ŠKODA

2013
ŠKODA Annual Report

ŠKODA AUTO a.s.

Contents

Company Overview

ŠKODA AUTO, based in Mladá Boleslav in the Czech Republic, is one of the world's longest-standing automobile manufacturers. The tradition of the Company dates back to 1895, when Václav Laurin and Václav Klement formed a partnership that laid the foundation for over 100 years of Czech expertise in automotive engineering.

The ŠKODA brand has been a Volkswagen Group brand for more than 20 years. During this time, the ŠKODA AUTO Group's deliveries to customers have increased substantially and its product portfolio has expanded significantly. Today, ŠKODA AUTO employs more than 25,750 people worldwide.

The ŠKODA AUTO Group has production facilities in the Czech Republic and India. Furthermore, ŠKODA cars are produced in China, Russia, Slovakia, the Ukraine and Kazakhstan.

This international presence will form the basis for the Group's planned growth over the next few years. The conditions for this are already in place: impressive automobiles, a strong brand, a motivated and capable team and the ability to turn innovations into Simply Clever customer benefits.

Foreword

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

Ladies and Gentlemen,

2013 was all about ŠKODA's biggest-ever model offensive: Within just one year, we presented eight new or completely revised models to the public – more than ever before in our 118-year history. The response has been very positive. Central to it all was the new ŠKODA Octavia, which was particularly well received, not only by the press and public, but also by the markets, and looks set to take this model to the next dimension.

2013 confirmed ŠKODA's potential more than any year so far: With eight new or revised models, twelve international production ramp-ups, expansion of capacity in the Czech Republic and in the growth markets of China and Russia – the dynamic pace of development is both unique and impressive. It is sustained by the positive attitude and motivation of all our employees worldwide. Thanks to their dedication, we were able to overcome the considerable challenges of 2013 and make significant progress across the board. My Board of Management colleagues and I would therefore like to thank all ŠKODA AUTO employees and their union representatives for their hard work and dedication, and their willingness to constantly grow beyond their limits. Without this strong team, we would have been unable to meet our ambitious goals for 2013!

Despite our obvious satisfaction with our achievements last year, we should not forget that 2013 was no easy year for automobile manufacturers worldwide. In Europe, virtually all automobile markets were weaker than the previous year and markets like Russia and India also weakened significantly. Of course, the start of a new year does not automatically bring improvement, but we are already seeing signs that key markets have bottomed out. Nevertheless, it will still be a while before we reach new heights again.

ŠKODA was able to gain market share in nearly all markets in 2013 and once again confirms our Company's strength. In Western Europe, our deliveries performed significantly better than the shrinking overall market and increased by 3.1%;

our market share in the region also rose to 3.2%. We saw particularly strong gains in Germany, our second-largest market: With an increase in deliveries of 2.9% while the overall German market contracted by 4.2%, we once again expanded our position as the strongest import brand.
ŠKODA also made further gains in Central Europe. We remain the undisputed market leader in our Czech domestic market, with the delivery of 60,000 vehicles to customers in 2013 - a growth of 0.6% despite the overall market shrinking by 5.3%. We are also the clear number one in Slovakia with a total of 14,800 deliveries and in Poland, where deliveries to customers were 6.6% higher year-on-year, with 38,700 ŠKODA vehicles delivered to customers.
China remains our largest single market. Although deliveries were slightly lower here in 2013 than the previous year, the market launch of the new ŠKODA Octavia still lies ahead, and puts us in an excellent position for 2014.
In 2013, even as we were heavily impacted by the production ramp-up of the new models, we were able to maintain deliveries at nearly the same record level as in 2012. With a total of 920,750 vehicles delivered, we posted the second-best level of deliveries in our history.
None of this happened by chance. It is the result of our concerted efforts in recent years. Today, we are in an excellent situation, with the right products at the right time and vehicles ideally positioned between the classic segments. Our strategy is proving its worth in difficult times. With extensive investments in 2013, we continued to lay the foundation of our future growth.
We are by no means resting on our laurels. As we have successfully proven in recent years, our Company must always be ready for further change – because in the automotive industry, standing still means moving backwards. We must remain agile and adaptable: not a tanker, but a nimble speedboat, able to respond to faster-changing market demands in the best way possible. Conditions in the global automobile markets are changing more rapidly than ever. This applies to legislation and local requirements, as well as the demands of our customers. We understand their needs and will do everything to continue to meet them in the future.
In 2014, we will bring the full power of our model offensive to the roads, as all of the new and revised models presented in 2013 become available in all markets. And from the overwhelming response their premieres received last year, I am confident our customers will be impressed.
The new models are also popular with our dealers, who, over the coming years, will contribute to ŠKODA's continued growth worldwide with substantial investment in showrooms and service areas.
2013 was not a unique show of effort. Our brand is increasingly gathering strength – and creating the necessary conditions for our sustained success. We are well on our way to become an international volume manufacturer. That is the league we play in. We will maintain this pace, and continue to present a new model every six months on average over the coming years.
Over the coming years, we will continue to systematically expand and supplement our product range. There are still many segments in the automotive markets, where ŠKODA could perform exceptionally well with its signature "Simply Clever" features. Things are sure to remain exciting at ŠKODA in 2014 and in the years ahead!

Yours

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

Management Report

ŠKODA AUTO Group profile

The ŠKODA AUTO Group ("the Group") is one of the leading corporate groups in the Czech Republic. It comprises the parent company ŠKODA AUTO a.s., its fully consolidated subsidiaries ŠKODA AUTO Deutschland GmbH, ŠKODA AUTO Slovensko s.r.o., Skoda Auto India Private Ltd., and associates.

ŠKODA AUTO a.s.

The parent company, ŠKODA AUTO a.s. ("the Company"), is a Czech company with a tradition of automotive manufacturing dating back more than a century, making ŠKODA one of the world's oldest automotive brands. The Company's principal business is the development, manufacture and sale of ŠKODA-brand automobiles, components and genuine parts and accessories and the provision of maintenance services. The sole shareholder of the parent company, ŠKODA AUTO a.s., is the company Volkswagen International Finance N.V., with its registered office in Amsterdam, the Netherlands. Volkswagen International Finance N.V. is an indirect 100% subsidiary of VOLKSWAGEN AG.

ŠKODA AUTO Deutschland GmbH

ŠKODA AUTO Deutschland GmbH was established in 1991 and has been a subsidiary of ŠKODA AUTO a.s. since 1995. The company's principal business is the purchase and sale of vehicles, genuine parts and accessories.

ŠKODA AUTO Slovensko s.r.o.

ŠKODA AUTO Slovensko s.r.o. was established in 1993 as a subsidiary of ŠKODA AUTO a.s. Its principal business is the purchase and sale of vehicles, genuine parts and accessories.

Skoda Auto India Private Ltd.

This company was established as a subsidiary of ŠKODA AUTO a.s. in 1999 and began assembling vehicles in 2001. Its principal business is the purchase, manufacture and sale of vehicles, genuine parts, accessories and other goods.

OOO VOLKSWAGEN Group Rus

The company's principal business is the purchase, manufacture and sale of vehicles, genuine parts and accessories. ŠKODA AUTO a.s. holds a minority interest in this company.

In addition to OOO VOLKSWAGEN Group Rus, the ŠKODA AUTO a.s. company also has substantial interests in other associated companies. However, their impact on the consolidated corporation's results is insignificant.

ŠKODA AUTO a.s.

registered office: Mladá Boleslav, Czech Republic

ŠKODA AUTO Deutschland GmbH	ŠKODA AUTO Slovensko s.r.o.	Skoda Auto India Private Ltd.	OOO VOLKSWAGEN Group Rus
registered office: Weiterstadt, Germany 100% holding of ŠKODA AUTO	registered office: Bratislava, Slovakia 100% holding of ŠKODA AUTO	registered office: Aurangabad, India 100% holding of ŠKODA AUTO	registered office: Kaluga, Russia 16.8% holding of ŠKODA AUTO

Report of the Supervisory Board

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

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

Under its resolution of 5 March 2013, Volkswagen International Finance N.V., as the sole shareholder of ŠKODA AUTO a.s., approved a proposal for commissioning Pricewaterhouse-Coopers Audit, s.r.o. to carry out an audit of the financial statements for the 2013 accounting period.

The auditor, reviewing separate financial statements of the ŠKODA AUTO a.s. pursuant to IFRS, the consolidated group financial statements pursuant to IFRS as at 31 December 2013, and the report on relations between affiliated persons for 2013 issued an unqualified opinion. At its meeting on 27 February 2014, the Supervisory Board discussed the financial results and favourably assessed a proposal of the Board of Management for distribution of the ŠKODA AUTO a.s. profits based on the annual financial statements pursuant to IFRS. The Supervisory Board also reviewed the report on relations between affiliated persons for 2013 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2013 and the proposal for the distribution of profits to the sole shareholder, Volkswagen International Finance N.V., for approval.

Christian Klingler
Chairman of the Supervisory Board

ŠKODA AUTO bodies

Supervisory Board

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

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

Dr. h.c. Michael Macht (*1960)
Member of the Supervisory Board since 6 November 2010
Member of the Board of Management for Production, VOLKSWAGEN AG

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

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

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

Board of Management

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

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

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

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

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

Dipl.-Ing. Karlheinz Hell (*1963)
Member of the Board of Management since 1 January 2010, Purchasing
Previous position:
Head of Purchasing, Volkswagen of South Africa (Pty.) Ltd. (2007–2009)

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

Audit Committee

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

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

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

Declaration of Compliance with the Code of Corporate Governance

ŠKODA AUTO is aware of its unique position within the Czech business environment and the growing respect it enjoys within the Volkswagen Group and among competing manufacturers in the automotive sector. It therefore attaches the utmost importance to being perceived by its employees, business partners, all its customers and the general public as a successful and transparent company sharing information. It is conscious of its long tradition and reputation built up over a long period, which the company regards as key asset for further successful development of its business activities.

In the light of these factors, ŠKODA AUTO has been committed to the relevant recommendations and rules of the Code of Corporate Governance of OECD-based companies ("the Code") since 2007 in the format updated under the auspices of the Securities Commission in 2004. The Company aims to continuously improve internal processes and rules in accordance with the Code to further encourage transparency and compliance with regulations and ethical behaviour within business practices in the Czech Republic.

Level of compliance with recommendations of the Code of Corporate Governance

In line with best practice at the Volkswagen Group, the majority of the Company's internal management and control processes have, over the long term, been established in accordance with the Code. With regard to the Company's shareholding structure (only one shareholder – Volkswagen International Finance N.V.), VOLKSWAGEN AG organisational structure (see VOLKSWAGEN AG website) and the fact that the Company is not listed, some recommendations of the Code are not relevant or, in the interest of efficiency and synergy, are transferred at the appropriate level to the corporation level.

At the same time, Company policies are based on "Code of Conduct at ŠKODA Group — Member of the Volkswagen Group" (henceforth referred to as "the Code of Conduct") that was adopted and distributed to employees in the third quarter of 2012. The Code of Conduct highlights rules resulting from legal regulations with the maximum impact on the Company and it supports employees in complying with generally recognised social values.

Hence, in an understandable form, the Code of Conduct formulates the Company's general requirements for employee behaviour, reminds them of their role in preserving the Company's reputation, and provides detailed rules for preventing conflicts of interest and corruption and handling Company information and assets. The Code of Conduct also outlines basic rules for behaviour towards business partners and third parties and clearly formulates the Company's interest in protecting fair competition. Among the Company's other liabilities covered in detail by the Code of Conduct are health and safety in the workplace and environmental protection.

The Company does not fully comply with the recommendation of the Code pursuant to Section VI-E-2 (in relation to point 18 of the Code guidelines) that it should establish committees responsible for remuneration and nominations. With regard to the Company's specific shareholder structure, the activities associated with the committee are in synergy and to the effective degree transferred to Group level. The activities of the remunerations and nominations committee are carried out by VOLKSWAGEN AG Board of Management's committee for personnel matters. The Company is also not fully compliant with the recommendation of Chapter VI-E-1 of the Code (in connection with point 5 of the Code guidelines) that the Board of Management or Supervisory Board shall have a sufficient number of members not employed by the Company who are not in a close relationship with the Company or its management through significant economic, family or other ties.

The above conflict with the relevant provisions of the Code does not constitute a failure to comply with the mandatory requirements of Czech law or a legal risk for the Company.

Compliance

A Governance, Risk and Compliance unit has been active within the Company since 2011. The role of this unit is, amongst other things, to provide guidance on issues of governance and compliance and to introduce a prevention programme for the Company and its affiliates. It also supports the Internal Audit unit in the enforcement of internal standards and legal requirements.

Strategy

ŠKODA growth strategy – largest model campaign well under way

ŠKODA AUTO is in a good position for the years to come. Our long-term goal is to increase annual deliveries to customers to over 1.5 million cars. This involves a substantial expansion of the model line-up. Our model campaign is well under way: As in the last few years, a new or updated ŠKODA model will be released every six months on average in the years to come. The focus is on timeless elegant, spacious, high practicality cars that offer excellent value for money. The implementation of the ŠKODA AUTO growth strategy began in 2010, and was already showing the first results by 2011. In 2012, sales figures reached 939,202 deliveries to customers, which was a new company record.

In 2013, ŠKODA AUTO launched the largest model campaign in Company history, introducing eight new or revised models. ŠKODA AUTO started with the launch of the third generation of the new ŠKODA Octavia as liftback, Combi, Combi 4x4 and RS; its first compact hatchback, the ŠKODA Rapid Spaceback; the completely renewed ŠKODA Superb, the Company's flagship; and its revised compact SUV, the ŠKODA Yeti, now available for the first time as both Yeti city version and Yeti Outdoor. The first half of 2013 was influenced by major model changeovers resulting in restricted capacity due to the start of production of the new vehicles. Market entries and production capacities were becoming effective in the second half of 2013. However, the new ŠKODA cars are not yet available in all markets. Overall financial and sales performance was therefore impacted for the reasons mentioned in 2013.

Additionally, investments in new models and changeovers of eight ŠKODA models in 2013 had a negative influence on sales and profits. The continuing poor performance of some European markets and difficult global economic conditions, have also had some effect on our own performance. All in all, sales of ŠKODA AUTO reached 920,750 units delivered to customers in 2013, which is a decrease of 2.0% compared to 2012. In the second half of 2013, sales and profit figures indicate that ŠKODA AUTO is already back on its growth track.

The Group's increasing internationalisation is another key element of ŠKODA AUTO's growth strategy and leveraging additional potential in markets such as China and Russia is a priority.

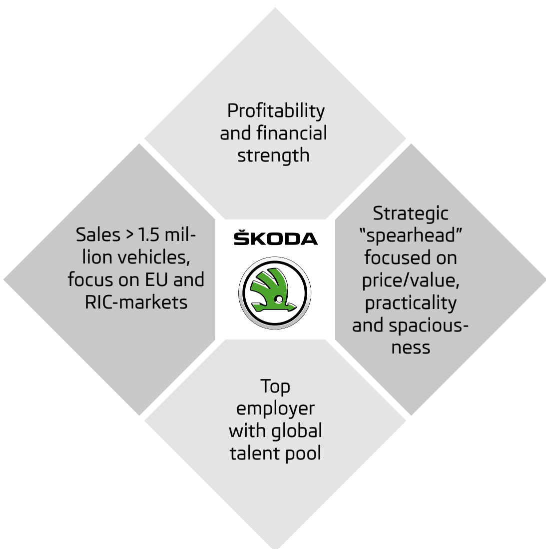
In 2013, ŠKODA AUTO has strengthened its product portfolio in China through two new models: The ŠKODA Yeti and the ŠKODA Rapid for China are manufactured locally; production of the renewed ŠKODA Superb for China also got underway at an all-new production plant operated by Shanghai Volkswagen in Ningbo. In early 2014, production of the new ŠKODA Octavia will also begin in China.

ŠKODA AUTO is also investing in developing the market in Russia: The production of the ŠKODA Yeti began in December 2012, at the GAZ Group production plant in Nizhny Novgorod. GAZ is a business partner of VOLKSWAGEN Group Rus and provides ŠKODA with additional capacity. Since 2013, the new ŠKODA Octavia has also been produced there; a localised version of the ŠKODA Rapid will be manufactured in Russia in 2014.

ŠKODA AUTO's growth strategy is accompanied by extensive activities to boost profitability and by investments in the Group's growth, especially in its home country, the Czech Republic. For all three Czech production plants, and also for future development, major investments into services and employee training have been started. ŠKODA AUTO aims to become a more attractive employer at an international level.

"Simply Clever" – the Company's mission

All ŠKODA AUTO activities are defined under the motto "Simply Clever". These words form the core of the brand. They capture the essence of ŠKODA AUTO's mission and shape products and processes. For our customers, "Simply Clever" stands for practical, sophisticated and smart solutions.



Product Portfolio

ŠKODA Citigo
The smallest ŠKODA model, with its fashionable three or five-door body is ideal, especially for the city. Since its introduction in 2011, the Citigo has won the hearts of many city dwellers mainly due to its agility, economy and safety. Thanks to its many surprising details, the ŠKODA Citigo is a modern everyday car that also offers an enjoyable driving experience. In summer 2013, Gerhard Plattner proved that the ŠKODA Citigo CNG has exceptional fuel economy by completing a journey from Vicenza in Italy to Stockholm in Sweden using only €82 worth of fuel.

ŠKODA Fabia and ŠKODA Fabia Combi
Both models are economical in terms of fuel consumption as well as effective in the use of internal space, and have been best-sellers in the ŠKODA portfolio for many years. Reliability, an efficient engine and value for money make the ŠKODA Fabia the first choice for those who require a car for everyday use at a fair price.

ŠKODA Roomster
The ŠKODA Roomster's main attraction is its spacious luggage compartment. The clue to the design is in the name and this is the reason behind its success with customers. Its hallmark is clean design and the flexibility of its interior. Since its introduction to the market in 2006, ŠKODA has also been successful in the compact MPV category.

ŠKODA Rapid and ŠKODA Rapid Spaceback
The ŠKODA Rapid, a family car introduced in autumn 2012, bridges the gap between the Fabia and the Octavia. Its interior is characterised by many clever details and a generous luggage compartment. Together with specific versions for India and China, the ŠKODA Rapid is a key model in the ŠKODA growth strategy. The Rapid Spaceback joined the Rapid range in autumn 2013 and is the first ŠKODA model with a hatchback body in the lower medium class.

ŠKODA Yeti
In 2009, with the help of the ŠKODA Yeti, ŠKODA captured a new sector of the market. As one of the first models in the compact SUV category, the ŠKODA Yeti gained attention in many markets, not just in Europe. The Yeti model underwent significant modernisation in late 2013 and is now available in two options for the first time. The ŠKODA Yeti is suitable especially for the city, while the more adventurous Yeti Outdoor is aimed mainly at off-road use.

ŠKODA Octavia and ŠKODA Octavia Combi
The ŠKODA Octavia and the ŠKODA Octavia Combi are the most successful models in ŠKODA's history. Since 1996 the ŠKODA Octavia has continued to amaze with its timeless design, large amount of offered space and high functionality. A completely new model introduced by ŠKODA AUTO at the end of 2012 follows in the footsteps of the previous generations of the ŠKODA Octavia. In 2013, after introducing the Octavia to the market, the range was expanded with the popular ŠKODA Octavia Combi model and also the Octavia Combi 4x4 and the Octavia RS – the most powerful Octavia ever. In autumn, the range was expanded with the environmentally friendly ŠKODA Octavia GreenLine.

ŠKODA Superb and ŠKODA Superb Combi
The ŠKODA Superb embodies outstanding quality at an unbeatable price for its class. The amount of space available as well as the level of technology and the attractive price is exceptional. The bodywork is both sporty and elegant at the same time. Significant modernisation of ŠKODA's flagship model with a new design language took place in spring 2013. In addition to the improved look and new equipment features, new engines and gearbox combinations were also added.

Overview of developments on the automobile markets

Positive developments on the global automobile market

In 2013, the recovery of the global automotive market continued. The positive development was driven mainly by growth in various markets, such as China, North America and the Middle East. However, European countries experienced – especially in the first half of the year – a fall in demand for new cars. In the second half of the year, the European automotive market regained its stability. An exception to this was the U.K., one of the few European countries reporting sales growth throughout the year. The previously dynamic markets of Russia and India experienced a drop in demand in 2013.

The positive developments in China and North America were the main drivers behind the worldwide year-on-year increase in car sales of 4.6%, reaching a volume of 81.8 million cars, of which about 70.1 million were passenger cars.

Central Europe

The Central European market demonstrated a year-on-year increase of 1.1%. After three years of growth, the Czech market experienced a year-on-year decrease of 5.3%, resulting in 164,736 sold cars. A drop in sales was reported in Slovakia (-5.5%) as well as in Croatia (-11.8%). However, Poland saw a year-on-year increase of 6.5%, with 288,262 cars sold. Other Central European markets such as Hungary and Slovenia also indicated growth in sales, with 62,000 cars sold in Hungary (+6.1%) and 49,649 cars in Slovenia (+5.9%).

Western Europe

Similarly to other European countries Western Europe was also impacted by the negative economic development. Year-on-year car sales declined by 1.9%. The negative year-on-year development was more significant in the first half of the year. The situation on the passenger cars market stabilised in the fourth quarter. With 2,264,069 cars sold, the U.K. (+10.7%) was the fastest-growing market in the region. After years of economic crisis, the automotive market in Southern Europe recovered slightly in 2013, with growth in Spain (+2.9%), Portugal (+10.9%) and Greece (+0.4%) in particular.

Other markets reporting a year-on-year increase in 2013 were Denmark (+6.7%) and Norway (+3.0%). The strongest Western European economy – Germany – demonstrated a year-on-year decrease in sales of 4.2%.

Other markets with high sales volumes also declined in 2013. France, Italy, the Netherlands and Austria demonstrated a total market drop; in particular, France by 5.6%, Italy 7.1%, the Netherlands by 16.9%, and Austria by 5.0%.

Eastern Europe

The 2013 year-on-year decrease in the Eastern European automotive market was 4.9%. The only growing big Eastern European market was Kazakhstan, increasing by 13.3%. Russia, the most important market in the region, reported a drop of 5.7%, which indicates that, in the short-term outlook, the local passenger cars market has reached its peak and the strong growth of past years will not be repeated. Romania, where the automotive market has been sluggish for several years, also reported a significant drop of 9.5%. Another important ŠKODA market, Ukraine, reported a year-on-year decrease of 7.4%.

Overseas/Asia

International automotive sales were predominantly driven by fast-growing Asian and overseas markets – these demonstrated a total sales increase of 7.4% in 2013.

The Chinese economy, which has been growing for several years now, achieved a year-on-year market increase of 17.0%. Following years of growth, the Indian market was unable to avoid a drop of 6.7% in 2013, arising from the unstable economic and monetary situation.

The development in other overseas/Asian countries was slightly positive, with a total rise of 4.5%. For example, a very positive result was achieved on the Turkish automotive market, with a year-on-year increase of 15.7%.

Financial situation

The ŠKODA AUTO Group consolidated financial results are reported according to IAS/IFRS. Consolidated financial results include the financial results of the parent company, ŠKODA AUTO, the financial results of the subsidiary companies ŠKODA AUTO Deutschland, ŠKODA AUTO Slovensko and Skoda Auto India and the share in affiliated companies' financial results.

ŠKODA AUTO Group

In 2013, despite the challenging situation on automotive markets and extensive investments in the largest model offensive in the history of ŠKODA AUTO, the Group delivered a sound financial performance.
ŠKODA AUTO Group sales increased year-on-year by 2.2% to CZK 268.5 billion, which is the highest figure in the Company's history. Operating profit reached CZK 13.5 billion. Net profit fell to CZK 11.8 billion.

Group business performance

In 2013, ŠKODA AUTO delivered a total of 920,750 cars to customers worldwide. This represents a year-on-year decline of 2.0%. Year-on-year, Group sales declined by 1.1% to 718,642 cars. Group sales revenue increased to CZK 268.5 billion. The sales revenue increase resulted from exchange rate effects. In the reporting period, car sales represented 83.3% of total Group revenue (2012: 84.7%). The bestselling models were the ŠKODA Octavia and ŠKODA Fabia. Positive developments were seen with the ŠKODA Rapid and ŠKODA Citigo cars. Original parts and accessories business showed a positive development, with a share of 8.3% (2012: 7.3%) of total sales. The remaining 8.4% (2012: 8.0%) represents sales from the supply of components to Volkswagen Group companies and other revenues.
The cost of sales increased year-on-year by 3.0% to CZK 228.5 billion. The increase largely consisted of depreciation and material costs (raw material costs, consumed materials and purchased goods), which totalled more than 75% of the Group's total costs. Distribution expenses declined year-on-year by 3.6% to CZK 18.5 billion, which reflects the decrease in sales. Administrative costs amounted to CZK 7.4 billion in 2013, increasing year-on-year by 8.6%.
Compared to the previous year, gross profit declined by 2.1% to CZK 40 billion. Gross margin (the ratio of gross profit to revenues) declined to 14.9% and, compared to 2012, fell by 0.7 percentage points. Group operating profit declined in the reporting period by 24.4% to CZK 13.5 billion, which resulted from higher depreciation and lower deliveries due to the challenging market environment and the gradual ramp-up of the new-generation ŠKODA Octavia. The Group's financial result improved and losses were reduced to CZK 0.1 billion, particularly due to positive revaluation of derivatives. Profit before tax declined to CZK 13.9 billion (-22.3%), while there was a decrease in profit after taxes of CZK 3.5 billion (-22.9%) to CZK 11.8 billion. In 2013, there was a return on revenue before tax of 5.2%.

Group cash flows

In 2013, operating cash flow reached CZK 34.1 billion. There was a year-on-year increase in net liquidity of 2.5%, reaching CZK 35.8 billion.

Group asset and capital structure

As at 31 December 2013, the Group's balance sheet totalled CZK 173.6 billion, which – compared to the previous year's balance – corresponds to an increase of CZK 13.6 billion, or 8.5%. This result was also due to an increase in long-term assets. As of the date of the closing balance, long-term assets totalled CZK 89.7 billion, exceeding the 31 December 2012 figure by 7.5%. There was a significant growth in intangible and tangible assets, which increased by CZK 8.9 billion (+11.9%). Another significant increase occurred in other short-term receivables, which primarily resulted from the reclassification of short-term and long-term receivables due to shorter remaining due dates.
The Group's capital structure – defined by the ratio of equity and liabilities to total equity – reported a slight year-on-year decline in equity ratio. Equity increased during the year by CZK 2.5 billion to a total of CZK 93.4 billion. In 2013, profit after taxes increased equity by CZK 11.8 billion, while the dividend payment diverted CZK 6.6 billion.
In the reporting period, the Group's short-term liabilities increased by CZK 13.1 billion, or 26.3%, which primarily resulted from the reclassification of short-term and long-term liabilities due to shorter remaining due dates. There was also a year-on-year increase in trade payables of CZK 6 billion (+19.4%).
In 2013, capital expenditures (excluding development costs) amounted to CZK 19.6 billion and declined by CZK 1.5 billion compared to the same period in 2012. The largest share consisted of product investment related to new models and engine ramp-ups.

Consolidated balance sheet (CZK million)

	31. 12. 2013	31. 12. 2012	2013/2012
Non-current assets	89,717	83,493	7.5%
Current assets	83,867	76,493	9.6%
of which: deposits*	36,505	38,131	– 4.3%
Total assets	**173,584**	**159,986**	**8.5%**
Equity	93,359	90,906	2.7%
Non-current liabilities	17,197	19,176	– 10.3%
Current liabilities	63,028	49,904	26.3%
Total liabilities	**173,584**	**159,986**	**8.5%**

* interest included

Consolidated profit and loss account (CZK million)

	2013	2012	2013/2012
Sales revenue	**268,500**	**262,649**	**2.2%**
Costs of sales	228,459	221,751	3.0%
Gross profit	**40,041**	**40,898**	**- 2.1%**
Distribution expenses	18,487	19,179	– 3.6%
Administrative expenses	7,442	6,855	8.6%
Other operating income	8,187	10,122	– 19.1%
Other operating expenses	8,760	7,069	23.9%
Operating profit	**13,539**	**17,917**	**- 24.4%**
Financial result	– 111	– 1,255	– 91.2%
Profit before income tax	**13,940**	**17,934**	**- 22.3%**
Income tax expense	2,108	2,580	– 18.3%
Profit after income tax	**11,832**	**15,354**	**- 22.9%**

Development of Group financing (CZK million)

	2013	2012	2013/2012
Opening balance of cash and cash equivalents	**40,467**	**31,251**	**29.5%**
Cash flows from operating activities	**34,112**	**23,443**	**45.5%**
Cash flows from investing activities	**- 25,896**	**- 7,032**	**> 100%**
Cash flows from financing activities	**- 6,629**	**- 7,177**	**- 7.6%**
Gross liquidity	**42,627**	**40,467**	**5.3%**
Balance of financial liabilities*	– 6,867	– 5,577	23.1%
Net liquidity	**35,760**	**34,890**	**2.5%**

* The position Balance of financial liabilities contains in addition to financial liabilities also liabilities to a factoring company within the Volkswagen Group in the amount of CZK 3,760 million (2012: CZK 2,470 million).

Technical development

In 2013, ŠKODA AUTO invested CZK 8.72 billion in technical development. The volume of the revenue from external orders in 2013 was CZK 608 million.

The new ŠKODA Octavia – in a class of its own

2013 saw the launch of many new models from ŠKODA AUTO. Eight new or completely redesigned models were unveiled. The most important was the third generation of the ŠKODA Octavia. This car was first unveiled to journalists in December 2012. Its fashionable, confident look maintains its timelessness. The front section of the elegantly shaped bonnet displaying the badge turns into the edges of the distinctive radiator grille with its typical vertical slats. The sharp contours of the lights, rear group lights with the precise C-shape design consisting of LED technology, and significant offsets in the rear bodywork highlight the sporty and elegant character of the car. This perfect design was rewarded by an independent jury at the AutoDesign Awards and it was also awarded first place in the Automotive Brand Contest 2013 in the Exterior Volume Brand category.

The new ŠKODA Octavia model is based on the most up-to-date Volkswagen platforms, which have allowed further development of the most recognised characteristics of the car. High functionality and safety requirements, while increasing quality requirements and maintaining the affordable price, were the main aims when developing the car. All the characteristic dimensions of the new ŠKODA Octavia are larger and, in spite of this, the developers have managed to reduce the car's weight by up to 102 kg. This significant reduction in weight, together with state-of-the-art engines, has contributed to significant savings in terms of fuel consumption and CO_2 emissions.

The design pays special attention to the comfort and safety of passengers. The longest interior space in its class offers the most leg and headroom. The 590-litre capacity luggage compartment is unique in its class, thanks to new "Simply Clever" solutions: Flexible storage elements stop items from moving and double-sided mats keep the luggage compartment clean. A number of innovative assistance systems have been developed for the first time for ŠKODA. These include adaptive cruise-control, automatic high beam control and lane assistant. Together with new information technologies, the level of comfort has been elevated to a level previously only associated with a higher class of vehicle.

The car's safety is confirmed by the five stars awarded in the independent Euro NCAP safety test. From spring 2014, the Octavia will also be manufactured and sold in China, confirming ŠKODA's ambitions for the global market.

The Combi version was added to the basic hatchback model in March and was unveiled to the world in Geneva. In July 2013, at the Goodwood Festival of Speed, the fastest ever Octavia, developed from the RS, was introduced to the public, much to the interest of journalists. The petrol-engine version, with 162 kW power, reaches a maximum speed of 248 km/h. It is the brand's first car that can be fitted with 19" wheels which, together with other design elements, underlines the car's distinctive sporty character.

News from the Frankfurt Motor Show

The long-awaited dynamically designed ŠKODA Rapid Spaceback was introduced in Frankfurt in autumn 2013. The first representative of the brand in the compact hatchback group boasts a striking design. The dynamic look exudes emotion and youthfulness, but still incorporates ŠKODA's fundamental design characteristics – timeless elegance and superior functionality. With a view to the target group, a variety of options for the interior have been designed, together with a modern, full-glass roof that connects to the extended glass of the hatch. In addition to its attractive design, the Rapid Spaceback also offers the largest luggage space in its category and is extremely user-friendly with its low loading edge.

The Frankfurt Motor Show also saw the launch of a revamped Yeti model that is now available in two versions – both as an elegant city car and as the Yeti Outdoor, with significant elements for more challenging terrain. ŠKODA's flagship range, the Superb and Superb Combi, have been revamped and continue to shine in their new ŠKODA design.

