	**62,280**
Profit before tax		39,125	30,848
Depreciation, amortisation and impairment of non-current assets	4.5	22,376	22,528
Change in provisions		3,420	4,942
Gain / (loss) of non-current and financial assets		32	(9)
Net interest (income) / expense	19	131	115
Dividend income	19	(1,121)	(1,100)
Adjustments for non-cash transactions on derivatives and other adjustments for non-cash transactions		2,513	692
Change in inventories		(1,521)	(1,171)
Change in receivables		(1,687)	(4,899)
Change in liabilities		6,313	5,092
Income tax paid from operating activities		(8,621)	(6,448)
Interest paid		(179)	(196)
Interest received		30	32
Cash flows from operating activities		**60,811**	**50,426**
Purchases of tangible and intangible assets		(20,299)	(14,095)
Payment for establishment of subsidiary	6	(30)	–
Purchases of available-for-sale financial assets		–	(7,592)
Repayment of granted loans		8,300	–
Additions to capitalised development costs	4	(7,111)	(3,475)
Proceeds from sale of non-current and financial assets		23	11
Proceeds from dividends		1,121	1,100
Cash flows from investing activities		**(17,996)**	**(24,051)**
Net cash flows (operating and investing activities)		**42,815**	**26,375**
Dividends paid	11	(18,870)	(15,400)
Cash flows from financing activities		**(18,870)**	**(15,400)**
Net change in cash and cash equivalents		**23,945**	**10,975**
Cash and cash equivalents as at 31 December	**10**	**97,201**	**73,256**

The notes on pages 74 to 127 are an integral part of these financial statements.

Notes to the Separate Financial Statements 2017

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
www address: www.skoda-auto.cz

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

The organisational structure of the Company is divided into the following main areas:
– Central management department
– Technical development
– Production and logistics
– Sales and marketing
– 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 SIGNIFICANT ACCOUNTING POLICIES AND PRINCIPLES

1.1 COMPLIANCE STATEMENT

These financial statements are separate financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2017. 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 2017.

The Company as a controlled entity is required to be consolidated by its ultimate parent company VOLKSWAGEN AG in its financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union that are available for public use.

The Company prepares the separate financial statements in accordance with IFRS as adopted by the European Union ("IFRS") based on the Company's sole shareholder's decision in accordance with paragraph 19a Article 7 of Act No. 563/1991 Coll., on Accounting.

The Company 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 paragraph 22aa Article 1 and 2 of Act No. 563/1991 Coll., on Accounting, (effective as at 31 December 2017). 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 as modified 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 ADOPTION OF NEW OR REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on 1 January 2017

New standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on 1 January 2017 have 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 2017

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

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IFRS 9	Financial Instruments	1 January 2018	New standard IFRS 9 "Financial Instruments" should ultimately replace IAS 39 and some financial instruments disclosure requirements based on IFRS 7. The project to replace IAS 39 is implemented in three phases: Phase 1: Classification and measurement of financial assets and financial liabilities IFRS 9 classifies all financial assets currently under the scope of IAS 39 into three categories: assets subsequently carried at amortised costs using effective interest rate method, assets subsequently measured at fair value through other comprehensive income and assets subsequently measured at fair value through profit or loss. The classification must be performed at the time of acquisition and on initial recognition of financial assets and depends on entity's business model and the contractual cash flow characteristics of the financial instrument. Debt instrument that (i) is held within a business model which objective is to collect contractual cash flows, and (ii) that has contractual cash flows represented only by payments of principal and interest on the outstanding principal amount (i.e. financial instrument has only "basic loan features") are generally measured at amortised costs. Debt instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other debt instruments should be measured at fair value recognised in profit and loss. Equity instruments under the scope of IFRS 9 are subsequently measured at fair value. Gains or losses arising from equity instruments are always included in profit and loss except for equity instruments that are not held for trading. An entity may irrevocably elect for these instruments on initial recognition that realised and unrealised gains and losses arising from the investment will be recognised in other comprehensive income. Dividends are included in profit and loss only if they represent a return on investment. This decision may be done separately for each equity instrument.	The new IFRS 9 standard has impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. With respect to classification and valuation, the number of categories of financial assets will be reduced in the notes to financial statements and any reported financial assets will be measured at either the amortised costs or fair value. Another impact is the change in the impairment methodology of financial instruments. As a result of this change, the amount of allowances for financial assets will be increased as at 1 January 2018 in line with the decrease in equity in the item "Changes in Equity as a result of the transition to IFRS 9" after the transition to the new standard. The amount will not be material. The Company will opt for a prospective application of hedge accounting of foreign currency risk in accordance with par. 7.2.22. Therefore, no impact on comparatives is expected. The Company has not early adopted this standard. The disclosure of information in the area of financial instruments will be set by IFRS 7 para. 44S to 44W.

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
			Phase 2: Impairment methodology New IFRS 9 has introduced more progressive loss impairment model that will require more timely recognition of expected credit losses compared to incurred-loss model under IAS 39. Phase 3: Hedge accounting Hedge accounting requirements are amended to ensure a better link with risk management activity. The reporting of forward component of financial derivatives has been changed for currency hedges. The change in the forward component is newly reported in other comprehensive income in accordance with IFRS 9 instead of the profit and loss where it was reported according to IAS 39. The standard enables a choice between applying IFRS 9 and continuing with the application of IAS 39 to all hedging relationships as the current standard does not deal with macro hedging.	
IFRS 15	Revenue from Contracts with Customers	1 January 2018	IFRS 15 introduces the new core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. The goods or services are transferred when the customer obtains control of these. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. Variable consideration should be involved into transaction price at such amount to avoid significant risk of considerable revenue reversal in the future. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.	The Company expects that the new standard IFRS 15 would have impact especially on amount of recognised revenues as a result of new recognition criteria and new conditions for determining amount of variable consideration. In 2017, the Company conducted a detailed analysis of all the impacts of the new standard. Based on this analysis, the Company came to the conclusion that the impact on its net assets as at 1 January 2018 is not material. Further, the Company anticipates an impact on the change in the balance sheet structure, in particular on the liabilities side.
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' recognition of leases. IFRS 16 provides a single accounting model for recognition of all lease transactions. New IFRS 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 expects that the new IFRS 16 will have especially impact on the reported amounts of non-current assets, long-term liabilities, depreciation, interest expense and rental expense. The Company continuously carries out and analyses all the impacts of the new standard. However, the overall estimate of the financial impact on the reported figures has not been quantified as of the date of the financial statements.

Other new standards, amendments, interpretations and improvements to existing standards that are not effective for the financial year beginning on 1 January 2017 will have no material impact on the separate financial statements of the Company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These separate financial statements have been prepared under the historical cost convention, except for fair value measurement of available-for-sale financial assets, of financial assets and financial liabilities at fair value through profit or loss, and of all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Company's accounting policies. Amounts in the financial statements including the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

2.1 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates published by the Czech National Bank prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates published by the Czech National Bank are recognised in the income statement.

2.2 INTANGIBLE ASSETS

Purchased intangible assets are recorded at cost less cumulative amortisation and impairment losses. All research costs are recognised as expenses within the income statement when incurred. In accordance with IAS 38, all development costs of new ŠKODA models and other products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility, and costs can be measured reliably. Capitalised development costs and other internally generated intangible assets are carried at cost less accumulated amortisation and impairment losses. If the criteria for recognition as an asset are not met, the costs are recognised in the income statement in the year in which they are incurred. Tooling rights are capitalised as intangible assets. Capitalised costs include all direct costs as well as an appropriate portion of development-related overheads.

The cost of qualifying intangible assets also includes borrowing costs represented by interest and other costs that an entity incurs in connection with borrowing funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use. The Company ceases capitalising borrowing costs when the qualifying asset is ready for its intended use or sale.

The development costs are amortised using the straight-line method from the start of production over the expected life cycle of the models or components. Amortisation recognised during the year is allocated to the relevant functions in the income statement.

Intangible assets are amortised applying the straight-line method over their estimated useful lives as follows:

– Capitalised development costs	1 – 9 years according to the product life cycle
– Software	3 years
– Tooling rights	5 years
– 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 are tested annually for possible impairment and are carried at cost less accumulated impairment losses. Intangible assets are derecognised on sale or when no future economic benefits are expected from their use or sale. The gains or losses arising from 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)	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.

2.4 IMPAIRMENT OF ASSETS

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.5 FINANCIAL INSTRUMENTS

2.5.1 Financial assets

Classification
The classification depends on the purpose for which the financial assets were acquired. Management of the Company determines the classification of its financial assets at initial recognition.

The Company classifies its financial assets in the following categories:

a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial assets valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting periods 2017 and 2016, the Company only had financial derivatives within this category (Note 2.5.3).

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables, or other receivables and financial assets in the balance sheet (Note 8).

c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement. In the accounting period 2017 (2016), the Company only had, within the category of available-for-sale financial assets, investments to equity instruments that did not have quoted price in an active market.

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Long-term loans and receivables are carried at amortised costs using the effective interest method.

Available-for-sale financial assets (equity instruments) that otherwise do not have quoted prices in an active market but their fair value can be reliably measured are subsequently carried at fair value. Changes in fair value of an available-for-sale financial assets are recognised in other comprehensive income. The Company recognises dividends from equity instruments in financial income when its right to receive the dividend is established.

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

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

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

2.5.2 Financial liabilities

Classification
The classification depends on a purpose for which financial liabilities have been concluded. The Company management designates the appropriate classification of financial liabilities on initial recognition.

The Company classifies its financial liabilities into following categories:

a) Financial liabilities measured at fair value through profit or loss
Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2017 (2016), the Company only had financial derivatives in this category (Note 2.5.3).

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

Derecognition
The Company derecognises financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or 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 re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Company designates as hedging instruments only those which fulfil the requirements of hedge accounting.

The Company uses derivatives to hedge future cash flows. The hedged items in this case are highly probable future transactions.

The Company is hedging against changes in cash flows from highly probable future transactions caused by changes in foreign exchange spot rates and other price changes (arising especially from the combination of commodity and currency risk).

The changes in the spot component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in the forward component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised as a gain or loss in the income statement.

The changes in fair value of commodity swaps that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in fair value of commodity swaps that do not qualify as effective cash-flow hedging instruments are recognised in the income statement and classified as a gain or loss.

The cumulative balances recognised in other comprehensive income are recycled into the income statement as a gain or loss in the periods when the hedged item affects the income statement. If the timing of the hedged cash flow is deferred, in compliance with its hedging strategy the Company prolongs the maturity of the original hedging instrument. In such case the spot component of the original derivative contract is retained in equity until the hedged item affects the income statement. When this occurs, the previously retained balance is recycled from other comprehensive income to the income statement and recognised as a gain or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income from the effective part of the hedging instrument at that time remains in other comprehensive income and is reclassified to the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as the net present value of future cash flows. The fair value of currency forwards and swaps is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. The fair value of commodity swaps is calculated as the present value of future cash flows based on the rates of LME (London Metal Exchange).

