2021

ŠKODA AUTO
ANNUAL REPORT

CONTENT

FOREWORD OF THE CHAIRMAN OF THE BOARD OF MANAGEMENT

DEAR READERS,
2021 was overshadowed by the Covid-19 pandemic and the semiconductor shortage. We were once again forced to halt production at certain points and were limited in our capacity to meet the high demand for our models. Despite these difficulties, we managed to successfully navigate ŠKODA AUTO through the year.

In total, we delivered 878,200 vehicles worldwide and achieved a 6.2% return on sales. On behalf of the Board, I would like to thank the almost 43,000 Škodians worldwide as well as our social partner KOVO and its Chairman Jaroslav Povšík for this great team performance and close cooperation.

We intensified our product campaign throughout 2021; the ENYAQ iV, our first all-electric SUV, has been extremely well received by our customers. Our refreshed best-selling SUVs KODIAQ and KAROQ are also proving popular, as is the new FABIA. In India, we have set the course for the future work in our regions with our new KUSHAQ and SLAVIA models.

This is an integral part of our new corporate strategy NEXT LEVEL – ŠKODA STRATEGY 2030 that we presented in summer 2021. It sets out how we will be making ŠKODA even more electric, digital and international – and thus fit for the future.

We are making rapid progress in implementing our strategy:

- We will be introducing at least three more all-electric models below the ENYAQ iV by 2030, and we aim to achieve an electric market share of 50 to 70 per cent in Europe.
- We now have regional responsibility for Russia, North Africa and India and are thus systematically expanding our international presence.
- And we have assumed responsibility for the MQB-A0 Global Platform. This is a great honour for our engineers and strengthens our position within the Volkswagen Group.

In 2022, we will be launching our highly emotive ENYAQ COUPÉ iV and the sporty ENYAQ RS iV derivatives. During the year, we will also be unveiling a new design language for ŠKODA that will ensure the brand is well-positioned for the future.

Our team spirit, outstanding products and a clear strategy will continue to make ŠKODA AUTO strong for the upcoming years.

Kind regards,

Thomas Schäfer
CHAIRMAN OF THE BOARD OF MANAGEMENT
ŠKODA AUTO A.S.

FOREWORD OF THE CHAIRMAN OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN,
2021 has once again presented the automotive industry with major challenges. Nevertheless, ŠKODA AUTO was able to use the past year to set an important course for the future: With the corporate strategy NEXT LEVEL - ŠKODA STRATEGY 2030, the brand defined its roadmap for this decade, working with three main priorities: EXPAND, EXPLORE and ENGAGE.

Thereby EXPAND contains the ambition to develop ŠKODA AUTO into one of the five best-selling car brands in Europe by 2030. A clear focus on the electrification of the fleet across all segments is of central importance to achieve this goal. The e-mobility hub in the Czech Republic, ŠKODA AUTO's home country, will be an important driver of this transformation. From there – I am sure – the brand will also send important signals to the Volkswagen Group.

After all, ŠKODA AUTO has already demonstrated its vital role within the Group. Its activities in Russia, India and North Africa are managed from Mladá Boleslav. The global lead for the MQB-A0 platform lies now with the company, as does the development of the next generation Volkswagen Passat and ŠKODA SUPERB.

ŠKODA AUTO will succeed in staying on this successful course if it maintains a clear focus on excellent products, high functionality and profitability. Almost 43,000 employees worldwide have demonstrated this commitment in 2021 and were thus able to close an extremely challenging year with a respectable result.

Their success even in times of crisis is an important starting point for the further development of ŠKODA AUTO under the new strategy. If business decisions are consistently aligned with it, the brand will achieve its ambitious goals and sustainably strengthen its role within the Volkswagen Group.

Kind regards,

MURAT AKSEL

Murat Aksel
CHAIRMAN OF THE SUPERVISORY BOARD
ŠKODA AUTO A.S.

MANAGEMENT REPORT

COMPANY PROFILE

MISSION
Modern accessible mobility with everything you need and surprises you love.

VISION
We will help the world live smarter.

100+

ŠKODA AUTO'S UNBELIEVABLE JOURNEY SPANS OVER MORE THAN 125 YEARS, THE BRAND IS NOW PRESENT IN 100+ GLOBAL MARKETS

ŠKODA AUTO a.s. (hereinafter the "Company" or "ŠKODA AUTO") is one of the oldest car manufacturers in the world. The history of the Company stretches back to 1895 when Václav Laurin and Václav Klement laid the foundations for today's global company. After initially manufacturing bicycles and motorcycles, the first passenger cars were manufactured in Mladá Boleslav in 1905. Throughout its history, the Company has held an unmistakable position in the automotive industry that will continue long into the future due to its broad and attractive portfolio, and in a large part because it has been part of the VOLKSWAGEN Group (hereinafter the "Group") for 30 years. It has become a strong, internationally successful company that is active worldwide and offers its customers a total of twelve model lines.

ŠKODA AUTO has long been a pillar of the Czech economy, currently employing more than 35,000 people in the Czech Republic. It also makes sure it is a good neighbour in all the regions where it is active in terms of social responsibility.

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

The business activity in which the Company is engaged primarily focuses on the development, manufacture and sale of cars, components, original parts, ŠKODA brand accessories and the provision of servicing. However, ŠKODA AUTO is undergoing a transformation where it aims to emerge even stronger via the NEXT LEVEL – ŠKODA STRATEGY 2030. The Company intends to be one of the top five selling makes in Europe by 2030 with its attractive ranges in incoming segments and other electric models. It has also set the ambitious target of becoming the most successful European make in India, and North Africa.

* The development in Russia will depend on further unfolding of the Russian-Ukrainian conflict.

CORPORATE GOVERNANCE
ŠKODA AUTO BODIES

ŠKODA AUTO has a sole shareholder, a General Meeting is not held and its powers are executed by the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. with its registered seat in Luxembourg, the Grand Duchy of Luxembourg. The Company bodies are the Supervisory Board and the Board of Management.

The sole shareholder of VOLKSWAGEN FINANCE LUXEMBURG S.A. is VOLKSWAGEN AG with its registered office in Wolfsburg, Federal Republic of Germany.

SUPERVISORY BOARD

As of 31 December 2021, the Supervisory Board had the following members:

Murat Aksel
(*1972)
— Chairman of the Supervisory Board since 12 May 2021 (Member since 1 May 2021)
— Chairman of the Council of Chairmans and of the Works Council of Odbory KOVO MB trade union
— Appointed by the sole shareholder

Jaroslav Povšík
(*1955)
— Vice Chairman of the Supervisory Board since 12 May 2021 (Member since 16 April 1993)
— Chairman of the Trade Union Works Council, Odbory KOVO MB (Trade Union Mladá Boleslav)
— Elected by the employees of the Company

Ralf Brandstätter
(*1968)
— Member of the Supervisory Board since 1 May 2021
— Chairman of the Board of Management of the Volkswagen Passenger Car brand
— Appointed by the sole shareholder

Daniela Cavallo
(*1975)
— Member of the Supervisory Board since 1 May 2021
— Chairwoman of the General and Group Works Councils of VOLKSWAGEN AG
— Appointed by the sole shareholder

Prof. Dr. Jochem Heizmann
(*1952)
— Member of the Supervisory Board since 1 February 2019
— Independent advisor
— Appointed by the sole shareholder

Miloš Kovář
(*1964)
— Member of the Supervisory Board since 1 May 2015
— Production Coordinator of Odbory KOVO MB trade union
— Elected by the employees of the Company

Martin Lustyk
(*1965)
— Member of the Supervisory Board since 14 January 2019
— Chairman of Odbory KOVO KV z.s. trade union
— Elected by the employees of the Company

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

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

CHANGES TO THE SUPERVISORY BOARD

Left the Supervisory Board:
— Frank Witter – Vice Chairman of the Supervisory Board from 30 May 2018 (Member from 9 November 2015) to 31 March 2021
— Dr. Herbert Diess – Chairman of the Supervisory Board from 30 May 2018 (Member from 14 May 2018) to 30 April 2021
— Bernd Osterloh – Member of the Supervisory Board from 1 January 2015 to 30 April 2021

Appointed to the Supervisory Board:
— Murat Aksel – Member of the Supervisory Board from 1 May 2021
— Ralf Brandstätter – Member of the Supervisory Board from 1 May 2021
— Daniela Cavallo – Member of the Supervisory Board from 1 May 2021

The Honorary Chairman of the Supervisory Board is **Prof. Dr. Carl H. Hahn** (*1926), former Chairman of the Board of Management of VOLKSWAGEN AG. No powers and responsibility are connected to this chairmanship, unlike the above-mentioned members of the Supervisory Board.

BOARD OF MANAGEMENT

As of 31 December 2021, the Board of Management had the following members:

Dipl.-Ing. Thomas Schäfer
(*1970)
— Chairman of the Board of Management since 3 August 2020 (member since 1 August 2020), responsible for Central Management
Previous position:
— Chairman of the Board of Management and Managing Director of Volkswagen Group South Africa (2015-2020)

Maren Gräf
(*1969)
— Member of the Board of Management since 1 March 2021, responsible for People and Culture
Previous position:
— Head of VOLKSWAGEN Group Human Resources Top Management (2018–2021)

Ing. Martin Jahn
(*1970)
— Member of the Board of Management since 1 March 2021, responsible for Sales and Marketing
Previous position:
— Vice President, Sales, Marketing and Aftersales and Managing Director of the Volkswagen Brand, FAW-VW, China (2016–2020)

Dr.-Ing. Johannes Neft
(*1969)
— Member of the Board of Management since 1 January 2021, responsible for Technical Development
Previous position:
— Head of Vehicle Body Development, VOLKSWAGEN AG (2016–2020)

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

Dipl.-Vw. Christian Schenk
(*1973)
— Member of the Board of Management since 1 October 2021, responsible for Finance and IT
Previous position:
— Member of the Board of Management, Finance, IT and Legal, MAN Truck & Bus SE (2019–2021)

Dipl.-Ing. Karsten Schnake
(*1968)
— Member of the Board of Management since 1 July 2020, responsible for Procurement
Previous position:
— Executive Vice President of Volkswagen Group China (2018–2020)

CHANGES TO THE BOARD OF MANAGEMENT

Left the Board of Management:
— Ing. Bohdan Wojnar – Member of the Board of Management from 1 January 2011 to 28 February 2021
— Alain Favey – Member of the Board of Management from 1 September 2017 to 28 February 2021
— Dipl.-Kfm. Klaus-Dieter Schürmann – Member of the Board of Management from 1 August 2016 to 30 September 2021

Appointed to the Board of Management:
— Dr.-Ing. Johannes Neft – Member of the Board of Management from 1 January 2021
— Maren Gräf – Member of the Board of Management from 1 March 2021
— Ing. Martin Jahn – Member of the Board of Management from 1 March 2021
— Dipl.-Vw. Christian Schenk – Member of the Board of Management from 1 October 2021

DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The company ŠKODA AUTO (hereinafter referred to as the "Company") is aware of its extraordinary position in the Czech business environment and the rising level of respect it commands within the VOLKSWAGEN Group and from competing car manufacturers. The Company thus places considerable emphasis on ensuring that its employees, business partners, all its customers and the general public view it as a successful and transparent company that is open to providing information. The Company is aware of its long-standing tradition and the reputation it has built up over many years, something it considers a key value for the successful development of its business activities into the future.

In view of these facts, the Company complies with the recommendations and rules of the Corporate Governance Code Czech Republic 2018 (the "Code"), available online. The Company aims to continually improve internal processes and rules in accordance with the Code, to promote transparency, and to respect the legal regulations and ethical conduct in business practice in the Czech Republic.

LEVEL OF COMPLIANCE WITH THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

Following on the best practice in place at the VOLKSWAGEN Group, the major share of internal processes in terms of corporate governance has long been set in accordance with the relevant rules of the Code. With respect to the shareholding structure at the Company (sole shareholder – the company VOLKSWAGEN FINANCE LUXEMBURG S.A.), the organisational structure of the company VOLKSWAGEN AG (see website VOLKSWAGEN AG: www.volkswagenag.com), and that shares in the Company are non-tradable on the public market, some of the recommendations of the Code are not relevant or are implemented to the corresponding extent at a pan-Group level to ensure effectiveness and synergy.

The Company has created and applies a due and effective policy of preventing, identifying and managing conflicts of interest among the people at the Company. Company policy is also based on the ŠKODA AUTO Group Code of Conduct ("Code of Conduct"), the updated version of which was presented to employees at the end of 2019. The Code of Conduct emphasises the rules that ensue from the valid legal and internal regulations that have the greatest impact on the Company and supports employees in adhering to generally recognised social values.

The Code of Conduct comprehensibly articulates the Company's requirements on how employees should conduct themselves, stresses the role of employees in maintaining the reputation of the Company, and details the rules in place to prevent any conflict of interest and corruption and for handling information and Company property. The Code of Conduct also sets out the fundamental rules of how to act towards business partners and other persons and clearly articulates the interest the Company has in protecting fair economic competition. The Company's other commitments to which the Code of Conduct applies are occupational health and safety and environmental protection.

As the Company has a sole shareholder, no general meeting is held and the sole shareholder acts in the capacity of the general meeting. This means that recommendations concerning the convening and holding of the general meeting are not relevant to the Company. Before choosing the members of its appointed bodies, due consideration is made of the trustworthiness, experience, and expert abilities of the potential members of those bodies. The Company leaves the task of evaluating whether those requirements are met during their term of office to the members of the individual bodies under the provisions of Section 159 of the Civil Code.

Members of the Board of Management and two-thirds of the members of the Supervisory Board are elected and removed by the general meeting, in this case, the sole shareholder, primarily in line with the professional and specialised requirements it demands. The fact that no general meeting is held means that the candidates nominated do not attend any sitting of the general meeting that would otherwise consider their appointment.

The Board of Management at the Company has seven members and is responsible for the governance of the Company's interests. Each member of the Board of Management is responsible for one specialised area. The members of the Board of Management are obliged to carry out their duties with due diligence and are responsible for their activities to the extent laid down in the legal regulations of the Czech Republic.

The Supervisory Board has nine members. Two-thirds of the members of the Supervisory Board are appointed and removed by the general meeting, in accordance with the law. One-third of the members are appointed by Company employees in elections, in accordance with the valid voting rules. However, the Company has no instrument in place that would make it possible to influence the make-up of this part of the Supervisory Board, in line with the policy on diversity. The Company professes the principles of non-discrimination and equal treatment, not only in staffing governing and management positions but throughout the Company as a whole.

The Company is not fully compliant with the recommendations made under paragraph 9.2 of the Code, according to which the Supervisory Board or the Board of Management should set up non-executive committees, primarily a committee for appointments, a committee for remuneration and a committee for risks, so that the effectiveness of its activity may be improved. In light of the shareholder structure in place at the Company, the activities associated with committees fall within the remit of the Supervisory Board or are effectively delegated to the Group level. Failure to meet the relevant recommendations of the Code specified above does not, however, mean failure to fulfil the mandatory requirements of the law of the Czech Republic and is not a legal risk for the Company.

Cooperation between the Board of Management and the Supervisory Board is governed by statutory provisions, the Company's Articles of Association, and the rules of procedure in place for the Board of Management at the Company, which set out detailed regulations for the work of the Board of Management at the Company, including the actions and measures requiring the involvement of the Supervisory Board and the obligation to inform the Supervisory Board.

The Company regularly publishes all relevant information about its activities in a transparent manner in the Annual Report. It also provides information regarding the impacts of its activities on the surrounding area in a Sustainability Report. The risk management system and internal control system are described in detail in the chapter entitled Report on Risks and Opportunities.

BUSINESS OPERATIONS
CORPORATE STRATEGY

1.5

IN 2030, THE BRAND'S
GLOBAL SALES POTENTIAL IS
1.5 MILLION CARS A YEAR

70

THE SHARE OF FULLY ELECTRIC MODELS IN ŠKODA BRAND SALES IN EUROPE WILL BE 50 TO 70% IN 2030

In June 2021, the Company introduced a new development plan for the third decade titled NEXT LEVEL – ŠKODA STRATEGY 2030. This aims to build on the success of Strategy 2025+ to accelerate in the sphere of internationalisation, electrification and digitisation.

NEW VISION, NEW MISSION

The new NEXT LEVEL – ŠKODA STRATEGY 2030 provides specific answers to the question of how the Company will successfully steer through the transformation process and make sure that it is even stronger in 2030 than at present. The Company has defined a new vision and a new mission for its journey into the future. The new vision is **We will help the world live smarter**. The new mission is **Modern accessible mobility with everything you need and surprises you love**. At the same time, ŠKODA AUTO will continue to build on its trusted values: simplifying, human, and surprising. It is precisely these strong values that have always distinguished the brand.

The strategy for the third decade focuses on three priorities, which can be summarised as EXPAND, EXPLORE and ENGAGE. At the same time, ŠKODA AUTO will remain a proud brand connected to the people that work for it. The strong identification that employees have with the brand, an innovative approach, and their courage to explore new challenges will continue to distinguish the Company from others even in 2030.

TOP 5 IN EUROPE THROUGH ELECTROMOBILITY AND FOCUS ON ACCESSIBILITY

The EXPAND priority aims to elevate the ŠKODA brand among the five best-selling car brands in Europe. The Company plans to achieve this by fortifying its position in the affordable car segment; for example, with the ŠKODA FABIA and an affordable electric car in the A0 segment in the future.

A strong, electrified portfolio of models is fundamental in achieving success in Europe and the Company will broaden its range to include at least three more purely-electric models by 2030. These will be at a price and size below those of the ŠKODA ENYAQ iV. Depending on market developments, ŠKODA AUTO will endeavour to ensure that fully-electric models account for 50 to 70% of sales of ŠKODA brand models in Europe.

Electrification is also closely linked to the plan to transform Central and Eastern Europe into a centre of electromobility: all three of the Company's Czech production plants should be manufacturing electric cars or electric components by 2030. Therefore, a traditional industrial country will be transformed into a hub of electromobility. These activities will allow the Company to secure existing jobs and create new ones.

A LEADING POSITION ON PROSPECTIVE MARKETS

As part of the EXPLORE priority, ŠKODA aims to become the leading European brand on the prospective markets of India, Russia*, and North Africa, and in doing so contribute to the brand's global sales potential of 1.5 million cars a year. The manufacturing of models specifically customised to those markets is designed to support this. This approach is demonstrated in the ŠKODA KUSHAQ, the first batch-produced car developed by the brand as part of the INDIA 2.0 project. This compact SUV began rolling off the assembly line at the plant in Pune in 2021 and will be launched on other growth markets over the medium term. The second car developed in India for the Indian market is the SLAVIA liftback, which the Company introduced to the public at the end of 2021. The Company has now assumed responsibility for the Indian, Russian, and North African regions for the entire VOLKSWAGEN Group, and is ready to take on other new assignments. On top of that, ŠKODA AUTO is now responsible for the MQB-A0 Global platform.

ŠKODA REMAINS SIMPLY CLEVER

The third priority, ENGAGE, cuts across many areas since it takes in specific objectives concerning customers' digital experience, the environment, diversity, and education. The Company intends to be the benchmark for the Simply Clever User Experience. A customer who buys a new ŠKODA car or a service should be able to immediately and intuitively use it. ŠKODA AUTO is already putting this idea into practice with its POWERPASS, which enables comfortable charging of the brand's electrified models, or during the process of buying a ŠKODA car. The Company plans to sell every fifth car online in 2025, while customers are already now benefiting from a virtual showroom concept in selected European markets.

The Simply Clever strategy is designed to not only deal with physical solutions for the brand's cars but also the associated services and user experiences. ŠKODA AUTO wants to listen to its customers even more carefully when designing its products.

* The development in Russia will depend on further unfolding of the Russian-Ukrainian conflict.

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BY 2030, THE CARMAKER WILL INVEST CZK 13 BILLION IN EMPLOYEE EDUCATION

HIGHER ENVIRONMENTAL TARGETS AS A CHALLENGE

As part of its ENGAGE priority, the Company will also intensify its efforts concerning the environment and make its environmental targets significantly stricter. By 2030 it plans to reduce its fleet emissions by 50% in comparison with 2020 and convert all its Czech and Indian plants to carbon-neutral production. In doing so, it will meet the ambitious requirements of the Green Deal for Europe.

AN OPEN AND TOLERANT CORPORATE CULTURE

The NEXT LEVEL – ŠKODA STRATEGY 2030 also brings diversity to the fore: 25% of management positions at the Company should be held by women by 2030. Diversity, inclusion, and equality are natural parts of the corporate culture at ŠKODA AUTO, which stands out for its openness and tolerance.

The Czech automotive company will continue to support education of its employees as part of the transformation process and will invest almost CZK 13 billion in this area between 2022 and 2030 to secure the jobs also in the future.

EMPHASIS ON EFFICIENCY AND SIMPLIFICATION

ŠKODA AUTO will build on efficiency and simplification, two traditional strengths that have brought much success in the past, to achieve the objectives of NEXT LEVEL – ŠKODA STRATEGY 2030. These are to maintain the highest cost efficiency among its European competitors, for example by using internal digitisation, smart automation and data analytics, to deliver a sustainable return on sales of at minimum 8%. It has also taken the first steps in simplifying its processes and reducing bureaucracy. One example of this is adapting the range of versions and customised extras. With further electrification of the model range, it is expected in the medium-term to reduce the number of available product offer combinations by 40%.

PRODUCT PORTFOLIO

The Company launched its first all-electric SUV, the ENYAQ iV on international markets and brought out a new generation of the FABIA in 2021. The fourth generation should follow on from the successful sales of its predecessors due to a more emotive appearance, more space, enhanced safety and a higher level of connectivity than at any time before.

ŠKODA's SUV models, the KODIAQ and KAROQ, were also upgraded. Both cars aim to satisfy customers' wishes at an even higher level and come with an innovative design, generous space, advanced assistance systems, and modern, effective diesel and petrol engines.

The Company introduced two new models in 2021 - the KUSHAQ and the SLAVIA – both developed for the Indian market, where they became the first cars in the INDIA 2.0 model offensive. ŠKODA AUTO is responsible for all of the VOLKSWAGEN Group's activities in the Indian subcontinent. The objective is to strengthen the position of the Company and the Group on the Indian market over the long term by broadening the range of cars in the volume segment.

The past year also saw the launch of the SPORTLINE version of four models: the ENYAQ iV and OCTAVIA in the first half of the year, followed by the KODIAQ and KAROQ SUV, which were given a sporty makeover in the second half of the year. This meant that the Company began selling the SPORTLINE version of the KODIAQ and KAROQ SUV at the same time as the upgraded versions.

ŠKODA FABIA

One of the brand's key models, the ŠKODA FABIA, was given a new appearance in 2021. This fourth-generation model is fitted with the most advanced technology and economical petrol engines and comes in an attractive design. The car is built on the Group's MQB-A0 platform so offers its customers even more space. The modular MQB platform also raises safety standards, particularly for the car body, where the number of structural elements made of maraging steel has been increased. Greater safety is also provided by the modern assistance systems, which are better known from higher classes of cars. In combination with the optional 50-litre tank, the travel distance for 3-cylinder engines is more than 900 km in WLTP mode. The modern interior concept is dominated by third-generation infotainment systems, with a diagonal display size of up to 9.2 inches. Naturally there is a generous and well used interior space complemented by many Simply Clever features.

The FABIA can be powered by economical and highly efficient three-cylinder engines with a power output of 48 kW to 81 kW. The top-of-the-range engine comes in the form of a dynamic four-cylinder 1.5 TSI version with a power output of 110 kW (150 k) equipped with active cylinder technology (ACT). All Evo-generation drive units comply with the Euro 6d emission standard.

ŠKODA RAPID

Excellent price-to-utility value, ample interior space, and a generously-sized boot all characterise the ŠKODA RAPID models made for the Chinese, Indian, and Russian markets. The Chinese RAPID was upgraded in 2020, only a few short months after significant innovations to the RAPID model in Russia.

ŠKODA SLAVIA

The ŠKODA SLAVIA is the second ŠKODA model in the INDIA 2.0 project. The SLAVIA, built on the MQB-A0-IN platform, broadened the range of sedans made by the Czech automotive company in India to include a model from the A0 segment. The car provides a high level of active and passive safety. Passengers are protected by up to six airbags, while the range comes in two efficient and economical TSI spark-ignition engines with outstanding driving performance and exemplary economy.

ŠKODA SCALA

The compact SCALA model boasts high levels of active and passive safety, full LED headlights and tail lights, plenty of room for passengers and luggage, and an array of Simply Clever elements. Six different engines are available, ranging from 66 kW to 110 kW in power. This five-door hatchback combines an emotional design with a high level of functionality and state-of-the-art connectivity options.

ŠKODA OCTAVIA

The fourth generation of the ŠKODA OCTAVIA, available in liftback and estate versions, holds the title of the best-selling ŠKODA model. Characteristic design language, cutting-edge aerodynamic properties, the compact yet extraordinarily spacious body, advanced assistance systems, and a wide range of engines are just some of the qualities of the car. The ŠKODA OCTAVIA now comes as a plug-in hybrid version, the OCTAVIA iV, the mild-hybrid OCTAVIA e-TEC, and a version that runs on natural gas, the OCTAVIA G-TEC. Meanwhile, the OCTAVIA SCOUT, a robust, versatile model with four-wheel drive, underlines the practical nature of the range. The sporty OCTAVIA RS is available in three different types of propulsion - a TSI spark-ignition engine, a TDI compression ignition engine, and a plug-in hybrid power train in the OCTAVIA RS iV, which also enables a purely electric drive.

ŠKODA OCTAVIA PRO

The ŠKODA OCTAVIA PRO for the Chinese market uses the same emotive design language as the fourth-generation OCTAVIA in Europe. It excels with sculptural elements, precise lines and modern, clearly defined surfaces. Overall, the OCTAVIA PRO looks like a dynamic coupé. This impression is reinforced by front and rear aprons in the style of the sporting OCTAVIA RS combined with a black roof, black exterior mirrors and alloy wheels measuring up to 18" in diameter. The slim headlights and tail lights are sharply drawn, feature the signature ŠKODA crystalline elements and come with LED technology as standard.

ŠKODA KAMIQ GT

As with the larger KODIAQ GT, the KAMIQ GT SUV coupé is sold exclusively on the Chinese market. This sporty model is derived from the KAMIQ city SUV. Its dynamic appearance, larger interior space, and range of practical elements are ideal for young lifestyle-focused customers. During the development of this model, the emphasis was primarily placed on the driving experience and the emotive design. Advanced connectivity elements and a modern infotainment system come as standard.

ŠKODA KAMIQ

The Company broadened its successful range of European SUVs to include a third model with the ŠKODA KAMIQ, and in doing so moved into the fast-growing urban SUV segment. The KAMIQ combines the classic benefits of sport utility models, such as larger headroom and raised seats, with the agility of a compact car and the emotional design so typical of the ŠKODA brand. The very latest assistance and infotainment systems, generous space and plenty of Simply Clever elements ensure that the ŠKODA KAMIQ is a typical ŠKODA car: one that satisfies the demands of lifestyle and family-focused customers.