Ecology first

ŠKODA AUTO is conscious of its role in ensuring sustainable development and strives to lower the emissions produced by its cars. The introduction of new and modernised models has resulted in a reduction in average CO_2 emissions of 7% for ŠKODA's entire EU fleet compared to 2012. Among conventionally powered cars, the new Octavia Greenline stands out, with CO_2 emissions of only 87 g/km. ŠKODA AUTO is working to expand its range of vehicles with alternative sources of power. Following the introduction of the Citigo CNG, development activities are focusing on a second model powered by compressed natural gas – the Octavia CNG. And ŠKODA AUTO has not been left behind in terms of zero-emission cars. The fleet of ŠKODA Octavia Green E Line cars has covered more than 500,000 kilometres since 2011. ŠKODA AUTO also monitors the development of plug-in hybrids.

Further success in motorsports

Already in its 113th season, ŠKODA Motorsports has continued with the success of the ŠKODA Fabia S2000. The ŠKODA Motorsports factory team of Kopecký and Dresler won the European Rally Championship, and ŠKODA successfully defended its manufacturers' title in the APRC (Asia-Pacific Rally Championship). ŠKODA Fabia S2000 cars driven by private teams also won the South American Championship and six national competitions. These major successes underscore the significance of motorsports to the ŠKODA brand.

Purchasing

New products and projects

During 2013, the main activities in the area of purchasing for ŠKODA AUTO focused on the smooth ramp-up of new vehicles, including the latest generation of the ŠKODA Octavia Combi and the new ŠKODA Rapid Spaceback. ŠKODA AUTO also introduced a revised ŠKODA Yeti in two variants and the improved ŠKODA Superb model. Production purchasing in co-operation with the Volkswagen Group ensured a smooth supply of purchased parts.
The foundations have also been laid for other projects – such as new generations of the ŠKODA Fabia and ŠKODA Superb cars. In parallel, the selection procedure for part suppliers for these models was extended through tendering for the provision of manufacturing technologies. To this end, the Company modified and extended the current production lines in Mladá Boleslav, where the ŠKODA Fabia model is manufactured. Construction of a new production hall for the ŠKODA Superb in Kvasiny got underway. The process of fitting the hall with machines and equipment will begin in the first half of 2014.

Strengthening international cooperation

Building a competitive portfolio of suppliers remains one of the key tasks for ŠKODA AUTO's purchasing division. New opportunities for increased efficiency in the purchasing of parts, machinery and equipment are being sought in Europe as well as in Asia. In order to capitalise on these opportunities, special purchasing events have been held. Supplier Days have been organised with supplier representatives from Slovenia, Turkey, Israel and Korea. These events allow innovative new suppliers to introduce themselves to the purchasing division and other specialist departments, such as technical development, production and quality. The supplier portfolio is expanded in this way through the inclusion of new contacts.
In addition to portfolio optimisation, cooperation with current suppliers is being enhanced through the "Sustainability in Supplier Relations" strategy. In connection with this strategy, suppliers are trained in compliance with the "Volkswagen Group requirements regarding sustainability in its relationships with business partners".

Services

Thanks to close cooperation with the affected departments, service costs have been significantly reduced. The more competitive portfolio and successful negotiations by general purchasing have also been supported by measures introduced in individual areas.
In 2013, ŠKODA AUTO entered the final stages of the global rollout of its new corporate design. Global purchasing processes were completed during the year and the installation of Corporate Identity elements began.

Regions and investments

Another important aspect is the expansion of the technology centre with the creation of a new engine-testing facility. A completely new building, including the most modern facilities for engine testing, will be built near the current technology centre in Česana.
In addition to projects in the Czech Republic, 2013 also saw the start of production at the GAZ plant in Nizhny Novgorod, Russia. With the support of manufacturing and general purchasing, the ŠKODA Yeti, the ŠKODA Octavia and VW Jetta models began to roll off the completely new and refurbished production lines during the year.

Situation on the raw materials market

Compared to the previous year, 2013 was relatively positive. Thanks to its cooperation with the Volkswagen Group, purchasing has succeeded in reducing the risks associated with the raw materials market that were identified at the start of the year.

Supply of materials

In 2013, ŠKODA AUTO invested a total of CZK 140.5 billion in purchasing production materials. This represents an annual increase of CZK 8.9 billion. A large proportion of this volume originates in the Czech Republic (more than 51.8%) followed by Germany, which accounts for about a quarter (26.9%) of the production materials purchased. Supplies from so-called low-cost countries comprised more than 10.8% which was an annual increase of 58.1%.
The total volume of general purchasing reached CZK 28.1 billion which equates to increase of 5.8% year-on-year. This mainly stems from the ramp-up of new models in coming years.

Production and logistics

Expansion of production capacity to promote worldwide growth

Since 2010, the ŠKODA AUTO growth strategy has been accelerating. 2013 saw the launch of several new models and the related expansion of production facilities to meet new needs. With regard to the number of production start-ups, it was also a record-breaking year. There were a total of twelve new or newly redeveloped model start-ups in the Czech Republic, Russia, India and China. In 2013, the worldwide expansion of production facilities was accelerated in order to meet the demand for ŠKODA cars.

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

Further new projects were launched at Russian production facilities. Production of the revised semi-knocked down (SKD) ŠKODA Superb ramped up in Kaluga. The Nizhny Novgorod plant started the production of new complete knockdown ŠKODA Octavia cars in June. With regard to the increasing production volumes, several optimisation measures were implemented at the facility to reduce production and logistics costs.

In August 2013, the assembly plant in Aurangabad started production of new ŠKODA Octavia cars, followed by the completely revised ŠKODA Superb at the end of the year. Cooperation with the AUDI brand has helped us to extend production with the introduction of another type of car.

In 2013, production at Chinese plants increased significantly. The millionth ŠKODA car left the production line. Series production of the new ŠKODA Yeti started in September at the Anting plant. In October, a new plant was opened in Ningbo, which manufactures exclusively ŠKODA cars. The first model to be produced at the Ningbo plant was the revised ŠKODA Superb. In 2014, production of the new ŠKODA Octavia car will be added.

Production of new models in the Czech Republic

In the first half of 2013, production of the new ŠKODA Octavia Combi, ŠKODA Octavia RS and ŠKODA Octavia Combi 4x4 models began at the main Czech plant in Mladá Boleslav. In parallel, production of the completely revised ŠKODA Superb got underway at the Kvasiny plant.

In the second half of 2013, production of the new ŠKODA Rapid Spaceback and ŠKODA Octavia GreenLine started in Mladá Boleslav. Since then, the redeveloped ŠKODA Yeti has left the Kvasiny production line for the first time in two versions: the elegant ŠKODA Yeti for city driving and the ŠKODA Yeti Outdoor, modified for off-road and adventure driving.

Mladá Boleslav – main facility with future prospects

The Mladá Boleslav plant holds a key position in ŠKODA car production. The 2013 implementation of the ŠKODA growth strategy brought significant production changes to the Mladá Boleslav facility to increase production capacity and modify the production equipment. Investments in these measures set new records.

Production of the new ŠKODA Octavia Combi officially started in March 2013. This resulted in maximum daily capacity utilisation, i.e. 600 Octavia Combi cars, with a maximum of 1,000 ŠKODA Octavia cars per day.

In May 2013, the ŠKODA Octavia family saw the addition of two exciting new versions, the ŠKODA Octavia RS and Octavia Combi RS.

Another local project was the ramp-up of new semi-knockdown cars for the Ukraine and Kazakhstan markets.

In August 2013, the ŠKODA Octavia and ŠKODA Rapid liftback assembly plant reached its planned production capacity of 1,200 vehicles per day.

In the second half of the year, the preparation phase was launched for the new ŠKODA Octavia Scout and the new compressed natural gas-powered ŠKODA Octavia. CNG-powered cars represent another key technology aimed at reducing the CO_2 footprint of our cars. Series production of both new Octavia models will start in 2014.

Another expansion stage was completed in the newly-built U6 hall at the Mladá Boleslav central logistics centre. Over an area of 11,520 sqm, full assembly operation was started. This includes new processes to enhance parts delivery, such as "Pick by Light", "Pick by Point" and "Pick by Frame".

At the Mladá Boleslav assembly plant for the ŠKODA Fabia and the new ŠKODA Rapid Spaceback, production facilities were modified in 2013 to enable production of the new compact hatchback. Production of the Rapid Spaceback started in August 2013.

As early as February 2013, a new PXL press line was commissioned at the main ŠKODA AUTO pressing plant. The servo press line uses energy recuperation and accumulation, resulting in up to 15% greater efficiency; it is also faster and more precise than older equipment. ŠKODA AUTO's GreenFuture sustainability strategy focuses on reducing the consumption of energy and water, lower CO_2 and other emissions, as well as an increased level of recycling in production. The new ŠKODA PXL press line, with an investment of CZK 1.8 billion, is one of the measures geared towards the achievement of its environmental goals for 2018.

ŠKODA AUTO plant in Kvasiny

ŠKODA Yeti, Superb and Roomster cars are currently produced in Kvasiny by about 3,400 employees. In 2013, daily production of the three-shift operation was 800 cars. During the past two years, in connection with the launch of new models, the car factory upgraded and expanded key areas of its Eastern Bohemian production plant, such as assembly, logistics and the welding plant.
In January 2013, ŠKODA Roomster assembly operations were transferred from Vrchlabí back to Kvasiny. To secure the parts necessary for the growing Kvasiny production, a new storage facility including axle pre-assembly was opened in Kvasiny.
On 21 November 2013, the Kvasiny plant celebrated production of its 1.5 millionth car. The milestone car was a ŠKODA Superb.
After commissioning of a co-generation plant at Kvasiny in July 2013, as part of the GreenFuture strategy, the Eastern Bohemian plant's CO_2 emissions dropped by 10%, which corresponds to some 8,000 tons of CO_2.

Increase in engine and components production

On 1 February 2013, ŠKODA AUTO components production celebrated yet another jubilee. Five million units since the start of production of the MQ 200 manual transmission in 2001.
Gradually, from 1 July until the end of 2013, the production capacity of the Vrchlabí DQ 200 automatic gearbox production plant was increased from the original 1,000 to a targeted 1,500 units per day. The total number of transmissions produced in 2013 was 816,560, of which 403,514 were MQ 200; 211,157 were MQ/SQ 100; and 201,889 were DQ 200 transmissions. Two more jubilees were marked in ŠKODA AUTO engine production. From the beginning of engine manufacturing in Mladá Boleslav in 1899 until 8 July, a total of 11 million engines were produced. On 7 August 2013, the TSI EA 111 engine celebrated the production of the first million units.
In 2013, ŠKODA AUTO produced a total of 465,980 engines, of which 73,117 were EA 111 1.2 HTP; 225,075 EA 111 1.2 TSI; 36,092 EA111 1.4 SRE; 68,892 EA189 2.0; 23,933 EA 211 1.2 TSI; and 38,871 EA 211 1.4 TSI engines.
ŠKODA AUTO produces components not only for its own use, but also for other Group brands. In 2013, 275,529 engines and 519,951 transmissions were built for other Group brands.
As a result of the production of the new ŠKODA Rapid and ŠKODA Octavia models, axle production also expanded. With another assembly line, 5,100 axles can currently be produced per day. In 2013, a total of 1.4 million axles for ŠKODA cars were produced.

Production of ŠKODA cars

In 2013, 931,969 ŠKODA cars were built worldwide. Production of the new-generation ŠKODA OCTAVIA Combi model was launched in Mladá Boleslav in 2013, reaching a total of 86,046 cars. The first 18,542 ŠKODA Rapid Spaceback cars were also manufactured. In November, production of the revised ŠKODA Yeti in two versions – the Yeti and Yeti Outdoor – started at the Kvasiny plant.
At the Indian Pune plant, 15,310 cars were built, which, compared to the same period last year, represents a decrease of 47.8%.
During 2013, 20,727 cars were produced at the Nizhny Novgorod plant.
At the Russian Kaluga plant, 33,016 cars were manufactured; year-on-year, production therefore decreased by 39.6%.
Chinese partner plants produced a total of 255,222 ŠKODA Octavia, Fabia, Superb, Rapid and Yeti cars in 2013. Compared to the previous year, ŠKODA AUTO production in China increased by 12.6%.

ŠKODA Citigo

ŠKODA Citigo production saw an increase of 17.1% in 2013. At the Bratislava Volkswagen plant, a total of 42,971 ŠKODA cars were built (2012: 36,687 ŠKODA Citigo cars).

ŠKODA Fabia

Although demand for the ŠKODA Fabia experienced some volatility in 2013, it still remains a popular model in its class. Worldwide, 196,732 Fabia cars were manufactured, which represents a year-on-year decrease of 15.2% (2012: 231,930 ŠKODA Fabia cars).

ŠKODA Roomster

There was a decrease in production of the ŠKODA Roomster at the Kvasiny plant in 2013. A total of 31,425 cars of this ŠKODA model series were built, a decrease of 19.9% from 2012 (2012: 39,249 ŠKODA Roomster cars).

ŠKODA Octavia

In 2013, the ŠKODA Octavia remained ŠKODA AUTO's most important model. 356,286 cars of this model series were manufactured worldwide. Due to the generational change of the full design series – starting with the liftback, to the Combi, RS, 4x4 and Scout – compared to the previous year, production decreased by 12.3% in 2013 (2012: 406,397 ŠKODA Octavia cars). ŠKODA Octavia accounts for the largest share of total ŠKODA AUTO annual production, i.e. 38.2%.

ŠKODA Yeti

ŠKODA Yeti experienced a slight decline in 2013: The year-on-year comparison shows that production fell by 6.8%. A total of 84,660 cars were produced (2012: 90,882 ŠKODA Yeti cars).

ŠKODA Rapid

Compared to the previous year, the ŠKODA Rapid reported a significant increase in production of more than 100% in 2013. A total of 123,634 ŠKODA Rapid and ŠKODA Rapid Spaceback cars were made (2012: 32,440 ŠKODA Rapid cars).

ŠKODA Superb

Within its segment, the ŠKODA Superb experienced a slight decrease in demand. In 2013, a total of 96,261 cars were built, which represents a decrease in deliveries of 9.9% (2012: 106,847 ŠKODA Superb cars).

ŠKODA production worldwide

	2013	2012	2013/2012
Production of ŠKODA cars			
Fabia*	110,881	118,129	– 6.1%
Fabia Combi	47,505	59,870	– 20.7%
Fabia total	**158,386**	**177,999**	**– 11.0%**
Rapid	51,321	8,128	> 100%
Rapid Spaceback	18,542	–	–
Rapid total	**69,863**	**8,128**	**> 100%**
Roomster	29,338	36,756	– 20.2%
Roomster Praktik	2,087	2,493	– 16.3%
Roomster total	**31,425**	**39,249**	**– 19.9%**
Octavia*	120,166	141,727	– 15.2%
Octavia Combi	108,541	127,831	– 15.1%
Octavia total	**228,707**	**269,558**	**– 15.2%**
Yeti*	**74,820**	**90,882**	**– 17.7%**
Superb	21,382	26,125	– 18.2%
Superb Combi	33,883	39,809	– 14.9%
Superb total	**55,265**	**65,934**	**– 16.2%**
Total ŠKODA brand	**618,466**	**651,750**	**– 5.1%**
ŠKODA brand production worldwide			
Production of ŠKODA cars in Pune			
Fabia	2,098	5,194	– 59.6%
Rapid	13,212	24,148	– 45.3%
Total ŠKODA Pune	**15,310**	**29,342**	**– 47.8%**
Production of ŠKODA cars in Bratislava			
Citigo	42,971	36,687	17.1%
Total ŠKODA Bratislava	**42,971**	**36,687**	**17.1%**
Production of ŠKODA cars in China			
Fabia	36,248	48,737	– 25.6%
Rapid	40,559	164	> 100%
Octavia	127,579	136,839	– 6.8%
Yeti	9,840	–	–
Superb	40,996	40,913	0.2%
Total ŠKODA China	**255,222**	**226,653**	**12.6%**
Total ŠKODA worldwide	**931,969**	**944,432**	**– 1.3%**

* including disassembled vehicle kits distributed to production plants outside ŠKODA AUTO Group

	2013	2012	2013/2012
Production of other Volkswagen Group brands			
Seat	21,771	5,000	> 100%
VW	1,228	5,805	– 78.8%
Audi	9,100	6,786	34.1%
Total other Volkswagen Group brands	**32,099**	**17,591**	**82.5%**
Total ŠKODA AUTO Group	**650,565**	**669,341**	**– 2.8%**
Total ŠKODA worldwide incl. other VW Group brands	**964,068**	**962,023**	**0.2%**

Portfolio of models manufactured worldwide (1. 1. – 31. 12. 2013)

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

Sales and marketing

2013 was the second most successful year in the history of the brand

2013 produced the second best result for the ŠKODA AUTO Group in its history to date: in total, 920,750 vehicles were delivered throughout the world. This was only 2% behind the Group's record in deliveries in 2012.

The number of vehicles delivered to customers in Western and Central Europe increased, whereas the number delivered in Eastern Europe was lower than in the previous year. As a whole, the European region increased its market share, year on year, by 2.8%.

Central Europe

In Central Europe, the ŠKODA AUTO Group managed to increase its total deliveries, thus gaining further market share. Total deliveries to customers amounted to 126,481 vehicles, which represented growth of 2.0%.

In the Czech Republic, ŠKODA confirmed its established position as the leading automotive brand; The number of vehicles delivered reached 60,042, which represents a year-on-year increase of 368 vehicles.

Outside the Czech Republic, a positive development in deliveries was achieved in almost all Central European markets, e.g. in Hungary (+6.1%) and in Slovenia (+7.6%). The ŠKODA brand recorded deliveries of 14,827 vehicles in Slovakia and 7,319 in Hungary, which represents first and second place in the market respectively. In Poland, the ŠKODA AUTO Group managed to consolidate its position as market leader, with 38,710 vehicles delivered.

Eastern Europe

As a result of the negative market trend in passenger cars, customer deliveries of the ŠKODA Group declined as well. 125,359 vehicles were delivered in total, which represents a year-on-year decrease of 8.5%.

In 2013, the Russian market, which had grown at a double-digit rate in previous years, suffered a significant fall in demand: 87,456 vehicles were delivered there, which represents a decrease of 11.7%.

In Ukraine, 11,798 vehicles were delivered to customers. In the Romanian market, which has been experiencing low customer demand in past years, the ŠKODA AUTO Group maintained its position as the second strongest importer, with 5,508 deliveries.

Deliveries to customers – largest markets

	Deliveries to customers (vehicles)		Change in %
	2013	2012	2013/2012
Total ŠKODA brand	**920,750**	**939,202**	**– 2.0%**
China	226,971	235,674	– 3.7%
Germany	136,415	132,580	2.9%
Russia	87,456	99,062	– 11.7%
United Kingdom	66,029	53,249	24.0%
Czech Republic	60,042	59,674	0.6%
Poland	38,710	36,307	6.6%
India	22,563	34,265	– 34.2%
France	20,400	22,022	– 7.4%
Austria	20,073	22,300	– 10.0%
Switzerland	16,984	17,830	– 4.7%
Belgium	15,482	17,530	– 11.7%
Slovakia	14,827	15,902	– 6.8%
Denmark	14,579	10,364	40.7%
Israel	14,387	12,875	11.7%
Netherlands	13,597	16,455	– 17.4%

In Kazakhstan, on the other hand, thanks to its fitting business strategy, ŠKODA AUTO increased its deliveries by more than 100%, with a record number of 4,690 vehicles delivered.

Western Europe

Despite the difficult economic situation in some of the Eurozone countries, a total of 369,598 vehicles were delivered in this region, which represents a year-on-year increase of 3.1%. Even though deliveries of passenger cars have declined in this region in the past few years, the ŠKODA brand managed to strengthen its position in the Western-European market.
In Germany, the largest European market, the ŠKODA brand expanded its market share. With 136,415 vehicles delivered (+2.9%), Germany remained the second largest market for ŠKODA AUTO worldwide.
In the U.K., the ŠKODA brand delivered 66,029 vehicles to customers (+24.0%), and thus, together with an increase in market share, recorded its best sales result there in its history. In 2013, for the first time, more ŠKODA brand cars were delivered in the U.K. market than in the Czech Republic. Record deliveries of 14,579 vehicles were also recorded in Denmark (+40.7%).
In Southern Europe, the Italian and Spanish markets, which in previous years had been hit by the economic crisis, recorded an increase in deliveries in 2013 of 2.0% to 12,082 in the case of Italy, and 3.0% in the case of Spain. The positive development in deliveries point to economic recovery in the whole Southern European region. Shrinking demand was reflected in the result of the Benelux countries, where Belgium recorded a year-on-year decrease in deliveries of 11.7% and the Netherlands 17.4%.

Overseas/Asia

The Overseas/Asia region plays a key role in the ŠKODA growth strategy, especially the growing market in China. Deliveries of ŠKODA vehicles here totalled 299,312.

In China, which represents the largest global market for the ŠKODA AUTO Group, 226,971 vehicles (-3.7%) were delivered in 2013. The slight year-on-year decline can be explained by the fact that the key model, the ŠKODA Octavia, was coming to the end of its lifecycle, and the ŠKODA Rapid model was introduced here later than in the European markets. It is expected that the ŠKODA Rapid model line will have a significant impact on deliveries in 2014.
In India, where the exchange rate weakened and the economy was awaiting the results of the elections, the market suffered a fall in demand for passenger cars in 2013. These factors in particular slowed the growth of the Indian market from previous years. In 2013, 22,563 vehicles were delivered in this country, which represents a year-on-year decrease of 34.2%.
In the other markets of the Overseas/Asia region, a total of 49,778 ŠKODA vehicles were delivered, which is equivalent to the result recorded in 2012. With a year-on-year growth of 85.3%, record deliveries were achieved in Algeria.

Customer deliveries according to model lines

ŠKODA Citigo

The ŠKODA Citigo is the brand's smallest model and the first in the recent history of the brand to offer three-door and five-door versions.
There were 45,225 customers for this attractive, compact mini car in 2013 which, in comparison to 2012, its launch year, represented a growth of 51.0%. The ŠKODA Citigo model has also been very well received in markets outside the traditional Southern European mini cars markets.

ŠKODA Fabia

The well-established ŠKODA Fabia has become the brand's second strongest model in terms of volume. A competitive pricing policy and the availability of two body versions, togeth-

Deliveries to customers by region

	Deliveries to customers (vehicles)		Change in %	% share of passenger car market**	
	2013	2012	2013/2012	2013	2012
Central Europe*	126,481	124,012	2.0%	19.2%	18.9%
Eastern Europe	125,359	137,057	– 8.5%	4.0%	4.2%
Western Europe	369,598	358,439	3.1%	3.2%	3.0%
Overseas/Asia	299,312	319,694	– 6.4%	1.1%	1.3%
Total ŠKODA brand	**920,750**	**939,202**	**– 2.0%**	**1.3%**	**1.4%**

* incl. Czech Republic ** total markets

er with various accessories, resulted in deliveries of 201,989 vehicles in 2013, even though the current generation is nearing the end of its lifecycle. Due to the fact that the portfolio was expanded to include the ŠKODA Citigo and ŠKODA Rapid models, and that a new generation of the ŠKODA Fabia will be launched in 2014, global year-on-year deliveries fell by 16.0%. Another factor that has helped the ŠKODA Fabia remain popular with customers is the RS sports versions as well as the attractive Monte Carlo derivative.

ŠKODA Roomster

In 2013, 33,295 vehicles from this model range were delivered, 2,146 of which were the Praktik utility version. Since its market launch in 2006, there have been no major changes to the ŠKODA Roomster; as a result, the year-on-year decrease of 12.3% is a satisfactory result. Demand for this small MPV has held steady for years, thanks to its high utility and competitive price.

ŠKODA Rapid

The ŠKODA Rapid compact sedan was launched globally in 2012. At the end of 2013, the model range was expanded to include the unique ŠKODA Rapid Spaceback body, which is a cross between a hatchback and a station wagon. In 2013, 103,781 ŠKODA Rapid vehicles – 7,994 of them the Spaceback version – were delivered to customers. Positive development is also expected from deliveries of the ŠKODA Rapid model in the Chinese market, where both body versions will be available in 2014.

ŠKODA Octavia

Once again, the ŠKODA Octavia has confirmed its global position as the most popular car in the ŠKODA product portfolio. 2013 saw a generational change-over, with customers giving the new model an enthusiastic reception. Deliveries in 2013 were strongly influenced by the phase-out of the old model and launch of the new model of the ŠKODA Octavia, as well as by the fact that it was not possible to meet demand for the new model due to capacity reasons. Although total deliveries of the ŠKODA Octavia in 2013 fell short of the figures for the previous year at 359,578 cars (-12.2%), it is highly probable that the new model generation will outperform the previous generation.

ŠKODA Yeti

The ŠKODA Yeti underwent a thorough facelift at the end of the year, the result being that the model no longer features the characteristic round front fog lights. The recently launched ŠKODA Yeti has more than met customers' demands for a compact city SUV. Meanwhile, the Outdoor version appeals to drivers who use the vehicle in light off-road terrain. In 2013, the ŠKODA Yeti model was sold to 82,449 customers, which was 5.7% less than in 2012.

ŠKODA Superb

The ŠKODA Superb is the brand's flagship model. At the end of 2013, it too underwent successful modernisation. 94,433 vehicles were delivered globally. Year-on-year customer deliveries fell by 13.4%, which was partly the result of the continued depressed state of the European markets.

Deliveries to customers by model

	2013	2012	2013/2012
Citigo	**45,225**	**29,960**	**51.0%**
Fabia	152,248	178,038	– 14.5%
Fabia Combi	49,741	62,432	– 20.3%
Fabia total	**201,989**	**240,470**	**– 16.0%**
Rapid	95,787	24,692	> 100%
Rapid Spaceback	7,994	–	–
Rapid total	**103,781**	**24,692**	**> 100%**
Roomster	31,149	35,314	– 11.8%
Roomster Praktik	2,146	2,650	– 19.0%
Roomster total	**33,295**	**37,964**	**– 12.3%**
Octavia	244,812	285,169	– 14.2%
Octavia Combi	114,766	124,463	– 7.8%
Octavia total	**359,578**	**409,632**	**– 12.2%**
Yeti	**82,449**	**87,397**	**– 5.7%**
Superb	59,315	68,558	– 13.5%
Superb Combi	35,118	40,529	– 13.4%
Superb total	**94,433**	**109,087**	**– 13.4%**
Total ŠKODA brand	**920,750**	**939,202**	**– 2.0%**

Human resources management

ŠKODA AUTO significantly increased its attractiveness as an employer in 2013 and intends to continue to do so in future years.

The goal for human resources management remains to support the ŠKODA AUTO growth strategy and the specific objectives in all areas. The main objective of corporate strategy is to achieve the position of being the most attractive employer, with an international pool of talent for human resources. The HR strategy also includes vital personnel support for specialist areas, recruitment of highly qualified new employees, effective development of all employees, and strengthening their loyalty. Other important topics include optimisation of the process of sending employees abroad and providing the relevant support.

Ensuring employment and flexibility

One of the key tasks in 2013 was the adoption of intensive measures aimed at securing employment during personnel consolidation, increasing employee flexibility and qualification, and strengthening social dialogue. ŠKODA AUTO continues its long-term close cooperation with the Works Council odbory KOVO ŠKODA AUTO a.s. Through this partnership the Company is able to respond quickly to the needs of its employees who support the Company and contribute significantly to the good results. This cooperation resulted in the signing, in the Central European region, of a unique Employment Agreement, which rewards high-performing employees who are willing to educate themselves with job security within the Company. Another positive result for both sides was an agreement on so-called flexi-time accounts, allowing flexible deployment of employees. Significant progress has also been made in the area of temporary employment, by signing of the Agency Work Charter.

ŠKODA AUTO places great emphasis on long-term retention of qualified employees in the Company. Proven measures include job security, a good work-life balance, healthcare coverage and support for all the employees. The Company intensively supports the advancement of female employees and the personal development of employees across all age groups.

The Company's success is a result of the strong loyalty and motivation of its employees. This was confirmed by the 2013 internal survey, completed by 94% of employees and which, among other things, confirmed a further increase in staff motivation.

Due to the growing internationalisation of the Company, one of the challenges for HR is to increase the employee mobility and the attractiveness of working abroad, particularly at management level. In this way it is possible to develop the potential for internal transfers of specialist skills, while simultaneously offering employees extensive opportunities for personal development. Programmes aimed at achieving these objectives are constantly adapted to individual needs. As a result of this, ŠKODA AUTO is significantly increasing its presence abroad.

Qualifications and further education of employees

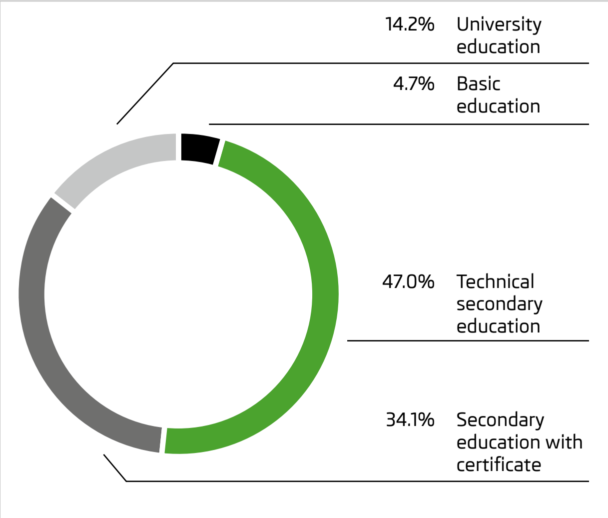
An important building block for human resources at ŠKODA AUTO is employee qualification, with particular emphasis on continuing education. For this reason the "ŠKODA Academy" was set up in 2013 to provide all the Company's educational activities from specialist apprenticeships to adult education. This has resulted in a significant strengthening of learning at ŠKODA AUTO and promoted essential synergies and exchange of information.

An important part of continued education for the support of competitiveness and growth within the Company was, above all, language courses and inter-cultural knowledge and skills training aimed at preparing employees for the on-going international development at ŠKODA AUTO.

The Company also has a keen interest in further areas of specialist and extended-specialist training for employees. Nearly 4,000 employees completed "Specialism Plus" training in almost 400 courses in 2013, thus significantly enhancing their qualifications. ŠKODA AUTO is well aware of the shortage of technically educated people in the job market and therefore also participates in the education of young engineers. It is actively involved in wide-ranging discussions aimed at strengthening and developing technical education in the Czech Republic.

During 2013, at its technical college, ŠKODA AUTO was preparing around 900 students for their future careers. The Company was also active at university level. Further significant measures were adopted during 2013 to strengthen the ŠKODA AUTO University strategy. Excellent progress has been made in the areas of internationalisation, language teaching and support for scientific and research activities. With regard to further developments, the ŠKODA AUTO University has also been transformed into a public benefit association. In 2013 the ŠKODA AUTO University prepared around 1,100 students for their future professional careers.

Qualification structure of the Company's permanent employees



Key indicator – employer attractiveness

2013 surveys of public opinion once again rated ŠKODA AUTO one of the most popular companies in the Czech Republic. In 2013, it also finished first in the CZECH TOP 100 and Czech 100 Best rankings and is therefore considered one of the top companies in the Czech Republic.

Examples of significant recognition of the Company in the personnel area were the "Best Industry Employer" and "Top Automobile Industry Employer" or "Rhodos – Award for Image". These awards were a clear endorsement of the direction in which the Company, together with its employees, is heading.

ŠKODA AUTO is extremely popular with graduates. The Company finished second in the "Czech Republic Graduate Barometer" study of economics students. It won in the "Best Career Website" and "Best Presentation at Job Fairs" categories. Approximately 9,000 final-year students of economics, engineering and IT courses from 15 universities across the Czech Republic took part in the survey.

