ŠKODA AUTO
ANNUAL REPORT
2018

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ŠKODA AUTO IS TRANSFORMING ITSELF, TO BECOME A SIMPLY CLEVER COMPANY FOR THE BEST MOBILITY SOLUTIONS.

MANAGEMENT REPORT

FINANCIAL SECTION

ŠKODA CARS WILL PLEASANTLY SURPRISE CUSTOMERS WITH THEIR RANGE OF SIMPLY CLEVER ELEMENTS. AMONG THEM FOR EXAMPLE, A FITTING IN THE CENTRE CONSOLE THAT HOLDS KEYS, A MOBILE PHONE OR COINS.

FOREWORD

LADIES AND GENTLEMEN,

2018 was a very challenging year for the automotive industry: geopolitical conflicts including the US-China tariff dispute and Brexit uncertainty weighed on business as much as the switch to the new WLTP cycle and high investments in future technologies, such as electromobility and digitalisation.

These framework conditions were also very challenging for us at ŠKODA AUTO. I am delighted, therefore, that we once again set a new record in 2018, delivering 1.25 million vehicles worldwide. I want to thank all our employees for their exceptional commitment and our customers for their trust in our products and their loyalty to our brand.

At the same time, we have continued our transformation in all dimensions: from the internal combustion engine to the electric car, from analogue to digital, towards agile processes with flat hierarchies, and from a traditional car manufacturer to the Simply Clever company for the best mobility solutions. In many areas, we have made even faster progress than planned in implementing our Strategy 2025.

Our product campaign is proving effective around the world. The new models KAMIQ, KODIAQ GT, FABIA, KODIAQ RS and SCALA have been very well received by our customers, and have earned numerous awards from the international trade press. By the end of 2022, we will have brought out more than 30 new models, ten of which will be partially or fully electric. 2019 is the year that ŠKODA launches electromobility – an extraordinary moment in our company's 124-year history.

We are also planning new models for the Indian market. The first will be a compact SUV based on the new MQB A0 IN platform, which we are developing and producing together with VOLKSWAGEN as part of our INDIA 2.0 project. We are going to introduce it in 2020. With INDIA 2.0, ŠKODA now has responsibility for more than 39,000 employees worldwide. In addition to the Indian region, we have also assumed management responsibility for Russia for the entire VOLKSWAGEN Group as of January 2019.

We have also made progress in the digital transformation throughout the ŠKODA AUTO company: we now use fully autonomous drones and robots in production and logistics, we offer the best connectivity and over-the-air updates in our new cars, such as the SCALA, and we are collaborating with 13 promising start-ups from Israel in areas such as artificial intelligence, big data and cybersecurity. We are also bringing our customers numerous mobility solutions such as HoppyGo, CareDriver and Uniqway through our subsidiary ŠKODA AUTO DigiLab.

The transformation of our industry is happening now, and it does not come free. Over the next four years, we will be investing two billion euros in alternative drive technologies and new mobility services. With this, we are launching the most extensive investment programme in ŠKODA brand's history to emerge stronger from this transformation process.

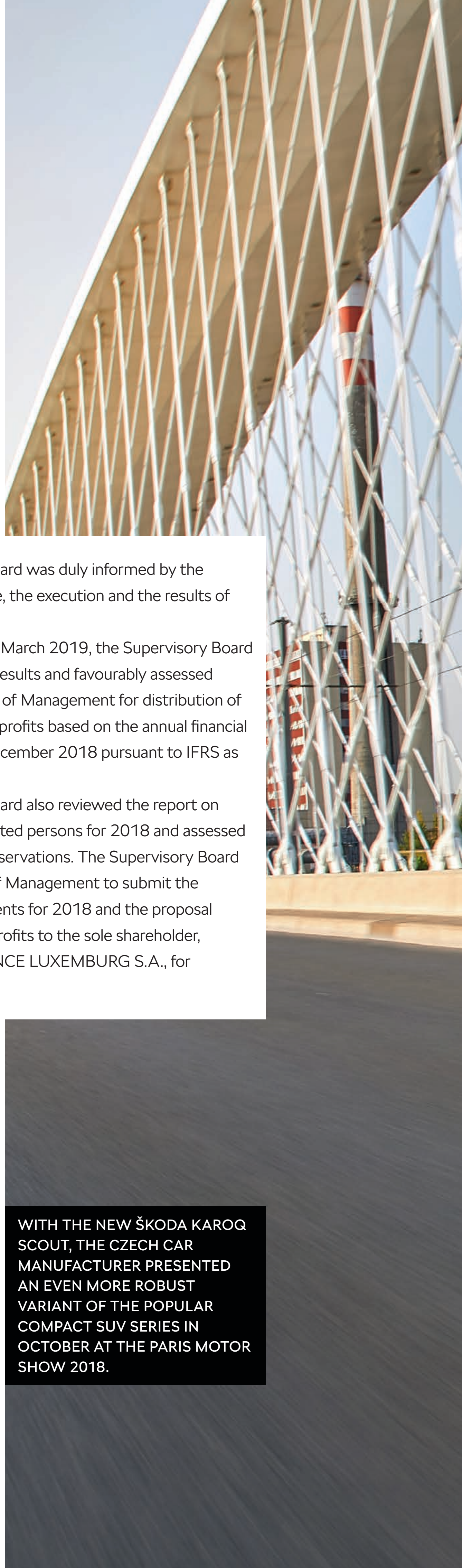
In this new world of mobility, speed is what matters most. The VOLKSWAGEN Group has taken this fact into account and decided to develop the management and group structure further. ŠKODA has since become part of the Brand Group Volume. This new, more compact structure allows us to accelerate coordination processes, make better use of synergies and reduce complexity and costs. For example, from this year on, we will be providing additional development services for the VOLKSWAGEN Group, developing the next generation of the VOLKSWAGEN PASSAT and the ŠKODA SUPERB. From 2023, both models will be produced alongside each other at our Czech plant in Kvasiny.

ŠKODA AUTO has achieved many significant milestones in implementing its strategy in 2018, laying the foundation for sustainable success, job security and a healthy return on sales. In the new year, we will be consistently pursuing this path in all areas.

With kind regards,

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

REPORT OF THE SUPERVISORY BOARD



In the past fiscal year, the Supervisory Board was regularly and extensively informed by the Board of Management of the operations of ŠKODA AUTO a.s., its financial performance, and its business policies.

Business processes which, due to legal regulations or the Articles of Association, require the Supervisory Board's approval or briefing, or which were of extraordinary importance, were discussed in detail at meetings of the Supervisory Board. Based on written and oral reports from the Board of Management, the Supervisory Board was able to continuously oversee the activities of the ŠKODA AUTO a.s. management, thus duly executing its powers entrusted to it under the law.

Under its resolution of 13 March 2018, 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 2018 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 2018.

Other information included in the annual report for 2018 but not the financial statements or the independent auditor's report is, according to the auditor, consistent in all material respects with the financial statements of the ŠKODA AUTO a.s.

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

At its meeting on 7 March 2019, 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 2018 pursuant to IFRS as adopted by the EU.

The Supervisory Board also reviewed the report on relations between affiliated persons for 2018 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2018 and the proposal for the distribution of profits to the sole shareholder, VOLKSWAGEN FINANCE LUXEMBURG S.A., for approval.

Dr. Herbert Diess
CHAIRMAN OF THE SUPERVISORY BOARD

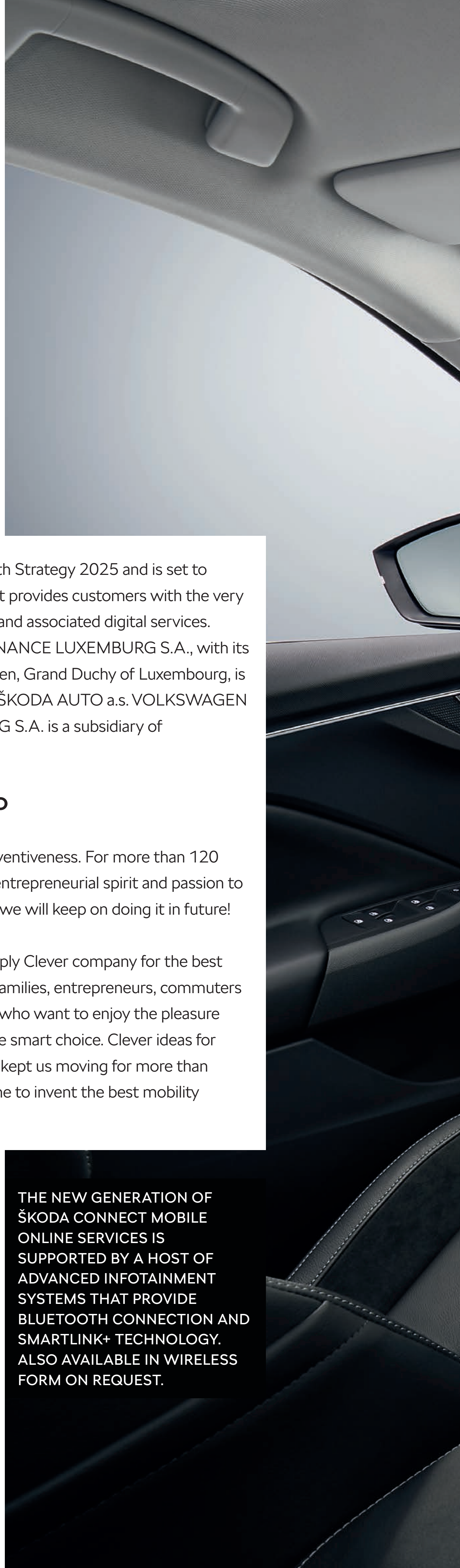
WITH THE NEW ŠKODA KAROQ SCOUT, THE CZECH CAR MANUFACTURER PRESENTED AN EVEN MORE ROBUST VARIANT OF THE POPULAR COMPACT SUV SERIES IN OCTOBER AT THE PARIS MOTOR SHOW 2018.

DRIVERS CAN INDIVIDUALLY CONFIGURE VIRTUAL COCKPIT ACCORDING TO THEIR NEEDS.

SUV MODELS ARE THE ENGINES OF RISING SALES. THE RECENTLY--LAUNCHED ŠKODA KAMIQ BROADENS THE BRAND'S RANGE ON THE CHINESE MARKET.

MANAGEMENT REPORT

ŠKODA AUTO COMPANY PROFILE



ŠKODA AUTO a.s. (hereinafter the “Company” or “ŠKODA AUTO”) is one of the oldest car manufacturers in the world. Its history stretches back to 1895 when Václav Laurin and Václav Klement set up a company that gave rise to a tradition of manufacturing Czech cars which has continued for over a hundred years. The position of the Company in the automotive industry has always been and always will be unmistakable, in a large part because it has been part of the VOLKSWAGEN Group (hereinafter the “Group”) for more than 25 years. It has become a strong, internationally successful company that is active on more than 100 markets and offers its customers a total of eight model lines.

ŠKODA AUTO has long been one of the pillars of the Czech economy, currently employing more than 33,600 people in the Czech Republic. It also makes sure it is a good neighbour in all the regions where it is active. The Company’s extraordinary standing is reflected in its regular success in the Czech 100 Best awards, occupying the top spot in 2018 for the eighteenth time in the twenty-two year history of the award.

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

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

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

THE ŠKODA BRAND

MISSION: Driven by inventiveness. For more than 120 years we dedicate our entrepreneurial spirit and passion to individual mobility. And we will keep on doing it in future!

VISION: ŠKODA – Simply Clever company for the best mobility solutions. For families, entrepreneurs, commuters or simply connoisseurs who want to enjoy the pleasure of driving, ŠKODA is the smart choice. Clever ideas for individual mobility have kept us moving for more than 120 years. Now it is time to invent the best mobility solutions for the future.

THE NEW GENERATION OF ŠKODA CONNECT MOBILE ONLINE SERVICES IS SUPPORTED BY A HOST OF ADVANCED INFOTAINMENT SYSTEMS THAT PROVIDE BLUETOOTH CONNECTION AND SMARTLINK+ TECHNOLOGY. ALSO AVAILABLE IN WIRELESS FORM ON REQUEST.

THE LARGEST DISPLAY IN ITS CLASS,
A VIRTUAL COCKPIT, EMERGENCY
CALLS OR PROACTIVE SERVICING.
THE ŠKODA SCALA WILL BRING
A REVOLUTION TO ITS SEGMENT.

CORPORATE GOVERNANCE
ŠKODA AUTO BODIES

SUPERVISORY BOARD

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

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

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

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

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

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

BOARD OF MANAGEMENT

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

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

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, Production and Technical Development, Shanghai-Volkswagen Automotive Co., Limited (2005–2010)

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

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

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

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

CHANGES TO THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Resigned from the Supervisory Board:
— Matthias Müller – Member of the Supervisory Board from 1 November 2015 to 13 May 2018
— Florina Louise Piëch – Member of the Supervisory Board from 1 January 2015 to 5 May 2018

Appointed to the Supervisory Board:
— Dr. Herbert Diess – Member of the Supervisory Board since 14 May 2018, Chairman of the Supervisory Board since 30 May 2018
— Melanie Leonore Wenckheim – Member of the Supervisory Board since 9 November 2018

DECLARATION OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

In view of the facts above, since 2007 ŠKODA AUTO has embraced the relevant recommendations and rules of the Code of Corporate Governance of OECD-based Companies ("the Code"), 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

THE BRAND IS AWARE OF ITS LONG TRADITION AND REPUTE, WHICH IT SEES AS BEING A CRUCIAL VALUE.

THE EXHIBITS AT THE ŠKODA MUSEUM IN MLADÁ BOLESLAV WERE JOINED BY A SPECIAL EXHIBITION ENTITLED “THE FIRST KILOMETRES IN THE FIRST REPUBLIC” TO MARK THE 100TH ANNIVERSARY OF THE FOUNDATION OF CZECHOSLOVAKIA. THE EXHIBITION ACQUAINTED VISITORS WITH THE MILESTONES AND LESSER-KNOWN ASPECTS OF MOTORING BETWEEN THE WARS.

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 a Company and are not in a close relationship with a 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
STRATEGY

A TRUE REVOLUTION IS COMING IN 2020 WITH THE LAUNCH OF THE SERIES VERSION OF THE VISION E CONCEPT CAR. THIS IS THE FIRST FULLY-ELECTRIC CAR FROM ŠKODA DESIGNED ON THE BASIS OF THE MEB PLATFORM, THE MODULAR GROUP PLATFORM FOR ELECTRIC CARS.

ŠKODA AUTO has been undergoing a transformation for a number of years in response to the fundamental transformation of the automotive industry, which has been brought about by rapid technological advancement.

The Company continued to implement Strategy 2025 in the past year, which defines the principal directions the development of the Company will take and is designed to ensure continuous and sustainable growth in these turbulent times. The pillars of this strategy contain electromobility, digitalisation, which includes the new business models and markets, developing capacities, and improving efficiency.

ŠKODA Strategy 2025 is a long-term, flexibly adaptive, conceptual plan implemented by concrete strategic projects. The Company closely follows developments in the automotive sector and the world, reflects on the future impacts of artificial intelligence and autonomous driving on the population, and adapts its strategic plans according to dynamic development. Throughout 2018, for example, the mobility and connectivity strategy, internal digitalisation, or further development of the topic of sustainable development, social responsibility and integrity have been modified.

In line with Strategy 2025, ŠKODA AUTO focused on increasing the number of cars sold in 2018 and explored ways to satisfy all its customers. The solution came through developing capacities by modernising production and improving effectiveness, and in cooperation within the Group while developing plans for the expansion of production capacities.

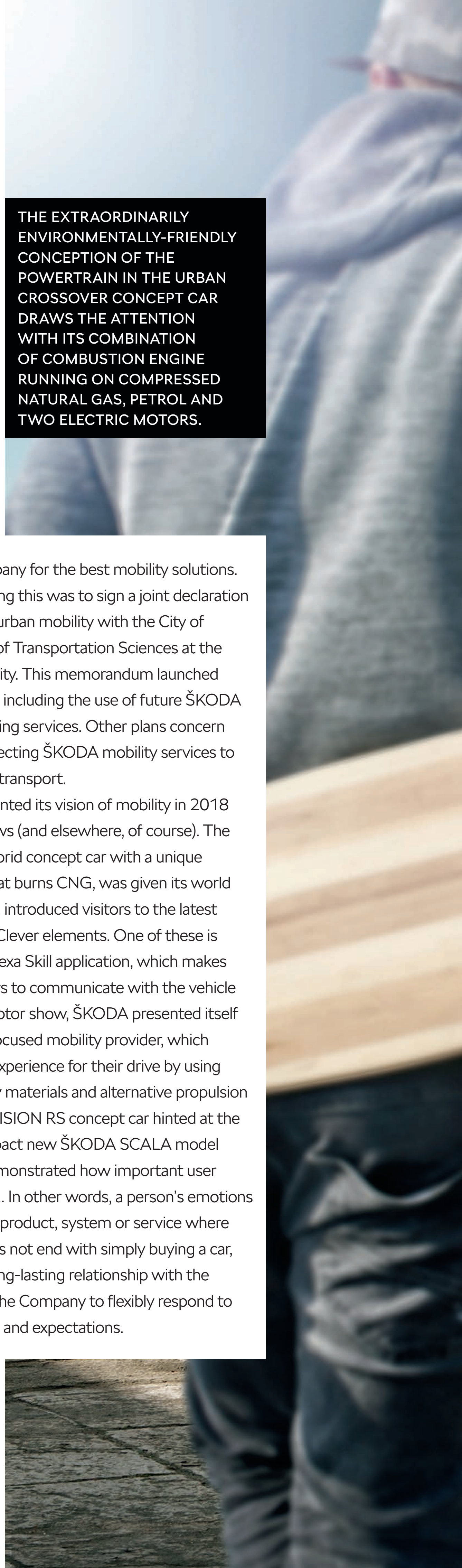
The Company will launch thirty-two new models on the market by 2022, with ten of these electrified. In 2019, customers can look forward to the Company's first hybrid model, in the form of the ŠKODA SUPERB, and to the first purely electric-powered ŠKODA CITIGO model.

OUR OFFENSIVE ON STRATEGIC MARKETS

China has been the largest market for ŠKODA cars since 2010 and the Company has taken a number of steps to improve its position on that particular market. SUV models have an important role in growth plans for China, with more than 30% of all vehicles sold in the country in 2018 falling under the SUV category. ŠKODA launched the SUV ŠKODA KAMIQ city vehicle specifically for Chinese customers in 2018, followed by its flagship ŠKODA KODIAQ GT.

In July, the VOLKSWAGEN Group published details of the INDIA 2.0 project, in which ŠKODA AUTO will invest more than CZK 25 billion in India. The planned ŠKODA and VOLKSWAGEN model offensive will bring a continual increase in the Group's share of the Indian car market, which experts forecast will soon become the third largest in the world. ŠKODA AUTO is implementing the project on behalf of the whole Group and is taking on responsibility for the management of the whole India region on 1 January 2019. The Company will introduce its first models for Indian clients to the public in 2020. The Company has put its faith in being as local as possible from the very outset and the production and the technical development of these new cars will primarily take place in India. The absolute trust shown by the Group in the ŠKODA brand also led to the Company being entrusted with future responsibility for the management of the Russian market in 2018.

BY THE YEAR 2022, THE COMPANY WILL LAUNCH THIRTY-TWO NEW MODELS ON THE MARKET, TEN OF THESE ELECTRIFIED.



THE EXTRAORDINARILY ENVIRONMENTALLY-FRIENDLY CONCEPTION OF THE POWERTRAIN IN THE URBAN CROSSOVER CONCEPT CAR DRAWS THE ATTENTION WITH ITS COMBINATION OF COMBUSTION ENGINE RUNNING ON COMPRESSED NATURAL GAS, PETROL AND TWO ELECTRIC MOTORS.

THE BEST MOBILITY SOLUTIONS

The automotive industry will face a host of new challenges in the near future, one of these being new emission legislation and subsequent electrification. ŠKODA AUTO is preparing for the fundamental transformation of the industry and is investing considerable sums in electromobility and digitalisation.

The Company is conscientiously preparing for the future when it will continue to manufacture cars and also introduce new business models. For this reason, it began identifying suitable start-ups in 2018, companies whose technology could help the Company implement new services and make cars more effectively. ŠKODA AUTO announced in July 2018 that it would, through its subsidiary ŠKODA AUTO DigiLab, be entering into Anagog, an Israeli start-up dealing with artificial intelligence.

ŠKODA AUTO is also preparing for new trends in individual mobility to cater for the section of the incoming generation that wants to be fully mobile whilst not necessarily owning a car. ŠKODA AUTO DigiLab continued to develop the HoppyGo service, which via a simple application connects vehicle owners with people interested in hiring a car. A new opportunity to connect car hire with coach and rail transport was also born. Students and teachers at the Czech Technical University in Prague, the University of Economics in Prague and the Czech University of Life Sciences in Prague began fully using the Uniqway car-sharing platform in October. This unique platform was devised and developed by students at those universities with the support of ŠKODA AUTO and ŠKODA AUTO DigiLab.

By implementing Strategy 2025, ŠKODA AUTO aims to realise its vision and transform itself from a car manufacturer to a Simply Clever company for the best mobility solutions. A further step in achieving this was to sign a joint declaration on the development of urban mobility with the City of Prague and the Faculty of Transportation Sciences at the Czech Technical University. This memorandum launched several specific projects, including the use of future ŠKODA electric cars for car-sharing services. Other plans concern smart parking and connecting ŠKODA mobility services to a card for Prague public transport.

The Company presented its vision of mobility in 2018 at European motor shows (and elsewhere, of course). The ŠKODA VISION X, a hybrid concept car with a unique 1.5 TSI petrol engine that burns CNG, was given its world premiere in Geneva and, introduced visitors to the latest technology and Simply Clever elements. One of these is the ŠKODA Connect Alexa Skill application, which makes it possible for passengers to communicate with the vehicle by voice. At the Paris motor show, ŠKODA presented itself as an environmentally-focused mobility provider, which offers users a sporting experience for their drive by using environmentally-friendly materials and alternative propulsion systems. The ŠKODA VISION RS concept car hinted at the appearance of the compact new ŠKODA SCALA model in this area. This also demonstrated how important user experience is to ŠKODA. In other words, a person's emotions and reactions to using a product, system or service where the user experience does not end with simply buying a car, but instead involves a long-lasting relationship with the customer that enables the Company to flexibly respond to their changing demands and expectations.

THE NEW TECHNOLOGY MAKES IT POSSIBLE FOR THE CAR TO ACHIEVE EXCEEDINGLY LOW CO_2 EMISSION VALUES.

PRODUCT PORTFOLIO

The VISION RS (photo) and VISION X hybrid models that were showcased at the Paris and Geneva motor shows in 2018 demonstrate the future direction of ŠKODA. These concepts are the foundation on which the batch-production models scheduled for launch in 2019 are to be built. Below are the models that ŠKODA offered its customers in 2018.

ŠKODA CITIGO

ŠKODA's smallest model is popular with customers primarily as a result of having a spacious interior within a body that is just 3.6 metres in length. Other features include the robust bodywork, which is designed to provide a high level of safety and excellent handling. The ŠKODA city car comes with a range of economical petrol engines, while the CITIGO G-TEC, powered by compressed natural gas (CNG), is a particularly environmentally friendly alternative.

ŠKODA FABIA

The ŠKODA FABIA underwent modernisation in 2018 that brought with it new design elements and technical innovations. For the first time, the model now features LED headlights and integrated taillights with 18-inch alloy wheels available in the hatchback version. Our designers also upgraded the integrated dashboard and added new materials to the seat portfolio for a fresher look and increased interior comfort. Customers were also able to choose from a wider range of assistance services and Simply Clever solutions. The FABIA line also offers a range of customisation options, including bi-colour bodywork, and attractive versions such as the ŠKODA FABIA MONTE CARLO and ŠKODA FABIA COMBI SCOUTLINE.

ŠKODA RAPID

The RAPID maintained its position as ŠKODA's second best-selling model. Excellent value for money, ample interior space and a generously-sized boot are the key attributes of the RAPID liftback and the RAPID SPACEBACK hatchback model. There are also country-specific versions of this model in China, India and Russia that are manufactured locally.

ŠKODA SCALA

New character, new technology, new name: ŠKODA introduced the new ŠKODA SCALA in late 2018. This all-new, compact model boasts high levels of active and passive safety, full-LED headlights and taillights, plenty of room for passengers and in the boot and an array of Simply Clever solutions. Five different engines will be available, with power outputs ranging from 66 kW to 110 kW. This five-door hatchback combines an emotional design with sophisticated functionality and state-of-the-art connectivity solutions and is scheduled for launch in the first half of 2019.

ŠKODA OCTAVIA

The ŠKODA OCTAVIA is ŠKODA's global best-seller, the "heart of the brand", as it were. The model underwent extensive technological modernisation at the turn of 2018 and 2019. In particular, the highly economical OCTAVIA G-TEC, with CNG drivetrain, was fitted with a new 1.5 G-TEC 96 kW engine and its rear CNG tanks were expanded to enable greater travelling distances on CNG. As part of the ongoing modernisation process, 2018 saw the ŠKODA OCTAVIA COMBI fitted with a Virtual Pedal to allow hands-free boot opening with a simple movement of the foot, while all OCTAVIAs are now available with a Virtual Cockpit – a dashboard which takes the form of a large, driver configurable display.

ŠKODA KAMIQ

The world premiere of the ŠKODA KAMIQ took place in Beijing in April 2018. The urban SUV is intended exclusively for the Chinese market. Customers are attracted by the bold design and the enticing combination of ample space and modern technology. This model is fitted with a brand-new 1.5-litre petrol engine with an output of 81 kW and 150 Nm maximum torque.

ŠKODA KAROQ

At 4.38 metres long, the ŠKODA KAROQ is a compact SUV whose crystalline design draws on the design language of the ŠKODA SUVs. The key benefits include a boot that provides as much as 1,630 litres of space, full-LED headlights and, for the first time at ŠKODA, a driver programmable Virtual Cockpit. This model also boasts a host of smart options, including VarioFlex rear seats, a Virtual Pedal for hands-free boot opening and ŠKODA Connect services. The Company launched two new versions in 2018: the sports-tuned KAROQ SPORTLINE and the adventure-ready KAROQ SCOUT.

ŠKODA KODIAQ

ŠKODA's first large SUV is 4.70 metres long, comes with up to seven seats, boasts one of the biggest boots in its class, offers the complete portfolio of ŠKODA Connect services and features a host of new functions and Simply Clever innovative technologies that are usually reserved for vehicles in higher classes. One of the highlights of 2018 was the launch of the ŠKODA KODIAQ RS, the first SUV in the ŠKODA RS family. Before its launch at the Paris motor show, the KODIAQ RS set a new speed record for seven-seater SUVs on the legendary Nordschleife (North Loop) at Nürburgring, Germany. Featuring two turbochargers, the car's 2.0 TDI engine (176 kW, 500 Nm) is also the most powerful batch-production diesel unit ever offered by ŠKODA AUTO.

ŠKODA KODIAQ GT

ŠKODA's first SUV coupé was launched at the Auto Guangzhou International Automobile Exhibition in China in November 2018. The KODIAQ GT is intended exclusively for the Chinese market. It combines the robust exterior and versatility of an SUV with the elegance and dynamism of a coupé. It is also the first ŠKODA batch production model to feature the ŠKODA name in the centre of the tailgate. The range of powertrains includes two efficient spark ignition engines: the 2.0 TSI engine with an output of 137 kW drives the front wheels, while the 2.0 TSI version with an output of 162 kW comes with four-wheel drive and 7-speed DSG as standard. There are also several assistance systems to ensure maximum safety, including Blind Spot Detect, Front Assist and Adaptive Cruise Control (ACC) with Stop-Go function.

ŠKODA SUPERB

The ŠKODA SUPERB has always been a pioneer in its class, an impressive combination of spaciousness, sophisticated functionality, connectivity and emotion. ŠKODA modernised the engine portfolio for this model in 2018, broadening it to include new 1.5 TSI (110 kW) and 2.0 TSI (200 kW) engines with particulate filters.