ŠKODA KUSHAQ

The ŠKODA KUSHAQ symbolises the beginning of a new era at ŠKODA AUTO in India. This SUV is the first batch model in the INDIA 2.0 project, developed and manufactured in India for the local market. The KUSHAQ is built on the specially-adapted MQB-A0-IN modular platform. Its sporty yet robust appearance is underlined by headlamps and tail lights that use modern LED technology. While its compact outer dimensions make the KUSHAQ ideal for the Indian city, it is still able to boast the generous interior space so typical of the ŠKODA brand. The interior is characterised by exemplary ergonomics, fresh colours, and ambient lighting. A high level of active and passive safety is ensured by a wide range of assistance systems, including multi-collision brakes, a tyre pressure monitoring system, and a Hill Hold Control.

ŠKODA KAROQ

The end of 2021 saw the première of the upgraded ŠKODA KAROQ, which at a length of 4.38 metres can be classed as a compact SUV. The KAROQ comes with newly-shaped headlamps that employ Matrix technology and the characteristic "four-eye" design typical of ŠKODA's range of SUV models. Plenty of improvements were also made to the interior, with new upholstery containing environmentally-friendly materials, more ambient LED lighting, and an 8-inch virtual cockpit as standard. The KAROQ's strength is its system VarioFlex, which allows for a variable layout rear seats. Removing them provides luggage space of up to 1,810 litres.

ŠKODA KODIAQ

The Company's first large SUV was upgraded in 2021. The most obvious changes to the nose of the exterior are the new front bumper and the newly-shaped headlamps, which use Matrix technology. The tail lights were also upgraded with animated indicators to become even more attractive. In addition to the standard ranges of extras, the new KODIAQ is also available in the SPORTLINE version, as the luxury L&K, and as the popular, dynamic KODIAQ RS, which was also given a 2.0 TSI petrol engine with a power output of 180 kW, four-wheel drive, and DSG gearbox as part of its upgrade.

ŠKODA SUPERB

The ŠKODA brand's flagship model comes with a hatchback or as an estate, in SCOUT and SPORTLINE versions, and with a plug-in hybrid drive. Technology such as full LED matrix headlamps and a comprehensive range of innovative assistance services combine to ensure that the ŠKODA SUPERB is one of the safest and most comfortable cars in its class. It also continues to set the benchmark in terms of space.

ŠKODA KODIAQ GT

A car intended solely for the Chinese market brings together the robust exterior and versatility of an SUV and the elegance and dynamics of a coupé. The mighty appearance of the car is enhanced by LED headlamps, a three-dimensional bumper, and a front spoiler with wide openings to let air in. There are two efficient spark-ignition engines to choose from. The 2.0 TSI engine with a power output of 137 kW is used for front-wheel drive, while the 2.0 TSI engine with a power output of 162 kW comes with a four-wheel drive and 7-speed DSG gearbox. Wi-Fi connection and MirrorLink™, Apple CarPlay, or Baidu CarLife interface mean that the KODIAQ GT is always online while providing the most advanced level of connectivity.

ŠKODA ENYAQ iV

The ŠKODA ENYAQ iV, which premièred in Prague in September 2020, marks another step in bringing the Company's electromobility strategy to fruition. With this model, the Company has further developed its emotive design language. The purely-electric SUV is the first ŠKODA manufactured vehicle built on the VOLKSWAGEN Group's MEB modular platform for electric cars. The ENYAQ iV brings together rear-wheel drive or four-wheel drive, a practical travel distance of more than 520 km in WLTP mode, and the generous space so typical of ŠKODA cars. The ENYAQ iV electric SUV offers an entirely new interior concept, with an optional design instead of traditional packages of extras, and a new structure to the range of models.

FINANCIAL SITUATION

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

The year 2021 was significantly affected by the impact of the Covid-19 pandemic, which, together with natural disasters, caused problems in the supply chain, particularly in the availability of semiconductors. Despite the tough conditions, the Company achieved a positive operating result and maintained strong financial performance and stability thanks to good margins and cost discipline.

THE COMMERCIAL DEVELOPMENT OF THE COMPANY

A total of 878 thousand ŠKODA cars were delivered to customers in 2021, including deliveries in China (2020: 1,005 thousand cars).

ŠKODA AUTO sales fell by 11.8% year-on-year to 692,000 cars. Meanwhile, Company revenues reached CZK 422.6 billion (-0.4%). Car sales accounted for 77.5% of the overall turnover (2020: 81%). The best-selling models were the ŠKODA OCTAVIA and ŠKODA KAMIQ. Deliveries of components and sets of disassembled cars to companies in the VOLKSWAGEN Group accounted for 12.1% of total revenues (2020: 10.6%). Business in original parts and accessories accounted for 5.7% of overall revenues (2020: 5%), while the remaining 4.7% (2020: 3.4%) were revenues from the sale of services (e.g. ŠKODA Connect), licences, and other revenues.

The cost of sales fell by 0.1% year-on-year to CZK 380.7 billion. The gross profit margin stood at 9.9% in 2021, meaning a slight decline of 0.3 percentage point year-on-year.

Distribution costs stood at CZK 10.3 billion, entailing a year-on-year drop of 16.7%. Administrative costs stood at CZK 12.3 billion in 2021, meaning a year-on-year decrease of 9.5%.

The operating profit during the reference period was CZK 26.2 billion, marking a year-on-year improvement of 51.4%. This improvement was driven mainly by the optimisation of the sales mix, the reduction of sales costs, and the development of exchange rates. Profit before tax stood at CZK 27.3 billion (2020: CZK 17.9 billion). Meanwhile, profit after tax was CZK 22.4 billion (2020: CZK 15.2 billion) and the return on sales before tax rose to 6.5% (2020: 4.2%).

CASH FLOW AT THE COMPANY

Cash flow from operating activities in 2021 stood at CZK 51.9 billion, meaning a year-on-year upturn of 41.4% driven mainly by an improved operating result. Net liquidity stood at CZK 20.4 billion as at 31 December 2021 (CZK 16.4 billion as at 31 December 2020). ŠKODA AUTO paid out a dividend amounting to CZK 15.2 billion (2020: CZK 31.7 billion).

COMPANY ASSETS AND CAPITAL STRUCTURE

The Company's balance-sheet total as at 31 December 2021 amounted to CZK 231.5 billion, representing an increase of CZK 3.5 billion on the balance-sheet total at the end of the previous year. The value of non-current assets rose slightly year-on-year by 0.2% to CZK 144.9 billion and current assets stood at CZK 86.6 billion on the record date (as at 31 December 2020: CZK 83.3 billion). This increase in the balance-sheet total on the asset side mainly occurred as a result of increased inventories of unfinished goods due to the lack of semiconductors.

Equity rose by CZK 6.6 billion during 2021 to a total of CZK 101.5 billion, in particular due to an increase in the economic result. Equity ratio in 2021 stood at 44%.

The value of non-current liabilities fell to CZK 26.1 billion. Current liabilities decreased to CZK 103.8 billion in comparison with the previous year.

COMPANY INVESTMENT ACTIVITY

Investments in 2021 (excluding development costs) accounted for a total of CZK 15.3 billion (2020: CZK 17.8 billion). The biggest portion was invested in new models, of which more than CZK 4 billion went into new technologies, particularly electromobility and digitalisation.

The Company spent CZK 21.5 billion on research and development for new products in 2021 (2020: CZK 18.5 billion).

OTHER INFORMATION

OTHER INFORMATION

In the past, certain ŠKODA cars were fitted with 1.2 litre, 1.6 litre and 2.0 litre EA189 diesel engines. In 2015, the competent authorities raised questions about the behaviour of the software that detects when these cars are running in test conditions. This software was found in approximately 1.2 million ŠKODA brand cars. ŠKODA AUTO decided to launch a servicing campaign to update those cars. The required technical measures were developed and prepared for the modification of these cars so that the servicing campaign could begin in 2016. Technical measures were drawn up for all the ŠKODA cars in question and were presented to the competent homologation authorities. The servicing campaign will continue in 2022. The costs of the servicing campaign were taken into account in the financial statements for previous periods. These costs had no significant impact on the economic result in 2021.

TECHNICAL DEVELOPMENT

439

IN 2021, ŠKODA MOTORSPORT SOLD 443 FABIA RALLY2 AND FABIA RALLY2 EVO CARS THROUGH ITS CUSTOMER PROGRAMME

In 2021, Technical Development successfully continued with the transformation that will allow it to respond flexibly to demanding challenges. It embarked on the journey from classic development, which focuses on parts, to development that concentrates on functions. The Technology Centre was put into service and planning began for the new Klimacentrum, which will contribute toward product sustainability.

TRANSFORMING AND UPDATING THE STRATEGY

Technical Development faced some major challenges in 2021, primarily in the sphere of product innovation. To provide an adequate response, it continued in the essential transformation and associated development of the competencies and capacities in the area of new themes, including e-mobility and functionally-oriented development. To this end, it succeeded in transforming 100 employment positions from conventional to new thematic areas in 2021.

User experience and HMI (human-machine interface) design, which is becoming a key element in brand identity, remained major themes at Technical Development. In the past year, the HMI team worked on projects including the logic and appearance design of systems for driver and crew interaction.

RESPONSIBILITY FOR NEW PROJECTS

ŠKODA AUTO assumed Group-wide responsibility for the MQB-A0 global platform in 2021. This is designed for regions with high growth potential such as India, Russia*, Africa, and ASEAN and Latin American countries. At the same time, it began preparations to take over developmental responsibility for the MQB 27 (W) Global platform next year. Therefore, ŠKODA AUTO will be responsible for managing the development of all components in areas such as air-conditioning, steering, batteries, the exhaust system, and the architecture of electronics in cooperation with Volkswagen do Brasil.

Technical Development reached a significant milestone in the fulfilment of the Beta+ project, part of which secures the joint development of new ŠKODA SUPERB and Volkswagen Passat models.

* The development in Russia will depend on further unfolding of the Russian-Ukrainian conflict.

BUILDING DEVELOPMENT AT THE ČESANA COMPLEX

The Company ceremonially opened its Technology Centre in 2021, after investing almost CZK 560 million in construction. This is among the most important investments in Technical Development in the past few years and enlarges office space by 9,100 m^2 and technology space by 7,200 m^2. In doing so, the Company has provided a modern space for 425 developers and technological space for new themes and activities in technical development, such as the development of electromobility, HMI, UX, and the physical and digital safety of cars. The Technology Centre also meets the conditions for new work methods that require shared space, meeting rooms equipped for online communication, and separate acoustic booths.

Work also successfully continued on the Model Construction building, which will provide modern, centralised, and highly-effective space for the production of models in the early stages of development. An actual model is an essential part of the development of a car, and in combination with digital and virtual methods secures the optimum working conditions for decision-making in the early stages of development.

Technical Development is aware of the importance of new trends in digitisation and virtualisation, without which companies would not be able to manage nowadays. For this reason, Technical Development worked intensively in 2021 on preparing investment in the Virtual Development Centre, which will provide modern conditions for a whole range of virtual activities. It is planned to be put into operation in mid-2023.

Technical Development was also involved in preparing investment in the new Klimacentrum, with test cylinders for better simulation of the internal and external airflow of a car under various climatic conditions. The reason for building the Klimacentrum is to raise competencies in product sustainability and to enhance the utility values of products for customers. It is planned to be put into operation at the end of 2023.

NEW PRODUCTS

The year 2021 was one of launches and new products at Technical Development. The ENYAQ iV became the first purely-electric SUV that the Company launched on the market. This marked another step in the consistent implementation of the e-mobility strategy. The fourth-generation FABIA was also introduced to the public and now provides more space, comfort, and functions due to its switch to the MQB platform. The Company also launched the KUSHAQ on the market as part of the INDIA 2.0 project. This was the first car to have been developed specifically for the Indian market and was followed by the Volkswagen Taigun, also developed by ŠKODA AUTO.

120 YEARS SINCE THE BIRTH OF A FAMOUS RACING TRADITION

ŠKODA celebrated 120 years in the world of motorsport in 2021. The whole year was a national and international celebration of this significant anniversary.

At the beginning of the year, ŠKODA Motorsport delighted its customers with the introduction of the special edition ŠKODA FABIA Rally2 evo Edition 120, only twelve of which were made. These fully-equipped cars, with technical innovations and extra accessories, created enormous interest among race teams and fans alike.

However, the strategy at ŠKODA Motorsport involved the comprehensive development and support for the customer programme, which with the sale of the 443 FABIA Rally2 and FABIA Rally2 evo cars, is the central point of its activities. As a result, ŠKODA Motorsport raised

560

THE COMPANY INVESTED CZK 560 MILLION IN THE TECHNOLOGY CENTRE IN ČESANA

the level of its services by introducing the highly-successful sale of spare parts during selected races in the World Rally Championship (WRC) and the European Rally Championship (ERC) to all its customers, who had long been calling for such a service.

It was also in 2021 that ŠKODA Motorsport began its collaboration with the top customer team Toksport WRT, which was provided with deluxe technical support at races in both the mentioned championships. The experienced driver Andreas Mikkelsen used this support to the maximum and defended its team title in the WRC2 drivers' category. He took his success to yet another level by winning the ERC and becoming European champion helping the customer team Toksport WRT to win the ERC title in the team category.

The anniversary celebrations were joined by a domestic importer that provided support to seven ŠKODA dealership teams and entered eight racing crews in the Czech Championships. One of those crews was the victorious duo of Jan Kopecký and Jan Hloušek, driving for the AGROTEC ŠKODA Rally Team.

The notional culmination of celebrations to mark the 120th anniversary on home soil was the Rally Bohemia, with the ŠKODA Motorsport factory team entering three crews - Jan Kopecký and Jan Hloušek, Dominik Stříteský and Jan Hovorka, and Marco Bulacia with Marcelo Der Ohannesian. All three crews fought off the strong competition and successfully represented the ŠKODA brand, finishing first, second, and fifth respectively.

PREPARATION FOR THE NEW SEASON

For developers at ŠKODA Motorsport, the past year was one of developing and testing a new generation of racing cars. The competition special, drawing on the fourth generation of the batch-produced ŠKODA FABIA, will again fall within the Rally2 category under FIA rules. The car underwent intensive tests in the second half of the year under varying conditions on asphalt and gravel tracks, and the project is now ready to move to the next stage in 2022.

One special chapter last year was the support for the development of an electric rally special, the ŠKODA RE-X1 Kreisel, created in cooperation with Kreisel Electric and the Baumschlager Rallye & Racing team. The alternative-drive car was successfully approved by the Austrian Motorsport Federation during the year and displayed its technical and sporting quality by taking the third position on its debut in the Austrian championships.

10,000 RALLY STARTS

One significant sporting milestone was reached by the FABIA Rally2 and Rally2 evo cars starting 11,000 rallies since the beginning of the project in 2015. Therefore, the 2021 season wrote itself into the history books at ŠKODA Motorsport in yet another way. A successful customer programme and customer satisfaction remain the priority at the Company, and one of the biggest challenges in the years to come.

PROCUREMENT

1,771

THE PROCUREMENT TEAM SECURED 1,771 NEW PARTS FOR THE BETA+ JOINT GROUP PROJECT (SUPERB AND PASSAT)

95

THE LEVEL OF LOCALISATION OF COMPONENTS FOR ŠKODA KUSHAQ AND VOLKSWAGEN TAIGUN MODELS WAS STANDING AT ALMOST 95%

Procurement is responsible for securing material, components and services in the quantity and quality that enables ŠKODA AUTO to satisfy the demands placed on it by customers while simultaneously building a positive brand image. The Procurement strategy fully follows on from NEXT LEVEL – ŠKODA STRATEGY 2030, which defines the development of the Company plan.

SUPPORT FOR BATCH PRODUCTION AND NEW LAUNCHES

The impact of the Covid-19 pandemic gradually worsened at the beginning of 2021, causing considerable problems in terms of direct deliveries and strongly affecting ship and rail transport capacities. The spread of the pandemic into the ASEAN region in the second half of the year significantly impacted the manufacturers of semiconductors and chips for the automotive industry and other sectors alike. The lack of chips led the Group to introduce crisis management, allowing the Company to fully exploit the Group's procurement synergy and in doing so minimise negative impacts to the lowest level possible.

The main priorities of the Procurement Department were to stabilise deliveries over the medium and long term, identify risky suppliers, and introduce counter-measures in procedural and financial support of suppliers.

Maximum effort was required by employees in the tender for projects involving the successor to the KODIAQ and the BETA+ joint Group project (SUPERB and PASSAT), for which the Procurement team secured 1,771 new parts in all existing colours. Eight entirely new suppliers to ŠKODA AUTO were among those taking part in the tender.

THE DEVELOPMENT OF PRODUCTION SPACE AND PERSONNEL CAPACITIES

A key project for General Procurement was the investment in a new office building in Mladá Boleslav at an approved cost of CZK 1.9 billion. Another significant milestone was a tender to secure 3,000 agency employees for a period of five years – one of the biggest contracts in this field in the Czech Republic. The team secured an order for the restoration of the foundry at the plant in Mladá Boleslav, with an approved budget of almost CZK 590 million.

General Procurement also worked with colleagues from Volkswagen Group Rus in 2021 on securing investment costs totalling CZK 4.7 billion, money intended to increase and expand capacities at the engine shop, the welding shop, the painting shop, and assembly at the Russian Kaluga plant.

FIRST TWO MODELS FOR INDIA

As part of its model offensive for the Indian market, and despite all the obstacles in its path, the Company was able to successfully launch batch production of its first two models on the common MQB-A0 platform - the ŠKODA KUSHAQ and the Volkswagen Taigun. The cars are price-attractive and meet the specific requirements of Indian customers. The level of localisation of components for these models was high indeed, standing at almost 95%.

SUSTAINABILITY AND INNOVATION

Procurement significantly broadened its activities in examining the very latest technological innovations in 2021, focusing on sustainable products to increase the value of the product to customers, and the responsible use of all resources. It kept a constant eye on what was happening on the innovation market and actively engaged in seeking new solutions at supplier workshops and comparison boot camps. For example, workshops for suppliers on the subject of sustainability have already generated around seventy innovative ideas, nine of which have moved on to the pilot project stage and will be implemented in future generations of ŠKODA models.

VOLUME OF PROCUREMENT

ŠKODA AUTO spent CZK 202.8 billion on procuring production material in 2021, meaning a year-on-year decrease of CZK 700 million caused by the continuous outage of chip supplies throughout the year. The lion's share of this was spent in the Czech Republic (37.1%), followed by Germany, where Procurement bought around one-quarter (26.1%) of production material. The total volume of General Procurement was CZK 33.6 billion, meaning an increase of 35.8% on 2020. The Production Procurement database held some 2,019 suppliers from all over the world in 2021. Moreover, General Procurement had more than 6,051 cooperating suppliers on its books from all over the world.

MARKET PRICES OF KEY MATERIALS

ŠKODA AUTO and the VOLKSWAGEN Group were forced to face up to the changes in the market prices of materials in 2021. Cooperation with the Group's Procurement Division meant that the risks associated with developments on the materials markets could be considerably reduced. In comparison to the previous year, there was another significant increase in the prices of aluminium and lead. The price of copper also rose dramatically. Despite these influences, the Company was able to achieve significant cost optimisation, which was crucial in helping the brand achieve a positive overall result.

PRODUCTION AND LOGISTICS

100,000

IN AUGUST 2021, THE ONE-HUNDRED-THOUSANDTH iV MODEL ROLLED OFF THE LINE OF THE PLANT IN MLADÁ BOLESLAV

ŠKODA AUTO manufactured 802,266 ŠKODA cars worldwide in 2021 (2020: 941,131 cars). This decline was primarily caused by the Covid-19 pandemic and its impact on the global economy. The main issue was the limited availability of semiconductors, caused by stoppages due to the pandemic, storms in Texas, and earthquakes in Japan. The shortage of semiconductors led to complications that spread to the supply chain, and the Company was forced to reduce the volume of car production and the manufacture of components and semi-finished cars.

Far-reaching hygiene measures and changes in the organisation of individual operations enabled the Company to actively and effectively prevent the virus from spreading in workplaces and protect the health of its employees to the maximum possible extent. To this end, the Company and its social partner, the KOVO Trade Union, designed and implemented more than 80 preventive measures, drawing on the concepts of Safe Production and Safe Office. These measures focused on a highly-effective and robust system of testing its employees every week. A total of 1,052,895 tests were carried out in 2021. These measures meant that production did not come to a halt in 2021 as a result of the Covid-19 pandemic.

THE ŠKODA PRODUCTION STRATEGY ABROAD

Manufacturing plants abroad prepared themselves for the production launch of new and innovated models that rolled on to the production lines in 2021. The Company began production of the new ŠKODA OCTAVIA at the Aurangabad plant in India in March and the revised ŠKODA KODIAQ in December. This rejuvenated model also started rolling off the production line at the Company's Russian partner plant in Nizhny Novgorod in November. In May, the Company began batch production of a new compact SUV, the ŠKODA KUSHAQ, at its Indian plant in Pune, followed by the related Volkswagen Taigun model in August. The new ŠKODA SLAVIA sedan also went into batch production in Pune in December.

PRODUCTION OF NEW MODELS IN THE EU

The Company built on the successful launch of the basic model of its first fully-electric SUV, the ŠKODA ENYAQ iV, by introducing various derivatives in 2021. A special SPORTLINE version was first manufactured in April and batch production of cars with four-wheel drive began in the summer, followed by a limited edition of 1,895 Founders Edition cars with an illuminated front grille. This version of the grille subsequently became an optional extra for the basic model. ŠKODA AUTO launched production of the fourth-generation ŠKODA FABIA in hatchback version in June, then enhanced the model in September with additional aggregates and a right-hand-drive version. The redesigned KODIAQ was also launched in June 2021.

Production of these models was successfully launched despite the negative global developments in the car market caused by the Covid-19 pandemic. The exemplary interaction between staff at Production Planning, Machine Production, Car Production, and Procurement meant that all required sets of machinery, quality components and materials were secured in time within the global supply network.

15

IN MARCH 2021, THE FIFTEEN-MILLIONTH CAR WAS MADE AT ITS MAIN PLANT IN MLADÁ BOLESLAV SINCE 1905

A PARENT PLANT WITH PROSPECTS

The FABIA (third generation of the car in the COMBI (estate) version and the fourth generation of the model, which for the first time draws on the MQB-A0 modular platform), SCALA, KAMIQ, OCTAVIA, and ENYAQ iV models were all made at the plant in Mladá Boleslav in 2021. The rising volume of production and the number of versions of these models naturally result in increasing demands on the expansion and modernisation of production and logistic capacities. Further investment was made into electromobility and strengthening the associated fire safety at the parent plant in 2021. Moreover, the production line in Mladá Boleslav is currently the only line in the Group to facilitate the parallel production of vehicles based on the modular platform for electromobility (MEB) and the modular platform for cars with conventional engines (MQB).

The Company put its new Central Pilot Hall into operation in January 2021, where extensive analyses will be carried out during the development of new models and where pre-production cars will be made. In Hall M13, all water test technology was replaced and a new front-cage feeder was installed for the assembly of the chassis to ensure smooth assembly for multiple platforms. The new Hall M13E was built to ensure a smooth flow of production in Hall M13; this new hall will be used for refitting work and quality control. The U6C central warehouse was also completed. This is connected to the neighbouring Hall M13 by a covered conveyor bridge nine metres above the thoroughfares, thus ensuring that a large part of the process of picking and transporting parts is automated.

Two fundamental investments in technology at the press shop were completed in 2021. The new L53 coil cutting line was ceremonially put into operation in July, making the Company self-sufficient in the supply of cut metal sheets for pressing lines. In December, the new L28 pressing line went into operation in Hall M12, replacing two smaller pressing lines that had served the hall for an average of 30 years.

The Company was presented with a special Automotive Lean Production Award in November for the excellent launch of its new paint shop in 2019. The precision and effectiveness of production are now optimised at the paint shop due to the high level of automation of procedures and processes.

The plant in Mladá Boleslav reached several key milestones in 2021. The two-millionth SUV rolled off the production line on the first day of March; the jubilee vehicle was also the two-hundred-and-fifty-thousandth ŠKODA KAMIQ. The Company marked another significant event five days later when the fifteen-millionth car since 1905 was made at its main plant in Mladá Boleslav. The jubilee car was a ŠKODA ENYAQ iV in Arctic metallic silver. The one-hundred-thousandth iV model rolled off the line at the end of August.

7,580

IN 2021, ŠKODA AUTO PRODUCED
7,580 AXLES PER DAY

DYNAMICALLY-DEVELOPING KVASINY

The ŠKODA AUTO plant in Kvasiny is an important pillar in the Company's network of production capacities, its portfolio currently boasting the ŠKODA SUPERB, SUPERB iV, KAROQ, and KODIAQ models. In recent years, the Company has heavily invested in the development and modernisation of the plant.

Automation of spraying the internal bodywork in the door area brought savings in paint, a reduction in defects linked to manual application, and harmonisation of the quality of interior spraying. The installation of a new generation of Kuka Quantec 2 robots in the welding shop increased the production capacity of the welding lines. The advantage of these robots lies in the smaller installation dimensions and the slighter body of the robot, making it possible to include work activities that had previously been inaccessible. Application of an automatic workplace for the hub covers that stock both assembly lines provided greater effectiveness and improved ergonomics and safety. At the same time, the picked hub covers are controlled using cameras.

COMPONENT PRODUCTION

A total of 841,943 gearboxes were made at ŠKODA AUTO in 2021, 374,771 of these were MQ200 gearboxes, 44,054 were MQ/SQ100 gearboxes and 423,118 were DQ200 gearboxes. These were in addition to 426,868 engines and 128,031 batteries for plug-in hybrid cars. The company produces components not only for its own use, but also for the needs of other Group brands. In total, it manufactured 202,021 engines (47% of the total number of aggregates made), 515,952 gearboxes (61% of the total number of gearboxes produced), and 101,823 batteries (80% of the total number of batteries produced) for other Group makes.

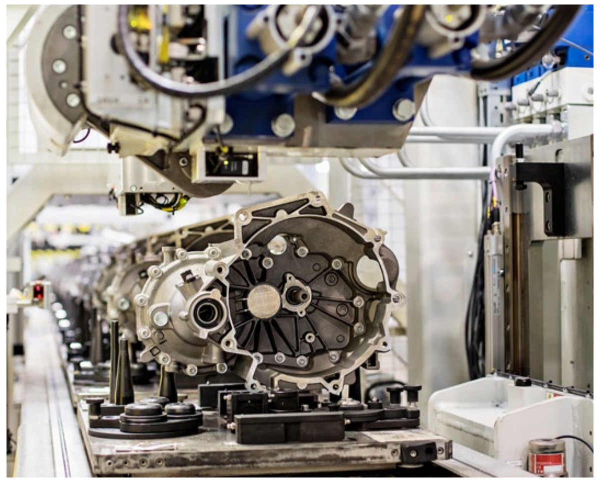
The production of axles, of which ŠKODA AUTO made 7,580 per day, is another integral part of component production. A total of 1.4 million axles were made in 2021 for the assembly plants in Mladá Boleslav, Kvasiny, and Bratislava.

ŠKODA AUTO celebrated several jubilees in component production in 2021. The one-hundred-thousandth high-voltage traction battery was made at the plant in Mladá Boleslav just 15 months after launching production, while the eight-millionth MQ200 gearbox was manufactured at the parent plant in June.