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

2.6 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES
Subsidiaries are investees (including structured entities) that are controlled by the Company.

The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The subsidiaries controlled by the Company as at 31 December 2017 (as at 31 December 2016) (see Note 6):
– ŠKODA AUTO Slovensko s.r.o. (100%);
– Skoda Auto India Private Ltd. (100%);
– ŠKODA AUTO DigiLab s.r.o. (100%) – established in 2017.

Associates are all entities in which the Company has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. This power is generally connected with ownership of 20 to 50 per cent of the voting power or is usually evidenced in one or more of the following ways:

(a) representation on the board of directors or equivalent governing body of the investee;
(b) participation in policy-making processes, including participation in decisions about dividend or other distributions;
(c) material transactions between the investor and the investee;
(d) interchange of managerial personnel; or
(e) provision of essential technical information.

The ŠKODA AUTO a.s. had significant influence as at 31 December 2017 (as at 31 December 2016) in the associates (see Note 7):
– OOO VOLKSWAGEN Group Rus,
– ŠKO-ENERGO FIN, s.r.o.

Recognition, measurement and derecognition
Investments in subsidiaries and associates are carried in the separate financial statements at cost less any impairment loss. The Company recognises a dividend from a subsidiary or associate in financial income when its right to receive the dividend is established.

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.

2.7.1 Current income tax
Current tax liabilities (receivables) for the current period and preceding periods are recognised in the amount of expected payments to or claims from tax offices, using the tax rates (and tax laws) valid in the respective period. Current income tax relating to the current accounting period and to preceding periods reduced by the amount already paid is recorded as a liability. If the amount already paid in the current and in preceding periods exceeds current income tax related to these periods, the difference is recorded as a receivable.

The situations, in which the expected amount of payment to the tax authorities (or expected receipt from them) is based on the interpretation of tax laws, are regularly reassessed and the expected payments to tax authorities (or expected receipt from them) are adjusted accordingly to reflect the best estimate of the amount to be paid to tax authorities (or to be received from them) based on legislation enacted or substantially enacted by the balance sheet date.

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

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

In accordance with IAS 12, deferred tax assets and liabilities are offset, 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 taxation authority.

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

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

2.8 INVENTORIES

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

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

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

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

2.9 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 Group Services (VGS), 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 anniversaries
– other long-term loyalty benefits

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

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

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

2.11 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 comprises the fair value of consideration received or receivable for the goods sold and services provided, net of value-added tax, rebates and discounts.

Sales of goods are recognised only when the goods have been delivered, that is, when the significant risks and rewards have passed to the customer, the sales price is agreed or determinable and receipt of payment is probable. This corresponds generally to the date when the products are provided to dealers outside the Company or to the delivery date in the case of direct sales to consumers.

Revenues from one-off licences are recognised only when the intellectual rights are transferred or when partial delivery has been completed (e.g. delivery of technical documentation, technical support, etc.). Revenues from per-piece licences are recognised based on the number of cars produced in the current accounting period. Dividend income is generally recognised on the date at which the dividend is legally approved and when the payment is probable.

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

Revenue arising from rendering of services, which are separable from the product (e.g. revenue from the sale of extended guarantee), which will be provided in future periods are recognised when the services are rendered respectively 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.

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

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

2.14 SUBSIDIES

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

2.15 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 para. b.

2.16 SHARE CAPITAL

The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statement of financial position. Ordinary shares are classified as share capital. The Company typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of related income tax deduction) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

Share premium is represented by the difference between the nominal value of shares issued on share capital increase and the market price of shares and is recognised within equity.

2.17 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Capitalisation of development costs

The Company continuously invests in research and development of new products, which are either developed internally within the Company's research and development centre or within the Volkswagen Group. In compliance with IAS 38, for each development project the Company performs an assessment whether the project meets the development costs recognition criteria, especially the probability that the asset will generate future economic benefits. The Company's assessment is based on assumptions and estimates for the next five and more years with respect to the products future sales, development of the individual markets and automotive industry itself. Although the Company's analyses are based on the best currently available information, the risk of future changes and uncertainty with respect to future development of the assumptions applied remain significant. Please refer to Note 4 for additional information including the respective amounts.

Impairment of non-current assets
In the course of the product life cycle and in exceptional situations also before its commencement, there may be circumstances which indicate that "cash generating units" (tangible and intangible assets employed for production of vehicles of a certain model) might have suffered impairment. To determine any possible impairment, the Company estimates value in use of the cash generating units which is calculated as discounted expected future cash flows associated with the employment of the cash generating units. For determination of the estimated future cash flows, the Company applies estimates and assumptions regarding future sales of a particular product, economic development of the individual markets and development of the automotive industry during the next five and more years. Although the Company estimates the value in use of the cash generating units based on the best information and data currently available to the Company, the risk of future changes and uncertainty with respect to the future development of the applied assumptions in the following years remains significant. More detailed information about impairment losses is included in Note 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 23,497 million as at 31 December 2017 (as at 31 December 2016: CZK 21,483 million). Average useful life of intangible assets was 6 years in 2017 (in 2016: 7 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.

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 according to IAS 21 and applies professional judgment.

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 minimise these risks through application of a flexible hedging strategy with utilisation of various instruments. The structure of risk management in the Company is based on the unified principle of risk management applied in the Volkswagen Group. The Volkswagen Group's risk management principles are in compliance with the requirements of the German Act on Control and Transparency in Enterprises (KonTraG).

In compliance with the Volkswagen Group policy all hedging operations are agreed and implemented in cooperation with the Treasury department of the Volkswagen Group.

Management of the Company is regularly informed of current financial and other related risks (liquidity, foreign exchange rates, interest rates, invoice currencies, payment conditions, taxes etc.), which is achieved through regular "liquidity meeting" attended by representatives from Treasury, Controlling, Accounting, Sales, Volkswagen Group Treasury, representatives of subsidiaries and management of the Finance and IT department. These meetings have predefined agenda, which includes also information on the main macroeconomic indicators from all important countries, in which the Company sells its products. Meetings have a formalised structure and all minutes including the decisions are recorded and their fulfilment is periodically 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 customers. The receivables from general importers are secured by the following instruments: payments in advance, letters of credit, documentary collection, bank guarantees, standby letters of credit and transfer of receivables to factoring without recourse or with partial recourse. Only an immaterial part of receivables from other customers arises on credit terms.

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

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

Loans to employees are secured by other employee guarantees.

As at 31 December 2017 (as at 31 December 2016), 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 8.3:

CZK million	2017	2016
Retention of legal ownership title to sold cars	1,069	753
Bank guarantee	1,378	933
Letters of credit	1,193	1,843
Documentary collection	108	94
Accepted deposit	–	434
Total	**3,748**	**4,057**

3.1.1 Maximum exposure to credit risk (CZK million)
The maximum exposure to credit risk in case of activities connected to business operations, granting of loans, supplier credits provided to customers and deposits in companies within Volkswagen Group and bank deposits is calculated as the gross carrying amount of the above mentioned financial assets less any impairment provisions 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 2017 (as at 31 December 2016: CZK 75 million). Detailed information on the guarantee are listed in section 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 2017 (2016) the Company did not identify any significant risk concentration on the basis of distribution region.

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

The total volume of loans to and deposits in Volkswagen Group companies amounted to CZK 97,196 million as at 31 December 2017 (as at 31 December 2016: CZK 81,330 million), out of which:

– loans with original maturity more than three months included in balance sheet in the line Other current receivables and financial assets (see Note 8.2) in total amount of CZK 0 million as at 31 December 2017 (as at 31 December 2016: CZK 8,314 million),

– 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 80,000 million (as at 31 December 2016: CZK 40,000 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 17,196 million (as at 31 December 2016: CZK 33,016 million).

The Company did not consider probable that a default could occur in connection with the free cash deposited in 2017 (2016).

Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

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

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

Balance as at 31 December 2017	Solvency class 1	Solvency class 2	Total
Loans to employees	507	–	507
Loans to and deposits in Volkswagen Group companies*	97,196	–	97,196
Positive fair value of financial derivatives	8,245	–	8,245
Other receivables and financial assets	504	–	504
Trade receivables	16,720	395	17,115
Cash	5	–	5
Total	**123,177**	**395**	**123,572**

Balance as at 31 December 2016	Solvency class 1	Solvency class 2	Total
Loans to employees	532	–	532
Loans to and deposits in Volkswagen Group companies*	81,330	–	81,330
Positive fair value of financial derivatives	6,262	–	6,262
Other receivables and financial assets	146	–	146
Trade receivables	15,223	376	15,599
Cash	240	–	240
Total	**103,733**	**376**	**104,109**

* For detailed information related to Loans and deposits in Volkswagen Group companies refer to note 3.1.2.

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

	Months past due			
Trade receivables	Less than 1 month	1 – 3 months	More than 3 months	Total
Balance as at 31 December 2017	**392**	**159**	**786**	**1,337**
Balance as at 31 December 2016	585	243	403	1,231

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Company did not identify any need for impairment of these receivables.

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

Valuation allowances to other receivables and financial assets were CZK 163 million as at 31 December 2017 (as at 31 December 2016: CZK 167 million). Valuation allowances to trade receivables were CZK 148 million as at 31 December 2017 (as at 31 December 2016: CZK 156 million). Movements in valuation allowances during the year were insignificant. During the accounting period 2017 (2016) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2017 (2016) the Company had valuation allowances only on financial assets included in the category of loans and receivables.

3.1.6 Transferred financial assets where the Company has continuing involvement
The Company has concluded a factoring contract with the company ŠkoFIN s.r.o., under which the majority of risks and rewards relating to ownership of receivables arising from sale of new or used cars are transferred to ŠkoFIN s.r.o. Under certain conditions, the company ŠkoFIN s.r.o. can claim compensation relating to realised credit losses up to 2% of the total amount of transferred receivables during the year, however, not more than 49% of these losses and not more than CZK 75 million in 2017 (in 2016: 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 37 million in 2017 (in 2016: CZK 33 million). This loss concerns the obligation to compensate for realised credit losses incurred by ŠkoFIN s.r.o.

3.1.7 Offsetting of financial assets and financial liabilities

Balance as at 31 December 2017	Gross amount of financial assets / liabilities recognised in the balance sheet	Gross amount of recognised financial liabilities / assets 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	8,245	–	8,245	(575)	7,670
Liabilities from financial derivatives	588	–	588	(575)	13

Balance as at 31 December 2016	Gross amount of financial assets / liabilities recognised in the balance sheet	Gross amount of recognised financial liabilities / assets 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	6,262	–	6,262	(2,487)	3,775
Liabilities from financial derivatives	3,524	–	3,524	(2,487)	1,037

* 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 2017 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 2017 (as at 31 December 2016). The total amount of collateral value of trade receivables was CZK 3,748 million as at 31 December 2017 (as at 31 December 2016: CZK 4,057 million). Details related to types of collateral are presented in Note 3.1.