FINANCIAL SITUATION

Financial results at ŠKODA AUTO are reported according to the IFRS.

In many areas the year 2018 was the most successful financial year in the history of ŠKODA AUTO to date. The Company achieved record sales and turnover. Operating result and operating cash flow remained at a very solid level. Rising sales and successful measures aimed at increasing effectiveness allowed the Company to maintain outstanding financial stability and performance in 2018.

THE COMMERCIAL DEVELOPMENT OF THE COMPANY

A total of 1,254 thousand ŠKODA cars were delivered to customers in 2018, including those in China, meaning that the Company was able to surpass the one-million cars delivered during a single year mark for the fifth time in succession. This entails a year-on-year growth of 4.4%.

Company sales rose by 2.5% year-on-year to 932 thousand cars. Company revenues, meanwhile, rose 2.3% year-on-year to CZK 416.7 billion. Car sales accounted for 83.3% of the overall turnover at the Company during the year under consideration (2017: 84.3%). The best-selling models were the ŠKODA OCTAVIA and ŠKODA FABIA. Business in original parts and accessories accounted for 5.1% of overall revenues (2017: 5.2%). The remaining 11.6% (2017: 10.5%) came in the form of revenues from the delivery of components and sets of disassembled cars to companies in the VOLKSWAGEN Group, revenues from the sale of services (for example, ŠKODA Connect) and other income.

The cost of sales rose absolutely by 3.4% year-on-year to CZK 359.4 billion. Material and personnel costs accounted for the lion's share of the increase. Gross profit fell by 4.4% on the previous year to CZK 57.3 billion. The year-on-year decline was mainly caused by the expenses associated with changes to emission legislation, the cost of new products, electromobility and other technologies of the future and higher personnel costs. All these factors burdened gross profit in 2018.

Distribution expenses were CZK 14.0 billion, entailing a year-on-year drop of 6.6%. Administrative expenses, meanwhile, were CZK 12.4 billion in 2018, meaning a year-on-year increase of 27.4%. Purchases of services associated with digitalisation at the Company and the processes involved in this were the main factors in the rise of administrative costs.

The operating result at the Company during the period under consideration was CZK 33.8 billion, marking a year-on-year decrease of 16.5%. Profit before tax stood at CZK 35.1 billion (2017: CZK 39.1 billion). Profit after tax, meanwhile, was CZK 28.9 billion (2017: CZK 31.8 billion). Return on sales before tax stood at 8.4% (2017: 9.6%).

CASH FLOW AT THE COMPANY

Cash flow from operating activities in 2018 stood at CZK 44.8 billion, entailing a year-on-year drop of 26.4%. Net liquidity was CZK 43.3 billion at 31 December 2018 (CZK 95.1 billion at 31 December 2017). This significant drop in liquidity was primarily caused by the sole shareholder's decision from 2017 to draw on retained earnings in order to pay out dividends of CZK 38.5 billion. In addition to that ŠKODA AUTO paid in 2018 a dividend from profit for the year 2017 of CZK 31.8 billion (2017: CZK 18.9 billion).

OTHER INFORMATION

THE ASSET AND CAPITAL STRUCTURE AT THE COMPANY

The Company balance sheet total at 31 December 2018 was CZK 219.3 billion, representing a decrease of CZK 31.5 billion on the balance sheet total at the end of the previous year. Non-current assets rose by 11.4% on the comparable period to CZK 118.9 billion. The decline in the balance sheet total on the asset side mainly came about as a result of the reduction of current assets. The development of net liquidity was the main factor projected in this decrease. Current assets stood at CZK 100.4 billion on the balance sheet date (CZK 144.2 billion at 31 December 2017).

Equity fell by CZK 5.8 billion during 2018 to reach a total of CZK 111.7 billion. This drop occurred as a result of the reduction of retained earnings after the payment of dividends.

Non-current liabilities rose by 16.9% on the comparable period to CZK 19.6 billion. The increase is driven mainly by rise in contract liabilities arising from extended guarantees. By contrast, current liabilities fell by 24.5% in comparison with the previous year to CZK 88.1 billion. The dividend from retained earnings relating to the previous accounting periods of CZK 38.5 billion, paid out in January 2018, had been part of current liabilities at the close of the previous year.

COMPANY INVESTMENT ACTIVITY

Investments in 2018 (excluding development costs) accounted for a total of CZK 22.6 billion (CZK 18.9 billion in 2017). The lion's share was expended on product investments connected with the launch of new models, engines and batteries.

The Company spent CZK 22.5 billion on research and development of new products in 2018 (CZK 15.4 billion in 2017).

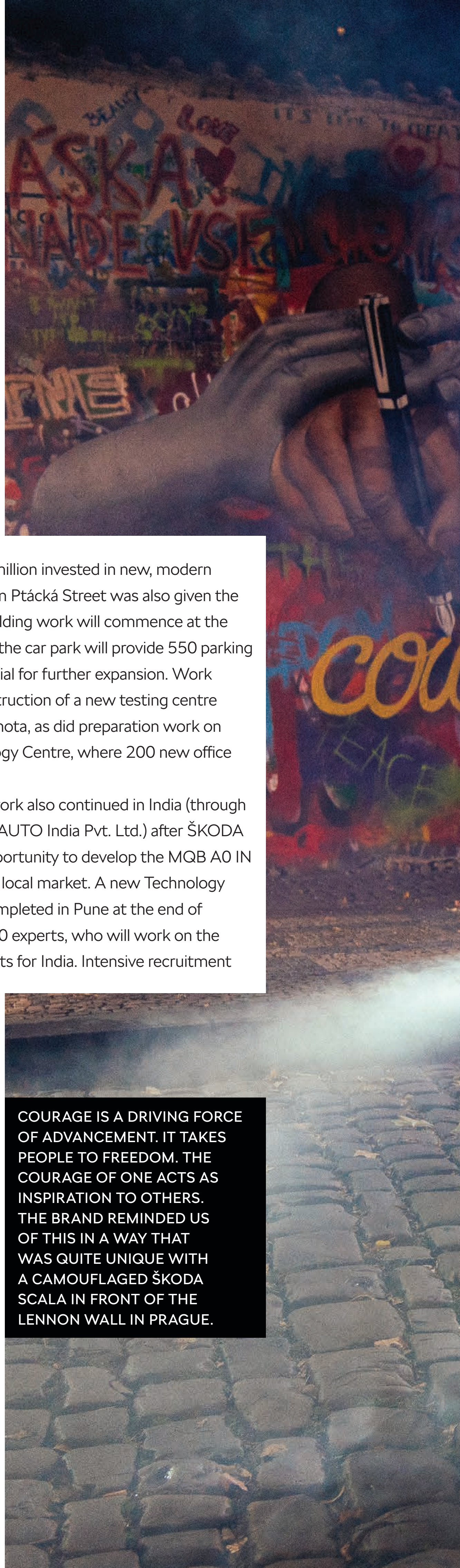
In the past, certain ŠKODA vehicles were produced with 1.2 litre, 1.6 litre and 2.0 litre EA189 diesel engines. In 2015, the competent authorities raised questions about software that detects when these vehicles are running in test conditions. This software was found in approximately 1.2 million ŠKODA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

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

Technical measures were developed and prepared for these modifications so that servicing could begin in 2016. Technical measures were drawn up for all of the ŠKODA vehicles in question and were presented to the competent homologation authorities. The servicing campaign will continue in 2019.

Servicing campaign costs were taken into account in the financial statements for previous periods. In 2018, the costs had no significant impact on profit for the year.

TECHNICAL DEVELOPMENT



Technical Development plays an important part in the implementation of Strategy 2025 at ŠKODA AUTO. This is proven by the level of expenditure the Company has made in technical development, which in 2018 alone, stood at CZK 22.5 billion. The arrival of electromobility and digital technology in the automotive industry places considerable demands on Technical Development, which requires a wide range of skills, knowledge and activities for satisfactory implementation. This need primarily concerns strategically important areas, such as assistance systems, digitalisation, connectivity, and in particular, electronics. It is accompanied by the need to broaden the Technical Development team in this area to include experts from new areas and professions. The ever-wider portfolio of products sold by the Company also requires the involvement of experts in many fields. For this reason, 600 new positions have been created in Technical Development in the past three years, accounting for a 30% increase in personnel. In 2018 alone, the Company required 150 experts to engage in work on the technologies of the future. Some 2,120 employees were working in this area at the end of the year, with an ever-higher degree of internationalisation: for example, 28 different nationalities worked in the ŠKODA Design team. Expansion is also planned for Technical Development in the coming years and this area has become an integral part of the developmental remit at the VOLKSWAGEN Group.

NEW PREMISES

Technical Development is an area in which the increase in personnel has been accompanied by an increase in construction. New gearbox testing centres at the Motor Centre were ceremonially opened in January 2018, with almost CZK 180 million invested in new, modern technology. A car park in Ptácká Street was also given the green light in 2018. Building work will commence at the beginning of 2019 and the car park will provide 550 parking spaces, with the potential for further expansion. Work also began on the construction of a new testing centre in Úhelnice near Husí Lhota, as did preparation work on expanding the Technology Centre, where 200 new office spaces will be created.

Intensive building work also continued in India (through the subsidiary SKODA AUTO India Pvt. Ltd.) after ŠKODA AUTO acquired the opportunity to develop the MQB A0 IN vehicle platform for the local market. A new Technology Centre building was completed in Pune at the end of 2018 for more than 200 experts, who will work on the development of products for India. Intensive recruitment

COURAGE IS A DRIVING FORCE OF ADVANCEMENT. IT TAKES PEOPLE TO FREEDOM. THE COURAGE OF ONE ACTS AS INSPIRATION TO OTHERS. THE BRAND REMINDED US OF THIS IN A WAY THAT WAS QUITE UNIQUE WITH A CAMOUFLAGED ŠKODA SCALA IN FRONT OF THE LENNON WALL IN PRAGUE.

THE SCALA IS A COURAGEOUS STEP FORWARD FOR THE ŠKODA BRAND THAT AIMS TO SET NEW STANDARDS IN THE COMPACT CAR CLASS.

began in the second half of the year, with around 100 experts starting work for SKODA AUTO India Pvt. Ltd. at the end of the year and development work beginning on individual parts in collaboration with local suppliers. The centre will be officially opened in January 2019.

SMART ALTERNATIVE PROPULSION

The Company introduced the crossover VISION X, a city concept car and the first ŠKODA car powered by natural gas, petrol and electricity, at the Geneva motor show in March. The car is powered by a 1.5 TSI petrol engine that burns CNG and drives the front wheels using a seven-gear automatic DSG gearbox. The rear axle has its own electric propulsion, with a 48-volt electric battery, and is primarily used to support the combustion engine when greater acceleration or the need to engage 4-wheel drive is required. The concept car runs on front-wheel, rear-wheel or four-wheel drive as required. The rear wheels transmit torque of 1,000 Nm on the road. The total travel distance on one tank of CNG/petrol is up to 650 kilometres.

This pioneering combination of a combustion engine on CNG and an electric drive is able to reduce emissions by up to 20%. If the engine were to burn synthetic gas or biogas, the carbon footprint of the VISION X would actually be zero. This smart combination of propulsion on natural gas and electricity obtained by recuperation allows the VISION X to achieve extremely low emissions of 89 g CO_2 per km. It is a design which is considerate to the environment, practical for everyday use and, above all, affordable to customers.

Alternative propulsion is important to the future and is assigned a high level of importance by ŠKODA AUTO. For this reason, the largest investment programme in history was launched in 2018 – over the next five years, more than CZK 50 billion is to be invested in developing alternative propulsion technology and new transport services.

VISION X also introduced an entirely new concept of digitalisation. In addition to the online ŠKODA Connect services, passengers will be able to use Smart Parking, HoppyGo, Two-Go or CareDriver in near future, which make it possible to guide the driver to a free parking space, offer the possibility of sharing a journey or hiring out the car when the owner is not using it or having children collected from school when the parent cannot manage on time.

SPORTING HYBRID

The year 2019 will be one of electromobility at ŠKODA AUTO and the Company's first electric vehicle was ushered in with the premiere of the VISION RS concept car at the Paris motor show at the beginning of October. The plug-in hybrid drive of the concept car combines a 1.5 TSI engine with a power of 110 kW (150 hp) and an electric motor with a power of 75 kW (102hp). Together, they achieve a system power of 180 kW (245 hp). As a result, the concept car is able to go from 0 to 100 km per hour in 7.1 seconds. This compact sports car only emits 33 g CO_2 per km. The travel distance of the car on a purely electric, locally emission-free drive is up to 70 km. The ion-lithium battery with a capacity of 13 kWh can be charged in 2.5 hours. Alternatively, the ŠKODA VISION RS can be charged from a household socket or by recuperation when driving. The exterior design is full of emotion and brims over with energy. The low, sharp-cut nose, the contrasting mask of the radiator and the air intake in the bumper with distinctive LED headlights are quite dramatic. The appearance of the concept car hinted at that of the compact ŠKODA SCALA hatchback, which the Company introduced to the public in Tel Aviv on 6 December 2018.

ŠKODA DESIGN

More modern, sportier and, above all, more emotional: the new ŠKODA SCALA is the first batch-produced model that employs the next stage of the ŠKODA AUTO design language. The process involves the traditional Czech brand undergoing well thought-out evolution rather than revolution. The original DNA of the ŠKODA brand already included crystalline elements that make reference to the artistic tradition of Bohemian crystal production. It is now taking on new accents with a surprising interplay of functions and emotions: "Simply Surprising". The new ŠKODA cars will, therefore, perfectly embody the set of values of the make, fittingly summarised in the phrase "Smart Understatement".

The new design language is more fluid, more dynamic and, above all, more emotional. ŠKODA wishes to reach more and more people. The aim is to ensure that customers choose a ŠKODA car not simply because it is practical, offers plenty of space and has an outstanding price-to--performance ratio but they should also love the design and develop a special emotional relationship with their car. ŠKODA is one of the oldest car manufacturers still in operation in the world today. This means that it can look to the past and draw on its long history. The brand is at home in the heart of Europe, both at its headquarters in Mladá Boleslav and in Prague. It draws inspiration from Czech culture and its impressive architecture and the renowned Czech arts and crafts in the production of crystal glass. Customers of the brand can now look forward to the new products that will be introduced in the coming years.

VIRTUAL REALITY SERVING DEVELOPMENT

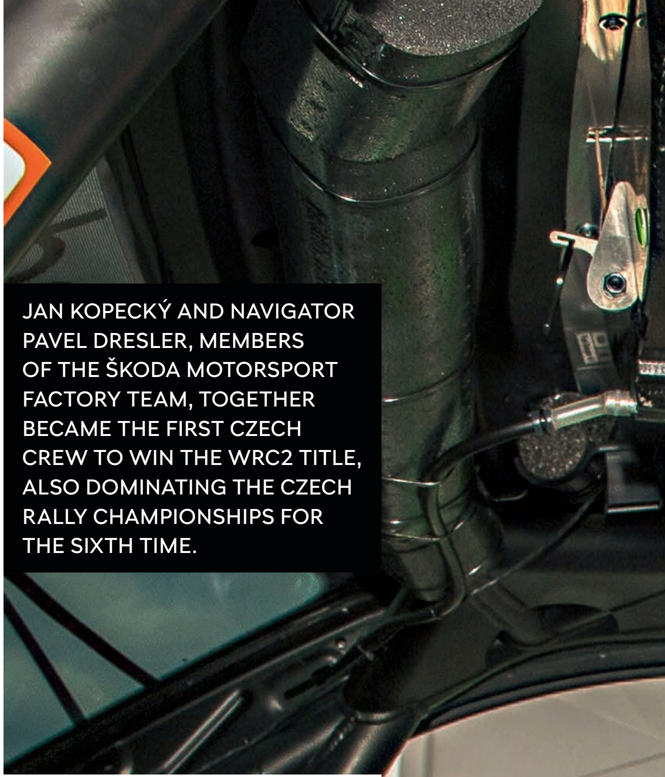
ŠKODA AUTO has been using virtual reality (VR) for 20 years and expects to continue to use it in the future as part of the digitalisation involved in Strategy 2025, both in Technical Development and in other areas of the Company.

For example, VR techniques are used to approve the construction units of a new car in the Digital Data Control process and to approve individual parts (the impact of the design on the functionality of the car, the ability to assemble according to the proposed technological procedure, etc.). VR glasses are also used to precisely assess the interior and exterior of a car and in the Design department for actually designing new cars. This makes the whole process far simpler and more effective since the Company is able to detect potential problems or shortcomings and modify the design within this environment rather than after assembling an actual test model of the car.

IVET 2018

An in-house Innovation Fair (IVET) was held in 2018 to support and develop customer and technical innovations. Innovations and innovative concepts from all areas of Technical Development at ŠKODA AUTO were presented in the presence of members of the Board of Management and Technical Development management. For 2018, IVET focused on the new generation of the SUPERB model and was held at Polygon in Úhelnice, attended remarkably by 1,200 invited guests. The size of the event and the sixty topics

AFTER FOUR YEARS OF A SUCCESSFUL COMPETITION CAREER, THE TIME CAME TO UPGRADE THE EXISTING VERSION OF THE ŠKODA FABIA R5.



JAN KOPECKÝ AND NAVIGATOR PAVEL DRESLER, MEMBERS OF THE ŠKODA MOTORSPORT FACTORY TEAM, TOGETHER BECAME THE FIRST CZECH CREW TO WIN THE WRC2 TITLE, ALSO DOMINATING THE CZECH RALLY CHAMPIONSHIPS FOR THE SIXTH TIME.

presented, including a range of concepts for autonomous steering, mobile online applications and electromobility, made it one of the biggest events of the past year.

ŠKODA FABIA R5 SCORES POINTS WHEREVER IT CAN

The ŠKODA Motorsport factory team enjoyed the most successful season in its history in 2018. It claimed its fourth victory in the FIA WRC2 team championship and its third consecutive title in the FIA WRC2 drivers' championship while its crews made the entire winners' podium their own. Jan Kopecký and his navigator Pavel Dresler became the first Czech crew to win the title in WRC2, also dominating the Czech Rally Championships for the sixth time. Since 2015, Jan Kopecký has won every race in the Czech Rally Championships in which he has driven a ŠKODA FABIA R5.

ŠKODA FABIA R5 cars were successful in the colours of the ŠKODA Motorsport factory team and with customers who bought the model. Indeed, customers succeeded in winning four regional and seventeen national titles throughout the world in 2018. More than 250 of these unique cars have been sold since the spring of 2015.

Fans were also able to enjoy the team's success, with the Company launching another application to celebrate the ŠKODA FABIA R5's third victory in the WRC2 FIA World Championship. The app uses augmented reality to allow users to race along the set routes and to choose a real environment. Moreover, the whole of the car interior was made available to users, meaning that everyone was able to fully take on the role of the racing driver and compare the differences in equipment from a classic passenger car.

THE TIME CAME TO UPGRADE THE SPECIAL MODEL

After four years of a successful competition career, the time came to upgrade the existing version of the ŠKODA FABIA R5. In November, the ŠKODA Motorsport team introduced the concept of a future rally special that includes key elements of the new appearance of the FABIA model. The car was given a more youthful, dynamic design at the front and the designers were also inspired by the batch-produced version with the new headlights, which are fitted with LED technology. The concept is a prototype of the future generation of the FABIA R5 model, which the Company plans to homologate in the first half of 2019 and will be available to customers in the second half of the year.

The ŠKODA Motorsport team also moved house, as it were, moving to a new building with an area of 16,400 sqm close to the ŠKODA Parts Center in Mladá Boleslav in the autumn. This modern building is precisely tailored to the needs of individual departments and is home to a research and development centre, a production plant, workshops, warehouses, prototype preparation, logistics, offices and a showroom. The new premises will help ensure better coordination of individual departments, increase the effectiveness of work and provide even better services to customers. The ceremonial opening of the new ŠKODA Motorsport headquarters was held on 27 November 2018.


ŠKODA
OMP
ŠKODA

PROCUREMENT

Securing material, components and services in the quantity and quality that enables ŠKODA AUTO to satisfy customer demands and to build a positive brand image. At the same time, keeping an eye on the optimum level of costs invested. The tasks dealt with by the ŠKODA Procurement are both challenging and diverse. In 2018, the division staff once again dealt with the requirements of colleagues from other divisions whose operations are guided by the process of accomplishing the Company's development plan, as defined under Strategy 2025.

SUPPORT FOR BATCH PRODUCTION AND NEW LAUNCHES

One of the key tasks of General Procurement in 2018 was to procure a battery assembly line with a testing station for the first ŠKODA hybrid vehicle. The new line will be put into operation at the Company's Mladá Boleslav plant in February 2019. General Procurement was also involved in the process of extending the capacity of the welding shop. This required the acquisition of a new production line and robots to enable the production of the OCTAVIA G-TEC and its modernised successor, the OCTAVIA COMBI G-TEC, side-by-side. The new technology was integrated with the existing equipment in record time, during the plant's summer holiday, which meant that the line was put into operation as early as September 2018. Various production operations were also relocated to external contractors. The launch of the rejuvenated ŠKODA FABIA was another project that demanded a huge effort from the division staff, with the Procurement team securing 319 new components from suppliers in all existing colour configurations.

In 2018, Procurement staff had to respond in time to the decreasing popularity of diesel engines (primarily in Western Europe) and the increasing popularity of petrol engines by inviting tenders for petrol engine components to ensure that ŠKODA was able to continue satisfying customer demand. Meanwhile, the success of the KAROQ and KODIAQ models resulted in the need to increase deliveries from suppliers. A major investment project in 2018 involved the replacement of a total of 830 units of handling equipment across all three plants as a part of the modernisation process of ŠKODA production operations.

CAR FOR INDIA

The Company will launch its first Indian-manufactured SUV model in the A0 segment in 2020. To this end, the Procurement team, colleagues from Technical Development and suppliers got together at workshops and conferences in India to agree how to develop and produce the vehicle so as to comply with local standards while respecting the price requirements of Indian customers. The outcome will be a car that is ideal for the Indian market, at an ideal price.

LOOKING FOR NEW OPPORTUNITIES

ŠKODA AUTO does not limit itself to monitoring the latest trends – it shapes these trends itself. In this regard, the Procurement hosts annual TechDays, which are innovation days where leading suppliers present their technological visions for the coming years to Company management, particularly in relation to electromobility and connectivity. The Procurement held five such innovation gatherings in 2018.

THE COMPANY WILL INTRODUCE ITS FIRST INDIAN-MANUFACTURED SUV MODEL IN THE A0 SEGMENT IN 2020.

THE NOTORIOUS LEH-MANALI HIGHWAY IS CONSIDERED ONE OF THE MOST BEAUTIFUL AND AT THE SAME TIME MOST DANGEROUS PLACES IN INDIA. CZECH FILM MAKERS PETR SOUKUP AND JAN PAVLACKÝ TOOK TO THE HIGHWAY IN ŠKODA KAROQ AND KODIAQ CARS AND SHOT AN AMAZING DOCUMENTARY OF THEIR EXPEDITION.

VOLUME OF EXPENDITURES

ŠKODA AUTO spent CZK 213 billion on production material in 2018. The largest share of this was spent in the Czech Republic (44.7%) and in Germany, where the Procurement purchased just under a quarter (24.4%) of the overall amount of production material. There was a significant year-on-year increase of the share in East European countries, by 7.2 percentage points to the total of almost 20%. The total volume of investments by General Procurement was CZK 38 billion, a slight year-on--year decrease of 7% when compared to 2017 when the construction and equipment of the new paint shop in Mladá Boleslav was commissioned. The Production Procurement database for 2018 contained 1,650 suppliers from all over the world, with General Procurement being able to call on a total of 6,200 cooperating suppliers worldwide.

MARKET PRICES OF KEY MATERIALS

ŠKODA AUTO and the VOLKSWAGEN Group faced up to changes in the market prices of materials in 2018. Cooperation with the Group's Procurement, however, made it possible to reduce the risks associated with developments on the materials markets to a considerable extent. There was a significant increase in the price of rhodium, while the increasing prices of palladium and precious metals also brought a greater financial burden. By contrast, there was a collapse in the prices of other materials, mainly lead. In spite of these influences, the Company was able to achieve significant cost optimisation and this helped the brand achieve a positive overall result to a considerable extent.

PRODUCTION AND LOGISTICS

ŠKODA AUTO continued its record-breaking trend in 2018, 1,285,269 ŠKODA cars were manufactured worldwide, meaning an increase of 53,227 on the year 2017. In September, ŠKODA celebrated the production of 21 million vehicles since 1905. The Company expanded and modernised the production and servicing technology at its plants in 2018. This upgrade involved robotisation, automation and digitalisation of production processes in line with the Industry 4.0 concept.

ŠKODA PRODUCTION STRATEGY ABROAD

Production plants all over the world prepared themselves for the production launch of new and innovated models that were set for production lines in 2018. The Company launched the production of the ŠKODA KODIAQ model at Company's partner plant in Nizhny Novgorod in Russia in February and in March launched the production of its third SUV model for the Chinese market, the ŠKODA KAMIQ, at the Nanjing plant in China. Production of the ŠKODA KODIAQ GT SUV sports coupé commenced at the Changsha plant in September. This is the fourth SUV model and is the culmination of ŠKODA's SUV offensive on the Chinese market.

PRODUCTION OF NEW MODELS IN THE EU

ŠKODA AUTO launched the production of the upgraded ŠKODA FABIA range at its plant in Mladá Boleslav in July. Production capacities were expanded by another two production plants to cover the strong demand for the KAROQ model. Production of this model commenced in Mladá Boleslav in January and at the Osnabrück plant in October. Together with the plant in Kvasiny, there are now three production plants batch-producing the ŠKODA KAROQ model.

The year 2018 was a challenge for the Company in terms of complying with emission limits as a new emission norm came into force in the second half of the year as part of the WLTP programme.

MLADÁ BOLESLAV – PARENT PLANT WITH PROSPECTS

The lines in Mladá Boleslav currently produce FABIA, RAPID, OCTAVIA and KAROQ cars.

The Company's parent plant reached a number of milestones in 2018. In June, employees manufactured the two-millionth car of the third generation ŠKODA OCTAVIA. In July, ŠKODA AUTO began production of an upgraded third generation of the ŠKODA FABIA model while in October, the one-millionth car made in 2018 rolled off the lines in Mladá Boleslav – a ŠKODA FABIA 1.0 TSI in White Moon colour. This meant that the Company reached this milestone earlier than in 2017 and for the fifth consecutive year manufactured over a million vehicles in one calendar year.

The rising volume of production goes hand in hand with the increasing demand for expansion and modernisation of production and logistic capacities. The Company opened an automatic small parts warehouse (AKL) at its main production plant in Mladá Boleslav in November 2018. The high level of automation increases the effectiveness of plant logistics for small parts. These are put into stock by robots, which then transport them from stock to the assembly line. The new AKL covers an area of 2,000 square metres and holds 71,000 KLT type crates where up to 580 of these small plastic crates can be stacked in the 14-metre high racks in the course of one hour while the same number of KLT can be picked within the same time. Two robots put the parts into stock while two more are used for picking and just-in-sequence deliveries to production. ŠKODA AUTO has been running a comparable AKL warehouse at its production plant in Kvasiny for one year.

Another major investment in the future of the Company is the construction of a new paint shop, with a planned daily capacity of 600 painted car bodies. The foundation stone was laid at the Mladá Boleslav plant in December 2017 and the paint shop will open in June 2019 and become one of the most up-to-date and environmentally-friendly paint shops in Europe. Various work operations will be taken over or supported by robots so that the high level of automation will allow for arranging individual workplaces for employees in an extremely ergonomic way.

DYNAMICALLY DEVELOPING PLANT IN KVASINY

The ŠKODA AUTO plant in Kvasiny is an important pillar in the Company's network of production capacities. The plant currently manufactures the ŠKODA SUPERB, ŠKODA SUPERB COMBI, ŠKODA KODIAQ and ŠKODA KAROQ models. ŠKODA AUTO has invested significant sums in the development and modernisation of the plant in recent years. In 2018, it opened a new multi-purpose competence centre where the Company brought together the testing centre and the quality centre, the logistics training centre and the centre for final modifications to pre-batch vehicles.