PRODUCTION OF ŠKODA CARS ABROAD

Some 3,513 ŠKODA cars were made at the Aurangabad plant in India in 2021, and 22,746 at the plant in Pune meaning a year-on-year increase of 221.5%. Some 47,140 cars rolled off the line at the Company's partner plant in Nizhny Novgorod in 2021, 18.9% less than in 2020. The Kaluga plant in Russia produced 40,046 ŠKODA cars, meaning an increase of 22.2%. A total of 54,427 cars were manufactured in 2021 at partner plants in China.

The Company reached a significant milestone in Russia, where it celebrated the seven-hundred--and-fifty-thousandth ŠKODA car made in the country in April. The jubilee model was a ŠKODA KODIAQ, which rolled off the line at the Company's partner production plant in Nizhny Novgorod.



PRODUCTION BY MODEL

ŠKODA CITIGO There was an 80.1% drop in the production of ŠKODA CITIGO cars. Some 2,887 ŠKODA CITIGO cars were made at the VOLKSWAGEN plant in Bratislava (2020: 14,495 cars).
ŠKODA FABIA A total of 94,096 ŠKODA FABIA cars were made worldwide in 2021, meaning a year-on-year decrease of 6.3% (2020: 100,425 cars).
ŠKODA RAPID A total of 55,905 ŠKODA RAPID cars were made worldwide in 2021, meaning a year-on-year drop of 25.8% (2020: 75,324).
ŠKODA SCALA A total of 44,229 ŠKODA SCALA cars were manufactured in 2021, marking a year-on-year decrease in production of 23.8% (2020: 58,054 cars).
ŠKODA OCTAVIA The ŠKODA OCTAVIA was again the most significant model at ŠKODA AUTO in terms of volume in 2021. A total of 172,114 OCTAVIA cars were made worldwide, meaning a decrease in production of 26.4% (2020: 233,972). This model also accounted for the lion's share of the annual worldwide production of ŠKODA cars with 21.5%.
ŠKODA SUPERB A total of 57,721 ŠKODA SUPERB cars were produced worldwide in 2021, signalling a drop of 28.6% (2020: 80,880 cars).
ŠKODA KAMIQ A total of 109,737 cars were made worldwide in 2021, meaning 3.0% less than in the previous year (2020: 113,164 cars).
ŠKODA KAMIQ GT A total of 1,225 cars were made at the Nanjing plant in China in 2021 (2020: 13,226 cars).
ŠKODA KAROQ This compact SUV has been manufactured since 2017. Some 109,497 cars were made worldwide in 2021, meaning a year-on-year decrease of 17.5% (2020: 132,718 cars).
ŠKODA KODIAQ A total of 88,408 ŠKODA KODIAQ cars were made worldwide in 2021, meaning a year-on-year decrease of 22.6% (2020: 114,155 cars).
ŠKODA KODIAQ GT The ŠKODA KODIAQ GT is the fourth ŠKODA SUV on the Chinese market. Some 149 cars were made at the plant in Changsha in 2021 (2020: 3,682 cars).
ŠKODA ENYAQ iV Production of the brand's first purely-electric SUV began at the plant in Mladá Boleslav at the end of 2020 with 49,811 cars made in 2021 (2020: 939 cars).
ŠKODA KUSHAQ A total of 16,353 cars were manufactured at the Pune plant in India in 2021 (2020: 97 cars).
ŠKODA SLAVIA Production of the new ŠKODA SLAVIA commenced at the Pune plant in India in 2021 with 134 cars manufactured.

PRODUCTION OF CARS AT ŠKODA AUTO COMPANY*	VEHICLES 2021	VEHICLES 2020	CHANGE (%) 2021/2020
PRODUCTION OF ŠKODA CARS			
ŠKODA FABIA	63,845	61,903	3.1%
ŠKODA FABIA COMBI	30,251	38,522	(21.5%)
ŠKODA FABIA TOTAL	**94,096**	**100,425**	**(6.3%)**
ŠKODA SCALA	**44,229**	**58,054**	**(23.8%)**
ŠKODA OCTAVIA	48,726	37,426	30.2%
ŠKODA OCTAVIA COMBI	96,878	149,759	(35.3%)
ŠKODA OCTAVIA TOTAL	**145,604**	**187,185**	**(22.2%)**
ŠKODA SUPERB	21,700	26,999	(19.6%)
ŠKODA SUPERB COMBI	32,347	44,103	(26.7%)
ŠKODA SUPERB TOTAL	**54,047**	**71,102**	**(24.0%)**
ŠKODA KAMIQ	**92,941**	**86,042**	**8.0%**
ŠKODA KAROQ	**70,460**	**88,265**	**(20.2%)**
ŠKODA KODIAQ	**70,709**	**80,888**	**(12.6%)**
ŠKODA ENYAQ iV	**49,811**	**939**	**5,204.7%**
ŠKODA BRAND TOTAL	**621,897**	**672,900**	**(7.6%)**
PRODUCTION OF SEAT CARS			
SEAT ATECA	58,500	76,710	(23.7%)
SEAT BRAND TOTAL	**58,500**	**76,710**	**(23.7%)**
TOTAL ŠKODA AUTO PRODUCTION	**680,397**	**749,610**	**(9.2%)**

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

ŠKODA BRAND PRODUCTION WORLDWIDE	VEHICLES 2021	VEHICLES 2020	CHANGE (%) 2021/2020
PRODUCTION OF ŠKODA CARS IN INDIA			
ŠKODA KUSHAQ	16,353	97	—
ŠKODA RAPID	6,259	6,700	(6.6%)
ŠKODA OCTAVIA	1,670	14	—
ŠKODA SUPERB	1,704	1,352	26.0%
ŠKODA KODIAQ	139	5	—
ŠKODA SLAVIA	134	0	—
TOTAL ŠKODA IN INDIA	**26,259**	**8,168**	**221.5%**
PRODUCTION OF ŠKODA CARS IN SLOVAKIA			
ŠKODA CITIGO / ŠKODA CITIGOᵉ iV	2,887	14,495	(80.1%)
ŠKODA KAROQ	9,610	3,403	182.4%
TOTAL ŠKODA IN SLOVAKIA	**12,497**	**17,898**	**(30.2%)**
PRODUCTION OF ŠKODA CARS IN RUSSIA			
ŠKODA RAPID	40,046	32,764	22.2%
ŠKODA KODIAQ	16,292	20,623	(21.0%)
ŠKODA KAROQ	19,152	17,662	8.4%
ŠKODA OCTAVIA	11,696	19,843	(41.1%)
TOTAL ŠKODA IN RUSSIA	**87,186**	**90,892**	**(4.1%)**
PRODUCTION OF ŠKODA CARS IN CHINA			
ŠKODA RAPID	9,600	35,860	(73.2%)
ŠKODA OCTAVIA	13,144	26,930	(51.2%)
ŠKODA SUPERB	1,970	8,426	(76.6%)
ŠKODA KAMIQ	16,796	27,122	(38.1%)
ŠKODA KAMIQ GT	1,225	13,226	(90.7%)
ŠKODA KAROQ	10,275	23,388	(56.1%)
ŠKODA KODIAQ	1,268	12,639	(90.0%)
ŠKODA KODIAQ GT	149	3,682	(96.0%)
TOTAL ŠKODA IN CHINA	**54,427**	**151,273**	**(64.0%)**
TOTAL ŠKODA BRAND WORLDWIDE*	**802,266**	**941,131**	**(14.8%)**
TOTAL ŠKODA PRODUCTION WORLDWIDE, INCLUDING OTHER GROUP BRANDS**	**860,766**	**1,017,841**	**(15.4%)**

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

SALES AND MARKETING

18

IN THE ROLE OF THE OFFICIAL MAIN PARTNER ŠKODA AUTO HAS SUPPORTED TOUR DE FRANCE FOR THE EIGHTEENTH TIME

ŠKODA AUTO delivered a total of 878,202 cars to its customers in 2021. Deliveries to customers dropped by 12.6% (2020: 1,004,816 cars), mainly as a result of the Covid-19 pandemic and a lack of semiconductors. Despite these obstacles, the Company still achieved a number of sales successes. The fully-electric ENYAQ iV arrived successfully on the market, with almost 45,000 cars delivered. ŠKODA AUTO also grew in India, as a result of the new KUSHAQ model, and improved its position in other markets.

CENTRAL EUROPE

The Company delivered 164,050 cars to its customers in Central Europe, a drop of 9.8% on the previous year. The ŠKODA brand achieved a market share of 17.2% in the region. On the domestic market, deliveries to customers fell by 4.0% to 79,928 cars (2020: 83,249 cars). Therefore, the Czech Republic was the Company's third-biggest market in the world, with a stable market share of 38.6%.

EASTERN EUROPE

In Russia, the 90,443 cars that the Company delivered marked a drop of 4.4% on the previous year (2020: 94,632 cars). However, this was sufficient to ensure that Russia moved up to second place behind Germany in the table of deliveries on the world markets. Total sales in Eastern Europe, excluding Russia, fell by 9.2%.

WESTERN EUROPE

The Company delivered a total of 408,970 cars to customers in Western Europe (2020: 434,461 cars; −5.9%). In Germany, the Company's biggest market, it delivered 136,781 cars to customers in 2021, meaning 15.4% fewer than in the previous year (2020: 161,775 cars). Great Britain, where ŠKODA AUTO delivered 55,839 cars, maintained its position in the brand's TOP 5 most significant markets.

In a number of Western European countries, ŠKODA AUTO saw growth running into double digits. Among these were Norway (9,837 cars; +36.9%), the Netherlands (19,336 cars; +19.0%), Spain (24,642 cars; +17.0%), Portugal or Ireland.

OVERSEAS/ASIA

In China, the Czech car manufacturer delivered 71,200 cars to its customers in 2021. This marked a drop of 58.8% (2020: 173,000 cars). Therefore, China lost its position as the brand's strongest market after several years, dropping to fourth.

In India, ŠKODA AUTO made significant improvements after the launch of the KUSHAQ, a model developed especially for the Indian market. The Company delivered a total of 22,779 cars to customers there in 2021, representing a year-on-year increase of 108.9% (2020: 10,902 cars). The Company again consolidated its value in Turkey, where sales stood at 25,228 cars (+4.4%).

CUSTOMER DELIVERIES LARGEST MARKETS	VEHICLES 2021	VEHICLES 2020	CHANGE (%) 2021/2020
GERMANY	136,781	161,775	(15.4%)
RUSSIA	90,443	94,632	(4.4%)
CZECH REPUBLIC	79,928	83,249	(4.0%)
CHINA	71,200	173,000	(58.8%)
GREAT BRITAIN	55,839	58,431	(4.4%)
POLAND	47,069	56,152	(16.2%)
FRANCE	31,057	30,587	1.5%
ITALY	25,242	25,085	0.6%
TURKEY	25,228	24,175	4.4%
SPAIN*	24,642	21,058	17.0%
INDIA	22,779	10,902	108.9%
AUSTRIA	21,786	23,708	(8.1%)
ISRAEL	19,423	18,758	3.5%
NETHERLANDS	19,336	16,242	19.0%
SWITZERLAND	17,392	17,560	(1.0%)
ŠKODA BRAND TOTAL	**878,202**	**1,004,816**	**(12.6%)**

* Excluding the Canary Islands.

CUSTOMER DELIVERIES BY REGION	VEHICLES 2021	VEHICLES 2020	CHANGE (%) 2021/2020	MARKET SHARE (%) 2021**	MARKET SHARE (%) 2020**
CENTRAL EUROPE*	164,050	181,937	(9.8%)	17.24%	19.64%
EASTERN EUROPE	126,253	134,050	(5.8%)	6.47%	7.10%
WESTERN EUROPE	408,970	434,461	(5.9%)	3.82%	3.98%
OVERSEAS/ASIA	178,929	254,368	(29.7%)	0.31%	0.47%
ŠKODA BRAND TOTAL	**878,202**	**1,004,816**	**(12.6%)**	**1.24%**	**1.48%**

* Including the Czech Republic.
** Shares on passenger car market shares, total markets.

DELIVERIES BY MODEL

ŠKODA CITIGO The production of this minicompact car came to an end in August 2019. However, batch production of the ŠKODA CITIGOe iV model, an environmentally-friendly city car solely powered by an electric engine, was launched in October 2019. Sales of this model ended in the summer of 2021. The Company delivered 4,373 cars to its customers in 2021.
ŠKODA FABIA Since a launch of the third generation on the market in 2014, the FABIA has retained its position at the top, beating off the competition as a result of the quality of its execution, the size of the interior and luggage space, its excellent range of equipment, and fine steering. The Company introduced the fourth generation of this successful car in 2021. The model saw a drop in deliveries of 6% on the previous year, with 99,104 cars delivered. However, sales rose year-on-year in the Czech Republic and, for example, in Switzerland and Spain.
ŠKODA RAPID The liftback model was launched on world markets in 2012 with the ŠKODA RAPID SPACEBACK following one year later. Production of these models for European markets came to an end in May 2019 although special versions of the RAPID are still available in China, India and Russia and are also manufactured in those countries. 63,657 ŠKODA RAPID and ŠKODA RAPID SPACEBACK cars were delivered to customers in 2021, a year-on-year drop of 20.1%.
ŠKODA SCALA This model combines an emotional design with a high level of functionality and state-of-the-art connectivity options. It arrived on the market in February 2019 and has since become hugely popular with customers. 48,154 cars were delivered to customers in 2021, marking a drop of 23.8%. Despite this, the model saw record-breaking deliveries in a number of countries, including Portugal, Spain, Ukraine, Tunisia, Egypt, and Morocco.
ŠKODA OCTAVIA The Octavia range underwent a generational transformation in 2020 and was expanded to include a plug-in hybrid version, the OCTAVIA iV, the mild-hybrid OCTAVIA e-TEC, an environmentally-friendly model that runs on natural gas, the OCTAVIA G-TEC, and the sturdy, universal OCTAVIA SCOUT. The ŠKODA OCTAVIA has long been the brand's best-selling model. However, with a total of 200,771 cars delivered in 2021, there was a drop of 22.0% compared to 2020.
ŠKODA SUPERB The third-generation ŠKODA SUPERB, launched in 2015, saw the ŠKODA brand move into a new era. The Company began making a plug-in hybrid version of the model in 2020. There was a 23.2% drop in the number of cars delivered in 2021 to 66,146.
ŠKODA KAMIQ The ŠKODA KAMIQ city SUV, designed for the Chinese market, was given its world première in Peking in 2018. Customers in Europe first had the opportunity to buy the model in 2019. Therefore, the Company extended its successful range of European SUVs with a third model, and in doing so entered the growing city SUV segment. 120,742 cars were delivered to customers in 2021, a year-on-year drop of 6.1%. Nonetheless, the KAMIQ became the Company's second most successful model. Record deliveries were made on around forty markets all over the world, among them the Czech Republic, Great Britain, Austria, Italy, Spain, and France.
ŠKODA KAROQ The new compact ŠKODA KAROQ SUV first saw the light of day in 2017, with innovations in 2018 coming in the shape of the sporty KAROQ SPORTLINE and the adventurous KAROQ SCOUT. A modernised version of the model was introduced at the end of 2021. Customers throughout the world have been captivated by the car ever since it reached the market, and in 2021 the KAROQ was the brand's third best-selling model, closely behind the KAMIQ. 119,156 cars were delivered to customers in 2021, meaning 13.2% fewer than in the previous year. The ŠKODA KAROQ was again an important engine of growth. The highest level of interest in this model was seen in the markets of Hungary, Romania, Ireland, Belgium, Tunisia, Russia and Australia.
ŠKODA KODIAQ The Company's first large SUV, which premièred in 2016, has had a highly successful year. The range was expanded in 2018 to include the KODIAQ RS, the first member of the RS family with SUV bodywork, and the first SUV coupé, the ŠKODA KODIAQ GT, designed for the Chinese market. The car underwent extensive modernisation in 2021 and was also made available in the SPORTLINE version and as the luxury L&K. A total of 98,566 cars were delivered to customers in 2021, 25.1% fewer than in the previous year. Record-breaking deliveries were made on the markets of Turkey, Egypt, Tunisia, Chile, and Uzbekistan.
ŠKODA ENYAQ iV The première given to this fully-electric SUV was the main event of 2020. The model was launched on the market in September 2020 as the first batch-made ŠKODA car based on the modular electric drive matrix platform (MEB). This innovation, which had excellent reviews from experts and the public alike, made hugely successful inroads on the market. The Company delivered a total of 44,718 cars from January to December 2021.
ŠKODA KUSHAQ Production of the ŠKODA KUSHAQ began in June. This SUV is the first batch-produced model made locally in India as part of the INDIA 2.0 project. The distinctive design of the car, the generous space, the high level of comfort, extensive safety features, and other benefits all combined to ensure that ŠKODA AUTO delivered 12,815 cars on the local market within the space of only six months. As a result, the ŠKODA brand strengthened considerably on the Indian market.

CUSTOMER DELIVERIES BY MODEL	VEHICLES 2021	VEHICLES 2020	CHANGE (%) 2021/2020
ŠKODA CITIGO / CITIGOe iV	**4,373**	**14,971**	**(70.8%)**
ŠKODA FABIA	65,380	65,870	(0.7%)
ŠKODA FABIA COMBI	33,724	39,589	(14.8%)
ŠKODA FABIA TOTAL	**99,104**	**105,459**	**(6.0%)**
ŠKODA RAPID	61,909	75,499	(18.0%)
ŠKODA RAPID SPACEBACK	1,748	4,203	(58.4%)
ŠKODA RAPID TOTAL	**63,657**	**79,702**	**(20.1%)**
ŠKODA SCALA	**48,154**	**63,181**	**(23.8%)**
ŠKODA OCTAVIA	89,258	104,805	(14.8%)
ŠKODA OCTAVIA COMBI	111,513	152,559	(26.9%)
ŠKODA OCTAVIA TOTAL	**200,771**	**257,364**	**(22.0%)**
ŠKODA KAMIQ	**120,742**	**128,539**	**(6.1%)**
ŠKODA YETI	**0**	**2**	**—**
ŠKODA KUSHAQ	**12,815**	**0**	**—**
ŠKODA KAROQ	**119,156**	**137,223**	**(13.2%)**
ŠKODA KODIAQ	**98,566**	**131,590**	**(25.1%)**
ŠKODA SUPERB	30,194	40,930	(26.2%)
ŠKODA SUPERB COMBI	35,952	45,221	(20.5%)
ŠKODA SUPERB TOTAL	**66,146**	**86,151**	**(23.2%)**
ŠKODA ENYAQ	**44,718**	**634**	**—**
ŠKODA BRAND TOTAL	**878,202**	**1,004,816**	**(12.6%)**

120

THE COMPANY CELEBRATED 120 YEARS OF THE ŠKODA BRAND IN THE WORLD OF MOTORSPORTS

THE ŠKODA BRAND MARKETING STRATEGY

The brand marketing strategy draws on the knowledge of our customers and then is adapted in the inventive and imaginative way so typical of the ŠKODA brand. The global communication strategy of the brand is shifting within the new NEXT LEVEL – ŠKODA STRATEGY 2030, drawing closer to the new vision and mission at the Company. ŠKODA AUTO needs to adapt to the changing industrial environment to satisfy its customers' needs and become a people-focused brand that provides end-users with genuine value.

THE UBIQUITOUS ESSENCE OF THE BRAND

Seeking smarter and better solutions has been an endless source of motivation for the ŠKODA brand from the very beginning. Even now, the ŠKODA brand aims to enhance the position of its customers and bring them the very best quality, value, and intuitive modern design. Regardless of the product or service used, ŠKODA customers will always encounter the brand values: Simplifying, Surprising, and Human.

THE EMOTIVE WORLD OF THE ŠKODA BRAND

ŠKODA AUTO implements an extensive range of activities aimed at emotionalising the ŠKODA brand and taking it closer to its customers' hearts. The brand connects to culture, in particular through sport – cycling, ice hockey, and motorsport. A common passion for continual improvement is shared by the ŠKODA brand and sportsmen and women, which drives us forward.

OVER 125 YEARS ON THE MARKET

In 2020, ŠKODA AUTO celebrated its 125th anniversary, as well as 115 years since the launch of car production. It did this through hosting activities, promotions, and events all over the world. Because of the Covid-19 pandemic, the organisers had to postpone some of these to 2021. One example was a benefit concert by the Czech Philharmonic in May, with the proceeds helping the families of carers in social services who died as a result of Covid-19. We also continued an extensive marketing and communication campaign on all the brand's social networks and ŠKODA Storyboard websites under the name of "Driven by inventiveness since 1895".

120 YEARS OF FAMOUS VICTORIES

In 2021, the Company also celebrated 120 years of the ŠKODA brand in the world of motorsports. The central point of the celebrations was the Rally Bohemia, which saw the success of the crews driving ŠKODA FABIA Rally2 and Rally2 evo cars. The limited-edition ŠKODA FABIA Rally2 evo Edition 120 was also created to mark the jubilee. Fans were enthralled by a video entitled 120 YEARS BEHIND THE WHEEL OF RACING LEGENDS, which introduced the 1908 LAURIN & KLEMENT FC, one of the first racing cars made in Mladá Boleslav, and the marvellous ŠKODA SPORT car. This famous roadster missed out on an incredible result in the famous Le Mans 24-hour race in 1950 only because of astonishing bad luck. The ŠKODA Museum also celebrated twelve decades of sporting success with a new exhibition, 120 years of ŠKODA Motorsport, which drew visitors into the atmosphere of the races and the competitions of the past.

The popular Sachsen Classic vintage car rally also celebrated the history of the races and came to Mladá Boleslav for the first time in August. The Company started five of its cars in the rally, which covers almost 700 kilometres across Germany and the Czech Republic.

NEW PRODUCTS PREMIÈRED

While the norm in the past was to introduce new products before an audience, which would include personalities and media representatives, May's première of the fourth generation ŠKODA FABIA was entirely different: the continuing restrictions to combat the Covid-19 pandemic meant that the car was launched digitally. The première was more than an informative presentation for the expert public and gave customers and fans of the brand their first chance to get to know the car. They were able to follow the unveiling online, using 360° cameras to examine in detail the qualities of the car while getting to know the story behind all the generations of this successful model.

The world première of the ŠKODA KUSHAQ, a new compact SUV designed for the Indian market, was also broadcast live on the ŠKODA Storyboard platform. The name KUSHAQ, with a K at the beginning and a Q at the end, fits in with the morphology of the ŠKODA brand's successful SUV family and comes from the ancient Indian Sanskrit language. The word "Kushak" in Sanskrit means king or ruler.

AN ESSENTIAL CHANGE OF COMMUNICATION

The launch of the ENYAQ iV on the market in May played out against the backdrop of the Covid-19 pandemic and restrictive measures throughout Europe. When planning the communication strategy, the marketing team emphasised the inclusion of formats that would allow customers to view the ENYAQ iV from the comfort and safety of their homes. This led to the creation of the Innovation Agenda Framework, which offered new formats so customers could view the new electric car in artificial and virtual reality on key online channels, and across the stages of the buying process.

For example, the Web AR visualiser intermediated partial configurations of the ENYAQ iV in augmented reality simply by using a mobile phone camera, with no need to download an application. On Facebook, those interested could use a 3D Instant Experience configurator for different versions of the car and see their dream configuration in a 3D video. ŠKODA AUTO was also the first automotive company in Europe to activate a virtual showroom on Amazon Fire TV.

The ŠKODA Storyboard online magazine, which attracts more than 200,000 visitors a month, was alongside social networks, another integral part of building and strengthening relationships with customers. Among the most successful articles on the site were those that showed how legendary cars from the history of ŠKODA AUTO would look if given a makeover by the designers of today. For example, the very first car from Mladá Boleslav, the L&K VOITURETTE A, the racing legend 130 RS, the FELICIA cabriolet, and the vampire FERAT from the famous film directed by Juraj Herz.

ŠKODA AUTO WILL LEND 55 ŠKODA ENYAQ iV CARS FOR DELEGATES OF THE EU PRESIDENCY

55

THE ENYAQ iV FOR THE CZECH PRESIDENCY OF THE COUNCIL OF THE EU

In autumn, the Company won the tender to provide the cars to transport top-level politicians during the second-ever Czech presidency of the Council of the EU, which will begin in July 2022. ŠKODA AUTO will lend 55 ŠKODA ENYAQ iV cars to transport prominent delegates to summit meetings and informal meetings of the Council of the EU.

THE CHARGING NETWORK CONTINUES TO GROW

The Company introduced a simple and smart way of charging electrified cars to mark the arrival of the new ENYAQ iV electric SUV on the Czech market. ŠKODA electric car owners can use more than 200,000 charging points in most European countries thanks to the POWERPASS service. The points supported include charging points within the ŠKODA AUTO Czech Republic authorised network and the IONITY super-charging network. The charging process can begin by simply using a single RFID card or the POWERPASS application with clear and uniform prices on a smartphone.

The Company sells three versions of the wallbox that can be used to charge at home. The basic ŠKODA iV Charger is mainly used in households, the ŠKODA iV Charger Connect can connect to a LAN or Wi-Fi network and has an RFID reader while the more advanced iV Charger Connect+ combines these functions with connectivity in LTE mobile networks.

A YEAR OF AWARDS

ŠKODA models find favour with customers and the expert public alike. The ŠKODA ENYAQ iV, the Company's first electric car, built on the new MEB platform, won a whole range of plaudits in 2021. In February, it won the Best Cars 2021 readers' award, presented by the German Auto Motor und Sport magazine, in April it won the Red Dot Award for its expressive and efficient design, in May it scored points with readers of Auto Bild magazine in the electric cars with four-wheel drive category, and in September it won three awards in a readers' poll by the specialised German magazine AUTO Straßenverkehr - in the Best Technology and Best Design categories, and overall first prize. The SUPERB COMBI also won three prizes in the Family Car of the Year poll, organised annually by AUTO Straßenverkehr magazine. In addition to the overall first prize, the model can also boast the titles of Best Price to Utility Value Ratio and Best Technology. The flagship SUPERB remains the model that has won the most awards in the history of the brand, winning the annual Fleet News Awards for the sixth time and retaining its title of Best Middle-of-the-Range Car.

The ŠKODA OCTAVIA, the brand's best-selling car, continued its success with a variety of plaudits. In March, the OCTAVIA and OCTAVIA COMBI (called the ESTATE on the British market) were named British car of the year in their class. Just a few days later, the ŠKODA OCTAVIA won the title of Women's World Car of the Year in the family car category. In July, the prestigious Auto Express magazine named the OCTAVIA family car of the year and the OCTAVIA COMBI the estate car of the year in the annual Auto Express New Car Awards.

A PROUD PARTNER TO THE TOUR DE FRANCE

ŠKODA AUTO was again the Official Main Partner of the most famous cycling stage race in the world in 2021. The peloton at Tour de France 2021 was headed by a specially-modified Red Car ENYAQ Sportline iV. The car headed the peloton as the director's car on 16 stages of the race. The other stages were fronted by specially-modified SUPERB L&K iV cars. The Company provided the race organisers with a total of 250 cars; a significant part of the fleet comprised models from the ŠKODA iV family with plug-in hybrid or purely-electric drive.

The Company also sponsored the Green Jersey, meaning that the jersey worn by the leading rider on points bore the ŠKODA logo on the race around France for the seventh consecutive year. The Company were also responsible for making a 60-cm high trophy weighing 4 kilograms for the winner, created by Czech glassmakers. As has become the tradition, the design was created by members of the ŠKODA Design team, drawing on the environment, nature, and clean energy.