Group workforce

	31. 12. 2013	31. 12. 2012	2013/2012
Parent Company – permanent employees	**23,689**	**23,978**	**– 1.2%**
of which:			
– Mladá Boleslav plant	19,560	19,559	0.0%
– Vrchlabí plant	755	938	– 19.5%
– Kvasiny plant	3,374	3,481	– 3.1%
Parent Company – apprentices	859	810	6.0%
Parent Company – employees total*	**24,548**	**24,788**	**– 1.0%**
Subsidiaries – permanent employees	1,202	1,607	– 25.2%
Subsidiaries – apprentices	8	9	– 11.1%
Subsidiaries – employees total*	**1,210**	**1,616**	**– 25.1%**
ŠKODA AUTO Group employees total*	**25,758**	**26,404**	**– 2.4%**

* excl. temporary employees incl. apprentices, representing the number of employees as at 31 December 2013

Sustainability

ŠKODA AUTO and environmental protection

ŠKODA AUTO is minimising the long-term impact of its activities on the environment. Compliance with regulations arising from Company policies, including legal requirements, was proven by an audit carried out in accordance with ISO 14001. Thus, ŠKODA AUTO is continuing to fulfil the principles of permanently sustainable development. With improvement of its own systems, ŠKODA AUTO for the first time received ISO 50001 energy management system certification for the plant Mladá Boleslav.

In 2013, ŠKODA AUTO thoroughly developed its GreenFuture strategy, which is a part of the ŠKODA growth strategy. In the context of GreenFuture, the Company is planning continuous improvements in sustainability. In addition to economical vehicles with low fuel consumption, the main areas of focus include conscientious use of resources across the whole Company. The aim is to make manufacturing at least 25% more environmentally friendly by 2018 in comparison to 2010.

Environmental investments

As a part of the ŠKODA growth strategy, the Company is currently investing heavily in new facilities and projects. These investments meet all the latest environmental standards.

Construction of the new Technology Centre, on disused industrial land, continued in 2013, thus bringing brownfield sites into new use. This included extensions, in 2013, to the current welding halls M14 in Mladá Boleslav and M1 in Kvasiny. The construction of a new facility for alternative powered vehicles also began in Mladá Boleslav. Extension was completed of the gearbox-production hall in Vrchlabí, which has enabled an increase in capacity to 1,500 units per day. In addition to expanding production capacity, ŠKODA AUTO pays continuous attention to improving the environmental profile of its manufacturing facilities.

Air protection

The aim of air protection is consistent reduction of pollutant emissions released during production of new vehicles. For this reason, a number of measures were adopted in order to minimise air pollution.

The main focus is currently on lowering emissions of volatile organic compounds (VOC). These chemicals are mainly released when the vehicles are sprayed and constitute 83% of all air pollutants released from sources operated by ŠKODA AUTO.

Ongoing optimisation of the spraying process, together with selection of materials with a lower content of volatile organic compounds, has lowered the emissions of these chemicals to well below the maximum legal limits, regardless of the number of vehicles sprayed or their sizes. The emissions per square metre of sprayed surface were less than 26 grams of VOC, with the legal limit currently standing at 45 grams.

Most VOC released during spraying is burnt together with natural gas. The heat from this process is used to heat the spraying halls.

Successful reconditioning

ŠKODA AUTO has carried out reconditioning of old contaminated areas during reconstruction of the Mladá Boleslav facility. The aim is the disposal of contaminated materials and the implementation of preventative measures to stop secondary environmental contamination (e.g. via newly insulated floors, reservoirs etc.). In addition to this reconditioning, the quality of groundwater is monitored twice a year.

Water protection

Wherever substances are used that may endanger the quality of surface water or groundwater, measures are taken to prevent contamination of surface water or groundwater and the environment. This includes locating tanks and containers with these chemicals in secure storage, and furnishing manufacturing sectors with emergency sumps. The drafting of manufacturing procedures and emergency plans is, of course, in accordance with current legislation.

The principle of maximum effectiveness is also applied to water consumption, with the aim of ensuring sustainable use of natural sources. After use, water is returned to the water cycle and released only after multiple uses when, thanks to the technologies applied, the discharged waste water meets the prescribed limits.

Waste management

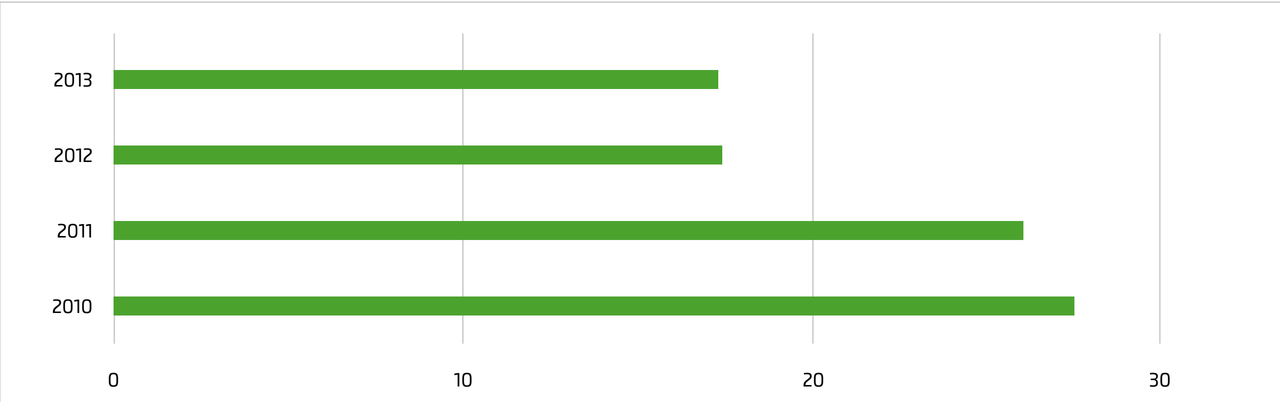
In the area of waste management, ŠKODA AUTO fulfils its legal obligation to limit the creation of waste.

ŠKODA AUTO tries to use any waste generated: firstly for materials and secondly for energy.

Only waste that cannot be used is disposed of by the Company in the most environmentally-friendly way. The efficiency of these principles is reflected in the positive trend of the indicator Waste per vehicle produced. Around 93% of total waste is reused (recycled).

ŠKODA AUTO motivates its employees to separate waste, not just at the Company. Employees are also allowed to deposit small domestic electrical appliances in containers in the reception area. The collected electrical appliances are then recycled, together with electrical waste from ŠKODA AUTO.

Waste per vehicle produced (kg/vehicle)*



* In 2013, waste per vehicle produced was calculated following the new VW98000 standard. The comparative figures for previous years were recalculated.

Social responsibility

Social responsibility has always played a key role at ŠKODA AUTO. The Company has close links not only with its employees and their families, but also with people living near its facilities. It concentrates mainly on traffic safety, technical education, help for children, barrier-free mobility, employee care and being a good neighbour.
ŠKODA AUTO abides by the relevant recommendations of the Code of Corporate Governance, thus demonstrating its openness to the public, the transparency of its internal processes and its relationship with its sole shareholder. The Company maintains good relationships with suppliers and abides by the message of its founders, Laurin and Klement, who stated that "...only our best is good enough for our customers".
In the long run, the Company strives to minimise any negative impact of its activities on the environment. This is related not only to actual production and deliveries, but also to the choice of suppliers who comply with the ISO 14000 environmental standard. ŠKODA AUTO uses alternative energy sources and develops new products that enable it to lower CO_2 emissions. Since 2012, the Company has targeted sustainable development through its GreenFuture strategy.
Via the "One tree planted for each car sold in the Czech Republic" project, the Company, assisted by its employees and their families, actively participates in environmental protection in the regions where it operates. Ever since the foundation of the project in 2007, the Company has cooperated with 52 partners, mostly from local councils and non-profit organisations. To date, more than 420,000 trees have been planted in over 50 locations.
A summary of all the Company's current activities in the field of social responsibility was published in February 2013 in the ŠKODA AUTO Sustainability Report for 2011/2012.

Road safety

As a responsible car manufacturer, ŠKODA AUTO has long been involved in road safety education. In 2013, the Company announced two new regional grant programmes aimed at supporting road safety education and enhancing traffic safety and mobility in villages. Eighteen projects have received funding. Another unique educational initiative in this field is the internet application "Playful ŠKODA". Vehicle safety is also being increased through the "Research into road safety" project, in which the Company is cooperating with the fire brigade, the police and healthcare professionals. In 2013, ŠKODA AUTO was once again the main partner of the "Roads through Cities" traffic competition organised by the Partnership Foundation. This competition rewards well-designed traffic solutions for reducing traffic density in Czech cities and municipalities.

Support for technical education

Within the technical education field, ŠKODA AUTO cooperates on individual projects with a number of schools at various levels. Support for children's creativity in nurseries is later linked to making technical education more popular in primary and secondary schools and intensive cooperation with home and overseas universities. ŠKODA AUTO has its own college and is the first company in the Czech Republic with its own university. The Company is also active in national debate and projects pertaining to the overall educational concept in the Czech Republic.

Children care

As a family-orientated brand, ŠKODA is also actively involved in projects designed to help children. The Company has been an active supporter for many years of the "Clown Doctors" organisation, which arranges for clowns to visit seriously-ill children, and through non-profit organisations is involved in projects supporting disadvantaged children from children's homes. In 2013, ŠKODA AUTO also contributed to employees' collections for the reconstruction and equipment of a home for abandoned children in Aurangabad, India.

Barrier-free mobility

In order to support the mobility of handicapped fellow citizens, the Company has set up the "ŠKODA Handy" project that provides comprehensive advice for the disabled in the area of personal mobility. This is available in nine commercial centres in the Czech Republic. Moreover, the Company also helps the Paraple Centre by providing vehicles with adjusted hand steering to help restore patients to a full quality of life. The Company also cooperates with the Forum 2000 Foundation and the Paralympics Committee.

Support for communities and social activities

ŠKODA AUTO is involved in sponsorship, not only at local and regional level, but also at national and international level. As a part of its cooperation with top foundations and charities, the Company supports various social, cultural and humanitarian projects. The biggest of these in 2013 was the employees' fundraising to help the victims of the May floods. This was supported both by the Company and by the Works Council odbory KOVO MB. CZK 3 million was donated to the People in Need and ADRA humanitarian agencies, making ŠKODA AUTO one of the largest corporate donors. The Company places particular importance on good living conditions for its employees and provides them with a wide range of social benefits and sophisticated healthcare options. It ensures compliance with health and safety standards and provides a unique system of company education and professional development. Employees can now also support various non-profit organisations and foundations through company fundraising, so that they can personally support socially-responsible projects.

Culture and the arts

In 2013, ŠKODA AUTO's traditional partners were the Czech Philharmonic, the National Theatre, the National Museum and the National Technical Museum. The Company also supported selected international events that took place outside of Prague, e.g. Smetana's Litomyšl music festival and the International Film Festival for Children and Youth in Zlín. ŠKODA AUTO continued its partnership with the Prague German Language Theatre Festival and the Municipal Theatre in Mladá Boleslav. In 2013, for the first time, ŠKODA AUTO became a partner of the World Press Photo exhibition in the Czech Republic.

Award-winning commitment

In 2013, ŠKODA AUTO won an award at the "TOP Responsible Company" competition for its work in the areas of corporate social responsibility, treatment of employees and active cooperation with the community.

Risk management system

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

Risk management organisation

The risk management structure at ŠKODA AUTO Group is based on the common principle of risk management within the Volkswagen Group, which complies with German legislative requirements for monitoring and transparency of a company's activities (KonTraG). Risk management, as an operative component of the corporate process, involves identification of individual risks in detail, assessment of their scope, implementation of measures to eliminate them and presentation of evidence about their effectiveness.
The overall risk management is centrally coordinated by the Controlling division in cooperation with the Governance, Risk & Compliance department. The joint implementation of the risk management system is described and ensured by the "Risk Management" organisational directive. In 2013, the directive was revised and the procedure for the most significant risks report was implemented.
The risk management system is based on decentralized responsibilities. Every year, standardised questions for evaluating risk situations are forwarded to employees who handle risks in individual organisational units, as well as in selected subsidiaries. Based on their feedback, the complete picture of the potential risk situation is updated. For each identified risk, a qualitative probability of occurrence and the probable impact are determined. Appropriate countermeasures are implemented to minimise or eliminate each risk and specified in internal regulations. These internal regulations are clearly defined and are usually available online. Management is regularly provided with a report containing a description of the most significant risks and an up-to-date map of the risks in individual areas, including subsidiaries. In accordance with strategic aims, countermeasures to eliminate or reduce risks are proposed and subsequently implemented. The countermeasures are continuously monitored and evaluated by managers of the organisational units.
The effectiveness and sufficiency of the system is regularly verified, integrated into the planning, controlling and business processes system, and continuously optimised as part of the risk management process. In this case, the same importance is assigned to internal and external requirements, particularly the German Accounting Law Modernisation Act (BilMoG). The system is optimised to achieve continuous monitoring of the major risk areas, including the responsibilities of individual organisational units.

Risk description and management

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

Economic, political and legislative risks

With regard to the Group's business activities, its financial position both as an exporter and as a local manufacturer is significantly influenced by general economic conditions and those in individual markets, such as the state of the economy and the related economic cycle, legislative changes, and also the political situation, terrorist activities or pandemics in the countries where the Group is active.
This is accompanied by a persistent threat of risks related to a high level of public debt, high rates of unemployment, and fluctuations in prices of precious metals, oil and plastic. Other significant risks that could affect the Group's business activity in global markets include a divergent pace of economic growth in specific countries or regions and a vulnerable banking system. Exports to countries carrying potential territorial and political risks are identified well in advance and hedged using standard, approved products of the financial and insurance markets. In this field, the Group has partnered with Czech and international banking organisations, including EGAP.
The Group's economic situation may also be adversely affected by additional cost for technical development as a result of changes in legislation, such as stricter legislative requirements for vehicle safety, fuel consumption or emissions of harmful substances, as well as adjustments in standard vehicle specifications. In the area of legislation pertaining to environmental protection, it is necessary to anticipate tightening of EU legislation governing exhaust-gas emissions.

Demand risks

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

Purchase risks

Close and economically beneficial collaboration between carmakers and their suppliers poses procurement-related risks that may disrupt production. These include late delivery, failure to deliver and quality defects. Other risks arise from growing competition in the supplier industry. To mitigate these risks, the Group has teamed up with additional suppliers to source parts for vehicle assembly. In addition, preventive measures are being adopted within the risk management system to address possible supplier insolvency. The market situation is being assessed on an on-going basis, which allows for quick responses to changing conditions.

Financial risks

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

In terms of materiality, the risk from exchange rate fluctuations against the Czech crown and their impact on cash flows and the financial and economic performance of the ŠKODA AUTO Group, is of primary importance. The risks and impact of exchange rate fluctuations are regularly analysed and managed with the use of standard instruments (foreign exchange termed forwards and swaps) approved by internal and the Volkswagen Group committees. All of these transactions are executed to comply with the requirements of the international accounting standards for hedge accounting. A similar method is used to resolve risks stemming from the purchase of aluminium, copper and lead, raw materials purchased for the manufacture of products at individual companies within the ŠKODA AUTO Group.

Active management of the potential impact of trends in interest rates is an integral part of risk management. The Group guards against credit risks by using hedging instruments, both preventive (e.g. retention of title, advance payment, documentary letter of credit, etc.) and subsequent (e.g. confirmation of debt prolonging the statute of limitation, payment calendars, bills of exchange).

The Group utilises standard procedures and instruments to manage liquidity risk and ensure sufficient coverage for the period required, as defined by the internal rules of ŠKODA AUTO. The funding is based on financial resources of the Group and resources of Volkswagen Group companies.

Research and development risks

New products carry the inherent risk that customers might not accept them. The Group therefore performs extensive analyses and customer surveys. Trends are identified early and their relevance for customers is tested. The risk arising from the Group's potential inability to start production of new products within the scheduled timeline, in the required quality and with target expenditures is mitigated by performing on-going project checks and comparisons with specifications, allowing necessary action to be taken in the event of an identified deviation.

Quality risks

Due to growing competitive pressures, the increasing complexity of production technologies and the large number of suppliers, quality assurance is an important part of the manufacturing process. Despite maintaining an effective and systematic approach to quality assurance, product–liability risks cannot be entirely eliminated. In order to minimise quality risks from the very beginning, the Group endeavours to prevent these risks from occurring in all processes affecting product quality, specifically by implementing quality methods and controls and performing a variety of tests. These processes cover conceptual and development stages, serial production and care for the car during customer use. For timely identification of trends, it is important to share knowhow and, in cooperation with suppliers, develop tools and possible controls for quality management to maintain product quality at a level that meets the requirements and expectations of the Group's customers.

Human resources risks

Human resources management largely reflects current circumstances in the Group's key markets. These circumstances typically comprise a highly competitive environment, stagnation of developed automotive markets and fast growth in emerging markets. As an employer with considerable social responsibility, ŠKODA AUTO Group makes an extraordinary effort to preserve jobs and retain key personnel. To facilitate this outcome, employees are continuously trained and systematically prepared to face new challenges within the Group with the aim of achieving maximum flexibility and employee performance, while guaranteeing safe jobs and a high standard of remuneration for work done.

Information technology (IT) risks

In the area of information systems and technologies, the Group takes great care to protect itself against risks involving data availability, confidentiality and integrity. Increased attention is paid to unauthorised access to and misuse of data through the implementation of various measures relating to employees, the organisation, applications, systems and data networks.

Within the ŠKODA AUTO Group, an Information Security Management System (ISMS) has been established to minimise information security risks and their impact on the Group's business objectives. Corporate guidelines for the handling of information and safe use of information systems apply to all employees. Additionally, standard technical measures have been implemented against external and internal threats (anti-virus protection, secure internet access, separate access permissions, etc.).

Legal risks

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

Other operating risks

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

Short-term and long-term outlook

Expected development of the automotive market

The short-term prognosis for the development in demand for passenger cars indicates that, in Europe, there will be a long-awaited recovery after a period of declining demand. Nevertheless, it is highly probable that, in absolute terms, the European market will be overtaken by the dynamic growth in China. In Russia and India, estimates of future development are somewhat more sober. It is estimated that, in 2014, the demand for new vehicles will be at approximately the same level as in 2013.

Globally, a lower rate of growth of demand for new vehicles can be expected than in the previous period.

Czech Republic

In the Czech Republic, it is expected that the increase in demand for passenger cars will be in the single digits.

Europe

A slight increase in demand is expected in Germany, which is the most important European market for the ŠKODA AUTO Group. Sales in Western Europe are highly likely to reflect the regional economic situation, and it is expected that there will be a slight year-on-year increase. Developments in the last quarter of 2013, in particular, indicated that Southern European states have reached the bottom of the economic recession and that demand for passenger cars will start to increase. In the context of the entire Europe, Central Europe represents a market share of less than one-twentieth. It is expected that demand for new vehicles here will continue to grow in 2014.

In Eastern Europe, forecasts agree that there will be a modest upswing in demand for new vehicles. It is expected that there will be roughly the same demand for new vehicles in the Russian market as in 2013.

Overseas/Asia

The growth in demand for passenger cars in China is consistent with the economic boom in this economy of more than a billion people. It is expected that, in 2014, there will be a year-on-year increase of at least one million. Trends in economic indicators in India suggest that demand for new vehicles will be slightly below the level of 2013.

Overview of planned activities and objectives

Technical development

Further new models will play a key role in strengthening the position of ŠKODA AUTO in the international market. In line with this objective, technical development will continue through implementation of the current design language for new products and through innovations in existing products. Great importance is placed not only on lowering CO_2 emissions but also on introducing new information technologies.

In 2014, ŠKODA AUTO will introduce a completely new model of the ŠKODA Fabia. The third generation of this model will offer a modern, completely overhauled design and will use the latest fuel-efficient engines and relevant multimedia devices.

Strengthening the position of ŠKODA AUTO technical development within the Volkswagen Group will continue to involve enhancing its development competencies through the use of new technologies, e.g. within the aggregate area. The engine test facility will become fully operational.

The ŠKODA Motorsport team will take part in selected European Rally Championship (ERC) events and the Asia-Pacific Rally Championship (APRC) with the ŠKODA Fabia Super 2000 in 2014. The development of the new ŠKODA Fabia R 5 rally car, which will follow up on the very successful ŠKODA Fabia Super 2000, will be one of the main activities of ŠKODA Motorsport in 2014. The new rally car, based on the ŠKODA Fabia, will be especially designed for participation in the R 5 category.

Production and logistics

The ŠKODA growth strategy is on a successful course for 2014 and has set ambitious targets for the coming years. It calls for increasing production capacity not only in plants in the Czech Republic, but also in partner plants in the countries of Russia and China. With respect to the Company's plants in the Czech Republic itself, the launch of new vehicles is planned for 2014.

In cooperation with the Volkswagen Group, production of the revised ŠKODA Yeti will start in 2014 at the GAZ plant in Nizhny Novgorod, Russia. The ŠKODA AUTO Group is also planning to expand its production portfolio in China.

In the context of its growth strategy, investment is planned in the Kvasiny plant in connection with construction of a new welding hall. This hall will be another milestone in ŠKODA AUTO's continuing campaign for model growth.

Production of DQ 200 transmissions in Vrchlabí will run at full capacity in 2014. In addition to its supplies for ŠKODA AUTO plants, supplies to the other brands of the Volkswagen Group will be about two thirds of production volume.

Environmental protection

In the context of its GreenFuture project, ŠKODA AUTO Company will continue to focus on improving the ecological performance of its production processes. The goal of this project is to make production in ŠKODA AUTO Company 25% more ecological in 2018 than it was in 2010. The GreenFuture project focuses on five key indicators: energy and water consumption, CO_2 emissions, quantity of waste and volatile organic compounds (VOC). With respect to fulfilment of international standards for the management system in this area, in 2014 the Company will expand the new water conservation system (EnMS), which was added to the existing environmental management system (EMS) in 2013.

Markets, sales and marketing

In 2014, ŠKODA AUTO will strive to increase its market share and deliveries in key markets. In order to attain this objective, the Company will devote special attention to strategic markets in Russia and China, in addition to its traditional markets. The event of the year in 2014 will be, without a doubt, the launch of the new generation of the ŠKODA Fabia in the global markets. Equally important will be the establishment of modernised versions of the ŠKODA Yeti and ŠKODA Superb models, together with the launch of the complete ŠKODA Rapid range in the global sales network.

Employees

In 2014, ŠKODA AUTO will concentrate on optimising all processes, and on staff consolidation and development, as well as on leveraging new synergies in all areas. The Company will work intensively on further staff development and preparation for future challenges. Attention will be paid to talent development in all areas. The goal is to develop staff with a view towards implementation of the global ŠKODA growth strategy. The Company will be chiefly interested in highly-qualified applicants with excellent language skills who can work within the global network of various manufacturing companies. It will also work intensively on further strengthening employees' competencies in their immediate area. Due to the volatility of world markets, the Company will work intensively on staff planning. In addition to quantitative planning, the main focus will be on qualitative staff planning, which is crucial for ensuring that the Company has the right employees for highly qualified jobs and jobs requiring skills that are in short supply. Due to shortages in the job market, development of the Company's core employees is crucial. ŠKODA AUTO will also focus on the advancement of female staff. The main priority for Human Resources will be the further education and training of as many employees as possible. In 2014, the Company will introduce the Company fundrainsing programme and various other social projects, which should significantly strengthen its activities in the area of corporate social responsibility. In addition, there will be increased cooperation between the towns and regions in which ŠKODA AUTO has its facilities, together with a strengthening of its appeal as the TOP employer for life.

Finance

In 2014, the ŠKODA AUTO Group will continue the modernisation of its model range. 2014 will be influenced by expenditures related to the launch of the new ŠKODA Fabia generation and activities leading up to the launch of the ŠKODA Superb model. However, investment in new products is essential for the future of ŠKODA AUTO.

The ŠKODA AUTO Group will strive to achieve solid financial results in 2014. Measures designed to help ŠKODA AUTO meet its financial targets will include optimisation of processes and production expenditures, in addition to maintaining a high level of productivity. The Group plans to focus closely on managing expenditures and liquidity, which will be achieved by thorough planning of expenditure targets, optimised use of working capital and consistent monitoring of investment objectives.

Milestones of the year 2013

January

23 January	ŠKODA Citigo now available as SPORTS model

February

5 February	Fifteen-millionth ŠKODA car produced.
14 February	ŠKODA AUTO increases efforts to achieve sustainable development and, in order to do so, covers all provisions with its GreenFuture strategy.

March

1 March	New ŠKODA Octavia awarded Best Design of the Year in "AutoDesign Awards 2013".
1 March	Start of production of ŠKODA Rapid in Ukraine
4 March	World premiere of ŠKODA Octavia Combi at Geneva Motor Show
6 March	ŠKODA Octavia awarded highest possible marks (five stars) from Euro NCAP for its high level of safety.
19 March	ŠKODA Rapid receives one of most prestigious design awards – "Red Dot" – for product design.
20 March	During annual press conference in Mladá Boleslav, ŠKODA AUTO publishes results for 2012.

April

5 April	Production of new generation of ŠKODA Octavia Combi begins in Mladá Boleslav
9 April	ŠKODA Parts Centrum in Mladá Boleslav completed. This is one of three European central stores for the Volkswagen Group.
19 April	World premiere of flagship ŠKODA Superb at Group evening at Shanghai Auto Show.
20 April	New ŠKODA Rapid Xin Rui in specific finish for China is star of ŠKODA exhibition at 2013 Shanghai Auto Show.
30 April	Forty-five new ŠKODA Octavia Combi cars given to organisational committee of 77th IIHF Ice Hockey World Championship in Helsinki and Stockholm for use as official fleet.

May

8 May	At this year's GTI meeting in Wörthersee, ŠKODA presents five sports models, the highlight being world-premiere prototype of ŠKODA Rapid SPORT.
30 May	Production of modernised ŠKODA Superb and Superb Combi models begins at Kvasiny facility.

June

21 June	Start of production of new generation of ŠKODA Octavia for Russian market at GAZ facility in Nizhny Novgorod.
21 June	ŠKODA AUTO wins "CZECH TOP 100" competition for most successful firms, for the sixteenth time.

July

1 July	Revamped ŠKODA Superb as part of official sponsorship of Tour de France successfully completes first action at start of Tour de France as red director's car in front of peloton.
4 July	Start of production of new generation of ŠKODA Octavia in Ukraine and Kazakhstan
8 July	Eleven-millionth engine in Company's history (since 1899) manufactured in Mladá Boleslav

9 July	Shanghai Volkswagen manufactures one-millionth ŠKODA car since production began in China in June 2007.
10 July	New co-generation unit brought into production at Kvasiny facility. Thanks to this new equipment, CO_2 emissions decreased by 10%, i.e. 8,000 tonnes of CO_2 annually.
11 July	New Octavia RS – fastest ŠKODA Octavia of all time – officially introduced at legendary Goodwood Speed Festival in the U.K.

August

6 August	Fuel-efficiency champion Gerhard Plattner drives 2,619 km across Europe in gas-propelled ŠKODA Citigo CNG – getting from Vicenza in Italy to Stockholm in Sweden for only €82.
9 August	Production of new ŠKODA Octavia begins in Aurangabad in India.
19 August	Start of manufacture of ŠKODA Rapid Spaceback – first ŠKODA hatchback in important segment of lower medium-class vehicles
26 August	ŠKODA AUTO produces four-millionth ŠKODA Octavia.

September

10 September	Two new models introduced at IAA in Frankfurt: ŠKODA Rapid Spaceback and revised ŠKODA Yeti.
19 September	ŠKODA AUTO named company with best image in "Non-food production" category. Three hundred top Czech and overseas managers vote ŠKODA AUTO the winner of "Rhodos" image award.
20 September	ŠKODA AUTO manufactures 1.5 million second-generation ŠKODA Fabia cars.
26 September	ŠKODA Muzeum in Mladá Boleslav is host to AutoDesign Prague international conference.
27 September	ŠKODA motorsports team driver Jan Kopecký and co-pilot Pavel Dresler win European Rally Championship for ŠKODA.

October

4 October	New co-generation unit at ŠKODA AUTO facility in Kvasiny recognised as "Business Project of the Year" in Czech Republic.
9 October	Prof. Dr. h.c. Winfried Vahland receives "Art Award for Understanding between the German and Czech Nations", prestigious award honouring contribution to economic cooperation between Germany and Czech Republic.
24 October	ŠKODA AUTO expands its activities in China; cars will now also be manufactured in Ningbo in southern China at the newly-opened facility of Shanghai Volkswagen partner company.

November

2 November	Gaurav Gill wins Asia-Pacific Rally Championship (APRC) as driver, and ŠKODA brand wins manufacturers' competition.
11 November	Extensively revised ŠKODA Yeti now rolling off the production line at the ŠKODA AUTO Kvasiny plant.
29 November	A special version of the ŠKODA Yeti, specifically targeted at the local market, now in production in China.

December

5 December	The successor to the successful ŠKODA Fabia Super 2000 motorsport project is announced: in 2014, development work will begin in Mladá Boleslav on the ŠKODA Fabia R 5 rally car.
6 December	The Company picks up the manufacturers' trophy at the FIA Asia-Pacific Rally Championship (APRC) in Paris, and wins a further six international driver and co-driver titles in rally championships in Europe, South America and the Asia-Pacific region.
17 December	ŠKODA Octavia named a finalist for the European Car of the Year Award 2014.
30 December	Kvasiny plant produces 500,000th second-generation ŠKODA Superb.

Financial Section

Financial Section

Auditor's report on the annual report and the report on relations

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

We have audited the separate financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") for the year ended 31 December 2013 disclosed in the annual report on pages 110 to 173 and issued the opinion dated 13 February 2014 and disclosed on pages 108 and 109. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2013 disclosed in annual report on pages 46 to 106 and issued the opinion dated 13 February 2014 and disclosed on pages 44 and 45 (hereinafter collectivelly referred to as "the financial statements").

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent with the financial statements referred to above. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

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

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent, in all material respects, with the financial statements.

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Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2013 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to express our conclusion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 82 of the Act on Business Corporations.

5 March 2014

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Pavel Kulhavý
Statutory Auditor, Licence No. 1538

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

Auditor's report on the consolidated financial statements

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

We have audited the accompanying consolidated financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2013, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the consolidated financial statements").