3.2 LIQUIDITY RISK
Liquidity risk is a risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The objective of liquidity risk management is to ensure the balance between the funding of operating activities and financial flexibility in order to ensure that all claims of the Company's suppliers and creditors are settled timely.

Management of the Company monitors the liquidity and its development at regular monthly meetings, so called "liquidity meetings", attended by representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the information about daily development of liquidity and its structure. The Company's management is also presented with the short-term forecasts of the liquidity development.

Cash management
The Company is integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS), 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 VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS. The incoming payments are credited to Company's bank accounts and subsequently at the end of each working day they are automatically transferred to VGS's bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS. All incoming payments are credited to the Company's bank accounts at the "Inhouse Bank" (IHC) operated by VGS, where the differences between debit and credit balances on the collected financial resources are netted-off.

Major instruments used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (credit lines) and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured mainly through resources from other Volkswagen Group companies integrated into the GTP and, to a limited extent, through credit lines arranged with external banks.

The total amount of credit lines from banks as at 31 December 2017 was CZK 600 million (as at 31 December 2016: CZK 600 million). All credit lines are contracted in Czech crowns. The Company has not utilised any agreed bank credit lines as at 31 December 2017 (as at 31 December 2016).

The Company has not drawn any credit line from the Volkswagen Group as at 31 December 2017 (as at 31 December 2016).

Contractual maturity analysis (undiscounted amounts in CZK million)

Balance as at 31 December 2017	Within 1 year	1 – 5 years	Total
Trade liabilities	**(43,350)**	**–**	**(43,350)**
Derivatives with positive fair value:			
Currency forwards and swaps	(34,731)	(32,599)	(67,330)
Derivatives with negative fair value:			
Currency forwards and swaps	(22,178)	(5,661)	(27,839)
Commodity swaps	–	–	–
Total	**(100,259)**	**(38,260)**	**(138,519)**

Balance as at 31 December 2016	Within 1 year	1 – 5 years	Total
Trade liabilities	**(40,740)**	**–**	**(40,740)**
Derivatives with positive fair value:			
Currency forwards and swaps	(37,830)	(30,718)	(68,548)
Derivatives with negative fair value:			
Currency forwards and swaps	(21,774)	(16,230)	(38,004)
Commodity swaps	(58)	(10)	(68)
Total	**(100,402)**	**(46,958)**	**(147,360)**

Cash inflows from derivatives, which are settled on the gross basis (FX forwards and swaps), match with cash outflows from these derivatives. The inflows are not included in the maturity analysis. After deduction of the inflows, the net outflows for the derivatives with positive fair value in table above would be zero as there are net inflows and net outflows in table above would be significantly lower for the derivatives with negative fair value.

3.3 MARKET RISK

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

3.3.1 Currency risk

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

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

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

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

Forward exchange contracts and currency swaps are used as hedging instruments for elimination of currency risk. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted financial products (derivatives). Contracts are concluded upon the Company's request and in its name by the 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, USD and RUB. The Company also applies hedge accounting for currency risk.

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

3.3.2 Interest rate risk

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

Due to continuous volatility in the prices of raw material commodities and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High 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 and aluminium) and currency forwards. In 2016 the Company voluntarily terminated the application of hedge accounting for those financial derivatives. 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 (CZK million)

	Nominal value of derivatives		Fair value of derivatives			
	Balance as at 31 December 2017	Balance as at 31 December 2016	Balance as at 31 December 2017		Balance as at 31 December 2016	
	With positive and negative fair value	With positive and negative fair value	Positive	Negative	Positive	Negative
Currency instruments						
Currency forwards and swaps for trading	10,450	8,508	313	379	283	695
Currency forwards and swaps – cash flow hedging	86,441	98,401	7,646	209	5,943	2,761
Commodity instruments						
Commodity swaps for trading	1,770	1,203	286	–	36	68
Total	**98,661**	**108,112**	**8,245**	**588**	**6,262**	**3,524**

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

Volume of hedged cash flows (CZK million)

	Volume of hedged cash flows		
Balance as at 31 December 2017	**Within 1 year**	**1 – 5 years**	**Total**
Currency risk exposure			
Hedging of future cash flows – future receivables	44,669	34,459	79,128
Hedging of future cash flows – future liabilities	(6,727)	(580)	(7,307)
Total	**37,942**	**33,879**	**71,821**

	Volume of hedged cash flows		
Balance as at 31 December 2016	**Within 1 year**	**1 – 5 years**	**Total**
Currency risk exposure			
Hedging of future cash flows – future receivables	46,475	46,607	93,082
Hedging of future cash flows – future liabilities	(5,319)	–	(5,319)
Total	**41,156**	**46,607**	**87,763**

3.4 SENSITIVITY ANALYSIS

3.4.1 Sensitivity to exchange rates

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

The sensitivity analysis includes analysis of exposure arising from derivative financial assets and liabilities and unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates compared to those published by Czech National Bank. As at 31 December 2017 the Company considers as reasonably possible the movements of exchange rates EUR, USD, PLN, CHF, GBP and RUB against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK). As at 31 December 2016 the Company considered as the reasonably possible movements of exchange rates EUR, USD, CHF, GBP and RUB against CZK in the following period of +15% (appreciation of CZK) and -15% (depreciation of CZK).

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

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

	CZK appreciation by 10%						
2017 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**PLN**	**Other currencies**
Profit before tax							
Non-derivative financial instruments	1,402	(136)	1	3	(184)	(11)	34
Derivative financial instruments	–	401	–	–	–	–	–
Other comprehensive income before tax							
Derivative financial instruments	(627)	–	1,492	3,323	14	2,100	833

	CZK depreciation by 10%						
2017 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**PLN**	**Other currencies**
Profit before tax							
Non-derivative financial instruments	(1,402)	136	(1)	(3)	184	11	(34)
Derivative financial instruments	–	(401)	–	–	–	–	–
Other comprehensive income before tax							
Derivative financial instruments	627	–	(1,492)	(3,323)	(14)	(2,100)	(833)

	CZK appreciation by 15%					
2016 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	1,982	(207)	(3)	20	(241)	39
Derivative financial instruments	–	(147)	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	(609)	2,016	3,038	6,158	262	2,271

	CZK depreciation by 15%					
2016 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	(1,982)	207	3	(20)	241	(39)
Derivative financial instruments	–	147	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	609	(2,016)	(3,038)	(6,158)	(262)	(2,271)

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 2017 (2016: 100 / (25) basis points). Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered in 2017 (2016). Result 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:

2017 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Profit before tax		
Non-derivative financial instruments	985	–
Derivative financial instruments	(82)	84
Total	**903**	**84**

2016 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Profit before tax		
Non-derivative financial instruments	804	(21)
Derivative financial instruments	(60)	15
Total	**744**	**(6)**

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

In 2017 the Company assumes reasonably possible movements in aluminium and copper prices in the following period of +/- 10% (2016: +/- 20%).

The Company considers changes in the fair values of derivative financial instruments due to changes in spot commodity prices. Other non-derivative financial assets and liabilities are deemed not to be sensitive to changes in commodity prices since the pricesare 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 and aluminium prices:

2017 (CZK million)	Increase of copper prices +10%	Decrease of copper prices (10)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%
Profit before tax				
Derivative financial instruments	78	(78)	125	(125)

2016 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +20%	Decrease of aluminium prices (20)%
Profit before tax				
Derivative financial instruments	92	(92)	136	(136)

3.5 CAPITAL MANAGEMENT
The Company's capital is controlled on the Volkswagen Group level. It is the objective of the capital management function to maintain continued growth of the Company's value for the shareholders. Management of the Company considers as capital 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 2017	**28,212**	**4,322**	**12,505**	**45,039**
Additions	807	6,304	1,972	9,083
Disposals	–	–	(7)	(7)
Transfers	3,174	(3,174)	–	–
Balance as at 31 December 2017	**32,193**	**7,452**	**14,470**	**54,115**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2017	**(16,018)**	**–**	**(7,538)**	**(23,556)**
Amortisation	(2,764)	–	(1,268)	(4,032)
Impairment losses	(1,155)	(1,087)	(795)	(3,037)
Disposals	–	–	7	7
Balance as at 31 December 2017	**(19,937)**	**(1,087)**	**(9,594)**	**(30,618)**
Carrying amount as at 31 December 2017	**12,256**	**6,365**	**4,876**	**23,497**

	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 2016	**30,799**	**3,466**	**14,433**	**48,698**
Additions	218	3,257	848	4,323
Disposals	(5,206)	–	(2,776)	(7,982)
Transfers	2,401	(2,401)	–	–
Balance as at 31 December 2016	**28,212**	**4,322**	**12,505**	**45,039**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2016	**(15,307)**	**–**	**(8,578)**	**(23,885)**
Amortisation	(3,406)	–	(1,314)	(4,720)
Impairment losses	(2,511)	–	(422)	(2,933)
Disposals	5,206	–	2,776	7,982
Balance as at 31 December 2016	**(16,018)**	**–**	**(7,538)**	**(23,556)**
Carrying amount as at 31 December 2016	**12,194**	**4,322**	**4,967**	**21,483**

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

Amortisation and impairment losses of intangible assets of CZK 6,995 million (2016: CZK 7,581 million) are included in the cost of sales, CZK 9 million (2016: CZK 8 million) in distribution expenses, and CZK 65 million (2016: CZK 64 million) in administrative expenses.

Impairment reviews
The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and their potential impact on the carrying amount of the Company's intangible assets. Due to substantial changes in the market environment, the Company has experienced in 2017 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. 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 5.8% has been applied in 2017 (2016: 5.4%), 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 3,037 million (2016: CZK 2,933 million) allocated to intangible assets, which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2017.

Capitalisation of borrowing costs
No borrowing costs have been capitalised in the cost of intangible assets in 2017 or 2016 as they were not material.