In addition to the Tour de France and as is tradition, the Company also supported the La Vuelta, Paris–Nice, Paris-Roubaix, Volta Catalunya, Critérium du Dauphiné, La Flèche Wallonne, Liège–Bastogne–Liège, and the Paris–Tours cycling races.

FROM THE CZECH NATIONAL TEAM TO THE GENERAL PUBLIC

The ŠKODA brand has had strong links to cycling since its inception – a bicycle was the Company's first product back in 1895. For this reason, it also sponsored a number of amateur races for the general public, including the Kolo pro život (Bike for Life) series of mountain bike races, and remained the general partner to the Czech national team in all cycling disciplines. Its links to the Czech Cycling Federation meant that the Company was the general partner to national teams in all eight disciplines of cycling. Therefore, it continued with its involvement in the sport, building on the team aspect and focusing on national teams. It was this relationship that gave rise to the multi-channel WeLoveCycling.com platform, which connects the ŠKODA brand to cycling and acts as an umbrella for all its activities in this field.

The global version of the platform allowed the Company to provide news of the world-renowned races it supports, such as Le Tour de France, La Vuelta, and Paris-Roubaix, and examine topics such as road safety, e-mobility and car models that suit cyclists.

The Company also began cooperation with the Strava platform. As a result, it built on Le Tour de France during the summer, challenging fans to cycle more. Among the prizes for the winner were a carbon bike ridden by brand ambassador and former Tour de France winner Andy Schleck.

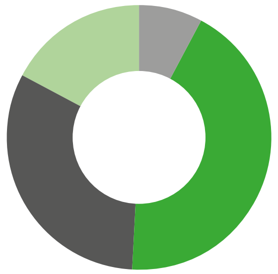
A PARTNER TO THE FASTEST TEAM SPORT ON THE PLANET

ŠKODA AUTO is also involved in other popular sports. It has been General Partner to the IIHF World Ice Hockey Championships since 1992. The Company also supports the development of hockey in the Czech Republic and is an official partner to the Czech Team, the Czech Ice Hockey Association – Czech Ice Hockey Team, and the Tipsport extraliga, the elite-level league in the country. Measures to counter the pandemic meant that the number of fans at the IIHF World Ice Hockey Championships was restricted. However, the stands did not remain empty. The Company made it possible for fans to send a cardboard cut-out of themselves to the stadium to take their place. All they had to do was take a photograph via the ŠKODA Storyboard platform and the Company and its local partners did the rest. ŠKODA FanBoards put 15,000 cardboard fans on seats, from all the countries taking part in the tournament.

PEOPLE AND CULTURE

3,000

ŠKODA ACADEMY PROVIDED TRAINING IN ELECTROMOBILITY TO MORE THAN 3,000 PARTICIPANTS IN 2021



QUALIFICATION STRUCTURE OF THE COMPANY'S PERMANENT EMPLOYEES AS OF 31 DECEMBER 2021

PRIMARY SCHOOL 7.8%
VOCATIONAL SCHOOL 43.1%
HIGH SCHOOL WITH A LEVELS 32%
UNIVERSITY GRADUATE 17.1%

The People and Culture department plays a crucial role in the achievement of the NEXT LEVEL – ŠKODA STRATEGY 2030, as it is our employees who drive this Company-wide transformation. For this reason, the department introduced its "Next Level S" functional strategy to support the Company-wide plan from the perspective of human care.

The principal tasks in this area in 2021 also included guiding employees through the uneasy times of the Covid-19 pandemic, preparing them for electromobility, introducing digital tools to their everyday work, and promoting diversity and open corporate culture. At the same time, People and Culture department endeavoured to secure technically-educated, highly-qualified specialists for the Company.

A NEW VISION IN THIS AREA

The changes required by the new Company strategy cannot be successfully resolved without employee involvement and teamwork across all divisions. For this reason, People and Culture invited all staff at the department to a strategy forum at the ŠKODA Museum in September. There, clear steps were presented to be taken over the coming years to support the targets that the Company has set itself until 2030 – and all employees had the chance to vote for a new name. Management also familiarised those in attendance with the issues that employees can expect to face regarding the transformation. A clear sign of the change in approach was that for the first time, staff were able to sign up to participate in 9 strategic initiatives covering 24 different projects that People and Culture will focus on to ensure a successful transformation and to actively join in the discussion using the Slido app.

SAFETY FIRST

The health of our employees is a top priority at the Company and at the KOVO Trade Union alike. As a result, they went beyond the government regulations in the battle against Covid-19 from the very beginning of the pandemic by introducing more than 80 measures to help prevent the spread of the pandemic at all Company premises shortly after the pandemic broke out. The Company has so far spent more than CZK 1 billion on protecting the health of its employees and helping people and organisations in the front line. A thorough internal tracing system also helped to effectively limit further transmission of the disease.

To quickly and effectively vaccinate staff against Covid-19, ŠKODA AUTO set up a separate vaccination centre field office at the local Klaudián Hospital in Mladá Boleslav to help boost capacity. The Company also organised a mobile vaccination team. It launched a system to register those interested in the vaccine in the spring and used its own medical staff to help administer vaccinations both inside and outside the Company; for example, in retirement homes.

The Company also launched the ŠKODA AUTO PROčkování campaign, answering the most frequently asked questions by staff regarding the administration of the vaccine and emphasising the benefits of vaccination in an easy to understand way. Colleagues that had already received the vaccine became the face of the campaign. In August, the Company announced a motivational programme to support staff vaccination after reaching an agreement with the KOVO Trade Union: every employee that was vaccinated by the end of November received a reward of CZK 2,000 in points in the in-house ŠKODA Benefits programme or two days off work. The campaign was extended for additional booster shots.

COMPANY WORKFORCE*	HEADCOUNT 31 DECEMBER 2021	HEADCOUNT 31 DECEMBER 2020	CHANGE (%) 2021/2020
ŠKODA AUTO – PERMANENT EMPLOYEES	**35,153**	**34,514**	**1.9%**
OF WHICH:			
— MLADÁ BOLESLAV PLANT	27,567	26,800	2.9%
— VRCHLABÍ PLANT	850	824	3.2%
— KVASINY PLANT	6,736	6,890	(2.2%)
ŠKODA AUTO – APPRENTICES	**879**	**923**	**(4.8%)**
ŠKODA AUTO TOTAL**	**36,032**	**35,437**	**1.7%**
ŠKODA AUTO – TEMPORARY STAFF	**2,120**	**3,262**	**(35.0%)**

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

EDUCATION IN ELECTROMOBILITY

People and Culture continues to support the development of electromobility at the Company in the field of education. It systematically and pointedly prepares employees, pupils at vocational schools, workers at supply firms, and agency employees for the new demands placed on them.

The Company's ŠKODA Academy and assembly training centres provided training in electromobility to more than 3,000 participants in 2021 including external workers, agency staff, and pupils at vocational schools. This means that almost 21,000 staff members have enhanced their education in this area since May 2016. The ŠKODA Academy also increased its range of online courses for Company employees in 2021, with staff showing great interest, primarily in the range of IT courses.

INVESTMENT IN THE FUTURE

ŠKODA AUTO has long provided support to education in technical specialisations. It prepared the EDU.LAB project for pupils in the 8th and 9th grades at primary school, which entertainingly presented the very latest technology and showed pupils the cutting-edge operations at the Company. ŠKODA Academy Kvasiny began cooperation with the College and Secondary Industrial School in Rychnov nad Kněžnou. As a result, pupils will be provided with more detailed information about the attraction of specialisations connected to electrical engineering, will be given the opportunity to gain experience or undertake a specialised placement at the Company, and may have the opportunity to work there after completing their professional training and studies. The Company opened the new Tech Trainee development programme for university graduates, which focuses on electromobility and digitisation. Students who have completed their bachelor's or master's studies can join the year-long programme. After completing the programme, they will have a specialisation in their selected field, such as technical development, planning production, digitisation, cybernetic security, or the quality of conventional and electric cars. ŠKODA AUTO also decided to support the building of a non-profit education institute for programmers, 42Prague, which will go into operation in 2022 and form part of an international network of top schools educating IT specialists in 22 countries.

The Company also joined forces with Czechitas in 2021, a non-profit organisation that for many years has helped women and children learn about the world of information technology through programming, coding, and working with data. It contributed toward the organisation of courses designed for the public and lessons focusing on specific areas for secondary school pupils in Mladá Boleslav and the surrounding areas. Specialised courses were also opened up to Company employees on maternity or parental leave to make their return to work that bit easier. A practical online webinar for managers also included staff looking after their children.

1

THE COMPANY SPENT MORE THAN CZK 1 BILLION ON PROTECTING THE HEALTH AND FIGHTING AGAINST COVID-19 PANDEMIC

COOPERATION WITH UNIVERSITIES

ŠKODA AUTO supports twenty universities throughout the Czech Republic and abroad and provides them with cars and components for study and research purposes. The Company also provides support in the form of professional student placements, an international trainee programme with placements abroad, and a development and talent programme for doctorate students.

In September, the Company launched the AIM.Lab (Artificial Intelligence in Manufacturing Lab) in collaboration with VSB - Technical University of Ostrava. The laboratory, the first of its kind in the automotive industry, focuses on data analysis, the application of machine learning and artificial intelligence, and the issue of optimisation in industrial practice.

The ŠKODA iV DAY roadshow was launched at the University of Pardubice, informing students of the innovations in the sphere of electromobility. The roadshow visited nine Czech universities that focus on technical education and included discussions with experts so the participants could familiarise themselves with the wide range of iV electric cars and plug-in hybrids.

DIGITISATION OF INTERNAL PERSONNEL PROCESSES

A number of processes were digitised in 2021 to make work easier for employees, reduce the administrative load on direct superiors, primarily in production, and support remote cooperation. Management and employee self-service were further broadened within the SAP SuccessFactors personnel system, known in-house as KOMPAS, where documents can be generated or amended. The digitisation process was also deployed in the battle against the Covid-19 pandemic. For example, an electronic record of infected persons was introduced, a record of self-testing at the workplace, a vaccine booking system, and an electronic vaccination certificate. Moreover, the preparation of a ticketing system for personnel care was started. This will be used as the central communication system at the future HR Consulting Centre and will keep a record of all requests made to HR along with the reports on how these requests are resolved.

DIVERSITY STRATEGY

Equality of opportunities and equal treatment are directly embedded in the Code of Ethics in place at the ŠKODA AUTO Group. Nobody should face discrimination at ŠKODA AUTO based on ethnicity or nationality, gender, faith, world view, age, disability, sexual orientation, skin colour, political opinions, or social origin. Support for diversity and the creation of an inclusive work environment is also an important prerequisite for the Company to remain successful and be able to recruit talented people. Staff at People and Culture develop activities that contribute to long-term understanding among colleagues. These include a series of interactive training sessions for 2,000 management employees at the Company where the participants learned how to work with unconscious prejudices. ŠKODA AUTO won an award for this programme in the TOP Responsible Company 2021 competition.

The Company signed the European Diversity Charter in 2019, which was then elevated to gold signatory status for 2020 to 2022. The Company took part in the international European Diversity Day conference at the Parliament of the Czech Republic in May 2021, where business, political, and science leaders exchanged views on how to conceptually anchor diversity in corporate governance. Thomas Schäfer the CEO, Maren Gräf a member of the Board of Management for People and Culture, and Elke Heitmüller, the Diversity Manager for the VOLKSWAGEN Group, all confirmed their commitment to diversity and inclusion at ŠKODA AUTO and throughout the Group.

To mark European Diversity Month, the Company organised ŠKODA OPEN TALK where management representatives met to discuss the interconnection of strategy and diversity with employees. Along with other topics, they looked at creating a community of diversity at the Company where employee engagement is a key prerequisite in creating an inclusive work environment. In May, ŠKODA AUTO joined the Pride Business forum via Memorandum 2017+. The forum supports LGBT+ employee diversity and inclusion at companies and reciprocal, open, and fair treatment irrespective of sexual orientation or gender identity. Moreover, the Company supported the work of the ŠKODA Proud employee group, which was set up on the initiative of employees and aims to ensure that LGBT+ workers feel safe and comfortable at work.

35,000

IN 2021, MORE THAN 35,000 EMPLOYEES WORKED IN ŠKODA AUTO

BETTER WORKING ENVIRONMENT

ŠKODA AUTO worked with its social partner, the KOVO Trade Union, to continually improve social infrastructure. A significant milestone came on 1 September 2021, when the Company became an entirely smoke-free company. The smoking ban applies to all premises and operations. By imposing the smoking ban, the Company meets its responsibility as an employer that cares for the health of its employees, while emphasising the environmental and economic impacts of smoking.

A new central kitchen went into operation at the plant in Mladá Boleslav in April 2021. The kitchen, fitted with the most advanced equipment, will be able to make up to 35,000 meals a day, a capacity unmatched in the Czech Republic. A local public transport route was also extended to the main production plant in Mladá Boleslav in July to make the journey to work more comfortable.

MENTAL HEALTH MATTERS

The Company has paid maximum attention to its employees' mental health in recent years. All Company employees have the opportunity to take a free psychological consultation, something they have also been able to do online since 2020 in response to the Covid crisis. The Company also organised intensive education campaigns for employees aimed at fortifying personal resilience and working with stress.

A pilot study of a new method of evaluating the mental demands of different jobs was conducted in 2021. The result of this will help the Company to adapt the corresponding recruitment and personal development of employees in mentally-demanding positions in the future.

DIRECT CORPORATE CULTURE

Openness, a friendly work environment, the opportunity for career growth, and a higher degree of independence are among the fundamental requirements of the new generation of employees. This is why work continued on reinforcing the corporate culture at the Company. The priorities in forthcoming years are to build a more open corporate culture and increase the percentage of women in management. Changes were made to the Board of Management at ŠKODA AUTO in March, when the Board Member for People and Culture, Maren Gräf, became the first woman in the history of the Company to join the Board, which confirms this objective.

Alongside ongoing activities supporting our company culture which have started in previous years (e.g. Role Model Programme, Company Culture Workshops for leaders, Open Talks), the Mindset Change Project has been initiated in connection with our new strategy this year. Its goal is for us to determine what kind of company culture we want to have in the future and what we need to do to achieve it. The areas that have been identified as key in many discussions across the Company are: Courage, Openness, Empowerment, Customer, People and Cleverness.

Each topic has its owner who is leading a Lighthouse Project on the topic. An example could be the ScrewUp Talk, in which top managers spoke openly about the biggest blunders of their professional careers and explained how they managed to learn from them. Also, for each topic, discussion meetings with employees who joined on a voluntary basis were the so-called Cultural Dialogues. The outcomes of these six meetings will be put together with the other findings of the Mindset Change Project to shape our target company culture.

SUSTAINABILITY

2030

THE COMPANY'S CZECH PRODUCTION PLANTS TO ACHIEVE A NEUTRAL CO_2 BALANCE OF ENERGY BY 2030

0

ŠKODA AUTO WILL BECOME A CARBON-NEUTRAL COMPANY BY 2050

EMPHASIS ON SUSTAINABILITY AND OUR GREEN FUTURE STRATEGY

Protecting the environment is one of the Company's fundamental pillars of sustainability. The environmental pillar has been covered since 2012 by the in-house GreenFuture strategy, which governs and effectively controls all environmental protection activities. The individual measures based on the strategy are then determined at the production, product, and process level.

The philosophy of the GreenFuture strategy is to minimise the environmental impact on all mobility products and services throughout their life cycle. The aim of this is to maintain untouched ecosystems, positively affect society, and develop the entire region. Adherence to environmental regulations, standards, and our own voluntary commitments is a fundamental prerequisite of all Company activities.

EFFORTS TO ACHIEVE CARBON-NEUTRALITY

The Company views the key objectives in this area as reducing the CO_2 emissions produced by its fleet of vehicles by more than 50% of their 2020 level and transforming the Company's Czech production plants to achieve a neutral CO_2 balance of energy by 2030. Both these measures will contribute to the long-term reduction of greenhouse gases throughout the life cycle of our products, and in turn achieve the Group's objective to become a carbon-neutral company by 2050. By promoting sustainable development, the Company has been able to reduce the impact of production on the environment at its Czech plants by 41% in comparison with 2010.

RAISING STANDARDS

In terms of integrity, the Company focused on raising standards, particularly regarding compliance and the environment. For example, in Procurement, environmental and sustainability criteria have become as equally important for our potential business partners as logistics and the quality of services on offer.

goTOzero – REDUCING ENVIRONMENTAL RISKS

The new goTOzero environmental mission was approved in 2019 as part of the GreenFuture Strategy. The mission addresses four priority areas: climate change, development, air quality, and adherence to environmental regulations. These areas were taken into consideration when updating the "Environmental Targets to 2025" document along with the target value of key indicators (decarbonisation index, reducing the environmental impact of production, the percentage of battery electric vehicles (BEV) sold, and the implementation of ECMS - Environmental Compliance Management System).

IN LINE WITH STANDARDS

ŠKODA AUTO proceeds in line with ISO 14001 (environmental management) and ISO 50001 (energy management) standards at all stages of the product life cycle.

The Company introduced the Environmental Compliance Management System (ECMS) aimed at determining and managing environmental risks and opportunities throughout the life cycle of products and services. The ECMS combines general environmental management in line with the globally-valid ISO 14001 standard and the requirements of the management system in the sphere of compliance. For the Company to meet the demands placed on environmentally-responsible operation, all employees undergo training in adherence to regulations on the climate and the environment. These standards apply to large ŠKODA production and development plants and also to smaller companies. The Company stresses these for all activities, products, and services at the Group and its brands. The newly-introduced Product Compliance Management System (PCMS), which is closely linked to the ECMS, is also in place to make sure that all automotive products conform.

EMISSION-FREE FUTURE OF PRODUCTION

The Company places ever-greater emphasis on the use of energy from CO_2-neutral sources in all its activities. Its first roof-top photovoltaic system began life as a supported project - "Installation of low-carbon technology" - on the roofs of the Servicing Centre in Kosmonosy. The facility generates more than 450 MWh of ecologically-obtained energy a year. This covers almost a quarter of the electricity consumption at the Servicing and Training Centre through the new photovoltaic modules. The electricity provided by solar panels is used to run the premises and to charge cars in an environmentally-friendly way contributing to reduction of CO_2 emissions.

In the future, the Company intends to install further solar projects on suitable factory buildings. For this reason, it has agreed with the energy company ČEZ on the construction of the largest roof-top photovoltaic power plant in the Czech Republic. This will be built on the roofs of the ŠKODA Parts Centre and logistics buildings at the main production plant in Mladá Boleslav. Electricity generation will exceed 2,200 MWh, with the project to be completed and connected to the grid in 2022. ŠKO-ENERGO will be responsible for coordinating the project.

The Company also takes a responsible approach to environmental protection at the plants in India, which it has operated since 2019. An example of this is the opening of one of the largest roof-top solar power plants in the Indian city of Pune in November 2019. The facility currently generates 22,000 MWh a year, covers 25% of the plant's total annual electricity consumption, and significantly contributes to the carbon-neutrality of local production.

OTHER MEASURES TO REDUCE AIR EMISSIONS

Volatile organic compounds (VOC) are the most significant pollutant emitted into the atmosphere. The paint shops are mostly accountable for the quantity of VOC emitted. Despite the fluctuating production due to a lack of parts, the emission of these substances was significantly reduced in 2021 to less than one-half of the valid emission limit of 35 g per m^2 of a painted surface.

The Company also focuses on smaller sources of VOC. Another paint shop at the Servicing Centre in Kosmonosy was modernised, while new painting booths at Technical Development also began full operation.

The installation of equipment for the thermal limitation of VOC on the ALD vacuum hardening line at the hardening shop in Mladá Boleslav was also completed in 2021. With an extremely high efficiency of more than 99%, VOC emissions from the hardening process were reduced by more than 2.9 tons in 2021.

Technology at the aluminium foundry was also modified. The original refining booths from which air mass was extracted without prior treatment, were replaced with equipment for degassing and refining aluminium by an effective dry scrubber of particulate pollutants. The modernisation of blasting processes also reduced particulate pollutant emissions.

TRADITIONAL PROTECTION OF SOIL AND WATER

The Company continues to protect water sources and land from pollution. Total water consumption in 2021 stood at 1.35 million m^3, a quantity affected by the repeated interruption of production due to a lack of parts. The Company uses advanced technology in this area that complies with European criteria for the Best Available Technique and reduces water consumption. The Company also cares for how it manages and uses rainwater. Therefore, rainwater from newly-paved surfaces was collected when building the new Central Kitchen.

The Company also places considerable emphasis on the safe handling of substances that could endanger soil or water if allowed to leak. Strict adherence to safety rules is standard; for example, the application of multiple barrier protection. The Company also applies these principles when implementing electromobility plans. ŠKODA AUTO favours substances that are considerate to the environment and applies effective technology to eliminate the production of hazardous substances.

WASTE AS A RESOURCE IN A CIRCULAR ECONOMY

ŠKODA AUTO is actively engaged in applying the principles of a circular economy. The opportunities and ideas of sustainable waste handling are discussed at round tables in multilateral dialogue with suppliers, waste processors, and experts on material flow. Extending the lifetime of the oils used, where the oils are filtered using mobile units directly at the source, is a good example of an integrated approach. Whenever waste is produced during the production process, a waste hierarchy is consistently applied where material and energy use is favoured over dumping. Even in the complicated year of 2021, the Company was able to maintain the situation in which no production waste from Czech plants was dumped.

ŠKODA AUTO now applies the principles of a circular economy to all stages of the new product planning process. One source of inspiration for the future is a project involving the secondary use of batteries in collaboration with a business partner coming from an area of distribution network.

DISCLOSURE PURSUANT TO ACT NO 542/2020 COLL., ON END-OF-LIFE PRODUCTS

ŠKODA AUTO procures the take-back of waste tyres from end customers in the Czech Republic through its authorised service network and other partners. A list of take-back locations is available online: www.skoda-auto.cz/o-spolecnosti/rozsirena-odpovednost-vyrobce. In 2021, almost 1,900 tons of tyres have been taken back under an individual scheme. The majority of such waste has been processed into secondary raw materials suitable for further use, which has reduced the consumption of primary raw materials. Producer registration number: 00052/14-PCZ. The take-back rate in 2021 was 82.1%. The total cost of the take-back of waste tyre processing and recovery in 2021 was CZK 6.4 million. The deposit provided under this law is CZK 2 million. The cost of the take-back is invoiced as a separate item for the product (CZK 30/piece).

LET'S CLEAN UP THE WORLD, LET'S CLEAN UP THE CZECH REPUBLIC

For the seventh consecutive year, the Company was the main partner to the national clean-up campaign known as "Ukliďme svět, ukliďme Česko" (Let's clean up the world, let's clean up the Czech Republic). The campaign runs throughout the Czech Republic and aims to clean up illegal dumps and waste in the countryside. The pandemic year of 2020 aside, Company employees put their efforts into cleaning up the areas around their production plants, as is now the tradition. In 2021, volunteers collected 700 kg of waste in the surroundings of the Company's plants in Mladá Boleslav, Kvasiny, and Vrchlabí.

3,000

IN 2021, MORE THAN 3,000 PEOPLE VISITED ŠKODA AUTO EDU.LAB

SOCIAL SUSTAINABILITY AND SOCIAL RESPONSIBILITY

SOCIAL SUSTAINABILITY STRATEGY

The concept of social sustainability is one of the three pillars of the sustainability strategy. In cooperation with the KOVO Trade Union, the Company has long been devoted to caring for its employees, increasing the attractiveness of the regions around its production plants and to a set of socially sustainable projects, particularly in relation to traffic safety, technical education, support for disadvantaged children, and the development of barrier-free mobility. As is tradition, Company employees involve themselves in a variety of voluntary activities.

The Company established the ŠKODA AUTO Endowment Fund in 2018 to intensify long-term support for the development of the Mladá Boleslav region, which fast became a local strategic partner for development activities, thus expanding its scope of activity into the Kvasiny and Vrchlabí regions in 2021.

TRAFFIC SAFETY

ŠKODA AUTO does not only focus on the safety of the cars it makes. It also supports the development of safe traffic infrastructure and projects aimed at educational and preventive activities at primary and secondary schools.

Hundreds of entertaining talks for children and young people at school were arranged as part of the Safe Friday project, which aims to make Czech roads a safer place. This project is built on more than ten years' experience of experts from the unique traffic safety research team. The team analyses in detail the causes, circumstances, and events of road traffic accidents and assesses how to eliminate, or preferably prevent, their consequences.

ŠKODA AUTO offered its support to the Start Driving project in 2021. The project, run by the Czech Association of Driving Schools, aims to reduce the accident rate by raising the level of knowledge, responsibility, and driving skills among novice drivers. Around 3,000 novice drivers were involved in the project at 88 driving test centres.

BARRIER-FREE MOBILITY

Barrier-free mobility projects are designed to help people with disabilities get affordable mobility in order to make their lives easier and more independent.

The specially-trained dealers at ŠKODA Handy Centres in dealerships throughout the Czech Republic help clients choose the right car and modifications and with applications for government contributions. The Vozejkmap (wheelchair map) information database, created in collaboration with the Czech Paraplegic Association, makes life easier for people with disabilities when planning journeys.

The ŠKODA NEŘÍDIT programme (which translates as "a pity not to drive") aims to provide financial support and motivation to people with disabilities to obtain a driving licence. Since the project was launched in 2018, the Company has supported approximately fifty applicants with a total of CZK 580,000. A complex educative guide and an educational programme ŠKODA NEŘÍDIT on barrier-free mobility in cooperation with partner NGO Cesta za snem (Way to the Dream) was created to maximize the benefits of support for the disabled. In 2021, the Cycling Without Barriers grant programme was newly opened, as part of which people with disabilities can apply for support for the purchase of a handbike, tricycle or modified bicycle.

TECHNICAL EDUCATION

Support for education is deep-rooted in the history of ŠKODA AUTO. The Company runs its own Secondary Vocational School and supports the ŠKODA AUTO University. It also endeavours to help popularise technical subjects by supporting other organisations.

The ŠKODA AUTO EDU.LAB project was established in 2021 – a mobile laboratory in the trailer of a truck aimed at popularising technical education. By visiting the laboratory, primary school pupils could broaden their awareness of modern technology in the sphere of robotics, thermal vision, electromobility, artificial intelligence, virtual reality, and their use in practice. The truck visited more than 3,000 pupils, teachers, and other interested technology parties on its roadshow around the country.

The Company is also a long-term partner to the Science Has a Future programme, which promotes the motivation of teachers at primary schools. At the same time, project activities help popularise science and technical specialisations.

SUPPORT FOR DISADVANTAGED CHILDREN

The tradition of helping children from a disadvantaged background at ŠKODA AUTO stretches back to the days of Laurin & Klement. The current strategy for this tradition primarily involves cooperation with the Tereza Maxová Foundation.

ŠKODA AUTO was the general partner to the Get Moving with Teribear charity event, otherwise known as Fun Movement with the Bear. Some 23,000 people took part in the seventh year of the event, including almost 11,000 children from 261 schools, children's homes, sports clubs, and more than 100 employees, whose efforts raised a total of CZK 10 million. The funds went to help children from disadvantaged backgrounds.