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group’s preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

13 February 2014

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Pavel Kulhavý
Statutory Auditor, Licence No. 1538

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

Consolidated financial statements for the year ended 31 December 2013

Consolidated income statement for the year ended 31 December 2013 (CZK million)

	Note	2013	2012
Sales	**17**	**268,500**	**262,649**
Cost of sales	26	228,459	221,751
Gross profit		**40,041**	**40,898**
Distribution expenses	26	18,487	19,179
Administrative expenses	26	7,442	6,855
Other operating income	18	8,187	10,122
Other operating expenses	19	8,760	7,069
Operating profit		**13,539**	**17,917**
Financial income		1,705	1,689
Financial expenses		1,816	2,944
Financial result	**20**	**(111)**	**(1,255)**
Share on profit of associates		512	1,272
Profit before income tax		**13,940**	**17,934**
Income tax expense	22	2,108	2,580
Profit for the year		**11,832**	**15,354**

Consolidated statement of comprehensive income for the year ended 31 December 2013 (CZK million)

	Note	2013	2012
Profit for the year, net of tax		**11,832**	**15,354**
Cash flow hedges	12	(2,742)	1,780
Exchange differences	12	(8)	(155)
Other comprehensive income / (loss) for the year, net of tax*		**(2,750)**	**1,625**
Total comprehensive income for the year		**9,082**	**16,979**

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

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

Consolidated balance sheet as at 31 December 2013 (CZK million)

	Note	31 December 2013	31 December 2012
Assets			
Intangible assets	5	21,598	18,782
Property, plant and equipment	6	62,385	56,288
Investments in associates	7	2,631	2,200
Other non-current receivables and financial assets	8	872	4,196
Deferred tax asset	14	2,231	2,027
Non-current assets		**89,717**	**83,493**
Inventories	9	17,928	18,619
Trade receivables	8	12,243	12,015
Prepaid income tax		280	447
Other current receivables and financial assets	8	10,789	4,945
Cash and cash equivalents	10	42,627	40,467
Current assets		**83,867**	**76,493**
Total assets		**173,584**	**159,986**

	Note	31 December 2013	31 December 2012
Equity and liabilities			
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	77,714	72,511
Other reserves	12	(2,642)	108
Equity		**93,359**	**90,906**
Non-current financial liabilities	13	–	3,000
Other non-current liabilities	13	5,695	5,483
Other current income tax liabilities		15	–
Non-current provisions	15	11,487	10,693
Non-current liabilities		**17,197**	**19,176**
Current financial liabilities	13	3,107	107
Trade payables	13	36,787	30,807
Other current liabilities	13	7,552	5,933
Current income tax liabilities		105	71
Current provisions	15	15,477	12,986
Current liabilities		**63,028**	**49,904**
Total equity and liabilities		**173,584**	**159,986**

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2013 (CZK million)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Equity attributable to owner of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2012		**16,709**	**1,578**	**64,301**	**(1,517)**	**81,071**	**140**	**81,211**
Profit for the year		–	–	15,354	–	15,354	–	15,354
Other comprehensive income / (loss)		–	–	–	1,625	1,625	–	1,625
Total comprehensive income for the year		–	–	15,354	1,625	16,979	–	16,979
Dividends paid	11	–	–	(7,144)	–	(7,144)	–	(7,144)
Disposal of a subsidiary		–	–	–	–	–	(140)	(140)
Balance as at 31 December 2012		**16,709**	**1,578**	**72,511**	**108**	**90,906**	**-**	**90,906**
Balance as at 1 January 2013		**16,709**	**1,578**	**72,511**	**108**	**90,906**	**-**	**90,906**
Profit for the year		–	–	11,832	–	11,832	–	11,832
Other comprehensive income / (loss)		–	–	–	(2,750)	(2,750)	–	(2,750)
Total comprehensive income for the year		–	–	11,832	(2,750)	9,082	–	9,082
Dividends paid	11	–	–	(6,629)	–	(6,629)	–	(6,629)
Balance as at 31 December 2013		**16,709**	**1,578**	**77,714**	**(2,642)**	**93,359**	**-**	**93,359**

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

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

Consolidated cash flow statement for the year ended 31 December 2013 (CZK million)

	Note	2013	2012
Cash and cash equivalents as at 1 January	**16**	**40,467**	**31,251**
Profit before income tax		13,940	17,934
Depreciation and impairment of non-current assets	5, 6	14,893	11,932
Change in provisions		2,329	(910)
Gain on disposal of non-current assets		(9)	(10)
Net interest (income) / expense	20	538	251
Change in inventories		1,541	(3,747)
Change in receivables		(853)	1,623
Change in liabilities		6,034	1,219
Income tax paid from operating activities		(1,393)	(4,068)
Interest paid		(523)	(614)
Interest received		228	694
Share on profit of associates		(512)	(1,272)
Income from other investments	20	(79)	(84)
Unrealised (gains) and losses from derivatives and other adjustments for non-cash transactions		(2,022)	715
(Gain) / loss on disposal of a subsidiary		–	(220)
Cash flows from operating activities		**34,112**	**23,443**
Purchases of non-current assets		(20,163)	(18,921)
Additions to capitalised development costs	5	(4,326)	(6,104)
(Increase) / decrease in short-term deposits*	8	(1,500)	21,533
Increase in long-term deposits	8	–	(3,033)
Proceeds from sale of non-current assets		14	44
Proceeds from other investments		79	84
Net cash outflow on disposal of a subsidiary		–	(635)
Cash flows from investing activities		**(25,896)**	**(7,032)**
Net cash flows (operating and investing activities)		**8,216**	**16,411**
Dividends paid		(6,629)	(7,144)
Repayments of loans received		–	(33)
Cash flows from financing activities		**(6,629)**	**(7,177)**
Net change in cash and cash equivalents		**1,587**	**9,234**
Exchange gains / (losses) on cash and cash equivalents		**573**	**(18)**
Cash and cash equivalents as at 31 December	**16**	**42,627**	**40,467**

* Deposits which do not meet criteria of cash equivalents according to IAS 7.

The notes on pages 50 to 106 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements 2013

Company information

Foundation and company enterprises

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

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

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

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

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

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

ŠKODA AUTO a.s. is a subsidiary of Volkswagen International Finance N.V. 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 30).

Note

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

1. Summary of significant accounting policies and principles

1.1 Compliance statement

The consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries (together "the Group") for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2013.
Based on the Company's sole shareholder's decision and under the paragraph 23a Article 2 of Act No. 563/1991 Coll. on Accounting, the Group prepares the consolidated financial statements in accordance with IFRS as adopted by the European Union.
Refer to the Company information in the preceding note "Company information".

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

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on 1 January 2013

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2013, which are applied by the Group:

IFRS	Standard/Interpretation	Effective in EU	Description	Effect
IFRS 13	Fair Value Measurement	1 January 2013	Aim of the new standard is to reduce complexity, improve consistency and clarify approach to disclosure of items in the financial statements carried at fair value. The standard clearly defines fair value and gives instruction for its application in case the fair value measurement is required or allowed by another IFRS.	Within calculation of fair value of financial instruments designated as hedging instruments, the Group reflected the risk of counterparty, with which the hedging instrument is contracted. The effect of the adjusted calculation for the counterparty risk did not have significant impact on financial result in the Income statement.
IAS 1	Presentation of Financial Statements/Disclosure of items presented in other comprehensive income	1 January 2013	The amendments deal with disclosure of items presented in other comprehensive income. The amendments newly require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Information to the user will be provided what proportion of total comprehensive income will never be reclassified to profit or loss for the period.	The Group has disclosed information about items which may be reclassified in the future from other comprehensive income to profit or loss.
IFRS 7	Financial Instruments: Disclosures/Offsetting Financial Assets and Financial Liabilities	1 January 2013	The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.	The Group has disclosed information about rights of set-off of financial assets and financial liabilities and about effect from their potential netting in a separate subnote 3.1.7

There are no other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on or after 1 January 2013 which have material impact on the consolidated financial statements of the Group.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on or after 1 January 2013

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

IFRS	Standard/Interpretation	Effective in EU	Description	Effect
IFRS 9	Financial instruments	Not yet endorsed by the EU and no effective date set by IASB.	IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and changes also some disclosure requirements as set out by IFRS 7. Per IFRS 9, all financial assets, currently within scope of IAS 39, are required to be classified into two measurement categories – those to be measured subsequently at amortised cost, and those to be measured subsequently at fair value. Effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss must be presented in other comprehensive income. Hedge accounting requirements were amended to align accounting more closely with risk management. An accounting policy choice was introduced between IFRS 9 and IAS 39 requirements for all hedges.	The Group expects that the new IFRS 9 will have impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. However, without a detailed analysis it is not possible to perform reliable estimate of such impact as at the date of the financial statements. The Group does not expect early adoption of this standard. The disclosure of information in the area of financial instruments will be ruled by IFRS 7 para. 44S – 44W.
IAS 36	Recoverable amount disclosures for non-financial assets	1 January 2014	The amendments remove the requirement to disclose the recoverable amount when a cash-generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. In addition, there are further disclosure requirements for additional information about fair value less costs of disposal based on IFRS 13 requirements.	The Group is currently assessing the impact of the amendments on the disclosures in the notes to the financial statements in connection with impairment loss recognised for some cash-generating units.

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

IFRS	Standard/Interpretation	Effective in EU	Description
IFRS 10	Consolidated Financial Statements	1 January 2014	IFRS 10 Consolidated Financial Statements replaces previous IAS 27 and SIC 12. The new standard follows up the current principles to determine control, focuses on clarification of the definition of control, while the rules for status of control are substantially extended.
IFRS 11	Joint Arrangements	1 January 2014	IFRS 11 fully replaces IAS 31 and SIC 13. Substantial change introduced by the new standard is elimination of jointly controlled assets and elimination of proportionate consolidation.
IFRS 12	Disclosure of Interest in Other Entities	1 January 2014	IFRS 12 deals with all disclosure requirements in respect of interests held in other reporting entities and replaces the previous standard IAS 27. The scope of the standard includes interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (formerly "special purpose entities").
IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014*	The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, e.g. employee contributions that are calculated according to a fixed percentage of salary. The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered (instead of attributing the contributions to the periods of service).
IAS 27	Separate Financial Statements	1 January 2014	This standard replaces previous standard IAS 27. Requirements for separate financial statements remained without changes. Other parts of IAS 27 were replaced by IFRS 10.
IAS 28	Investments in Associates and Joint Ventures	1 January 2014	The amendment of IAS 28 modified the standard so that changes resulting from issuance of standards IFRS 10, IFRS 11 and IFRS 12 are reflected.
IAS 32	Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014	The amendments to IAS 32 deals with offsetting financial assets and liabilities. It clarifies conditions under which the offsetting may be applied.
IFRS 10, IFRS 11, IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities - Transition Guidance Amendments	1 January 2014	The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and define the first day of the adoption of IFRS 10. The amendments determine under which conditions an entity must restate its consolidated figures retrospectively when adopting IFRS 10. The amendments also provide additional transition relief in respect of requirements of IFRS 10, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities.
IFRS 10, IFRS 12, IAS 27	Consolidated Financial Statements, Disclosure of Interest in Other Entities - Transition Guidance Amendments and Separate Financial Statements - Amendment	1 January 2014	The amendment introduced a definition of an investment entity. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	The amendments allow an entity to continue with hedge accounting, subject to specific conditions, in a situation where a derivative, which has been designated as a hedging instrument, is novated. (Novation is situation when original parties of the derivative have agreed to replace their original counterparty with a new one).
IFRIC 21	Levies	1 January 2014*	The interpretation clarifies the accounting for an obligation to pay a levy, identified by the legislation and which is not income tax. The interpretation defines the point when the liability should be recognized and the obligating event that gives rise to a liability.

* Not yet adopted by the European Union as at 31 December 2013 (the specified date relates to effective date as per IASB).

Improvements to International Financial Reporting Standards (cycle 2010 – 2012), mandatory for accounting periods beginning on or after 1 July 2014 or later* will not be relevant for the Group or are not expected to have a significant impact on the Group's operations:

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

* Not yet adopted by the European Union as at 31 December 2013 (the specified date relates to effective date as per IASB).

Improvements to International Financial Reporting Standards (cycle 2011 – 2013), mandatory for accounting periods beginning on or after 1 July 2014 or later* will not be relevant for the Group or are not expected to have a significant impact on the Group's operations:

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

* Not yet adopted by the European Union as at 31 December 2013 (the specified date relates to effective date as per IASB).

2. Basis of preparation of consolidated financial statements

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

2.1 Details of the Group

In addition to ŠKODA AUTO a.s. located in Mladá Boleslav, the Group include all significant subsidiaries. See the "Company information" note on page 50 for the Company's details.
Subsidiaries are those companies and other entities (including special purpose entities) in which a parent company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. These companies ("subsidiaries") are fully consolidated from the date on which the control is transferred to the Group and are deconsolidated from the date that control ceases.
The significant subsidiaries controlled by the Company as at 31 December 2013:
- ŠKODA AUTO Deutschland GmbH (100%);
- ŠKODA AUTO Slovensko s.r.o. (100%);
- Skoda Auto India Private Ltd. (100%).

Associates are all entities in which the Group has significant influence, which is the power to participate in the financial and operating policies but is not control or joint control over these policies. This power is generally connected with ownership of 20 to 50 per cent of the voting power or is usually evidenced in one or more of the following ways:
(a) representation on the board of directors or equivalent governing body of the investee;
(b) participation in policy-making processes, including participation in decisions about dividend or other distributions;
(c) material transactions between the investor and the investee;
(d) interchange of managerial personnel; or
(e) provision of essential technical information.
The ŠKODA AUTO a.s. had significant influence as at 31 December 2013 in the associates (see Note 7):
- OOO VOLKSWAGEN Group Rus,
- ŠKO-ENERGO FIN, s.r.o.

2.2 Consolidation principles

The subsidiaries are consolidated using the full-scope consolidation method. Assets and liabilities of the subsidiaries are recognised in the consolidated financial statements in accordance with the uniform accounting policies used within the Group.
The acquisition method of accounting was used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measured non-controlling interest that represented present ownership interest and entitled the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.
Goodwill was measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") was recognised in profit or loss, after management reassessed whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviewed appropriateness of their measurement. The

consideration transferred for the acquiree was measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed.
Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.
Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.
Investments in associates are accounted for using the equity method of accounting, and were initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any.
The Group's share of post-acquisition profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates and its share of other comprehensive income is recognised in consolidated other comprehensive income. All other post-acquisition changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.
Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.
The accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

2.3.1 Functional of the Company and presentation currency of the Group

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

2.3.2 Foreign subsidiaries and associates

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is disposed of, exchange differences that were recorded in other comprehensive income are recognised in the income statement as part of the gain or loss on sale.
Foreign subsidiaries and associates are subject to legal and accounting regulations in their respective country. The respective local currency is their functional currency. The exchange rates published by the Czech National Bank were used when incorporating their financial statements into the consolidated financial statements of the Group:

- Assets and liabilities for each balance sheet presented are translated at the closing rate as at the date of that balance sheet;
- Income and expenses for each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are translated on the dates of the transactions;
- All resulting exchange differences are recognised as a separate component of other comprehensive income;
- Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

	CZK/Currency	2013	2012
Balance sheet foreign exchange rates as at 31 December			
India	INR	0.321	0.347
Slovakia, Germany	EUR	27.425	25.140
Russia	RUB	0.605	0.625

2.4 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 Group ceases capitalising borrowing costs when the qualifying asset is ready for its intended use or sale.

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

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

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

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.

Intangible assets not yet available for use are tested annually for possible impairment and are carried at cost less accumulated impairment losses.

Intangible assets are derecognised on sale or when no future economic benefits are expected from their use or sale. The gains or losses arising from the derecognition of an intangible asset, which are determined as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the assets are derecognised..

2.5 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 Group 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 Group ceases capitalising of borrowing costs when the qualifying asset is ready for its intended use or sale.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives as follows:

– Buildings	9 – 50 years
– Technical equipment and machinery (incl. special tooling)	2 – 18 years
– Other equipment, operating and office equipment	3 – 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.

2.6 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).

2.7 Financial instruments

2.7.1 Financial assets

Classification

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

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management of the Group. 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 2013 and 2012, the Group only had financial derivatives within this category (Note 2.7.3).

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 Group 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. Dividend income from these activities is included in financial income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as financial income or expenses.
In the accounting period 2013 (2012), the Group only had, within the category of available-for-sale financial assets investments to equity instruments that did not have a quoted price in an active market.

Recognition and measurement
Purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets, with the exception of financial assets carried at fair value through profit or loss, are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Equity instruments that do not have quoted prices in an active market and their fair value cannot be reliably measured are valued at cost net of impairment, if any. Long-term loans and receivables are carried at amortised cost using the effective interest method.

Impairment
The Group determines at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets which are not carried at fair value through profit or loss is impaired. Initially the Group determines, in line with IAS 39, if objective evidence exists that individually material financial assets are impaired and performs the same assessment individually or collectively for individually immaterial financial assets. In the event that the Group does not find objective evidence of impairment for individually assessed financial assets, whether material or not, these assets are included in the group of financial assets with common credit risk characteristics and the group of financial assets is assessed collectively for impairment. Individual assets for which objective evidence of impairment has been identified are not included in a group of assets that are assessed collectively for impairment.
Trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Group will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable. The creation of the allowance is recognised in the income statement within Other operating expenses. When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit or loss and the allowance is utilised.
In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.

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

2.7.2 Financial liabilities

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

a) Financial liabilities measured at fair value through profit or loss
Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2013 (2012), the Group only had financial derivatives in this category (Note 2.7.3).

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

2.7.3 Financial derivatives

The Group uses derivatives to hedge currency and price risks. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Group designates as hedging instruments only those which fulfil the requirements of hedge accounting.

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

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

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

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

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

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as 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).

2.7.4 Offsetting of financial instruments

The Group presents financial assets and financial liabilities offered 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.

2.8 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.

2.8.1 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 an asset.
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 substantively enacted by the balance sheet date.

2.8.2 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.
Deferred income tax is determined using tax rates and tax laws, that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.
In accordance with IAS 12, deferred tax assets and liabilities are offset if the deferred tax assets and liabilities relate to income taxis levied by the same taxation authority, and where the companies of the Group have the enforceable right to offset the current tax assets and liabilities.
Deferred tax relating to items recognised in other comprehensive income (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges) is recognised directly in other comprehensive income.
The Group 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.

2.9 Inventories

Purchased inventories (raw materials, consumables, supplies and materials used in production, goods) are stated at the lower of cost and net realisable value. Costs include purchase costs and other acquisition costs (e.g. transport and packaging).
Inventories generated from own production, i.e. work in progress and finished goods, are stated at lower of own production costs or net realisable value. Own production costs include direct material, direct wages and production overheads. The administration overhead expenses are not included in the valuation of work in progress and finished goods.
Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion less applicable variable selling expenses. Net realisable value reflects all risks of obsolete and redundant raw materials and excessive original parts.
A weighted-average calculation is used to account for the consumption of materials.

2.10 Provisions for employee benefits

Provision for other long-term employee benefits

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

- service jubilee
- other long-service benefits in Group

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

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

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

2.11 Other provisions

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

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

2.12 Revenue and expense recognition

Revenue comprises the fair value of consideration received or receivable for the goods sold and services provided, net of value-added tax, rebates and discounts and after elimination of sales within the Group.

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 Group, 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 in compliance with relevant contractual provisions (e.g. delivery of technical documentation, technical support, etc.). Revenues from per-piece licences are recognised based on the number of cars produced in the current accounting period. Dividend income is generally recognised on the date at which the dividend is legally approved and when the payment is probable.

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

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

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

2.13 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 Investment incentives and subsidies

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

2.15 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 Share capital

The substance of a financial instrument, rather than its legal form, governs its classification in the Group´s statement of financial position. Ordinary shares are classified as share capital. The Group 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 any related income tax benefit) 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 Group 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 Group continuously invests in research and development of new products, which are either developed internally within the Company's research and development centre or within the Volkswagen Group. In compliance with IAS 38, for each development project the Group performs an assessment whether the project meets the development costs recognition criteria, especially the probability that the asset will generate future economic benefits. The Group'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 Group's analyses are based on the best currently available information, the risk of future changes and uncertainty with respect to future development of the assumptions applied remain significant. Please refer to Note 5 for additional information including the respective amounts.

Impairment of non-current assets

In the course of the product life cycle and in exceptional situations also before its commencement, there may be circumstances which indicate that "cash generating units" (tangible and intangible assets employed for production of vehicles of a certain model) might have suffered impairment. To determine any possible impairment, the Group 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 Group 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 Group estimates the value in use of the cash generating units based on the best information and data currently available to the Group, the risk of future changes and uncertainty with respect to the future development of the applied assumptions in the following years remains significant. More detailed information about impairment losses is included in Note 5 and Note 6 in the section Impairment reviews.

Provision for warranty claims

The Group recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially good-will repairs (the 3rd and the 4th year). The Group 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.

The rates for the basic guarantee are determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair trademark policy with regard to specifics of individual countries. The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end.

More detailed information about the provision for warranty claims is included in Note 15.

Provision for litigation risks

Certain events relating to the economic activities of the Group 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 Group once it becomes involved in any court or out-of-court proceedings. The risk is assessed based on the Group's experience with similar legal actions, reflecting the latest developments in the proceedings. A provision is recognised if it is more likely than not that an outflow of economic benefits will occur in the future. The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 15 for additional information.

Provision for other risks

Due to own economic activities in various countries, the Group faces risks related to customs and tax legislation (other than income taxes). The risk is assessed based on the Group'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 Group'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 21,598 million as at 31 December 2013 (as at 31 December 2012: CZK 18,782 million). Average useful life of intangible assets was 7 years in 2013 (in 2012: 7 years).

Royalty income

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

3. Financial risk management

The Group operates in the automotive industry, sells its products in many countries around the world and performs transactions connected with a variety of financial risks. The objective of the Group is to minimise these risks through application of a flexible hedging strategy with utilisation of various instruments. The structure of risk management in the Company is based on the unified principle of risk management applied in the Volkswagen Group. The Volkswagen Group's risk management principles are in compliance with the requirements of the German Act on Control and Transparency in Enterprises (KonTraG).

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

Management of the Company is regularly informed of current financial and other related risks (liquidity, foreign exchange rates, interest rates, invoice currencies, payment conditions, taxes etc.), which is achieved through regular "liquidity meeting" attended by representatives from Treasury, Controlling and Accounting, Volkswagen Group Treasury, representatives of subsidiaries and management of the Commercial affairs department. These meetings have a predefined agenda, which includes also information on the main macroeconomic indicators from all important countries, in which the Company sells its products. Meetings have a formalised structure and all minutes including the decisions are recorded and their fulfilment is periodically reviewed.

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss to other party by failing to discharge an obligation.

Credit risk arises in the normal course of the Group's operations, as well as through activities connected with financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by the 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 indices. Apart from the Volkswagen Group's Risk Management Department, the Group 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 Group's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated 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 (customers located in countries where Group entities have registered office), foreign customers (customers located outside countries where Group entities have registered office) and Volkswagen Group entities (other Volkswagen Group entities irrespective of the registered office location). Receivables are secured by preventative and supplemental instruments.

Receivables secured by preventative security instruments 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. 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 notes.
Loans to employees are secured by other employee guarantees.
As at 31 December 2013 (as at 31 December 2012), the Group did not hold any collateral for loans given.
In the following table, the reported figures represent either the carrying value of secured trade receivables, or the collateral value if this value is lower, determined individually for each instrument:

CZK million	**2013**	**2012**
Retention of legal ownership title to sold cars	908	1,060
Bank guarantees	1,120	1,217
Letters of credit	1,369	1,287
Documentary collection	175	190
Accepted deposit	6	19
Total	**3,578**	**3,773**

3.1.1 Maximum exposure to credit risk (CZK million)

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

	Carrying amount as at 31 December 2013			
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Impaired financial assets	Total
Loans to employees	592	–	–	592
Deposits in companies within Volkswagen Group	36,505	–	–	36,505
Positive fair value of financial derivatives	1,154	–	–	1,154
Other receivables and financial assets	333	–	–	333
Trade receivables	10,829	1,403	11	12,243
Cash	10,705	–	–	10,705
Total	**60,118**	**1,403**	**11**	**61,532**

	Carrying amount as at 31 December 2012			
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Impaired financial assets	Total
Loans to employees	573	–	–	573
Deposits in companies within Volkswagen Group	38,131	–	–	38,131
Positive fair value of financial derivatives	1,129	–	–	1,129
Other receivables and financial assets	58	–	–	58
Trade receivables	10,094	1,907	14	12,015
Cash	5,369	–	–	5,369
Total	**55,354**	**1,907**	**14**	**57,275**

The line item Deposits in companies within Volkswagen Group companies includes deposits with original maturity from three months to one year in total amount of CZK 1,502 million (as at 31 December 2012: CZK 0 million) and deposits with original maturity from one year to five years in total amount of CZK 3,081 million (as at 31 December 2012: CZK 3,033 million) included in balance sheet in the line Other receivables and financial assets (see Note 8), and deposits with original maturity less than three months in total amount of CZK 31,922 million (as at 31 December 2012: CZK 35,098 million) included in balance sheet in the line Cash and cash equivalents (see Note 10).
The amount of guarantees provided by the Group is CZK 61 million as at 31 December 2013 (as at 31 December 2012: CZK 51 million).

3.1.2 Risk concentration

The Group monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Group to foreign exchange risk is disclosed in Note 3.4.1. During the accounting period 2013 (2012), the Group did not identify a significant risk concentration on the basis of distribution region.
A significant portion of financial assets is of an intra-group nature. The Group deposited free cash through Volkswagen Group companies (as in 2012).

The total volume of short-term deposits with Volkswagen Group companies amounted to CZK 45,803 million as at 31 December 2013 (as at 31 December 2012: CZK 39,359 million), out of which:

- deposits with original maturity from one to five years included in balance sheet in the line Other receivables and financial assets (see Note 8) in total amount of CZK 3,081 million (as at 31 December 2012: CZK 3,033 million),
- deposits with original maturity from three months to one year included in balance sheet in the line Other receivables and financial assets (see Note 8) in total amount of CZK 1,502 million (as at 31 December 2012: CZK 0 million),
- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 31,922 million (as at 31 December 2012: CZK 35,098 million), and
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 9,298 million (as at 31 December 2012: CZK 4,261 million).

In 2013 (2012), the Group did not consider it probable that a default could occur in connection with the free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

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

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

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2013			
Loans to employees	592	–	592
Deposits in companies within Volkswagen Group	36,505	–	36,505
Positive fair value of financial derivatives	1,154	–	1,154
Other receivables and financial assets	333	–	333
Trade receivables	9,673	1,156	10,829
Cash	10,705	–	10,705
Total	**58,962**	**1,156**	**60,118**

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2012			
Loans to employees	573	–	573
Deposits in companies within Volkswagen Group	38,131	–	38,131
Positive fair value of financial derivatives	1,129	–	1,129
Other receivables and financial assets	58	–	58
Trade receivables	9,089	1,005	10,094
Cash	5,369	–	5,369
Total	**54,349**	**1,005**	**55,354**

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

	Months past due			
	Less than 1 month	1 – 3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2013	**795**	**276**	**332**	**1,403**
Balance as at 31 December 2012	1,553	196	158	1,907

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Group did not identify any need for impairment of these receivables. Out of the total amount of receivables from group companies which were past due as at 31 December 2012 (CZK 1,269 million), CZK 84 million were still not paid as at 31 December 2013.

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

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

	2013	2012
Other receivables and financial assets		
Gross balance as at 31 December	176	151
Valuation allowance:		
Balance as at 1 January	(151)	(152)
Additions	(27)	–
Utilised	2	1
Released	–	–
Balance as at 31 December	**(176)**	**(151)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	371	375
Valuation allowance:		
Balance as at 1 January	(361)	(365)
Additions	(71)	(87)
Utilised	0	38
Released	72	53
Balance as at 31 December	**(360)**	**(361)**
Net balance as at 31 December	11	14

During the accounting period 2013 (2012), the Group had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2013 (2012), the Group had valuation allowances only on financial assets included in the category of loans and receivables.

3.1.6 Transferred financial assets where the Group has continuing involvement

The Group has concluded a factoring contract with the company ŠkoFIN s.r.o., under which the majority of risks and rewards relating to ownership of receivables arising from sale of new or used cars are transferred to ŠkoFIN s.r.o. Under certain conditions, the company ŠkoFIN s.r.o. can claim compensation relating to realized credit losses up to 2% of the total amount of transferred receivables during the year, however, not more than 49% of these losses and not more than CZK 61 million in 2013 (in 2012: CZK 51 million). This amount represents carrying amount and fair value of the recognised continuing involvement in these receivables, and related financial liabilities. At the same time, this amount represents the maximum exposure to credit risk. The loss recognised at the date of transfer of the assets was CZK 20 million in 2013 (in 2012: CZK 25 million).

3.1.7 Offsetting of financial assets and financial liabilities

Balance as at 31 December 2013	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial liabilities/ assets set off in the balance sheet	Net amount of financial assets/ liabilities presented in the balance sheet	Related amount not set off in the balance sheet*	Net amount**
Receivables from financial derivatives	1,154	–	1,154	(1,144)	10
Liabilities from financial derivatives	7,657	–	7,657	(1,144)	6,513
Trade receivables	13,374	(1,131)	12,243	–	12,243
Trade payables	36,974	(1,131)	35,843	–	35,843

Balance as at 31 December 2012	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial liabilities/ assets set off in the balance sheet	Net amount of financial assets/ liabilities presented in the balance sheet	Related amount not set off in the balance sheet*	Net amount**
Receivables from financial derivatives	1,129	–	1,129	(974)	155
Liabilities from financial derivatives	4,702	–	4,702	(974)	3,728
Trade receivables	13,424	(1,409)	12,015	–	12,015
Trade payables	31,859	(1,409)	30,450	–	30,450

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

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

There was no collateral held or given in respect of derivative financial assets / liabilities and trade receivables and payables as at 31 December 2013 (as at 31 December 2012). The total amount of collateral value of trade receivables was CZK 3,246 million as at 31 December 2013 (as at 31 December 2012: CZK 3,439 million). Details related to types of collateral are presented in Note 3.1.

Possibility of offsetting assets and liabilities may exist for specific business relations in accordance with applicable legislation, which governs the business relationship. The Group has not disclosed any value in column "Related amount not set off in the balance sheet" as at 31 December 2013 (31 December 2012) due to the fact that the cost to determine this value would significantly exceed the benefit of providing the information.

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 Group's suppliers and creditors are settled timely.
Management of the Group 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 Group's management is also presented with the short-term forecasts of the liquidity development.

Cash management

Since 2010, when the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS) located in Brussels, centralisation and optimisation of processes is ensured within the Volkswagen Group in the areas of cash management, payments system and liquidity management.
The GTP implementation resulted in changes in the system of outgoing and incoming payments. The outgoing payments are processed on behalf of the Group by VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS. The incoming payments are credited to Group's bank accounts and subsequently at the end of each working day they are automatically transferred to VGS' bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS.
All incoming payments are translated into Czech crowns and credited to the Group's bank account at the "Inhouse Bank" (IHC) operated by VGS, where the differences between debit and credit balances on the collected financial resources are netted-off.
Major instruments of the Group used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (credit lines) and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured mainly through resources from other Volkswagen Group companies integrated into the GTP and, to a limited extent, through credit lines arranged with external banks.
The total amount of credit lines from banks as at 31 December 2013 was CZK 2,951 million (as at 31 December 2012: CZK 1,710 million) out of which CZK 700 million was in Czech crowns and CZK 2,251 million was in foreign currency (INR 7,010 million). The credit lines from banks contracted in foreign currency include a joint credit line of the Group and other Volkswagen Group companies in amount of CZK 2,074 million (INR 6,460 million).
The Group has not utilised any agreed bank credit lines as at 31 December 2013 (as at 31 December 2012).
The credit line from the Volkswagen Group in the total amount of CZK 3,000 million was drawn in the whole amount as at 31 December 2013 (as at 31 December 2012).
The information about financial conditions of credit lines drawn is included in Note 13.

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2013					
Cash	10,705	–	–	–	10,705
Deposits in companies within Volkswagen Group	36,516	–	–	–	36,516
Other receivables and financial assets (except derivatives)	313	136	343	146	938
Trade receivables	10,921	1,322	–	–	12,243
Financial liabilities	(3,137)	–	–	–	(3,137)
Trade payables	(25,531)	(10,312)	–	–	(35,843)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	2,822	9,344	7,258	–	19,424
Outflow of financial resources	(2,656)	(8,772)	(7,082)	–	(18,510)
Commodity swaps	14	23	11	–	48
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	10,733	30,467	52,872	–	94,072
Outflow of financial resources	(11,716)	(33,353)	(57,255)	–	(102,324)
Commodity swaps	(122)	(61)	(42)	–	(225)
Total	**28,862**	**(11,206)**	**(3,895)**	**146**	**13,907**

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2012					
Cash	5,369	–	–	–	5,369
Deposits in companies within Volkswagen Group	35,108	–	3,092	–	38,200
Other receivables and financial assets (except derivatives)	37	133	327	145	642
Trade receivables	10,763	1,252	–	–	12,015
Financial liabilities	(139)	–	(3,137)	–	(3,276)
Trade payables	(25,224)	(5,226)	–	–	(30,450)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	3,918	13,550	29,765	–	47,233
Outflow of financial resources	(3,838)	(13,375)	(29,363)	–	(46,576)
Commodity swaps	19	55	89	–	163
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	12,457	34,131	47,494	–	94,082
Outflow of financial resources	(13,095)	(35,928)	(50,653)	–	(99,676)
Commodity swaps	(12)	(30)	(38)	–	(80)
Total	**25,363**	**(5,438)**	**(2,424)**	**145**	**17,646**

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 Group sells its products, and purchases material, parts and services concurrently in various foreign currencies. The Group 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 Group 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 Group's management is regularly being updated about the currency risk status by means of the liquidity meeting, attended by representatives of the Treasury, Controlling and Accounting departments, Treasury Department of the Volkswagen Group, representatives of subsidiaries and management of Commercial affairs department. In addition to the update of foreign currency plans, actual development of foreign currency cash flows and exchange rates fluctuations against CZK, suggestions for additional hedging are presented and agreed during these meetings.
Forward exchange contracts and currency swaps are used as hedging instruments for elimination of currency risk. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted financial products (derivatives). Contracts are concluded upon the request of individual members of the Group and in their name by the Treasury Department of the Volkswagen Group. The risk resulting from changes in exchange rates against CZK is hedged for a total of 11 currencies. The most important trading currencies are USD, EUR, GBP, CHF, PLN and RUB. The Group also applies hedge accounting for currency risk.
For the analysis of sensitivity to exchange rates please refer to Note 3.4.1.

3.3.2 Interest rate risk

Interest rate risk is a risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The objective of 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 Group monitors the interest rate risk at the regular monthly meetings attended by representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the following - information about current development of interbank interest rates (especially PRIBOR, EURIBOR and LIBOR) and information about central banks' interest rates in the regions where the Group operates. The Group's management is also presented with short-term forecasts of the interest rates development.
The exposure to interest rate risk arises from cash deposits at Volkswagen Group companies.
For the analysis of sensitivity to interest rates please refer to Note 3.4.2.