The plant in Kvasiny celebrated two significant jubilees in 2018 and other milestones in the ŠKODA SUV offensive. The one-millionth ŠKODA SUV rolled off the production line in August. The jubilee vehicle was ŠKODA KAROQ in Green Emerald colour. More than 300,000 cars were manufactured here in 2018. In September, the employees in Kvasiny completed the quarter-millionth KODIAQ.

The plant in Kvasiny has also been working intensively on preparations for entering the electromobility age, with the ŠKODA SUPERB PHEV set to roll off production lines in 2019.

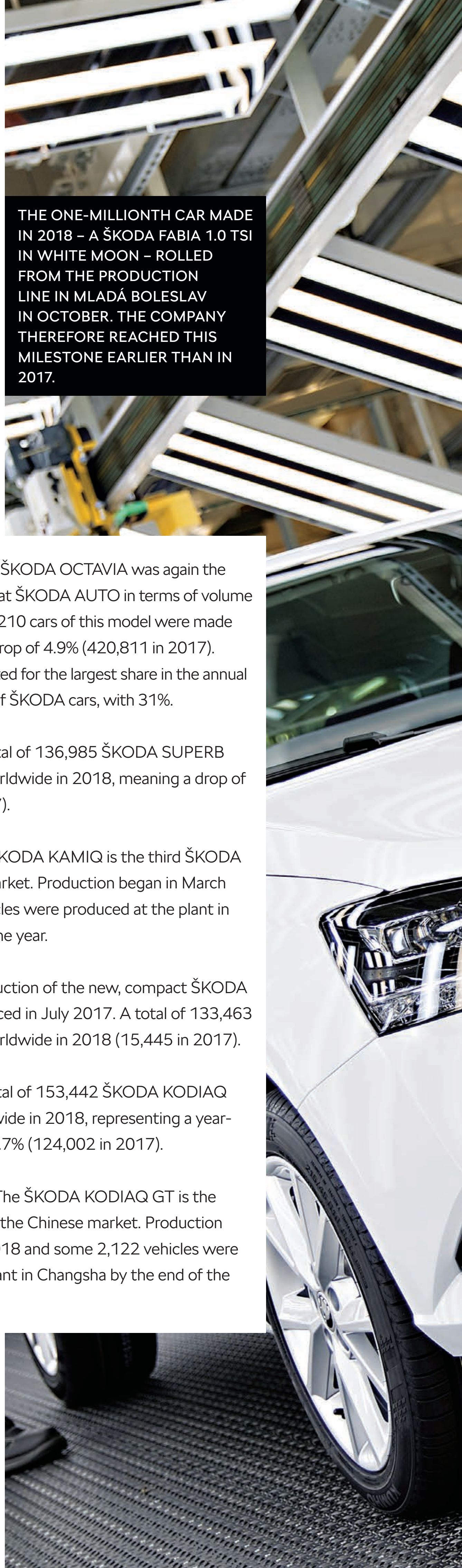
COMPONENT PRODUCTION

A total of 1,141,724 gearboxes were made at ŠKODA AUTO in 2018, which comprised 371,674 MQ200 gearboxes, 231,291 MQ/SQ100 gearboxes and 538,759 DQ200 gearboxes in addition to 584,883 engines. The Company produces components for its own needs and for the needs of other brands in VOLKSWAGEN Group. In total, it manufactured 289,069 engines for other brands in VOLKSWAGEN Group (49% of the total number of aggregates made) and 665,133 gearboxes (58% of the total number of gearboxes produced).

ŠKODA AUTO celebrated three significant jubilees regarding the manufacturing of components in 2018. The two-millionth DQ200 gearbox was manufactured in Vrchlabí in January, the two-millionth EA211 engine was produced at Mladá Boleslav in June and the seven-millionth MQ200 gearbox was made in November.

ŠKODA AUTO currently produces 7,240 axles a day and is another integral part of component production. A total of 1.79 million axles for the production plants in Mladá Boleslav, Kvasiny and India were produced in 2018.

IN 2018, A TOTAL OF 353,987 CARS WERE MANUFACTURED AT PARTNER PLANTS IN CHINA. PRODUCTION ROSE BY 6.5% YEAR-ON-YEAR.



THE ONE-MILLIONTH CAR MADE IN 2018 – A ŠKODA FABIA 1.0 TSI IN WHITE MOON – ROLLED FROM THE PRODUCTION LINE IN MLADÁ BOLESLAV IN OCTOBER. THE COMPANY THEREFORE REACHED THIS MILESTONE EARLIER THAN IN 2017.

THE PRODUCTION OF ŠKODA CARS ABROAD INCREASED

In 2018, 6,867 ŠKODA cars were made at the Aurangabad plant in India and 9,989 ŠKODA cars at the plant in Pune while a further 52,630 cars rolled off the line at the Company's partner plant in Nizhny Novgorod in 2018, a 19.5% increase on 2017. The Kaluga plant in Russia produced 38,109 ŠKODA cars, entailing an increase of 15.6%. A total of 353,987 ŠKODA FABIA, ŠKODA RAPID, ŠKODA OCTAVIA, ŠKODA KAMIQ, ŠKODA KAROQ, ŠKODA KODIAQ, ŠKODA KODIAQ GT and ŠKODA SUPERB models were manufactured at partner plants in China in 2018. This means that the production of vehicles in China rose by 6.5% compared to the previous year.

PRODUCTION BY MODEL

ŠKODA CITIGO There was a 4.3% drop in the production of ŠKODA CITIGO cars. A total of 37,101 ŠKODA CITIGO cars were manufactured at the VOLKSWAGEN plant in Bratislava (38,749 in 2017).

ŠKODA FABIA A total of 186,213 ŠKODA FABIA cars were made worldwide in 2018, entailing a year-on-year drop of 11.1% (209,471 in 2017).

ŠKODA RAPID A total of 195,270 ŠKODA RAPID cars were manufactured worldwide in 2018 resulting in a drop of 6.9% in production (209,836 in 2017).

ŠKODA OCTAVIA The ŠKODA OCTAVIA was again the most prominent model at ŠKODA AUTO in terms of volume in 2018. A total of 400,210 cars of this model were made worldwide, meaning a drop of 4.9% (420,811 in 2017). This model also accounted for the largest share in the annual worldwide production of ŠKODA cars, with 31%.

ŠKODA SUPERB A total of 136,985 ŠKODA SUPERB cars were produced worldwide in 2018, meaning a drop of 6.9% (147,103 in 2017).

ŠKODA KAMIQ The ŠKODA KAMIQ is the third ŠKODA SUV on the Chinese market. Production began in March 2018 and 39,553 vehicles were produced at the plant in Nanjing by the end of the year.

ŠKODA KAROQ Production of the new, compact ŠKODA KAROQ SUV commenced in July 2017. A total of 133,463 vehicles were made worldwide in 2018 (15,445 in 2017).

ŠKODA KODIAQ A total of 153,442 ŠKODA KODIAQ cars were made worldwide in 2018, representing a year-on-year increase of 23.7% (124,002 in 2017).

ŠKODA KODIAQ GT The ŠKODA KODIAQ GT is the fourth ŠKODA SUV on the Chinese market. Production began in September 2018 and some 2,122 vehicles were manufactured at the plant in Changsha by the end of the year.

PRODUCTION OF CARS AT ŠKODA AUTO COMPANY	VEHICLES 2018	VEHICLES 2017	CHANGE (%) 2018/2017
PRODUCTION OF ŠKODA CARS			
ŠKODA FABIA	112,863	119,730	(5.7%)
ŠKODA FABIA COMBI	64,800	76,292	(15.1%)
ŠKODA FABIA TOTAL	**177,663**	**196,022**	**(9.4%)**
ŠKODA RAPID	28,813	31,561	(8.7%)
ŠKODA RAPID SPACEBACK	47,187	49,553	(4.8%)
ŠKODA RAPID TOTAL	**76,000**	**81,114**	**(6.3%)**
ŠKODA OCTAVIA	83,070	89,667	(7.4%)
ŠKODA OCTAVIA COMBI	174,962	180,102	(2.9%)
ŠKODA OCTAVIA TOTAL	**258,032**	**269,769**	**(4.4%)**
ŠKODA SUPERB	40,575	47,697	(14.9%)
ŠKODA SUPERB COMBI	50,912	57,211	(11.0%)
ŠKODA SUPERB TOTAL	**91,487**	**104,908**	**(12.8%)**
ŠKODA YETI	**—**	**24,555**	**—**
ŠKODA KAROQ	**100,249**	**14,998**	**568.4%**
ŠKODA KODIAQ	**81,697**	**76,108**	**7.3%**
ŠKODA BRAND TOTAL	**785,128**	**767,474**	**2.3%**
PRODUCTION OF SEAT CARS			
SEAT TOLEDO	**10,151**	**13,146**	**(22.8%)**
SEAT ATECA	**90,824**	**77,483**	**17.2%**
SEAT BRAND TOTAL	**100,975**	**90,629**	**11.4%**
TOTAL ŠKODA AUTO PRODUCTION	**886,103**	**858,103**	**3.3%**

ŠKODA BRAND PRODUCTION WORLDWIDE*	VEHICLES 2018	VEHICLES 2017	CHANGE (%) 2018/2017
PRODUCTION OF ŠKODA CARS IN INDIA			
ŠKODA RAPID	9,989	11,800	(15.3%)
ŠKODA OCTAVIA	2,891	2,406	20.2%
ŠKODA SUPERB	1,752	1,502	16.6%
ŠKODA KODIAQ	2,224	838	165.4%
TOTAL ŠKODA IN INDIA	**16,856**	**16,546**	**1.9%**
PRODUCTION OF ŠKODA CARS IN SLOVAKIA			
ŠKODA CITIGO	37,101	38,749	(4.3%)
TOTAL ŠKODA IN SLOVAKIA	**37,101**	**38,749**	**(4.3%)**
PRODUCTION OF ŠKODA CARS IN GERMANY			
ŠKODA KAROQ	1,458	—	—
TOTAL ŠKODA IN GERMANY	**1,458**	**—**	**—**
PRODUCTION OF ŠKODA CARS IN RUSSIA			
ŠKODA RAPID	38,109	32,956	15.6%
ŠKODA OCTAVIA	33,677	21,479	56.8%
ŠKODA YETI	910	22,543	(96.0%)
ŠKODA KODIAQ	18,043	20	—
TOTAL ŠKODA IN RUSSIA	**90,739**	**76,998**	**17.8%**
PRODUCTION OF ŠKODA CARS IN CHINA			
ŠKODA FABIA	8,550	13,449	(36.4%)
ŠKODA RAPID	71,172	83,966	(15.2%)
ŠKODA OCTAVIA	105,610	127,157	(16.9%)
ŠKODA SUPERB	43,746	40,693	7.5%
ŠKODA KAMIQ	39,553	—	—
ŠKODA YETI	—	19,527	—
ŠKODA KAROQ	31,756	447	—
ŠKODA KODIAQ	51,478	47,036	9.4%
ŠKODA KODIAQ GT	2,122	—	—
TOTAL ŠKODA IN CHINA	**353,987**	**332,275**	**6.5%**
TOTAL ŠKODA BRAND WORLDWIDE**	**1,285,269**	**1,232,042**	**4.3%**
PRODUCTION OF OTHER GROUP BRANDS IN INDIA***			
VOLKSWAGEN	2,055	1,134	81.2%
AUDI	7,442	6,513	14.3%
TOTAL OTHER GROUP BRANDS IN INDIA	**9,497**	**7,647**	**24.2%**
TOTAL ŠKODA WORLDWIDE, INCLUDING OTHER GROUP BRANDS	**1,395,741**	**1,330,318**	**4.9%**

* Including other Group brands
** Including production of ŠKODA cars at ŠKODA AUTO company as well as at foreign plants in the rest of the world
*** Production at the subsidiary SKODA AUTO India Pvt. Ltd.

SALES AND MARKETING

ŠKODA AUTO recorded a new sales record in 2018 for the fifth successive year. Global deliveries of cars rose by 4.4% to 1,253,741. As a result, the Company, for the fifth time in succession, surpassed the milestone of one-million cars delivered in a single calendar year. The one-millionth car was delivered to a customer in mid-October, earlier than at any time before in the Company's history. This sales record shows that ŠKODA AUTO was able to captivate new groups of customers with its attractive and modern range of models. Company growth continued, even with the challenges posed by the new method of measuring emissions WLTP, which affected the entire automotive industry. There were strong increases in sales for the Company in Europe (+4.9%) and on the growth markets of China (+4.9%) and Russia (+30.7%).

CENTRAL EUROPE

The ŠKODA brand maintained its forward direction in Central Europe and was able to increase overall sales in the region. The Company delivered a total of 212,928 cars to its customers; 2.8% more than in the previous year. ŠKODA AUTO supplied 93,586 cars to its customers in the Czech Republic, entailing a year-on-year fall of 1.5%. However, ŠKODA succeeded in increasing its market share to 35.8%, the highest figure in the past three years. The Czech Republic again occupied third position among largest markets. ŠKODA AUTO also launched the online sale of ŠKODA cars by way of operative leasing in 2018, in collaboration with ŠkoFIN, selling 229 cars in this way during the year in question. The only market in the region that showed double-digit growth was Croatia, where 5,293 cars were sold (+11.5%). The brand also grew in Poland, where it increased deliveries by 6.7% to 71,057 cars and which occupied sixth position in the Company's largest sales markets, in Slovakia (21,894 cars; +4.2%), in Hungary (13,804 cars; +9.1%) and in Slovenia (7,294 cars; +2.4%).

EASTERN EUROPE

ŠKODA made considerable headway in Russia in 2018: the 81,459 cars delivered to customers represent a double-digit increase of 30.7%. The market in Russia also moved up the world market table, rising from sixth position to fourth. The Company also saw growth in Romania (13,185 cars; +13.4%), the Baltic states (7,968 cars; +7.4%), Serbia (7,352 cars; +10.2%), Bulgaria (3,941 cars; +21.9%), Bosnia (1,808 cars; +13.7%) and Kazakhstan (818 cars; +105.0%). In total, sales in Eastern Europe rose by 23.1%.

WESTERN EUROPE

Deliveries of cars in Western Europe rose by 1.8% to 486,356 in the year 2018. ŠKODA improved slightly on its second largest world market – Germany – and supplied its customers with 176,638 cars, an increase of 1.9%. In doing so, the Company successfully consolidated its position as one of the most important wholesale brands. ŠKODA achieved a double-digit increase in France (32,035 cars; +17.5%), Spain (27,017 cars; +11.5%), the Netherlands (16,985 cars; +11.6%) and Greece (3,704 cars; +17.6%). ŠKODA delivered 6.9% fewer cars in Great Britain (74,512) than in the previous year; nevertheless, the market retained its position in the TOP 5 most significant markets.

CUSTOMER DELIVERIES LARGEST MARKETS	VEHICLES 2018	VEHICLES 2017	CHANGE (%) 2018/2017
CHINA	341,000	325,009	4.9%
GERMANY	176,638	173,302	1.9%
CZECH REPUBLIC	93,586	95,017	(1.5%)
RUSSIA	81,459	62,302	30.7%
UNITED KINGDOM	74,512	80,056	(6.9%)
POLAND	71,057	66,582	6.7%
FRANCE	32,035	27,272	17.5%
SPAIN*	27,017	24,230	11.5%
ITALY	26,401	24,700	6.9%
AUSTRIA	24,939	24,254	2.8%
SLOVAKIA	21,894	21,017	4.2%
TURKEY	21,340	24,996	(14.6%)
ISRAEL	20,949	23,351	(10.3%)
BELGIUM	20,032	19,240	4.1%
SWITZERLAND	17,724	18,853	(6.0%)
ŠKODA BRAND TOTAL	**1,253,741**	**1,200,535**	**4.4%**

* excluding the Canary Islands

CUSTOMER DELIVERIES BY REGION	VEHICLES 2018	VEHICLES 2017	CHANGE (%) 2018/2017	MARKET SHARE (%) 2018**	MARKET SHARE (%) 2017**
CENTRAL EUROPE*	212,928	207,143	2.8%	18.3%	19.0%
EASTERN EUROPE	127,533	103,634	23.1%	5.8%	5.3%
WESTERN EUROPE	486,356	477,735	1.8%	3.4%	3.3%
OVERSEAS/ASIA	426,924	412,023	3.6%	0.7%	0.6%
ŠKODA BRAND TOTAL	**1,253,741**	**1,200,535**	**4.4%**	**1.5%**	**1.4%**

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

OVERSEAS/ASIA

Deliveries of cars on the Company's largest global market – China – rose in 2018 to 341,000 (+4.9%). Stagnation of the overall market in China was caused by the trade war with the USA. Nevertheless, the Company achieved record sales on the market once again. The Company achieved further positive sales results, for example, in Taiwan (6,155 vehicles and an increase of 20.3%) and in Australia (5,807 cars and an increase of 8.5%). ŠKODA made a slight improvement in India, where the 17,244 cars sold surpassed the success of the previous year by 0.8%. The unstable political and economic situation led to the collapse of the market in Turkey as a whole, with the number of ŠKODA cars delivered falling year-on-year by 14.6% to 21,340.

DELIVERIES BY MODEL

ŠKODA CITIGO It is the Company's smallest model. The range also includes the CITIGO G-TEC, a car powered by compressed natural gas, which is considerate to the environment. 39,161 customers bought the compact mini-car in 2018, 5.5% more than in the previous year. The model enjoyed its greatest success in Germany, Poland, Great Britain and the Czech Republic.

ŠKODA FABIA Since its market launch in the autumn of 2014, the ŠKODA FABIA has maintained its position at the summit and continues to beat its competitors as a result of its quality execution, the size of the interior and luggage space, and its excellent equipment and steering. The model was upgraded in summer 2018 to bring in a range of new design elements and technical innovations. 190,880 ŠKODA FABIA cars were delivered, making it the third most successful model in the ŠKODA portfolio despite experiencing a drop of 7.6% on the previous year. The greatest level of interest was shown on the markets of Germany, the Czech Republic, Poland, Great Britain and France.

ŠKODA RAPID The liftback model was launched on world markets in 2012 with the ŠKODA RAPID SPACEBACK one year later. Special versions of this model are also available in China, India and Russia. The RAPID maintained its position as ŠKODA's second best-selling model. 191,477 ŠKODA RAPID and ŠKODA RAPID SPACEBACK cars were delivered to customers, entailing a year-on-year drop of 9.5%. The model was sold best on the markets of China, Russia, the Czech Republic, Germany and India.

ŠKODA OCTAVIA The model was upgraded in 2018 and the OCTAVIA G-TEC, which runs on natural gas, underwent a technical transformation. The ŠKODA OCTAVIA has long been the Company's best-selling model, a situation that did not change in 2018. However, with a total of 388,231 cars delivered, the ŠKODA OCTAVIA experienced a drop of 7.3% in the number of sales in one year. The highest number of deliveries were made on the markets of China, Germany, the Czech Republic, Russia and Poland.

ŠKODA SUPERB ŠKODA entered a new era with its third generation ŠKODA SUPERB, launched in 2015. The model has always been a pioneer in its class. However, after two years of significant growth, the number of cars delivered fell in 2018 by 8.5% to 138,141. The model was most popular on the markets of China, Germany, Great Britain, Poland and Turkey.

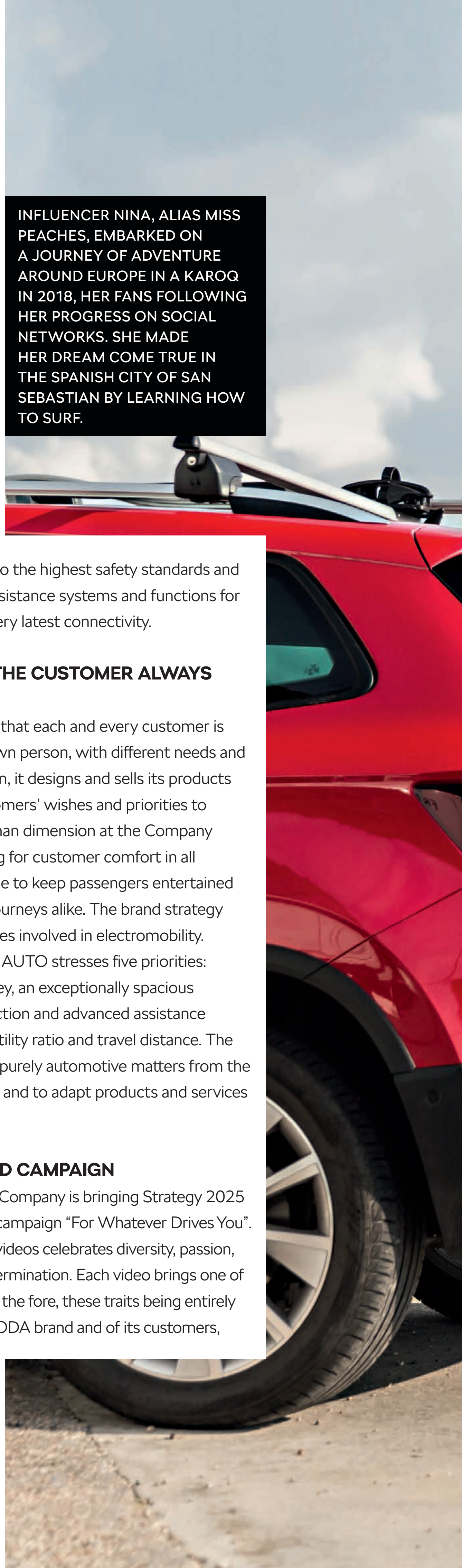
ŠKODA KAMIQ The world premiere of the ŠKODA KAMIQ urban SUV for the Chinese market took place in Beijing in April 2018. The model immediately returned a highly respectable performance, with 27,868 cars delivered.

ŠKODA KAROQ The new compact ŠKODA KAROQ SUV was launched in 2017 and the Company introduced new versions in 2018: the sports-tuned KAROQ SPORTLINE and the adventure-ready KAROQ SCOUT. Interest in this SUV rose dramatically year-on-year, with 115,725 cars delivered to customers in 2018, making the ŠKODA KAROQ an important engine of growth.

ŠKODA KODIAQ The Company's first large SUV, the ŠKODA KODIAQ, was premiered in 2016 and again had a very successful year. The range was broadened to include the ŠKODA KODIAQ RS, the Company's first family RS with an SUV body, and the ŠKODA KODIAQ GT, its first SUV coupé. The Company delivered a total of 149,195 cars to its customers, 49.3% more than in the previous year. The ŠKODA KODIAQ is another key engine of growth, alongside the ŠKODA KAROQ.

CUSTOMER DELIVERIES BY MODEL	VEHICLES 2018	VEHICLES 2017	CHANGE (%) 2018/2017
ŠKODA CITIGO	**39,161**	**37,115**	**5.5%**
ŠKODA FABIA	123,356	130,186	(5.2%)
ŠKODA FABIA COMBI	67,524	76,313	(11.5%)
ŠKODA FABIA TOTAL	**190,880**	**206,499**	**(7.6%)**
ŠKODA RAPID	132,671	136,729	(3.0%)
ŠKODA RAPID SPACEBACK	58,806	74,751	(21.3%)
ŠKODA RAPID TOTAL	**191,477**	**211,480**	**(9.5%)**
ŠKODA OCTAVIA	210,482	236,309	(10.9%)
ŠKODA OCTAVIA COMBI	177,749	182,458	(2.6%)
ŠKODA OCTAVIA TOTAL	**388,231**	**418,767**	**(7.3%)**
ŠKODA SUPERB	86,143	94,522	(8.9%)
ŠKODA SUPERB COMBI	51,998	56,388	(7.8%)
ŠKODA SUPERB TOTAL	**138,141**	**150,910**	**(8.5%)**
ŠKODA ROOMSTER	**—**	**1**	**—**
ŠKODA KAMIQ	**27,868**	**—**	**—**
ŠKODA YETI	**13,063**	**69,467**	**(81.2%)**
ŠKODA KAROQ	**115,725**	**6,335**	**1,726.8%**
ŠKODA KODIAQ	**149,195**	**99,961**	**49.3%**
ŠKODA BRAND TOTAL	**1,253,741**	**1,200,535**	**4.4%**

THE BRAND MARKETING STRATEGY DRAWS ON KNOWLEDGE OF ITS CUSTOMERS. IT IS ADAPTED TO SUIT THEIR NEEDS IN A WAY THAT IS BOTH INVENTIVE AND IMAGINATIVE.



INFLUENCER NINA, ALIAS MISS PEACHES, EMBARKED ON A JOURNEY OF ADVENTURE AROUND EUROPE IN A KAROQ IN 2018, HER FANS FOLLOWING HER PROGRESS ON SOCIAL NETWORKS. SHE MADE HER DREAM COME TRUE IN THE SPANISH CITY OF SAN SEBASTIAN BY LEARNING HOW TO SURF.

THE CUSTOMER AT THE HEART OF THE MARKETING STRATEGY

The marketing strategy of ŠKODA brand is built on knowing our customers and is accordingly adapted in the inventive and imaginative way so typical of the ŠKODA brand. The global communication strategy of the ŠKODA brand was adjusted and targeted more precisely within Strategy 2025. The concept of this draws on the mission and vision in place at the Company, which builds on the 123-year tradition of success that stems from the inventiveness and the ability to find intelligent solutions to new challenges. ŠKODA must now adapt to the changing needs of its customers and find persuasive answers to digitalisation and electrification in the automotive industry.

ŠKODA CARS ARE THE RESULT OF INVENTIVE THINKING

Identifying better solutions has always been an endless source of motivation for the ŠKODA brand. Its two founders, Václav Laurin and Václav Klement, started the company in 1895 out of pure necessity – the mother of all invention. It is in this tradition of inquisitiveness and invention that the brand continues to this day. It has remained faithful to the combination of smart engineering and the human approach throughout its history and, as a result, its products and services are exceptional. Inventiveness is what distinguishes ŠKODA AUTO from its competitors. The Company offers solutions that make its customers' lives easier and bring positive changes to their lives. This is done by providing the highest quality and products that offer outstanding value for money. ŠKODA models are exceptionally spacious and extraordinarily reliable. They conform to the highest safety standards and offer a wide range of assistance systems and functions for drivers, as well as the very latest connectivity.

AT ŠKODA AUTO, THE CUSTOMER ALWAYS COMES FIRST

ŠKODA AUTO realises that each and every customer is different, is his or her own person, with different needs and interests. For this reason, it designs and sells its products so as to satisfy its customers' wishes and priorities to the maximum. The human dimension at the Company is also reflected in caring for customer comfort in all models and that it is able to keep passengers entertained during short and long journeys alike. The brand strategy also focuses on the issues involved in electromobility. In this respect, ŠKODA AUTO stresses five priorities: enjoyment of the journey, an exceptionally spacious interior, Internet connection and advanced assistance systems, the price-to-utility ratio and travel distance. The Company aims to view purely automotive matters from the customer's perspective and to adapt products and services to suit their needs.

EMOTIONAL BRAND CAMPAIGN

An example of how the Company is bringing Strategy 2025 to life is the new global campaign "For Whatever Drives You". A series of seven short videos celebrates diversity, passion, purposefulness and determination. Each video brings one of these character traits to the fore, these traits being entirely characteristic of the ŠKODA brand and of its customers,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who use them to drive themselves forward. This series of videos follows the heroes of everyday life, who are creative in thought, love freedom and adventure, are inquisitive, love discovering new things and are inspired by the ŠKODA brand every day, no matter whether it is on a journey toward success or simply enjoying life to the full.

Company wants to motivate its customers to do what they enjoy. It does not want its customers to regard it as just a producer; instead, more of a partner, a friend, a member of the family. By telling poignant stories and emotionalising the ŠKODA brand it has become closer to the people than before and believes it can succeed in bringing people together again. We all have our own personal wishes, but having faith in oneself is something that unites us all.