The I'll Get It Going! project is specifically designed to help motivate children from children's homes to get an education, help them with their choice of future occupation, and support children in their relationship with their biological family. In 2021, 131 children participated in the project. Cooperation with the Medical Clown non-profit organisation also continued in 2021. The Company helped the organization maintain its programme of regular clown shows for hospitalised children at 63 Czech hospitals and other special facilities.

SUSTAINABLE DEVELOPMENT OF ŠKODA AUTO REGIONS

Support for the sustainable development of the Mladá Boleslav, Kvasiny, and Vrchlabí regions is a long-term priority at ŠKODA AUTO. It initiates and financially supports a whole range of projects that improve the quality of life of the people that live there in cooperation with local municipalities. The Company invested tens of millions of Czech crowns in priority areas in 2021, such as education, the restart of culture in connection with the Covid-19 pandemic, amateur sport, and the availability of social and health services. Support for clubs and societies, young families with children, and projects that focus on protecting nature are of extreme importance to the Company in all three regions.

ŠKODA AUTO contributed to the work of more than 40 joint projects in cooperation with the town of Mladá Boleslav. Dozens of projects promoted the availability of local social services, and the Company was also a general partner to cultural events in the region in 2021 through its partnership with the town's Culture in Mladá Boleslav organisation. It supported the historical legacy in the region by investing in the revitalisation of regional monuments and reconstruction of the summer house at the Klementinka Social Services Centre, once an orphanage, and its adjacent garden. These grounds were donated to the town of Mladá Boleslav by Václav Klement back in 1935.

Signed in 2015, the Memorandum of Cooperation between ŠKODA AUTO, the Hradec Králové Region, and the Government of the Czech Republic has resulted in significant investment into the region surrounding the Kvasiny plant by way of the Government resolution. The investment primarily supports projects that focus on technical and transport infrastructure in the region. ŠKODA AUTO is a key partner to many of these projects.

An amendment to the resolution in 2021 confirmed funding for the modernisation of the hospital in Rychnov nad Kněžnou. The Company also supported key projects involving a surveillance CCTV system and public lighting in Kvasiny and Solnice.

Local community and civic societies in the Kvasiny region were able to sign up for grants provided by Občanská společnost (Civic Society) with almost twenty projects receiving support. The Company also contributed to the purchase of application chairs for the Oncology Department and helped equip a vaccination centre as part of a long-term partnership with the Rychnov nad Kněžnou Health Endowment Fund. Moreover, it initiated and financially supported a successful shared bike pilot project.

In the Vrchlabí region, ŠKODA AUTO supported more than 20 projects in priority areas that develop clubs and societies, community projects, and conditions for young families with children. Five natural gardens were created in collaboration with primary schools, the local Diaconia Evangelical Church of Czech Brethren, and a retirement home, in that the gardens are used for therapeutic, relaxation, and educational purposes and help support the diversity of plant species. ŠKODA AUTO considers quality education to be one of the essential conditions for the onward development of its activities and to the significant benefit of the Czech Republic as a whole. For this reason, it contributed to the launch of the American Academy Online programme at Krkonoše Grammar School and the start of the Duke of Edinburgh International Award at five schools.

ŠKODA HELPS WHEREVER IT'S NEEDED

ŠKODA AUTO built on the significant projects implemented in 2020 in the battle against the Covid-19 pandemic in 2021. The Company worked with the subsidiary ŠKODA AUTO DigiLab to provide ten cars for hospitals in its production regions to support mobility and an effective vaccination strategy. It also lent the Czech Food Bank Federation ten FABIA COMBI cars to help distribute food to the people in need throughout the Czech Republic.

The destructive tornado in Moravia in June 2021 devastated housing, uprooted fully-grown trees, and wrecked cars. The Company immediately sent 50 cars to the worst-affected areas to help the devastated areas get back on their feet as quickly as possible. Given that bicycles are a highly-effective form of transport in the emergency conditions of a disaster zone, the Company donated 100 brand-new, including electric, bikes to the people most affected at a cost of more than CZK 3 million. Company management and the KOVO Trade Union announced an employee collection, with the Company doubling the money collected. The total amount collected climbed to CZK 8.5 million thanks to the support of KOVO Mladá Boleslav, ŠKO-ENERGO, and Digiteq Automotive. The money was then used to directly support stricken residents and the renovation of the region.

EMPLOYEE COLLECTIONS

Company employees are also involved in charity work through long-term collections with the third round of collections currently underway (2020-2023). Each employee can regularly support the work of up to ten non-profit organisations selected in a Company-wide vote over the four years of the collections. ŠKODA AUTO then doubles the funds donated. Four-fifths of the money that the Company provides is credited to the accounts of non-profit organisations, the remainder is used for social responsibility projects in Pune and Aurangabad in India. Almost 1,600 employees signed up for the collections in 2021 and their donations totalled CZK 4 million. When including the money added by the Company, donations reached CZK 8 million.

ŠKODA TREES

The ŠKODA Trees grant programme was launched in 2007 when the Company decided to plant one tree for every ŠKODA car sold in the Czech Republic. To date, 1.1 million trees have been planted in more than 190 places throughout the Czech Republic, meaning almost 227 hectares of new forest or the area of 347 football pitches. A workshop on the topic of the vitality and the health of trees was organised under the patronage of the Partnership Foundation to mark the occasion of planting the millionth tree in Mladá Boleslav within the grant programme. After reaching the one-million mark, the next two trees were planted in the Vrchlabí and the Kvasiny areas. Trees were also planted locally in various places on World Tree Day, and seminars were held in cooperation with experts on the topic of arboriculture and the issue of afforestation.

ŠKODA AUTO ENDOWMENT FUND

With the help of local ambassadors, the ŠKODA AUTO Endowment Fund again supported strategic projects to comprehensively develop the Company's regions and local civic engagement in 2021.

The Škoda EDU project was launched in autumn. It builds on a previous project that supported the development of primary schools in cooperation with towns and municipalities in the areas around ŠKODA AUTO production plants. This long-term project aims to provide the schools involved with support in their development and transformation into 21st-century education institutes through educational activities. These focus on developing leadership and management skills among school management staff, an innovative approach to teaching, the development of teachers' competencies with the emphasis on IT and STEM subjects and supporting the pupil's creativity and initiative. The activities also aim to fortify cooperation and the know-how sharing between schools in the Czech Republic and on an international level.

The pandemic badly affected culture in 2021, so the Fund decided to support this area with two grant calls within the project The Green Light for Culture. In the grant call The New Vision for Culture, local artists had the opportunity to devise a new vision, form of art, or ideas for how to prepare culture for the modified rules of how society works now. As part of The Forgotten Stories of the Mladá Boleslav Region grant call, residents recalled local history by sharing family, personal and Company memories, which were collected. Selected stories and artefacts were put on public display in the historic Pluhárna factory hall, which, with the contribution of partners from the public and private spheres, is gradually being transformed from a warehouse into a living community and culture centre with shared workshops.

The Endowment Fund also contributed towards the development of shared bicycles. Interest in shared mobility among users resulted in the expansion of the service into other towns in the region and the creation of an interconnected band of alternative mobility: Mladá Boleslav – Bakov nad Jizerou – Mnichovo Hradiště.

The fund built on the successful ŠKODA Gaming Day with the ŠKODA Online Tour project, which aimed to keep children and young people at home during the lockdown. The online battle in PC sports games culminated in the summer with the grand final held in a professional gaming house.

1,100,000

1.1 MILLION TREES HAVE BEEN PLANTED THROUGHOUT THE CZECH REPUBLIC SINCE 2007

GRANT PROGRAMMES

The coronavirus pandemic brought many challenges and changes to all of us. ŠKODA AUTO once again decided to support activities that increase the quality of life and remove barriers in the three regions of the Company's Czech plants. However, this time, the grants provided in support of community life (Here I am Home), limiting social exclusion (Region Without Barriers), improving the quality of education (the Edu Programme for Regions), and increasing traffic safety were announced by the ŠKODA AUTO Endowment Fund. In 2021, 90 projects were supported in grant calls.

CORPORATE GOVERNANCE & COMPLIANCE

Corporate Governance and Compliance endeavours to ensure that the Company is run in a responsible, qualified, and transparent manner that focuses on achieving the long-term success of the Company and protecting the interests of the parties involved.

Corporate Governance is the system used to ensure that the Company is properly managed and supervised. It defines the distribution of rights and duties among the relevant parties, such as shareholders, management, Company bodies, employees, and business partners.

The Company pays particular attention to its duty to observe valid legal and internal regulations. The Company's voluntary commitments to ethical behaviour are also an integral part of its corporate culture. These are comprehensively specified in the Code of Conduct at ŠKODA AUTO Group, which is regularly updated and distributed to all Company employees. These principles and duties apply to all internal and external Company activities. It is in this manner that ŠKODA AUTO ensures that it fully complies with the requirements stemming from legal rules applying to, for example, fair competition, the financial and tax sector, environmental protection, and employee relations including the promotion of equal opportunities and protecting and upholding human rights.

To achieve such compliance, the Company administers and develops a comprehensive and structured Integrity and Compliance Management System, which is an aggregate of all relevant measures, processes, and systems in this area. Particular emphasis is placed on the processes of business partner due diligence, preventing money laundering, HR compliance, and the System for processing concerns in the Company (so-called whistleblowing system). These measures include regularly-updated training. For example, Code of Conduct training, Anti-corruption training, Personal data protection training, Anti-fraud training, Money laundering prevention training, and training for employees involved in the System for processing concerns in the Company.

Also in 2021, the Company paid considerable attention to developing its System for processing concerns in the Company, which provides employees of the Company, the Group, and external parties, with a discreet and reliable way of bringing attention to possible violations of valid legal regulations and/or internal regulations in place at the Company.

Following on from activities in previous years, the Company exerted considerable effort in 2021 on activities connected to applying the principles of integrity in working practice and all relevant processes at the Company. These principles have become an integral part of the priorities, corporate strategy, and sustainability strategy at the Company and a decision-making criterion at all management levels.

The further development of corporate culture has been aided, for example, by targeted development programmes in which adherence to integrity principles was fully anchored. Company employees were also motivated to attend workshops, voluntary activities and participate in voluntary surveys. This allowed them to openly express their opinions regarding the application of integrity principles in their work, in which they were able to share their experience with colleagues.

As in previous years, the above-mentioned themes were also implemented at the subsidiaries and affiliate companies for which the Company is responsible. The relevant activities were undertaken based on the new model of governance in place at those companies, meaning the methodological governance of local organisations, or by way of Service Level Agreements. The scope of these activities increased in 2021, as was the circle of relevant subsidiaries and affiliate companies. In 2021, the Company also continued in the implementation and application of the recommendations of the independent Compliance Monitor, the related development of internal processes, and systematic verification of the effectiveness of the measures taken.

REPORT ON RISKS AND OPPORTUNITIES

2021

THE COMPANY IMPLEMENTED A NEW INTERNAL CONTROL SYSTEM IN 2021, WHICH COVERS KEY INTERNAL PROCESSES

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

STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND THE INTERNAL CONTROL SYSTEM

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

The Company put a new Internal Control System (ICS) in place in 2021 to introduce a process of standardised management controls covering key internal processes. The ICS ensures the execution of ongoing control activities, the quality and expertise of which is guaranteed by anchoring in the common Group methodology. Among the main benefits of the system are the clear determination of competencies and responsibilities within individual internal processes, a high level of transparency across hierarchical structures, and support for understanding the Company as procedurally-oriented.

ŠKODA AUTO also decided to implement Business Continuity Management (BCM) to strengthen its resilience and ability to respond. In general, BCM does not prevent any disruption to business activity but ensures the continuation of fundamental business processes and other processes, which are important in terms of time, at a pre-defined minimum level in the event of a breakdown or when resources are unavailable. This measure aims to have a specific and working "plan B" in place for the most important business processes.

RISKS AT ŠKODA AUTO

ŠKODA AUTO deals with operative risks and the assurance of key processes in its internal control system. Operative risks are primarily considered to be short-term risks that generally pose a threat within a timescale of two years. These are the most significant and urgent situations where counter-measures must be taken. The Governance, Risk & Compliance Division informs the Board of Management at the Company of current threats on a quarterly basis when reporting operative risks. The existing RICORS system for monitoring systematic risks was replaced in 2021 with an internal control system (ICS) that focuses on covering key processes and allocated management controls.

ECONOMIC, POLITICAL, AND LEGISLATIVE RISKS

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

LEGISLATION REGARDING EMISSIONS

One significant risk which ŠKODA AUTO faces is the failure to adhere to the statutory limits for the average values of CO_2 emissions, particularly in the EU Member States, in the United Kingdom of Great Britain and Northern Ireland, in Switzerland, in Norway and in Iceland. Sanctions of EUR 95 for each gram exceeded and per vehicle sold in the relevant calendar year may be imposed by these countries for exceeding the targets approved by the European Union.

In spite of all planned and approved technical measures, achieving the required values comes with a high degree of uncertainty, particularly in 2025 when legislation regarding CO_2 limits will become stricter. Another risk related to CO_2 alongside the failure to comply with legislative targets is the loss of competitiveness, which concerns the required offer of conventional models favourable to CO_2 values and fully or partially electrified vehicles. The situation is similar in other countries and regions. An analysis of the current development of expected CO_2 emissions is regularly presented to the Board of Management as a source of basic information for decision-making on the future product portfolio of models and batteries and their planned quantity in the form of annual or quarterly reports as part of risk management.

DEMAND RISKS

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

PROCUREMENT RISKS

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

FINANCIAL RISKS

Financial risks and the management of such risks are among those which are monitored the most frequently at ŠKODA AUTO. First, in terms of significance, is the risk associated with the development of foreign exchange rates and their impacts on cash flow, financing and the overall economic performance of the Company. The risk and impact of changes in exchange rates are regularly monitored, planned and managed using standard hedging instruments. Members of internal and Group committees discuss and ensure the approval of the products used and the strategies applied. In accordance with IFRS, specifically IFRS 9, the Company maintains hedge accounting for currency risk hedging instruments. The instruments chosen meet the requirements of International Financial Reporting Standards for hedge accounting. Risks arising from procuring aluminium, copper and lead, materials which are bought for the manufacture of products at ŠKODA AUTO, are handled using similar procedures and strategies although the Company keeps these outside the hedge accounting regime from the perspective of IFRS.

Another significant risk is liquidity risk, which is managed using standard procedures and instruments so that it is possible to sufficiently cover activities and obligations for the required period of time. The financial resources in place at ŠKODA AUTO and the resources from the companies of the VOLKSWAGEN Group are the base. The Company manages the export risk using standard hedging instruments, for example, documentary letters of credit, standby letters of credit, bank guarantees and the like.

RESEARCH AND DEVELOPMENT RISKS

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

QUALITY RISKS

The Company places huge emphasis on the risk management system in relation to quality on account of ever-rising competitive pressure, the increasing complexity of production technologies, the high number of suppliers and the use of Group-wide systems. It endeavours to identify and remove as quickly as possible any problems regarding quality from the very first stages of product development to ensure there are no delays in launching production. It also ensures long-term quality and timely supplies from the very start of the supply chain using the risk management system, which helps the Company meet customer expectations. Alongside the ongoing digitalisation of products and processes at the Company, Quality Control continually follows trends in cybernetic security, reliability and ensures that software is up-to-date; for example, identifying the risks associated with these areas on time and minimising these risks in line with UNECE requirements and in collaboration with the competent Company and Group specialised workplaces.

The quality of the products, processes and management system at the Company is audited every year by an independent, accredited certification company. The quality management system certificates successfully retained by ŠKODA AUTO since 1993 guarantee that the processes work. They are also used as input documents for the approval of products, which are then subject to systematic production and operating conformity controls.

To identify deviations in internal procedures and at suppliers on time, the Company continually develops a qualified network of auditors and test engineers, while regional managers regularly update Company management on the status of tests and measurements. ŠKODA AUTO is aware of its responsibility for its products and the Quality Management Division continually monitors the development of customer satisfaction and collates information on the current developments in particular markets. If negative deviations are found, measures are immediately implemented to ensure that any damage is kept to the minimum.

HUMAN RESOURCE RISKS

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

INFORMATION TECHNOLOGY RISKS

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

LEGAL RISKS

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

OTHER OPERATING RISKS

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

The Covid-19 pandemic also hit ŠKODA AUTO hard in the years 2020 and 2021. Not simply in terms of the risk of a drop in demand on all markets, but also the risk of a delay in deliveries from suppliers, or deliveries not being made at all, the risk of staff disruption, and the problems of ensuring smooth production associated with this. Even in this difficult situation, however, the Company was able to respond very quickly and in doing so at least partially mitigate the impacts and other risks, and indeed prepare for other possible scenarios for the development of the pandemic, something which is placing entirely new demands on the Company. For example, how to effectively set up work from home, how to set and adhere to strict hygiene measures, and how to flexibly respond to unexpected situations that the pandemic brings. Such a risk cannot be effectively influenced in its entirety, merely mitigated.

SHORT-TERM AND LONG-TERM OUTLOOK

SHORT-TERM AND LONG-TERM OUTLOOK

The global economy recorded positive growth in the fiscal year 2021 as it gradually recovered from the disruption caused by the Covid-19 pandemic. Global demand for vehicles was up on the previous year. The global economy is expected to continue growing overall in 2022, albeit at a somewhat lower level overall. Global demand for passenger cars will probably vary from region to region and increase moderately year-on-year. With our broad product range, technologies and services, we are well prepared for future challenges in the mobility business.

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

DEVELOPMENT IN THE GLOBAL ECONOMY

Our planning is based on the assumption that global economic output will continue to grow in 2022, albeit at a somewhat lower level overall, after the recovery observed in the 2021 fiscal year – provided that the Covid-19 pandemic does not flare up again and that shortages of intermediates and commodities become less intense. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We assume that both the advanced economies and the emerging markets will experience positive momentum. Furthermore, we are forecasting that the global economy will also continue to grow in the period from 2023 to 2026.

In Western Europe, we expect comparatively robust economic growth, exceeding the 2019 pre-crisis level. The widespread impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom's exit from the European Union will fundamentally pose major challenges.

We likewise anticipate relatively robust growth rates in Central Europe in 2022.

Economic output in Eastern Europe is also expected to continue growing, though at a somewhat slower pace - particularly depending on further developments in the Russian-Ukrainian conflict.

The Chinese economy will probably continue growing at a relatively high level in 2022.

We expect a relatively high rate of expansion for the Indian economy in 2022.

TRENDS IN THE GLOBAL MARKET FOR PASSENGER CARS

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2022. Overall, the global volume of new vehicle sales is expected to be moderately up on the prior year without reaching the pre-pandemic level. This prediction assumes that the Covid-19 pandemic does not flare up again and that shortages of intermediates, especially semiconductors, and commodities become less intense. We are forecasting growing demand for passenger cars worldwide in the period from 2023 to 2026.

For 2022, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly above that recorded in the reporting period. At the same time, however, the possible impact of the pandemic and the still uncertain consequences of the United Kingdom's exit from the EU may result in ongoing uncertainty among consumers and dampen demand. Limited vehicle availability as a result of the semiconductor shortage may also continue to weigh on the volume of new registrations. Nevertheless, we assume a significant increase for the United Kingdom and Spain in 2022. In France and Italy, the markets will probably be slightly higher than the level seen in the reporting period.

Sales of passenger cars in 2022 are expected to exceed the prior-year figures in markets in Central and Eastern Europe. Developments in Russia will depend on further unfolding of the Russian-Ukrainian conflict. In the region's other markets, a slight to significant rise in the number of new registrations is expected.

We estimate that the market volume in China will also be slightly higher than the comparative figure for 2021. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. We anticipate that the Indian market will perform at the previous year's level.

DEVELOPMENT PLANS OF ŠKODA AUTO

ŠKODA AUTO will intensively continue to execute NEXT LEVEL - ŠKODA STRATEGY 2030 and aims to become one of the top five best-selling brands in Europe by 2030, while expanding and becoming the leading European brand in the markets of India, Russia* and North Africa.

The Company will strive to comply with the European Union's emissions and CO_2 standards and the associated portfolio adjustments, which will be broadened further to digital business models and mobility services. The share of electric vehicles in ŠKODA's European sales will rise to 50 to 70% by 2030. By 2030, the Company aims to achieve a CO_2-neutral energy balance at its Czech production sites.

In the coming years, ŠKODA AUTO will continue to place emphasis on innovation, an open and agile corporate culture, enhancing employee qualifications and modern working methods.

* The development in Russia will depend on further unfolding of the Russian-Ukrainian conflict.

FINANCIAL SECTION

Building a better working world

(Translation of a report originally issued in Czech - see Notes to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF ŠKODA AUTO a.s.:

OPINION

We have audited the accompanying financial statements of ŠKODA AUTO a.s. (hereinafter also the "Company") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the balance sheet as at 31 December 2021, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of ŠKODA AUTO a.s. as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

BASIS FOR OPINION

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

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

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

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

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

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

RESPONSIBILITIES OF THE COMPANY'S BOARD OF DIRECTORS AND SUPERVISORY BOARD FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Ernst & Young Audit, s.r.o.

License No. 401

Milan Kočka, Auditor

License No. 1994

4 March 2022

Prague, Czech Republic

A member firm of Ernst & Young Global Limited
Ernst & Young Audit, s.r.o. with its registered office at Na Florenci 2116/15, 110 00 Prague 1 – Nove Mesto,
has been incorporated in the Commercial Register administered by the Municipal Court in Prague,
Section C, entry no. 88504, under Identification No. 26704153.

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

BALANCE SHEET AS AT 31 DECEMBER 2021

Assets (CZK million)	Note	31 December 2021	31 December 2020
Intangible assets	4	48,697	44,600
Property, plant and equipment	5	81,867	85,632
Investments in subsidiaries	6	228	600
Investments in associates	7	2,934	2,356
Other non-current receivables and financial assets	8	10,291	10,196
Deferred tax asset	14	885	1,267
Non-current assets		**144,902**	**144,651**
Inventories	9	31,901	24,516
Trade receivables	8	22,784	31,665
Other current receivables and financial assets	8	3,885	2,500
Current non-financial assets	8	5,333	5,982
Prepaid income tax		236	—
Cash and cash equivalents	10	22,422	18,669
Current assets		**86,561**	**83,332**
Total assets		**231,463**	**227,983**

Equity and liabilities (CZK million)	Note	31 December 2021	31 December 2020
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	78,612	71,372
Other reserves	12	4,629	5,261
Equity		**101,528**	**94,920**
Non-current financial liabilities	13	2,322	2,404
Non-current non-financial liabilities	13	7,017	6,783
Non-current provisions	15	16,757	17,242
Non-current liabilities		**26,096**	**26,429**
Trade liabilities	13	58,230	66,153
Other current financial liabilities	13	1,720	1,376
Current non-financial liabilities	13	14,811	12,576
Current income tax liabilities		—	260
Current provisions	15	29,078	26,269
Current liabilities		**103,839**	**106,634**
Total equity and liabilities		**231,463**	**227,983**

The notes on pages 62 to 107 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

(CZK million)	Note	2021	2020
Sales	**16**	**422,607**	**424,292**
Cost of sales	24	380,689	381,221
Gross profit		**41,918**	**43,071**
Distribution expenses	24	10,287	12,349
Administrative expenses	24	12,271	13,565
Other operating income	17	13,876	12,508
Other operating expenses	18	7,020	12,349
Operating profit		**26,216**	**17,316**
Financial income		2,460	2,842
Financial expenses		1,356	2,295
Net financial result	**19**	**1,104**	**547**
Profit before tax		**27,320**	**17,863**
Income tax expense	21	4,910	2,688
Profit for the year		**22,410**	**15,175**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

(CZK million)	Note	2021	2020
Profit for the year, net of tax		**22,410**	**15,175**
Items that will be reclassified to profit or loss:			
Net fair value gain / (loss) net of tax on financial derivatives designated as hedging instruments	12	(963)	2,297
Items that will not be reclassified to profit or loss:			
Net fair value gain / (loss) net of tax on equity instruments	12	331	(498)
Other comprehensive income / (loss) for the year, net of tax		**(632)**	**1,799**
Total comprehensive income for the year		**21,778**	**16,974**

The notes on pages 62 to 107 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

(CZK million)	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2020	**16,709**	**1,578**	**87,877**	**3,462**	**109,626**
Profit for the year	—	—	15,175	—	15,175
Other comprehensive income / (loss)	—	—	—	1,799	1,799
Total comprehensive income for the year	**—**	**—**	**15,175**	**1,799**	**16,974**
Dividends**	—	—	(31,680)	—	(31,680)
Balance as at 31 December 2020	**16,709**	**1,578**	**71,372**	**5,261**	**94,920**
Balance as at 1 January 2021	**16,709**	**1,578**	**71,372**	**5,261**	**94,920**
Profit for the year	—	—	22,410	—	22,410
Other comprehensive income / (loss)	—	—	—	(632)	(632)
Total comprehensive income for the year	**—**	**—**	**22,410**	**(632)**	**21,778**
Dividends**	—	—	(15,170)	—	(15,170)
Balance as at 31 December 2021	**16,709**	**1,578**	**78,612**	**4,629**	**101,528**

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

The notes on pages 62 to 107 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

(CZK million)	Note	2021	2020
Cash and cash equivalents as at 1 January	**10**	**18,669**	**45,753**
Profit before tax		27,320	17,863
Depreciation, amortisation, impairment loss and reversal of impairment loss of non-current assets	4, 5, 6, 7	26,596	26,251
Change in provisions	15	2,324	8,380
(Gain) / loss of tangible and intangible assets		59	15
Net interest (income) / expense	19	(332)	816
Dividend income	19	(601)	(1,289)
Adjustments for non-cash transactions on derivatives and other adjustments for non-cash transactions		(1,445)	(980)
Change in inventories	9	(7,390)	350
Change in receivables		9,292	(8,794)
Change in liabilities		683	(3,266)
Income tax paid from operating activities		(4,874)	(2,442)
Interest paid		(254)	(300)
Interest received		586	229
Cash flows from operating activities		**51,964**	**36,833**
Purchases of tangible and intangible assets	4, 5	(21,136)	(21,009)
Payment for increase in equity of a subsidiary and associates	6, 7	(6)	(6)
Purchases of available-for-sale financial assets		—	—
Additions to capitalised development costs	4	(12,271)	(12,004)
Proceeds from sale of tangible and intangible assets		22	21
Proceeds from dividends and investments		906	1,289
Cash flows from investing activities		**(32,485)**	**(31,709)**
Net cash flows (operating and investing activities)		**19,479**	**5,124**
Dividends paid	11	(15,170)	(31,680)
Repayments of lease liabilities - principals		(556)	(528)
Cash flows from financing activities		**(15,726)**	**(32,208)**
Net change in cash and cash equivalents		**3,753**	**(27,084)**
Cash and cash equivalents as at 31 December	**10**	**22,422**	**18,669**

Total cash outflow from lease liabilities and from low-value assets leases was CZK 905 million in 2021 (2020: 853 million). For non-cash transactions from investing activities relating to leases under IFRS 16 refer to Note 5.

The notes on pages 62 to 107 are an integral part of these financial statements.