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

	2017	2016
Research and non-capitalised development costs	8,287	6,535
Amortisation and impairment losses of development costs	5,006	5,917
Research and development costs recognised in the income statement	**13,293**	**12,452**

5. PROPERTY, PLANT AND EQUIPMENT (CZK million)

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Advances paid and assets under construction*	Total
Costs					
Balance as at 1 January 2017	**41,758**	**84,966**	**74,612**	**7,456**	**208,792**
Additions	544	3,150	5,789	7,430	16,913
Disposals	(134)	(2,491)	(1,375)	–	(4,000)
Transfers	1,345	1,268	–	(2,613)	–
Balance as at 31 December 2017	**43,513**	**86,893**	**79,026**	**12,273**	**221,705**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2017	**(19,314)**	**(65,081)**	**(59,888)**	**–**	**(144,283)**
Depreciation	(1,556)	(6,421)	(5,465)	–	(13,442)
Impairment losses	–	–	(1,154)	(711)	(1,865)
Disposals	110	2,460	1,375	–	3,945
Balance as at 31 December 2017	**(20,760)**	**(69,042)**	**(65,132)**	**(711)**	**(155,645)**
Carrying amount as at 31 December 2017	**22,753**	**17,851**	**13,894**	**11,562**	**66,060**

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Advances paid and assets under construction*	Total
Costs					
Balance as at 1 January 2016	**40,025**	**79,768**	**69,569**	**9,619**	**198,981**
Additions	1,018	5,057	5,319	2,410	13,804
Disposals	(112)	(2,135)	(1,746)	–	(3,993)
Transfers	827	2,276	1,470	(4,573)	–
Balance as at 31 December 2016	**41,758**	**84,966**	**74,612**	**7,456**	**208,792**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2016	**(17,940)**	**(60,895)**	**(54,504)**	**–**	**(133,339)**
Depreciation	(1,486)	(6,260)	(5,194)	–	(12,940)
Impairment losses	–	–	(1,935)	–	(1,935)
Disposals	112	2,074	1,745	–	3,931
Balance as at 31 December 2016	**(19,314)**	**(65,081)**	**(59,888)**	**–**	**(144,283)**
Carrying amount as at 31 December 2016	**22,444**	**19,885**	**14,724**	**7,456**	**64,509**

* As at 31 December 2017 advances paid amount to CZK 4,971 million (as at 31 December 2016: CZK 1,285 million) from the total amount of Advances paid and assets under construction.

Impairment reviews
The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Company's non-current tangible assets. Due to substantial changes in the market environment, the Company has experienced in 2017 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain model). Impairment reviews of assets relating to those cash-generating units have been performed.

The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use 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 5.8% has been applied in 2017 (2016: 5.4%), reflecting the specific risks associated with the sector in which the Company operates. For three 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 1,865 million (2016: CZK 1,935 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2017 (31 December 2016).

Capitalisation of borrowing costs
No borrowing costs have been capitalised in the cost of property, plant and equipment in 2017 or in 2016 as they were not material.

6. INVESTMENTS IN SUBSIDIARIES

Subsidiary	Country of incorporation	Shareholding %
ŠKODA AUTO Slovensko s.r.o.	Slovakia	100
Skoda Auto India Private Ltd.	India	100
ŠKODA AUTO DigiLab s.r.o.	Czech Republic	100

The subsidiaries in which the Company has a financial investment paid dividends to the Company in the amount of CZK 47 million in 2017 (2016: CZK 46 million).

7. INVESTMENTS IN ASSOCIATES (CZK million)

The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2017 was 16.8% (as at 31 December 2016: 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 2017 (as at 31 December 2016: CZK 1,823 million). The recoverable amount of the associate is significantly higher than its carrying amount as at 31 December 2017 (as at 31 December 2016).

The Company's share in the registered capital of the company ŠKO-ENERGO FIN, s.r.o. as at 31 December 2017 was 31.25% (as at 31 December 2016: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2017 (as at 31 December 2016: CZK 529 million).

ŠKO-ENERGO FIN, s.r.o. paid dividends to the Company in the amount of CZK 152 million (2016: CZK 152 million).

8. OTHER RECEIVABLES, FINANCIAL ASSETS, TRADE RECEIVABLES AND AVAILABLE-FOR-SALE FINANCIAL ASSETS (CZK million)

8.1 OTHER NON-CURRENT RECEIVABLES AND FINANCIAL ASSETS

Balance as at 31 December 2017	Financial assets at fair value through profit or loss**	Loans and receivables	Available-for-sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other non-current receivables and financial assets						
Loans to employees	–	450	–	–	–	450
Positive fair value of financial derivatives	(673)	–	–	4,507	–	3,834
Equity instruments	–	–	8,606	–	–	8,606
Other	–	–	–	–	–	–
Total	**(673)**	**450**	**8,606**	**4,507**	**–**	**12,890**

Balance as at 31 December 2016	Financial assets at fair value through profit or loss**	Loans and receivables	Available-for-sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other non-current receivables and financial assets						
Loans to employees	–	472	–	–	–	472
Positive fair value of financial derivatives	(533)	–	–	3,889	–	3,356
Equity instruments	–	–	9,023	–	–	9,023
Other	–	–	–	–	724	724
Total	**(533)**	**472**	**9,023**	**3,889**	**724**	**13,575**

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

Notes:
As the spot component exceeded the fair value as at 31 December 2017 (2016), the forward component was negative.

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.

A forward component of hedging derivatives and fair value of derivatives held for trading are disclosed in the portfolio Financial assets at fair value through profit or loss (see also Note 3.3.4).

The carrying value of non-current loans to employees approximates their fair value. The fair value of non-current 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 non-current loans to employees qualifies for Level 3 in accordance with IFRS 13.

In the column Financial assets designated as hedging instruments is disclosed spot component respectively fair value of derivatives designated as hedging instruments. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

In the column Other is included mainly non-current receivable from VOLKSWAGEN AG.

Investments to equity instruments of other entities are disclosed in the portfolio Available-for-sale financial assets.

After approval by the relevant Chinese authorities with effect from 29 March 2016 the Company acquired 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 AG and a third party). The Company plans to hold this investment for the foreseeable future and does not consider its sale.

The fair value of the investment amounted to CZK 8,602 million as at 31 December 2017 (as at 31 December 2016: CZK 9,019 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 2017 (2016) FCF have been extrapolated with a growth rate of 3.0% (1.0%). For discounting free cash flows, the WACC after tax rate of 13.1% (10.5%) has been applied in 2017 (2016).

Based on information currently available as at 31 December 2017 (as at 31 December 2016), a material change in corporate planning was considered unlikely. The cash flow forecasts used are therefore considered to be an appropriate basis for measuring fair value.

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

Investments in equity instruments	
Balance as at 1 January 2017	**9,019**
Additions	–
Total change in fair value in the period	(417)
Balance as at 31 December 2017	**8,602**

Investments in equity instruments	
Balance as at 1 January 2016	**–**
Additions	7,592
Total change in fair value in the period	1,427
Balance as at 31 December 2016	**9,019**

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 2017, the Company expects as reasonably possible the movement of long-term growth rate in the following period of +/- 0.5 percentage point (2016: +/- 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:

2017	Increase by 0.5 percentage point	Decrease by 0.5 percentage point
Increase / (decrease) of the fair value of the investment	238	(215)
Increase / (decrease) of the other comprehensive income before tax	238	(215)

2016	Increase by 0.5 percentage point	Decrease by 0.5 percentage point
Increase / (decrease) of the fair value of the investment	262	(235)
Increase / (decrease) of the other comprehensive income before tax	262	(235)

Sensitivity of the fair value of the investment to the change in WACC
In 2017, the Company expects as reasonably possible the movement of WACC in the following period of +/- 0.5 percentage point (2016: +/- 0.5 percentage point).

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

2017	Increase by 0.5 percentage point	Decrease by 0.5 percentage point
Increase / (decrease) of the fair value of the investment	(400)	442
Increase / (decrease) of the other comprehensive income before tax	(400)	442

2016	Increase by 0.5 percentage point	Decrease by 0.5 percentage point
Increase / (decrease) of the fair value of the investment	(403)	449
Increase / (decrease) of the other comprehensive income before tax	(403)	449

There are no significant interrelationships between significant unobservable inputs.

8.2 OTHER CURRENT RECEIVABLES AND FINANCIAL ASSETS

Balance as at 31 December 2017	Financial assets at fair value through profit or loss**	Loans and receivables	Financial assets designated as hedging instruments	Other*	Total
Other current receivables and financial assets					
Loans to employees	–	57	–	–	57
Loans to and deposits in Volkswagen Group companies	–	–	–	–	–
Positive fair value of financial derivatives	(689)	–	5,099	–	4,410
Tax receivables (excl. income tax)	–	–	–	4,516	4,516
Other	–	504	–	1,430	1,934
Total	**(689)**	**561**	**5,099**	**5,946**	**10,917**

Balance as at 31 December 2016	Financial assets at fair value through profit or loss**	Loans and receivables	Financial assets designated as hedging instruments	Other*	Total
Other current receivables and financial assets					
Loans to employees	–	60	–	–	60
Loans to and deposits in Volkswagen Group companies	–	8,314	–	–	8,314
Positive fair value of financial derivatives	(321)	–	3,227	–	2,906
Tax receivables (excl. income tax)	–	–	–	3,531	3,531
Other	–	146	–	2,206	2,352
Total	**(321)**	**8,520**	**3,227**	**5,737**	**17,163**

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

Notes:
As the spot component exceeded the fair value as at 31 December 2017 (2016), the forward component was negative.

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.

A forward component of hedging derivatives and fair value of derivatives held for trading are disclosed in the portfolio Financial assets at fair value through profit or loss (see also Note 3.3.4).

Loans to employees and loans and deposits in Volkswagen group companies are disclosed in the portfolio Loans and receivables.

The carrying value of current loans to employees approximates their fair value. The fair value of current 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 current loans to employees qualifies for Level 3 in accordance with IFRS 13.

In the column Financial assets designated as hedging instruments is disclosed spot component respectively fair value of derivatives designated as hedging instruments. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

In the column Other are included mainly current receivables from employees, advances paid and other current receivables from VOLKSWAGEN AG.

As at 31 December 2016 the weighted average effective interest rate on loans and deposits in Volkswagen Group companies based on the carrying value was 0.364%. The carrying value of loans and deposits in Volkswagen Group companies approximated their fair value. The fair value of loans and deposits in Volkswagen Group companies 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 and deposits in Volkswagen Group companies qualified for Level 2 in accordance with IFRS 13. All loans and deposits in Volkswagen group companies disclosed in Note 8 were denominated in CZK.

8.3 TRADE RECEIVABLES

Current trade receivables	2017	2016
Third parties	2,249	2,598
Subsidiaries	934	897
Other related parties	15,269	13,335
Total	**18,452**	**16,830**

Due to their current nature the carrying amount of current trade receivables after a deduction of allowance for impairment (if any) approximates their fair value.

The allowance for the impairment of trade receivables of CZK 148 million (2016: CZK 156 million) has been deducted from the presented carrying values of trade receivables.

Trade receivables are classified in the portfolio Loans and receivables in accordance with IAS 39.

9. INVENTORIES (CZK million)

Structure of the inventories	Carrying value as at 31 December 2017	Carrying value as at 31 December 2016
Raw materials, consumables and supplies	5,859	5,174
Work in progress	3,843	3,726
Finished products and goods	7,912	7,193
Total	**17,614**	**16,093**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2017 was CZK 339,360 million (2016: CZK 287,232 million).

10. CASH AND CASH EQUIVALENTS (CZK million)

	2017	2016
Cash in hand	4	5
Cash pooling	17,196	33,016
Bank accounts	1	235
Cash equivalents	80,000	40,000
Total	**97,201**	**73,256**

The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2017 was 0.0% (as at 31 December 2016: 0.0%).