In addition to its global brand campaign, ŠKODA AUTO is undertaking a whole range of other activities aimed at emotionalising the ŠKODA brand (making it more of a matter of the heart for customers). These activities come in different areas, including culture (such as the partnership with Cirque du Soleil), but are primarily associated with sport (cycling, ice hockey and motorsport). A common passion for seeking perfection is something shared by the ŠKODA brand and by athletes, which is what drives them forward. At ŠKODA AUTO, the customer always comes first. Whether in terms of product development or marketing communication, the Company's objective is to continually increase the attractiveness of its products on all existing and future markets.

NEW MODELS SETTING OUT INTO THE WORLD

Three new models and two concepts. This is how the marketing balance sheet looks for the launch of innovations by ŠKODA in 2018. The new ŠKODA VISION X concept car and its hybrid drivetrain first saw the light of day at the Geneva motor show in March where the Company offered an insight into the onward development of its new range of models. The concept of a city crossover brought the characteristic elements of the successful ŠKODA SUVs to another segment, with the entirely new design language.

The ŠKODA KAMIQ, the third family SUV model in China, was given its world show premiere in Beijing in April. The SUV strategy has an important part to play in the growth of ŠKODA AUTO given that China is the largest local market for the brand and accounts for more than a quarter of the ŠKODA cars delivery worldwide.

The Paris motor show took place in October and was one of the most important marketing events of the year. ŠKODA presented itself as a sporty, environmentally--oriented provider of mobility and showed how it envisages its transformation into a company that offers smart solutions in the world of mobility. In this regard, it showed visitors to the motor show the close interconnection between the driver and the surrounding world and, using virtual reality, new technologies and services that make everyday travel all the easier. The ŠKODA VISION RS concept car was particularly well received, revealing a vision for the future of RS sports cars and hinting at the appearance of the new, compact ŠKODA SCALA, which was unveiled in Israel at the turn of the year. The name SCALA is inspired by the Latin "scala", meaning stairs or ladder. This is particularly fitting because this model signifies a huge leap forward in the development of the ŠKODA design language. SCALA is the first European mass-produced car to have the ŠKODA name confidently placed in the centre of the tailgate and comes with equipment that is usually reserved for cars in a higher class. It perfectly embodies the set of brand values, which is fittingly summarised in the term “Smart Understatement”.

ENERGY FOR SPORT

15 YEARS IN THE SADDLE OF THE TOUR DE FRANCE

A red ŠKODA SUPERB was the most important vehicle at the 2018 Tour de France. After all, race director Christian Prudhomme used a limousine in this colour as his mobile dispatching station for the entire time. In total, ŠKODA AUTO provided the organisers with 250 organisational and accompanying cars, among them the ŠKODA OCTAVIA, ŠKODA KODIAQ and ŠKODA KAROQ models.

During the actual race, the ŠKODA logo adorned the green jersey for the best sprinter and the Company also commissioned the making of a 60 cm high trophy weighing 4 kilograms for the winner, created by Czech glassmakers. ŠKODA AUTO became an official partner to the race in 2018, also supplying official vehicles for the fifteenth time.

FROM THE CZECH NATIONAL TEAM TO THE PUBLIC

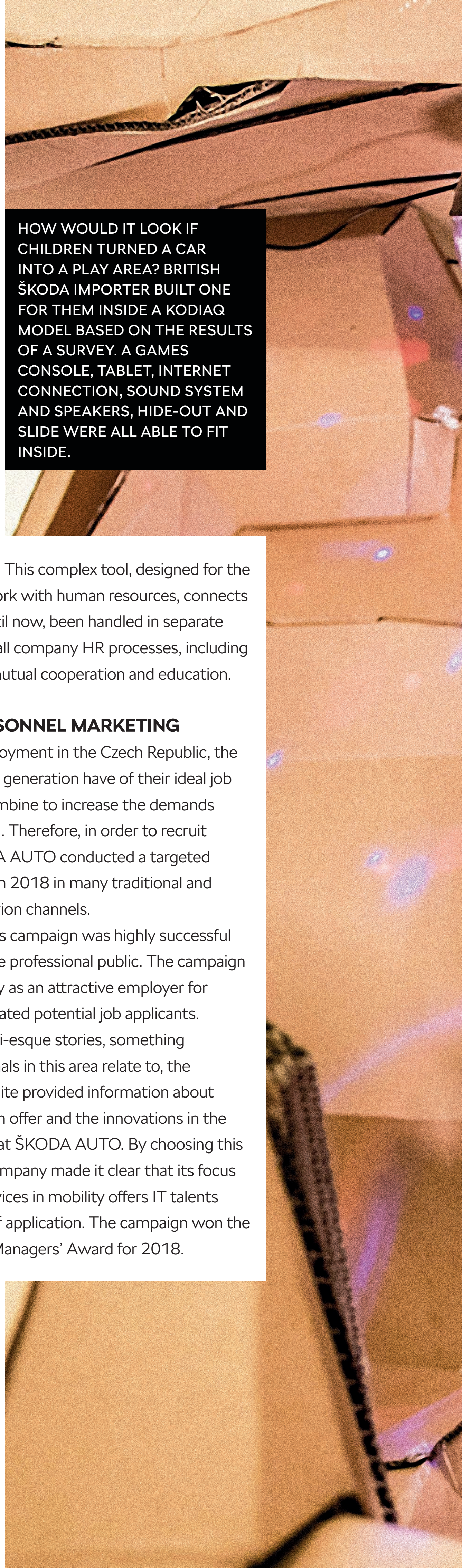
The ŠKODA brand has had strong links to cycling since its very inception – a bicycle was the first product which the company made back in 1895. This is why it decided to support the Spanish Vuelta and other international cycling races in 2018, alongside the Tour de France. It also sponsored a number of amateur races for the general public, including the “Kolo pro život” (Bike for life) series of mountain bike races. ŠKODA AUTO announced in July that it would also become the general partner of the Czech national team in all cycling disciplines. One result of its ties to the Czech Cycling Federation is that the Company has become the general partner to national teams in all eight cycling disciplines. This follows on from its involvement in the sport to date, intensifying it as a collective concept with the emphasis on the national team.

A STRONG PARTNER HELPS ACHIEVE SUCCESS

However, ŠKODA AUTO does not live for cycling alone and is involved in other popular sports. Since 1992, it has been the general partner to the IIHF World Ice Hockey Championship. In that time, the ŠKODA vehicles used by the organiser have travelled more than 6 million kilometres. The Company presented three models – OCTAVIA COMBI RS, SUPERB and KAROQ – in the most prestigious spot at the championship in 2018 – right beside the ice. In the Czech Republic, ŠKODA AUTO is also an official partner to the Czech Team, the Czech Ice Hockey Association and the Tipsport extraliga, the elite-level league in the country.

In motorsport, its factory team successfully competes in the WRC2 FIA World Championship with FABIA R5 cars. Czech Rally Championship has been dominated for four years in succession by the crew of the ŠKODA Motorsport factory team – Jan Kopecký / Pavel Dresler. Special FABIA R5 race cars are also used by many private teams, with the support of the authorised commercial partners of the brand.

HUMAN RESOURCE MANAGEMENT



HOW WOULD IT LOOK IF CHILDREN TURNED A CAR INTO A PLAY AREA? BRITISH ŠKODA IMPORTER BUILT ONE FOR THEM INSIDE A KODIAQ MODEL BASED ON THE RESULTS OF A SURVEY. A GAMES CONSOLE, TABLET, INTERNET CONNECTION, SOUND SYSTEM AND SPEAKERS, HIDE-OUT AND SLIDE WERE ALL ABLE TO FIT INSIDE.

The ongoing revolutionary changes in the automotive industry have had a considerable impact on Human Resource Management. Introduction of the principles of Industry 4.0 in production, the rise of electromobility, new services for customers and all areas undergoing digitalisation require that existing employees acquire new skills and that those experts currently expanding the number of professions at ŠKODA AUTO bring new knowledge to the Company. Therefore, ŠKODA AUTO pays considerable attention to providing education and requalification to those employees affected by the current megatrends in the automotive industry. In addition to recruiting production workers, it also endeavours to secure technically-educated, highly-qualified specialists to work in the areas of production, technical development and IT.

TIME FOR CREATIVE ACTIVITY

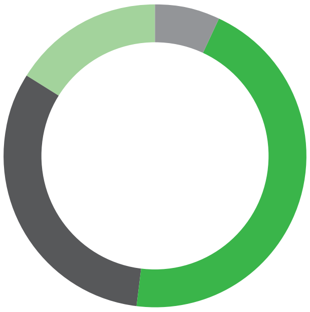
Digitalisation is one of the key topics of Strategy 2025 at ŠKODA AUTO, where its development facilitates the onward progression of automation and robotisation in production and logistics and in administrative activities. Further investment in automation and robotisation makes it possible to progressively replace the demanding manual work done by employees with robots that carry out the required operations. This breaks up monotonous activity in indirect areas and provides more time for creative activity. Examples of this can also be found in the Human Resources Management itself, where breaking up simple, regular administrative work provides staff with more time for contact and communication with employees. SAP SuccessFactors software aids this positive change, with implementation beginning in 2018 with the first part due to be launched in 2019. This complex tool, designed for the management of and work with human resources, connects everything that has, until now, been handled in separate agendas and simplifies all company HR processes, including working with talents, mutual cooperation and education.

SUCCESSFUL PERSONNEL MARKETING

The low rate of unemployment in the Czech Republic, the expectations the young generation have of their ideal job and new projects all combine to increase the demands on personnel marketing. Therefore, in order to recruit new employees ŠKODA AUTO conducted a targeted recruitment campaign in 2018 in many traditional and alternative communication channels.

The Backend Stories campaign was highly successful and well-received by the professional public. The campaign presented the Company as an attractive employer for IT specialists and motivated potential job applicants. Alongside exciting, sci-fi-esque stories, something which young professionals in this area relate to, the backendstories.cz website provided information about the current vacancies on offer and the innovations in the sphere of digitalisation at ŠKODA AUTO. By choosing this particular genre, the Company made it clear that its focus on providing digital services in mobility offers IT talents a wide range of areas of application. The campaign won the prestigious Personnel Managers' Award for 2018.

INTERNATIONAL CHILDREN'S DAY IS ONE OF MANY OPPORTUNITIES TO BRING A SMILE TO A CHILD'S FACE.



QUALIFICATION STRUCTURE OF THE COMPANY'S PERMANENT EMPLOYEES AS OF 31 DECEMBER 2018

PRIMARY SCHOOL 7.2%
VOCATIONAL SCHOOL 44.8%
HIGH SCHOOL WITH A LEVELS 32.1%
UNIVERSITY GRADUATE 15.9%

ŠKODA AUTO saw evidence in June that it is moving in the right direction with its personnel strategy and is much sought-after on the market. It won Employer of the Year 2018 in the Czech Republic, won the Employer of the Region with More than 5,000 Employees in the Central Bohemia Region and was voted the Most Popular Employer among Students in the Central Bohemia Region and Hradec Králové Region.

The results of employer attractiveness among students, monitored by Universum, then brought further good news in October. In the survey, ŠKODA AUTO defended its crown for the fifth time in terms of how attractive it is viewed by students of technical disciplines, came second among students at economic faculties and moved up to fifth spot among future IT specialists. The Company considers this advancement from last year's tenth to be a major success, in that it has placed itself among the biggest digital giants. This success is down to the employer branding campaign, collaboration with Czechitas (a project promoting greater involvement of women in IT), active cooperation with information science faculties on specific projects with real use, the offer of paid professional placements and the organisation of events such as our night-time hackathons (events in which programmers work intensively with other specialists on a particular software project assigned to them).

ŠKODA AUTO also remained an attractive employer to its existing members of staff. This is evidenced by the further awards which the Company won: it was the overall winner of the TOP Employers study for the third time and came second in the Randstad Employer Brand Research survey of employer popularity. In November, the Company came third in a survey of the Best HR Project of 2018 for its Sheltered Profile Centre, which provides work for disabled employees and employees with social limitations. Through this project, ŠKODA AUTO, in close collaboration with its social partner KOVO Trade Union, significantly supports a social policy which reaches beyond the mandatory level laid down by valid legislation.

IN THE MIDST OF ELECTROMOBILITY

The first cars with hybrid propulsion will roll off the production line at ŠKODA AUTO in 2019. Human Resource Management is supporting the development of electromobility, particularly in the area of education. By organising professional training, it made it possible for employees to obtain the required technical qualifications in 2018, in order to prepare them for the arrival of electromobility at ŠKODA AUTO. More than 10,000 people had attended the electromobility training programme by the end of the year.

Staff education and training is an important tool in ensuring that ŠKODA AUTO maintains continually sustainable growth. The Company has invested more than CZK 280 million in modernising its area of education since 2013. For example, CZK 20 million from this sum were invested in opening the ŠKODA Academy training centre in Kvasiny in September 2018. Staff are trained there in the current trends in the automotive industry using virtual reality.

INVESTMENT IN SOCIAL INFRASTRUCTURE IS ON THE RISE

ŠKODA AUTO also works regularly with its social partner, KOVO Trade Union, on improving working and social conditions for current employees. It invested

CZK 440 million in the social infrastructure in 2018. In addition to regular activities, this entailed an increase of 100% in comparison with 2017. This massive investment led to the opening of a new factory restaurant in Kvasiny, the addition of new parking spaces for employees, the reconstruction of a bicycle storage area and the construction of new vertical turnstiles, etc.

The responsibility of the Company does not end at the factory gates. ŠKODA AUTO also plays an active part in increasing the attractiveness of and developing the regions in which its plants are located. The Company helps improve the living conditions of the inhabitants of these regions by supporting culture, social facilities, sporting activities and other projects. The newly-created ŠKODA AUTO Endowment, with funds of CZK 780 million, enables to provide comprehensive and sustainable support to the Mladá Boleslav region.

MORE OPEN CORPORATE CULTURE

An open corporate culture, a friendly work environment, the opportunity of career growth and a higher level of independence are all fundamental requirements among the new generation of employees. This was one of the reasons for launching a further stage in the development of the corporate culture at ŠKODA AUTO in 2018. There were two cultural waves of workshops for management employees in 2018, addressing the integrity, the code of cooperation and the management model. We also promote our corporate culture by establishing and communicating the Principles of the VOLKSWAGEN Group, i.e. the fundamental rules of conduct for all Group brands and companies, which form the basis on which the corporate culture at ŠKODA AUTO is built.

COMPANY WORKFORCE	**HEADCOUNT 31 DECEMBER 2018**	**HEADCOUNT 31 DECEMBER 2017**	**CHANGE (%) 2018/2017**
ŠKODA AUTO – PERMANENT EMPLOYEES	**32,738**	**30,690**	**6.7%**
OF WHICH:			
— MLADÁ BOLESLAV PLANT	24,678	22,932	7.6%
— VRCHLABÍ PLANT	857	861	(0.5%)
— KVASINY PLANT	7,203	6,897	4.4%
ŠKODA AUTO – APPRENTICES	**958**	**936**	**2.4%**
ŠKODA AUTO TOTAL*	**33,696**	**31,626**	**6.5%**
ŠKODA AUTO – TEMPORARY STAFF	**2,789**	**2,802**	**(0.5%)**

* Actual number of employees at the end of the year, including apprentices, excluding temporary staff, excluding subsidiaries

SUSTAINABILITY

ŠKODA AUTO actively promotes continual harmony within its economic and social development, existing ecosystems and for preserving natural values, including biological diversity, for this and future generations. Sustainability at the Company is built on social, economic and environmental pillars that include the social responsibility strategy, the GreenFuture environmental strategy and the principles of ethical and transparent behaviour.

The management of the Company is regularly informed about the level of implementation and the direction of sustainability. Since 2007, ŠKODA AUTO has issued its Sustainability Report every two years. This reports on all the activities carried out by the Company in this area and the format and content is governed by the internationally--recognized Global Reporting Initiative (GRI) guidelines. The most recent, the sixth consecutive Report, covers 2015/2016. The next report will be issued in 2019 and will cover 2017/2018.

CORPORATE GOVERNANCE & COMPLIANCE

Corporate Governance and Compliance is an area in which the Company endeavours to ensure that the business is run in a way which is responsible, qualified and transparent in order to achieve the long-term success of the Company and to protect the interests of all the parties involved. Corporate Governance is the system used to ensure that the Company is properly managed and supervised. It defines the distribution of rights and duties among those involved in the Company, such as shareholders, executive management, Company bodies, employees and customers. Compliance is the area in which the Company pays particular attention to its obligation to respect legal regulations, internal regulations, Codes of Conduct and other rules that the Company has voluntarily adopted. In addition, it promotes action on the part of all Company employees, which complies with the principles of integrity; in particular, the principle of openness with ethical standards and the values in place at the Company. Compliance is not limited solely to commercial relationships but also applies to all activities inside and outside the Company and makes clear that the Company's actions always comply with the requirements of the legal and ethical rules in place for economic competition, financial and tax matters, environmental protection and relationships with employees including equal opportunities. The department responsible for Corporate Governance and Compliance ensures that employees receive crucial training in compliance matters: for example, training in the Code of Conduct, anti-corruption training, and training in personal data protection and fraud prevention. Such training is mandatory for management and for all "white-collar" professions. Certain groups of employees at the Company are also provided with specialised training related to competition. The department promoted personal and corporate integrity in 2018 through various events and workshops for employees in management positions, which focused on specific areas.

SOCIAL RESPONSIBILITY

CREATING A BETTER FUTURE

The concept of social responsibility is a fundamental pillar in the sustainability strategy of ŠKODA AUTO. The Company cares for its employees and their families and for the people that live in the areas in which it has its production plants. ŠKODA AUTO works together with its social partner, the KOVO Trade Union, within the bounds of its social activities and together take care of employees and increase the attractiveness of ŠKODA AUTO regions - Mladá Boleslav, Kvasiny and Vrchlabí. At the same time, the multinational level focuses primarily on four main pillars: traffic safety, technical education, support for children and barrier-free mobility. ŠKODA AUTO does not view social responsibility as pure philanthropy, nor does it hide marketing activities behind a good cause. It plans projects in accordance with strategic corporate social responsibility (CSR), which combines social and economic benefits and guarantees long-term sustainability. It has also harmonised its communication in this regard under the "ForFuture" concept.

INCREASING THE ATTRACTIVENESS OF REGIONS

As part of its cooperation with the municipalities in the regions in which it is active, ŠKODA AUTO has invested tens of millions of crowns into the quality of the way of life of the people living there in the field of culture, sports and other leisure time activities. The Company has also invested into the development of infrastructure, traffic safety, social and healthcare services, technical education, the development of common facilities and ecology.
As confirmation of this collaboration, ŠKODA AUTO has entered into strategic partnerships with regional municipalities in the Mladá Boleslav, Kvasiny and Vrchlabí regions, and engages with them in an all-year-round dialogue regarding the specific needs of the inhabitants. ŠKODA AUTO has sponsored, with the assistance of the town of Mladá Boleslav, 34 projects, which specifically cover sports, culture and education.

The Company has also been assisting the Kvasiny region, where the specifics of the plant's expansion require close cooperation with municipalities. Through this cooperation, we sponsored 67 projects covering safety, traffic safety and education, social services and leisure time. In the Vrchlabí region, ŠKODA AUTO has sponsored 24 projects covering traffic infrastructure, technical education, sports and culture. The aim of these activities is to increase the attractiveness of ŠKODA regions as the management of the Company views this as fundamental to the sustainability and onward development of these areas. Also for these reasons the idea of setting up the ŠKODA AUTO Endowment was born.

ŠKODA AUTO ENDOWMENT

In 2018, the Company management decided to invest CZK 780 million in developing the attractiveness of the Mladá Boleslav area. The Company then backed up this decision by setting up the ŠKODA AUTO Endowment and initiating the New Boleslav Region programme. The aim of the endowment, and the programme in general, is to use targeted investment to harmonise economic development at the Company with the development of the region to ensure the sustainability of the plant in Mladá Boleslav, with the opportunity of further growth, and to increase the attractiveness of the Mladá Boleslav

SAFE FRIDAY HAS BECOME AN EDUCATIONAL PLATFORM THAT ATTRACTS MOSTLY FAMILIES WITH CHILDREN, PUPILS AND THEIR TEACHERS AS WELL AS YOUNG DRIVERS AND THE ELDERLY.

AS PART OF THE PROJECT, MORE THAN 2,000 CHILDREN WERE TRAINED IN SCHOOLS IN 2018, AND MORE THAN 234,000 PEOPLE FROM THE GENERAL PUBLIC WERE AFFECTED BY VARIOUS EDUCATIONAL EVENTS.

region. The programme brings together efforts of the Czech Government, the town of Kosmonosy and adjacent municipalities, the Central Bohemia Region and the private sector, with the aim of motivating other private investors. ŠKODA AUTO implemented the first projects in the programme in 2018, focusing on the areas of safety, quality of life and education. Examples of the projects already in place are two cars donated to the Metropolitan Police in Mladá Boleslav or four cars donated to driving schools at public secondary schools.

TRAFFIC SAFETY

In this area, the Company concentrates on the safety of ŠKODA cars, the safety of infrastructure and educational activities. It devised the Safe Friday concept in 2018, a comprehensive concept that aims to involve the general public and, in doing so, contribute toward popularising this issue and making Czech roads a safer place. The Safe Friday campaign addresses families with children, school pupils and their teachers, young drivers and senior citizens. This integrated project works as an educational platform with a whole host of events and materials designed to explain how to avoid the dangers of road traffic. The hub of the campaign was www.bezpecnypatek.cz, which acts as an information signpost with a link to the www.bezpecnecesty.cz website, to which ŠKODA has been the general partner for many years now. The website provides practical information on road safety, devotes attention to traffic education and provides useful advice to those attending driving school. The Safe Friday project is based on the many years of experience of experts from a unique traffic safety research, which ŠKODA AUTO has been engaged in since 2008. The research analyses in depth the causes, circumstances and events of various road traffic accidents and assesses how a vehicle can eliminate the consequences of an accident to an even greater extent or prevent the accident entirely.

TECHNICAL EDUCATION

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

Since 2013, ŠKODA has been a partner of the Science Has a Future programme run by AISIS, a non-profit making organisation. The aim of the programme is to increase the motivation of teachers, principals and education advisors at primary and secondary schools while increasing the attractiveness of scientific and technical specialisations to pupils. 216 teachers have passed through the programme over the last five years.

The second annual survey of primary schools in all three regions in which ŠKODA AUTO is active was conducted in 2018 as part of the Company's strategic support for technical education. Self-assessment defines the strengths and weaknesses of the individual schools involved and results in a strategic list of projects that a school will implement with the financial assistance of the Company. These projects involve the technical facilities in place at schools, as well as "soft measures" (methodological boards, cooperation with companies, coaching, etc.). Such projects allow the Company

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to ensure that aid is directed to regional schools with the maximum possible effect and that there is an advancement in the teaching of subjects such as mathematics and IT. 7,300 pupils and students at nineteen schools were involved in such projects in 2018.

A record number of 531 creative entries were submitted in the 6th annual Young Designers competition, announced by ŠKODA AUTO under the auspices of ŠKODA Design, by children attending the first five years of primary school. This is where the Company identifies potential talents with the aim of supporting the creative spirit of the children, their relationship with technology and their ability to work as part of a team. The theme, as in previous years, was the Smart Little Car of the Future.

BARRIER-FREE MOBILITY

Helping people that have not had much luck in life is another project in the social responsibility policy. The ŠKODA Handy project has been supporting disabled people and their families since 2010. There was a further development in the project that supports disabled motorists in 2018, with even greater benefits on offer. More and more authorized dealers have recently signed up to the ŠKODA Handy programme, and those interested can find them under the name of "ŠKODA Handy centrum". The specially-trained new-car dealers help clients choose the right car and modifications and help with applications for government contributions. More than 3,000 customers have used the services of the ŠKODA Handy programme over the past five years.

The Company has been working with CZEPA, a non-profit making organisation, since 2014, primarily in creating the VozejkMap (Wheelchair Map) information database, which makes it easier for disabled people to plan their journeys. ŠKODA AUTO has also lent the Czech Paraplegic Association two OCTAVIA COMBI cars.

The ŠKODA NEŘÍDIT (A Shame Not to Drive) programme aims to provide financial support and motivation to disabled people in obtaining a driving licence. Applicants who meet the conditions set out at www.skoda-neridit.cz, and who are selected by a committee made up of representatives of ŠKODA AUTO and Konto Bariéry, can obtain a contribution of up to CZK 15,000.

CARING FOR CHILDREN

Caring for children is natural for the Company – the Laurin & Klement company having looked after disadvantaged children many years ago. ŠKODA AUTO has moved this concept forward and has invested its know-how to support children in the sphere of education. A number of projects are implemented as part of the long-term collaboration with the Tereza Maxová Children Foundation.

The aim of the ROZJEDU TO! (GET STARTED!) project is to effectively motivate young people from children's homes who are between 11 and 15 years of age to follow a path of education, personal and professional growth. At the same time, programme helps improve their school results. The programme has supported 83 children from six children's homes since 2013. Children older than 15 can use the ŠKODA AUTO Education Fund, which contributes toward learning materials, accommodation, travel, transportation, special courses and even driving licences with 100 children making use of the project so far.

ŠKODA AUTO was the general partner to the charity event known as TERIBEAR for the fourth time in 2018, an event organised by the Tereza Maxová Children Foundation. More than 19,000 people took part in the event, which was staged over ten days on the running track in Prague Vítkov and on Happy Teribear Day in Mladá Boleslav. Those involved walked or ran a combined total of 346,384 km. The result was that CZK 9,624,375 was raised for disadvantaged children in Prague. In Mladá Boleslav, ŠKODA AUTO donated the symbolically rounded-off sum of CZK 555,000 to four children's homes in the areas around the ŠKODA plants. More than 500 staff at ŠKODA took part in the charity run in both cities as part of the ŠKODA team.

Collaboration also continued with Zdravotní klaun, a non-profit organisation, which brings laughter and joy to children in hospital and the clients of retirement homes. The Company contributed CZK 500,000 to the programme in 2018 and lent it four cars for the whole year. ŠKODA AUTO once again offered its support to the Na kole dětem (On Bike For Children) project, the proceeds of which go towards children undergoing oncological treatment. The Company provided a financial contribution and lent the project cars for the organisation team.

ŠKODA GRANT PROGRAMMES

This year, ŠKODA AUTO distributed more than CZK 6.2 million in grants as part of the sixth year of this programme. The money was distributed through seven grant programmes (Traffic Education, Traffic Safety, I'm Home Here, Region without Barriers, ŠKODA for Children, Support for Technical Education and ŠKODA Trees) to more than 120 applicants. The programmes are designed to improve the quality of life, particularly in the areas around the Company's three plants in the Czech Republic. The ŠKODA Trees programme, otherwise known as "A tree planted for every car sold in the Czech Republic", continued for the twelfth consecutive year in 2018 to help the environment and like last year, included the participation of customers. More than 820,000 trees have been planted over the twelve years including 95,017 in 2018.

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

ŠKODA AUTO has been the main partner to the national clean-up event known as "Let's clean up the world, let's clean up Czechia" for four years now. More than 200 volunteers (employees, representatives of the KOVO Trade Union, trainees and students of the vocational school) from Mladá Boleslav and Kvasiny spent their free time collecting seven tons of waste. Moreover, around 100 employees from the Vrchlabí area took part in the Clean Giant Mountains project in collaboration with the Giant Mountains National Park.

EMPLOYEE COLLECTIONS

Each employee at the Company has the opportunity to voluntarily contribute to one or more of six non-profit organisations as part of the long-term employee collections project. ŠKODA AUTO doubles these funds and a fifth of the sum topped-up by the Company goes toward technical education and English lessons for children at the Vasantrao Naik children's home in Aurangabad in India. Almost 2,500 employees have participated in the second round of collections since 2016 with their donations generating the sum of CZK 7 million in the space of three years. With the money topped-up by the Company, this means that a total of CZK 14 million has been raised (CZK 5.7 million in 2018).