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

(CZK million)	Balance as at 1 January 2021	Cash-effective changes	Non-cash changes - additions	Balance as at 31 December 2021
Lease liabilities - interest	—	(51)	51	—
Lease liabilities - principal	1,839	(556)	197	1,480
Lease liabilities total	**1,839**	**(607)**	**248**	**1,480**

(CZK million)	Balance as at 1 January 2020	Cash-effective changes	Non-cash changes - additions	Balance as at 31 December 2020
Lease liabilities - interest	—	(63)	63	—
Lease liabilities - principal	2,107	(528)	260	1,839
Lease liabilities total	**2,107**	**(591)**	**323**	**1,839**

The notes on pages 62 to 107 are an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS 2021

COMPANY INFORMATION

Foundation and company enterprises

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

Registered office:	tř. Václava Klementa 869, 293 01 Mladá Boleslav, Czech Republic
Identification number:	00177041
Website:	www.skoda-auto.cz

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

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

- Central Management Department
- Finance and IT
- People & Culture
- Procurement
- Production and Logistics
- Sales and Marketing
- Technical Development

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

ŠKODA AUTO a.s. is a subsidiary of VOLKSWAGEN FINANCE LUXEMBURG S.A. included in the consolidation group of its ultimate parent company and its ultimate controlling party, VOLKSWAGEN AG ("VOLKSWAGEN Group"), with its registered office in Wolfsburg, the Federal Republic of Germany (details disclosed in Note 29).

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

1 SUMMARY OF ACCOUNTING POLICIES AND PRINCIPLES

1.1 COMPLIANCE STATEMENT

These financial statements are separate financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2021. Financial statements of the Company, its subsidiaries, and associates are included in the consolidated financial statements of VOLKSWAGEN Group for the year ended 31 December 2021.

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

The Company publishes these separate financial statements as its only financial statements prepared in accordance with IFRS*, and relied on the exemption from consolidation under paragraph 4(a) of IFRS 10 and exemption from applying the equity method in accordance with paragraph 17 of IAS 28. The consolidated financial statements of VOLKSWAGEN Group prepared in accordance with IFRS will be publicly available on the following website after their release at: https://annualreport2021.volkswagenag.com.

The Company publishes only separate financial statements in Collection of Documents of respective court maintaining the Commercial Register based on the exemption from consolidation under provisions of paragraph 22aa Article 1 and 2 Act No. 563/1991 Coll., on Accounting (effective as at 31 December 2021). Consolidated financial statements of VOLKSWAGEN AG and the auditor's report thereon will be published in the Czech language in the collection of documents in the Commercial Register.

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

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

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

1.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS

New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on 1 January 2021

A summary of new standards, amendments, interpretations, and improvements of existing standards for which the Company either are not relevant, or which did not have a material impact on its separate financial statements.

IFRS, Interpretation	Effective in EU
IFRS 4 – Insurance Contracts Exemption from Applying IFRS 9.	1 January 2021
Interest Rate Benchmark Reform (IBOR) – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.	1 January 2021
IFRS 16 – Leases Covid-19-Related Rent Concessions after 30 June 2021 An extension of the amendment to IFRS 16 provides an optional practical expedient for lessees from assessing whether a rent concession related to Covid-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications.	1 April 2021

New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on 1 January 2021

The following standards, amendments and interpretations to existing standards will not be relevant for the Company or will have no material impact on the separate financial statements of the Company. The Company expects their application at the same time as the effective date in the European Union

IFRS, Interpretation	Effective in EU
IAS 16 – Property, Plant and Equipment Proceeds before Intended Use Amendments to IAS 16 in part Proceeds before Intended Use amend the standard to prohibit deducting from the cost of a PPE any proceeds received from selling items produced by the PPE before it is ready for its intended use. The sales proceeds would have met the revenue definition and therefore should be recognised in profit or loss.	1 January 2022
IAS 37 – Provisions, Contingent Liabilities and Contingent Assets Onerous Contracts-Cost of Fulfilling a Contract The changes specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Such costs can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.	1 January 2022
IFRS 3 – Business Combinations Reference to the Conceptual Framework Amendments updating the Reference in the standard to the Conceptual Framework for Financial Reporting, without changing the requirements for Business Combinations.	1 January 2022
IAS 1 – Presentation of Financial Statements Presentation of Financial Statements The amendment to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Disclosure of Accounting Policies Amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. An entity is required to disclose its material accounting policy information instead of its significant accounting policies.	1 January 2023*
IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors Definition of Accounting Estimates Amendments estimates to help entities to distinguish between accounting policies and accounting estimates. Changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively.	1 January 2023*
IAS 12 – Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction Amendments provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.	1 January 2023*
IFRS 17 – Insurance Contracts The new standard represents a complete overhaul of the accounting for insurance contracts. It establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features that an entity issues.	1 January 2023
IFRS 17 – Insurance Contracts Initial Application of IFRS 17 and IFRS 9 — Comparative Information An amendment that enables companies to improve the usefulness of the comparative information presented on initial application of IFRS 17 and IFRS 9.	1 January 2023*

* Not adopted by the European Union as at 31 December 2021 (this date represents the effective date under the IASB).

1.3 THE COVID-19 PANDEMIC AND ITS EFFECTS ON REPORTED DATA

The global Covid-19 pandemic adversely affected the Company's financial condition and performance in last two years. While in 2020, the pandemic resulted mainly in a global decline in demand for new cars and a complete shutdown of production at the Company's production plants due to global lockdown, in 2021, the Company's deterioration in performance was mainly due to supply chain issues. The performance of the automotive industry was negatively impacted by the lack of supply of semiconductors and other components in 2021.

To mitigate the effects of the pandemic, the Company's management has taken several measures since 2020, in particular in the area of cost savings, capital expenditures and optimizing of working capital. The lack of semiconductor supply caused a significant reduction in car production at the Company's manufacturing plants, which caused a decline in sales. The production curtailment also resulted in an increase in personnel costs which, together with the decline in sales, had a material impact on financial performance, resulting in the Company experiencing a 0.4% year-on-year decline in sales (2020: 7.6%). Furthermore, the shortage of semiconductors was reflected in the Company's current asset structure as a year-on-year decrease in finished goods and a simultaneous increase in raw materials and work-in-progress inventory (see Note 9), which led to additional storage costs.

At the time of preparation of the financial statements, the Company's management assumes that the effects of the pandemic are only temporary and will not have a significant negative impact on the Company's financial position and performance in future periods. The medium- and long-term strategic objectives remain valid, the Company will continue the model offensive.

In assessing the entity's ability to continue as a going concern, the Company's management assumed the temporary nature of the pandemic. The output of the assessment is the confirmation of the Company's ability to continue its activities to the extent originally planned.

Furthermore, the Company assessed the possible impairment of its assets. The Company's assumption that the pandemic will not have permanent negative impact on long-term results has been taken into account in all parameters included in the calculation when determining the value in use of assets. Details of the tests performed in 2021 and the calculation parameters are disclosed in Notes 4 and 5.

Fluctuations in exchange rates on global foreign exchange markets due to the ongoing Covid-19 pandemic did not have a negative impact on the Company's results of operation unlike in 2020, where significant fluctuations negatively impacted the Company's profit of CZK 3,351 million.

The Covid-19 pandemic and supply chain issues also caused an adjustment to the foreign exchange plan with implications for the Company's hedge accounting. A part of future planned cash outflows and inflows from forecast transactions was postponed, for another part of cash flows their realization was assessed as highly unlikely, with the transaction no longer expected. Taking into account the specific situation, hedge accounting activities were either suspended or cancelled and derivatives were reclassified as held for trading. Despite the above facts, the effects on hedge accounting were not significant. Due to the ineffectiveness of the hedging relationship for selected derivative transactions, a net deduction of the gain from other comprehensive income to other operating income in the amount of CZK 160 million occurred in 2021. (In 2020, there was a one-off loss write-off of CZK 263 million). Details on the ineffectiveness of hedging are disclosed in Note 12.1.

Furthermore, the Company assessed the risk of possible losses caused by the pandemic that could result from existing long-term contracts, while the Company has not identified any significant indicators leading to the creation of a provision for onerous contracts. In the context of the deterioration of the overall economic situation caused by the pandemic, the global shortage of semiconductors in the market, the volatility of the production program, the increase in the prices of input materials, energy and inflation, the Company identified risks that were taken into account by making provisions for purchase risks. Further information is provided in Note 15.

The Company has also made appropriate amendments to its historical loss rates under the simplified approach to receivables impairment to reflect both the current economic environment and also forward-looking element. More information on rate adjustments is provided in Note 2.5.1.2.

In 2021, the Company did not draw any government grant triggered by the Covid-19 pandemic. Due to the measures related to the pandemic, which led to barriers to work on the part of the employer, the Company received government grants in 2020 under the "Antivirus program". For more information refer to Note 22.

1.4 FUNCTIONAL CURRENCY ANALYSIS AND ITS IMPACT ON CURRENCY RISK HEDGING

The Company operates primarily in the economic and legal environment of the Czech Republic, but as a result of its foreign activities it is also exposed to the influences of other economic environments. The Company is mainly influenced by the economic and legal environment of the Eurozone which is a source for substantial part of its sales and from which a significant part of purchases of raw materials and parts to ensure the production of cars is also made.

In 2021, the Company's management assessed the ratio of currencies that mainly affect and will in the near future affect the selling prices of goods and services and the currency mix of costs in a regular analysis. The Company's management took into account all indications and trends in the primary economic environment that could affect its functional currency in the near future. The most significant indicator considered were the future purchases of parts denominated in EUR, which are related to the increasing battery production.

The results of the analysis confirmed CZK as the functional currency for the accounting period ended 31 December 2021. The evaluation of the time series of significant indicators (especially the mutual ratio of individual currencies represented in sales and purchases) showed that the Company is gradually moving towards the functional currency EUR. It is highly probable that the gradually increasing volume of purchases of battery modules denominated in EUR will already significantly affect the ratio of currencies on the cost side in favour of the EUR in 2023. Based on the above results of the analysis, the Company's management considered a possible change in the functional currency and made a decision on 24 August 2020 to change it on 1 January 2023. This decision was based on the best possible estimate of future development of all assessed indicators linked to the primary economic environment on the date of its adoption. The development of indicators is closely monitored by the Company and the decision is reviewed at regular intervals.

Adjustment of the currency risk hedging strategy
Following the above decision to change the functional currency, the Company's management has also identified a change in the definition of currency risk for the accounting periods beginning from 1 January 2023 onwards. Currency risk was newly defined after this date as the risk arising from changes in exchange rates against the EUR.

In 2020, the Company started to hedge its future foreign currency sales and purchases for the accounting periods beginning 1 January 2023 onwards using derivative transactions contracted in EUR and continued to hedge risk of foreign currency movements against EUR also in 2021. In 2020, the Company performed a close out of a part of the existing hedges, namely derivative transactions contracted in CZK with a maturity date after 1 January 2023. The accounting policy for the "close out" is set out in Note 2.5.3. Early termination of derivative transactions led in 2020 to the recognition of the losses from financial instruments in the Company's other operating income in the amount of CZK 29 million and net gains in the other comprehensive income in the amount of CZK 96 million.

For newly contracted derivatives to hedge the risk of changes in exchange rates against the EUR, the Company applies hedge accounting, except for foreign exchange forwards relating to commodity swaps that are recorded in the trading regime. In the tax area, all financial derivatives hedged against changes in exchange rates against the euro are recorded in the trading regime, which leads to temporary differences and effects on deferred tax.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

2.1 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency in the accounting period ended 31 December 2021 (31 December 2020).

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

2.2 INTANGIBLE ASSETS

Purchased intangible assets are recorded at cost less cumulative amortisation and impairment losses. All research costs are recognised as expenses within the income statement when incurred. In accordance with IAS 38, all development costs of new ŠKODA models and other products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility, and costs can be measured reliably and unless the cash-generating unit (see Note 2.4) to which the relevant intangible assets can be allocated is fully amortized. Capitalised development costs and other internally generated intangible assets are carried at cost less accumulated amortisation and impairment losses. If the criteria for recognition as an asset are not met, the costs are recognised in the income statement in the year in which they are incurred. Tooling rights are capitalised as intangible assets. These are rights to use “common tools” (various specific machines, tools, moulds for casting or shaping, dies, etc.), which are used for the production of parts for cars of VOLKSWAGEN Group. 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	2–9 years according to the product life cycle
Software	3–5 years
Tooling rights	2–8 years according to the product life cycle
Other intangible fixed assets	3–8 years

Estimated useful lives and amortization method are reviewed on a regular basis, the effect of any changes in estimates are accounted for prospectively.

Intangible assets not yet available for use and intangible assets with indefinite useful lives are tested annually for possible impairment and are carried at cost less accumulated impairment losses. To determine the return on these intangible assets, the higher of their value in use and fair value less costs to sell the cash-generating unit to which the relevant intangible assets can be allocated is used (see Note 2.4). Intangible assets are derecognised on sale or when no future economic benefits from individual intangible assets are expected from their use or sale. The gains or losses arising from derecognition of an intangible asset, which are determined as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the assets are derecognised.

2.3 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are stated at historical cost less cumulative depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

All repairs and maintenance costs are charged to the income statement during the reporting period in which they are incurred. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

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

Buildings	9–50 years
Technical equipment and machinery (incl. special tooling according to the product life cycle)	3–18 years
Other equipment, operating and office equipment	3–23 years
Means of transport	5–25 years

Estimated useful lives and depreciation method are reviewed on a regular basis, the effect of any changes in estimates are accounted for prospectively.

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

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

2.4 IMPAIRMENT OF ASSETS

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

Assets are grouped at the lowest levels for which are separately identifiable cash inflows (cash-generating units) for purpose of impairment assessment. Due to the regulation of performance standards of emission limits, the individual models of the Company are to a large extent interdependent and the cash-generating unit is established at the level of tangible and intangible assets used for the automotive-related business of the Company at the brand level.

2.5 FINANCIAL INSTRUMENTS

2.5.1 FINANCIAL ASSETS

2.5.1.1 CLASSIFICATION AND MEASUREMENT

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

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

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

Within debt instruments, the Company classifies financial assets into the following categories:
(a) Financial assets subsequently measured at amortised cost determined using the effective interest method
(Financial assets at amortised costs);
(b) Financial assets measured at fair value with changes in fair value included in other comprehensive income
(Financial assets at fair value through other comprehensive income);
(c) The financial assets measured at fair value with change in fair value included in profit or loss
(Financial assets at fair value through profit or loss).

Financial assets at amortised cost (portfolio AC)
In this category, the Company presents debt instruments, which are held under a business model, which aim is to collect all contractual cash flows and which also have contractual cash flows representing solely principal and interest on the outstanding principal. Subsequently, they are measured at amortised cost, as determined by the effective interest rate method (hereinafter the amortised cost). During the accounting period 2021 (2020), the Company had in this category other receivables and financial assets (refer to Note 8.1), trade receivables (refer to Note 8.2), deposits in VOLKSWAGEN Group companies and cash. Deposits in VOLKSWAGEN Group companies are included in cash equivalents (refer to Note 10).

Financial assets at fair value through other comprehensive income (portfolio FVOCI)
In this category, the Company presents debt financial instruments if they meet both of the following conditions: (a) they are held within a business model aimed at both to collect contractual cash flows and to sell financial assets (b) which have contractual cash flows representing solely principal and interest on the outstanding principal. They are measured at fair value through other comprehensive income. During the accounting period 2021 (2020) the Company had in this category investments in the equity instruments of other entities (refer to Note 8.1).

Financial assets at fair value through profit or loss (portfolio FVPL)
Within this category, the Company classifies all other debt instruments, which cannot be classified in the above-mentioned categories. These financial assets are held for trading purposes or their contractual cash flows do not represent solely payments of principal and interest on the principal amount outstanding. Subsequently, they are measured at the fair value through profit or loss. Within the debt instruments, the Company had only trade receivables in this category that were held for sale through factoring arrangement during the 2021 (2020) accounting period (refer to Note 2.18). The realised and unrealised losses from the changes in the fair value of these receivables were included in the financial expenses in 2021 (2020).

Derivatives are classified in category FVPL, provided that they do not meet the conditions of hedge accounting. During the accounting period 2021 (2020), the Company had receivables from trading derivatives in this category (refer to Note 2.5.3). The realised and unrealised gains and losses from changes in the fair value of financial derivatives held for trading were included in other operating income or other operating expenses in 2021 (2020).

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

In this category, the Company only held investments in equity instruments (refer to Note 8.1) that did not have an observable price in an active market in 2021 (2020).

2.5.1.2 IMPAIRMENT

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

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

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

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

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

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

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

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

The Company applies the following steps to estimate impairment allowances using the simplified approach. The Company first divides its individual trade receivables into groups of receivables with similar credit risk characteristics. The Company identifies the most important factors driving the credit risk of each group. In the second step, the Company establishes a historical loss rate for each group with similar credit risk characteristics. This rate is based on past 3 consecutive accounting periods. In the next step, the Company determines the expected loss rate for each group of receivables, which is further divided into subcategories based on the number of days past due (e.g. the loss rate for receivables that are not due, the loss rate for receivables 1–30 days past due, loss rate for receivables 31–60 days past due, etc.). When determining the expected loss rate, the Company takes into account whether the historical loss rates were incurred under economic conditions that correspond to the expected conditions during the exposure period of the given portfolio of receivables at the balance sheet date. In 2021, the Company adjusted its historical loss rates by an expert estimate to more faithfully reflect current and future reality, namely the increased level of credit risk of receivables in the economic environment affected by the global pandemic.

In the last step, the Company calculates the amount of impairment allowances based on the current gross amount of receivables multiplied by the expected loss rate.

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

2.5.1.3 DERECOGNITION

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

2.5.2 FINANCIAL LIABILITIES

CLASSIFICATION

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

The Company classifies financial liabilities into the following categories:

a) Financial liabilities measured at fair value through profit or loss
Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities at fair value through profit or loss were included in the other operating income in 2021 or in the other operating expenses. During the accounting period 2021 (2020), the Company only had financial derivatives in this category (Note 2.5.3).

b) Financial liabilities measured at amortised cost
Financial liabilities are measured at fair value net of transaction costs at initial recognition. Subsequent measurement is at amortised cost by applying the effective interest rate method. In this category, the Company recognizes lease liabilities, for which specific valuation procedures apply at initial recognition. Such procedures are described in Note 2.13.

DERECOGNITION

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

2.5.3 FINANCIAL DERIVATIVES

The Company uses derivatives to hedge currency and price risks. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument or instrument held for trading. The Company designates as hedging instruments only those which fulfil the requirements of hedge accounting. The Company uses derivatives to hedge future cash flows. The hedged items in this case are highly probable future transactions.

The Company hedges against changes in cash flows from highly probable future transactions caused by changes in foreign exchange spot rates. The Company is using foreign currency forwards and swaps to hedge this risk. Based on the foreign currency plan, the Company determines the amount that is intended to hedge for a foreign currency risk (the so-called nominal value) and hedges 100% of its value. (The nominal value of a financial derivative corresponds to the nominal amount of the hedge item).
The established hedge ratio is therefore 100%.

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

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

The changes in the spot component and the changes in the forward component of currency financial derivatives that qualify as effective cash-flow hedging instruments are recognised in other comprehensive income. Hedge ineffectiveness is recognised in profit or loss.

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

If the timing of the hedged cash flow is deferred, in compliance with its hedging strategy the Company prolongs the maturity of the original hedging instrument only for hedges where a hedge item does not result in recognition of a non-financial asset. The Company transfers the amount from the cash flow hedge reserve in equity and includes it directly in the initial cost of the non-financial asset when a non-financial asset is recognised.

When a hedging instrument expires or is sold, or is early terminated (closed out) or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss arising on the hedging instrument previously recognised in other comprehensive income from the effective part of the hedging instrument remains there until the original forecasted transaction is ultimately recognised. The Company then proceeds according to the rules defined above. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement. The Company economically hedges a commodity risk using commodity swaps, however, its hedge accounting is not used. The changes in fair value of commodity swaps that do not qualify as effective cash-flow hedging instruments are recognised in the income statement and classified as a gain or loss.

If a trading derivative is early terminated (closed out), the value from the settlement is recognized immediately in the income statement and classified as income or expense for the period. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as the net present value of future cash flows. The fair value of currency forwards and swaps is determined as the present value of future cash flows based on forward exchange market rates as at the balance sheet date. The fair value of commodity swaps is calculated as the present value of future cash flows based on the rates of LME (London Metal Exchange).

2.5.4 OFFSETTING OF FINANCIAL INSTRUMENTS

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

2.6 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

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

The subsidiaries directly controlled by the Company as at 31 December 2021 (2020) (see Note 6):

- ŠKODA AUTO Slovensko s.r.o. (100%);
- ŠKODA AUTO DigiLab s.r.o. (100%);
- UMI Urban Mobility International Česká republika s.r.o. (100%);
- ŠKODA AUTO DigiServices s.r.o. (100%).

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

The Company had significant influence as at 31 December 2021 (2020) in the following associates (see Note 7):

- OOO Volkswagen Group Rus;
- ŠKO-ENERGO FIN, s.r.o.;
- ŠKO-ENERGO s.r.o.;
- Digiteq Automotive s.r.o.;
- SKODA AUTO Volkswagen India Private Limited.

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

Impairment
The Company determines at each reporting date whether there is objective evidence that the value of share on equity of subsidiaries and associates is impaired. In the event of impairment (or reversal of impairment) of investments in subsidiaries and associates, the impairment loss (or gain on reversal of impairment) is presented in the income statement in financial result.

2.7 CURRENT AND DEFERRED INCOME TAX

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

2.7.1 CURRENT INCOME TAX

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

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

2.7.2 DEFERRED INCOME TAX

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

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

In accordance with IAS 12, deferred tax assets and liabilities are offset, where the Company has the enforceable right to offset the current tax assets and liabilities and if the deferred tax assets and liabilities relate to income taxes levied by the same tax authority. Deferred tax assets and deferred tax liabilities from lease transactions are initially recognised on gross basis refer to Note 14 and offset later at balance sheet level.

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

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

2.8 INVENTORIES

Purchased inventories (raw materials, consumables, supplies and materials used in production, goods) are stated at the lower of cost and net realisable value. Costs include purchase costs and other acquisition costs (e.g. transport and packaging) and hedging effects (see Note 2.5.3).

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

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

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

2.9 CASH AND CASH EQUIVALENTS AND CASH FLOW STATEMENT

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

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

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

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

2.10 PROVISIONS FOR EMPLOYEE BENEFITS

PROVISIONS FOR OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

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

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

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

2.11 OTHER PROVISIONS

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

Where there is a number of similar obligations, the likelihood that an outflow occurs upon the settlement is determined by considering the class of obligations as a whole.

2.12 REVENUE AND EXPENSE RECOGNITION

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

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

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

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

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

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

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

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

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

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

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

2.13 LEASES

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

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

For a contract that contains more than one component, the consideration is allocated to the both a lease and a non-lease components on the basis of their relative standalone prices.

Short-term leases (leases for which the lease term is less than 12 months and cannot be extended) and leases of low-value assets are charged to profit or loss on a straight-line basis over the lease term (see Note 24). Assets with an acquisition cost of less than EUR 5,000 (i.e. translated as at 31 December 2021: CZK 124,300) when new are considered to be low-value assets by the Company.

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

Lease liability
At the date of commencement of the lease, the Company recognises a lease liability at a present value of future lease payments not settled at that date and which include:
a) fixed payments less any lease incentives receivable;
b) variable lease payments depending on an index or a rate;
c) amounts expected to be paid by the Company under residual value guarantees;
d) the exercise price of a purchase option if it is reasonably certain that the Company will exercise the option;
e) penalties for the termination of a lease, provided that the lease term reflects the fact that the Company will exercise the option to terminate the lease.

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

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

Refer to Note 13.1 for further information on lease commitments.

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

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

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

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

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

2.14 SUBSIDIES AND GOVERNMENT GRANTS

Subsidies of entrepreneurial activities, employee training, retraining costs and extraordinary government grants are recognised as a reduction of the costs for which they were intended to compensate. Government grants, including non-monetary grants related to the purchase of tangible and intangible assets, are recognised at fair value as reduction in the value of tangible and intangible assets. The Company recognizes a grant when it has an undisputable entitlement to the grant under the specific terms of each grant.

2.15 RELATED PARTIES

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

2.16 EQUITY

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

2.17 SHARE-BASED PAYMENTS

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

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

Middle management
Share-based payments consist of an annual target amount (so called "bonus base") adjusted for the effects of the performance of VOLKSWAGEN AG's preferred shares. Each manager is assigned an annual target amount (so called "bonus base"). The resulting payment amount corresponds to the value of bonus base multiplied by the average EPS* for previous three accounting periods and share price development over three years including dividends. The value of the performance of shares is calculated as the ratio of the share price at the end of the period plus dividends and the share price at the beginning of the period. Each performance period lasts for three years. The bonus payouts are capped to 200% of the target amount. Cash settlement is performed once a year in the period following the accounting period for which the bonus is granted.

Share-based payments settled by cash are recognized as liabilities until the payout. In accordance with IFRS 2, Share-based payment liabilities are accounted for as cash-settled shares. Costs are allocated to the period of performance and are recognized in the income statement in administrative expenses and detail is disclosed in Expenses by nature – additional information (Note 24) in the line Personnel costs.

*EPS Earnings per share

2.18 FACTORING

The Company had contractual arrangements in place in 2021 (2020) which may be referred to as customer financing or receivables financing arrangements. Selected receivables from foreign customers are assigned by the Company under a non-recourse factoring agreement to the factoring companies of the VOLKSWAGEN Group, namely Volkswagen International Belgium SA (VIB) and Volkswagen Finance Belgium S.A. The factoring companies assume the full risk of insolvency of the original customer/debtor. The Company derecognises the receivables at the time of assignment. The factoring fees, which consist of a fee for the receivables management service including a margin, the assumption of the risk of default and for financing (interest), are included in the Company's financial result at the time of assignment. Outstanding assigned receivables are recognised in Trade receivables.

The Company assigns receivables from domestic customers who are not part of the VOLKSWAGEN Group to the Group company ŠkoFIN s.r.o. under a non-recourse factoring agreement, but at the same time, based on the "delcredere risk" agreement, which defines the principle of risk sharing between the Company and the factor, the Company is exposed to partial risk due to non-payment of the receivable by the original debtor. The Company derecognises the receivables at the time of assignment, disclosing in Notes to the separate financial statements qualitative and quantitative information on its continuing exposure, see section 3.1.6. The factoring company's commissions are included in the Company's financial result at the time of their settlement by the factor. Outstanding assigned receivables are recognised in Trade receivables.

In 2021 (2020), the Company did not have any contractual arrangements that can be classified as vendor financing (reverse factoring).

2.19 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. As a result of the global Covid-19 pandemic, the Company's management had to make significantly more judgments in 2021 (2020), while also working with a higher degree of uncertainty than in the previous accounting period. The basic premises on which the Company's management based its estimates and assumptions in 2021 (2020) concerning the future are set out in Note 1.3.

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.

GOING CONCERN ASSUMPTION

With regard to the global impact of the Covid-19 pandemic on the economic environment, the Company's management assessed in 2021 (2020) its ability to continue as a going concern. In making this assessment, the management has taken into account all current and expected effects of the pandemic on the entity's activities, including the expected impact on liquidity and profitability. The management has considered all information available about the future that has been obtained at and after the reporting date up to the date of preparation of these financial statements. The results of this assessment are set out in Note 1.3.