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. In the Note 3 are these deposits including cash pooling deposits included in Loans and receivables category in accordance with IAS 39.

The weighted average effective interest rate on current cash equivalents including cash pooling based on the carrying amount as at 31 December 2017 was 0.0% (as at 31 December 2016: 0.0%). 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 96,408 million (as at 31 December 2016: CZK 70,923 million) and in EUR: CZK 788 million (as at 31 December 2016: CZK 2,093 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.

There was no movement in the Company's share capital during the accounting period 2017 (2016).

In 2017, the Company paid dividend in the amount of CZK 18,870 million from profit for the year 2016 (2016: CZK 15,400 million). Additionally, the dividend in the amount of CZK 38,520 million from retained earnings relating to the previous accounting periods was declared by the decision of the sole shareholder exercising the powers of the general meeting in 2017. This dividend will be paid out in 2018.

The dividend per share was CZK 34,347 in 2017 (2016: CZK 9,217).

12. OTHER RESERVES AND RETAINED EARNINGS (CZK million)

12.1 OTHER RESERVES

	2017	2016
Available-for-sale financial assets revaluation reserve*	818	1,156
Reserves for cash flow hedges*	6,836	1,045
Statutory reserve fund	3,366	3,366
Total	**11,020**	**5,567**

* 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 available-for-sale assets revaluation reserve:

Available-for-sale financial assets revaluation reserve	
Balance as at 1 January 2017	**1,156**
Total change in fair value in the period	(417)
Deferred tax on change in fair value	79
Balance as at 31 December 2017	**818**

Available-for-sale financial assets revaluation reserve	
Balance as at 1 January 2016	**–**
Total change in fair value in the period	1,427
Deferred tax on change in fair value	(271)
Balance as at 31 December 2016	**1,156**

Movement in reserve for cash flow hedges:

Reserves for cash flow hedges	
Balance as at 1 January 2017	**1,045**
Total change in fair value in the period	9,360
Deferred tax on change in fair value	(1,778)
Total transfers to net profit in the period – effective hedging	(2,211)
Total transfers to net profit in the period – ineffective hedging	–
Deferred tax on transfers to profit or loss	420
Balance as at 31 December 2017	**6,836**

Reserves for cash flow hedges	
Balance as at 1 January 2016	**(8,134)**
Total change in fair value in the period	8,953
Deferred tax on change in fair value	(1,701)
Total transfers to net profit in the period – effective hedging	2,373
Total transfers to net profit in the period – ineffective hedging	6
Deferred tax on transfers to profit or loss	(452)
Balance as at 31 December 2016	**1,045**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2017 presented in the line Other operating expense in amount of CZK 2,202 million (2016: CZK 3,644 million) and in the line Other operating income in amount of CZK 4,413 million (2016: CZK 1,271 million).

12.2 RETAINED EARNINGS

From the total amount of retained earnings of CZK 88,177 million (as at 31 December 2016: CZK 113,726 million) profit for the year 2017, net of tax, amounts to CZK 31,841 million (2016: CZK 25,163 million).

In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2017 (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 2017 has not been approved.

13. FINANCIAL, OTHER AND TRADE LIABILITIES (CZK million)

13.1 FINANCIAL AND OTHER NON-CURRENT LIABILITIES

Balance as at 31 December 2017	Financial liabilities at fair value through profit or loss**	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	90	4	–	94
Other	–	–	3,356	3,356
Total	**90**	**4**	**3,356**	**3,450**

Balance as at 31 December 2016	Financial liabilities at fair value through profit or loss**	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	(34)	1,450	–	1,416
Other	–	–	2,748	2,748
Total	**(34)**	**1,450**	**2,748**	**4,164**

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

Notes:
As the spot component exceeded the fair value as at 31 December 2016, the forward component is negative.

The column and line Other includes mainly the deferred income from extended warranty.

13.2 FINANCIAL AND OTHER CURRENT LIABILITIES

Balance as at 31 December 2017	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	462	–	32	–	494
Liabilities to employees	–	–	–	5,366	5,366
Social security	–	–	–	573	573
Other	–	38,520	–	2,140	40,660
Total	**462**	**38,520**	**32**	**8,079**	**47,093**

Balance as at 31 December 2016	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	812	–	1,296	–	2,108
Liabilities to employees	–	–	–	4,098	4,098
Social security	–	–	–	498	498
Other	–	–	–	1,574	1,574
Total	**812**	**–**	**1,296**	**6,170**	**8,278**

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

A forward component of hedging derivatives 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).

The dividend in the amount of CZK 38,520 million approved in December 2017 (see Note 11) is included in Financial liabilities carried at amortised cost.

In the column Financial liabilities designated as hedging instruments is disclosed spot component respectively fair value of derivatives designated as hedging instruments. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

In the column and in line Other are mainly disclosed the deferred income from extended warranty and granted licences.

None of the financial liabilities are secured by a lien.

13.3 TRADE LIABILITIES

All trade liabilities are current in nature.

Balance as at 31 December 2017	Financial liabilities carried at amortised cost	Other*	Total
Trade liabilities			
Third parties	29,050	688	29,738
Subsidiaries	243	–	243
Other related parties	14,057	240	14,297
Total	**43,350**	**928**	**44,278**

Balance as at 31 December 2016	Financial liabilities carried at amortised cost	Other*	Total
Trade liabilities			
Third parties	28,802	933	29,735
Subsidiaries	258	–	258
Other related parties	11,680	230	11,910
Total	**40,740**	**1,163**	**41,903**

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

Liabilities to a factoring company within the Volkswagen Group in amount of CZK 2,123 million as at 31 December 2017 (as at 31 December 2016: CZK 2,346 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.

In the column Other mainly advances received are disclosed.

None of the trade liabilities are secured by a lien.

14. DEFERRED TAX LIABILITIES AND ASSETS (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to income taxes charged by the same fiscal authority.

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

Deferred tax liabilities	Depreciation	Financial derivatives*	Investment incentives	Equity instruments	Total
Balance as at 1 January 2016	**(4,420)**	**1,908**	**–**	**–**	**(2,512)**
Credited / (debited) to the income statement	637	–	–	–	637
Charged to other comprehensive income	–	(2,153)	–	(271)	(2,424)
Balance as at 31 December 2016	**(3,783)**	**(245)**	**–**	**(271)**	**(4,299)**
Credited / (debited) to the income statement	(3)	–	–	–	(3)
Charged to other comprehensive income	–	(1,358)	–	79	(1,279)
Balance as at 31 December 2017	**(3,786)**	**(1,603)**	**–**	**(192)**	**(5,581)**

Deferred tax assets	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Balance as at 1 January 2016	**–**	**–**	**1,335**	**4,790**	**6,125**
Credited / (debited) to the income statement	–	–	108	936	1,044
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2016	**–**	**–**	**1,443**	**5,726**	**7,169**
Credited / (debited) to the income statement	–	–	(736)	945	209
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2017	**–**	**–**	**707**	**6,671**	**7,378**

Deferred tax liabilities and assets net	Depreciation	Financial derivatives*	Investment incentives	Other	Total
Balance as at 31 December 2016	(3,783)	(245)	1,443	5,455	2,870
Balance as at 31 December 2017	**(3,786)**	**(1,603)**	**707**	**6,479**	**1,797**

* 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 arising from sales	Provisions for employee benefits	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2016	**20,492**	**1,933**	**1,429**	**1,066**	**3,116**	**28,036**
Utilised	(5,158)	(406)	(427)	(156)	(37)	(6,184)
Additions	8,778	459	835	864	685	11,621
Interest expense	(49)	–	–	–	–	(49)
Reversals	(154)	(48)	(6)	(193)	(62)	(463)
Balance as at 1 January 2017	**23,909**	**1,938**	**1,831**	**1,581**	**3,702**	**32,961**
Utilised	(7,037)	(286)	–	(201)	(77)	(7,601)
Additions	8,158	1,180	1,091	1,397	1,233	13,059
Interest expense	(18)	–	–	–	–	(18)
Reversals	(1,434)	(46)	(141)	(314)	(77)	(2,012)
Balance as at 31 December 2017	**23,578**	**2,786**	**2,781**	**2,463**	**4,781**	**36,389**

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

Balance as at 31 December 2017	< 1 year	1 – 5 years	> 5 years	Total
Provisions arising from sales	12,584	8,447	2,547	23,578
Provisions for employee benefits	478	656	1,652	2,786
Provisions for litigation risks	2,781	–	–	2,781
Provisions for purchase risks	2,463	–	–	2,463
Other provisions	4,781	–	–	4,781
Total	**23,087**	**9,103**	**4,199**	**36,389**

Balance as at 31 December 2016	**< 1 year**	**1 – 5 years**	**> 5 years**	**Total**
Provisions arising from sales	11,131	10,221	2,557	23,909
Provisions for employee benefits	446	479	1,013	1,938
Provisions for litigation risks	1,831	–	–	1,831
Provisions for purchase risks	1,581	–	–	1,581
Other provisions	3,702	–	–	3,702
Total	**18,691**	**10,700**	**3,570**	**32,961**

Provisions arising from sales include provisions for warranty repairs and provisions for other obligations arising from sales. The provisions for warranty repairs include provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty especially good-will repairs. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines. Provisions arising from sales include further provisions for sale bonuses and other allowances incurred, settlement of which is expected after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date. The additions to provisions for bonuses and other obligations arising from sales decrease revenues. Following emissions irregularities discovered at VOLKSWAGEN AG, provisions arising from sales included 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 2,640 million in 2017 (as at 31 December 2016: CZK 3,476 million). Creation of the provision was reported in cost of sales in the income statement. 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 752 million was reported in other receivables as at 31 December 2017 (as at 31 December 2016: CZK 1,939 million) .

Provisions for employee benefits consist mainly of provision for other non-current 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)

	2017	2016
Cars	343,452	292,300
Spare parts and accessories	21,064	19,458
Supplies of components within Volkswagen Group	34,183	27,995
Income from licence fees	2,636	3,385
Revenues from services	2,916	2,650
Other	3,149	2,199
Total	**407,400**	**347,987**

In 2017 (2016) line Other relates mainly to sales of used cars, scrap and tooling.

17. OTHER OPERATING INCOME (CZK million)

	2017	2016
Foreign exchange gains	4,242	1,523
Gains from derivative transactions	4,413	1,271
Gains on non-current assets disposal	38	13
Reversal of provisions and accruals	2,689	1,434
Reversal of provision for receivables	39	21
Other operating income from provided services	695	926
Gains from licence fees not relating to the ordinary activities	199	205
Other	1,082	1,105
Total	**13,397**	**6,498**

Other in 2017 (2016) 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.

Other operating income from provided services includes mainly gains from consultancy and IT services not relating to ordinary activities of the Company.

Reversal of provisions and accruals resulted from changes in estimates driven mainly by the changed external conditions and circumstances on which the Company based the estimates.