ENVIRONMENTAL PROTECTION

Consistent environmental protection is one of the main pillars on which sustainable development is built and which the Company applies to all activities, ranging from developing cars through to production and sales to recycling. The Company simultaneously and systematically monitors and evaluates all key parameters that have an environmental impact. Based on the results, the Company implements permanent measures to ensure improvement. As part of its integrated management system, ŠKODA AUTO holds an environmental management system certificate according to the ISO 14001 standard and a certificate for its energy management system according to ISO 50001.

ENERGY COMES FROM RENEWABLE SOURCES

More than 58% of the electricity that the Company uses for operations comes from renewable sources. Further reduction of the burden from CO_2 emissions came at the ŠKO-ENERGO heat-production plant by burning biomass, which it has used to replace around one-third of fossil fuels thereby reducing CO_2 emissions by 120,000 tons a year. The specific energy consumption for one manufactured car in 2018 was 1.4 MWh, which is 36% lower than in 2010. The main factors in reducing were the introduction of the regulation of the through-flow of cooling air and the installation of LED lighting in production plants.

ENVIRONMENTAL INVESTMENT IN LIGHTING

Suggestions for more environmentally-friendly lighting were taken from regular meetings of the environmental representatives of all operations where energy-saving measures are proposed, implemented and communicated.

The application of energy-saving sources of lighting has major potential to achieve electricity savings, particularly in production halls, where there is a concentration of a large number of lights with a considerable power demand. Hall lighting was upgraded in 2018 in the press shop, logistics and the paint shop halls and on the projecting roofs of the press shop and logistics buildings. In total, the Company installed 1,932 LED lights at the plant in Mladá Boleslav, with expected savings of CZK 11.7 million per year. The combination of LED technology and new regulations will save the Company up to 70% of the electricity used for lighting in these halls. It will also lead to a significant reduction in the CO_2 emission burden.

REDUCING EMISSIONS AT THE KVASINY PLANT

The Company pays maximum attention to the substances that escape into the air during the production of cars, such as volatile organic compounds (VOC), nitrogen oxides (NO_X) and carbon monoxide (CO) produced when burning natural gas. The Company does this by taking a whole range of measures leading to a reduction in the emissions of these substances. ŠKODA AUTO implemented two measures at the Kvasiny paint shop to reduce VOC emissions: the application of a new type of surface paint that is more considerate to the environment, with expected savings in VOC emissions at the plant of 3.5%, and a change in the application of metallic paint from pneumatic to electrostatic, with expected savings of 0.9 kg of paint per car body. These steps led to a reduction in the quantity of VOC emitted per square metre of painted area to less than 35% of the mandatory limit of 45 g per sqm. Reductions of NO_x and CO were also achieved in large part as a result of replacing existing burners in the boiler room of the Kvasiny paint shop with new, low-emission burners.

SOIL AND WATER PROTECTION AT A HIGH LEVEL

The Company plays a significant role in protecting natural waters by using water in a considerate way. Water consumption for one manufactured car has fallen since 2010 from 2.77 m^3 to 1.71 m^3. This means that the total water consumption, which was 1.5 million m^3, has only risen minimally, even though ŠKODA AUTO now manufactures 69% more cars in comparison with 2010. A contributory factor is that the Company installed a range of new, more advanced cleaning systems at its paint shops in 2017, which were fitted with exceptionally fine membrane filters. In order to reduce fresh water consumption even further, wastewater is treated in modern filtration systems and put back into circulation, meaning that the same water can be used many times. The volume of repeatedly-used (recycled) water in 2018 accounted for almost 42% of total consumption. The Company also places considerable emphasis on safely handling substances that could threaten soil or underground water if allowed to escape. Strict adherence to safety rules is standard: for example, the application of multiple barrier protection. Where technology allows, Company uses substances that are considerate to the environment or applies technology to eliminate the production of hazardous substances.

WASTE AS A RESOURCE

The Company primarily endeavours to prevent the production of waste and to use sources of raw materials in a considerate way. One example is the introduction of soda bars to ensure that employees maintain a drinking regime: bottles are repeatedly filled with drinking water, replacing the plastic bottles that were previously handed out. This measure saved around 1.2 million plastic bottles that would otherwise have ended up as waste. When waste is produced as a result of a production process, a hierarchy of waste handling is applied so that material and energy use is favoured over dumping. The volume of dumped waste again fell in 2018 to less than 0.8 kg per one manufactured car. ŠKODA AUTO is a member of the Czech Circular Economy Association and endeavours to apply its principles to handling waste – for example, it uses recycled solvents when cleaning at paint shops. In terms of recycling cars which have already been sold, or their component parts, the Company has operated a system of taking back tyres since 2009. It has already taken back more than 5,000 tons of tyres via a network of authorized service points and other partners after ongoing optimisation of the system. ŠKODA AUTO found a partner that uses the used tyres to make rubber granulate that can then be used for other purposes, for example, to make mats, floor tiles, equipment for children's playgrounds and bases and inserts to prevent parts being damaged during transportation and handling. Almost 50 tons of granulate were used in this environmentally-friendly way in 2018.

REPORT ON RISKS AND OPPORTUNITIES

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

STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND THE INTERNAL CONTROL SYSTEM

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

RISKS AT ŠKODA AUTO

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

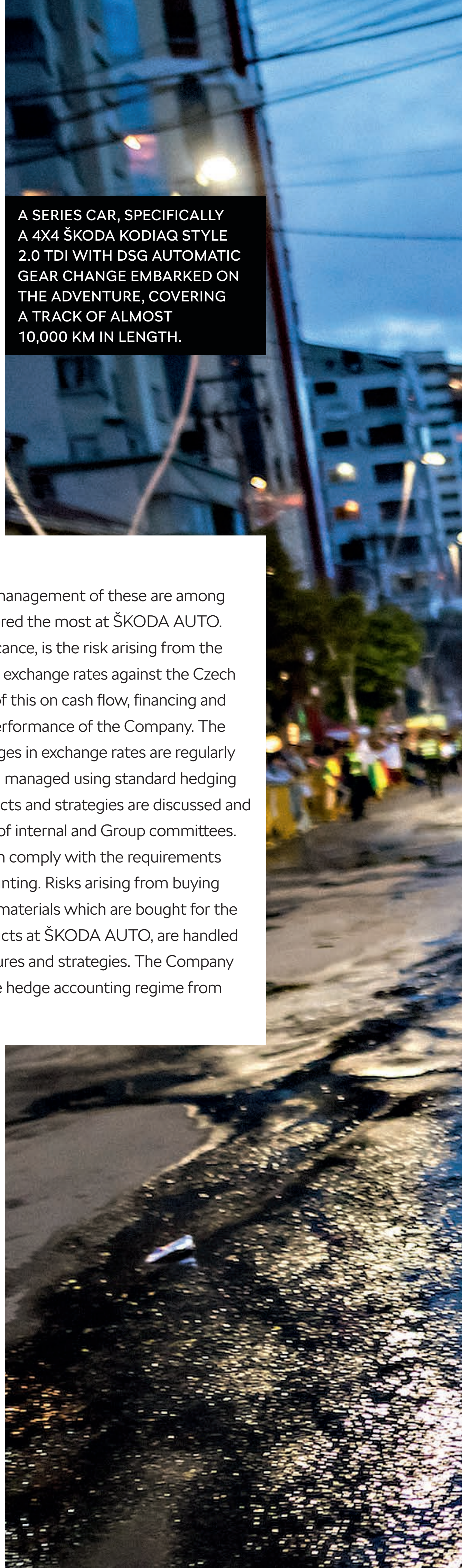
ECONOMIC, POLITICAL AND LEGISLATIVE RISKS

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

EMISSION LEGISLATION

A significant risk for ŠKODA AUTO is the failure to adhere to the statutory limits for the average values of CO_2 emissions, particularly in the EU Member States, in Norway and in Iceland. Sanctions of EUR 95 per gram exceeded and vehicle sold in the relevant calendar year may be imposed in these countries for exceeding the targets approved by the European Union. Remaining within the required values is, regardless of all planned or already-approved technical measures, associated with a high level of uncertainty, particularly in the years in which legislation regarding CO_2 limits will become stricter, meaning in 2020 and 2025.
A further risk relating to CO_2 alongside the failure to comply with legislative targets is the loss of competitiveness, which concerns the essential offer of conventional models having favourable CO_2 values and vehicles that are fully or partially electrified. A similar situation also applies in other countries and regions. An analysis of the current development of expected CO_2 emissions is regularly presented to the Board of Management as one of the sources of basic decision-making information on the future product portfolio of models and batteries and their planned quantity, and in annual or quarterly reports as part of risk management.

A ŠKODA KODIAQ SUV TOOK PART IN THE DAKAR RALLY IN 2018, FOR THE FIRST TIME IN THE HISTORY OF THE BRAND.



A SERIES CAR, SPECIFICALLY A 4X4 ŠKODA KODIAQ STYLE 2.0 TDI WITH DSG AUTOMATIC GEAR CHANGE EMBARKED ON THE ADVENTURE, COVERING A TRACK OF ALMOST 10,000 KM IN LENGTH.

DEMAND RISKS

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

PROCUREMENT RISK

Extremely close and economically-advantageous collaboration between vehicle manufacturers and suppliers brings with it procurement risks that can disrupt the fluidity of production, or indeed lead to considerable financial losses. For example, a delay in deliveries, failure to deliver goods or faulty goods or, in an extreme case, when suppliers become insolvent and disappear from the supply chain. Other risks ensue from fiercer competition in the supply industry. Therefore, ŠKODA AUTO collaborates with a number of suppliers in taking assembly components to make sure that it is able to operatively react to any negative developments. Preventative measures are also taken within the risk management system to cover cases in which a supplier becomes insolvent along with regular checks on the financial stability of suppliers. All these preventative and reactive measures combine to actively work towards the maximum possible reduction of risks as part of the collaboration between suppliers and the Company.

FINANCIAL RISKS

Financial risks and the management of these are among those which are monitored the most at ŠKODA AUTO. First, in terms of significance, is the risk arising from the development of foreign exchange rates against the Czech crown and the impact of this on cash flow, financing and the overall economic performance of the Company. The risk and impact of changes in exchange rates are regularly monitored, planned and managed using standard hedging instruments. The products and strategies are discussed and approved by members of internal and Group committees. The instruments chosen comply with the requirements of IFRS on hedge accounting. Risks arising from buying aluminium and copper, materials which are bought for the manufacturing of products at ŠKODA AUTO, are handled by using similar procedures and strategies. The Company keeps these outside the hedge accounting regime from the IFRS perspective.

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Active management of the potential impact on financing activity at the Company and managing liquidity are also among the key elements of risk management. The liquidity risk is managed using standard procedures and instruments so that activities and obligations can be sufficiently covered for the required period of time. The foundation takes the form of ŠKODA AUTO's own funds and resources of VOLKSWAGEN Group. The Company manages the export risk using standard hedging instruments, for example, documentary letters of credit, stand-by letters of credit, bank guarantees and the like.

RESEARCH AND DEVELOPMENT RISKS

There is the risk for new products that customers will not accept the product in question. In order to eliminate this, extensive analyses and customer surveys are conducted, which help the Company to identify trends and check their relevance to the customers in time. The risk associated with a situation where new products will not be launched at the planned time, in the envisaged quality and at the targeted cost is minimised by regularly checking the project and comparing it with the desired condition. As a result, the required measures can be taken when any deviations are found. Crucial areas of future activity at the enterprise include electromobility, autonomous steering and digitalisation, which are important in ensuring successful and continual sustainable development. To be able to successfully cope with the oncoming transformation processes, support is required via targeted auxiliary programmes for research and development; for example, making it possible to test autonomous vehicles under real conditions and on test tracks and government support for vehicles with alternative power, in particular electric cars. Other important steps are the construction of charging infrastructure and covering traffic routes with high-speed Internet connection. Specific risks stem from these steps that must be assessed on a regular basis. Internal risks include the development of new technologies, requirements of a change to existing processes, etc. External risks, meanwhile, include economic policy, technical legislation and rejection by customers.

QUALITY RISKS

On account of the constant competitive pressure, the increasing complexity of production technologies, the large number of suppliers and the use of Group-wide systems, the Company places a huge emphasis on the risk management system in relation to quality. It endeavours to identify and remove as quickly as possible any problems concerning quality from the very first stages of product development to ensure that there are no delays in launching production. It also ensures long-term quality and timely supplies from the very start of the supply chain using the risk management system, which helps the Company meet customer expectations. The quality of the products, processes and the management system at the Company is audited every year by an independent, accredited certification company. The quality management system certificates which ŠKODA AUTO has successfully retained since 1993 guarantee that processes work and are, at the same time, used as input documents for product approval. In order to identify deviations in internal procedures and at suppliers on time, the Company continually develops a qualified network of auditors and test engineers while department managers regularly inform the Company management of the level of tests and measurements. ŠKODA AUTO is aware of its responsibility for its products and the Quality Management department continually monitors the development of customer satisfaction and gathers information on current developments in particular markets. If negative deviations are found, measures are immediately taken to ensure that any damage is kept to a minimum.

HUMAN RESOURCE RISKS

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

INFORMATION TECHNOLOGY RISKS

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

LEGAL RISKS

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

OTHER OPERATING RISKS

In addition to the risks outlined above, there are other risks that are unpredictable that could potentially influence onward development. Such incidents specifically include natural disasters, epidemics, terrorism and the like.

SHORT-TERM AND LONG-TERM OUTLOOK

PLANNED ACTIVITIES AND OBJECTIVES

The automotive industry faces considerable challenges in the year 2019. Demand for new cars can be expected to be volatile in certain key regions as a result of the slowdown of the economic cycle and political influences, for example, the departure of the United Kingdom from the EU (Brexit), continuing sanctions in some regions and protectionist moves in the customs sphere. Company must also take further steps to reduce emissions and electrify its portfolio in order to meet the regulatory targets set for the year 2020. Nevertheless, the automotive market continues to provide many opportunities for onward growth and development from the global perspective.

KEY PLANS DRAW ON STRATEGY 2025

Short-term key targets and strategic priorities at ŠKODA AUTO are primarily linked to the electrification of the portfolio, addressing the shortage of production capacities, digital transformation, the development of key regions, the allocation of the responsibility for the management of these, as part of the work of the VOLKSWAGEN Group as a whole, and corporate optimisation aimed at further increasing profitability. Of course, we should not forget other strategic priorities that include employee development and the attractiveness of the Company as an employer, support for innovation, the preparation of autonomous mobility and support of sustainable development and social responsibility. The onward development of competencies and services in the sphere of connectivity, software and digital services is also a significant priority. Meanwhile, the development of new business opportunities involves projects such as building Vehicle-on--Demand services. In terms of its range of vehicles, ŠKODA will continue its product offensive and in 2019 will introduce a number of upgraded models, with the crucial milestone being the launch of the Company's first electrified models.

The Company plans to focus more on digital transformation through which it can generate new sources of income and increase effectiveness. In line with the updated Strategy 2025, the Company will bolster activity in the sphere of artificial intelligence and will endeavour to introduce services that focus on mobility in other cities. New models in 2019 are bringing customers a new generation of ŠKODA Connect online services and a better user experience.

The decision was taken at the VOLKSWAGEN Group in 2018 to re-arrange the strategic management of global regions with ŠKODA AUTO entrusted with the future responsibility of managing the India and Russia regions and with coordinating all Group activities on those markets. This significant move underlines the strong position that ŠKODA AUTO enjoys within the Group and stems from the strong results achieved by the brand on global markets. Existing key markets will obviously continue to be a priority for ŠKODA AUTO, meaning the countries of Western and Eastern Europe and China. The coming year will see considerable activity in China aimed at improving the position of the brand and further harmonising the regional strategic activities with the objectives in place at ŠKODA AUTO and the VOLKSWAGEN Group as a whole.

TECHNICAL DEVELOPMENT WORKING ON NEW MODELS

2019 is an important year for Technical Development with the launch of the first electric cars and key models. The Company will launch the new ŠKODA SCALA model on the market in the first quarter, followed by its smallest SUV, the

European ŠKODA KAMIQ. Running parallel to this is the final developmental work on the first ŠKODA SUPERB PHEV hybrid model and the fully-electrified ŠKODA CITIGO model. Technical Development will also be working intensively on the Company's most important product. The new generation ŠKODA OCTAVIA will be launched at the end of the year, with the station wagon (COMBI) model the first to hit the market for the first time in history. Work will also continue on new concept cars, which will be premiered between 2021 and 2025. Technical Development will work intensively on developing the MQB A0 IN platform for the Indian market, which is being used as the foundation of the models set for launch in 2021. The Technology Centre in Pune that will officially open in January 2019 will play a major role in developing products for the Indian market. Around 250 engineers will be involved in the development and localisation of parts for car production. Up to 95% of all components for production will be supplied by local companies, taking local standards into account. Technical Development has broadened its competencies in the past three years and has created 570 new positions to deal with the development of new technologies, materials and digital services. This trend of recruiting and developing experts will continue in 2019. Development at ŠKODA AUTO has become an equal partner within the VOLKSWAGEN Group and in the future will work on projects throughout the Group, a fact witnessed by its takeover of development activities for the next generation of the VOLKSWAGEN PASSAT. The year 2019 will also be one of construction. Activity commenced at the end of 2018 aimed at building a multi-storey car park in Ptácká Street and the ceremonial launch of building work on the Test Vehicle Building is set for the beginning of the year. Premises will be modernised at the test track in Úhelnice and further building work, including work to increase office space for Technical Development, is planned between 2020 and 2023. The regional team is working on the development of a further model from the VISION range that will show the direction of the design and technology that ŠKODA AUTO will begin to use in the mass production of the future generation of cars. In 2019 season, ŠKODA Motorsport will try to defend its title in the WRC2 series and attempt to build on a whole range of other successes achieved in previous seasons.

NEW MARKETS, NEW MODELS

ŠKODA AUTO will endeavour to increase its market share and sales on key markets in 2019. It will also consider moving into new markets. The ŠKODA brand will also continue the transformation of its product portfolio. The newest model, the SCALA, is set to appear and is a car that will redefine the boundaries of technology, safety and design in the compact car class. Customers will be immediately attracted by the emotive sports design, which entails a further stage of development in the design language at ŠKODA. The Company will also launch its first model with a plug-in hybrid power system on the market – the ŠKODA SUPERB PHEV. The Company faces the challenges posed by WLTP in 2019, as do other automotive companies. The new method of measuring emissions better reflects the dynamics of the current operation and how people drive cars. Furthermore, a binding limit for the quantity of nitrogen oxide will apply to all newly-registered vehicles from September 2019 onwards. The Company's primary objective, even in light of these new conditions, remains customer satisfaction and to deliver cars as quickly as possible. In terms of marketing, ŠKODA AUTO will focus on continuing a campaign aimed at strengthening the emotional perception of the brand in partnership with Cirque du Soleil. The Company will also continue its support of major sporting events: the IIHF World Ice Hockey Championship and the WRC2 FIA World Championship.

PRODUCTION AND LOGISTICS INCREASE CAPACITIES

Production and Logistics in 2019 will continue with the ŠKODA Strategy 2025, which sets out ambitious targets for the coming years. The Company will adapt the production capacities to provide greater production flexibility. A primary project in this area is the construction of a new paint shop in Mladá Boleslav. This will be put into operation in June 2019 and will be one of the most modern and most environmentally-friendly in Europe. The year 2019 will also see the Company launch the production of batteries for plug-in hybrid vehicles at its plant in Mladá Boleslav and the production of the first ŠKODA plug-in hybrid model – the ŠKODA SUPERB PHEV – at its plant in Kvasiny. Logistics will also continue to support the Strategy 2025 by optimising logistics processes and costs and by implementing innovative solutions and measures to preserve the environment.

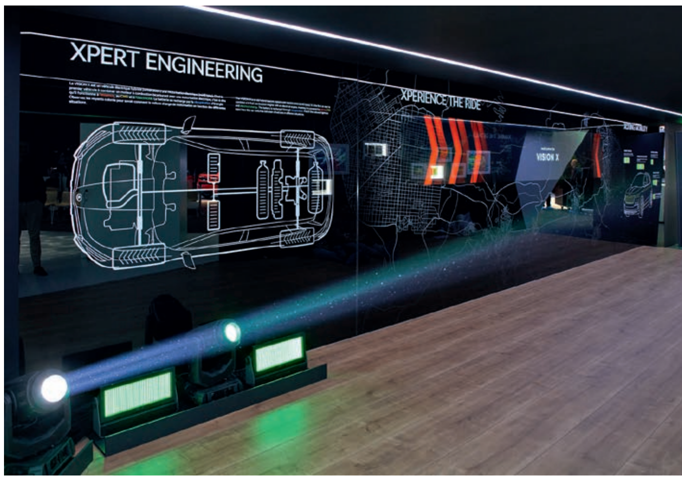
STRESSING ENVIRONMENTALLY-CONSIDERATE CARS

ŠKODA AUTO will continue with its GreenFuture strategy in 2019. The main task is to promote continual sustainable development at the Company and reduce the burden on the environment over the long-term. Therefore, it will offer customers cars that are considerate to the environment. During development, the Company will work on minimising the emissions produced by running a car while employing the most up-to-date technology available. The Company also endeavours to be as considerate to the environment as possible in the production process itself by focusing attention on the fate of vehicles and parts once they are no longer in use, working with partners to ensure the take-back of vehicles and parts, and the maximum possible level of recycling or reuse. The Company holds a number of certificates to prove that it takes a proactive approach to protect the environment.

HR: AN IMPORTANT ASPECT OF NEW CHALLENGES

ŠKODA AUTO will focus on several fundamental issues in 2019 in relation to human resources. The Company will continue training its employees in the area of electromobility, which is now required given the launch of mass production of the ŠKODA SUPERB PHEV, a new model with a plug-in hybrid power system. Cooperation on the INDIA 2.0 project will continue with the main objective to set out individual rules and processes with respect to human resources in all locations in light of the Company now assuming responsibility for the India region. A new HR system, SAP Success Factors, will be installed at the HR Department. The Company expects to launch the Employee Central, Recruiting and Onboarding modules by the end of 2019, meaning that processes will be simplified and speeded-up for the HR team and end users alike. It will also launch a new Employee portal and work will continue on the digitalisation of HR processes. Cooperation with the cities and regions in which the Company works will also be important in the year 2019. The newly-established ŠKODA AUTO Endowment will contribute even more to making the Mladá Boleslav region more attractive by defining projects that will continue to improve the quality of life and the attractiveness of the region. Negotiations will

ŠKODA AUTO DEVELOPS NEW COMMERCIAL MODELS, SOLUTIONS AND PRODUCTS FOR THE FUTURE MOBILITY.



A SMART MOBILITY HACKATHON WAS HELD AT ŠKODA AUTO DIGILAB IN APRIL 2018. THE TEAMS TAKING PART, MADE UP OF DESIGNERS, STUDENTS AND PROGRAMMERS, WORKED OVER THREE DAYS ON PROJECTS FOCUSING ON NEW MOBILITY SOLUTIONS.

also be held with the government of the Czech Republic concerning the need to develop the automotive industry. Other important objectives at the Company include maintaining the leading position of ŠKODA AUTO as an attractive employer and improving the work and social conditions for employees, in close cooperation with the KOVO Trade Union organisations active at ŠKODA AUTO.

FINANCE

In the short-term, ŠKODA AUTO will again endeavour to achieve solid results and maintain financial stability in 2019. The principal measures put in place to ensure that the Company's financial targets are met involve optimising processes and production costs and at the same time maintaining a high level of productivity. Attention will also be paid to the targeted management of costs and liquidity, consistent adherence to the planned cost targets and the optimal use of working capital. The development of Company financial indicators will be affected to a certain extent by external factors, in particular the development of exchange rates (CZK to EUR and to other European currencies), prices on commodities markets, EU emission legislation and changes in the structure of demand. In the medium-term, and with the aim of accomplishing the objectives set out in the Strategy 2025, the Company will invest available resources primarily in the development and production of electric vehicles and new models with conventional powertrains, in broadening of production capacities and in the digitalisation of products, services provided and corporate processes. Investments will principally be covered by funds generated from within, in line with the long-term strategy.

TO CONQUER THE HIGHEST PASSABLE PASS KHARDUNG LA IN RECORD TIME? FOUR RIDERS BLEW AWAY THE PUBLIC WITH THEIR PERFORMANCE.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF ŠKODA AUTO A.S.

OPINION

We have audited the accompanying 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 2018, the income statement, the statements of other comprehensive income, changes in equity and cash flows for the year ended 31 December 2018 and notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, of its financial performance and its cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 financial statements and auditor's report thereon. The Board of Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements is, in all material respects, consistent with the 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 FINANCIAL STATEMENTS

The Board of Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the notes, and whether the 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.

25 February 2019

PricewaterhouseCoopers Audit, s.r.o.

REPRESENTED BY

Jiří Zouhar

Pavel K

Ing. Jiří Zouhar

Ing. Pavel Kulhavý
STATUTORY AUDITOR, LICENCE NO. 1538

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

BALANCE SHEET AS AT 31 DECEMBER 2018

Assets (CZK million)	Note	31 December 2018	31 December 2017
Intangible assets	4	30,589	23,497
Property, plant and equipment	5	72,767	66,060
Investments in subsidiaries	6	149	79
Investments in associates	7	2,356	2,352
Other non-current receivables and financial assets	8	11,469	12,890
Deferred tax asset	14	1,541	1,797
Non-current assets		**118,871**	**106,675**
Inventories	9	20,211	17,614
Trade receivables	8	22,614	18,452
Other current receivables and financial assets	8	3,869	4,971
Current non-financial assets	8	6,127	5,946
Prepaid income tax		1,780	–
Cash and cash equivalents	10	45,846	97,201
Current assets		**100,447**	**144,184**
Total assets		**219,318**	**250,859**

Equity and liabilities (CZK million)	Note	31 December 2018	31 December 2017
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	85,078	88,177
Other reserves	12	8,309	11,020
Equity		**111,674**	**117,484**
Non-current financial liabilities	13	259	94
Non-current non-financial liabilities	13	6,207	3,356
Non-current provisions	15	13,120	13,302
Non-current liabilities		**19,586**	**16,752**
Trade liabilities	13	57,600	43,350
Other current financial liabilities	13	492	39,014
Current non-financial liabilities	13	9,542	9,007
Current income tax liabilities		–	2,165
Current provisions	15	20,424	23,087
Current liabilities		**88,058**	**116,623**
Total equity and liabilities		**219,318**	**250,859**

The notes on pages 80 to 147 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Note	2018	2017
Sales	**16**	**416,695**	**407,400**
Cost of sales	24	359,421	347,519
Gross profit		**57,274**	**59,881**
Distribution expenses	24	14,046	15,040
Administrative expenses	24	12,366	9,710
Other operating income	17	8,690	13,397
Other operating expenses	18	5,712	7,997
Operating profit		**33,840**	**40,531**
Financial income		1,793	3,373
Financial expenses		502	4,779
Net financial result	**19**	**1,291**	**(1,406)**
Profit before tax		**35,131**	**39,125**
Income tax expense	21	6,239	7,284
Profit for the year		**28,892**	**31,841**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Note	2018	2017
Profit for the year, net of tax		**28,892**	**31,841**
Items that will be reclassified to profit or loss:			
Net fair value gain / (loss) net of tax on financial derivatives designated as hedging instruments	12	(3,766)	5,791
Net fair value gain / (loss) net of tax on equity instruments	12	–	(338)
Items that will not be reclassified to profit or loss:			
Net fair value gain / (loss) net of tax on equity instruments	12	1,055	–
Other comprehensive income / (loss) for the year, net of tax		**(2,711)**	**5,453**
Total comprehensive income for the year		**26,181**	**37,294**

The notes on pages 80 to 147 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
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**
Original balances at 1 January 2018 – IAS 39	**16,709**	**1,578**	**88,177**	**11,020**	**117,484**
Changes in equity as a result of the transition to IFRS 9* **	**–**	**–**	**(151)**	**–**	**(151)**
Balance as at 1 January 2018	**16,709**	**1,578**	**88,026**	**11,020**	**117,333**
Profit for the year	–	–	28,892	–	28,892
Other comprehensive income / (loss)	–	–	–	(2,711)	(2,711)
Total comprehensive income for the year	**–**	**–**	**28,892**	**(2,711)**	**26,181**
Dividends**	–	–	(31,840)	–	(31,840)
Balance as at 31 December 2018	**16,709**	**1,578**	**85,078**	**8,309**	**111,674**

* Explanatory notes on Other reserves are presented in Note 12.