IMPAIRMENT OF NON-CURRENT ASSETS

In the course of the product life cycle and in exceptional situations also before its commencement, there may be circumstances which indicate that "cash-generating units" (see Note 2.4) might have suffered impairment. To determine any possible impairment, the Company estimates value in use of the cash-generating units which is calculated as discounted expected future cash flows generated by the business attributable to each cash- generating unit. For determination of the estimated future cash flows, the Company applies estimates and assumptions regarding future sales of its products, economic development of the individual markets and development of the automotive industry during the next five or more years.

Although the Company estimates the value in use of the cash-generating units based on the best information and data currently available to the Company, the risk of future changes and uncertainty with respect to the future development of the applied assumptions in the following years remains significant. More detailed information about impairment losses is included in Note 4 and Note 5 in the section Impairment reviews.

VALUATION OF INVESTMENT AT FAIR VALUE

The Company holds equity instruments of another entity that fall within the scope of IFRS 9. The investment is measured at the fair value at the balance sheet date. The Company intends to hold it as the long term investment, therefore the Company classifies it as fair value through the other comprehensive income and reports unrealized gains and losses from its revaluation in other comprehensive income. The fair value of the investment is determined as the present value of future free cash flow (FCF) using a discount rate derived from the weighted average cost of capital of the Company (WACC). In determining the fair value of an investment, the Company considers the following significant unobservable inputs: business planning assumptions (e.g., cash flows from operating activities); the growth rate of the industry used to estimate free cash flows after the end of the planning period and the discount rate. In estimating the future cash flows of an entity in which equity instruments have been invested, the Company works primarily with expectations and assumptions about future sales of its products and the future development of the economic environment in which the entity operates.

Although the Company prepares an estimate of the fair value of the investment based on the best available information and data currently available, the risk of future changes and uncertainty about the further development of the assumptions used in the coming years remain significant. More detailed information on measuring this investment at fair value refer to Note 8.

VALUATION OF INVESTMMENT AT COST

Investments in subsidiaries and associates are carried in the separate financial statements at cost less impairment loss. The Company tests subsidiaries and associates for which projected performance indicates a possible impairment loss. The carrying amount of the investment in the tested subsidiary or associate is compared against its recoverable amount. In determining the recoverable amount of the financial investment, the Company considers the following significant unobservable inputs: assumptions relating to corporate planning (e.g. cash flows from operating activities); the industry growth rate used to estimate free cash flows after the end of the planning period; and the discount rate. Although the Company prepares its estimate of the recoverable amount of the financial investment based on the best information and data available to it at the time, the risk of future changes and uncertainty regarding the future development of the assumptions used in subsequent years remains significant.

PROVISION FOR WARRANTY CLAIMS

The Company recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 or 3 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially good-will repairs and service actions. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line. Provision for extraordinary service actions is recognized at the time of identification of a technical defect in relation to the number of cars sold and the respective estimated rates set for the elimination of defect.

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 on the basis of the development of the guarantee costs for corrosion and the extrapolation of these costs for the relevant period.

The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair trademark policy with regard to specifics of individual countries. The amount of the provision for service actions is determined on the basis of a management estimate, particularly of material, personnel and possible other expenses necessary for eliminating the defects. The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end. More detailed information about the provision for warranty claims is included in Note 15.

PROVISION FOR LITIGATION RISKS

Certain events relating to the economic activities of the Company might result in disputes resolved in court and out-of-court proceedings. The risk that future cash outflows will be required to settle the claim (damages, court fees, etc.) is assessed by the Company once it becomes involved in any court or out-of-court proceedings. The risk is assessed based on the Company's experience with similar legal actions, reflecting the latest developments in the proceedings. A provision is recognised if it is more likely than not that an outflow of economic benefits will occur in the future (the risk is assessed as medium or high). The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 15 for additional information. If the risk is assessed to be low (possible but not remote), the Company discloses further information on litigation risks under contingent liabilities. Information on contingent liabilities is disclosed in Note 27.

PROVISION FOR PURCHASE RISKS

The provision for purchase risks is recognized for future probable expenses from open business negotiations, which are mainly caused by the global economic situation in the supply chain related to input prices, material supply disruptions and volatility of the production programme. The estimate of the provision is updated on an ongoing basis taking into account model and special equipment production limitations, input price increases, energy price developments and inflation.

PROVISION FOR COVERING EMISSION EXPENDITURES

The risk of future expenditure on fees for exceeding the permitted emission limits arose from the adoption of Regulation 2019/631 of the European Parliament and of the Commission of 17 April 2019 setting CO_2 emission performance standards for new passenger cars and new light commercial vehicles (hereinafter EU Regulation). With effect from 1 January 2020, this EU Regulation sets the mass-dependent target of average emissions to 95 g CO_2/km for new passenger cars registered in the EU.

This mass-dependent target is converted to the new WLTP* emission cycle from 2021. This target will be gradually reduced in the following years, by 15% from 2025 and by 37.5% from 2030. Under the current proposal for an EU-wide agreement on climate targets (Green Deal), the target for average emissions from new passenger cars registered in the EU is to be tightened to 55% from 2030 compared to 2021.

*WLTP =Worldwide Harmonized Light-Duty Vehicles Test Procedure is a globally agreed test standard for the measurement of light-duty vehicles and describes new rules for determining the fuel consumption of cars

Car manufacturers whose average emissions will exceed the set limits will be subject to an excess emissions fee. In Europe, the amount of the fee was set at EUR 95 for each gram that exceeded the permitted emission limit, multiplied by the number of vehicles sold in the EU from 1 January to 31 December of the given year.

VOLKSWAGEN Group companies, which had to comply with the above-mentioned EU regulation, concluded an association agreement (so-called emission pool) in 2020, which allows for the sharing of emission targets in order to achieve synergies from excess emissions fees savings. The emission pool has a commitment to meet the EU targets directly to the EU institutions. Based on the act of concluding the contract, the Company became a part of the above-mentioned emission pool and has a contractual obligation to it. Within the emission pool, the external CO_2 target of the whole emission pool is monitored separately with respect to the commitments to the EU and the internal commitments and claims among the individual pool members. The internal settlement between the individual members of the emission pool is done at a reduced rate per gram corresponding to the actual cost structure of the potential CO_2 reduction measures.

The Company recognises a provision for covering emission expenditures based on registered sales of new cars in the EU at the moment when the expenditure is probable and the Company will realize the outflow of economic benefit due to the settlement of the obligation to the emission pool. The Company recognises a provision in the amount of the best possible estimate of future expenses due to exceeding the permitted emission limits monitored at the level of the emission pool, which are allocated to the Company. In estimating the amount of the provision, the Company considers not only expected assumptions regarding registered sales of its own products, but also expected assumptions regarding registered sales of products of other manufacturers associated in the emission pool, which brings a higher degree of uncertainty in estimating the provision amount.

Further information on this provision is disclosed in Note 15.

OTHER PROVISIONS

Due to own economic activities in various countries, the Company is mainly affected by the impacts of the transnational tax customs environment, which brings tax and customs risks and uncertainty resulting from different interpretations and applications of tax and customs legislation. The risk is assessed based on the Company's experience with similar cases, reflecting the actual circumstances. A provision is recognised if it is more likely than not that an outflow of economic benefits will occur in the future. The provision is measured based on the best estimate of the expected future cash outflows. Please refer to Note 15 for additional information.

USEFUL LIVES

The estimated useful lives of individual tangible and intangible assets or classes of assets are determined based on the Company's experience with similar assets and in accordance with the expected future economic benefits of the assets, taking into account also changes in production plan and expected utilisation of these assets.

Intangible assets show the highest uncertainty in estimating the useful life. Net book value of intangible assets was CZK 48,697 million as at 31 December 2021 (as at 31 December 2020: CZK 44,600 million). Average useful life of intangible assets was 6 years in 2021 (in 2020: 6 years).

FUNCTIONAL CURRENCY

Items included in the Company's financial statements are measured in accordance with IAS 21 using the functional currency. The functional currency means the currency of the primary economic environment in which the entity operates. The Company operates primarily in the economic environment of the Czech Republic, but as a result of its foreign activities it is exposed also to other economic environments. The Company regularly performs analyses of the functional currency criteria in accordance with IAS 21. When determining the functional currency, the Company's management follows the general definition and other supporting criteria. In particular, it monitors the proportion of currencies that have a major impact on the selling prices of goods and services and evaluates the currency mix of costs. In determining the functional currency, the Company's management also takes into account the currency, in which sources of financing are generated and in which the operating income from the Company's activities is retained. The Company also regularly monitors and evaluates all indications and trends in the primary economic environment that could affect functional currency in the future. Detailed information on the results of the analysis carried out in 2021 (2020) is disclosed in Note 1.4.

3 FINANCIAL RISK MANAGEMENT

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

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

Management of the Company is regularly informed of current financial and other related risks (liquidity, foreign exchange rates, interest rates, prices of commodities, invoice currencies, payment conditions, etc.), which is achieved through regular "liquidity meeting" attended by member of the Board of Management for Finance and IT (CFO) and representatives from Treasury, Controlling, Accounting. Inputs for meetings and decision making are discussed with VOLKSWAGEN Group Treasury, especially such that concerns FX hedging and commodity risks. These meetings have predefined agenda, which includes also information on the macroeconomic indicators. Meetings have a formalised structure and all minutes including the decisions are recorded and their fulfilment is periodically evaluated.

3.1 CREDIT RISK

Credit risk is a risk that one party to a financial instrument will cause a financial loss to other party by failing to discharge an obligation. Credit risk arises in the normal course of the Company's operations, as well as through activities connected with financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by VOLKSWAGEN Group Treasury through determination of maximal limits for individual counterparties.

The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. The counterparty risk is monitored at the VOLKSWAGEN Group level.

The acceptance of new business partners is reliant on standard approval procedures. The Company's involvement with counterparties is managed by means of credit limits that are monitored and reassessed on a regular basis. A utilization of 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.

Preventive instruments for securing receivables are mainly used at the time of conclusion of the commercial contract. The mandatory securing instrument in a written contractual relationship is a penalty interest and furthermore chosen trade receivables are secured by an ownership title to the sold goods until full settlement of the purchase price. An integral part of the prepared contract is the determination and approval of payment terms, which is done by the Treasury Department.

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 importers and other foreign customers. The receivables from importers are secured by the following financial security instruments: prepayments, payments in advance, standby letters of credit, documentary letters of credit, buyers credit, importer guarantees, bank guarantees and transfer of receivables to factoring without recourse or with partial recourse. For some domestic and foreign customers (scrap collection, motorsport) is also used proforma invoicing tool. Only an immaterial part of receivables from other customers arises on credit terms. The usual invoice maturity date for the sale of goods in this country is 14 or 30 days. For foreign sales, the maturity period ranges from 30 to 180 days depending on the type of goods, the country of the customer and the contractual payment terms. Interest on arrears is charged on unpaid trade receivables according to the contractual conditions.

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. The securing instrument for contractual partners with a lower creditworthiness is the deposit of technical licences at a banking institution until the purchase price is paid.

Credit limits are set up for the supplies of new and used vehicles, original parts and accessories. The new orders of goods are automatically blocked in case the customer fails to settle due balances when the credit limit is exceeded. Supplies to other domestic customers are realised on credit terms. If the receivable is not paid by the due date, reminders are sent to customers at regular intervals. In case of unsuccessful reminders, legal enforcement is initiated.

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 2021 (as at 31 December 2020), the Company did not hold any collateral for loans given.

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

(CZK million)	2021	2020
Retention of legal ownership title to sold cars	816	719
Bank guarantee	877	1,051
Letters of credit	634	1,270
Documentary collection	82	68
Total	**2,409**	**3,108**

As at 31 December 2021, the Company recorded bank guarantees securing advance payments from suppliers in the amount of CZK 5 963 million (as at 31 December 2020: CZK 2,247 million).

3.1.1 MAXIMUM EXPOSURE TO CREDIT RISK

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

The amount of guarantee provided by the Company is CZK 75 million as at 31 December 2021
(as at 31 December 2020: CZK 75 million). Detailed information on the guarantee is listed in Note 3.1.6.

3.1.2 RISK CONCENTRATION

The Company monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Company to foreign exchange risk is disclosed in Note 3.4.1. During the global pandemic in 2021 (2020), the Company did not experience any significant concentration of risk by sales region, which would lead to the need to take adequate measures to reduce credit risk.

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

The total volume of deposits in VOLKSWAGEN Group companies amounted to CZK 22,417 million as at 31 December 2021 (as at 31 December 2020: CZK 18,666 million), out of which:

- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 19,700 million (as at 31 December 2020: CZK 12,500 million);
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 2,717 million (as at 31 December 2020: CZK 6,166 million);

The Company did not consider probable that a default could occur in connection with the free cash deposited in 2021 (2020). Expected credit loss for any potential default is immaterial.

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

3.1.3 CREDIT QUALITY OF FINANCIAL ASSETS

The following table shows the gross values of financial assets classified as financial assets at amortized costs (see classification in Section 2.5.1.1), which are classified according to credibility.

Solvency class 1 includes receivables and deposits in VOLKSWAGEN Group companies, secured receivables from third parties and receivables that will be subject to factoring without recourse. There is no objective evidence indicating a default of these receivables. Solvency class 2 includes unsecured trade receivables from third parties for which there is no objective evidence indicating a default. Solvency class 3 includes unsecured trade receivables for which there is an objective evidence of a default and for which there are individual valuation allowances.

Credit quality of financial assets classified as financial assets at amortised cost

	General approach to impairment		Simplified approach to impairment		
(CZK million)	Stage 1 12-month ECL*	Stage 3 lifetime ECL* - individually impaired	Lifetime ECL* based on provision matrix	Lifetime ECL* - individually impaired	Total
Balance as at 31 December 2021					
Solvency class 1, of which:	**23,347**	**—**	**19,934**	**—**	**43,281**
Trade receivables	—	—	19,934	—	19,934
Cash equivalents	19,705	—	—	—	19,705
Cash pooling	2,717	—	—	—	2,717
Other	925	—	—	—	925
Solvency class 2, of which:	**—**	**—**	**408**	**—**	**408**
Trade receivables	—	—	408	—	408
Solvency class 3, of which:	**—**	**107**	**—**	**140**	**247**
Trade receivables	—	—	—	140	140
Other	—	107	—	—	107
Total	**23,347**	**107**	**20,342**	**140**	**43,936**

* ECL – expected credit losses

	General approach to impairment		Simplified approach to impairment		
(CZK million)	Stage 1 12-month ECL*	Stage 3 lifetime ECL* - individually impaired	Lifetime ECL* based on provision matrix	Lifetime ECL* - individually impaired	Total
Balance as at 31 December 2020					
Solvency class 1, of which:	**19,279**	**—**	**25,017**	**—**	**44,296**
Trade receivables	—	—	25,017	—	25,017
Cash equivalents	12,503	—	—	—	12,503
Cash pooling	6,166	—	—	—	6,166
Other	610	—	—	—	610
Solvency class 2, of which:	**—**	**—**	**360**	**—**	**360**
Trade receivables	—	—	360	—	360
Solvency class 3, of which:	**—**	**107**	**—**	**139**	**246**
Trade receivables	—	—	—	139	139
Other	—	107	—	—	107
Total	**19,279**	**107**	**25,377**	**139**	**44,902**

* ECL – expected credit losses

In stage 2 of ECL model the Company included no financial assets in 2021 (2020). Besides the amounts presented above in the table Credit quality of financial assets classified as financial assets at amortised cost, the Company included in Solvency class 1 also receivables that will be subject to factoring without recourse (portfolio FVPL) in the amount of CZK 2,712 million (as at 31 December 2020: CZK 6,660 million).

3.1.4 CREDIT RISK ANALYSIS

Gross carrying amount of financial assets at amortised cost

	General approach to impairment		Simplified approach to impairment		
(CZK million)	Stage 1 12-month ECL*	Stage 3 lifetime ECL* - individually impaired	Lifetime ECL* based on provision matrix	Lifetime ECL* - individually impaired	Total
Trade receivables					
Balance as at 1 January 2021	—	—	**25,377**	**139**	**25,516**
Collected	—	—	(25,294)	(10)	(25,304)
Additions	—	—	20,259	11	20,270
Balance as at 31 December 2021	—	—	**20,342**	**140**	**20,482**
Cash equivalents and cash pooling					
Balance as at 1 January 2021	**18,669**	**—**	**—**	**—**	**18,669**
Collected	(18,669)	—	—	—	(18,669)
Additions	22,422	—	—	—	22,422
Balance as at 31 December 2021	**22,422**	**—**	**—**	**—**	**22,422**
Other receivables and financial assets					
Balance as at 1 January 2021	**610**	**107**	**—**	**—**	**717**
Collected	(203)	—	—	—	(203)
Additions	518	—	—	—	518
Balance as at 31 December 2021	**925**	**107**	**—**	**—**	**1,032**

* ECL – expected credit losses

	General approach to impairment		Simplified approach to impairment		
(CZK million)	Stage 1 12-month ECL*	Stage 3 lifetime ECL* - individually impaired	Lifetime ECL* based on provision matrix	Lifetime ECL* - individually impaired	Total
Trade receivables					
Balance as at 1 January 2020	—	—	**19,068**	**1,066**	**20,134**
Collected	—	—	(18,949)	(930)	(19,879)
Additions	—	—	25,258	3	25,261
Balance as at 31 December 2020	—	—	**25,377**	**139**	**25,516**
Cash equivalents and cash pooling					
Balance as at 1 January 2020	**45,753**	**—**	**—**	**—**	**45,753**
Collected	(45,753)	—	—	—	(45,753)
Additions	18,669	—	—	—	18,669
Balance as at 31 December 2020	**18,669**	**—**	**—**	**—**	**18,669**
Other receivables and financial assets					
Balance as at 1 January 2020	**598**	**111**	**—**	**—**	**709**
Collected	(170)	(4)	—	—	(174)
Additions	182	—	—	—	182
Balance as at 31 December 2020	**610**	**107**	**—**	**—**	**717**

* ECL – expected credit losses

In stage 2 of ECL model the Company included no financial assets in 2021 (2020).

3.1.5 IMPAIRMENT OF FINANCIAL ASSETS

Allowances for trade receivables

(CZK million)	Lifetime ECL* based on provision matrix	Lifetime ECL* - individually impaired	Total
Allowances for trade receivables			
Balance as at 1 January 2021	**(372)**	**(139)**	**(511)**
Additions	(148)	(11)	(159)
Reversals	250	10	260
Balance as at 31 December 2021	**(270)**	**(140)**	**(410)**

(CZK million)	Lifetime ECL* based on provision matrix	Lifetime ECL* - individually impaired	Total
Allowances for trade receivables			
Balance as at 1 January 2020	**(197)**	**(504)**	**(701)**
Additions	(250)	(3)	(253)
Reversals	75	368	443
Balance as at 31 December 2020	**(372)**	**(139)**	**(511)**

* ECL – expected credit losses

The Company applies a simplified approach to impairment for trade receivables, therefore the 12-month ECL is not disclosed, see section 2.5.1.2 for further information.

Impairment matrix for trade receivables

		Months past due			
(CZK million)	Not due	Less than 1 month	1–3 months	More than 3 months	Total
Balance as at 31 December 2021					
Expected loss rate (%)	1.25	1.50	2.50	3.75	—
Gross carrying amount	18,928	762	183	469	20,342
Loss allowance provision	**(237)**	**(11)**	**(5)**	**(17)**	**(270)**

		Months past due			
(CZK million)	Not due	Less than 1 month	1–3 months	More than 3 months	Total
Balance as at 31 December 2020					
Expected loss rate (%)	1.25	3.25	4.50	5.50	—
Gross carrying amount	23,179	1,581	307	310	25,377
Loss allowance provision	**(290)**	**(51)**	**(14)**	**(17)**	**(372)**

Allowances for lifetime expected credit loss for other receivables and financial assets were CZK 4 million in stage 1 (as at 31 December 2020: CZK 4 million) and CZK 107 million in stage 3 (as at 31 December 2020: CZK 107 million).

During the accounting period 2021 (2020) the Company had valuation allowances only on financial assets included in the category of financial assets at amortised cost.

3.1.6 TRANSFERRED FINANCIAL ASSETS WHERE THE COMPANY HAS CONTINUING INVOLVEMENT

The Company has concluded a factoring contract with the company ŠkoFIN s.r.o., under which the majority of risks and rewards relating to ownership of receivables arising from sale of new or used cars are transferred to ŠkoFIN s.r.o. Under certain conditions, the company ŠkoFIN s.r.o. can claim compensation relating to realised credit loss up to 2% of the total amount of transferred receivables during the year, however, not more than 49% of these losses and not more than CZK 75 million in 2021 (in 2020: CZK 75 million). This amount represents carrying amount and fair value of the recognised continuing involvement in these receivables, and related financial liabilities. At the same time, this amount represents the maximum exposure to credit risk. The loss from the transfer of the assets was CZK 70 million in 2021 (in 2020: CZK 110 million). This loss concerns the obligation to compensate for realised credit loss incurred by ŠkoFIN s.r.o.

3.1.7 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Balance as at 31 December 2021 (CZK million)	Gross amount of financial assets / liabilities recognised in the balance sheet	Gross amount of financial assets / liabilities set off in the balance sheet	Net amount of financial assets / liabilities recognised in the balance sheet	Related amount not set off in the balance sheet*	Net amount of financial assets / liabilities**
Receivables from financial derivatives	4,986	—	4,986	(2,276)	2,710
Liabilities from financial derivatives	2,469	—	2,469	(2,276)	193

Balance as at 31 December 2020 (CZK million)	Gross amount of financial assets / liabilities recognised in the balance sheet	Gross amount of financial assets / liabilities set off in the balance sheet	Net amount of financial assets / liabilities recognised in the balance sheet	Related amount not set off in the balance sheet*	Net amount of financial assets / liabilities**
Receivables from financial derivatives	4,230	—	4,230	(1,575)	2,655
Liabilities from financial derivatives	1,897	—	1,897	(1,575)	322

* Comprises the financial assets / liabilities (other than cash collateral) that are the subject of an enforceable master netting agreement or similar agreement, and which were not recognised in the balance sheet as offset because the conditions for their offsetting were not met.

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

As at 31 December 2021 (as at 31 December 2020) the Company did not offset any trade receivables and trade liabilities in balance sheet because none of the trade receivables and trade liabilities fulfilled criteria for offsetting according to amendment to IAS 32.

There was no collateral held or given in respect of derivative financial assets / liabilities as at 31 December 2021 (as at 31 December 2020). The total amount of collateral value of trade receivables was CZK 2,409 million as at 31 December 2021 (as at 31 December 2020: CZK 3,108 million). Details related to types of collateral are presented in Note 3.1.

3.2 LIQUIDITY RISK

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

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

Management of the Company monitors the liquidity and its development at regular monthly Liquidity Meetings attended by member of the Board for Finance and IT (CFO) and representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the information about development of liquidity and its structure. The Company's management is also presented with the short-term forecasts of the liquidity development.

CASH MANAGEMENT

The Company is integrated into the "Global Treasury Platform" (GTP) of VOLKSWAGEN Group which is operated by Volkswagen International Belgium SA (VIB), the Regional Treasury Center, located in Brussels. Centralisation and optimisation of processes is ensured within the VOLKSWAGEN Group in the areas of cash management, payments system and liquidity management.

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

Major instruments used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured through resources from other VOLKSWAGEN Group companies integrated into the GTP.

The Company has not drawn any credit line from the VOLKSWAGEN Group as at 31 December 2021 (as at 31 December 2020).

The Company has not drawn any credit line from the external banks as at 31 December 2021 (as at 31 December 2020).

ANALYSIS OF CONTRACTUAL MATURITY UNDISCOUNTED CASH FLOWS

The maturity analysis of contractual undiscounted cash flows shows the residual maturity of the Company's non-derivative and derivative financial liabilities with an agreed payment date. The contractual maturity is based on the earliest possible dates when the Company may be required to repay financial liabilities and guarantees.

The values in the analysis represent undiscounted cash outflows that results from the settlement of non-derivative and derivative financial liabilities in the future. Derivative financial liabilities that will be settled on a net basis are undiscounted net cash outflows. For derivative financial liabilities that will be settled on a gross basis, only undiscounted gross cash outflows are present (existing inflows against these outflows that are not present in the analysis).

The values presented in the item of the Financial Guarantee Agreement are the maximum amounts that the Company may be forced to settle in the event that the counterparty claims the full amount of the guaranteed value (see Note 3.1.6).

Contractual maturity analysis

(CZK million)	Less than 3 months	3 months–1 year	1–5 years	More than 5 years	Total
Balance as at 31 December 2021					
Trade liabilities	(49,109)	(9,121)	—	—	(58,230)
Leasing liabilities	—	(557)	(860)	(163)	(1,580)
Derivatives:					
Currency forwards and swaps - gross cash outflows	(24,441)	(65,918)	(83,807)	—	(174,166)
Commodity swaps - net cash outflows	—	—	—	—	—
Financial guarantee contracts	—	—	(75)	—	(75)
Other financial liabilities	—	(93)	—	—	(93)
Total	**(73,550)**	**(75,689)**	**(84,742)**	**(163)**	**(234,144)**

(CZK million)	Less than 3 months	3 months–1 year	1–5 years	More than 5 years	Total
Balance as at 31 December 2020					
Trade liabilities	(49,589)	(16,564)	—	—	(66,153)
Leasing liabilities	—	(569)	(1,173)	(236)	(1,978)
Derivatives:					
Currency forwards and swaps - gross cash outflows	(23,014)	(58,839)	(95,994)	—	(177,847)
Commodity swaps - net cash outflows	(8)	(26)	(34)	—	(68)
Financial guarantee contracts	—	—	(75)	—	(75)
Other financial liabilities	(44)	—	—	—	(44)
Total	**(72,655)**	**(75,998)**	**(97,276)**	**(236)**	**(246,165)**

3.3 MARKET RISK

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

3.3.1 CURRENCY RISK

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

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

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

The Company's management is regularly being updated about the currency risk status by means of the liquidity meeting, attended by member of the Board of Management for Finance and IT (CFO) and representatives of the Treasury, Controlling and Accounting. Inputs for meetings and decision making are discussed with VOLKSWAGEN Group Treasury, especially such that concerns FX hedging and commodity risks. In addition to the update of foreign currency plans, actual development of foreign currency cash flows and exchange rates fluctuations against CZK and against EUR*, 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). The risk resulting from changes in exchange rates against CZK is hedged for a total of 14 currencies. The most important currencies hedged against the risk of changes in exchange rates against the CZK are EUR, GBP, PLN and CHF. The risk arising from changes in exchange rates against EUR* is hedged for the same basket of currencies with the additional currency CZK and no longer against EUR.

The Company also applies hedge accounting for currency risk. For the analysis of sensitivity to exchange rates please refer to Note 3.4.1.

*See Note 1.4. – Amendment of the currency risk hedging strategy

3.3.2 INTEREST RATE RISK

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

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

The management of the Company monitors the interest rate risk at regular monthly meetings attended by member of the Board of Management for Finance and IT and representatives of the Treasury, Controlling and Accounting departments. The meetings have a predetermined agenda that includes the information about current development of interest rates. The Company's management is also presented with forecasts of the interest rates development.

The exposure to interest rate risk arises from cash deposits at VOLKSWAGEN Group companies and factoring transactions with receivables.