18. OTHER OPERATING EXPENSES (CZK million)

	2017	2016
Foreign exchange losses	2,928	1,150
Losses from derivative transactions	2,202	3,644
Receivables write-offs	124	87
Additions to provisions for litigation risks and other provisions	2,324	1,520
Other	419	614
Total	**7,997**	**7,015**

19. FINANCIAL RESULT (CZK million)

	2017	2016
Interest income	48	81
Foreign exchange gains from cash	7	18
Foreign exchange gains from spot operations	69	70
Dividend income	1,121	1,100
Gains on settlement and revaluation of financial derivatives - ineffective hedging (includes forward component of currency financial derivatives)	2,128	1,508
Financial income total	**3,373**	**2,777**
Interest expenses	179	196
Foreign exchange losses from cash	213	25
Foreign exchange losses from spot operations	100	81
Loss on settlement and revaluation of financial derivatives - ineffective hedging (includes forward component of currency financial derivatives)	4,287	2,519
Financial expenses total	**4,779**	**2,821**
Net financial result	**(1,406)**	**(44)**

Dividend income in 2017 includes mainly dividend income of CZK 916 million from the investment in SAIC (2016: CZK 897 million).

20. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS (CZK million)

	2017	2016
Financial instruments at fair value through profit or loss	(2,159)	(1,011)
Loans and receivables	(1,834)	109
Available-for-sale financial assets	921	902
Financial liabilities carried at amortised cost	2,805	113
Financial instruments designated as hedging instruments	2,211	(2,373)
Net gains / (losses) in profit or loss	**1,943**	**(2,260)**
Financial derivatives through other comprehensive income	7,149	11,332
Available-for-sale financial assets through other comprehensive income	(417)	1,427
Net gains / (losses) in profit or loss through other comprehensive income	**6,732**	**12,759**
Total net gains / (losses)	**8,675**	**10,499**

The portfolio of Financial instruments at fair value through profit or loss contains mainly gains and losses from forward component of hedging derivatives and gains and losses from derivatives held for trading.

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

21. INCOME TAX (CZK million)

	2017	2016
Current tax expense	**7,490**	**7,367**
of which: adjustment in respect of prior years	39	376
Deferred tax	**(206)**	**(1,681)**
Income tax total	**7,284**	**5,686**

Statutory income tax rate in the Czech Republic for the 2017 assessment period was 19% (2016: 19%).

As at 31 December 2017 and 31 December 2016, 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)

	2017	2016
Profit before tax	39,125	30,849
Expected income tax expense	**7,434**	**5,861**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(89)	(63)
Expenses not deductible for tax purposes	538	426
Tax allowances and other tax credits*	(599)	(351)
Adjustment to current tax expense relating to prior periods	39	376
Recognition of deferred tax assets from unused tax credits from investment incentives	(2)	(108)
Utilisation of tax credits from investment incentives	–	(420)
Other taxation effects	(37)	(35)
Effective income tax expense	**7,284**	**5,686**
Effective income tax rate	19%	18%

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

22. SUBSIDIES AND INVESTMENT INCENTIVES (CZK million)

In 2017, the Company recognised income from subsidies relating to the promotion of an entrepreneurial activity, investments in energy-saving measures in production field, construction of employees-training premises, cooperation within research and development projects and support of private schools and cross-border mobility of students (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 64 million (2016: CZK 62 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 2017:

Investment incentive	Maximum amount of the investment incentive	Recognised deferred tax asset from investment incentives	Utilisation of tax credits from investment incentives*
Enlargement of current production by production of automatic transmissions – DQ 200 Vrchlabí	738	–	738
Enlargement of welding shop by production technology used for bodies based on MQB platform – Kvasiny	707	707	–
Total	**1,445**	**707**	**738**

* The amount represents estimated utilisation of investment incentives as at 31 December 2017, which the Company included in the calculation of corporate income tax estimate for 2017.

The following table summarises granted investment incentives and their use in 2016:

Investment incentive	Maximum amount of the investment incentive	Recognised deferred tax asset from investment incentives	Utilisation of tax credits from investment incentives*
Enlargement of production of transmissions - MQ 100	496	–	420
Enlargement of current production by production of automatic transmissions – DQ 200 Vrchlabí	738	738	–
Enlargement of welding shop by production technology used for bodies based on MQB platform – Kvasiny	707	705	–
Total	**1,941**	**1,443**	**420**

* The amount represents estimated utilisation of investment incentives as at 31 December 2016, which the Company included in the calculation of corporate income tax estimate for 2016.

23. CONTRACTUAL OBLIGATIONS AND OTHER FUTURE COMMITMENTS (CZK million)

Future commitments as at balance sheet date are as follows:

	Payable until year 2018	Payable 2019 – 2022	31 December 2017
Investment commitments – property, plant and equipment	8,989	3,717	**12,706**
Investment commitments – intangible assets	11,600	17,000	**28,600**
Operating leasing payments	431	677	**1,108**

	Payable until year 2017	Payable 2018 – 2021	31 December 2016
Investment commitments – property, plant and equipment	4,455	973	**5,428**
Investment commitments – intangible assets	7,864	10,041	**17,905**
Operating leasing payments	350	315	**665**

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

24. EXPENSES BY NATURE – ADDITIONAL INFORMATION (CZK million)

	2017	2016
Material costs – raw materials and other supplies, goods	**277,057**	**232,257**
Production related services	**12,851**	**12,339**
Personnel costs	**28,863**	**23,190**
Wages	21,610	17,701
Pension benefit costs (defined contribution plans)	3,960	3,276
Social insurance and other personnel costs	3,293	2,213
Depreciation, amortisation and impairment losses	**22,376**	**22,528**
Other services	**31,122**	**26,264**
Total cost of sales, distribution and administrative expenses	**372,269**	**316,578**

Number of employees		
Number of employees*	32,985	29,457

* 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 2017 (31 December 2016).

VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period ended 31 December 2017 (31 December 2016).

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.

THE COMPANY PARTICIPATED IN THE FOLLOWING TRANSACTIONS WITH RELATED PARTIES:

SALES TO RELATED PARTIES (CZK MILLION)

	2017	2016
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,803	6,333
Subsidiaries		
Skoda Auto India Private Ltd.	2,341	2,351
ŠKODA AUTO Slovensko s.r.o.	7,936	6,964
Associates		
OOO VOLKSWAGEN Group Rus	12,802	6,817
Companies controlled by ultimate parent company	**270,319**	**218,336**
Other related parties	**1,307**	**1,536**
Total	**296,508**	**242,337**

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

In addition to revenues specified in the table Sales to related parties, in 2017 (2016) the Company also earned income from licence fees:

Income from licence fees	2017	2016
Ultimate parent company	–	–
Subsidiaries	25	7
Associates	130	127
Other related parties	2,481	3,251
Total	**2,636**	**3,385**

In addition to the revenues specified in the table Sales to related parties, in 2017 (2016) the Company also earned income with related parties relating to interest from intercompany loans and deposits:

Interest income from loans and deposits	2017	2016
Ultimate parent company	–	–
Companies controlled by ultimate parent company	17	31
Total	**17**	**31**

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)

	2017	2016
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	57,569	57,954
Subsidiaries		
Skoda Auto India Private Ltd.	268	477
ŠKODA AUTO Slovensko s.r.o.	75	66
Associates		
OOO VOLKSWAGEN Group Rus	5,317	625
Companies controlled by ultimate parent company	**33,305**	**26,610**
Other related parties	**666**	**508**
Total	**97,200**	**86,240**

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.

In addition to the transactions related to the ordinary course of business the Company purchased from its ultimate parent company VOLKSWAGEN AG 1% share in the company SAIC VOLKSWAGEN AUTOMOTIVE COMPANY LIMITED pursuant to a contract dated 26 February 2016 which is after approval by the relevant Chinese authorities effective from 29 March 2016. For more information on the acquisition of share refer to Note 8.

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

RECEIVABLES FROM RELATED PARTIES (CZK MILLION)

	31 December 2017	31 December 2016
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	2,010	1,683
Subsidiaries		
Skoda Auto India Private Ltd.	927	886
ŠKODA AUTO Slovensko s.r.o.	7	11
Associates		
OOO VOLKSWAGEN Group Rus	1,973	1,937
Companies controlled by ultimate parent company	**9,413**	**8,182**
Other related parties	**1,873**	**1,533**
Total	**16,203**	**14,232**

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

Receivables license fees	31 December 2017	31 December 2016
Ultimate parent company	–	–
Subsidiaries	28	5
Associates	37	127
Other related parties	1,775	1,419
Total	**1,840**	**1,551**

In addition to trade receivables and receivables from licence fees, the Company as at 31 December 2017 also had loans to and deposits including cash pooling in companies controlled by ultimate parent company in the amount of CZK 97,196 million (as at 31 December 2016: CZK 81,316 million). Receivables from interest from the loans as at 31 December 2017 amounted to CZK 0 million (as at 31 December 2016: CZK 14 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. The weighted average effective interest rate on the loans as at 31 December 2016 is disclosed in Note 8.

In addition to that, the Company also had receivable from its ultimate parent company VOLKSWAGEN AG amounting to CZK 908 million as at 31 December 2017 relating mainly to the claim refund necessary for settlement of the provision described in Note 15 (as at 31 December 2016: CZK 2,457 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. No impairment loss was identified for any of the receivables from related parties. 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 in Note 8.

LIABILITIES TO RELATED PARTIES (CZK MILLION)

	31 December 2017	31 December 2016
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	3,655	2,696
Subsidiaries		
Skoda Auto India Private Ltd.	230	224
ŠKODA AUTO Slovensko s.r.o.	13	34
Associates		
OOO VOLKSWAGEN Group Rus	86	199
Companies controlled by ultimate parent company	**10,475**	**8,916**
Other related parties	**81**	**99**
Total	**14,540**	**12,168**

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

Except for trade payables the Company has recognised also a dividend liability in the amount of CZK 38,520 million to the parent company VOLKSWAGEN FINANCE LUXEMBURG S.A. as at 31 December 2017. Additional information is disclosed in Note 11.

Contractual obligations and other future commitments	31 December 2017	31 December 2016
Ultimate parent company	28,750	17,725
Companies controlled by ultimate parent company	219	261
Total	**28,969**	**17,986**

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)

	2017	2016
Salaries and other short-term employee benefits*	748	678
Pension benefit costs (defined contribution plans)	15	14
Total	**763**	**692**

* 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 364 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2017 (as at 31 December 2016: CZK 308 million).

26. OTHER INFORMATION (CZK million)

The compensation paid to the Company's auditors for the accounting period 2017 was CZK 40 million (2016: CZK 26 million) and covered the following services:

	2017	2016
Audit, other audit related and assurance services	24	22
Tax and related services	1	1
Other advisory services	15	3
Total	**40**	**26**

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 number of group members of collectively filed lawsuits. Chances of success of such claims may be currently assessed as generally less than 50%.