** The detailed information about dividends is presented in Note 11.

*** Detailed information on the financial effect of the change in accounting policies from the adoption of IFRS 9 is presented in Note 1.3.2.

The notes on pages 80 to 147 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Note	2018	2017
Cash and cash equivalents as at 1 January	**10**	**97,201**	**73,256**
Profit before tax		35,131	39,125
Depreciation, amortisation, impairment loss and reversal of impairment loss of non-current assets	4, 5	17,020	22,376
Change in provisions		(2,845)	3,420
(Gain) / loss of tangible and intangible assets		51	32
Net interest (income) / expense	19	50	131
Dividend income	19	(1,099)	(1,121)
Adjustments for non-cash transactions on derivatives and other adjustments for non-cash transactions		(267)	2,513
Change in inventories		(2,606)	(1,521)
Change in receivables		(5,280)	(1,687)
Change in liabilities		13,914	6,313
Income tax paid from operating activities		(9,256)	(8,621)
Interest paid		(230)	(179)
Interest received		180	30
Cash flows from operating activities		**44,763**	**60,811**
Purchases of tangible and intangible assets		(18,491)	(20,299)
Payment for establishment of a subsidiary	6	–	(30)
Payment for increase in equity of a subsidiary	6	(70)	–
Repayment of granted loans		–	8,300
Additions to capitalised development costs	4	(8,328)	(7,111)
Proceeds from sale of tangible and intangible assets		32	23
Proceeds from dividends		1,099	1,121
Cash flows from investing activities		**(25,758)**	**(17,996)**
Net cash flows (operating and investing activities)		**19,005**	**42,815**
Dividends paid	11	(70,360)	(18,870)
Cash flows from financing activities		**(70,360)**	**(18,870)**
Net change in cash and cash equivalents		**(51,355)**	**23,945**
Cash and cash equivalents as at 31 December	**10**	**45,846**	**97,201**

The notes on pages 80 to 147 are an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS 2018

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 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 2018. 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 2018.

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

The Company prepares the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") based on the Company's sole shareholder's decision in accordance with 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 2018). Consolidated financial statements of VOLKSWAGEN AG and the auditor's report thereon will be published in Czech language in the collection of documents in the Commercial Register.

For more information about the Company refer to the preceding note "Company information".

For more information about the ultimate parent company VOLKSWAGEN AG refer to Note 29.

* The Company prepares the separate financial statements in accordance with IFRS as adopted by the European Union and as interpreted by the agenda paper issued by the European Commission Internal Market and Services for the meeting of the Accounting Regulatory Committee (document ARC/08/2007) about relationship between the IFRS regulation and the 4th and 7th Company Law Directives, which were subsequently replaced by Directive 2013/34/EU of the European Parliament and of the Council. The Commission Services Department was of the opinion that, if a company chooses or is required to prepare its annual separate financial statements in accordance with IFRS as adopted by the European Union, it can prepare and file them independently from the preparation and filing of consolidated financial statements. At the time of approval of these separate financial statements, the approved consolidated financial statements of VOLKSWAGEN Group have not been available. Adoption of new or revised standards, amendments and interpretations to existing standards.

1.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS MANDATORY FOR ACCOUNTING PERIODS BEGINNING ON 1 JANUARY 2018

1.2.1 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS MANDATORY FOR ACCOUNTING PERIODS BEGINNING ON 1 JANUARY 2018

New standards, amendments and interpretations to existing standards that are effective for the financial year beginning on 1 January 2018 applied by the Company:

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IFRS 9	Financial instruments	1 January 2018	The new standard IFRS 9 "Financial instruments" replaced IAS 39 and many financial instruments disclosure requirements based on IFRS 7. The project to replace IAS 39 had 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 had 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 have been reduced in the notes to financial statements and any reported financial assets are measured at either the amortised costs or fair value. For impacts of changes in classification of financial assets, please refer to Note 1.3.1. Another impact was the change in the impairment methodology of financial instruments. The Company applied modified retrospective method. Upon initial application of this standard this resulted in the amount of allowances for financial assets being increased as at 1 January 2018 in line with the decrease in retained earnings in equity. For impacts of changes in impairment of financial assets, please refer to Note 1.3.2. The Company has not used the option to continue with the application of IAS 39 for the hedging relationships and has fully applied IFRS 9. The Company applied prospective application of hedge accounting of foreign currency risk, therefore, there was no impact on comparatives.

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IFRS 9	Financial instruments	1 January 2018	**Phase 2: Impairment methodology** New IFRS 9 has introduced more progressive loss impairment model that will require more timely recognition of expected credit loss 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. Payments received from customers (for performance obligations for which revenue is not yet recognised) must be recorded separately.	Due to the transition to the new standard IFRS 15, a part of the provision for other obligations arising from sales, mainly the stock sell out provision, was reclassified from provisions to liabilities. For impacts of the changes in classification, please refer to Note 1.3.1. Due to requirement of IFRS 15 since 1 January 2018, the Company presents the release of provisions and accruals relating to revenue in the line Sales. Analogically, the Company presents the release of other provisions and accruals in the line of income statement in which they were originally created. Until 2017, the release of provisions and accruals was presented in the line Other operating income.

Other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on 1 January 2018 had no material impact on the separate financial statements of the Company.

1.2.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS PUBLISHED NOT YET EFFECTIVE FOR ACCOUNTING PERIODS BEGINNING ON 1 JANUARY 2018

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 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, non-current liabilities, depreciation, interest expense and rental expense. The Company continuously carries out and analyses all the impacts of the new standard. The Company estimates that upon transition to the new standard the non-current assets and non-current liabilities will increase by an immaterial amount. Furthermore, an increase in depreciation and interest expense and decrease in lease expense are expected in future income statement.

Other new standards, amendments, interpretations and improvements to existing standards that are not effective for the financial year beginning on 1 January 2019 will have no material impact on the separate financial statements of the Company.

1.3 RECLASSIFICATION OF THE RECOGNISED ITEMS AND CHANGES IN ACCOUNTING POLICIES DUE TO TRANSITION TO THE NEW ACCOUNTING STANDARDS AND IMPACTS ON COMPARATIVE INFORMATION

1.3.1 RECLASSIFICATION

Due to the transition to IFRS 9 there has been a change in classification of certain financial assets based on the business model test. This change had also an impact on the measurement of certain financial assets. Some trade receivables held to sell have been reclassified from the former portfolio under IAS 39 "Loans and receivables" into the FVPL portfolio**. Due to this reclassification, the measurement basis of these financial assets has been changed (from amortised cost to the fair value). Difference in measurement due to the change in the classification of financial assets was insignificant.

The impact of the reclassification of financial assets on the reported information is shown in the following table:

	Classification		Carrying amount		
(CZK million)	**Originally (as per IAS 39)**	**Newly (as per IFRS 9)**	**As at 31 December 2017**	**As at 1 January 2018**	**Differences**
Non-current financial assets					
Equity instruments	Available-for-sale financial assets	FVOCI*	8,606	8,606	–
Loans to employees	Loans and receivables	Financial assets at amortised cost	450	450	–
Financial derivatives	FVPL**	FVPL**	3,834	3,834	–
Current financial assets					
Loans to employees	Loans and receivables	Financial assets at amortised cost	57	57	–
Trade receivables	Loans and receivables	Financial assets at amortised cost	16,160	15,974	(186)
Trade receivables	Loans and receivables	FVPL**	2,292	2,292	–
Other financial receivables	Loans and receivables	Financial assets at amortised cost	504	504	–
Financial derivatives	FVPL**	FVPL**	4,410	4,410	–
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	97,201	97,200	(1)

* FVOCI (Fair value through other comprehensive income)
** FVPL (Fair value through profit or loss)

Due to transition to IFRS 15, the Company also reclassified sales transactions related liabilities of CZK 3,131 million from provisions to trade liabilities as part of refundable considerations from customer contracts.

1.3.2 CHANGES IN ACCOUNTING POLICIES

Due to the transition to IFRS 9, the Company has introduced a new impairment model since 1 January 2018, under which an allowance is now recognised before the credit loss is incurred.

Impairment model is disclosed in chapter 2.5.1.2 in detail.

The impact of the new impairment model on the trade receivables recognised at amortised cost is shown in the following table:

(in CZK million)	As at 31 December 2017 Originally (as per IAS 39)	As at 1 January 2018 Newly (as per IFRS 9)	Differences
Gross carrying amount of trade receivables	16,308	16,308	–
Increase in loss allowance provision	(148)	(334)	(186)
Carrying amount	16,160	15,974	(186)

The impact of the new impairment model on cash equivalents and other financial assets recognised at amortised cost was immaterial.

The impact of the new impairment model on retained earnings in equity is presented in the following table:

(in CZK million)	As at 31 December 2017 Originally (as per IAS 39)	As at 1 January 2018 Newly (as per IFRS 9)	Differences
Increase in loss allowance provision	–	(187)	(187)
Impact of deferred tax	–	36	36
Total impact of the new impairment model	–	(151)	(151)
Retained earnings	88,177	88,026	(151)

Other impacts of the transition to new standards (IFRS 9 and IFRS 15) are described in Note 1.2.1.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These separate financial statements have been prepared under the historical cost convention, except for fair value measurement of equity instruments measured at fair value through other comprehensive income, of financial assets and financial liabilities at fair value through profit or loss, and of all derivative contracts.

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

2.1 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

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

2.2 INTANGIBLE ASSETS

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

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

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

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

— Capitalised development costs	1–7 years according to the product life cycle
— Software	3 years
— Tooling rights	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

2.5.1.1 CLASSIFICATION AND MEASUREMENT

CLASSIFICATION AND MEASUREMENT IN ACCORDANCE WITH IFRS 9 (SINCE 1 JANUARY 2018)

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

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

Debt financial instruments

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

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

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

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

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

Financial assets at amortised cost (portfolio AC)

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

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

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

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

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

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

Equity instruments

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

In this category, the Company only held investments in equity instruments that did not have an observable price in an active market in 2018.

CLASSIFICATION AND MEASUREMENT IN ACCORDANCE WITH IAS 39 (UNTIL 31 DECEMBER 2017)

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 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, 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.

All of financial assets except of financial assets, which are carried at fair value through profit or loss, are initially recognised at fair value increased by 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 statement of profit or loss. Financial assets carried at fair value through profit or loss are subsequently carried at fair value. Non-current loans and receivables are carried at amortised cost using the effective interest rate method. Available-for-sale financial assets (equity instruments), that do not have quoted prices on an active market but their fair value can be reliably measured, are subsequently carried at fair value. Changes in fair value of equity instruments 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.

2.5.1.2 IMPAIRMENT

IMPAIRMENT IN ACCORDANCE WITH IFRS 9 (SINCE 1 JANUARY 2018)

The Company introduced a new model for the impairment as at 1 January 2018 that enables to recognise an allowances before a credit loss is incurred. It is a new impairment model according to IFRS 9, which reflects expected credit loss (ECL). With the exception of trade receivables, the Company applies a general approach for impairment to the relevant financial assets (the debt instruments reported at the amortised cost in the portfolio AC and debt instruments in the portfolio FVOCI), i.e. general approach for impairment. The Company used the option to apply a simplified approach using an impairment matrix for trade receivables.

General approach for impairment

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

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

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

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

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

Simplified approach to impairment

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

Simplified approach using provision matrix

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

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

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

IMPAIRMENT IN ACCORDANCE WITH IAS 39 (UNTIL 31 DECEMBER 2017)

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 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.

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 cease to exist due to insufficient assets due to bankruptcy of the debtor, debtor was liquidated without a legal successor, etc.), it is written off against the impairment allowance.

2.5.1.3 DERECOGNITION

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

2.5.2 FINANCIAL LIABILITIES

Classification

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

The Company classifies financial liabilities into the following categories:

a) Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities at fair value through profit or loss were included in the other operating income in 2018 (in the financial income in 2017) or in the other operating expenses (in the financial expenses in 2017). During the accounting period 2018 (2017), 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 remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Company designates as hedging instruments only those which fulfil the requirements of hedge accounting. The Company uses derivatives to hedge future cash flows. The hedged items in this case are highly probable future transactions.

The Company hedges against changes in cash flows from highly probable future transactions caused by changes in foreign exchange spot rates. The Company is using foreign currency forwards and swaps to hedge this risk. The hedge ratio established is 100%. The main sources of ineffectiveness are:

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

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

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

Until 31 December 2017 the cumulative balances recognised in other comprehensive income were recycled into the income statement as a gain or loss in the periods when the hedged item affects the income statement. Since 1 January 2018 when a hedged forecast transaction subsequently results in the recognition of a non-financial asset (such as inventory), the Company transfers the amount from the cash flow hedge reserve in equity and includes it directly in the initial cost of the non--financial asset. The cumulative balance recognised in other comprehensive income is recycled into the income statement as a gain or loss in the period when the hedged item affects the income statement for other hedges (such as hedges of future sales).

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income from the effective part of the hedging instrument at that time remains in other comprehensive income and is reclassified using rules defined in paragraph above when the forecasted transaction is ultimately recognised. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement. The Company economically hedges a commodity risk using commodity swaps, however, it hedge accounting is not used. The changes in fair value of commodity swaps that do not qualify as effective cash-flow hedging instruments are recognised in the income statement and classified as a gain or loss.

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

2.5.4 OFFSETTING OF FINANCIAL INSTRUMENTS

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

2.6 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Subsidiaries are investees (including structured entities, if any) that are controlled by the Company.

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

The subsidiaries directly controlled by the Company as at 31 December 2018 (as at 31 December 2017) (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 significant influence is generally connected with ownership of 20 to 50 per cent of the voting power or is usually evidenced in one or more of the following ways:

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

The ŠKODA AUTO a.s. had significant influence as at 31 December 2018 (as at 31 December 2017) in the following associates (see Note 7):

— OOO Volkswagen Group Rus;
— ŠKO-ENERGO-FIN, s.r.o.;
— ŠKO-ENERGO s.r.o.;
— Digiteq Automotive s.r.o.

Recognition, measurement and derecognition

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

Impairment

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

2.7 CURRENT AND DEFERRED INCOME TAX

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

2.7.1 CURRENT INCOME TAX

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

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

2.7.2 DEFERRED INCOME TAX

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

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

In accordance with IAS 12, deferred tax assets and liabilities are offset, where the Company has the enforceable right to offset the current tax assets and liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same 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) and hedging effects (see Note 2.5.3).

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

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

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

2.9 CASH AND CASH EQUIVALENTS AND CASH FLOW STATEMENT

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

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

Cash flows are presented in the cash flow statement and are classified into cash flows from operating activities, investing activities and financing activities.

Cash flows from operating activities are derived indirectly from profit before tax. Profit before tax is adjusted to eliminate non-cash expenses (mainly depreciation and amortisation) and income and changes in working capital. Investing activities include additions to property, plant and equipment, financial assets, as well as to capitalised development cost. Financing activities include in addition to the outflows of cash from dividend payments, redemption of liabilities from financing, also outflows and inflows from other borrowings.

2.10 PROVISIONS FOR EMPLOYEE BENEFITS

Provisions for other long-term employee benefits
The following types of long-term employee benefits are included in the provision for other long-term employee benefits:
— service jubilee benefits;
— termination gratuity benefit payable before retirement from the Company.

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

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

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

2.11 OTHER PROVISIONS

In accordance with IAS 37, provisions are recognised where a present obligation exists to third parties as a result of a past event; where a future outflow of resources is probable; and where a reliable estimate of that outflow can be made. Future outflows are estimated with respect to particular specific risks. Provisions not resulting in an outflow of resources within one year are recognised at their settlement value discounted to the balance sheet date. Discount rates reflect the current market interest rates and the specific risks of the respective liabilities.

Where there is a number of similar obligations, the likelihood that an outflow occurs upon the settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.12 REVENUE AND EXPENSE RECOGNITION

Revenue recognition in accordance with IFRS 15 (since 1 January 2018)
At first, all contracts with customers are analysed to identify all performance obligations to a customer. Subsequently, the transaction price is determined which is, in case of identified multiple performance obligations, allocated according to a relevant key. Consequently, the revenue is recognised for the particular performance obligation in the appropriate amount either at a certain point in time or the revenue is deferred as a contract liability and afterwards allocated over certain time.

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

If discounts are granted to sold cars (typically sales supports), already at the time of the sale of the car the discount amount is estimated as reliably as possible and thus the revenue from the sale of the cars is reduced by this amount. The amount received or a receivable that is not recorded as revenue is recognised as a refund liability.

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

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

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

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

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

Revenue recognition in accordance with IAS 18 (until 31 December 2017)

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.

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.

Expense recognition

Costs of sales include production costs, costs of goods purchased for resale, and additions to warranty provisions. Research and development costs not eligible for capitalisation in the period, depreciation and impairment charges for capitalised development costs and production equipment are likewise presented as cost of sales.

Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.

Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

2.13 LEASES

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 par. b.

2.16 EQUITY

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

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

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

2.17 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. 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 30,589 million as at 31 December 2018 (as at 31 December 2017: CZK 23,497 million). Average useful life of intangible assets was 6 years in 2018 (in 2017: 6 years).

Cash equivalents
The Company deposits free cash with VOLKSWAGEN Group companies. These deposits are classified as cash equivalents if the Company concludes that the deposits meet criteria of cash equivalents according to IAS 7 and that they are readily convertible to known amounts of cash, they are subject to an insignificant risk of changes in value and they are held for the purpose of meeting short-term financial commitments rather than investment or other purposes.

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, prices of commodities, 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 2018 (as at 31 December 2017), the Company did not hold any collateral for loans given.

In the following table, the reported figures represent either the carrying value of secured trade receivables, or the collateral value if this value is lower, determined individually for each instrument (both to third parties and related parties) presented in Note 8.2:

CZK million	**2018**	**2017**
Retention of legal ownership title to sold cars	795	1,069
Bank guarantee	1,213	1,378
Letters of credit	2,917	1,193
Documentary collection	30	108
Total	**4,955**	**3,748**

3.1.1 MAXIMUM EXPOSURE TO CREDIT RISK

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

The amount of guarantee provided by the Company is CZK 75 million as at 31 December 2018 (as at 31 December 2017: CZK 75 million). Detailed information on the guarantee are listed in Note 3.1.6.

3.1.2 RISK CONCENTRATION

The Company monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Company to foreign exchange risk is disclosed in Note 3.4.1. During the accounting period 2018 (2017) the Company did not identify any significant risk concentration on the basis of distribution region.

A significant portion of financial assets is of an intra-group nature. The Company deposited free cash only in VOLKSWAGEN Group companies.

The total volume of deposits in VOLKSWAGEN Group companies amounted to CZK 45,842 million as at 31 December 2018 (as at 31 December 2017: CZK 97,196 million), out of which:

— deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 41,500 million (as at 31 December 2017: CZK 80,000 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 4,342 million (as at 31 December 2017: CZK 17,196 million).

The Company did not consider probable that a default could occur in connection with the free cash deposited in 2018 (2017). Expected credit loss for any potential default is immaterial.

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

3.1.3 CREDIT QUALITY OF FINANCIAL ASSETS

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

Credit quality of financial assets in accordance with IFRS 7 and IFRS 9 (as at 31 December 2018)

Credit quality of financial assets at amortised cost

(CZK million)	Stage 1 12-month ECL*	Stage 2 lifetime ECL* – not individually impaired	Stage 3 lifetime ECL* – individually impaired	Lifetime ECL* based on provision matrix	Total
Balance as at 31 December 2018					
Solvency class 1, of which:	**47,240**	**–**	**–**	**18,421**	**65,661**
Trade receivables	–	–	–	18,421	18,421
Cash equivalents	41,500	–	–	–	41,500
Cash pooling	4,342	–	–	–	4,342
Other	1,398	–	–	–	1,398
Solvency class 2, of which:	**–**	**–**	**–**	**425**	**425**
Trade receivables	–	–	–	425	425
Solvency class 3, of which:	**–**	**–**	**278**	**–**	**278**
Trade receivables	–	–	163	–	163
Other	–	–	115	–	115
Total	**47,240**	**–**	**278**	**18,846**	**66,364**

* ECL – expected credit loss

Besides the amounts presented above in the table Credit quality of financial assets at amortised cost, the Company included in Solvency class 1 also receivables that will be subject to factoring without recourse (portfolio FVPL) in the amount of CZK 3,976 million.

Credit quality of financial assets in accordance with IFRS 7 and IAS 39 (as at 31 December 2017)

Credit quality of financial assets neither past due nor impaired

(CZK million)	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2017			
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**

* For detailed information related to Loans and deposits in VOLKSWAGEN Group companies refer to Note 3.1.2.

3.1.4 CREDIT RISK ANALYSIS

Credit risk analysis in accordance with IFRS 7 and IFRS 9 (since 1 January 2018)

Gross carrying amount of financial assets at amortised cost

(CZK million)	Stage 1 12-month ECL*	Stage 2 lifetime ECL* – not individually impaired	Stage 3 lifetime ECL* – individually impaired	Lifetime ECL* based on provision matrix	Total
Trade receivables					
Balance as at 1 January 2018	**–**	**–**	**184**	**16,124**	**16,308**
Collected	–	–	(27)	(16,035)	(16,062)
Additions	–	–	6	18,757	18,763
Balance as at 31 December 2018	**–**	**–**	**163**	**18,846**	**19,009**
Cash equivalents and cash pooling					
Balance as at 1 January 2018	**97,196**	**–**	**–**	**–**	**97,196**
Collected	(97,196)	–	–	–	(97,196)
Additions	45,842	–	–	–	45,842
Balance as at 31 December 2018	**45,842**	**–**	**–**	**–**	**45,842**
Other receivables and financial assets					
Balance as at 1 January 2018	**1,059**	**–**	**115**	**–**	**1,174**
Collected	(609)	–	–	–	(609)
Additions	948	–	–	–	948
Balance as at 31 December 2018	**1,398**	**–**	**115**	**–**	**1,513**

* ECL – expected credit loss

Credit risk analysis in accordance with IFRS 7 and IAS 39 (until 31 December 2017)

Carrying amount of financial assets past due and not impaired

	Months past due			
(CZK million)	Less than 1 month	1–3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2017	**392**	**159**	**786**	**1,337**

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 IMPAIRMENT OF FINANCIAL ASSETS

Impairment of financial assets in accordance with IFRS 7 and IFRS 9 (since 1 January 2018)

Allowances for trade receivables

(CZK million)	Stage 1 12-month ECL*	Stage 2 lifetime ECL* – not individually impaired	Stage 3 lifetime ECL* – individually impaired	Lifetime ECL* based on provision matrix	Total
Allowances for trade receivables					
Balance as at 1 January 2018	**–**	**–**	**(184)**	**(150)**	**(334)**
Additions	–	–	(6)	(127)	(133)
Reversals	–	–	27	69	96
Balance as at 31 December 2018	**–**	**–**	**(163)**	**(208)**	**(371)**

* ECL – expected credit loss

Impairment matrix for trade receivables

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

Allowances for lifetime expected credit loss for other receivables and financial assets were CZK 6 million in stage 1 and CZK 115 million in stage 3.

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

Impairment of financial assets in accordance with IFRS 7 and IAS 39 (until 31 December 2017)

Valuation allowance for receivables and other financial assets

Valuation allowances to other receivables and financial assets were CZK 163 million as at 31 December 2017. Valuation allowances to trade receivables were CZK 148 million as at 31 December 2017. Movements in valuation allowances during the year were insignificant. During the accounting period 2017 the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2017 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 loss up to 2% of the total amount of transferred receivables during the year, however, not more than 49% of these losses and not more than CZK 75 million in 2018 (in 2017: 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 61 million in 2018 (in 2017: CZK 37 million). This loss concerns the obligation to compensate for realised credit loss incurred by ŠkoFIN s.r.o.

3.1.7 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Balance as at 31 December 2017 (CZK million)	**Gross amount of financial assets/ liabilities recognised in the balance sheet**	**Gross amount of financial assets/ liabilities set off in the balance sheet**	**Net amount of financial assets/ liabilities recognised in the balance sheet**	**Related amount not set off in the balance sheet***	**Net amount of financial assets/ liabilities****
Receivables from financial derivatives	8,245	–	8,245	(575)	7,670
Liabilities from financial derivatives	588	–	588	(575)	13

* 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 2018 the Company did not offset any trade receivables and trade liabilities in balance sheet because none of the trade receivables and trade liabilities fulfilled criteria for offsetting according to amendment to IAS 32.

There was no collateral held or given in respect of derivative financial assets / liabilities as at 31 December 2018 (as at 31 December 2017). The total amount of collateral value of trade receivables was CZK 4,955 million as at 31 December 2018 (as at 31 December 2017: CZK 3,748 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 International Belgium SA (VIB), the Regional Treasury Center, located in Brussels, centralisation and optimisation of processes is ensured within the VOLKSWAGEN Group in the areas of cash management, payments system and liquidity management.

In the GTP, the outgoing payments are processed on behalf of the Company by VIB, based on payment orders placed by the Company and are transferred from a bank account held by VIB. The incoming payments are credited to Company's bank accounts and subsequently at the end of each working day they are automatically transferred to VIB's bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VIB. All incoming payments are credited to the Company's bank accounts at the "Inhouse Bank" (IHC) operated by VIB, where the differences between debit and credit balances on the collected financial resources are netted-off.

Major instruments used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (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 Company has not drawn any credit line from the VOLKSWAGEN Group as at 31 December 2018 (as at 31 December 2017).

The Company has not drawn any credit line from the external banks as at 31 December 2018 (as at 31 December 2017).

Contractual maturity analysis (undiscounted amounts)

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

(CZK million)	**Within 1 year**	**1–5 years**	**Total**
Balance as at 31 December 2017			
Trade liabilities	**(43,350)**	**–**	**(43,350)**
Derivatives with negative fair value:			
Currency forwards and swaps	(22,178)	(5,661)	(27,839)
Total	**(65,528)**	**(5,661)**	**(71,189)**

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

3.3 MARKET RISK

Market risk is a risk that the fair value of future cash flows 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 2017 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

	Nominal value of derivatives		Fair value of derivatives			
	Balance as at 31 December 2018	Balance as at 31 December 2017	Balance as at 31 December 2018		Balance as at 31 December 2017	
(CZK million)	With positive and negative fair value	With positive and negative fair value	Positive	Negative	Positive	Negative
Currency instruments						
Currency forwards and swaps for trading	6,708	10,450	181	166	313	379
Currency forwards and swaps – cash flow hedging	117,113	86,441	3,838	287	7,646	209
Commodity instruments						
Commodity swaps for trading	3,432	1,770	23	298	286	–
Total	**127,253**	**98,661**	**4,042**	**751**	**8,245**	**588**

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

Nominal amount of derivatives in detail per currencies

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

Volume of hedged cash flows

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

Balance as at 31 December 2017 (CZK million)	**Volume of hedged cash flows**		
	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**

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

3.4 SENSITIVITY ANALYSIS

3.4.1 SENSITIVITY TO EXCHANGE RATES

The Company is exposed to the foreign currency risk arising mainly from transactions denominated in foreign currencies (EUR, GBP, CHF, PLN, RUB) and with transaction 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 2018 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 2017 the Company considered as the reasonably possible movements of exchange rates EUR, USD, CHF GBP, RUB and PLN against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK).

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

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

2017 (CZK million)	CZK appreciation by 10%						
	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

2017 (CZK million)	CZK depreciation by 10%						
	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)

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 2018 (2017: +100/ -25 basis points). Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered in 2018 (2017). 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:

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

2017 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Profit before tax		
Non-derivative financial instruments	985	–
Derivative financial instruments	(82)	84
Total	**903**	**84**

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 2018 the Company assumes reasonably possible movements in aluminium and copper prices in the following period of +/-10% (2017: +/-10%).