3.3.3 Price risk

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

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

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

3.3.4 Derivative financial instruments

Nominal and fair value of derivatives (CZK million)

	Nominal value of derivatives				Fair value of derivatives			
	Balance as at 31 December 2013		Balance as at 31 December 2012		Balance as at 31 December 2013		Balance as at 31 December 2012	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Currency instruments								
Currency forwards for trading	1,005	2,358	24	155	37	22	–	10
Currency forwards – cash flow hedging	12,546	86,378	38,316	95,398	753	6,825	790	4,515
Currency swaps – for trading	1,208	31	–	–	105	1	–	–
Currency swaps – cash flow hedging	4,552	13,587	8,486	4,195	213	643	179	94
Commodity instruments								
Commodity swaps for trading	205	–	140	–	18	–	31	–
Commodity swaps – cash flow hedging	386	1,618	844	1,137	28	166	129	83
Total	**19,902**	**103,972**	**47,810**	**100,885**	**1,154**	**7,657**	**1,129**	**4,702**

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 2.7.3.

Volume of hedged cash flows (CZK million)

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

Balance as at 31 December 2012	Volume of hedged cash flows		
	Within 1 year	**1 – 5 years**	**Total**
Currency risk exposure			
Hedging of future cash flows – future receivables	52,659	72,647	125,306
Hedging of future cash flows – future liabilities	(12,831)	(6,275)	(19,106)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(785)	(1,173)	(1,958)
Total	**39,043**	**65,199**	**104,242**

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

The Group is exposed to the foreign currency risk arising mainly from transactions performed with EU countries (EUR, GBP) and with countries using USD as transaction currency. The foreign currency risk is measured against the functional currency (CZK) as at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to CZK by applying the Czech National Bank exchange rate.
The sensitivity analysis includes analysis of exposure arising from derivative financial assets and liabilities and unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates compared to those published by Czech National Bank. In 2013 (2012) the Group considers (considered) as reasonably possible the movements of exchange rates EUR, USD, CHF GBP and RUB against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK).
The sensitivity analysis to exchange rate changes is based on the assumption of expected reasonably possible exchange rate movements.

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

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

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

	CZK appreciation by 10%					
2012 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	881	(67)	(1)	3	(254)	33
Derivative financial instruments	–	(46)	2	(41)	(33)	(43)
Other comprehensive income before tax						
Derivative financial instruments	(1,685)	2,906	1,978	3,706	1,102	2,401

	CZK depreciation by 10%					
2012 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	(881)	67	1	(3)	254	(33)
Derivative financial instruments	–	46	(2)	41	33	43
Other comprehensive income before tax						
Derivative financial instruments	1,685	(2,906)	(1,978)	(3,706)	(1,102)	(2,401)

3.4.2 Sensitivity to interest rates

The Group is exposed to interest risk mainly in relation to short-term deposits provided to Volkswagen Group companies.
The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at balance sheet date in the same way as for the non-derivative financial assets and liabilities.
In 2013 (2012) the Group assumes (assumed) reasonably possible movements of the yield curve in the following period for short-term deposits provided to Volkswagen Group companies, bank deposits and currency forwards and swaps by +100/ -25 basis points. The Group is most sensitive to movements of the CZK yield curve.
In the case of derivative financial instruments, the Group measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For non-derivative financial instruments the impact on profit or loss is determined on the basis of defined change in the interest rate, which would arise at the beginning of the next accounting period and based on the assumption that no other changes in the interest rate would occur during the entire accounting period.
The following tables present impact on profit or loss before tax of expected increase or decrease of interest rates:

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

2012 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Profit before tax		
Non-derivative financial instruments	341	(85)
Derivative financial instruments	33	(8)
Total	**374**	**(93)**

3.4.3 Sensitivity to changes in other price risks

The Group 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 2013 (2012), the Group assumes (assumed) reasonably possible movements in copper prices in the following period of +/- 20%. In 2013 the Group assumes (assumed) reasonably possible movements in aluminium prices in the following period of +/- 20% (in 2012: +/-10%). In 2013 the Group assumes reasonably possible movements in lead prices in the following period of +/- 20% (in 2012: +/-10%).
The Group considers changes in the fair values of derivative financial instruments due to changes in spot commodity prices. Other non-derivative financial assets and liabilities are deemed not to be sensitive to changes in commodity prices since the prices are fixed at the time of recognition of the financial liability or asset.

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

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

2012 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%	Increase of lead prices +10%	Decrease of lead prices (10)%
Profit before tax						
Derivative financial instruments	–	–	–	–	17	(17)
Other comprehensive income before tax						
Derivative financial instruments	252	(252)	76	(76)	–	–

3.5 Capital management

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

CZK million	2013	2012
Equity	**93,359**	**90,906**
Equity ratio	53.8%	56.8%
Non-current financial liabilities	–	3,000
Current financial liabilities	3,107	107
Total financial liabilities	**3,107**	**3,107**
Ratio of financial liabilities to total equity and liabilities	1.8%	1.9%
Total equity and liabilities	**173,584**	**159,986**

4. Geographical information

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

2013 (CZK million)	Czech Republic	Germany	Western Europe - Other	Central and Eastern Europe	Other	Total
Sales – based on location of customers	22,983	69,268	86,390	52,952	36,907	268,500

2012 (CZK million)	Czech Republic	Germany	Western Europe - Other	Central and Eastern Europe	Other	Total
Sales – based on location of customers	21,927	61,155	78,837	56,192	44,538	262,649

5. Intangible assets (CZK million)

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance as at 1 January 2013	**30,973**	**2,226**	**10,189**	**43,388**
Additions	16	4,310	1,842	6,168
Disposals	–	–	(201)	(201)
Transfers	449	(449)	–	–
Foreign exchange differences	–	–	30	30
Balance as at 31 December 2013	**31,438**	**6,087**	**11,860**	**49,385**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2013	**(18,866)**	**-**	**(5,740)**	**(24,606)**
Amortisation	(2,410)	–	(893)	(3,303)
Impairment losses	(51)	–	(7)	(58)
Disposals	41	–	160	201
Foreign exchange differences	–	–	(21)	(21)
Balance as at 31 December 2013	**(21,286)**	**-**	**(6,501)**	**(27,787)**
Carrying amount as at 31 December 2013	**10,152**	**6,087**	**5,359**	**21,598**

	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 2012	**21,710**	**5,385**	**8,570**	**35,665**
Additions	4,012	2,092	2,024	8,128
Disposals	–	–	(396)	(396)
Transfers	5,251	(5,251)	–	–
Foreign exchange differences	–	–	(9)	(9)
Balance as at 31 December 2012	**30,973**	**2,226**	**10,189**	**43,388**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2012	**(16,369)**	**–**	**(5,642)**	**(22,011)**
Amortisation	(2,093)	–	(479)	(2,572)
Impairment losses	(404)	–	–	(404)
Disposals	–	–	375	375
Foreign exchange differences	–	–	6	6
Balance as at 31 December 2012	**(18,866)**	**–**	**(5,740)**	**(24,606)**
Carrying amount as at 31 December 2012	**12,107**	**2,226**	**4,449**	**18,782**

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

Amortisation and impairment losses of intangible assets of CZK 3,216 million (2012: CZK 2,837 million) are included in the cost of sales, CZK 15 million (2012: CZK 20 million) in distribution expenses, and CZK 130 million (2012: CZK 119 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Group'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 Group's intangible assets. Due to substantial changes in the market environment, the Group has experienced in 2013 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Group's management.

For discounting cash flows, the pretax discount rate of 6.6% has been applied in 2013 (2012: 6.6%), reflecting the specific risks associated with the sector in which the Group operates. For one cash-generating unit the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to intangible assets in the amount of CZK 58 million (2012 one cash-generating unit: CZK 404 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2013 (31 December 2012).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2013, the Group applied the capitalisation rate of 4.53% (2012: 4.53%). No borrowing costs have been capitalised in the cost of intangible assets in 2013 or 2012 as they were not significant.

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

	2013	2012
Research and non-capitalised development costs	4,248	4,848
Amortisation and impairment losses of development costs	2,461	2,497
Research and development costs recognised in the income statement	**6,709**	**7,345**

6. Property, plant and equipment (CZK million)

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Advances paid and assets under construction	Total
Costs					
Balance as at 1 January 2013	**35,125**	**71,505**	**50,669**	**9,767**	**167,066**
Additions	1,018	5,611	4,758	6,372	17,759
Disposals	(59)	(2,230)	(1,520)	–	(3,809)
Transfers	1,563	2,518	3,847	(7,928)	–
Foreign exchange differences	(69)	(61)	18	(10)	(122)
Balance as at 31 December 2013	**37,578**	**77,343**	**57,772**	**8,201**	**180,894**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2013	**(14,243)**	**(54,488)**	**(42,047)**	**–**	**(110,778)**
Depreciation	(1,275)	(5,248)	(4,709)	–	(11,232)
Impairment losses	(144)	(25)	(86)	(45)	(300)
Disposals	38	2,393	1,343	–	3,774
Foreign exchange differences	1	44	(18)	–	27
Balance as at 31 December 2013	**(15,623)**	**(57,324)**	**(45,517)**	**(45)**	**(118,509)**
Carrying amount as at 31 December 2013	**21,955**	**20,019**	**12,255**	**8,156**	**62,385**

	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 2012	**31,547**	**61,645**	**46,411**	**12,351**	**151,954**
Additions	2,225	7,825	4,605	4,423	19,078
Disposals	(66)	(1,101)	(2,621)	(3)	(3,791)
Transfers	1,465	3,208	2,316	(6,989)	–
Foreign exchange differences	(46)	(72)	(42)	(15)	(175)
Balance as at 31 December 2012	**35,125**	**71,505**	**50,669**	**9,767**	**167,066**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2012	**(13,151)**	**(51,503)**	**(41,035)**	**–**	**(105,689)**
Depreciation	(1,160)	(4,142)	(3,432)	–	(8,734)
Impairment losses	–	–	(222)	–	(222)
Disposals	58	1,099	2,614	–	3,771
Foreign exchange differences	10	58	28	–	96
Balance as at 31 December 2012	**(14,243)**	**(54,488)**	**(42,047)**	**–**	**(110,778)**
Carrying amount as at 31 December 2012	**20,882**	**17,017**	**8,622**	**9,767**	**56,288**

Depreciation and impairment losses of the buildings and equipment of CZK 10,661 million (2012: CZK 8,215 million) are included in the cost of sales, CZK 250 million (2012: CZK 176 million) in distribution expenses, and CZK 621 million (2012: CZK 565 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Group'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 Group's non-current tangible assets. Due to substantial changes in the market environment, the Group has experienced in 2013 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed.

The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Group's management.

For discounting cash flows, the pretax discount rate of 6.6% or 6.7% in 2013 (2012: 6.6% or 6.8%) has been applied depending on the characteristics of individual cash-generating units. The discount rates reflect the specific risks associated with the sector in which the Group 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 total amount of CZK 300 million (2012 for one cash-generating unit: CZK 222 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2013 (31 December 2012).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2013, the Group applied the capitalisation rate of 4.53% (2012: 4.53%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2013 or in 2012 as they were not significant.

7. Investments in associates (CZK million)

	2013	2012
Total assets	61,235	62,273
Total liabilities	47,603	51,896
Total revenue	145,407	168,391
Profit (aggregated)	3,222	7,419

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o.
The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2013 was 16.8% (31 December 2012: 16.8%). The share of the associate OOO VOLKSWAGEN Group Rus held by European Bank for Reconstruction and Development was purchased by Volkswagen International Finance N.V with effect from 8 November 2013, which led to a reduction in the Company's Share on profit / (loss) of associates from 17.91% to 16.8%. (In 2012, Share on profit / (loss) of associates was 17.91%).
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 Company's share in the registered capital of the company ŠKO-ENERGO FIN as at 31 December 2013 was 31.25% (as at 31 December 2012: 31.25%).
ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 79 million (2012: CZK 83 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Group's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impact on the carrying amount of the Group's financial investments in associates.
No factors that would indicate the need for impairment loss review were identified as at 31 December 2013.

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

Other receivables and financial assets

Balance as at 31 December 2013	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	592	–	–	–	592
Deposits in companies within Volkswagen Group	–	4,583	–	–	–	4,583
Positive fair value of financial derivatives	(91)	–	–	1,245	–	1,154
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	4,502	4,502
Other	–	333	–	–	493	826
Total	**(91)**	**5,508**	**4**	**1,245**	**4,995**	**11,661**

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

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss (see Note 2.7.3). Spot component exceeded the fair value as at 31 December 2013, therefore the term component was negative.

Total in table Other receivables and financial assets may be reconciled to the statement of financial position as a sum of Other non-current receivables and financial assets and Other current receivables and financial assets.

Balance as at 31 December 2012	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	573	–	–	–	573
Deposits in companies within Volkswagen Group	–	3,033	–	–	–	3,033
Positive fair value of financial derivatives	(29)	–	–	1,158	–	1,129
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	3,412	3,412
Other	–	58	–	–	932	990
Total	**(29)**	**3,664**	**4**	**1,158**	**4,344**	**9,141**

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

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss (see Note 2.7.3). Spot component exceeded the fair value as at 31 December 2012, therefore the term component was negative.

Total in table Other receivables and financial assets may be reconciled to the statement of financial position as a sum of Other non-current receivables and financial assets and Other current receivables and financial assets.

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

The line Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 1,502 million (as at 31 December 2012: CZK 0 million) with original maturity from three months to one year and deposits in the amount of CZK 3,081 million (as at 31 December 2012: CZK 3,033 million) with original maturity from one year to five years. The weighted average effective interest rate based on the carrying amount of deposits with original maturity from three months to one year provided to Volkswagen Group companies as at 31 December 2013 was 0.24% (31 December 2012: 0%). The weighted average effective interest rate based on the carrying amount of deposits with original maturity from one year to five years provided to Volkswagen Group companies as at 31 December 2013 was 1.58% (31 December 2012: 1.58%). The carrying amount of deposits in companies within Volkswagen Group approximates their fair value. The fair value of deposits was calculated as the present value of future cash flows based on market interest rates existing at the balance sheet date. The fair value of deposits qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13. All deposits provided to Volkswagen Group companies with original maturity from three months to five years are denominated in CZK.

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

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

Trade receivables

Balance as at 31 December 2013	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other	Total
Trade receivables to						
Third parties	–	2,855	–	–	–	2,855
Related parties	–	9,388	–	–	–	9,388
Total	**-**	**12,243**	**-**	**-**	**-**	**12,243**

Balance as at 31 December 2012	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other	Total
Trade receivables to						
Third parties	–	3,311	–	–	–	3,311
Related parties	–	8,704	–	–	–	8,704
Total	**-**	**12,015**	**-**	**-**	**-**	**12,015**

Due to their short term nature the carrying amount of trade receivables approximates the fair value as at the balance sheet date after the valuation allowance is taken into account. The fair value of trade receivable qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13. The allowance for the impairment of trade receivables of CZK 360 million (2012: CZK 361 million) has been deducted from presented carrying values of trade receivables.

9. Inventories (CZK million)

	Carrying value as at 31 December 2013	Carrying value as at 31 December 2012
Structure of the inventories		
Raw materials, consumables and supplies	5,180	4,546
Work in progress	3,144	2,751
Finished products and goods	9,604	11,322
Total	**17,928**	**18,619**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2013 was CZK 222,198 million (2012: CZK 215,088 million).

10. Cash and cash equivalents (CZK million)

	2013	2012
Cash in hand	6	4
Cash pooling	9,298	4,261
Bank accounts	1,401	1,104
Cash equivalents	31,922	35,098
Total	**42,627**	**40,467**

The line Cash pooling also includes also overnight deposits from the use of cash pooling (Note 3.2). The line Cash equivalents includes deposits in Volkswagen Group companies with original maturity less than three months. These deposits are included in the portfolio Loans and receivables in terms of IAS 39.
The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2013 was 2.09% (as at 31 December 2012: 0.08%). The weighted average effective interest rate based on the carrying amount of deposits in Volkswagen Group companies with original maturity less than three months as at 31 December 2013 was 0.52% (as at 31 December 2012: 0.55%). Out of the total amount of deposits provided to Volkswagen Group companies with original maturity less than three months of CZK 31,922 million (as at 31 December 2012: CZK 35,098 million) there were deposits denominated in CZK in the amount of CZK 30,000 million (as at 31 December 2012: CZK 33,501 million), in EUR in the amount of CZK 110 million (as at 31 December 2012: CZK 0 million) and deposits denominated in INR in the amount of CZK 1,812 million (as at 31 December 2012: CZK 1,597 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 Company's sole shareholder Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the ordinary shares in the Company. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG. Rights to vote on the Company's general meetings and rights to receive dividends are attached to the ordinary shares.
There was no movement in the Group's share capital during the accounting period 2013 (2012).
The Company paid a dividend of CZK 6,629 million in 2013 (2012: CZK 7,144 million). The dividend per share was CZK 3,968 in 2013 (2012: CZK 4,276).

12. Other reserves and retained earnings (CZK million)

12.1 Other reserves

	2013	2012
Currency translation reserve	(510)	(502)
Reserves for cash flow hedges*	(5,508)	(2,766)
Statutory reserve fund	3,366	3,366
Funds contributed by owner	10	10
Total	**(2,642)**	**108**

* Net of deferred tax from financial derivatives.

The statutory reserve fund may be used only to offset losses. According to relevant regulations of the commercial code of the Czech Republic, the Company is required to transfer 5% of its annual net profit to the statutory reserve fund until the balance of this reserve reaches 20% of the subscribed capital.

Movement in reserve for cash flow hedges:

Balance as at 1 January 2013 (CZK million)	**(2,766)**
Total change in fair value in the period	(3,843)
Deferred tax on change in fair value	731
Total transfers to profit or loss in the period – effective hedging	487
Total transfers to profit or loss in the period – ineffective hedging	(29)
Deferred tax on transfers to profit or loss	(88)
Balance as at 31 December 2013	**(5,508)**

Balance as at 1 January 2012 (CZK million)	**(4,546)**
Total change in fair value in the period	613
Deferred tax on change in fair value	(129)
Total transfers to profit or loss in the period – effective hedging	1,586
Total transfers to profit or loss in the period – ineffective hedging	12
Deferred tax on transfers to profit or loss	(302)
Balance as at 31 December 2012	**(2,766)**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2013 presented in the line Other operating expense in amount of CZK 2,410 million (2012: CZK 2,822 million) and in the line Other operating income in amount of CZK 1,923 million (2012: CZK 1,236 million).

12.2 Retained earnings

From the total amount of the Group's retained earnings of CZK 77,714 million as at 31 December 2013 (as at 31 December 2012: CZK 72,511 million) unconsolidated profit for the year 2013, net of tax, amounts to CZK 11,832 million (2012: CZK 15,354 million).
In compliance with the relevant regulation of the commercial code, the unconsolidated profit of the Company for the year 2013 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting. An approval of the allocation of the Company's profit for 2013 will follow an approval of Annual Report.

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

Financial and other liabilities

Balance as at 31 December 2013	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and borrowings	–	3,107	–	–	3,107
Total	**-**	**3,107**	**-**	**-**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	73	–	7,584	–	7,657
Other tax liabilities (excl. income tax)	–	108	–	2,067	2,175
Liabilities to employees	–	–	–	1,727	1,727
Social security	–	–	–	415	415
Other	–	–	–	1,273	1,273
Total	**73**	**108**	**7,584**	**5,482**	**13,247**

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

Notes:
Negative fair value of financial derivatives consists of spot component disclosed in portfolio Financial liabilities designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial liabilities at fair value through profit or loss (see Note 2.7.3).
Total in table Other liabilities may be reconciled to the statement of financial position as a sum of Other non-current liabilities and Other current liabilities.

Balance as at 31 December 2012	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and borrowings	–	3,107	–	–	3,107
Total	**-**	**3,107**	**-**	**-**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	505	–	4,197	–	4,702
Other tax liabilities (excl. income tax)	–	221	–	3,190	3,411
Liabilities to employees	–	–	–	1,857	1,857
Social security	–	–	–	454	454
Other	–	–	–	992	992
Total	**505**	**221**	**4,197**	**6,493**	**11,416**

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

Notes:
Negative fair value of financial derivatives consists of spot component disclosed in portfolio Financial liabilities designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial liabilities at fair value through profit or loss (see Note 2.7.3).
Total in table Other liabilities may be reconciled to the statement of financial position as a sum of Other non-current liabilities and Other current liabilities.

The fair value of loans and borrowings was CZK 3,137 million as at 31 December 2013 (CZK 3,270 million as at 31 December 2012). The fair value was calculated as the present value of future cash flows based on market rate at the balance sheet date, which was 0% as at 31 December 2013 (as at 31 December 2012: 0.15%). The fair value of loans and borrowings qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13. Detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, is listed in Note 3.3.4.
Due to the short term nature of other liabilities disclosed in Other liabilities, the carrying amount approximates the fair value. The fair value of other liabilities qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.
In the table below, the financial conditions attached to loans received are summarised at their carrying amounts:

Carrying amount as at 31 December 2013

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

Carrying amount as at 31 December 2012

Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1 - 5 years	Maturity > 5 years	Total
CZK	fixed	1 – 5 years	4.53%	3,000	107	3,000	–	3,107
Total financial liabilities				**3,000**	**107**	**3,000**	**-**	**3,107**

None of the financial liabilities are secured by a lien.

Trade liabilities

Balance as at 31 December 2013	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other	Total
Trade liabilities to					
Third parties	–	23,222	–	730	23,952
Related parties	–	12,621	–	214	12,835
Total	**–**	**35,843**	**–**	**944**	**36,787**

Balance as at 31 December 2012	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other	Total
Trade liabilities to					
Third parties	–	18,830	–	357	19,187
Related parties	–	11,620	–	–	11,620
Total	**–**	**30,450**	**–**	**357**	**30,807**

The line Trade liabilities to related parties includes liabilities to a factoring company within the Volkswagen Group of CZK 3,760 million as at 31 December 2013 (as at 31 December 2012: CZK 2,470 million). These liabilities arose in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.
Due to the short term nature of trade liabilities, the carrying amount approximates the fair value. The fair value of trade liabilities qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.

14. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.
As at 31 December 2013 the Group recognised on the balance sheet deferred tax assets of CZK 2,231 million (as at 31 December 2012: CZK 2,027 million).
The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax liabilities					
Balance as at 1 January 2012	**(2,497)**	**-**	**-**	**-**	**(2,497)**
Credited / (debited) to the income statement	(900)	–	–	–	(900)
Charged to other comprehensive income	–	–	–	–	–
Exchange differences	(14)	–	–	–	(14)
Balance as at 31 December 2012	**(3,411)**	**-**	**-**	**-**	**(3,411)**
Credited / (debited) to the income statement	(680)	–	–	–	(680)
Charged to other comprehensive income	–	–	–	–	–
Exchange differences	-	–	–	–	-
Balance as at 31 December 2013	**(4,091)**	**-**	**-**	**-**	**(4,091)**

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax assets					
Balance as at 1 January 2012	**-**	**1,069**	**335**	**3,761**	**5,165**
Credited / (debited) to the income statement	–	14	585	123	722
Charged to other comprehensive income	–	(431)	–	–	(431)
Exchange differences	–	–	–	(18)	(18)
Balance as at 31 December 2012	**-**	**652**	**920**	**3,866**	**5,438**
Credited / (debited) to the income statement	–	–	214	(33)	181
Charged to other comprehensive income	–	643	–	–	643
Exchange differences	–	–	–	60	60
Balance as at 31 December 2013	**-**	**1,295**	**1,134**	**3,893**	**6,322**

* Further information on financial derivatives is disclosed in Note 2.7.3.
** The category Other includes mainly provisions and valuation allowances.

The Group did not recognise deferred tax assets (from tax losses) in the amount of CZK 654 million, because its utilisation is not probable. As at 31 December 2012, the unrecognised deferred tax asset was CZK 510 million.

Detailed information about expiry of the right to utilised tax credits arising from tax losses relating to the unrecognised deferred tax asset is provided in the following table:

CZK million	Rights to ulitise the tax credits will expire:		
	within 2 to 5 years	within 6 to 10 years	unrestricted
Balance as at 31 December 2013	80	243	331
Balance as at 31 December 2012	210	91	209

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

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for employee benefits	Provisions for the disposal of end-of-life vehicles	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2012	**12,462**	**4,197**	**2,735**	**823**	**1,492**	**731**	**1,868**	**24,308**
Utilised	(4,311)	(3,003)	(1,311)	–	(2)	(543)	(28)	(9,198)
Additions	4,839	3,181	1,428	46	138	268	756	10,656
Interest expense	185	9	–	53	–	–	–	247
Reversals	(249)	(267)	(268)	(379)	(414)	(188)	(506)	(2,271)
Foreign exchange differences	(89)	94	(4)	(19)	(42)	–	(3)	(63)
Balance as at 1 January 2013	**12,837**	**4,211**	**2,580**	**524**	**1,172**	**268**	**2,087**	**23,679**
Utilised	(4,506)	(3,233)	(1,312)	–	(9)	(203)	(37)	(9,300)
Additions	5,660	4,259	1,487	–	287	412	1,090	13,195
Interest expense	314	–	–	–	–	–	–	314
Reversals	(21)	(95)	(184)	(563)	(135)	(65)	(501)	(1,564)
Foreign exchange differences	286	312	6	39	11	–	(14)	640
Balance as at 31 December 2013	**14,570**	**5,454**	**2,577**	**-**	**1,326**	**412**	**2,625**	**26,964**

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

	< 1 year	1 – 5 years	> 5 years	Total
Balance as at 31 December 2013				
Provisions for warranty claims	4,755	8,425	1,390	14,570
Provisions for other obligations arising from sales	5,025	429	–	5,454
Provisions for employee benefits	1,567	379	631	2,577
Provisions for the disposal of end-of-life vehicles	–	–	–	–
Provisions for litigation risks	1,326	–	–	1,326
Provisions for purchase risks	412	–	–	412
Other provisions	2,392	233	–	2,625
Total	**15,477**	**9,466**	**2,021**	**26,964**

	< 1 year	1 – 5 years	> 5 years	Total
Balance as at 31 December 2012				
Provisions for warranty claims	4,336	7,548	953	12,837
Provisions for other obligations arising from sales	3,803	408	–	4,211
Provisions for employee benefits	1,534	411	635	2,580
Provisions for the disposal of end-of-life vehicles	–	–	524	524
Provisions for litigation risks	1,172	–	–	1,172
Provisions for purchase risks	268	–	–	268
Other provisions	1,873	214	–	2,087
Total	**12,986**	**8,581**	**2,112**	**23,679**

The provision for warranty repairs includes provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty especially good-will repairs (the 3rd and 4th year). The Group recognises the provision for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines.

Provisions for other obligations arising from sales include provision for sale discounts, sale bonuses and similar allowances incurred, settlement of which is expected after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date. The additions to provision for other obligations arising from sales are decreasing revenues.

Provisions for personnel costs consist mainly of provisions for other long-term employee benefits, provisions for termination benefits and provision for management remuneration.

Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU directive no. 2000/53/EC and are determined mainly on the basis of registered cars in the respective countries, official statistics, expected costs of the cars ecological scrapping and legal requirements valid in individual countries.

Provisions for litigation risks relate mainly to provision for risks arising from legal disputes, legal fees, penalty interest and other litigation risks. The Group provides for the probable cash outflows for existing legal and arbitration proceedings by means of a relevant provision.

The Group is not involved in any legal cases or arbitration proceedings for which no provision has been created and which could have a significant impact on the financial position and the financial results (financial statements) of the Group 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 and customs risks in countries where the Group operates.

16. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash and short-term deposits in banks, short-term deposits in Volkswagen Group companies with original maturity of less than three months. The detailed information relating to the cash and cash equivalents can be found under Note 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.

17. Sales (CZK million)

	2013	**2012**
Cars	223,625	222,341
Spare parts and accessories	22,330	19,293
Supplies of components within Volkswagen Group	15,819	14,443
Revenues from license fees	2,344	1,897
Revenues from services	964	1,427
Other	3,418	3,248
Total	**268,500**	**262,649**

Other sales relate mainly to sales of scrap, tooling and used cars.

18. Other operating income (CZK million)

	2013	2012
Foreign exchange gains	1,854	2,790
Income from derivative transactions	1,182	1,158
Gains on non-current assets disposal	12	44
Reversal of provisions and accruals	2,118	2,816
Reversal of provision for receivables	72	53
Other operating income from provided services	896	630
Gain on disposal of a subsidiary	–	220
Other	2,053	2,411
Total	**8,187**	**10,122**

Foreign exchange gains include mainly gains from differences in exchange rates between the dates of recognition and payment of receivables and payables denominated in foreign currencies, as well as exchange rate gains resulting from revaluation as at the balance sheet date of these receivables and payables. Foreign exchange losses from these items are included in other operating expenses.
Reversal of provisions and accruals resulted from changes in estimates driven mainly by the changed external conditions and circumstances on which the Group based the estimates.

19. Other operating expenses (CZK million)

	2013	2012
Foreign exchange losses	3,573	2,364
Losses from derivative transactions	2,763	3,158
Receivables write-offs	95	101
Other	2,329	1,446
Total	**8,760**	**7,069**

Line Other includes mainly additions to provisions for litigation risks and to other provisions.

20. Financial result (CZK million)

	2013	2012
Interest income	309	627
Foreign exchange gains from cash	17	6
Foreign exchange gains from spot operations	148	340
Income from other investments	79	84
Gains on revaluation of financial derivatives including ineffective hedging	1,152	632
Financial income total	**1,705**	**1,689**
Interest expenses	847	878
Foreign exchange losses from cash	5	14
Foreign exchange losses from spot operations	160	338
Loss on revaluation of financial derivatives including ineffective hedging	804	1,714
Financial expenses total	**1,816**	**2,944**
Net financial result	**(111)**	**(1,255)**

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

	2013	2012
Financial instruments at fair value through profit or loss	357	(1,084)
Loans and receivables	523	339
Available for sale financial assets	1	1
Financial liabilities carried at amortised costs	(2,491)	84
Financial instruments designated as hedging instruments	(487)	(1,586)
Net gains / (losses) total	**(2,097)**	**(2,246)**

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

22. Income tax (CZK million)

	2013	2012
Current tax expense – domestic	1,434	2,134
Current tax expense – foreign	175	356
Current tax expense – total	**1,609**	**2,490**
Deferred tax income – domestic	182	196
Deferred tax income – foreign	317	(106)
Deferred tax income – total	**499**	**90**
Income tax total	**2,108**	**2,580**

Statutory income tax rate in the Czech Republic for the 2013 assessment period was 19% (2012: 19%).
As at 31 December 2013 and 31 December 2012, 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.
The local income tax rates applied for companies outside the Czech Republic vary between 23% and 32.45%.

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

	2013	2012
Profit before income tax	13,940	17,934
Expected income tax expense at 19% (2012: 19%)	**2,649**	**3,407**
Effect of different tax rates outside the Czech Republic	51	88
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(97)	(242)
Share on profit on associates	(88)	(102)
Expenses not deductible for tax purposes	579	77
Tax allowances and other tax credits	(496)	(429)
Adjustment to current tax expense relating to prior periods	133	366
Utilisation of tax credits from investment incentives relating to prior periods	(442)	–
Effect of tax rate changes	4	(14)
Recognition of deferred tax assets from unused tax credits from investment incentives	(214)	(585)
Other taxation effects	29	14
Effective income tax expense	**2,108**	**2,580**
Effective income tax rate	15%	14%

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

23. Subsidies and investment incentives

Subsidies

In 2013 the Company recognised gains from subsidies (relating to the promotion of an entrepreneurial activity), investments in energy-saving measures in production field, construction of employees-training premises and private schools (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 119 million (2012: CZK 123 million).

Investment incentives

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

Model A-SUV

The total amount of the incentive is limited to the amount of CZK 561 million. The project was completed. The tax allowance in amount of CZK 442 million related to 2011 was additionally drawn in 2013. As at 31 December 2012 the respective deferred tax asset was not recognised.

Enlargement of production of parts of engine EA211 and its assembly

The total amount of the incentive is limited to CZK 800 million. In 2013 (2012), the project was in progress and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2013 is CZK 700 million (31 December 2012: CZK 531 million).

Enlargement of production of transmissions - MQ100

The total amount of the incentive is limited to CZK 496 million. In 2013 (2012), the project was in progress andthe Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2013 is CZK 434 million (31 December 2012: CZK 390 million).