In some countries (Australia, Belgium, India, the Netherlands, the Czech Republic, Poland, 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 a small number 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 and South Korea were ordered by the local authorities. In the forthcoming year, the servicing campaign will be expanded to China and possibly to Australia. Also some of the Volkswagen Group's models are affected by the above-mentioned recalls, including ŠKODA brand models. 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 other events that could have a significant impact on the separate financial statements of the Company for the year ended 31 December 2017.

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, 20 February 2018

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

Report on Relations

OF THE COMPANY ŠKODA AUTO A.S. PURSUANT TO § 82 OF THE ACT ON CORPORATIONS FOR THE ACCOUNTING PERIOD 1 JANUARY – 31 DECEMBER 2017

The Board of Management of ŠKODA AUTO a.s., having its registered office at tř. Václava Klementa 869, 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 2017 (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 2017, 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.

2. FUNCTION OF THE COMPANY WITHIN THE GROUP

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

3. MEANS OF CONTROL

The Company was during the Period indirectly controlled by the Controlling Entity through the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. The Company is controlled mainly through decisions of the sole shareholder during the general meetings. Important decisions influencing the Company's operations are approved within the Group's respective boards.

4. OVERVIEW OF TRANSACTIONS REALISED AT THE INSTIGATION OR IN THE INTEREST OF THE CONTROLLING ENTITY OR ENTITIES CONTROLLED BY THE CONTROLLING ENTITY

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 18,870 million to VOLKSWAGEN FINANCE LUXEMBURG S.A., as the sole shareholder, on 30 March 2017 based on the Decision of the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. from 21 March 2017.

Based on the Decision of the sole shareholder exercising the powers of the general meeting, ŠKODA AUTO will pay out a portion of retained earnings from previous accounting periods to its sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. in 2018 amounting to CZK 38,520 million.

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 2017.

In 2017, dividends and share in profit of CZK 47 million were paid out to the Company by the subsidiaries. In 2017, dividends and share in profit of CZK 157 million were paid out to the Company by the associates.

5. OVERVIEW OF THE CONTRACTS WITHIN THE GROUP

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

5.1 Sale of own products, goods and services

a) vehicles

ŠKODA AUTO entered into new contracts regarding sales of vehicles with the following companies:

Porsche Austria GmbH & Co. OG
Porsche Croatia d.o.o.
Porsche Hungaria Kereskedelmi Kft.
Porsche Romania S.R.L.
Porsche Slovenija d.o.o.
SEAT, S.A.
ŠKODA AUTO Deutschland GmbH
ŠKODA AUTO Slovensko, s.r.o.
Volkswagen Group España Distribución, S.A.
Volkswagen Group France S.A.
Volkswagen Group Singapore Pte. Ltd., Singapur
Volkswagen Group Sverige AB

b) genuine parts

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

SEAT, S.A.
Volkswagen Slovakia, a.s.

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 México S.A. de C.V.
AutoVision GmbH
Connectivity Lab s.r.o.
e4t electronics for transportation s.r.o.
INIS International Insurance Service s.r.o.
Mobility Lab s.r.o.
OOO Volkswagen Group Rus
Porsche Austria GmbH & Co. OG
Porsche Česká republika s.r.o.
Porsche Slovakia, spol. s r.o.
SEAT, S.A.
ŠKODA AUTO Deutschland GmbH
SKODA AUTO India Pvt. Ltd.
ŠKODA AUTO Slovensko, s.r.o.
Smart City Lab s.r.o.
ŠKODA AUTO DigiLab s.r.o.
ŠKO-ENERGO s.r.o.
ŠkoFIN s.r.o.
Volkswagen (China) Investment Co.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen de México, S.A. de C.V.
Volkswagen Group Australia Pty. Ltd.
Volkswagen Group Ireland Ltd.
Volkswagen Group Italia S.p.A.
Volkswagen Group of America Chattanooga Operations, LLC
Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Sales India Pvt. Ltd.
Volkswagen Group Sverige AB
Volkswagen Group United Kingdom Ltd.
Volkswagen India Pvt. Ltd.
Volkswagen Japan Sales K.K.
VW Kraftwerk GmbH

5.2 Purchase of goods, services and non-current assets

a) production material and goods
ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:

AUDI AG
Audi Hungaria Zrt. (formerly AUDI HUNGARIA MOTOR Kft.)
AutoVision GmbH
AutoVision Magyarország Kft.
Italdesign Giugiaro S.p.A.
OOO Volkswagen Group Rus
SEAT, S.A.
SITECH Sp. z o.o.
ŠKO-ENERGO s.r.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 Indústria de Veículos Automotores Ltda.
Volkswagen Group Logistics GmbH
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Motorsport GmbH
Volkswagen Navarra, S.A.
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.
Volkswagen Zubehör GmbH

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

Audi (China) Enterprise Management Co., Ltd.
AUDI AG
Audi Hungaria Zrt. (formerly AUDI HUNGARIA MOTOR Kft.)
Audi Hungaria Services Zrt.
Auto & Service PIA GmbH
AutoVision GmbH
AutoVision Magyarország Kft.
e4t electronics for transportation s.r.o.
Italdesign Giugiaro S.p.A.
MHP Management- und IT-Beratung GmbH
Nardo Technical Center S.r.l.
OOO Volkswagen Group Rus
Porsche Austria GmbH & Co. OG
Porsche Consulting GmbH
Porsche Engineering Group GmbH
Porsche Inter Auto CZ spol. s r.o.
Scania Czech Republic s.r.o.
SEAT, S.A.
SKODA AUTO India Pvt. Ltd.
ŠKO-ENERGO s.r.o.
ŠkoFIN s.r.o.
Volkswagen (China) Investment Co.
VOLKSWAGEN AG
Volkswagen Autoeuropa, Lda.
Volkswagen de México, S.A. de C.V.
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
Volkswagen Group Australia Pty. Ltd.
Volkswagen Group Japan K.K.
Volkswagen Group of America, Inc.
Volkswagen India Pvt. Ltd.
Volkswagen Konzernlogistik GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Motorsport GmbH
Volkswagen Navarra, S.A.
Volkswagen Osnabrück GmbH
Volkswagen Sachsen GmbH
Volkswagen Slovakia, a.s.
Volkswagen Software Asset Management GmbH

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

OOO Volkswagen Group Rus
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
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:
AUDI AG
VOLKSWAGEN AG
VOLKSWAGEN FINANCIAL SERVICES AG

5.3 Other contracted 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 Hungaria Zrt. (formerly AUDI HUNGARIA MOTOR Kft.)
Audi México S.A. de C.V.
Audi Volkswagen Korea Ltd.
Audi Volkswagen Taiwan Co., Ltd.
Autostadt GmbH
Bentley Motors Ltd.
Connectivity Lab s.r.o.
D'Ieteren Lease S.A.
Dr. Ing. h.c. F. Porsche AG
e4t electronics for transportation s.r.o.
Italdesign Giugiaro S.p.A.
MAN Truck & Bus AG
Mobility Lab s.r.o.
OOO Volkswagen Group Rus
Porsche Albania Sh.p.k.
Porsche Austria GmbH & Co. OG
Porsche BH d.o.o.
Porsche Colombia S.A.S.
Porsche Consulting GmbH
Porsche Croatia d.o.o.
Porsche Česká republika s.r.o.
Porsche Hungaria Kereskedelmi Kft.
Porsche Chile SpA
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.
Scania Czech Republic s.r.o.
SEAT, S.A.
ŠKODA AUTO Deutschland GmbH
SKODA AUTO India Pvt. Ltd.
ŠKODA AUTO Slovensko, s.r.o.
Smart City Lab s.r.o.
ŠKODA AUTO DigiLab s.r.o.
ŠKO-ENERGO s.r.o.
ŠkoFIN s.r.o.
VfL Wolfsburg-Fußball GmbH
Volkswagen (China) Investment Co.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen Gebrauchtfahrzeughandels und Service GmbH
Volkswagen Group Australia Pty. Ltd.

Volkswagen Group España Distribución, S.A.
Volkswagen Group France S.A.
Volkswagen Group Ireland Ltd.
Volkswagen Group Italia S.p.A.
Volkswagen Group Japan K.K.
Volkswagen Group of America Chattanooga Operations, LLC
Volkswagen Group of America, Inc.
Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Sales India Pvt. Ltd.
Volkswagen Group Singapore Pte. Ltd.
Volkswagen Group Sverige AB
Volkswagen Group United Kingdom Ltd.
Volkswagen Immobilien GmbH
Volkswagen India Pvt. Ltd.
Volkswagen Insurance Brokers GmbH
Volkswagen Konzernlogistik GmbH & Co. OHG
Volkswagen of South Africa (Pty) Ltd.
Volkswagen Osnabrück GmbH
Volkswagen Slovakia, a.s.

Transactions relating to contracts concluded in previous years
Besides companies disclosed in points 5.1, 5.2 and 5.3, the Company carried out transactions with the following companies, controlled by the same Controlling Entity, based on contracts concluded and presented in reports in relations of the Company in previous years:
AUDI BRUSSELS S.A.
Carmeq GmbH
Porsche Engineering Services GmbH
SITECH Sitztechnik GmbH
ŠKO-ENERGO-FIN s.r.o.
Volkswagen Bank GmbH
Volkswagen Group Malaysia Sdn. Bhd.
Volkswagen Group Import Co., Ltd.
Volkswagen Group Services 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, 20 February 2018