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

The following tables represent impact on profit before tax of expected increase or decrease of copper and aluminium prices:

2018 (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	119	(119)	189	(189)

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)

3.5 CAPITAL MANAGEMENT

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

4. INTANGIBLE ASSETS

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

(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**

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

Amortisation and impairment losses of intangible assets of CZK 5,216 million (2017: CZK 6,995 million) are included in the cost of sales, CZK 55 million (CZK 2017: 9 million) in distribution expenses, and CZK 71 million (2017: CZK 65 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 2018 a decrease in the planned cash inflows relating to five cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. Due to substantial changes in the market environment, the Company has experienced in 2018 an increase in the planned cash inflows relating to one cash-generating unit (production of cars of a certain model). Impairment review of assets relating to this cash-generating unit has been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use of the cash-generating unit applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans approved by the Company's management for following 5 years.

For discounting cash flows, the pre-tax discount rate of 5.5% has been applied in 2018 (2017: 5.8%), reflecting the specific risks associated with the sector in which the Company operates. The comparison of the carrying amounts with the relevant recoverable amounts for five cash-generating units resulted in impairment loss of CZK 495 million (2017: CZK 3,037 million) allocated to intangible assets, which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2018. The comparison of the carrying amount with the relevant recoverable amount for the one cash-generating unit resulted in a reversal of impairment loss of CZK 1,259 million (2017: CZK 0 million) allocated to intangible assets, which has been posted to the income statement (within line Other operating income) for the year ended 31 December 2018.

CAPITALISATION OF BORROWING COSTS

No borrowing costs have been capitalised in the cost of intangible assets in 2018 or 2017 as they were not material.

The following amounts were recognised in the income statement as research and development expenses

(CZK million)	**2018**	**2017**
Research and development costs expensed	14,186	8,287
Amortisation and impairment losses of development costs	3,382	5,006
Research and development costs recognised in profit or loss	**17,568**	**13,293**

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

(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**

* As at 31 December 2018 advances paid amount to CZK 1,325 million (as at 31 December 2017: CZK 4,971 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 2018 a decrease in the planned cash inflows relating to two cash-generating units (production of cars of certain model). Impairment reviews of assets relating to those cash-generating units have been performed. Due to substantial changes in the market environment, the Company has experienced in 2018 an increase in the planned cash inflows relating to one cash--generating unit (production of cars of a certain model). Impairment review of assets relating to this cash-generating unit has been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts.

The recoverable amounts have been determined based on the calculation of the value in use of the assets applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans approved by the Company's management for following 5 years.

For discounting cash flows, the pre-tax discount rate of 5.5% has been applied in 2018 (2017: 5.8%), reflecting the specific risks associated with the sector in which the Company operates. For two cash-generating units, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the amount of CZK 246 million (2017: CZK 1,865 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2018 (31 December 2017). For the one cash-generating unit, the comparison of the carrying amount with the relevant recoverable amount resulted in a reversal of impairment loss allocated to tangible assets in the amount of CZK 249 million (2017: CZK 0 million), which has been posted to the income statement (within line Other operating income) for the year ended 31 December 2018.

CAPITALISATION OF BORROWING COSTS

No borrowing costs have been capitalised in the cost of property, plant and equipment in 2018 or in 2017 as they were not material.

6. INVESTMENTS IN SUBSIDIARIES

Subsidiaries:	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 holds an equity interest paid dividends to the Company in the amount of CZK 62 million in 2018 (2017: CZK 47 million).

The Company increased equity of its subsidiary ŠKODA AUTO DigiLab s.r.o. through other capital contributions in total amount of CZK 70 million in 2018 (see Note 25).

7. INVESTMENTS IN ASSOCIATES

The Company's share in the registered capital of the company OOO Volkswagen Group Rus as at 31 December 2018 was 16.8% (31 December 2017: 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 2018 (as at 31 December 2017: CZK 1,823 million).

The recoverable amount of the associate is significantly higher than its carrying amount as at 31 December 2018 (as at 31 December 2017). The Company's share in the registered capital of the company ŠKO-ENERGO-FIN, s.r.o. as at 31 December 2018 was 31.25% (as at 31 December 2017: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2018 (as at 31 December 2017: CZK 529 million). ŠKO-ENERGO-FIN, s.r.o. paid dividends to the Company in the amount of CZK 152 million (2017: CZK 152 million).

The Company's share in the registered capital of the company ŠKO-ENERGO s.r.o. as at 31 December 2018 was 44.5% (as at 31 December 2017: 44.5%). The carrying amount of the Company's share totalled CZK 4 million as at 31 December 2018 (as at 31 December 2017: CZK 4 million). ŠKO-ENERGO s.r.o. paid dividends to the Company in the amount of CZK 1 million (2017: CZK 1 million).

The Company's share in the registered capital of the company Digiteq Automotive s.r.o. as at 31 December 2018 was 49% (as at 31 December 2017: 49%). The carrying amount of the Company's share totalled CZK 98 thousand as at 31 December 2018 (as at 31 December 2017: CZK 98 thousand). Digiteq Automotive s.r.o. paid dividends to the Company in the amount of CZK 18 million (2017: CZK 4 million).

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

8.1 OTHER RECEIVABLES AND FINANCIAL ASSETS

Other receivables and financial assets in accordance with IFRS 9 classification (as at 31 December 2018)

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

Other receivables and financial assets in accordance with IAS 39 classification (as at 31 December 2017)

Balance as at 31 December 2017 (CZK million)	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Available-for-sale financial assets**	**Financial instruments designated as hedging instruments**	**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
Total	**(673)**	**450**	**8,606**	**4,507**	**12,890**

Balance as at 31 December 2017 (CZK million)	**Financial assets at fair value through profit or loss**	**Loans and receivables**	**Financial instruments designated as hedging instruments**	**Total**
Other current receivables and financial assets				
Loans to employees	–	57	–	57
Positive fair value of financial derivatives	(689)	–	5,099	4,410
Other	–	504	–	504
Total	**(689)**	**561**	**5,099**	**4,971**

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

In 2018, a forward component of hedging derivatives recognised in retained earnings as at 31 December 2017 and fair value of derivatives held for trading are disclosed in the portfolio Financial assets at fair value through profit or loss (see also Note 3.3.4). In 2017, 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 other financial assets are disclosed in the portfolio Financial assets at amortised cost (in 2017: Loans and receivables). The carrying value of the loans to employees approximates their fair value. The fair value of the loans to employees was determined as the present value of future cash flows based on market interest rates at the balance sheet date. The fair value of loans to employees qualifies for Level 3 in accordance with IFRS 13.

In 2018, in the column Financial derivatives designated as hedging instruments there is the spot component and change in the forward component from 1 January 2018 to 31 December 2018 relating to the derivatives for currency risk hedging. In 2017, in the column Financial assets designated as hedging instruments there is only spot component relating to the derivatives for currency risk hedging. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

Under the "Financial assets at fair value through other comprehensive income" (2017: Available for sale financial assets), investments in the equity instruments of other entities are recognised.

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, therefore, the Company opted that the relating realised and unrealised gains and losses would be recognised in other comprehensive income.

The fair value of the investment amounted to CZK 9,904 million as at 31 December 2018 (as at 31 December 2017: CZK 8,602 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 2018 (2017) FCF have been extrapolated with a growth rate of 1.0% (3.0%). For discounting free cash flows, the WACC after tax rate of 10.3% (13.1%) has been applied in 2018 (2017).

Based on information currently available as at 31 December 2018 (as at 31 December 2017), 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 show the change of investments in equity instruments measured at fair value in Level 3:

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

(CZK million)	
Balance as at 1 January 2017	**9,019**
Total change in fair value in the period	(417)
Balance as at 31 December 2017	**8,602**

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 2018, the Company expects as reasonably possible the movement of long-term growth rate in the following period of +/- 0.5 percentage point (2017: +/- 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:

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

2017 (CZK million)	**Increase by 0.5 %**	**Decrease by 0.5 %**
Increase / (decrease) of the fair value of the investment	238	(215)
Increase / (decrease) of the other comprehensive income before tax	238	(215)

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

In 2018, the Company expects as reasonably possible the movement of WACC in the following period of +/- 0.5 percentage point (2017: +/- 0.5 percentage point).

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

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

2017 (CZK million)	**Increase by 0.5 %**	**Decrease by 0.5 %**
Increase / (decrease) of the fair value of the investment	(400)	442
Increase / (decrease) of the other comprehensive income before tax	(400)	442

There are no significant interrelationships between significant unobservable inputs.

8.2 TRADE RECEIVABLES

Trade receivables in accordance with IFRS 9 classification (as at 31 December 2018)

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

Trade receivables in accordance with IAS 39 (as at 31 December 2017)

Balance as at 31 December 2017 (CZK million)	
Trade receivables:	
Third parties	2,249
Subsidiaries	934
Other related parties	15,269
Total	**18,452**

Only trade receivable held to sell through factoring are disclosed in the portfolio Financial assets at fair value through profit or loss. The fair value of these receivables was determined as the present value of future cash flows based on market interest rates at the balance sheet date. The fair value of trade receivables held to sell through factoring qualifies for Level 2 in accordance with IFRS 13. In 2017, the trade receivables held to sell through factoring were disclosed in the portfolio Loans and receivables.

Other trade receivables held in order to collect contractual cash flows are disclosed in the portfolio Financial assets at amortised cost. Due to their current nature the carrying amount of these receivables after a deduction of allowance for impairment (if any) approximates their fair value. Allowances for trade receivables in amount of CZK 371 million (2017: CZK 148 million) are already included in these amounts. In 2017, other trade receivables held in order to collect contractual cash flows were disclosed in the portfolio Loans and receivables.

8.3 NON-FINANCIAL ASSETS

(CZK million)	2018	2017
Current non-financial assets		
Tax receivables (excl. income tax)	4,758	4,516
Other	1,369	1,430
Total	**6,127**	**5,946**

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

9. INVENTORIES

(CZK million)	Carrying value as at 31 December 2018	Carrying value as at 31 December 2017
Structure of the inventories		
Raw materials, consumables and supplies	6,732	5,859
Work in progress	5,544	3,843
Finished products and goods	7,944	7,912
Hedges on inventories	(9)	–
Total	**20,211**	**17,614**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2018 was CZK 355,321 million (2017: CZK 339,360 million).

10. CASH AND CASH EQUIVALENTS

(CZK million)	2018	2017
Cash in hand	3	4
Cash pooling	4,342	17,196
Bank accounts	1	1
Cash equivalents	41,500	80,000
Total	**45,846**	**97,201**

The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2018 was 0.41% (as at 31 December 2017: 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. These deposits including cash pooling deposits are included in portfolio Financial assets at amortised cost in accordance with IFRS 9 (2017: 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 of 31 December 2018 was 0.47% (31 December 2017: 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 43,816 million (31 December 2017: CZK 96,408 million) and in EUR: CZK 2,026 million (31 December 2017: CZK 788 million).

11. SHARE CAPITAL

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

The sole shareholder of the Company is VOLKSWAGEN FINANCE LUXEMBURG S.A. based in Strassen, Grand Duchy of Luxembourg. VOLKSWAGEN FINANCE LUXEMBURG S.A. is directly a 100% subsidiary of VOLKSWAGEN AG.

Rights to vote on the Company's general meetings and rights to receive dividends are attached to the ordinary shares.

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

There was no movement in the Company's share capital during the accounting period 2018 (2017).

In 2018, the Company paid dividend in the amount of CZK 31,840 million from profit for the year 2017 (2017: CZK 18,870 million). Additionally, the dividend in the amount of CZK 38,520 million from retained earnings relating to the previous accounting periods was paid in 2018 which was attributed to the sole shareholder in 2017.

The dividend per share was CZK 19,056 in 2018 (2017: CZK 34,347).

12. OTHER RESERVES AND RETAINED EARNINGS

12.1 OTHER RESERVES

(CZK million)	**2018**	**2017**
Revaluation reserve from equity instruments*	1,873	818
Reserves for cash flow hedges*	3,070	6,836
Statutory reserve fund	3,366	3,366
Total	**8,309**	**11,020**

* Net of deferred tax

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

Movement in equity instruments revaluation reserve:

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

(CZK million)	
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**

Movement in reserve for cash flow hedges – currency risk exposure in accordance with IFRS 9 (since 1 January 2018):

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

Movement in reserve for cash flow hedges – currency risk exposure in accordance with IAS 39 (until 31 December 2017):

(CZK million)	
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)
Deferred tax on transfers to profit or loss	420
Balance as at 31 December 2017	**6,836**

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

(CZK million)	2018	2017
Sales	(3,542)	–
Cost of sales	(93)	–
Other operating income	(723)	(4,413)
Other operating expense	104	2,202
Total transfers to profit or loss in the period – effective hedging	**(4,254)**	**(2,211)**

In addition, in 2018 CZK -9 million was transferred from the reserves for cash flow hedges to balance sheet in line Inventories (2017: CZK 0).

12.2 RETAINED EARNINGS

From the total amount of retained earnings of CZK 85,078 million (as at 31 December 2017: CZK 88,177 million) profit for the year 2018, net of tax, amounts to CZK 28,892 million (2017: CZK 31,841 million).

In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2018 (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 2018 has not been approved.

13. FINANCIAL, OTHER AND TRADE LIABILITIES

13.1 FINANCIAL LIABILITIES

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

Balance as at 31 December 2017 (CZK million)	**Financial liabilities at fair value through profit or loss**	**Financial liabilities carried at amortised cost**	**Financial instruments designated as hedging instruments**	**Total**
Financial non-current liabilities				
Negative fair value of financial derivatives	90	–	4	94
Financial current liabilities				
Negative fair value of financial derivatives	462	–	32	494
Other	–	38,520	–	38,520
Financial current liabilities in total	**462**	**38,520**	**32**	**39,014**
Total	**552**	**38,520**	**36**	**39,108**

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

In 2018, in the column Financial derivatives designated as hedging instruments there is the spot component and change in the forward component from 1 January 2018 to 31 December 2018 relating to the derivatives for currency risk hedging. In 2017, in the column Financial assets designated as hedging instruments there is only spot component relating to the derivatives for currency risk hedging. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

None of the financial liabilities are secured by a lien.

13.2 TRADE LIABILITIES

All trade liabilities are current in nature.

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

Balance as at 31 December 2017 (CZK million)	**Financial liabilities carried at amortised cost**
Third parties	29,050
Subsidiaries	243
Other related parties	14,057
Total	**43,350**

Liabilities to a factoring company within the VOLKSWAGEN Group in amount of CZK 2,513 million as at 31 December 2018 (as at 31 December 2017: CZK 2,123 million) are disclosed in line Trade liabilities to other related parties. These liabilities originated in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.

Due to the short term nature of trade liabilities, the carrying amount approximates the fair value.

None of the trade liabilities are secured by a lien.

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

13.3 NON-FINANCIAL LIABILITIES

(CZK million)	**2018**	**2017**
Non-current non-financial liabilities		
Contract liabilities from considerations received	6,207	–
Deferred income	–	3,356
Non-current non-financial liabilities from customer contracts in total	**6,207**	**3,356**
Current non-financial liabilities		
Contract liabilities from considerations received	2,486	–
Deferred income	–	2,140
Advances received	706	928
Current non-financial liabilities from customer contracts in total	**3,192**	**3,068**
Liabilities to employees	5,653	5,366
Social security	683	573
Tax liabilities	14	–
Current non-financial liabilities in total	**9,542**	**9,007**
Total	**15,749**	**12,363**

In 2018, contract liabilities from considerations received (2017: Deferred income) include mainly consideration received from extended warranty and ŠKODA Connect services which will be rendered in future periods. Increase in non-financial liabilities is driven mainly by increase in contract liabilities arising from extended guarantees.

14. DEFERRED TAX LIABILITIES AND ASSETS

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

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

(CZK million)	Depreciation	Financial derivatives*	Investment incentives	Equity instruments	Total
Deferred tax liabilities					
Balance as at 1 January 2017	**(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)**
Credited / (debited) to the income statement	(1,101)	(101)	–	–	(1,202)
Charged to other comprehensive income	–	883	–	(247)	636
Balance as at 31 December 2018	**(4,887)**	**(821)**	**–**	**(439)**	**(6,147)**

(CZK million)	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax assets					
Balance as at 1 January 2017	**–**	**–**	**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**
Balance as at 1 January 2018* **	**–**	**–**	**707**	**6,707**	**7,414**
Credited / (debited) to the income statement	–	–	(707)	981	274
Balance as at 31 December 2018	**–**	**–**	**–**	**7,688**	**7,688**

(CZK million)	Depreciation	Financial derivatives*	Investment incentives	Other	Total
Deferred tax liabilities and assets net					
Balance as at 31 December 2017	(3,786)	(1,603)	707	6,479	1,797
Balance as at 31 December 2018	**(4,887)**	**(821)**	**–**	**7,249**	**1,541**

* 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.

*** Deferred tax liability of CZK 36 million was recognised as at 1 January 2018 in context of IFRS 9 adoption. Further information is disclosed in Note 1.3.2.

15. NON-CURRENT AND CURRENT PROVISIONS

(CZK million)	Provisions for warranty claims	Provisions arising from sales	Provisions for employee benefits	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 Jan 2017	**20,574**	**3,335**	**1,938**	**1,831**	**1,581**	**3,702**	**32,961**
Utilised	(4,846)	(2,191)	(286)	–	(201)	(77)	(7,601)
Additions	5,084	3,074	1,180	1,091	1,397	1,233	13,059
Interest expense	(18)	–	–	–	–	–	(18)
Reversals	(1,057)	(377)	(46)	(141)	(314)	(77)	(2,012)
Balance as at 31 Dec 2017	**19,737**	**3,841**	**2,786**	**2,781**	**2,463**	**4,781**	**36,389**
Reclassification due to IFRS 15 transition*	–	(3,131)	–	–	–	–	(3,131)
Balance as at 1 Jan 2018	**19,737**	**710**	**2,786**	**2,781**	**2,463**	**4,781**	**33,258**
Utilised	(3,344)	(315)	(259)	(18)	(338)	(90)	(4,364)
Additions	5,152	42	158	187	1,767	373	7,679
Interest expense	(286)	–	–	–	–	–	(286)
Reversals	(909)	–	–	(181)	(1,101)	(552)	(2,743)
Balance as at 31 Dec 2018	**20,350**	**437**	**2,685**	**2,769**	**2,791**	**4,512**	**33,544**

* Due to IFRS 15 transition as at 1 January 2018 a significant part of the provision arising from sales was reclassified from provisions to trade liabilities. For further information about this reclassification, see Note 1.3.1

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

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

(CZK million)	< 1 year	1–5 years	> 5 years	Total
Balance as at 31 December 2017				
Provisions for warranty claims	8,743	8,447	2,547	19,737
Provisions arising from sales	3,841	–	–	3,841
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**

The provisions for warranty repairs include provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty (except for extended warranty), especially good-will repairs. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines. Following emissions irregularities discovered at VOLKSWAGEN AG, provisions for warranty repairs include also provision for service action and other expenditures related to technical measures for cars equipped with EA189 engines. The total balance of the provision related to EA189 issue amounted to CZK 2,061 million in 2018 (as at 31 December 2017: CZK 2,640 million). Expenditures which relate to potential claim settlement will be partly reimbursed to the Company and in connection with the fact stated above, amount receivable from VOLKSWAGEN AG of CZK 491 million was reported in other receivables as at 31 December 2018 (as at 31 December 2017: CZK 752 million).

Provisions arising from sales include provisions for other obligations arising from sales. The additions to provisions for other obligations arising from sales decrease revenues. Due to transition to IFRS 15, a part of this provision was reclassified into trade liabilities, see Note 1.3.1.

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

Provisions for litigation risks relate mainly to provision for risks arising from legal disputes, legal fees, penalty interest and other litigation risks.

The Company provides for the probable cash outflows for existing legal, arbitration or other proceedings by means of a relevant provision. The Company is not involved in any legal cases, arbitration or other proceedings for which no provision has been created and which could have a material impact on the financial position and the financial results (financial statements) of the Company and there are no such proceedings expected in the near future.

Provisions for purchase risks include mainly provision for risks of retrospective changes in prices of raw materials and parts.

Other provisions include mainly provision for tax risks (other than income taxes) and customs risks in countries where the Company operates.

16. SALES

(CZK million)	**2018**	**2017**
Cars	347,256	343,452
Spare parts and accessories	21,459	21,064
Supplies of components within VOLKSWAGEN Group	34,249	34,183
Income from licence fees	2,307	2,636
Revenues from services	3,338	2,916
Other	4,544	3,149
Revenue from contracts with customers in total	**413,153**	**407,400**
Gains from derivative transactions – hedges of receivables	3,542	–
Total	**416,695**	**407,400**

In 2018 (2017) line Other relates mainly to sales of used cars, scrap and tooling.

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

Revenue from contracts with customers by geographical regions:

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

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

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

Revenue recognised from the performance obligations satisfied in prior periods includes mainly release of provisions and accruals.

The amount of the transaction price which has not yet been recognised as revenue at 31 December 2018 in relation to extended warranty, licences and services for which the realisation timing is more than one year is disclosed in the following table:

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

The Company did not use any practical expedient for revenue disclosures and did not incur any costs to obtain contracts with customers.

17. OTHER OPERATING INCOME

(CZK million)	**2018**	**2017**
Other operating income from provided services	733	695
Income from licence fees not relating to the ordinary activities	203	199
Foreign exchange gains	2,786	4,242
Gains from derivative transactions	1,813	4,413
Gains on non-current assets disposal	33	38
Reversal of impairment losses	1,508	–
Reversal of provisions and accruals*	49	2,689
Reversal of loss allowance provision for receivables	144	39
Other	1,421	1,082
Total	**8,690**	**13,397**

* For further information on reversal of provisions and accruals, see Note 1.2.1.

Other in 2018 (2017) 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.

18. OTHER OPERATING EXPENSES

(CZK million)	**2018**	**2017**
Foreign exchange losses	3,461	2,928
Losses from derivative transactions	1,398	2,202
Receivables write-offs	101	124
Additions to provisions for litigation risks and other provisions	560	2,324
Other	192	419
Total	**5,712**	**7,997**

19. FINANCIAL RESULT

(CZK million)	2018	2017
Interest income	180	48
Foreign exchange differences from cash	133	7
Foreign exchange differences from spot operations	93	69
Dividend income	1,099	1,092
Gains on settlement and revaluation of financial derivatives – ineffective hedging*	–	2,128
Other financial income	288	28
Total financial income	**1,793**	**3,372**
Interest expense	230	179
Foreign exchange differences from cash	155	185
Foreign exchange differences from spot operations	84	99
Losses on settlement and revaluation of financial derivatives – ineffective hedging*	–	4,287
Other financial expenses	33	29
Total financial expenses	**502**	**4,779**
Net financial result	**1,291**	**(1,407)**

* Gains and losses on settlement and revaluation of financial derivatives – the ineffective hedging are reported in other operating result since 1 January 2018. The forward component of currency derivatives designated for hedging was designated as hedging since 1 January 2018 as a result of the Company's choice as per IFRS 9 and therefore, the changes in the forward component are recognised in other comprehensive income since then, see Note 12.

Dividend income in 2018 includes mainly dividend income of CZK 866 million from the investment in SAIC (2017: CZK 916 million).

20. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

(CZK million)	2018	2017
Financial instruments at fair value through profit or loss	(434)	(2,159)
Financial assets at amortised cost	(17)	(1,834)
Financial assets at fair value through other comprehensive income	866	921
Financial liabilities carried at amortised cost	(333)	2,805
Financial instruments designated as hedging instruments	4,254	2,211
Net gains / (losses) in profit or loss	**4,336**	**1,944**
Financial instruments designated as hedging instruments	(4,648)	7,149
Financial assets at fair value through other comprehensive income	1,302	(417)
Net gains / (losses) in profit or loss through other comprehensive income	**(3,346)**	**6,732**
Total net gains / (losses)	**990**	**8,676**

In portfolio Financial instruments at fair value through profit or loss, there are gains and losses from financial derivatives held for trading in 2018 (in 2017: gains and losses from the forward component of hedging derivatives and gains and losses from financial derivatives held for trading).

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

21. INCOME TAX

(CZK million)	**2018**	**2017**
Current tax expense	**5,311**	**7,490**
of which: adjustment in respect of prior years	103	39
Deferred tax	**928**	**(206)**
Income tax total	**6,239**	**7,284**

Statutory income tax rate in the Czech Republic for the 2018 assessment period was 19% (2017: 19%).

As at 31 December 2018 and 31 December 2017, 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)	**2018**	**2017**
Profit before tax	35,131	39,125
Expected income tax expense	**6,675**	**7,434**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(144)	(89)
Expenses not deductible for tax purposes	358	538
Tax allowances and other tax credits*	(548)	(599)
Adjustment to current tax expense relating to prior periods	103	39
Recognition of deferred tax assets from unused tax credits from investment incentives		(2)
Other taxation effects	(205)	(37)
Effective income tax expense	**6,239**	**7,284**
Effective income tax rate	18%	19%

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

22. SUBSIDIES AND INVESTMENT INCENTIVES

In 2018, the Company recognised income from subsidies for non-investment projects in research and development, increased qualifications of employees and mobility of students and teachers from high schools (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 68 million (2017: CZK 64 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 2018:

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

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

The following table summarises granted investment incentives and their use in 2017:

Investment incentive (CZK million)	**Maximum amount of the investment incentive**	**Recognised deferred tax asset from investment incentives**	**Utilisation of tax credits from investment incentives***
Enlargement of current production by production of automatic transmissions – DQ200 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.

23. CONTRACTUAL OBLIGATIONS AND OTHER FUTURE COMMITMENTS

Future commitments as at balance sheet date are as follows:

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

(CZK million)	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

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)	2018	2017
Material costs – raw materials and other supplies, goods	**285,801**	**277,057**
Production related services	**15,733**	**12,851**
Personnel costs	**32,670**	**28,863**
Wages	24,906	21,610
Pension benefit costs (defined contribution plans)	4,863	3,960
Social insurance and other personnel costs	2,901	3,293
Depreciation, amortisation and impairment losses	**18,528**	**22,376**
Operating lease expense	**697**	**592**
Other services	**32,404**	**30,530**
Total cost of sales, distribution and administrative expenses	**385,833**	**372,269**
Number of employees		
Number of employees*	35,355	32,985

* 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 2018 (31 December 2017).

VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period ended 31 December 2018 (31 December 2017).

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 increased equity of its subsidiary ŠKODA AUTO DigiLab s.r.o. through other capital contributions in total amount of CZK 70 million in 2018 (CZK 35 million effective on 7 March 2018 and further CZK 35 million effective on 25 June 2018).