Enlargement of technical development - Česana Jih premises

The total amount of the incentive is limited to CZK 306 million. The realisation of the project is expected in the following years.

Enlargement of current production by production of automatic transmissions – Vrchlabí

The decision was received on 30 May 2013. The total amount of the incentive is limited to CZK 738 million. The realization of the project has already begun. The respective deferred tax asset of CZK 738 million was not recognised because utilisation of the investment incentive was regarded by the Company as uncertain as at 31 December 2013.

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

Decision received on 11 July 2013. The total amount of the incentive is limited to CZK 707 million. The realization of the project is expected in the following years.
The Group was also granted incentives in the form of deferral of payment of sales tax liabilities. The carrying amount of the liability amounted to CZK 765 million as at 31 December 2013 (2012: CZK 1,766 million).

24. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records subsequently to the reported tax year as governed by the respective legislation, and may impose additional tax assessments and penalties.
The Group management is not aware of any circumstances that could result in material liabilities arising from the tax audits carried out at present or potentially in the future, except for the tax risks for which provision for tax risks has been created (see Note 15).

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

Future commitments as at balance sheet date are as follows:

	Payable until year 2014	Payable 2015 – 2018	31 December 2013
Investment commitments – property, plant and equipment	6,198	820	7,018
Investment commitments – intangible assets	8,873	3,282	12,155
Operating leasing payments	300	639	939

	Payable until year 2013	Payable 2014 – 2017	31 December 2012
Investment commitments – property, plant and equipment	9,037	607	9,644
Investment commitments – intangible assets	3,857	3,434	7,291
Operating leasing payments	313	252	565

On the basis of non-cancellable operating lease agreements, the Group 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.

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

	2013	2012
Material costs – raw materials and other supplies, goods	**183,257**	**179,183**
Production related services	10,358	9,675
Personnel costs	**19,561**	**19,099**
Wages	14,969	14,545
Pension benefit costs (defined contribution plans)	2,720	2,702
Social insurance and other personnel costs	1,872	1,852
Depreciation, amortisation and impairment losses	**14,893**	**11,932**
Other services	**26,319**	**27,896**
Total cost of sales, distribution and administrative expenses	**254,388**	**247,785**
Number of employees		
Number of employees*	28,470	28,546

* Average number of employees (including temporary employees).

27. Related party transactions

In 2013, there were no changes in the ownership structure of the Company and the company VOLKSWAGEN AG has been the ultimate parent company and the ultimate controlling party of the Company for the entire accounting period.

The Group participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2013	2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	6,901	3,759
Associates		
OOO VOLKSWAGEN Group Rus	19,581	24,845
Companies controlled by ultimate parent company	101,163	91,653
Other related parties	1,438	2,149
Total	**129,083**	**122,406**

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

In addition to revenues specified in the table Sales to related parties, in 2013 (2012) the Group also realised revenues from royalties:

	2013	2012
Revenues from license fees		
Ultimate parent company	–	–
Associates	152	129
Companies controlled by ultimate parent company	–	–
Other related parties	2,192	1,768
Total	**2,344**	**1,897**

In addition to revenues specified in the table Sales to related parties, in 2013 (2012) the Group also realised income with related parties relating to interest from intercompany deposits:

	2013	2012
Interest income from deposits		
Ultimate parent company	2	2
Associates	–	–
Companies controlled by ultimate parent company	75	318
Other related parties	–	–
Total	**77**	**320**

Dividends received from associates are disclosed in Note 7.

Purchases from related parties (CZK million)

	2013	2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	33,570	36,920
Associates		
OOO VOLKSWAGEN Group Rus	535	331
Companies controlled by ultimate parent company	42,570	48,093
Other related parties	69	37
Total	**76,744**	**85,381**

The table Purchases from related parties comprises only purchases relating to trade activities.
The amount of dividends paid to the parent company is disclosed in Note 11.

Receivables from related parties (CZK million)

	2013	2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	744	553
Associates		
OOO VOLKSWAGEN Group Rus	3,941	2,932
Companies controlled by ultimate parent company	3,257	2,770
Other related parties	1,446	2,449
Total	**9,388**	**8,704**

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

	2013	2012
Receivables from royalties		
Ultimate parent company	–	–
Associates	152	169
Companies controlled by ultimate parent company	210	–
Other related parties	2,260	2,097
Total	**2,622**	**2,266**

In addition to trade receivables and receivables from royalties, the Group also had deposits in companies controlled by ultimate parent company in the nominal amount of CZK 36,419 million (31 December 2012: CZK 38,094 million). Receivables from interest from the deposits as at 31 December 2013 amounted to CZK 86 million (31 December 2012: CZK 37 million). Average interest rate relating to these deposits is disclosed in Note 8 and Note 10.

Receivables from related parties are considered by the Group to be of the least risk. The products delivered to the related parties are supplied on credit terms or the resulting receivables are transferred to factoring companies.

No impairment loss was identified for any of the receivables from related parties.

Cash pooling balance with Volkswagen Group Services S.A. is disclosed in Note 10.

Investments in associates are disclosed in Note 7.

Factoring of receivables with related parties is disclosed in Note 3.1 and 3.1.6.

Liabilities to related parties (CZK million)

	31 December 2013	31 December 2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,589	1,877
Associates		
OOO VOLKSWAGEN Group Rus	46	16
Companies controlled by ultimate parent company	11,190	9,696
Other related parties	10	31
Total	**12,835**	**11,620**

Liabilities to related parties represent only trade liabilities for all the categories stated above.
In addition to the trade liabilities stated in the table above, the Group had a liability from a loan from VOLKSWAGEN AG of total amount of CZK 3,000 million as at 31 December 2013 (31 December 2012: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 106 million as at 31 December 2013 (31 December 2012: CZK 107 million). Details about the loan are specified in Note 13.

	31 December 2013	31 December 2012
Contractual obligations and other future commitments		
Ultimate parent company	11,813	6,958
Associates	–	–
Companies controlled by ultimate parent company	433	345
Other related parties	–	–
Total	**12,246**	**7,303**

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)

	2013	2012
Salaries and other short-term employee benefits*	570	487
Long-term employee benefits	12	12
Total	**582**	**499**

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

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Group having authority and responsibility for planning, directing and controlling the activities of the Group.
The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes the remuneration paid, payable or provided by the Group in the form of wages, salaries, bonuses and non-monetary remuneration.
CZK 307 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2013 (31 December 2012: CZK 252 million).

28. Other information (CZK million)

The compensation paid to the Group´s auditors for the accounting period was CZK 33 million (2012: CZK 37 million) and covered the following services:

	2013	2012
Audit, other audit related and assurance services	26	25
Tax and related services	5	4
Other advisory services	2	8
Total	**33**	**37**

29. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the consolidated financial statements of the Group for the year ended 31 December 2013.

30. Information about Volkswagen Group

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

Mladá Boleslav, 13 February 2014

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Dana Němečková

Jana Fernández Zambrano

Auditor´s report on the separate financial statements

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

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company"), which comprise the balance sheet as at 31 December 2013, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the separate financial statements").

Board of Directors' Responsibility for the Separate Financial Statements

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

Auditor's Responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

13 February 2014

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Pavel Kulhavý
Statutory Auditor, Licence No. 1538

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

Separate financial statements for the year ended 31 December 2013

Income statement for the year ended 31 December 2013 (CZK million)

	Note	2013	2012
Sales	**18**	**243,624**	**239,101**
Cost of sales	27	209,538	203,216
Gross profit		**34,086**	**35,885**
Distribution expenses	27	13,067	13,724
Administrative expenses	27	6,679	6,155
Other operating income	19	6,024	7,207
Other operating expenses	20	7,827	6,209
Operating profit		**12,537**	**17,004**
Financial income		2,007	2,163
Financial expenses		1,594	3,455
Financial result	**21**	**413**	**(1,292)**
Profit before income tax		**12,950**	**15,712**
Income tax expense	23	1,564	2,453
Profit for the year		**11,386**	**13,259**

Statement of comprehensive income for the year ended 31 December 2013 (CZK million)

	Note	2013	2012
Profit for the year, net of tax		**11,386**	**13,259**
Cash flow hedges	13	(2,743)	1,780
Other comprehensive income / (loss) for the year, net of tax*		**(2,743)**	**1,780**
Total comprehensive income for the year		**8,643**	**15,039**

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

The notes on pages 114 to 173 are an integral part of these financial statements.

Balance sheet as at 31 December 2013 (CZK million)

	Note	31 December 2013	31 December 2012
Assets			
Intangible assets	5	21,488	18,679
Property, plant and equipment	6	61,446	55,108
Investments in subsidiaries	7	247	247
Investments in associates	8	2,352	2,352
Other non-current receivables and financial assets	9	866	4,188
Deferred tax asset	15	1,524	1,012
Non-current assets		**87,923**	**81,586**
Inventories	10	11,092	9,528
Trade receivables	9	11,290	11,177
Other current receivables and financial assets	9	9,727	3,793
Prepaid income tax		43	420
Cash and cash equivalents	11	31,926	34,738
Current assets		**64,078**	**59,656**
Total assets		**152,001**	**141,242**

	Note	31 December 2013	31 December 2012
Equity and liabilities			
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Retained earnings	13	74,162	69,405
Other reserves	13	(2,133)	610
Equity		**90,316**	**88,302**
Non-current financial liabilities	14	–	3,000
Other non-current liabilities	14	4,820	3,496
Non-current provisions	16	7,774	6,961
Non-current liabilities		**12,594**	**13,457**
Current financial liabilities	14	3,106	107
Trade payables	14	29,314	25,624
Other current liabilities	14	6,183	4,447
Current provisions	16	10,488	9,305
Current liabilities		**49,091**	**39,483**
Total equity and liabilities		**152,001**	**141,242**

The notes on pages 114 to 173 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2013 (CZK million)

	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2012	**16,709**	**1,578**	**63,290**	**(1,170)**	**80,407**
Profit for the year	–	–	13,259	–	13,259
Other comprehensive income / (loss)	–	–	–	1,780	1,780
Total comprehensive income for the year	–	–	13,259	1,780	15,039
Dividends paid	–	–	(7,144)	–	(7,144)
Balance as at 31 December 2012	**16,709**	**1,578**	**69,405**	**610**	**88,302**
Balance as at 1 January 2013	**16,709**	**1,578**	**69,405**	**610**	**88,302**
Profit for the year	–	–	11,386	–	11,386
Other comprehensive income / (loss)	–	–	–	(2,743)	(2,743)
Total comprehensive income for the year	–	–	11,386	(2,743)	8,643
Dividends paid	–	–	(6,629)	–	(6,629)
Balance as at 31 December 2013	**16,709**	**1,578**	**74,162**	**(2,133)**	**90,316**

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

The notes on pages 114 to 173 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2013 (CZK million)

	Note	2013	2012
Cash and cash equivalents as at 1 January	**17**	**34,738**	**24,105**
Profit before income tax		12,950	15,712
Depreciation and impairment of non-current assets	5, 6	14,502	11,792
Change in provisions		1,682	(611)
Gain on disposal of non-current assets		(9)	(10)
Net interest (income) / expense	21	518	98
Change in inventories		(1,578)	(1,092)
Change in receivables		(1,049)	1,069
Change in liabilities		4,272	(398)
Income tax paid from operating activities		(1,057)	(3,738)
Interest paid		(312)	(356)
Interest received		57	389
Dividends income	21	(584)	(455)
Impairment losses of investments in subsidiaries	7, 21	–	922
Unrealised (gains) and losses from derivatives and other adjustments for non-cash transactions		(427)	857
Cash flows from operating activities		**28,965**	**23,819**
Purchases of non-current assets		(19,920)	(18,376)
Additions to capitalised development costs	5	(4,326)	(6,104)
(Increase) / decrease in short-term deposits*	9	(1,500)	21,533
Increase in long-term deposits	9	–	(3,033)
Proceeds from sale of non-current assets		14	44
Proceeds from dividends		584	455
Cash flows from investing activities		**(25,148)**	**(6,042)**
Net cash flows (operating and investing activities)		**3,817**	**17,777**
Dividends paid	12	(6,629)	(7,144)
Cash flows from financing activities		**(6,629)**	**(7,144)**
Net change in cash and cash equivalents		**(2,812)**	**10,633**
Cash and cash equivalents as at 31 December	**17**	**31,926**	**34,738**

* Deposits which do not meet criteria of cash equivalents according to IAS 7.

The notes on pages 114 to 173 are an integral part of these financial statements.

Notes to the separate financial statements 2013

Company information

Foundation and company enterprises

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

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

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

The organisational structure of the Company is divided into the following main areas:
- Central management department
- Technical development
- Production and logistics
- Sales and marketing
- Commercial affairs
- Human resource management
- Purchasing

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

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

Note

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

1. Summary of significant accounting policies and principles

1.1 Compliance statement

These financial statements are separate financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2013 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries (together "the Group") for the year ended 31 December 2013. Users of these separate financial statements should read them together with the consolidated financial statements for the year ended 31 December 2013 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The Company as a controlled entity is obliged to be part of the consolidated financial statements of the Volkswagen Group in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS"). As a result and based on the Company's sole shareholder's decision and under paragraph 19a Article 7 of Act No. 563/1991 Coll. on Accounting, the Company prepares the separate financial statements in accordance with IFRS as adopted by the European Union.
Refer to the Company information in the preceding note "Company information".

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

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on 1 January 2013

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2013, which are applied by the Company:

IFRS	Standard/Interpretation	Effective in EU	Description	Effect
IFRS 13	Fair Value Measurement	1 January 2013	Aim of the new standard is to reduce complexity, improve consistency and clarify approach to disclosure of items in the financial statements carried at fair value. The standard clearly defines fair value and gives instruction for its application in case the fair value measurement is required or allowed by another IFRS.	Within calculation of fair value of financial instruments designated as hedging instruments, the Company reflected the risk of counterparty, with which the hedging instrument is contracted. The effect of the adjusted calculation for the counterparty risk did not have significant impact on financial result in the Income statement.
IAS 1	Presentation of Financial Statements/Disclosure of items presented in other comprehensive income	1 January 2013	The amendments deal with disclosure of items presented in other comprehensive income. The amendments newly require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Information to the user will be provided what proportion of total comprehensive income will never be reclassified to profit or loss for the period.	The Company has disclosed information about items which may be reclassified in the future from other comprehensive income to profit or loss.
IFRS 7	Financial Instruments: Disclosures/Offsetting Financial Assets and Financial Liabilities	1 January 2013	The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.	The Company has disclosed information about rights of set-off of financial assets and financial liabilities and about effect from their potential netting in a separate subnote 3.1.7

There are no other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on or after 1 January 2013 which have material impact on the separate financial statements of the Company.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on or after 1 January 2013

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

IFRS	Standard/Interpretation	Effective in EU	Description	Effect
IFRS 9	Financial instruments	Not yet endorsed by the EU and no effective date set by IASB.	IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and changes also some disclosure requirements as set out by IFRS 7. Per IFRS 9, all financial assets, currently within scope of IAS 39, are required to be classified into two measurement categories – those to be measured subsequently at amortised cost, and those to be measured subsequently at fair value. Effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss must be presented in other comprehensive income. Hedge accounting requirements were amended to align accounting more closely with risk management. An accounting policy choice was introduced between IFRS 9 and IAS 39 requirements for all hedges.	The Company expects that the new IFRS 9 will have impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. However, without a detailed analysis it is not possible to perform reliable estimate of such impact as at the date of the financial statements. The Company does not expect early adoption of this standard. The disclosure of information in the area of financial instruments will be ruled by IFRS 7 para. 44S – 44W.
IAS 36	Recoverable amount disclosures for non-financial assets	1 January 2014	The amendments remove the requirement to disclose the recoverable amount when a cash-generating unit contains goodwill or indefinite lived intangible assets but there has been no impairment. In addition, there are further disclosure requirements for additional information about fair value less costs of disposal based on IFRS 13 requirements.	The Company is currently assessing the impact of the amendments on the disclosures in the notes to the financial statements in connection with impairment loss recognised for some cash-generating units.

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

IFRS	Standard/Interpretation	Effective in EU	Description
IFRS 10	Consolidated Financial Statements	1 January 2014	IFRS 10 Consolidated Financial Statements replaces previous IAS 27 and SIC 12. The new standard follows up the current principles to determine control, focuses on clarification of the definition of control, while the rules for status of control are substantially extended.
IFRS 11	Joint Arrangements	1 January 2014	IFRS 11 fully replaces IAS 31 and SIC 13. Substantial change introduced by the new standard is elimination of jointly controlled assets and elimination of proportionate consolidation.
IFRS 12	Disclosure of Interest in Other Entities	1 January 2014	IFRS 12 deals with all disclosure requirements in respect of interests held in other reporting entities and replaces the previous standard IAS 27. The scope of the standard includes interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (formerly "special purpose entities").
IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014*	The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, e.g. employee contributions that are calculated according to a fixed percentage of salary. The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered (instead of attributing the contributions to the periods of service).
IAS 27	Separate Financial Statements	1 January 2014	This standard replaces previous standard IAS 27. Requirements for separate financial statements remained without changes. Other parts of IAS 27 were replaced by IFRS 10.
IAS 28	Investments in Associates and Joint Ventures	1 January 2014	The amendment of IAS 28 modified the standard so that changes resulting from issuance of standards IFRS 10, IFRS 11 and IFRS 12 are reflected.
IAS 32	Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014	The amendments to IAS 32 deals with offsetting financial assets and liabilities. It clarifies conditions under which the offsetting may be applied.
IFRS 10, IFRS 11, IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities - Transition Guidance Amendments	1 January 2014	The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and define the first day of the adoption of IFRS 10. The amendments determine under which conditions an entity must restate its consolidated figures retrospectively when adopting IFRS 10. The amendments also provide additional transition relief in respect of requirements of IFRS 10, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities.
IFRS 10, IFRS 12, IAS 27	Consolidated Financial Statements, Disclosure of Interest in Other Entities - Transition Guidance Amendments and Separate Financial Statements - Amendment	1 January 2014	The amendment introduced a definition of an investment entity. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	The amendments allow an entity to continue with hedge accounting, subject to specific conditions, in a situation where a derivative, which has been designated as a hedging instrument, is novated. (Novation is situation when original parties of the derivative have agreed to replace their original counterparty with a new one).
IFRIC 21	Levies	1 January 2014*	The interpretation clarifies the accounting for an obligation to pay a levy, identified by the legislation and which is not income tax. The interpretation defines the point when the liability should be recognized and the obligating event that gives rise to a liability.

* Not yet adopted by the European Union as at 31 December 2013 (the specified date relates to effective date as per IASB).

Improvements to International Financial Reporting Standards (cycle 2010 – 2012), mandatory for accounting periods beginning on or after 1 July 2014 or later* will not be relevant for the Company or are not expected to have a significant impact on the Company's operations:

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

* Not yet adopted by the European Union as at 31 December 2013 (the specified date relates to effective date as per IASB).

Improvements to International Financial Reporting Standards (cycle 2011 – 2013), mandatory for accounting periods beginning on or after 1 July 2014 or later* will not be relevant for the Company or are not expected to have a significant impact on the Company's operations:

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

* Not yet adopted by the European Union as at 31 December 2013 (the specified date relates to effective date as per IASB).

2. Basis of preparation of financial statements

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

2.1 Foreign currency translation

Functional and presentation currency

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

2.2 Intangible assets

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

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

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

2.3 Property, plant and equipment

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

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

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

2.4 Impairment of assets

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

2.5 Financial instruments

2.5.1 Financial assets

Classification

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

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial assets valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting periods 2013 and 2012, the Company only had financial derivatives within this category (Note 2.5.3).

b) Loans and receivables

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

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Dividend income from these activities is included in financial income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as financial income or expenses. In the accounting period 2013 (2012), 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.

d) Investments in subsidiaries and associates

Recognition and measurement

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

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

Investments in subsidiaries and associates are carried in the separate financial statements at cost less any impairment loss. Dividends received from such assets are presented in financial income. Net gains or losses from sale of shares in subsidiaries and associates are included in financial income or expenses.

Impairment

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

Trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Company will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable. The creation of the allowance is recognised in the income statement within Other operating expenses.

When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit or loss and the allowance is utilised.
In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. In case investments in subsidiaries and associates are impaired, the impairment loss is presented in the line financial expenses in income statement.

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

2.5.2 Financial liabilities

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

a) Financial liabilities measured at fair value through profit or loss
Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2013 (2012), the Company only had financial derivatives in this category (Note 2.5.3).

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

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

2.5.3 Financial derivatives
The Company uses derivatives to hedge currency and price risks. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Company designates as hedging instruments only those which fulfil the requirements of hedge accounting.
The Company uses derivatives to hedge future cash flows. The hedged items in this case are highly probable future transactions.
The Company is hedging against changes in cash flows from highly probable future transactions caused by changes in foreign exchange spot rates and other price changes (arising especially from the combination of commodity and currency risk).
The changes in the spot component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in the forward points component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised as a gain or loss in the income statement.
The changes in fair value of commodity swaps that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. The changes in fair value of commodity swaps that do not qualify as effective cash-flow hedging instruments are recognised in the income statement and classified as a gain or loss.

The cumulative balances recognised in other comprehensive income are recycled into the income statement as a gain or loss in the periods when the hedged item affects the income statement. If the timing of the hedged cash flow is deferred, in compliance with its hedging strategy the Company prolongs the maturity of the original hedging instrument. In such case the spot component of the original derivative contract is held in equity until the hedged item affects the income statement. At this moment, the balance of the spot component is recycled from other comprehensive income to the income statement and recognised as a gain or loss.
When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income from the effective part of the hedging instrument at that time remains in other comprehensive income and is reclassified to the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as the net present value of future cash flows. The fair value of currency forwards and swaps is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. The fair value of commodity swaps is calculated as the present value of future cash flows based on the rates of LME (London Metal Exchange).

2.5.4 Offsetting of financial instruments

The Company presents financial assets and financial liabilities offset in statement of financial position in net amount only when it has currently a legally enforceable right to set off the recognised financial asset and liability and intends to settle on net basis or to realise the asset and settle the liability simultaneously.

2.6 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.

2.6.1 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 an asset.
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 substantively enacted by the balance sheet date.

2.6.2 Deferred income tax

Deferred income tax is determined using the balance-sheet liability method, based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.
Deferred income tax is determined using tax rates and tax laws, that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In accordance with IAS 12, deferred tax assets and liabilities are offset if the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority, and where the Company has the enforceable right to offset the current tax assets and liabilities.
Deferred tax relating to items recognised in other comprehensive income (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges) is also recognised in other comprehensive income.
The Company recognises deferred income tax assets relating to unused tax credits from investment incentives against deferred tax income in the income statement to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

2.7 Inventories

Purchased inventories (raw materials, consumables, supplies and materials used in production, goods) are stated at the lower of cost and net realisable value. Costs include purchase costs and other acquisition costs (e.g. transport and packaging).
Inventories generated from own production, i.e. work in progress and finished goods, are stated at lower of own production costs or net realisable value. Own production costs include direct material, direct wages and production overheads. The administration overhead expenses are not included in the valuation of work in progress and finished goods.
Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion less applicable variable selling expenses. Net realisable value reflects all risks of obsolete and redundant raw materials and excessive original parts.
A weighted-average calculation is used to account for the consumption of materials.

2.8 Provisions for employee benefits

Provisions for other long-term employee benefits

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

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period or up to the moment of a certain work anniversary of the employee. The amount of provision corresponds with the present value of long-term employee benefits for past service at the balance sheet date determined using the projected unit credit method.
These obligations are valued annually by independent qualified actuaries. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are charged or credited to the income statement.
The present value of long-term employee benefits is determined by discounting the estimated future cash outflows arising from their settlement using interest rates equalling market yield of treasury bonds because there is no deep market of high-quality corporate bonds denominated in CZK. The term and currency of these corporate or treasury bonds are consistent with the currency and term of the respective other long-term employee benefits.

2.9 Other provisions

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

2.10 Revenue and expense recognition

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

2.11 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.

2.12 Investment incentives and subsidies

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

2.13 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.

2.14 Share capital

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

2.15 Critical accounting estimates and assumptions

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

Capitalisation of development costs

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

Impairment of non-current assets

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

Provision for warranty claims

The Company recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially good-will repairs (the 3rd and the 4th year). The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line.
The rates for the basic guarantee are determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair trademark policy with regard to specifics of individual countries.
The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production

years, guarantee types and the sales regions is prepared at the year end. More detailed information about the provision for warranty claims is included in Note 16.

Provision for litigation risks

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

Provision for other risks

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

Useful lives

The estimated useful lives of individual tangible and intangible assets or classes of assets are determined based on the Company's experience with similar assets and in accordance with the expected future economic benefits of the assets, taking into account also changes in production plan and expected utilisation of these assets. Intangible assets show the highest uncertainty in estimating the useful life. Net book value of intangible assets was CZK 21,488 million as at 31 December 2013 (as at 31 December 2012: CZK 18,679 million). Average useful life of intangible assets was 7 years in 2013 (in 2012: 7 years).

Royalty income

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

3. Financial risk management

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

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss to other party by failing to discharge an obligation.
Credit risk arises in the normal course of the Company's operations, as well as through activities connected with financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by the Company Treasury through determination of maximal limits for individual counterparties.
The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. In assessing these risks, attention is paid to the country in which the headquarters of the counterparties are situated. The credit rating of these countries is monitored closely and attention is focused on the analysis of macroeconomic indices. Apart from the Volkswagen Group's Risk Management Department, the Company also uses the services of external agencies (D&B, Creditreform, Reuters, etc.).
The acceptance of new business partners is reliant on standard approval procedures. The Company's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis. Adhering to these limits is monitored and evaluated on a regular basis.
Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers and Volkswagen Group entities. Receivables are secured by preventative and supplemental instruments.
Receivables secured by preventative security instruments are used mainly when the customer contracts are concluded. An 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 2013 (as at 31 December 2012), the Company did not hold any collateral for loans given.
In the following table, the reported figures represent either the carrying value of secured trade receivables, or the collateral value if this value is lower, determined individually for each instrument:

CZK million	**2013**	**2012**
Retention of legal ownership title to sold cars	808	1,176
Bank guarantees	888	767
Letters of credit	1,369	1,287
Documentary collection	175	190
Accepted deposit	6	19
Total	**3,246**	**3,439**

3.1.1 Maximum exposure to credit risk (CZK million)

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

The exposure to credit risk of derivatives is measured at fair value of the derivative.

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

	Carrying amount as at 31 December 2012		
	Neither past due nor impaired financial assets	**Past due but not impaired financial assets**	**Total**
Loans to employees	573	–	573
Deposits in companies within Volkswagen Group	36,534	–	36,534
Positive fair value of financial derivatives	1,129	–	1,129
Other receivables and financial assets	68	–	68
Trade receivables	9,699	1,478	11,177
Cash	1,237	–	1,237
Total	**49,240**	**1,478**	**50,718**

The line item Deposits in companies within Volkswagen Group companies includes deposits with original maturity from three months to one year in total amount of CZK 1,502 million (as at 31 December 2012: CZK 0 million) and deposits with original maturity from one year to five years in total amount of CZK 3,081 million (as at 31 December 2012: CZK 3,033 million) included in balance sheet in the line Other receivables and financial assets (see Note 9), and deposits with original maturity less than three months in total amount of CZK 30,000 million (as at 31 December 2012: CZK 33,501 million) included in balance sheet in the line Cash and cash equivalents (see Note 11).

The amount of guarantees provided by the Company is CZK 61 million as at 31 December 2013 (as at 31 December 2012: CZK 51 million).

3.1.2 Risk concentration

The Company monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Company to foreign exchange risk is disclosed in Note 3.4.1. During the accounting period 2013 (2012) 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 through Volkswagen Group companies (as in 2012).

The total volume of short-term deposits with Volkswagen Group companies amounted to CZK 36,499 million as at 31 December 2013 (as at 31 December 2012: CZK 34,689 million), out of which:

- deposits with original maturity from one to five years included in balance sheet in the line Other receivables and financial assets (see Note 9) in total amount of CZK 3,081 million (as at 31 December 2012: CZK 3,033 million),
- deposits with original maturity from three months to one year included in balance sheet in the line Other receivables and financial assets (see Note 9) in total amount of CZK 1,502 million (as at 31 December 2012: CZK 0 million),
- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 11) in total amount of CZK 30,000 million (as at 31 December 2012: CZK 33,501 million), and
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 11) in total amount of CZK 1,916 million (as at 31 December 2012: CZK 1,188 million).

In 2013 (2012), the Company did not consider it probable that a default could occur in connection with the free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

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

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

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

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2012			
Loans to employees	573	–	573
Deposits in companies within Volkswagen Group	36,534	–	36,534
Positive fair value of financial derivatives	1,129	–	1,129
Other receivables and financial assets	68	–	68
Trade receivables	9,397	302	9,699
Cash	1,237	–	1,237
Total	**48,938**	**302**	**49,240**

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

	Months past due			
	Less than 1 month	1 – 3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2013	**412**	**267**	**314**	**993**
Balance as at 31 December 2012	1,221	129	128	1,478

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Company did not identify any need for impairment of these receivables. Out of the total amount of receivables from group companies which were past due as at 31 December 2012 (CZK 1,222 million), CZK 84 million were still not paid as at 31 December 2013.

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

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

	2013	2012
Other receivables and financial assets		
Gross balance as at 31 December	176	151
Valuation allowance:		
Balance as at 1 January	(151)	(152)
Additions	(27)	–
Utilised	2	1
Released	–	–
Balance as at 31 December	**(176)**	**(151)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	199	194
Valuation allowance:		
Balance as at 1 January	(194)	(211)
Additions	(15)	(39)
Utilised	2	39
Released	8	17
Balance as at 31 December	**(199)**	**(194)**
Net balance as at 31 December	–	–

During the accounting period 2013 (2012) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2013 (2012) the Company had valuation allowances only on financial assets included in the category of loans and receivables.

3.1.6 Transferred financial assets where the Company has continuing involvement

The Company has concluded a factoring contract with the company ŠkoFIN s.r.o., under which the majority of risks and rewards relating to ownership of receivables arising from sale of new or used cars are transferred to ŠkoFIN s.r.o. Under certain conditions, the company ŠkoFIN s.r.o. can claim compensation relating to realized credit losses up to 2% of the total amount of transferred receivables during the year, however, not more than 49% of these losses and not more than CZK 61 million in 2013 (in 2012: CZK 51 million). This amount represents carrying amount and fair value of the recognised continuing involvement in these receivables, and related financial liabilities. At the same time, this amount represents the maximum exposure to credit risk.
The loss recognised at the date of transfer of the assets was CZK 20 million in 2013 (in 2012: CZK 25 million).

3.1.7 Offsetting of financial assets and financial liabilities

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

Balance as at 31 December 2012	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial liabilities/ assets set off in the balance sheet	Net amount of financial assets/ liabilities presented in the balance sheet	Related amount not set off in the balance sheet*	Net amount**
Receivables from financial derivatives	1,129	–	1,129	(974)	155
Liabilities from financial derivatives	4,702	–	4,702	(974)	3,728
Trade receivables	12,603	(1,426)	11,177	–	11,177
Trade liabilities	26,693	(1,426)	25,267	–	25,267

* Comprises the financial assets / liabilities that are the subject of an enforceable master netting agreement or similar agreement, and which were not recognized on a net basis in the statement of financial position
** This is the net value of financial assets / liabilities recognized in the statement of financial position decreased by the value of related financial liabilities / assets that were not recognized on a net basis in the statement of financial position.

There was no collateral held or given in respect of derivative financial assets / liabilities as at 31 December 2013 (as at 31 December 2012). The total amount of collateral value of trade receivables was CZK 3,246 million as at 31 December 2013 (as at 31 December 2012: CZK 3,439 million). Details related to types of collateral are presented in Note 3.1.
Possibility of offsetting assets and liabilities may exist for specific business relations in accordance with applicable legislation, which governs the business relationship. The Company has not disclosed any value in column "Related amount not set off in the balance sheet" as at 31 December 2013 (as at 31 December 2012) due to the fact that the cost to determine this value would significantly exceed the benefit of providing the information.