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

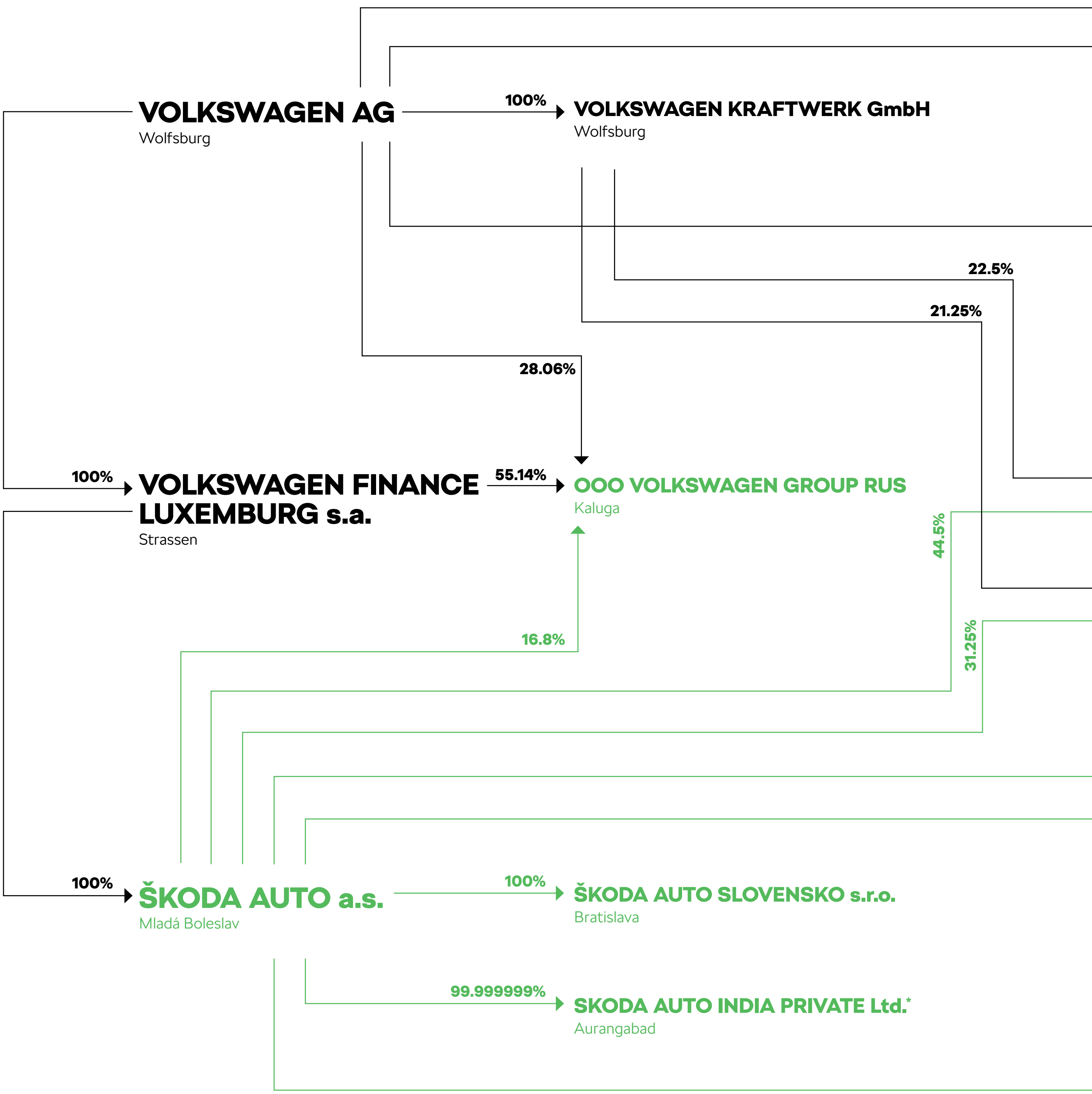
Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

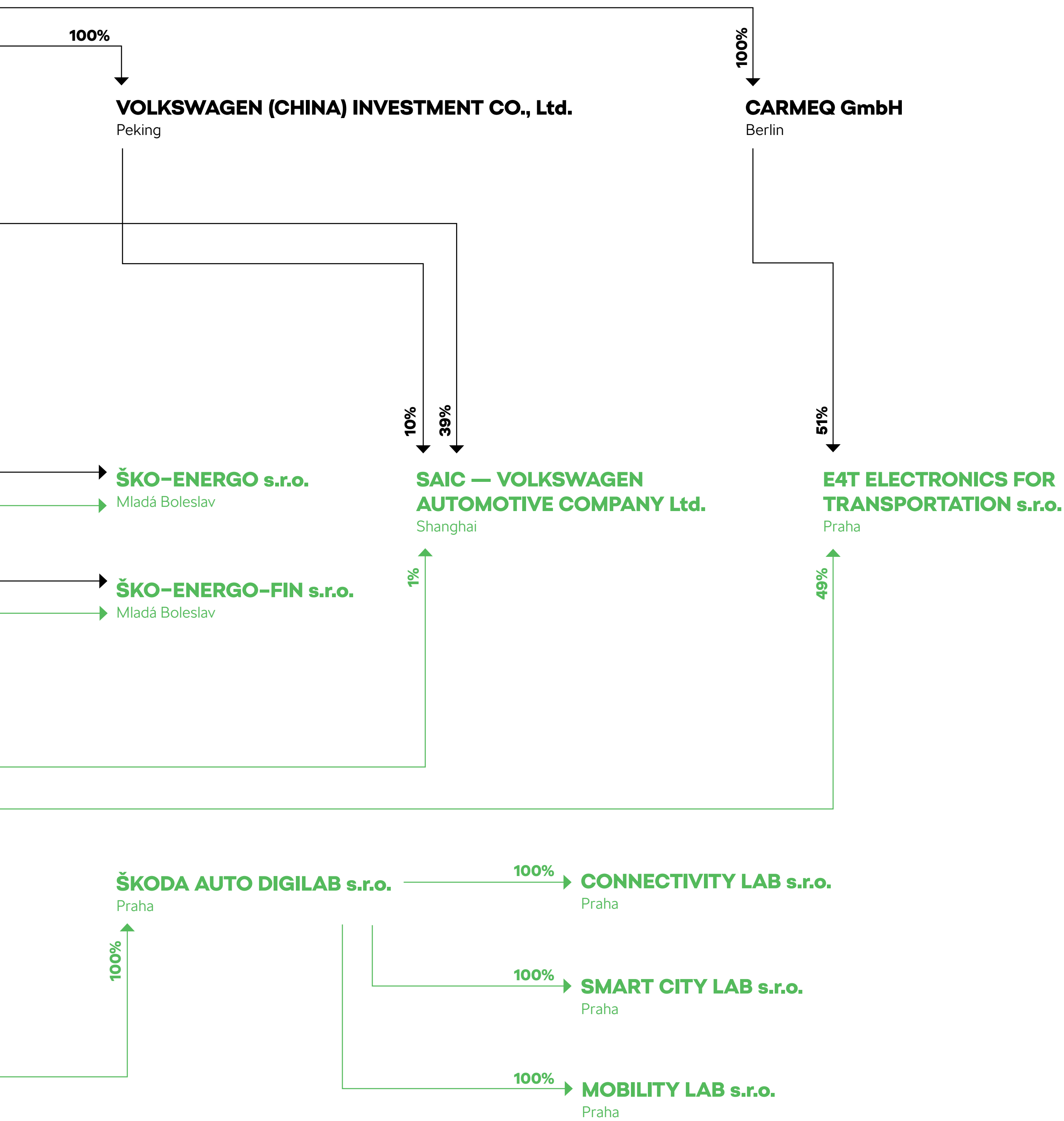
Bohdan Wojnar

Ownership



*Residual 0.000001% voting rights in SKODA AUTO India Pvt. Ltd. holds company ŠKODA AUTO Deutschland GmbH seated in Weiterstadt, Germany.

Structure


100%
100%
VOLKSWAGEN (CHINA) INVESTMENT CO., Ltd.
Peking
CARMEQ GmbH
Berlin
10%
39%
51%
ŠKO-ENERGO s.r.o.
Mladá Boleslav
SAIC — VOLKSWAGEN AUTOMOTIVE COMPANY Ltd.
Shanghai
E4T ELECTRONICS FOR TRANSPORTATION s.r.o.
Praha
1%
49%
ŠKO-ENERGO-FIN s.r.o.
Mladá Boleslav
ŠKODA AUTO DIGILAB s.r.o.
Praha
100%
100%
CONNECTIVITY LAB s.r.o.
Praha
100%
SMART CITY LAB s.r.o.
Praha
100%
MOBILITY LAB 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.

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

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

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

Gross liquidity – the company's current ability to pay its due liabilities

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

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

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

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 less financial obligations and 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

WLAN – Wireless Local-Area Network

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, 20 February 2018

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

Key Figures and Financial Results

OF ŠKODA AUTO ACCORDING TO IFRS AT A GLANCE

PRODUCTION, SALES AND TECHNICAL DATA

		2013	2014	2015	2016	2017
Deliveries to customers	**vehicles**	**920,750**	**1,037,226**	**1,055,501**	**1,126,477**	**1,200,535**
Sales*	**vehicles**	**682,402**	**773,791**	**778,416**	**799,938**	**909,567**
Sales of ŠKODA cars*	vehicles	660,634	757,330	758,742	746,551	818,976
Production*	**vehicles**	**639,889**	**735,951**	**736,977**	**765,171**	**858,103**
Production of ŠKODA cars*	vehicles	618,118	719,410	717,249	711,309	767,474
Employees	persons	24,548	24,631	25,452	28,373	31,626

* In 2016 the method of reporting 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.

PROFIT AND LOSS ACCOUNT

		2013	2014	2015	2016	2017
Sales revenue	**CZK million**	**243,624**	**299,318**	**314,897**	**347,987**	**407,400**
Cost of sales	CZK million	209,538	254,944	268,184	295,232	347,519
	% of revenues	86.0	85.2	85.2	84.8	85.3
Gross profit	**CZK million**	**34,086**	**44,374**	**46,713**	**52,755**	**59,881**
	% of revenues	14.0	14.8	14.8	15.2	14.7
Distribution expenses	CZK million	13,067	13,466	13,272	13,503	15,040
Administrative expenses	CZK million	6,679	6,939	7,273	7,843	9,710
Balance of other operating revenues / costs	CZK million	(1,803)	(2,371)	8,986	(517)	5,400
Operating profit	**CZK million**	**12,537**	**21,598**	**35,154**	**30,892**	**40,531**
	% of revenues	5.1	7.2	11.2	8.9	9.9
Financial result	CZK million	413	(249)	(916)	(43)	(1,406)
Profit before income tax	**CZK million**	**12,950**	**21,349**	**34,238**	**30,849**	**39,125**
Profit before income tax-to-revenues ratio	%	5.3	7.1	10.9	8.9	9.6
Income tax expense	CZK million	1,564	2,928	3,422	5,686	7,284
Profit for the year	**CZK million**	**11,386**	**18,421**	**30,816**	**25,163**	**31,841**
Profit for the year-to-sales ratio	%	4.7	6.2	9.8	7.2	7.8

BALANCE SHEET / FINANCING

		2013	2014	2015	2016	2017
Non-current assets	CZK million	87,923	105,139	107,654	104,838	106,675
Current assets	CZK million	64,078	71,730	94,961	123,342	144,184
Equity	CZK million	90,316	100,001	117,482	137,580	117,484
Non-current and current liabilities	CZK million	61,685	76,868	85,133	90,600	133,375
Assets	**CZK million**	**152,001**	**176,869**	**202,615**	**228,180**	**250,859**
Net liquidity	**CZK million**	**27,871**	**41,452**	**60,077**	**70,910**	**95,078**
Cash flows from operating activities	CZK million	28,965	45,158	39,622	50,426	60,811
Cash flows from investing activities	CZK million	(25,148)	(25,512)	(6,467)	(24,051)	(17,996)
Net Cash Flow	**CZK million**	**3,817**	**19,646**	**33,155**	**26,375**	**42,815**
Investments	**CZK million**	**19,354**	**19,150**	**15,857**	**14,652**	**18,885**
Investment ratio	%	7.9	6.4	5.0	4.2	4.6
Equity ratio	%	59.4	56.5	58.0	60.3	46.8
Equity-to-fixed assets ratio	%	102.7	95.1	109.1	131.2	110.1

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Fax: +420 326 721 328

The Annual Report 2017 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

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