The Company participated in the following transactions with related parties:

Sales to related parties

(CZK million)	**2018**	**2017**
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	6,222	1,803
Subsidiaries		
SKODA AUTO India Private Ltd.	1,874	2,341
ŠKODA AUTO Slovensko s.r.o.	8,252	7,936
ŠKODA AUTO DigiLab s.r.o.	–	–
Associates		
OOO Volkswagen Group Rus	12,039	12,802
ŠKO-ENERGO s.r.o.	–	–
ŠKO-ENERGO-FIN s.r.o.	–	–
Digiteq Automotive s.r.o.	–	–
Companies controlled by ultimate parent company	**274,804**	**270,319**
Other related parties	**782**	**1,307**
Total	**303,973**	**296,508**

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

In addition to revenue specified in the table Sales to related parties, in 2018 (2017) the Company also earned income from licence fees:

(CZK million)	2018	2017
Income from licence fees		
Ultimate parent company	–	–
Subsidiaries	38	25
Associates	366	130
Other related parties	1,903	2,481
Total	**2,307**	**2,636**

In addition to the revenue specified in the table Sales to related parties, in 2018 (2017) the Company also earned income from related parties transactions relating to interest from intercompany loans and deposits:

(CZK million)	2018	2017
Interest income from loans and deposits		
Ultimate parent company	–	–
Companies controlled by ultimate parent company	147	17
Total	**147**	**17**

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)	2018	2017
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	66,218	57,569
Subsidiaries		
SKODA AUTO India Private Ltd.	316	268
ŠKODA AUTO Slovensko s.r.o.	84	75
ŠKODA AUTO DigiLab s.r.o.	203	–
Associates		
OOO Volkswagen Group Rus	760	5,317
ŠKO-ENERGO s.r.o.	2,407	2,373
ŠKO-ENERGO-FIN s.r.o.	1	–
Digiteq Automotive s.r.o.	424	341
Companies controlled by ultimate parent company	**32,754**	**30,591**
Other related parties	**700**	**666**
Total	**103,867**	**97,200**

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

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

Receivables from related parties

(CZK million)	31 December 2018	31 December 2017
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,209	2,010
Subsidiaries		
SKODA AUTO India Private Ltd.	510	927
ŠKODA AUTO Slovensko s.r.o.	600	7
ŠKODA AUTO DigiLab s.r.o.	40	3
Associates		
OOO Volkswagen Group Rus	2,589	1,973
ŠKO-ENERGO s.r.o.	9	33
ŠKO-ENERGO-FIN s.r.o.	–	–
Digiteq Automotive s.r.o.	1	3
Companies controlled by ultimate parent company	**12,974**	**9,374**
Other related parties	**1,744**	**1,873**
Total	**19,676**	**16,203**

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

(CZK million)	31 December 2018	31 December 2017
Receivables license fees		
Ultimate parent company	–	–
Subsidiaries	29	28
Associates	341	37
Other related parties	1,603	1,775
Total	**1,973**	**1,840**

In addition to trade receivables and receivables from licence fees, the Company as at 31 December 2018 also had loans to and deposits including cash pooling in companies controlled by ultimate parent company in the amount of CZK 45,836 million (as at 31 December 2017: CZK: 97,196 million). Receivables from interest from the loans as at 31 December 2018 amounted to CZK 31 million (as at 31 December 2017: CZK 0 million). The weighted average effective interest rate on current deposits with original maturity less than three months (including cash pooling) is disclosed in Note 10.

In addition to that, the Company also had receivable from its ultimate parent company VOLKSWAGEN AG amounting to CZK 607 million as at 31 December 2018 relating mainly to the claim refund necessary for settlement of the provision described in Note 15 (as at 31 December 2017: CZK 908 million).

Receivables from related parties are considered by the Company to be of the least risk. The products delivered to the related parties are supplied on credit terms or the resulting receivables are transferred to factoring companies. Amount of allowances for receivables due as stated in credit terms is determined according to simplified approach using provision matrix described in Note 3.1.5. No impairment loss was identified for any of the receivables transferred to factoring companies. Information on Factoring of receivables with related parties is disclosed in Note 3.1 and 3.1.6.

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

Liabilities to related parties

(CZK million)	**31 December 2018**	**31 December 2017**
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	5,721	3,655
Subsidiaries		
SKODA AUTO India Private Ltd.	7	230
ŠKODA AUTO Slovensko s.r.o.	15	13
ŠKODA AUTO DigiLab s.r.o.	38	1
Associates		
OOO Volkswagen Group Rus	180	86
ŠKO-ENERGO s.r.o.	270	169
ŠKO-ENERGO-FIN s.r.o.	–	–
Digiteq Automotive s.r.o.	93	44
Companies controlled by ultimate parent company	**11,693**	**10,261**
Other related parties	**596**	**81**
Total	**18,613**	**14,540**

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 of 31 December 2017. Additional information is disclosed in Note 11.

(CZK million)	31 December 2018	31 December 2017
Contractual obligations and other future commitments		
Ultimate parent company	21,238	28,750
Subsidiaries	–	–
Associates	15	3
Companies controlled by ultimate parent company	521	216
Total	**21,774**	**28,969**

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)	2018	2017
Salaries and other short-term employee benefits*	853	748
Pension benefit costs (defined contribution plans)	16	15
Total	**869**	**763**

* 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 429 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2018 (31 December 2017: CZK 364 million).

26. OTHER INFORMATION

The compensation paid to the Company's auditors for the accounting period was CZK 38 million (2017: CZK 40 million) and covered the following services:

(CZK million)	2018	2017
Audit, other audit related and assurance services	22	24
Tax and related services	1	1
Other advisory services	15	15
Total	**38**	**40**

27. CONTINGENT LIABILITIES

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

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 units or tens of cases) against the Company, in which the claimants mostly seek compensation for alleged damage or replacement of allegedly defective vehicles with defect-free vehicles.

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

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

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

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

28. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, there were no events that could have a significant impact on the separate financial statements of the Company for the year ended 31 December 2018.

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, 25 February 2019

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Anke Bujara

Martina Janebová-Ciencialová

REPORT ON RELATIONS

OF THE COMPANY ŠKODA AUTO A.S. PURSUANT TO § 82 OF THE ACT ON CORPORATIONS FOR THE ACCOUNTING PERIOD 1 JANUARY – 31 DECEMBER 2018

The Board of Management of ŠKODA AUTO a.s., having its registered office tř. Václava Klementa 869, Mladá Boleslav II, 293 01 Mladá Boleslav, identification number 00177041, registered in the Commercial Register kept by Municipal Court in Prague, Section B, insert 332 (hereinafter referred to as "the Company" or "ŠKODA AUTO"), prepared the following Report on Relations pursuant to § 82 Act No. 90/2012 Coll., Act on Corporations, as subsequently amended, in the accounting period 1 January – 31 December 2018 (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 Luxembourg, 291, Route d´ Arlon, L-1150, 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 2018, 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.

In 2018, there were changes in structure of relations among companies in which ŠKODA AUTO DigiLab s.r.o., the subsidiary of the Company, holds participating interest.

The company Connectivity Lab s.r.o., subsidiary of ŠKODA AUTO DigiLab s.r.o., together with the company Champion Motors Ltd. established a joint venture SKODA AUTO DigiLab Israel Ltd., in which both partners hold 50% share effective since 2 May 2018. The purpose of the joint venture is exploration of and searching for new partners in technology area. In addition, the company Connectivity Lab s.r.o. concluded an acquisition contract for the 3.62% share in the company Anagog Ltd. on 26 June 2018. The principal activities of the company Anagog Ltd. comprise development of the technology based on artificial intelligence. The company Mobility Lab s.r.o., the subsidiary of ŠKODA AUTO DigiLab s.r.o., sold its 25% share in the company HoppyGo s.r.o. to the company SmileCar a.s. effective since 15 August 2018 and therefore, it holds the 75% share in the company HoppyGo s.r.o. as at 31 December 2018. The company HoppyGo s.r.o. deals with shared cars economy, so called "P2P car sharing".

2. FUNCTION OF THE COMPANY WITHIN THE GROUP

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

3. MEANS OF CONTROL

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

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

The Company deposits surplus liquidity with Volkswagen Group Services S.A. in the form of deposits and cash pooling at the instigation of the Controlling Entity in the usual way applied within the Group. ŠKODA AUTO paid a dividend of CZK 31,840 million to VOLKSWAGEN FINANCE LUXEMBURG S.A., as the sole shareholder, on 12 April 2018 based on the Decision of the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. from 13 March 2018 and a portion of retained earnings from previous accounting periods to the same entity amounting to CZK 38,520 million on 25 January 2018 based on the Decision of the sole shareholder in the exercise of the power of the General meeting from 20 December 2017. 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 2018. In 2018, dividends and share in profit of CZK 62 million were paid out to the Company by the subsidiaries. In 2018, dividends and share in profit of CZK 171 million were paid out to the Company by the associates.

5. OVERVIEW OF THE CONTRACTS WITHIN THE GROUP

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

5.1 Sale of own products, goods and services

a) vehicles

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

- Porsche Austria GmbH & Co. OG
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Macedonia d.o.o.e.l. Skopje
- SEAT, S.A.
- ŠKODA AUTO Slovensko, s.r.o.
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.

b) genuine parts

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

- SEAT, S.A.

c) others

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

- AUDI AG
- Audi Hungaria Zrt.
- Digiteq Automotive s.r.o. (formerly e4t electronics for transportation s.r.o.)
- MAN Truck & Bus AG
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- Porsche Werkzeugbau GmbH
- SEAT, S.A.
- SKODA AUTO India Pvt. Ltd.
- ŠKODA AUTO Deutschland GmbH

- ŠkoFIN s.r.o.
- VOLKSWAGEN AG
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen India Pvt. Ltd.
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Motorsport GmbH
- Volkswagen Osnabrück GmbH
- Volkswagen Sachsen GmbH
- Volkswagen Slovakia, a.s.

5.2 Purchase of goods, services and non-current assets

a) production material

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

- AUDI AG
- AUDI BRUSSELS S.A.
- Audi Hungaria Zrt.
- Italdesign Giugiaro S.p.A.
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- SEAT, S.A.
- Shanghai Volkswagen Powertrain Company, Ltd.
- SITECH Sitztechnik GmbH
- SITECH Sp. z o.o.
- ŠKO-ENERGO s.r.o.
- VOLKSWAGEN AG
- Volkswagen AG Nutzfahrzeuge
- Volkswagen AG PKW
- Volkswagen Argentina S.A.
- Volkswagen Autoeuropa, Lda.
- Volkswagen Automatic Transmission (Dalian) Co., Ltd.
- Volkswagen de México, S.A. de C.V.
- Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
- Volkswagen Group Logistics GmbH
- Volkswagen Group Services Kft.
- Volkswagen Motor Polska Sp. z o.o.
- 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.

b) overheads

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

- AUDI AG
- AUDI Electronics Venture GmbH
- Audi Volkswagen Taiwan Co., Ltd.
- Automotive Safety Technologies GmbH
- Autostadt GmbH
- Carmeq GmbH
- D'Ieteren Lease S.A.
- Digiteq Automotive s.r.o. (formerly e4t electronics for transportation s.r.o.)
- MAN Truck & Bus Czech Republic s.r.o.
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Croatia d.o.o.
- Porsche Engineering Group GmbH
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovenija d.o.o.
- Porsche Werkzeugbau s.r.o.
- Scania Czech Republic s.r.o.
- SEAT, S.A.
- ŠKODA AUTO Deutschland GmbH
- ŠkoFIN s.r.o.
- Transport Technologie-Consult Karlsruhe GmbH
- Volkswagen (China) Investment Co.
- VOLKSWAGEN AG
- Volkswagen AirService GmbH
- Volkswagen do Brasil Indústria de Veículos Automotores Ltda.

- Volkswagen Gebrauchtfahrzeughandels und Service GmbH
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group Ireland Ltd.
- Volkswagen Group Italia S.p.A.
- Volkswagen Group of America, Inc.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Services Kft.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen India Pvt. Ltd.
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Konzernlogistik GmbH & Co. OHG
- Volkswagen Motorsport GmbH
- Volkswagen Slovakia, a.s.
- Volkswagen Software Asset Management GmbH
- Volkswagen Zubehör GmbH
- VW Kraftwerk GmbH

c) genuine parts

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

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

d) non-current assets

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

- Digiteq Automotive s.r.o. (formerly e4t electronics for transportation s.r.o.)
- Dr. Ing. h.c. F. Porsche AG
- MHP Management-und IT-Beratung GmbH
- Scania Czech Republic s.r.o.
- VOLKSWAGEN AG
- Volkswagen Software Asset Management GmbH
- VW Kraftwerk GmbH

5.3 Other contractual relationships

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

- AUDI AG
- Audi Hungaria Zrt.
- Audi Volkswagen Taiwan Co., Ltd.
- Connectivity Lab s.r.o.
- D'Ieteren Lease S.A.
- Digiteq Automotive s.r.o. (formerly e4t electronics for transportation s.r.o.)
- Dr. Ing. h.c. F. Porsche AG
- Euromobil Autovermietung GmbH
- INIS International Insurance Service s.r.o.
- Italdesign Giugiaro S.p.A.
- MAN Truck & Bus AG
- MHP Management-und IT-Beratung GmbH
- Mobility Lab s.r.o.
- Nardò Technical Center S.r.l.
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- Porsche Albania Sh.p.k.
- Porsche Austria GmbH & Co. OG
- Porsche Automobil Holding SE
- Porsche BH d.o.o.
- 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 Konstruktionen GmbH & Co. KG
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovenija d.o.o.
- SEAT, S.A.

- SKODA AUTO India Pvt. Ltd.
- Smart City Lab s.r.o.
- ŠKODA AUTO Deutschland GmbH
- ŠKODA AUTO DigiLab s.r.o.
- ŠKODA AUTO Slovensko, s.r.o.
- ŠKO-ENERGO s.r.o.
- ŠkoFIN s.r.o.
- Volkswagen (China) Investment Co.
- VOLKSWAGEN AG
- Volkswagen Group Sp. z o.o.
- 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 Polska Sp. z o.o.
- Volkswagen Group Singapore Pte. Ltd.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen Immobilien GmbH
- Volkswagen Konzernlogistik GmbH & Co. OHG
- Volkswagen of South Africa (Pty) Ltd.
- Volkswagen Osnabrück GmbH
- Volkswagen Sachsen GmbH
- Volkswagen Slovakia, a.s.
- VOLKSWAGEN Transmission (Shanghai) Company Ltd.
- Volkswagen Vertriebsbetreuungsgesellschaft GmbH

The Company increased its capital contribution to the subsidiary ŠKODA AUTO DigiLab s.r.o. in the form of contribution outside the share capital in total amount of CZK 70 million in 2018 (CZK 35 million effective since 7 March 2018 and CZK 35 million effective since 25 June 2018).

Transactions relating to contracts concluded in previous years

Besides companies disclosed in points 5.1, 5.2 and 5.3 the Company carried out transactions with the following companies, controlled by the same Controlling Entity, based on contracts concluded and presented in reports in relations of the Company in previous years:

- Audi (China) Enterprise Management Co., Ltd.
- Audi Volkswagen Middle East FZE
- Automotive Safety Technologies GmbH
- Bentley Motors Ltd.
- MHP Management-und IT-Beratung GmbH
- Porsche Colombia S.A.S.
- Porsche Siebte Vermögensverwaltung GmbH
- Porsche Slovakia, spol. s r.o.
- ŠKO-ENERGO FIN s.r.o.
- VfL Wolfsburg-Fußball GmbH
- Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
- Volkswagen Bank GmbH
- Volkswagen Finančné služby Slovensko s.r.o.
- Volkswagen Group Hong Kong Ltd.
- Volkswagen Group Charging GmbH
- Volkswagen Group Import Co., Ltd.
- Volkswagen Group Sales India Pvt. Ltd.
- Volkswagen Group Services GmbH
- Volkswagen Infotainment GmbH
- Volkswagen Insurance Brokers GmbH
- Volkswagen Original Teile Logistik GmbH & Co. KG
- Volkswagen Group Malaysia Sdn. Bhd.
- 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, 25 February 2019

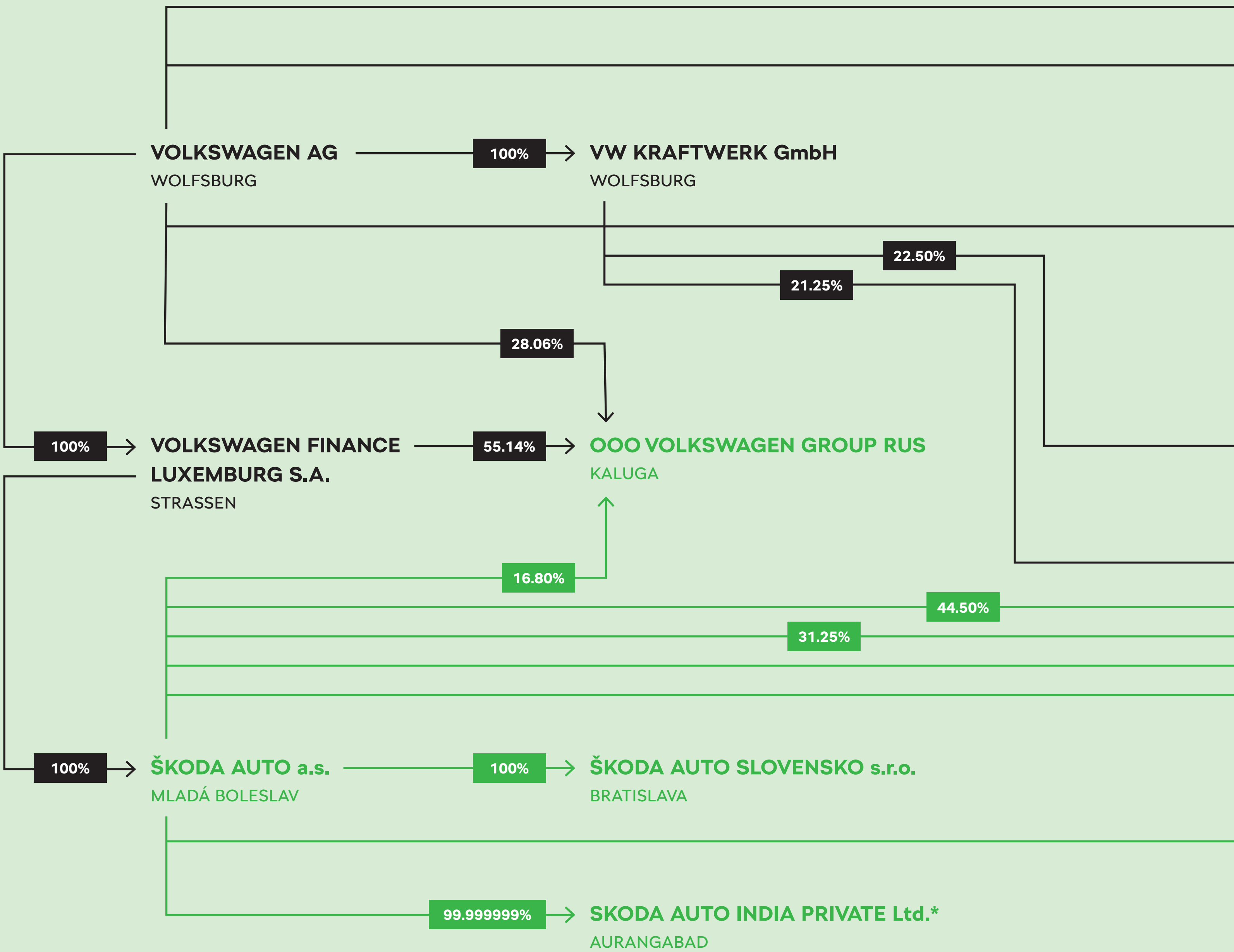
The Board of Management:

Bernhard Maier

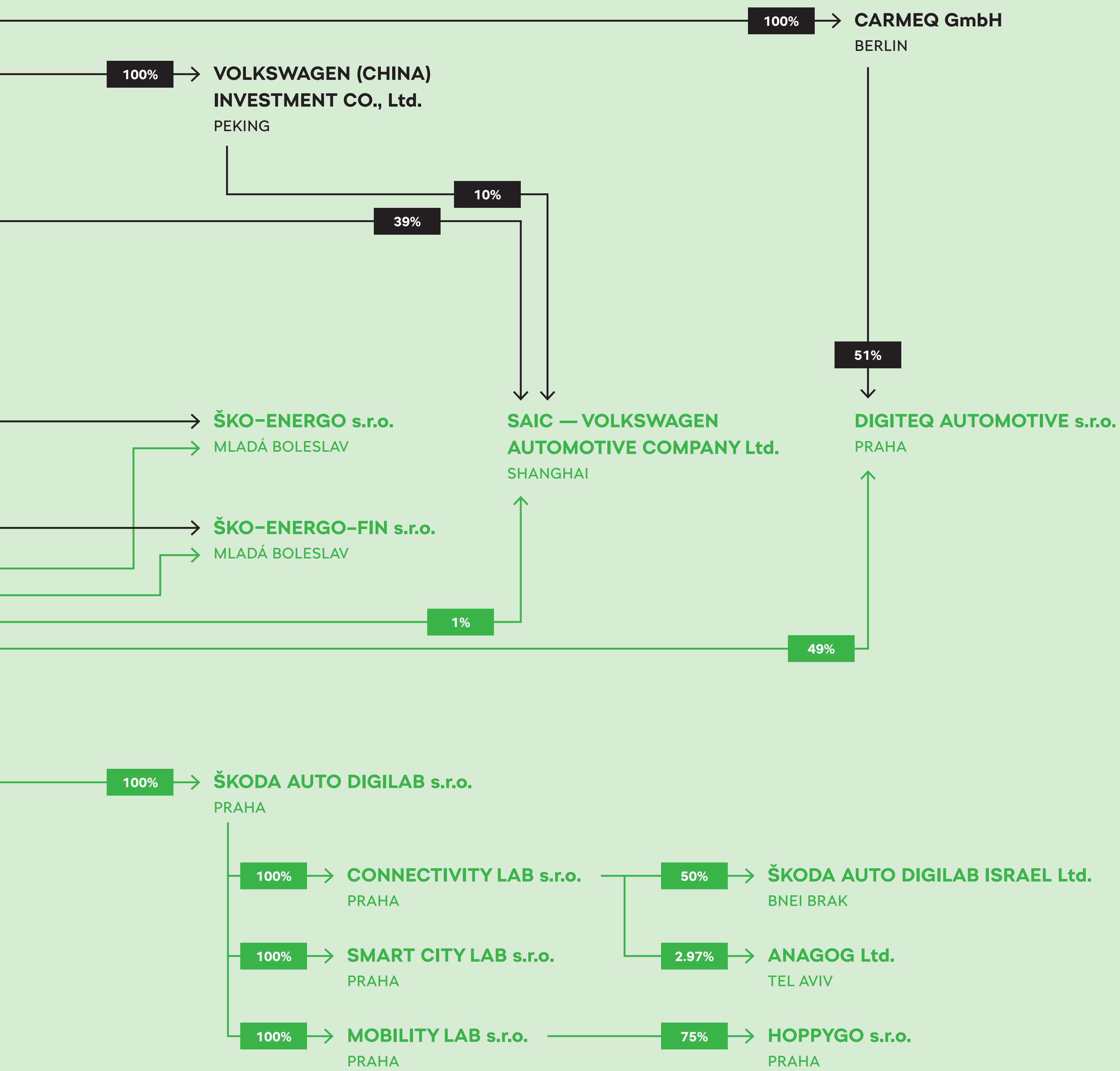
Alain Favey | **Michael Oeljeklaus** | **Klaus-Dieter Schürmann**

Dieter Seemann | **Christian Strube** | **Bohdan Wojnar**

OWNERSHIP STRUCTURE



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


100%
CARMEQ GmbH
BERLIN
100%
VOLKSWAGEN (CHINA) INVESTMENT CO., Ltd.
PEKING
10%
39%
51%
ŠKO-ENERGO s.r.o.
MLADÁ BOLESLAV
SAIC — VOLKSWAGEN AUTOMOTIVE COMPANY Ltd.
SHANGHAI
DIGITEQ AUTOMOTIVE s.r.o.
PRAHA
ŠKO-ENERGO-FIN s.r.o.
MLADÁ BOLESLAV
1%
49%
100%
ŠKODA AUTO DIGILAB s.r.o.
PRAHA
100%
CONNECTIVITY LAB s.r.o.
PRAHA
50%
ŠKODA AUTO DIGILAB ISRAEL Ltd.
BNEI BRAK
100%
SMART CITY LAB s.r.o.
PRAHA
2.97%
ANAGOG Ltd.
TEL AVIV
100%
MOBILITY LAB s.r.o.
PRAHA
75%
HOPPYGO s.r.o.
PRAHA

GLOSSARY OF TERMS AND ABBREVIATIONS

BEV
Battery electric vehicle

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

CNG
Compressed natural gas; methane fuel

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

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

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

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

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

EURO NCAP
European New Car Assessment Programme; European consumer organisation that conducts safety tests

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

GRC
Governance, Risk management and Compliance

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

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

HR
Human Resources

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

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

INVESTMENT RATIO
ratio of capital expenditures (less capitalised development expenses) to total sales revenues

KONTRAG
Gesetz zur Kontrolle und Transparenz im Unternehmensbereich;
German Information Disclosure and Transparency Act

MEB
Modularer Elektrifizierungsbaukasten; modular platform for electric vehicles

MQB
Modularer Querbaukasten; modular platform

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

OECD
Organisation 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

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

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

EVENTS AFTER THE BALANCE SHEET DATE

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

AFFIRMATION

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

Mladá Boleslav, 25 February 2019

The Board of Management:

Bernhard Maier

Alain Favey

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Anke Bujara

Martina Janebová-Ciencialová

KEY FIGURES AND FINANCIAL RESULTS

OF ŠKODA AUTO ACCORDING TO IFRS IN BRIEF

SALES, PRODUCTION AND WORKFORCE		2014	2015	2016	2017	2018
Deliveries to customers	**vehicles**	**1,037,226**	**1,055,501**	**1,126,477**	**1,200,535**	**1,253,741**
Sales*	**vehicles**	**773,791**	**778,416**	**799,938**	**909,567**	**932,035**
Sales of ŠKODA cars*	vehicles	757,330	758,742	746,551	818,976	831,067
Production*	**vehicles**	**735,951**	**736,977**	**765,171**	**858,103**	**886,103**
Production of ŠKODA cars*	vehicles	719,410	717,249	711,309	767,474	785,128
Employees	persons	24,631	25,452	28,373	31,626	33,696

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

INCOME STATEMENT		2014	2015	2016	2017	2018
Sales revenue	**CZK million**	**299,318**	**314,897**	**347,987**	**407,400**	**416,695**
Cost of sales	CZK million	254,944	268,184	295,232	347,519	359,421
	% of revenues	85.2	85.2	84.8	85.3	86.3
Gross profit	**CZK million**	**44,374**	**46,713**	**52,755**	**59,881**	**57,274**
	% of revenues	14.8	14.8	15.2	14.7	13.7
Distribution expenses	CZK million	13,466	13,272	13,503	15,040	14,046
Administrative expenses	CZK million	6,939	7,273	7,843	9,710	12,366
Net other operating result	CZK million	(2,371)	8,986	(517)	5,400	2,978
Operating profit	**CZK million**	**21,598**	**35,154**	**30,892**	**40,531**	**33,840**
	% of revenues	7.2	11.2	8.9	9.9	8.1
Net financial result	CZK million	(249)	(916)	(43)	(1,406)	1,291
Profit before tax	**CZK million**	**21,349**	**34,238**	**30,849**	**39,125**	**35,131**
Return on sales before tax	%	7.1	10.9	8.9	9.6	8.4
Income tax expense	CZK million	2,928	3,422	5,686	7,284	6,239
Profit for the year	**CZK million**	**18,421**	**30,816**	**25,163**	**31,841**	**28,892**
Return on sales after tax	%	6.2	9.8	7.2	7.8	6.9

BALANCE SHEET / FINANCING		2014	2015	2016	2017	2018
Non-current assets	CZK million	105,139	107,654	104,838	106,675	118,871
Current assets	CZK million	71,730	94,961	123,342	144,184	100,447
Equity	CZK million	100,001	117,482	137,580	117,484	111,674
Non-current and current liabilities	CZK million	76,868	85,133	90,600	133,375	107,644
Balance sheet total	**CZK million**	**176,869**	**202,615**	**228,180**	**250,859**	**219,318**
Net liquidity	**CZK million**	**41,452**	**60,077**	**70,910**	**95,078**	**43,333**
Cash flows from operating activities	CZK million	45,158	39,622	50,426	60,811	44,763
Cash flows from investing activities	CZK million	(25,512)	(6,467)	(24,051)	(17,996)	(25,758)
Net cash flows	**CZK million**	**19,646**	**33,155**	**26,375**	**42,815**	**19,005**
Investments	**CZK million**	**19,150**	**15,857**	**14,652**	**18,885**	**22,574**
Investment ratio	%	6.4	5.0	4.2	4.6	5.4
Equity ratio	%	56.5	58.0	60.3	46.8	50.9
Non-current asset to equity ratio	%	95.1	109.1	131.2	110.1	93.9

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