3.2 Liquidity risk

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

Cash management

Since 2010, when the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS) located in Brussels, centralisation and optimalisation of processes is ensured within the Volkswagen Group in the areas of cash management, payments system and liquidity management.
The GTP implementation resulted in changes in the system of outgoing and incoming payments. The outgoing payments are processed on behalf of the Company by VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS. The incoming payments are credited to Company's bank accounts and subsequently at the end of each working day they are automatically transferred to VGS' bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS. All incoming payments are translated into Czech crowns and credited to the Company's bank account at the "Inhouse Bank" (IHC) operated by VGS, where the differences between debit and credit balances on the collected financial resources are netted-off.
Major instruments used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (credit lines) and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured mainly through resources from other Volkswagen Group companies integrated into the GTP and, to a limited extent, through credit lines arranged with external banks.
The total amount of credit lines from banks as at 31 December 2013 was CZK 700 million (as at 31 December 2012: CZK 700 million). All credit lines are contracted in Czech crowns. The Company has not utilised any agreed bank credit lines as at 31 December 2013 (as at 31 December 2012).
The credit line from the Volkswagen Group in the total amount of CZK 3,000 million was drawn in the whole amount as at 31 December 2013 (as at 31 December 2012).
The information about financial conditions of credit lines drawn is included in Note 14.

Contractual maturity analysis (undiscounted amounts in CZK million)

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

	Less than 3 months	3 – 12 months	1 – 5 years	Longer than 5 years	Total
Balance as at 31 December 2012					
Cash	1,237	–	–	–	1,237
Deposits in companies within Volkswagen Group	33,502	–	3,092	–	36,594
Other receivables and financial assets (except derivatives)	42	137	327	145	651
Trade receivables	10,903	274	–	–	11,177
Financial liabilities	(138)	–	(3,138)	–	(3,276)
Trade payables	(23,187)	(2,080)	–	–	(25,267)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	3,918	13,550	29,764	–	47,232
Outflow of financial resources	(3,838)	(13,375)	(29,363)	–	(46,576)
Commodity swaps	19	55	89	–	163
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	12,457	34,131	47,494	–	94,082
Outflow of financial resources	(13,095)	(35,927)	(50,653)	–	(99,675)
Commodity swaps	(12)	(29)	(38)	–	(79)
Total	**21,808**	**(3,264)**	**(2,426)**	**145**	**16,263**

3.3 Market risk

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

3.3.1 Currency risk

Currency risk is a risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.
The fluctuation of exchange rates represents significant risk in that the Company sells its products, and purchases material, parts and services concurrently in various foreign currencies. The Company actively manages this risk through continually updated market analysis, worldwide procurement of material and equipment and production of its products in some sales regions. Standard derivative hedging instruments are used by the Company to manage the currency risk.
The risk exposure, as determined by the analysis of income and expense structures by foreign currency, is hedged on the basis of expected future foreign currency cash flows. These expected cash flows are planned in the form of monthly foreign currency plans (FX plan), which are being updated regularly and they stretch over a time horizon up to 5 years.
The Company's management is regularly being updated about the currency risk status by means of the liquidity meeting, attended by representatives of the Treasury, Controlling and Accounting departments, Treasury Department of the Volkswagen Group, representatives of subsidiaries and management of Commercial affairs department. In addition to the update of foreign currency plans, actual development of foreign currency cash flows and exchange rates fluctuations against CZK, suggestions for additional hedging are presented and agreed during these meetings.
Forward exchange contracts and currency swaps are used as hedging instruments for elimination of currency risk. The basic parameters of the hedging policy are defined by the hedging directive valid for the entire Volkswagen Group, which includes also the list of permitted financial products (derivatives). Contracts are concluded upon the Company's request and in its name by the Treasury Department of the Volkswagen Group. The risk resulting from changes in exchange rates against CZK is hedged for a total of 11 currencies. The most important trading currencies are USD, EUR, GBP, CHF, PLN and RUB. The Company also applies hedge accounting for currency risk.
For the analysis of sensitivity to exchange rates please refer to Note 3.4.1.

3.3.2 Interest rate risk

Interest rate risk is a risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The objective of the interest rate risk management is to eliminate the risk arising from fluctuations of interest rates of financial liabilities and receivables with floating interest rates by maintaining an appropriate structure of financial liabilities and receivables.
The management of the Company monitors the interest rate risk at the regular monthly meetings attended by representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the following - information about current development of interbank interest rates (especially PRIBOR, EURIBOR and LIBOR) and information about central banks' interest rates in the regions where the Company operates. The Company's management is also presented with short-term forecasts of the interest rates development.
The exposure to interest rate risk arises from cash deposits at Volkswagen Group companies.
For the analysis of sensitivity to interest rates please refer to Note 3.4.2.

3.3.3 Price risk

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

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

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

3.3.4 Derivative financial instruments

Nominal and fair value of derivatives (CZK million)

	Nominal value of derivatives				Fair value of derivatives			
	Balance as at 31 December 2013		Balance as at 31 December 2012		Balance as at 31 December 2013		Balance as at 31 December 2012	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Currency instruments								
Currency forwards for trading	1,005	2,358	24	155	37	22	–	10
Currency forwards – cash flow hedging	12,546	86,378	38,316	95,398	753	6,825	790	4,515
Currency swaps – for trading	1,208	31	–	–	105	1	–	–
Currency swaps – cash flow hedging	4,552	13,587	8,486	4,195	213	643	179	94
Commodity instruments								
Commodity swaps for trading	205	–	140	–	18	–	31	–
Commodity swaps – cash flow hedging	386	1,618	844	1,137	28	166	129	83
Total	**19,902**	**103,972**	**47,810**	**100,885**	**1,154**	**7,657**	**1,129**	**4,702**

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

Volume of hedged cash flows (CZK million)

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

Balance as at 31 December 2012	Volume of hedged cash flows		
	Within 1 year	1 - 5 years	Total
Currency risk exposure			
Hedging of future cash flows – future receivables	52,659	72,647	125,306
Hedging of future cash flows – future liabilities	(12,831)	(6,275)	(19,106)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(785)	(1,173)	(1,958)
Total	**39,043**	**65,199**	**104,242**

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

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

The sensitivity analysis includes analysis of exposure arising from derivative financial assets and liabilities and unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates compared to those published by Czech National Bank. In 2013 (2012) the Company considers (considered) as reasonably possible the movements of exchange rates EUR, USD, CHF, GBP and RUB against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK)

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

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

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

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

	CZK appreciation by 10%					
2012 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	881	(67)	(1)	3	(254)	33
Derivative financial instruments	–	(46)	2	(41)	(33)	(43)
Other comprehensive income before tax						
Derivative financial instruments	(1,685)	2,906	1,978	3,706	1,102	2,401

	CZK depreciation by 10%					
2012 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	(881)	67	1	(3)	254	(33)
Derivative financial instruments	–	46	(2)	41	33	43
Other comprehensive income before tax						
Derivative financial instruments	1,685	(2,906)	(1,978)	(3,706)	(1,102)	(2,401)

3.4.2 Sensitivity to interest rates

The Company is exposed to interest risk mainly in relation to short-term deposits provided to Volkswagen Company 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.
In 2013 (2012) the Company assumes (assumed) reasonably possible movements of the yield curve in the following period for short-term deposits provided to Volkswagen Group companies, bank deposits and currency forwards and swaps by +100/ -25 basis points. The Company is most sensitive to movements of the CZK yield curve.
In the case of derivative financial instruments, the Company measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For non-derivative financial instruments, the impact on profit or loss is determined on the basis of defined change in the interest rate, which would arise at the beginning of the next accounting period and based on the assumption that no other changes in the interest rate would occur during the entire accounting period.
The following tables present impact on profit or loss before tax of expected increase or decrease of interest rates:

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

2012 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 25 basis points
Profit before tax		
Non-derivative financial instruments	341	(85)
Derivative financial instruments	33	(8)
Total	**374**	**(93)**

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 2013 (2012), the Company assumes (assumed) reasonably possible movements in copper prices in the following period of +/- 20%. In 2013 the Company assumes (assumed) reasonably possible movements in aluminium prices in the following period of +/- 20% (in 2012: +/- 10%). In 2013, the Company assumes reasonably possible movements in lead prices in the following period of +/- 20 % (in 2012: +/- 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 or loss and on other comprehensive income before tax of expected increase or decrease of copper, aluminium and lead prices:

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

2012 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%	Increase of lead prices +10%	Decrease of lead prices (10)%
Profit before tax						
Derivative financial instruments	–	–	–	–	17	(17)
Other comprehensive income before tax						
Derivative financial instruments	252	(252)	76	(76)	–	–

3.5 Capital management

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

CZK million	2013	2012
Equity	**90,316**	**88,302**
Equity ratio	59.4%	62.5%
Non-current financial liabilities	–	3,000
Current financial liabilities	3,106	107
Total financial liabilities	**3,106**	**3,107**
Ratio of financial liabilities to total equity and liabilities	2.0%	2.2%
Total equity and liabilities	**152,001**	**141,242**

4. Geographical information

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

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

2012 (CZK million)	Czech Republic	Germany	Western Europe - Other	Central and Eastern Europe	Other	Total
Sales – based on location of customers	21,927	54,717	78,837	55,142	28,478	**239,101**

5. Intangible assets (CZK million)

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

	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 2012	**21,710**	**5,385**	**8,189**	**35,284**
Additions	4,012	2,092	2,010	8,114
Disposals	–	–	(350)	(350)
Transfers	5,251	(5,251)	–	–
Balance as at 31 December 2012	**30,973**	**2,226**	**9,849**	**43,048**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2012	**(16,369)**	**–**	**(5,384)**	**(21,753)**
Amortisation	(2,093)	–	(469)	(2,562)
Impairment losses	(404)	–	–	(404)
Disposals	–	–	350	350
Balance as at 31 December 2012	**(18,866)**	**–**	**(5,503)**	**(24,369)**
Carrying amount as at 31 December 2012	**12,107**	**2,226**	**4,346**	**18,679**

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

Amortisation and impairment losses of intangible assets of CZK 3,216 million (2012: CZK 2,835 million) are included in the cost of sales, CZK 13 million (CZK 2012: 19 million) in distribution expenses, and CZK 119 million (2012: CZK 112 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 2013 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Company's management.
For discounting cash flows, the pretax discount rate of 6.6% has been applied in 2013 (2012: 6.6%), reflecting the specific risks associated with the sector in which the Company operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to intangible assets in the amount of CZK 58 million (2012: CZK 404 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2013 (31 December 2012).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2013, the Company applied the capitalisation rate of 4.53% (2012: 4.53%). No borrowing costs have been capitalised in the cost of intangible assets in 2013 or 2012 as they were not significant.

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

	2013	2012
Research and non-capitalised development costs	4,248	4,848
Amortisation and impairment losses of development costs	2,461	2,497
Research and development costs recognised in the income statement	**6,709**	**7,345**

6. Property, plant and equipment (CZK million)

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

	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 2012	**31,011**	**60,771**	**45,610**	**12,288**	**149,680**
Additions	1,868	7,773	4,519	4,388	18,548
Disposals	(24)	(1,064)	(2,615)	–	(3,703)
Transfers	1,461	3,197	2,303	(6,961)	–
Balance as at 31 December 2012	**34,316**	**70,677**	**49,817**	**9,715**	**164,525**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2012	**(13,010)**	**(50,800)**	**(40,473)**	**–**	**(104,283)**
Depreciation	(1,136)	(4,111)	(3,357)	–	(8,604)
Impairment losses	–	–	(222)	–	(222)
Disposals	19	1,064	2,609	–	3,692
Balance as at 31 December 2012	**(14,127)**	**(53,847)**	**(41,443)**	**–**	**(109,417)**
Carrying amount as at 31 December 2012	**20,189**	**16,830**	**8,374**	**9,715**	**55,108**

Depreciation and impairment losses of the buildings and equipment of CZK 10,364 million (2012: CZK 8,131 million) are included in the cost of sales, CZK 227 million (2012: CZK 162 million) in distribution expenses, and CZK 563 million (2012: CZK 533 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Company's non-current tangible assets. Due to substantial changes in the market environment, the Company has experienced in 2013 a decrease in the planned cash inflows relating to two cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed.

The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Company's management.

For discounting cash flows, the pretax discount rate of 6.6% has been applied in 2013 (2012: 6.6%), reflecting the specific risks associated with the sector in which the Company operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the amount of CZK 72 million (2012: CZK 222 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2013 (31 December 2012).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2013, the Company applied the capitalisation rate of 4.53% (2012: 4.53%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2013 or in 2012 as they were not significant.

7. Investments in subsidiaries

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

The subsidiaries in which the Company has a financial investment paid dividends to the Company in the amount of CZK 504 million in 2013 (2012: CZK 371 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Company's financial investments in subsidiaries. The Company's management has performed an impairment review of the cash-generating unit, for which the development of the automotive industry and planned volumes of sold cars indicated a possible impairment loss. Carrying value of the financial investment in the subsidiary has been compared with the relevant recoverable amount. The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Company's management.

Cash flows beyond the five years period have been extrapolated with an estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. For determination of the value in use of the financial investment in 2013 (2012), estimated growth rate of 1% has been applied. The applied discount rate is pre-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2013, a discount rate of 6.7% (2012: 6.8%) has been applied.

For one cash-generating unit, the comparison of the carrying amount with the relevant recoverable amount resulted in an impairment loss in the amount of CZK 0 million (2012: CZK 922 million), which has been posted to the income statement (within line Financial expense for the year ended 31 December 2012).

8. Investments in associates (CZK million)

	2013	2012
Total assets	61,235	62,273
Total liabilities	47,603	51,896
Total revenue	145,407	168,391
Profit (aggregated)	3,222	7,419

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o.
The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2013 was 16.8% (31 December 2012: 16.8%). The share of the associate OOO VOLKSWAGEN Group Rus held by European Bank for Reconstruction and Development was purchased by Volkswagen International Finance N.V. with effect from 8 November 2013, which led to a reduction in the Company's Share on profit / (loss) of associates from 17.91% to 16.8%. (In 2012, Share on profit / (loss) of associates was 17.91%).
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 Company's share in the registered capital of the company ŠKO-ENERGO FIN as at 31 December 2013 was 31.25% (as at 31 December 2012: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2013 (as at 31 December 2012: CZK 529 million).
ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 79 million (2012: CZK 83 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impact on the carrying amount of the Company's financial investments in associates.
No factors that would indicate the need for impairment loss review were identified as at 31 December 2013.

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

Other receivables and financial assets

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

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

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2013, the forward component was negative.

Total in table Other receivables and financial assets may be reconciled to the statement of financial position as a sum of Other non-current receivables and financial assets and Other current receivables and financial assets.

Balance as at 31 December 2012	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	573	–	–	–	573
Deposits in companies within Volkswagen Group	–	3,033	–	–	–	3,033
Positive fair value of financial derivatives	(29)	–	–	1,158	–	1,129
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	2,867	2,867
Other	–	68	–	–	307	375
Total	**(29)**	**3,674**	**4**	**1,158**	**3,174**	**7,981**

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

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss(see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2012, the forward component was negative.

Total in table Other receivables and financial assets may be reconciled to the statement of financial position as a sum of Other non-current receivables and financial assets and Other current receivables and financial assets.

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

The line Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 1,502 million (as at 31 December 2012: CZK 0 million) with original maturity from three months to one year and deposits in the amount of CZK 3,081 million (as at 31 December 2012: CZK 3,033 million) with original maturity from one year to five years. The weighted average effective interest rate based on the carrying amount of deposits with original maturity from three months to one year provided to Volkswagen Group companies as at 31 December 2013 was 0.24% (31 December 2012: 0%). The weighted average effective interest rate based on the carrying amount of deposits with original maturity from one year to five years provided to Volkswagen Group companies as at 31 December 2013 was 1.58% (31 December 2012: 1.58%). The carrying amount of deposits in companies within Volkswagen Group approximates their fair value. The fair value of deposits was calculated as the present value of future cash flows based on market interest rates existing at the balance sheet date. The fair value of deposits qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13. All deposits provided to Volkswagen Group companies with original maturity from three months to five years are denominated in CZK.

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

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

Trade receivables

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

Balance as at 31 December 2012	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other	Total
Trade receivables						
Third parties	–	1,915	–	–	–	1,915
Subsidiaries	–	758	–	–	–	758
Other related parties	–	8,504	–	–	–	8,504
Total	**-**	**11,177**	**-**	**-**	**-**	**11,177**

Due to their short term nature the carrying amount of trade receivables approximates the fair value as at the balance sheet date after the valuation allowance is taken into account. The fair value of trade receivable qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13. The allowance for the impairment of trade receivables of CZK 199 million (2012: CZK 194 million) has been deducted from the presented carrying values of trade receivables.

10. Inventories (CZK million)

	Carrying value as at 31 December 2013	Carrying value as at 31 December 2012
Structure of the inventories		
Raw materials, consumables and supplies	3,771	2,965
Work in progress	2,711	2,377
Finished products and goods	4,610	4,186
Total	**11,092**	**9,528**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2013 was CZK 204,843 million (2012: CZK 198,280 million).

11. Cash and cash equivalents (CZK million)

	2013	2012
Cash in hand	6	4
Cash pooling	1,916	1,188
Bank accounts	4	45
Cash equivalents	30,000	33,501
Total	**31,926**	**34,738**

The line Cash pooling also includes overnight deposits from the use of cash pooling (Note 3.2). The line Cash equivalents includes deposits in Volkswagen Group companies with original maturity less than three months. These deposits are included in the portfolio Loans and receivables in terms of IAS 39.
The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2013 was 0.004% (as at 31 December 2012: 0.006%). The weighted average effective interest rate based on the carrying amount of deposits in Volkswagen Group companies with original maturity less than three months as at 31 December 2013 was 0.01% (as at 31 December 2012: 0.09%). All deposits provided to Volkswagen Group companies with original maturity less than three months are denominated in CZK.

12. Share capital

The issued share capital consists of 1,670,885 ordinary shares at a par value of CZK 10,000 per share. The Company's sole shareholder Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the ordinary shares in the Company. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG. Rights to vote on the Company's general meetings and rights to receive dividends are attached to the ordinary shares.
There was no movement in the Company's share capital during the accounting period 2013 (2012).
The Company paid a dividend of CZK 6,629 million in 2013 (2012: CZK 7,144 million). The dividend per share was CZK 3,968 in 2013 (2012: CZK 4,276).

13. Other reserves and retained earnings (CZK million)

13.1 Other reserves

	2013	2012
Reserves for cash flow hedges*	(5,509)	(2,766)
Statutory reserve fund	3,366	3,366
Funds contributed by owner	10	10
Total	**(2,133)**	**610**

* Net of deferred tax from financial derivatives.

The statutory reserve fund may be used only to offset losses. According to relevant regulations of the commercial code of the Czech Republic, the Company is required to transfer 5% of its annual net profit to the statutory reserve fund until the balance of this reserve reaches 20% of the subscribed capital.

Movement in reserve for cash flow hedges:

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

Balance as at 1 January 2012 (CZK million)	**(4,546)**
Total change in fair value in the period	596
Deferred tax on change in fair value	(125)
Total transfers to net profit in the period – effective hedging	1,601
Total transfers to net profit in the period – ineffective hedging	14
Deferred tax on transfers to profit or loss	(306)
Balance as at 31 December 2012	**(2,766)**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2013 presented in the line Other operating expense in amount of CZK 2,399 million (2012: CZK 2,697 million) and in the line Other operating income in amount of CZK 1,919 million (2012: CZK 1,096 million).

13.2 Retained earnings

From the total amount of retained earnings of CZK 74,162 million (as at 31 December 2012: CZK 69,405 million) profit for the year 2013, net of tax, amounts to CZK 11,386 million (2012: CZK: 13,259 million).
In compliance with the relevant regulation of the commercial code, the profit of the Company for the year 2013 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting. An approval of the allocation of the Company's profit for 2013 will follow an approval of Annual Report.

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

Financial and other liabilities

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

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

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

Balance as at 31 December 2012	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and borrowings	–	3,107	–	–	3,107
Total	**-**	**3,107**	**-**	**-**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	505	–	4,197	–	4,702
Liabilities to employees	–	–	–	1,800	1,800
Social security	–	–	–	453	453
Other	–	–	–	988	988
Total	**505**	**-**	**4,197**	**3,241**	**7,943**

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

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

The fair value of loans and borrowings was CZK 3,137 million as at 31 December 2013 (as at 31 December 2012: CZK 3,270 million). The fair value was calculated as the present value of future cash flows based on market rate at the balance sheet date, which was 0% as at 31 December 2013 (as at 31 December 2012: 0.15%). The fair value of loans and borrowings qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.

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

Due to the short term nature of other liabilities disclosed in Other liabilities, the carrying amount approximates the fair value. The fair value of other liabilities qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.

In the table below, the financial conditions attached to loans received are summarised at their carrying amounts:

Carrying amount as at 31 December 2013

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

Carrying amount as at 31 December 2012

Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1 – 5 years	Maturity > 5 years	Total
CZK	fixed	1 – 5 years	4.53 %	3,000	107	3,000	–	3,107
Total financial liabilities				**3,000**	**107**	**3,000**	**–**	**3,107**

None of the financial liabilities are secured by a lien.

Trade liabilities

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

Balance as at 31 December 2012	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other	Total
Trade liabilities					
Third parties	–	16,249	–	357	16,606
Subsidiaries	–	1,523	–	–	1,523
Other related parties	–	7,495	–	–	7,495
Total	**–**	**25,267**	**–**	**357**	**25,624**

The line Trade liabilities to other related parties includes liabilities to a factoring company within the Volkswagen Group of CZK 949 million as at 31 December 2013 (as at 31 December 2012: CZK 759 million). These liabilities arose in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.

Due to the short term nature of trade liabilities, the carrying amount approximates the fair value. The fair value of trade liabilities qualifies for level 2 of the fair value hierarchy in accordance with IFRS 13.

15. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.
As at 31 December 2013 the Company recognised on the balance sheet deferred tax assets of CZK 1,524 million (as at 31 December 2012: deferred tax asset CZK 1,012 million).
The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax liabilities					
Balance as at 1 January 2012	**(2,680)**	**–**	**–**	**–**	**(2,680)**
Credited / (debited) to the income statement	(875)	–	–	–	(875)
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2012	**(3,555)**	**–**	**–**	**–**	**(3,555)**
Credited / (debited) to the income statement	(548)	–	–	–	(548)
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2013	**(4,103)**	**–**	**–**	**–**	**(4,103)**

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax assets					
Balance as at 1 January 2012	**–**	**1,069**	**335**	**3,038**	**4,442**
Credited / (debited) to the income statement	–	14	585	(43)	556
Charged to other comprehensive income	–	(431)	–	–	(431)
Balance as at 31 December 2012	**–**	**652**	**920**	**2,995**	**4,567**
Credited / (debited) to the income statement	–	–	214	203	417
Charged to other comprehensive income	–	643	–	–	643
Balance as at 31 December 2013	**–**	**1,295**	**1,134**	**3,198**	**5,627**

* Further information on financial derivatives is disclosed in Note 2.5.3.
** The category Other includes mainly provisions and valuation allowances.

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

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for employee benefits	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2012	**9,336**	**1,346**	**2,578**	**1,233**	**731**	**1,542**	**16,766**
Utilised	(3,029)	(977)	(1,239)	–	(543)	(8)	(5,796)
Additions	3,411	1,156	1,361	27	268	646	6,869
Interest expense	111	–	–	–	–	–	111
Reversals	(244)	(112)	(243)	(407)	(188)	(490)	(1,684)
Balance as at 1 January 2013	**9,585**	**1,413**	**2,457**	**853**	**268**	**1,690**	**16,266**
Utilised	(3,278)	(1,123)	(1,226)	–	(203)	–	(5,830)
Additions	4,088	1,123	1,395	286	412	993	8,297
Interest expense	314	–	–	–	–	–	314
Reversals	–	(33)	(170)	(92)	(65)	(425)	(785)
Balance as at 31 December 2013	**10,709**	**1,380**	**2,456**	**1,047**	**412**	**2,258**	**18,262**

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

	< 1 year	1 - 5 years	> 5 years	Total
Balance as at 31 December 2013				
Provisions for warranty claims	3,916	5,415	1,378	10,709
Provisions for other obligations arising from sales	1,380	–	–	1,380
Provisions for employee benefits	1,475	351	630	2,456
Provisions for litigation risks	1,047	–	–	1,047
Provisions for purchase risks	412	–	–	412
Other provisions	2,258	–	–	2,258
Total	**10,488**	**5,766**	**2,008**	**18,262**

	< 1 year	1 - 5 years	> 5 years	Total
Balance as at 31 December 2012				
Provisions for warranty claims	3,632	5,014	939	9,585
Provisions for other obligations arising from sales	1,413	–	–	1,413
Provisions for employee benefits	1,449	373	635	2,457
Provisions for litigation risks	853	–	–	853
Provisions for purchase risks	268	–	–	268
Other provisions	1,690	–	–	1,690
Total	**9,305**	**5,387**	**1,574**	**16,266**

The provision for warranty repairs includes provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty especially good-will repairs (the 3rd and 4th year). The Company recognises the provision for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines.
Provisions for other obligations arising from sales include provision for sale discounts, sale bonuses and similar allowances incurred, settlement of which is expected after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date. The additions to provision for other obligations arising from sales are decreasing revenues.
Provisions for personnel costs consist mainly of provisions for other long-term employee benefits, provisions for termination benefits and provision for management remuneration.
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 and arbitration proceedings by means of a relevant provision.
The Company is not involved in any legal cases or arbitration proceedings for which no provision has been created and which could have a significant impact on the financial position and the financial results (financial statements) of the Company and there are no such proceedings expected in the near future.
Provisions for purchase risks include mainly provision for risks of retrospective changes in prices of raw materials and parts.
Other provisions include mainly provision for tax risks and customs risks in countries where the Company operates.

17. Cash flow statement

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

18. Sales (CZK million)

	2013	**2012**
Cars	205,015	204,378
Spare parts and accessories	16,445	14,306
Supplies of components within Volkswagen Group	16,292	14,610
Revenues from license fees	2,352	1,917
Revenues from services	964	1,427
Other	2,556	2,463
Total	**243,624**	**239,101**

Other sales relate mainly to sales of scrap and tooling.

19. Other operating income (CZK million)

	2013	2012
Foreign exchange gains	1,867	2,746
Income from derivative transactions	1,178	1,019
Gains on non-current assets disposal	12	44
Reversal of provisions and accruals	1,339	2,256
Reversal of provision for receivables	8	17
Other operating income from provided services	896	630
Other	724	495
Total	**6,024**	**7,207**

Foreign exchange gains include mainly gains from differences in exchange rates between the dates of recognition and payment of receivables and payables denominated in foreign currencies, as well as exchange rate gains resulting from revaluation as at the balance sheet date of these receivables and payables. Foreign exchange losses from these items are included in other operating expenses.
Reversal of provisions and accruals resulted from changes in estimates driven mainly by the changed external conditions and circumstances on which the Company based the estimates.

20. Other operating expenses (CZK million)

	2013	2012
Foreign exchange losses	3,551	2,235
Losses from derivative transactions	2,753	3,035
Receivables write-offs	15	52
Other	1,508	887
Total	**7,827**	**6,209**

Line Other includes mainly additions to provisions for litigation risks and to other provisions.

21. Financial result (CZK million)

	2013	2012
Interest income	107	370
Foreign exchange gains from cash	16	6
Foreign exchange gains from spot operations	148	340
Income from investments	584	815
Gains on revaluation of financial derivatives including ineffective hedging	1,152	632
Financial income total	**2,007**	**2,163**
Interest expenses	625	468
Foreign exchange losses from cash	6	14
Foreign exchange losses from spot operations	160	338
Impairment losses investments in subsidiaries	–	922
Loss on revaluation of financial derivatives including ineffective hedging	803	1,713
Financial expenses total	**1,594**	**3,455**
Net financial result	**413**	**(1,292)**

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

	2013	2012
Financial instruments at fair value through profit or loss	357	(1,084)
Loans and receivables	514	319
Available for sale financial assets	1	1
Financial liabilities carried at amortised costs	(2,433)	218
Financial instruments designated as hedging instruments	(480)	(1,601)
Net gains / (losses) total	**(2,041)**	**(2,147)**

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

23. Income tax (CZK million)

	2013	2012
Current tax expense	**1,434**	**2,134**
of which: adjustment in respect of prior years	(501)	366
Deferred tax	**130**	**319**
Income tax total	**1,564**	**2,453**

Statutory income tax rate in the Czech Republic for the 2013 assessment period was 19% (2012: 19%). As at 31 December 2013 and 31 December 2012, 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)

	2013	2012
Profit before income tax	12,950	15,712
Expected income tax expense	**2,460**	**2,985**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(181)	(199)
Expenses not deductible for tax purposes	495	315
Tax allowances and other tax credits	(495)	(429)
Adjustment to current tax expense relating to prior periods	(59)	366
Utilisation of tax credits from investment incentives relating to prior periods	(442)	–
Recognition of deferred tax assets from unused tax credits from investment incentives	(214)	(585)
Effective income tax expense	**1,564**	**2,453**
Effective income tax rate	12%	16%

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

24. Subsidies and investment incentives

Subsidies

In 2013 the Company recognised gains from subsidies (relating to the promotion of an entrepreneurial activity), investments in energy-saving measures in production field, construction of employees-training premises and private schools (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 119 million (2012: CZK 123 million).

Investment incentives

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

Model A-SUV
The total amount of the incentive is limited to the amount of CZK 561 million. The project was completed. The tax allowance in amount of CZK 442 million related to 2011 was additionally drawn in 2013. As at 31 December 2012 the respective deferred tax asset was not recognised.

Enlargement of production of parts of engine EA211 and its assembly
The total amount of the incentive is limited to CZK 800 million. In 2013 (2012), the project was in progress and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2013 is CZK 700 million (31 December 2012: CZK 531 million).

Enlargement of production of transmissions - MQ100
The total amount of the incentive is limited to CZK 496 million. In 2013 (2012), the project was in progress and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2013 is CZK 434 million (31 December 2012: CZK 390 million).

Enlargement of technical development - Česana Jih premises
The total amount of the incentive is limited to CZK 306 million. The realisation of the project is expected in the following years.

Enlargement of current production by production of automatic transmissions – Vrchlabí
The decision was received on 30 May 2013. The total amount of the incentive is limited to CZK 738 million. The realization of the project has already begun. The respective deferred tax asset of CZK 738 million was not recognised because utilisation of the investment incentive was regarded by the Company as uncertain as at 31 December 2013.

Enlargement of Welding shop by production technology used for bodies based on MQB platform – Kvasiny
Decision received on 11 July 2013. The total amount of the incentive is limited to CZK 707 million. The realization of the project is expected in the following years.

25. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records subsequently to the reported tax year as governed by the respective legislation, and may impose additional tax assessments and penalties.
The Company's management is not aware of any circumstances that could result in material liabilities arising from the tax audits carried out at present or potentially in the future, except for the tax risks for which provision for tax risks has been created (see Note 16).

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

Future commitments as at balance sheet date are as follows:

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

	Payable until year 2013	Payable 2014 – 2017	31 December 2012
Investment commitments – property, plant and equipment	8,968	606	9,574
Investment commitments – intangible assets	3,857	3,434	7,291
Operating leasing payments	310	251	561

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

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

	2013	2012
Material costs – raw materials and other supplies, goods	**166,407**	**162,712**
Production related services	**8,723**	**8,237**
Personnel costs	**18,576**	**18,123**
Wages	14,170	13,736
Pension benefit costs (defined contribution plans)	2,720	2,702
Social insurance and other personnel costs	1,686	1,685
Depreciation, amortisation and impairment losses	**14,502**	**11,792**
Other services	**21,076**	**22,231**
Total cost of sales, distribution and administrative expenses	**229,284**	**223,095**
Number of employees		
Number of employees*	27,089	26,909

* Average number of employees (including temporary employees).

28. Related party transactions

In 2013, there were no changes in the ownership structure of the Company and the company VOLKSWAGEN AG has been the ultimate parent company and the ultimate controlling party of the Company for the entire accounting period.

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2013	2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	6,831	3,723
Subsidiaries		
Skoda Auto India Private Ltd.	1,335	2,198
ŠKODA AUTO Deutschland GmbH	46,663	48,007
ŠKODA AUTO Slovensko s.r.o.	4,586	4,459
Associates		
OOO VOLKSWAGEN Group Rus	19,581	24,845
Companies controlled by ultimate parent company	89,775	80,585
Other related parties	1,439	2,149
Total	**170,210**	**165,966**

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

In addition to revenues specified in the table Sales to related parties, in 2013 (2012) the Company also realised revenues from royalties:

	2013	2012
Revenues from license fees		
Ultimate parent company	–	–
Subsidiaries	8	20
Associates	152	129
Companies controlled by ultimate parent company	–	–
Other related parties	2,192	1,768
Total	**2,352**	**1,917**

In addition to the revenues specified in the table Sales to related parties, in 2013 (2012) the Company also realised income with related parties relating to interest from intercompany deposits:

	2013	2012
Interest income from deposits		
Ultimate parent company	2	2
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	75	317
Other related parties	–	–
Total	**77**	**319**

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

Purchases from related parties (CZK million)

	2013	2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	33,341	36,048
Subsidiaries		
Skoda Auto India Private Ltd.	309	49
ŠKODA AUTO Deutschland GmbH	944	758
ŠKODA AUTO Slovensko s.r.o.	97	66
Associates		
OOO VOLKSWAGEN Group Rus	535	331
Companies controlled by ultimate parent company	24,117	28,634
Other related parties	69	37
Total	**59,413**	**65,923**

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

Receivables from related parties (CZK million)

	31 December 2013	31 December 2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	592	532
Subsidiaries	**–**	**–**
Skoda Auto India Private Ltd.	564	505
ŠKODA AUTO Deutschland GmbH	47	232
ŠKODA AUTO Slovensko s.r.o.	16	22
Associates		
OOO VOLKSWAGEN Group Rus	3,941	2,932
Companies controlled by ultimate parent company	3,046	2,591
Other related parties	1,446	2,448
Total	**9,652**	**9,262**

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

	31 December 2013	31 December 2012
Receivables from royalties		
Ultimate parent company	–	–
Subsidiaries	6	13
Associates	152	169
Companies controlled by ultimate parent company	210	–
Other related parties	2,260	2,097
Total	**2,628**	**2,279**

In addition to trade receivables and receivables from royalties, the Company also had deposits in companies controlled by ultimate parent company in the amount of CZK 34,500 million (31 December 2012: 36,500 million). Receivables from interest from the deposits as at 31 December 2013 amounted to CZK 83 million (31 December 2012: CZK 34 million). Average interest rate relating to these deposits is disclosed in Note 9 and Note 11.

Receivables from related parties are considered by the Company to be of the least risk. The products delivered to the related parties are supplied on credit terms or the resulting receivables are transferred to factoring companies.

No impairment loss was identified for any of the receivables from related parties.

Cash pooling balance with Volkswagen Group Services S.A. is disclosed in Note 11.

Investments in subsidiaries are disclosed in Note 7 and investments in associates are disclosed in Note 8.

Factoring of receivables with related parties is disclosed in Note 3.1 and 3.1.6.

Liabilities to related parties (CZK million)

	31 December 2013	31 December 2012
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,492	1,725
Subsidiaries		
Skoda Auto India Private Ltd.	19	379
ŠKODA AUTO Deutschland GmbH	992	1,082
ŠKODA AUTO Slovensko s.r.o.	126	62
Associates		
OOO VOLKSWAGEN Group Rus	46	16
Companies controlled by ultimate parent company	5,965	5,750
Other related parties	10	4
Total	**8,650**	**9,018**

Liabilities to related parties represent only trade liabilities for all the categories stated above.
In addition to the trade liabilities stated in the table above, the Company had a liability from a loan from VOLKSWAGEN AG of a total amount of CZK 3,000 million as at 31 December 2013 (31 December 2012: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 106 million as at 31 December 2013 (31 December 2012: CZK 107 million). Details about the loan are specified in Note 14.

	31 December 2013	31 December 2012
Contractual obligations and other future commitments		
Ultimate parent company	11,813	6,958
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	433	345
Other related parties	–	–
Total	**12,246**	**7,303**

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)

	2013	2012
Salaries and other short-term employee benefits*	570	487
Long-term employee benefits	12	12
Total	**582**	**499**

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

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company.
The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes the remuneration paid, payable or provided by the Company in the form of wages, salaries, bonuses and non-monetary remuneration.
CZK 307 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2013 (31 December 2012: CZK 252 million).

29. Other information (CZK million)

The compensation paid to the Company's auditors for the accounting period was CZK 26 million (2012: CZK 31 million) and covered the following services:

	2013	2012
Audit, other audit related and assurance services	21	21
Tax and related services	3	3
Other advisory services	2	7
Total	**26**	**31**

30. 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 2013.

31. Information about Volkswagen Group

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG, with a registered office in Wolfsburg, the Federal Republic of Germany.

The Volkswagen Group consists of two divisions – Automotive and Financial Services. The activities related to the Automotive Division include the development of cars and aggregates, production and sale of passenger and commercial cars, trucks, buses and motorcycles as well as the business with spare parts, large-bore diesel engines, special gear units and turbomachinery. The following brands belong to Volkswagen Group: Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN, Porsche, Scania, SEAT, ŠKODA, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles.

The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services and the fleet management.

ŠKODA AUTO and its subsidiaries (ŠKODA AUTO Deutschland GmbH, ŠKODA AUTO Slovensko s.r.o. and Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN Group Rus are included in the consolidation of Volkswagen Group's financial statements. These consolidated financial statements, and other information relating to the Volkswagen Group, are available in the annual report of VOLKSWAGEN AG and on its internet site (www.volkswagenag.com).

Mladá Boleslav, 13 February 2014

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Dana Němečková

Jana Fernández Zambrano

Report on relations

Report on relations of the company ŠKODA AUTO a.s. pursuant to § 82 of the Business Corporation Act in the accounting period 1 January – 31 December 2013

The board of directors of ŠKODA AUTO a.s., having its registered office at Tř. Václava Klementa 869, 293 60 Mladá Boleslav, IČ: 00177041, registered in the Commercial Register kept by Municipal Court in Prague, Section B, insert 332 (hereinafter referred to as the "Controlled Entity" or "the Company" or "ŠKODA AUTO"), prepared the following report on relations pursuant to § 82 Act No. 90/2012 Coll., on Business Corporations, in the accounting period 1 January 2013 – 31 December 2013 (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").
VOLKSWAGEN AG, having its registered office at Berliner Ring 2, 384 40 Wolfsburg, Federal Republic of Germany, indirectly controls the Company through Volkswagen International Finance N.V., having its registered office at Herengracht 495, 1017 Amsterdam, The Kingdom of the Netherlands, which has been a sole shareholder of the Company in the Period. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of Volkswagen.
The Controlling Entity is the ultimate parent company of the Group which consists of two divisions – Automotive and Financial Services. The activities of the Automotive Division include mainly the development of vehicles and aggregates, the production and sale of passenger and commercial cars, trucks, buses, and motorcycles, as well as business with spare parts, large-bore diesel engines, special gear units and turbo machinery. The Group comprises the following brands: Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN, Porsche, Scania, SEAT, ŠKODA, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles. The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services, and the fleet management.
Information about the structure of relations is stated as at 31 December 2013, based on the information available to the statutory body of the Company acting with due managerial care. The ownership structure of ŠKODA AUTO and the structure of relations among companies in which the Company holds interest are graphically illustrated in the Appendix.

2. Function of the Company within the Group

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

3. Means of control

The Controlling Entity indirectly controls the Company through Volkswagen International Finance N.V., which has been a sole shareholder of the Company during the Period. The Company is controlled mainly through decisions of the sole shareholder during the general meetings. Important decisions influencing the Company's operations are approved within the Group's respective boards.

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

The Company has not carried out any transactions during the Period at the instigation of the Controlling Entity or entities controlled by the Controlling Entity concerning assets exceeding 10% of the Company's equity per the last financial statements.
ŠKODA AUTO paid a dividend of CZK 6,629 million to Volkswagen International Finance N.V., as the sole shareholder, on 4 April 2013 based on the Decision of the sole shareholder Volkswagen International Finance N.V. from 5 March 2013.
In 2013, dividends and share in profit of CZK 504 million were paid out to the Company by the subsidiaries.
In 2013, dividends and share in profit of CZK 79 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 did not conclude any new contracts regarding sales of vehicles in the Period.

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

c) others
ŠKODA AUTO entered into new contracts regarding sales of services, licenses, aggregates, bodyworks and other products with the following companies:
AUDI AG
Centro Técnico De SEAT, S.A.
OOO VOLKSWAGEN Group Rus
SEAT, S.A.
VOLKSWAGEN AG
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
Volkswagen (China) Investment Company Ltd.

5.2 Purchase of goods and services

a) production material and goods
ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:
AUDI HUNGARIA MOTOR Kft.
Gearbox del Prat, S.A.
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.

b) indirect material and services

ŠKODA AUTO entered into new contracts regarding purchases of indirect material and services (purchases of indirect material and services, research and development cooperation, IT services, software and hardware supplies, customer services consultancy) with the following companies:
AUDI AG
AUDI BRUSSELS S.A.
AUDI Electronics Venture GmbH
AUDI HUNGARIA MOTOR Kft.
AutoVision GmbH
AutoVision Magyarország Kft.
Carmeq GmbH
Centro Técnico De SEAT, S.A.
e4t electronics for transportation s.r.o.
Gearbox del Prat, S.A.
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o.
Intercar Austria GmbH
Italdesign Giugiaro Barcelona S.L.
Italdesign Giugiaro S.p.A.
Nardò Technical Center SrL
OOO VOLKSWAGEN Group Rus
Porsche Albania Sh.p.k.
Porsche Automobil Holding SE
Porsche Chile SpA
Porsche Česká republika s.r.o.
Porsche Hungaria Kereskedelmi Kft.
Porsche Inter Auto CZ spol. s r.o.
Porsche Macedonia dooel
Porsche Romania s.r.l.
Porsche SLOVENIJA d.o.o
Scania Czech Republic s.r.o.
SEAT, S.A.
Shanghai Volkswagen Powertrain Company Ltd.
SITECH Sitztechnik GmbH
SITECH Sp. z o.o.
Skoda Auto India Private Ltd.
ŠKODA AUTO Deutschland GmbH
ŠKODA AUTO Slovensko s.r.o.
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen-Audi España S.A.
Volkswagen (China) Investment Company Ltd.
Volkswagen Group France S.A.
Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group Italia S.p.A.
VOLKSWAGEN Group Japan K.K.
Volkswagen Group of America, Inc.
Volkswagen Group Polska Sp. z o.o.
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen India Private Ltd.
Volkswagen Logistics GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Motorsport GmbH
Volkswagen Navarra, S.A.
Volkswagen of South Africa (Pty.) Ltd.

Volkswagen Poznan Sp. z o.o.
Volkswagen Procurement Services GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SARAJEVO, d.o.o
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Versicherungsvermittlung GmbH

c) genuine parts

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

d) investments

ŠKODA AUTO entered into new contracts regarding purchases of investments with the following companies:
e4t electronics for transportation s.r.o.
SEAT, S.A.
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen Procurement Services GmbH
VOLKSWAGEN SARAJEVO, d.o.o
VOLKSWAGEN SLOVAKIA, a.s.

5.3 Other contracted relationships

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

Volkswagen Group Australia Pty Ltd.
Volkswagen Group France S.A.
Volkswagen Group Import Company Ltd.
Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group Italia S.p.A.
Volkswagen Group Malaysia Sdn. Bhd.
Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Sverige AB
Volkswagen (China) Investment Company Ltd.
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen Logistics GmbH & Co. OHG
Volkswagen Motorsport GmbH
Volkswagen of South Africa (Pty.) Ltd.
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Zubehör GmbH

Transactions relating to contracts concluded in previous years

Besides companies disclosed in points 5.1, 5.2 and 5.3, the Company carried out transactions with the following companies, controlled by the same controlling entity, based on contracts concluded and presented in reports in relations of the Company in previous years:
AUDI Akademie GmbH
Automobilmanufaktur Dresden GmbH
Bentley Motors Ltd.
Bugatti Engineering GmbH
Dr. Ing. h.c. F. Porsche AG
Euromobil Autovermietung GmbH
Import VOLKSWAGEN Group s.r.o.
MAN Truck & Bus AG
Porsche Austria Gesellschaft m.b.H. & Co. OG
Porsche Holding Salzburg Automotive
Scania AB
SEAT Deutschland GmbH
ŠKO-ENERGO, s.r.o.
ŠKO-ENERGO FIN, s.r.o.
Volkswagen Autoeuropa, Lda.
VOLKSWAGEN Automatic Transmission (Dalian) Co.,Ltd.
Volkswagen de México, S.A. de C.V.
Volkswagen Group Hong Kong Ltd.
Volkswagen Group of America Chattanooga Operations, LLC.
Volkswagen Group Sales India P.L.
Volkswagen Group Services S.A.
Volkswagen Immobilien GmbH
Volkswagen Original Teile Logistik GmbH & Co. KG
Volkswagen Osnabrück GmbH
VOLKSWAGEN Transmission (Shanghai) Company Ltd.
VW Credit, Inc.

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, 13 February 2014

The Board of Management:

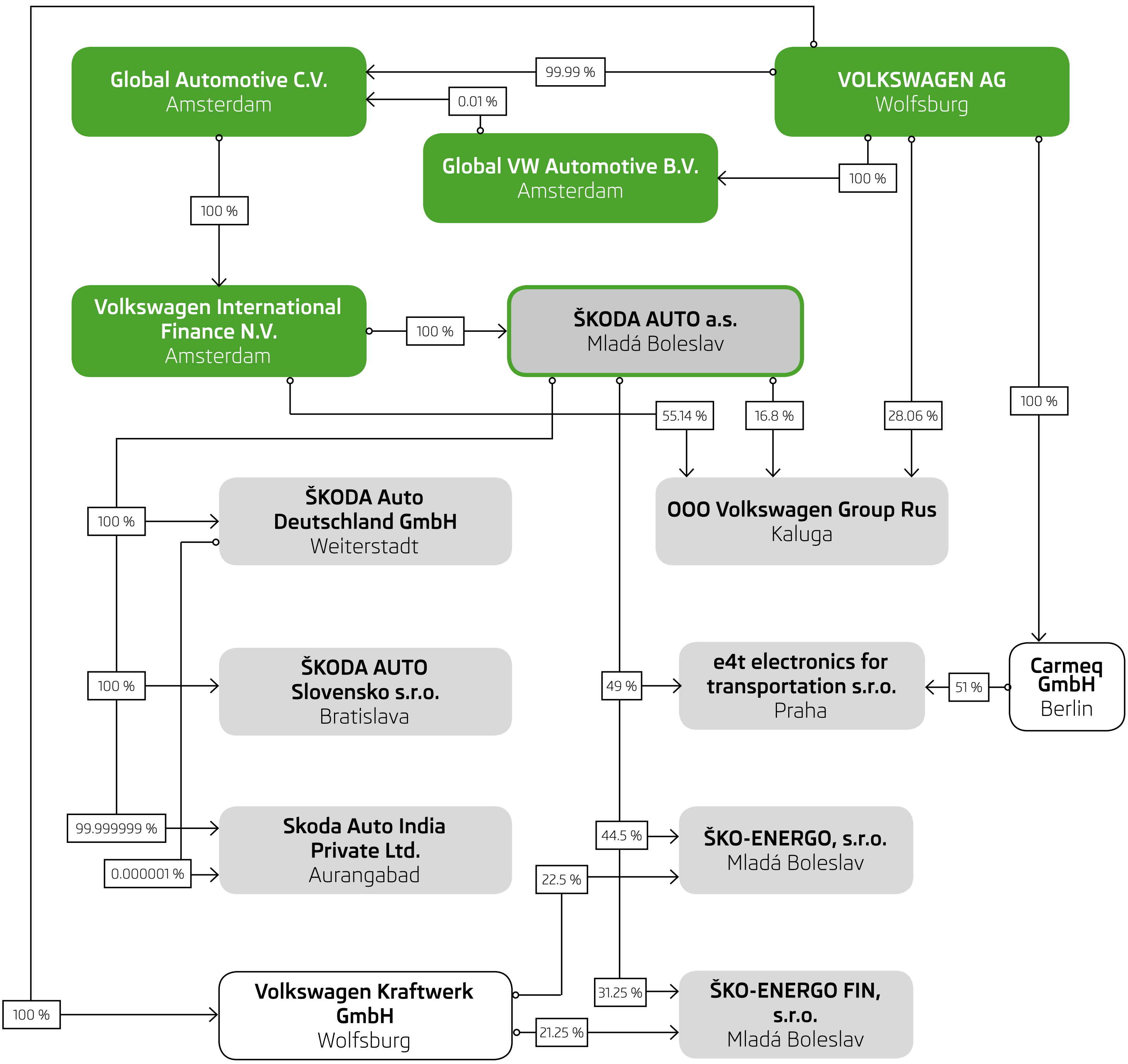
Winfried Vahland

Winfried Krause | Bohdan Wojnar | Frank Welsch

Werner Eichhorn | Karlheinz Emil Hell | Michael Oeljeklaus

Appendix

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



Glossary of terms and abbreviations

BilMoG – Bilanzrechtsmodernisierungsgesetz – German Accounting Act

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OECD – Organization for Economic Cooperation and Development

Production – number of vehicles produced. The total production figure also includes production of vehicles for other Volkswagen Group brands (Volkswagen, Audi and SEAT). For accuracy, vehicle assembly kits are reported in the vehicles segment.

RIC – Russia, India, China

Sales – number of vehicles sold to importers and dealers. The unit sales figure also includes sales of vehicles manufactured by other Volkswagen Group brands (SEAT vehicles sold by ŠAS; VW and AUDI vehicles sold by SAIPL). For accuracy, vehicle assembly kits are reported in the vehicles segment.

SAIPL – Skoda Auto India Private Ltd., a subsidiary ŠKODA AUTO a.s.

SKD – semi knocked down, fully equipped car body, power train, chassis, exhaust manifold, small parts for assembly and operating fluids

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

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

List of non-consolidated capital holdings of ŠKODA AUTO

ŠKODA AUTO a.s.

ŠKO-ENERGO, s.r.o

Mladá Boleslav, Czech Republic
ŠKODA AUTO stake: 44.5%

Principal business:
generation and distribution of heat,
electricity generation and trading,
gas distribution,
production of drinking and service water,
water mains and sewer systems operation.

e4t electronics for transportation s.r.o

Prague, Czech Republic
ŠKODA AUTO stake: 49.0%

Principal business:
Research and development in the field of natural,
technical and social sciences,
training and consulting services.

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

Events after the Balance Sheet Date

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

Affirmation

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

Mladá Boleslav, on 5 March 2014

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Dana Němečková

Jana Fernández Zambrano

Key figures and financial results at a glance*

ŠKODA AUTO key figures and financial results according to CAS

Production, sales and technical data

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

Profit and loss account

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

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

Balance sheet / financing

		1999	2000	2001	2002	2003	2004
Fixed assets	**CZK millions**	**33,687**	**39,175**	**45,008**	**44,873**	**44,074**	**41,143**
Current assets and other assets	**CZK millions**	**21,923**	**27,486**	**21,603**	**21,945**	**22,077**	**30,694**
of which:							
Loans to and deposits	CZK millions	–	–	–	–	–	8,600
Equity	**CZK millions**	**22,700**	**26,032**	**28,157**	**29,817**	**31,758**	**32,844**
Liabilities and other liabilities	**CZK millions**	**32,910**	**40,629**	**38,454**	**37,001**	**34,393**	**38,993**
of which:							
Bonds	CZK millions	–	10,000	10,000	10,000	10,000	10,000
Provisions under special regulations	CZK millions	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	3,000	4,850	2,000	5,000	–	–
Assets	**CZK millions**	**55,610**	**66,661**	**66,611**	**66,818**	**66,151**	**71,837**
Net liquidity	**CZK millions**	**(1,339)**	**(4,007)**	**(798)**	**(4,660)**	**2,495**	**4,534**
Investments	**CZK millions**	**11,313**	**13,873**	**16,235**	**11,586**	**10,248**	**8,430**
Investment ratio	%	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1	79.8

Key figures and financial results according to IFRS

Production, sales and technical data

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2005	2006	2007	2005	2006	2007
Deliveries to customers	**vehicles**	**492,111**	**549,667**	**630,032**	**492,111**	**549,667**	**630,032**
Sales	**vehicles**	**498,467**	**562,251**	**619,635**	**493,119**	**555,202**	**623,085**
Sales of ŠKODA cars		496,387	559,821	617,269	493,119	555,202	623,085
Production	**vehicles**	**494,127**	**556,347**	**623,291**	**494,637**	**556,433**	**623,529**
Production of ŠKODA cars		494,127	556,347	622,811	494,637	556,433	623,529
Employees*	persons	26,742	27,680	29,141	26,014	26,738	27,753

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2008	2009	2010	2008	2009	2010
Deliveries to customers	**vehicles**	**674,530**	**684,226**	**762,600**	**674,530**	**684,226**	**762,600**
Sales	**vehicles**	**625,819**	**551,604**	**584,763**	**622,090**	**539,382**	**583,780**
Sales of ŠKODA cars		621,683	545,690	576,270	622,083	539,380	583,780
Production	**vehicles**	**606,614**	**522,542**	**583,333**	**603,247**	**519,910**	**576,362**
Production of ŠKODA cars		603,981	519,645	575,742	603,247	519,910	576,362
Employees*	persons	26,695	26,153	24,714	25,331	24,817	23,308

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2011	2012	2013	2011	2012	2013
Deliveries to customers	**vehicles**	**879,184**	**939,202**	**920,750**	**879,184**	**939,202**	**920,750**
Sales	**vehicles**	**690,350**	**726,576**	**718,642**	**676,787**	**691,853**	**682,402**
Sales of ŠKODA cars		679,112	708,956	685,380	676,785	686,948	660,634
Production	**vehicles**	**681,880**	**669,341**	**650,565**	**673,127**	**656,306**	**639,889**
Production of ŠKODA cars		674,010	651,750	618,466	673,127	651,306	618,118
Employees*	persons	26,565	26,404	25,758	24,936	24,788	24,548

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

Profit and loss account

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2005	**2006**	**2007**	**2005**	**2006**	**2007**
Sales revenue	**CZK millions**	**187,382**	**203,659**	**221,967**	**177,822**	**189,816**	**211,026**
of which:							
Domestic	%	13.3	12.6	11.8	14.0	13.5	12.4
Export	%	86.7	87.4	88.2	86.0	86.5	87.6
Cost of sales	**CZK millions**	**163,738**	**175,636**	**185,474**	**159,187**	**167,709**	**180,865**
	% of revenues	87.4	86.2	83.6	89.5	88.4	85.7
Gross profit	**CZK millions**	**23,644**	**28,023**	**36,493**	**18,635**	**22,107**	**30,161**
	% of revenues	12.6	13.8	16.4	10.5	11.6	14.3
Distribution expenses	CZK millions	10,611	11,903	13,201	6,558	6,905	7,964
Administrative expenses	CZK millions	3,676	3,587	4,207	3,329	3,161	3,701
Balance of other operating revenues/costs	CZK millions	1,503	2,069	699	1,256	1,735	525
Operating profit	**CZK millions**	**10,860**	**14,602**	**19,784**	**10,004**	**13,776**	**19,021**
	% of revenues	5.8	7.2	8.9	5.6	7.3	9.0
Financial result	CZK millions	(787)	(404)	171	(564)	(216)	425
Profit before income tax	**CZK millions**	**10,073**	**14,198**	**19,860**	**9,440**	**13,560**	**19,446**
Profit before income tax-to-revenues ratio	%	5.4	7.0	8.9	5.3	7.1	9.2
Income tax expense	CZK millions	2,180	3,136	3,878	2,077	2,678	3,554
Profit for the year*	**CZK millions**	**7,893**	**11,062**	**15,982**	**7,363**	**10,882**	**15,892**
Profit for the year-to-sales ratio	%	4.2	5.4	7.2	4.1	5.7	7.5

* Consolidated figures are given net of non-controlling interests.

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2008	**2009**	**2010**	**2008**	**2009**	**2010**
Sales revenue	**CZK millions**	**200,182**	**187,858**	**219,454**	**188,572**	**170,666**	**203,695**
of which:							
Domestic	%	11.9	11.5	10.0	12.7	12.5	10.7
Export	%	88.1	88.5	90.0	87.3	87.5	89.3
Cost of sales	**CZK millions**	**171,523**	**166,296**	**190,234**	**165,600**	**155,868**	**180,343**
	% of revenues	85.7	88.5	86.7	87.8	91.3	88.5
Gross profit	**CZK millions**	**28,659**	**21,562**	**29,220**	**22,972**	**14,798**	**23,352**
	% of revenues	14.3	11.5	13.3	12.2	8.7	11.5
Distribution expenses	CZK millions	12,804	13,153	14,509	7,590	7,702	9,449
Administrative expenses	CZK millions	4,712	4,826	5,256	4,223	4,320	4,666
Balance of other operating revenues/costs	CZK millions	2,477	2,341	1,861	1,477	1,948	1,798
Operating profit	**CZK millions**	**13,620**	**5,924**	**11,316**	**12,636**	**4,724**	**11,035**
	% of revenues	6.8	3.2	5.2	6.7	2.8	5.4
Financial result	CZK millions	262	(667)	(382)	651	(343)	180
Profit before income tax	**CZK millions**	**13,376**	**4,702**	**10,586**	**13,287**	**4,381**	**11,215**
Profit before income tax-to-revenues ratio	%	6.7	2.5	4.8	7.0	2.6	5.5
Income tax expense	CZK millions	2,558	1,240	1,747	2,020	942	1,811
Profit for the year*	**CZK millions**	**10,818**	**3,462**	**8,839**	**11,267**	**3,439**	**9,404**
Profit for the year-to-sales ratio	%	5.4	1.8	4.0	6.0	2.0	4.6

* Consolidated figures are given net of non-controlling interests.

Profit and loss account

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2011	2012	2013	2011	2012	2013
Sales revenue	**CZK millions**	**252,562**	**262,649**	**268,500**	**231,742**	**239,101**	**243,624**
of which:							
Domestic	%	8.7	8.3	8.6	9.5	9.2	9.4
Export	%	91.3	91.7	91.4	90.5	90.8	90.6
Cost of sales	**CZK millions**	**215,956**	**221,751**	**228,459**	**201,765**	**203,216**	**209,538**
	% of revenues	85.5	84.4	85.1	87.1	85.0	86.0
Gross profit	**CZK millions**	**36,606**	**40,898**	**40,041**	**29,977**	**35,885**	**34,086**
	% of revenues	14.5	15.6	14.9	12.9	15.0	14.0
Distribution expenses	CZK millions	17,549	19,179	18,487	11,613	13,724	13,067
Administrative expenses	CZK millions	6,123	6,855	7,442	5,504	6,155	6,679
Balance of other operating revenues/costs	CZK millions	5,323	3,053	(573)	4,364	998	(1,803)
Operating profit	**CZK millions**	**18,257**	**17,917**	**13,539**	**17,224**	**17,004**	**12,537**
	% of revenues	7.2	6.8	5.0	7.4	7.1	5.1
Financial result	CZK millions	791	(1,255)	(111)	(69)	(1,292)	413
Profit before income tax	**CZK millions**	**19,275**	**17,934**	**13,940**	**17,155**	**15,712**	**12,950**
Profit before income tax-to-revenues ratio	%	7.6	6.8	5.2	7.4	6.6	5.3
Income tax expense	CZK millions	3,200	2,580	2,108	2,867	2,453	1,564
Profit for the year*	**CZK millions**	**16,075**	**15,354**	**11,832**	**14,288**	**13,259**	**11,386**
Profit for the year-to-sales ratio	%	6.4	5.8	4.4	6.2	5.5	4.7

* Consolidated figures are given net of non-controlling interests.

Balance sheet / financing

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2005	2006	2007	2005	2006	2007
Non-current assets	**CZK millions**	**55,424**	**54,292**	**56,767**	**55,023**	**53,936**	**56,903**
Current assets	**CZK millions**	**34,331**	**50,920**	**59,014**	**28,956**	**43,499**	**48,658**
of which:							
Loans and deposits	CZK millions	11,200	23,950	25,554	11,200	23,950	25,554
Equity*	**CZK millions**	**46,757**	**58,321**	**67,034**	**46,483**	**58,007**	**66,532**
Non-current and current liabilities	**CZK millions**	**42,998**	**46,891**	**48,747**	**37,496**	**39,428**	**39,029**
of which:							
Nominal value of bonds	CZK millions	5,000	5,000	2,000	5,000	5,000	2,000
Assets	**CZK millions**	**89,755**	**105,212**	**115,781**	**83,979**	**97,435**	**105,561**
Net liquidity	**CZK millions**	**4,911**	**21,157**	**29,736**	**6,070**	**19,352**	**26,283**
Cash flows from operating activities	**CZK millions**	**23,550**	**27,420**	**30,787**	**21,421**	**24,203**	**29,275**
Cash flows from investing activities	**CZK millions**	**(11,566)**	**(11,090)**	**(13,785)**	**(11,299)**	**(10,910)**	**(13,913)**
Investment ratio	%	4.7	4.1	4.9	4.8	4.3	4.9
Equity ratio	%	52.1	55.4	57.9	55.4	59.5	63.0
Equity-to-fixed assets ratio	%	84.4	107.4	118.1	84.5	107.5	116.9

* Consolidated figures are given net of non-controlling interests.

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2008	2009	2010	2008	2009	2010
Non-current assets	**CZK millions**	**60,017**	**59,083**	**58,864**	**60,119**	**59,926**	**59,989**
Current assets	**CZK millions**	**62,439**	**59,293**	**76,872**	**51,276**	**48,099**	**62,278**
of which:							
Loans and deposits	CZK millions	25,721	13,562	35,678	25,238	13,562	34,378
Equity*	**CZK millions**	**71,608**	**68,180**	**74,772**	**71,721**	**68,519**	**75,682**
Non-current and current liabilities	**CZK millions**	**50,848**	**50,196**	**60,964**	**39,674**	**39,506**	**46,585**
of which:							
Nominal value of bonds	CZK millions	2,000	2,000	–	2,000	2,000	–
Assets	**CZK millions**	**122,456**	**118,376**	**135,736**	**111,395**	**108,025**	**122,267**
Net liquidity	**CZK millions**	**18,272**	**28,013**	**40,211**	**18,353**	**23,350**	**35,047**
Cash flows from operating activities	**CZK millions**	**13,014**	**26,529**	**28,168**	**13,978**	**22,321**	**26,256**
Cash flows from investing activities	**CZK millions**	**(16,147)**	**(10,942)**	**(23,313)**	**(14,445)**	**(11,454)**	**(22,590)**
Investment ratio	%	5.6	5.4	4.6	5.4	6.0	4.9
Equity ratio	%	58.5	57.6	55.1	64.4	63.4	61.9
Equity-to-fixed assets ratio	%	119.3	115.4	127.0	119.3	114.3	126.2

* Consolidated figures are given net of non-controlling interests.

Balance sheet / financing

		ŠKODA AUTO Group			ŠKODA AUTO Company		
		2011	2012	2013	2011	2012	2013
Non-current assets	**CZK millions**	**64,686**	**83,493**	**89,717**	**64,441**	**81,586**	**87,923**
Current assets	**CZK millions**	**88,871**	**76,493**	**83,867**	**71,130**	**59,656**	**64,078**
of which:							
Loans and deposits	CZK millions	49,088	38,131	36,505	44,848	36,534	34,583
Equity*	**CZK millions**	**81,211**	**90,906**	**93,359**	**80,407**	**88,302**	**90,316**
Non-current and current liabilities	**CZK millions**	**72,346**	**69,080**	**80,225**	**55,164**	**52,940**	**61,685**
of which:							
Nominal value of bonds	CZK millions	–	–		–	–	–
Assets	**CZK millions**	**153,557**	**159,986**	**173,584**	**135,571**	**141,242**	**152,001**
Net liquidity	**CZK millions**	**47,348**	**34,890**	**35,760**	**41,399**	**30,872**	**27,871**
Cash flows from operating activities	**CZK millions**	**28,251**	**23,443**	**34,112**	**27,267**	**23,819**	**28,965**
Cash flows from investing activities	**CZK millions**	**(28,225)**	**(7,032)**	**(25,896)**	**(27,716)**	**(6,042)**	**(25,148)**
Investment ratio	%	5.6	8.0	7.3	6.0	8.6	7.9
Equity ratio	%	52.9	56.8	53.8	59.3	62.5	59.4
Equity-to-fixed assets ratio	%	125.5	108.9	104.1	124.8	108.2	102.7

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Published by:
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Czech Republic
ID No.: 00177041

Recorded in the Commercial
Register maintained
by the Prague Municipal Court,
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The Annual Report 2013 is also available on the Company's website:
www.skoda-auto.cz
www.skoda-auto.com

2013 Annual Report closing date: 5 March 2014
Annual Report prepared in-house using FIRE.sys

Consulting and print production:
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