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

3.3.3 PRICE RISK

Price risk is a risk of changes in market prices, especially commodity prices (apart from that which results from currency and interest risk).

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

The Company hedges against price risks in general (as a consequence of changes in particular commodity prices and foreign exchange rates) using commodity swaps (for copper, lead and aluminium) and currency forwards. The sensitivity analysis to changes in other price risks is disclosed in Note 3.4.3.

3.3.4 DERIVATIVE FINANCIAL INSTRUMENTS

Nominal and fair value of derivatives

	Nominal value of derivatives		Fair value of derivatives			
(CZK million)	Balance as at 31 December 2021	Balance as at 31 December 2020	Balance as at 31 December 2021		Balance as at 31 December 2020	
	With positive and negative fair value	With positive and negative fair value	Positive	Negative	Positive	Negative
Currency instruments						
Currency forwards and swaps for trading	5,262	8,286	146	128	4	576
Currency forwards and swaps — cash flow hedging	173,582	169,190	2,933	2,340	3,230	1,254
Commodity instruments						
Commodity swaps for trading	5,045	7,698	1,907	1	996	67
Total	**183,889**	**185,174**	**4,986**	**2,469**	**4,230**	**1,897**

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

Nominal amount of derivatives contracted in CZK in detail per currencies

Balance as at 31 December 2021 (CZK million)	Due date Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Total
Currency instruments						
Currency forwards and swaps – cash flow hedging						
EUR	24,216	—	—	—	—	24,216
AUD	2,577	—	—	—	—	2,577
GBP	21,215	—	—	—	—	21,215
CHF	8,324	—	—	—	—	8,324
JPY	1,938	—	—	—	—	1,938
NOK	5,894	—	—	—	—	5,894
PLN	14,230	—	—	—	—	14,230
SEK	7,582	—	—	—	—	7,582
TWD	1,693	—	—	—	—	1,693
Total	**87,669**	**—**	**—**	**—**	**—**	**87,669**

Balance as at 31 December 2020 (CZK million)	Due date Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Total
Currency instruments						
Currency forwards and swaps – cash flow hedging						
EUR	13,713	—	—	—	—	13,713
AUD	2,554	2,673	—	—	—	5,227
GBP	21,531	19,397	—	—	—	40,928
CHF	8,529	8,405	—	—	—	16,934
JPY	1,010	1,149	—	—	—	2,159
NOK	4,934	3,556	—	—	—	8,490
PLN	16,877	15,143	—	—	—	32,020
SEK	6,973	8,173	—	—	—	15,146
TWD	1,824	1,474	—	—	—	3,298
Total	**77,945**	**59,970**	**—**	**—**	**—**	**137,915**

Nominal amount of derivatives contracted in EUR in detail per currencies

Balance as at 31 December 2021 (CZK million)	Due date					
	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Total
Currency instruments						
Currency forwards and swaps – cash flow hedging						
CZK	—	—	—	1,215	1,605	2,820
AUD	—	1,433	1,228	261	—	2,922
GBP	—	16,505	11,622	583	—	28,710
CHF	—	6,453	5,209	3,734	2,519	17,915
JPY	—	1,216	964	584	—	2,764
NOK	—	3,134	1,911	725	—	5,770
PLN	—	6,529	2,418	—	—	8,947
SEK	—	5,205	4,351	2,635	—	12,191
TWD	—	1,662	1,146	810	256	3,874
Total	**—**	**42,137**	**28,849**	**10,547**	**4,380**	**85,913**

Balance as at 31 December 2020 (CZK million)	Due date					
	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Total
Currency instruments						
Currency forwards and swaps – cash flow hedging						
AUD	—	—	1,024	1,273	271	2,568
GBP	—	—	1,807	—	—	1,807
CHF	—	—	3,550	2,257	746	6,553
JPY	—	—	945	629	211	1,785
NOK	—	—	1,491	331	—	1,822
PLN	—	—	5,555	2,082	—	7,637
SEK	—	—	4,219	3,154	871	8,244
TWD	—	—	564	295	—	859
Total	**—**	**—**	**19,155**	**10,021**	**2,099**	**31,275**

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

3.4 SENSITIVITY ANALYSIS

3.4.1 SENSITIVITY TO EXCHANGE RATES

The Company is exposed to the foreign currency risk arising mainly from transactions denominated in foreign currencies (especially EUR, GBP, CHF, SEK and PLN) and with transaction with business partners using USD as transaction currency.

Sensitivity to exchange rates of foreign currencies against CZK
The foreign currency risk is measured against the functional currency (CZK) at the balance sheet date, when the financial assets and liabilities denominated in foreign currencies are recalculated to CZK by applying the Czech National Bank exchange rate.

The sensitivity analysis includes analysis of exposure arising from derivative financial assets and liabilities and unpaid financial assets and liabilities denominated in foreign currencies and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates compared to those published by Czech National Bank. The sensitivity analysis is based on assumed possible exchange rate movements.

As at 31 December 2021 (2020) the Company considers as reasonably possible the movements of exchange rates EUR, USD, CHF, GBP, SEK and PLN against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK).

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

2021 (CZK million)	CZK appreciation by 10%						
	EUR	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	828	(262)	(10)	1	2	—	89
Derivative financial instruments	—	(448)	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	(2,427)	—	835	2,113	758	1,394	816

2021 (CZK million)	CZK depreciation by 10%						
	EUR	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	(828)	262	10	(1)	(2)	—	(89)
Derivative financial instruments	—	448	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	2,427	—	(835)	(2,113)	(758)	(1,394)	(816)

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

2020 (CZK million)	CZK appreciation by 10% EUR	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	381	76	(3)	(30)	(33)	(103)	(89)
Derivative financial instruments	—	(644)	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	(1,374)	—	1,703	4,081	1,511	3,187	1,474

2020 (CZK million)	CZK depreciation by 10% EUR	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Non-derivative financial instruments	(381)	(76)	3	30	33	103	89
Derivative financial instruments	—	644	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	1,374	—	(1,703)	(4,081)	(1,511)	(3,187)	(1,474)

Sensitivity to exchange rates of foreign currencies against EUR

The foreign currency risk against the future highly probable functional currency (EUR*) for a portfolio of derivatives with a maturity date after 1 January 2023 is measured at the balance sheet date when the financial assets and financial liabilities denominated in foreign currencies are translated by applying the European Central Bank (ECB) exchange rate into EUR and subsequently translated at the Czech National Bank exchange rate into CZK.

*See Note 1.4. – Amendment of the currency risk hedging strategy

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 ECB.

As at 31 December 2021, the Company considers as reasonably possible the movements of exchange rates AUD, USD, CHF, GBP, SEK, PLN against EUR in the following period of +10% (appreciation of EUR) and -10% (depreciation of EUR).

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

2021 (CZK million)	EUR appreciation by 10% AUD	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Derivative financial instruments	—	(219)	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	285	—	1,815	2,814	1,210	834	415

2021 (CZK million)	EUR depreciation by 10% AUD	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Derivative financial instruments	—	219	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	(285)	—	(1,815)	(2,814)	(1,210)	(834)	(415)

2020 (CZK million)	EUR appreciation by 10% AUD	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Derivative financial instruments	—	(199)	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	257	—	672	181	827	758	84

2020 (CZK million)	EUR depreciation by 10% AUD	USD	CHF	GBP	SEK	PLN	Other currencies
Profit before tax							
Derivative financial instruments	—	199	—	—	—	—	—
Other comprehensive income before tax							
Derivative financial instruments	(257)	—	(672)	(181)	(827)	(758)	(84)

3.4.2 SENSITIVITY TO INTEREST RATES

The Company is exposed to interest risk mainly in relation to current deposits provided to VOLKSWAGEN Group companies.

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at balance sheet date in the same way as for the non-derivative financial assets and liabilities.

For current deposits provided to VOLKSWAGEN Group companies, bank deposits and currency derivatives the Company assumed reasonably possible increase by 100 basis points of the yield curve and reasonably possible decrease by 100 basis points of the yield curve in 2021 (2020: +100/ -100 basis points). Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered in 2021 (2020). If the calculated interest rates for the sensitivity analysis are negative, the interest rate 0% is used for calculation. Profit of the Company is most sensitive to movements of the CZK yield curve.

In the case of derivative financial instruments, the Company measures the impact on the change in fair value of these derivatives that results from the change in the yield curve. For non-derivative financial instruments, the impact on profit or loss is determined on the basis of defined change in the interest rate, which would arise at the beginning of the next accounting period and based on the assumption that no other changes in the interest rate would occur during the entire accounting period.

The following tables present impact on profit before tax of expected increase or decrease of interest rates:

2021 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 100 basis points**
Profit before tax		
Non-derivative financial instruments	227	(227)
Other comprehensive income before tax		
Derivative financial instruments	4	(5)

2020 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 100 basis points**
Profit before tax		
Non-derivative financial instruments	189	—
Other comprehensive income before tax		
Derivative financial instruments	(13)	10

3.4.3 SENSITIVITY TO CHANGES IN OTHER PRICE RISKS

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

In 2021 the Company assumes reasonably possible movements in prices of particular commodities in the following period of +/-10% (2020: +/-10%).

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

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

2021 (CZK million)	**Increase of copper prices +10%**	**Decrease of copper prices (10%)**	**Increase of aluminium prices +10%**	**Decrease of aluminium prices (10%)**	**Increase of lead prices +10%**	**Decrease of lead prices (10%)**
Profit before tax						
Derivative financial instruments	158	(158)	486	(486)	47	(47)

2020 (CZK million)	**Increase of copper prices +10%**	**Decrease of copper prices (10%)**	**Increase of aluminium prices +10%**	**Decrease of aluminium prices (10%)**	**Increase of lead prices +10%**	**Decrease of lead prices (10%)**
Profit before tax						
Derivative financial instruments	227	(227)	568	(568)	67	(67)

3.5 CAPITAL MANAGEMENT

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

4 INTANGIBLE ASSETS

(CZK million)	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance as at 1 January 2021	**59,054**	**7,389**	**22,097**	**88,540**
Additions	1,891	10,380	1,177	13,448
Disposals	(11,525)	(186)	(6,735)	(18,446)
Transfers	5,616	(5,616)	—	—
Balance as at 31 December 2021	**55,036**	**11,967**	**16,539**	**83,542**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2021	**(29,001)**	**—**	**(14,939)**	**(43,940)**
Amortisation	(6,788)	—	(2,377)	(9,165)
Impairment losses	—	(186)	—	(186)
Disposals	11,525	186	6,735	18,446
Balance as at 31 December 2021	**(24,264)**	**—**	**(10,581)**	**(34,845)**
Carrying amount as at 31 December 2021	**30,772**	**11,967**	**5,958**	**48,697**

(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 2020	**44,612**	**9,827**	**19,955**	**74,394**
Additions	7,714	4,290	2,168	14,172
Disposals	—	—	(26)	(26)
Transfers	6,728	(6,728)	—	—
Balance as at 31 December 2020	**59,054**	**7,389**	**22,097**	**88,540**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2020	**(22,411)**	**—**	**(12,561)**	**(34,972)**
Amortisation	(6,590)	—	(2,404)	(8,994)
Disposals	—	—	26	26
Balance as at 31 December 2020	**(29,001)**	**—**	**(14,939)**	**(43,940)**
Carrying amount as at 31 December 2020	**30,053**	**7,389**	**7,158**	**44,600**

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

Purchased development costs capitalized as part of the additions to capitalized development costs of products manufactured and under development in 2021 amounted to CZK 8,705 million (2020: CZK 7,189 million).

Amortisation of intangible assets of CZK 9,026 million (2020: CZK 8,712 million) are included in the cost of sales, CZK 167 million (CZK 2020: 168 million) in distribution expenses, and CZK 158 million (2020: CZK 114 million) in administrative expenses.

IMPAIRMENT REVIEWS

In connection with the Covid-19 pandemic, which resulted in significant changes in the economic environment of entities operating in the automotive industry, the Company tested the assets of a defined cash-generating unit* (the Company's automotive business) for impairment. A comparison of the carrying amount and recoverable amount of the defined cash-generating unit did not result in 2021 (2020) in the identification of any impairment loss for intangible assets. The recoverable amount was determined based on a cash-based calculation budgets approved by the Company's management, which cover a period of 5 years and an estimate of cash flows after the end of the planning period using a growth rate 1.0% (2020: 1.0%). The WACC rate 4.8% (2020: 5.3%) was used to discount cash flows in 2021. This rate reflects the specific risks associated with the industry in which the Company operates.

* An intangible asset that was not ready for use at the balance sheet date and intangible assets with indefinite useful lives were also included in the test at the level of the defined cash-generating unit.

CAPITALISATION OF BORROWING COSTS

No borrowing costs have been capitalised in the cost of intangible assets in 2021 or 2020 as they were not material.

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

(CZK million)	2021	2020
Research and development costs expensed	9,224	6,473
Amortisation and impairment losses of development costs	6,974	6,590
Research and development costs recognised in profit or loss	**16,198**	**13,063**

5 PROPERTY, PLANT AND EQUIPMENT

(CZK million)	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Leases	Advances paid and assets under construction*	Total
Costs						
Balance as at 1 January 2021	**53,362**	**99,302**	**102,370**	**2,679**	**11,866**	**269,579**
Additions	1,405	4,196	6,802	254	1,466	14,123
Disposals	(272)	(912)	(1,425)	(141)	—	(2,750)
Transfers	1,909	593	355	—	(2,857)	—
Balance as at 31 December 2021	**56,404**	**103,179**	**108,102**	**2,792**	**10,475**	**280,952**
Accumulated depreciation and impairment losses						
Balance as at 1 January 2021	**(25,965)**	**(76,437)**	**(80,664)**	**(881)**	**—**	**(183,947)**
Depreciation	(2,150)	(6,620)	(8,435)	(546)	—	(17,751)
Disposals	220	894	1,413	86	—	2,613
Balance as at 31 December 2021	**(27,895)**	**(82,163)**	**(87,686)**	**(1,341)**	**—**	**(199,085)**
Carrying amount as at 31 December 2021	**28,509**	**21,016**	**20,416**	**1,451**	**10,475**	**81,867**

(CZK million)	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Leases	Advances paid and assets under construction*	Total
Costs						
Balance as at 1 January 2020	**49,761**	**95,620**	**95,921**	**2,539**	**14,919**	**258,760**
Additions	792	4,572	7,902	333	2,082	15,681
Disposals	(35)	(2,871)	(1,763)	(193)	—	(4,862)
Transfers	2,844	1,981	310	—	(5,135)	—
Balance as at 31 December 2020	**53,362**	**99,302**	**102,370**	**2,679**	**11,866**	**269,579**
Accumulated depreciation and impairment losses						
Balance as at 1 January 2020	**(23,997)**	**(72,671)**	**(74,313)**	**(463)**	**—**	**(171,444)**
Depreciation	(2,001)	(6,612)	(8,105)	(539)	—	(17,257)
Disposals	33	2,848	1,752	121	—	4,754
Transfers	—	(2)	2	—	—	—
Balance as at 31 December 2020	**(25,965)**	**(76,437)**	**(80,664)**	**(881)**	**—**	**(183,947)**
Carrying amount as at 31 December 2020	**27,397**	**22,865**	**21,706**	**1,798**	**11,866**	**85,632**

* As at 31 December 2021 advances paid amount to CZK 4,817 million (as at 31 December 2020: CZK 2,662 million) from the total amount of Advances paid and assets under construction.

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

(CZK million)	Land and buildings	Tooling, office and other equipment	Total
Costs			
Balance as at 1 January 2021	**1,623**	**1,056**	**2,679**
Additions	136	118	254
Disposals	(108)	(33)	(141)
Balance as at 31 December 2021	**1,651**	**1,141**	**2,792**
Accumulated depreciation and impairment losses			
Balance as at 1 January 2021	**(484)**	**(397)**	**(881)**
Depreciation	(291)	(255)	(546)
Disposals	57	29	86
Balance as at 31 December 2021	**(718)**	**(623)**	**(1,341)**
Carrying amount as at 31 December 2021	**933**	**518**	**1,451**

(CZK million)	Land and buildings	Tooling, office and other equipment	Total
Costs			
Balance as at 1 January 2020	**1,561**	**978**	**2,539**
Additions	132	201	333
Disposals	(70)	(123)	(193)
Balance as at 31 December 2020	**1,623**	**1,056**	**2,679**
Accumulated depreciation and impairment losses			
Balance as at 1 January 2020	**(256)**	**(207)**	**(463)**
Depreciation	(277)	(262)	(539)
Disposals	49	72	121
Balance as at 31 December 2020	**(484)**	**(397)**	**(881)**
Carrying amount as at 31 December 2020	**1,139**	**659**	**1,798**

IMPAIRMENT REVIEWS

In connection with the global Covid-19 pandemic, which resulted in significant changes in the economic environment of entities operating in the automotive industry, the Company tested the assets of a defined cash-generating unit (the Company's automotive business) for impairment. A comparison of the carrying amount and the recoverable amount of the defined cash-generating unit did not result in the identification of any impairment loss for property, plant and equipment in 2021 (2020). The recoverable amount was determined based on a calculation of the value in use of this cash-generating unit using cash flow projections based on financial budgets approved by the Company's management covering a period of 5 years and an estimate of cash flows after the end of the planning period using growth rate 1.0% (2020: 1.0%). The WACC rate 4.8% (2020: 5.3%) was used to discount cash flows in 2021. This rate reflects the specific risks associated with the industry in which the Company operates.

CAPITALISATION OF BORROWING COSTS

No borrowing costs have been capitalised in the cost of property, plant and equipment in 2021 or in 2020 as they were not material.

6 INVESTMENTS IN SUBSIDIARIES

		Shareholding %		Value of ownership interest (CZK million)	
Subsidiaries	**Country of incorporation**	**2021**	**2020**	**2021**	**2020**
ŠKODA AUTO Slovensko s.r.o.	Slovakia	100	100	49	49
ŠKODA AUTO DigiLab s.r.o.	Czech Republic	100	100	176	176
UMI Urban Mobility International Česká republika s.r.o.	Czech Republic	100	100	—	217
ŠKODA AUTO DigiServices s.r.o.	Czech Republic	100	100	3	158

The subsidiaries in which the Company holds an equity interest paid dividends to the Company in the total amount of CZK 61 million in 2021 (2020: CZK 81 million).

In 2020, the Company made a capital contribution to its subsidiary ŠKODA AUTO DigiLab s.r.o. with a contribution outside the registered capital in the amount of CZK 6 million.

UMI Urban Mobility International Česká republika s.r.o. returned to the Company the contribution outside the registered capital in the amount of CZK 150 million in 2021. Subsequently the associated company was tested for a possible impairment loss in 2021, details in Impairment reviews below.

On 16 December 2021, the Company decided to dissolve and liquidate ŠKODA AUTO DigiServices s.r.o. without a legal successor. ŠKODA AUTO DigiServices s.r.o. entered into liquidation on 1 January 2022. In connection with the planned liquidation, ŠKODA AUTO DigiServices s.r.o. returned to the Company the contribution outside the registered capital of CZK 155 million in 2021.

IMPAIRMENT REVIEWS

The Company has performed an impairment review of the cash-generating unit UMI Urban Mobility International Česká republika s.r.o, for which the development and planned volumes of the provided services indicated a possible impairment loss. Carrying value of the financial investment in the associated company 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 sector and the region in which the reviewed company operates. For determination of the value in use of the financial investment in 2021 estimated growth rate of 1% has been applied. In 2021, a discount rate of 4.8% has been applied. The carrying amount of financial investment has been compared with its recoverable amount as at 31 December 2021 and was identified the impairment losses.

7 INVESTMENTS IN ASSOCIATES

The Company's share in the registered capital of the company OOO Volkswagen Group Rus as at 31 December 2021 was 16.8% (31 December 2020: 16.8%). The Company exercises significant influence in the company OOO Volkswagen Group Rus based on the following factors: the Company is participating in policy-making processes, including participation in decisions about distribution of profit; material transactions are conducted between both companies; an interchange of managerial personnel takes places between both companies and the Company is providing essential technical information to the company OOO Volkswagen Group Rus.

The carrying amount of the Company's share totalled CZK 1,823 million as at 31 December 2021 (as at 31 December 2020: CZK 1,823 million). The recoverable amount of the associate is significantly higher than its carrying amount as at 31 December 2021 (as at 31 December 2020). OOO Volkswagen Group Rus paid dividends to the Company in the amount of CZK 0 million (2020: CZK 448 million).

The Company's share in the registered capital of the company ŠKO-ENERGO FIN, s.r.o. as at 31 December 2021 was 31.25% (as at 31 December 2020: 31.25%). The carrying amount of the Company's share totalled CZK 4 million as at 31 December 2021 (as at 31 December 2020: CZK 529 million). ŠKO-ENERGO FIN, s.r.o. paid dividends to the Company in the amount of CZK 0 million (2020: CZK 20 million). On 15 December 2021, the General Meeting of ŠKO-ENERGO FIN s.r.o. decided to dissolve and liquidate the Company without a legal successor. ŠKO-ENERGO FIN. s.r.o. entered into liquidation on 1 January 2022. The subsidiary was tested for possible impairment loss, details in Impairment tests below.

The Company's share in the registered capital of the company ŠKO-ENERGO s.r.o. as at 31 December 2021 was 44.5% (as at 31 December 2020: 44.5%). The carrying amount of the Company's share totalled CZK 4 million as at 31 December 2021 (as at 31 December 2020: CZK 4 million). ŠKO-ENERGO s.r.o. paid dividends to the Company in the amount of CZK 1 million (2020: CZK 1 million).

The Company's share in the registered capital of the company Digiteq Automotive s.r.o. as at 31 December 2021 was 49% (as at 31 December 2020: 49%). The carrying amount of the Company's share totalled CZK 98 thousand as at 31 December 2021 (as at 31 December 2020: CZK 98 thousand). Digiteq Automotive s.r.o. paid dividends to the Company in the amount of CZK 32 million (2020: CZK 34 million).

The interest of the Company on registered capital of SKODA AUTO Volkswagen India Private Ltd. was 3.47% as at 31 December 2021 (31 December 2020: 3.47%). Excluding preference shares, the share was 8.13% as at 31 December 2021 (31 December 2020: 8.13%). The Company exercises significant influence over SKODA AUTO Volkswagen India Private Ltd. on the basis of its share of voting rights, which was 26.46% as at 31 December 2021 (31 December 2020: 26.46%). The carrying amount of the Company's share totalled CZK 1,098 million as at 31 December 2021 (as at 31 December 2020: CZK 0 million).

In December 2021, the Company made a capital contribution of CZK 319 thousand to the registered capital of Green:Code s.r.o., which was established on 4 January 2022 representing a 49% share in the registered capital. In 2021 the Company made a contribution outside the registered capital in the associate in the amount of CZK 5.1 million.

IMPAIRMENT REVIEWS

In 2021 and 2020, the Company tested the cash-generating unit SKODA AUTO Volkswagen India Private Ltd. for which the projected vehicle volumes indicated a possible reversal of the impairment loss. The carrying amount of the financial investment of the tested associate was compared against its recoverable amount. The recoverable amount was determined based on a value in use calculation using cash flow projections over a 5-year period based on financial budgets approved by the Company's management. Cash flows beyond the 5-year period were extrapolated using growth rate estimates that are no higher than the expected long-term average growth rate for the automotive industry. In determining the value in use of the financial investment in 2021, a growth rate of 1% (2020: 1%) was estimated. The discount rate used is pre-tax and reflects the specific risks relating to the industry segment and region in which the company operates. For 2021, a discount rate of 5.8% (2020: 7.2%) was used. A comparison of the carrying amount of the associate SKODA AUTO Volkswagen India Private Ltd. and its recoverable amount as at 31 December 2021 resulted in the reversal of the impairment loss generated in previous accounting periods in favour of financial income of CZK 1,098 million.

The Company tested in 2021 the cash-generating unit ŠKO-ENERGO FIN s.r.o. for which the decision to liquidate indicated a possible impairment. Due to liquidation of the company valuation techniques based on the going concern assumption were not used to determine recoverable amount. The recoverable amount was determined on the basis of the adjusted liquidation value, where the adjusted liquidation value represents the sum of the selling prices of the individual assets less the liquidator's remuneration and the settlement of other liabilities. Due to the difference between the carrying amount of the financial investment and its recoverable amount, an impairment loss of CZK 525 million was identified in 2021which was recognized in financial expenses.

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

8.1 OTHER RECEIVABLES AND FINANCIAL ASSETS

Balance as at 31 December 2021 (CZK million)	**Financial assets at fair value through profit or loss**	**Financial assets at amortised cost**	**Financial assets at fair value through other comprehensive income**	**Financial instruments designated as hedging instruments**	**Total**
Other non-current receivables and financial assets					
Loans to employees	—	407	—	—	407
Positive fair value of financial derivatives	708	—	—	907	1,615
Investments in equity instruments	—	—	8,269	—	8,269
Other non-current receivables and financial assets in total	**708**	**407**	**8,269**	**907**	**10,291**
Other current receivables and financial assets					
Loans to employees	—	58	—	—	58
Positive fair value of financial derivatives	1,270	—	—	2,101	3,371
Other	—	456	—	—	456
Other current receivables and financial assets in total	**1,270**	**514**	**—**	**2,101**	**3,885**
Total	**1,978**	**921**	**8,269**	**3,008**	**14,176**

Balance as at 31 December 2020 (CZK million)	**Financial assets at fair value through profit or loss**	**Financial assets at amortised cost**	**Financial assets at fair value through other comprehensive income**	**Financial instruments designated as hedging instruments**	**Total**
Other non-current receivables and financial assets					
Loans to employees	—	428	—	—	428
Positive fair value of financial derivatives	368	—	—	1,540	1,908
Investments in equity instruments	—	—	7,860	—	7,860
Other non-current receivables and financial assets in total	**368**	**428**	**7,860**	**1,540**	**10,196**
Other current receivables and financial assets					
Loans to employees	—	58	—	—	58
Positive fair value of financial derivatives	557	—	—	1,765	2,322
Other	—	120	—	—	120
Other current receivables and financial assets in total	**557**	**178**	**—**	**1,765**	**2,500**
Total	**925**	**606**	**7,860**	**3,305**	**12,696**

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

In 2020, a forward component of hedging derivatives fixed as at 31 December 2017 was recognised in retained earnings and was disclosed in the portfolio Financial assets at fair value through profit or loss and fair value of derivatives held for trading see Note 3.3.4.

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

In 2021 (2020), in the column Financial derivatives designated as hedging instruments there is the spot component and change in the forward component from 1 January 2018 to 31 December 2021 (2020) relating to the derivatives for currency risk hedging. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

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

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

The fair value of the investment amounted to CZK 8,269 million as at 31 December 2021 (as at 31 December 2020: CZK 7,860 million). The fair value of the investment to SAIC was determined as the present value of future free cash flows (FCF) based on discount rate derived from weighted average cost of capital of SAIC (WACC). The fair value of the investment qualifies for Level 3 in accordance with IFRS 13.

As significant unobservable inputs, the assumptions regarding corporate planning (for example operating cash flows), the growth rates used to estimate cash flow after the end of the planning period, and the discount rate are taken into account when determining the fair value. In 2021 (2020) FCF have been extrapolated with a growth rate of 1.0% (1.0%). For discounting free cash flows, the WACC of 11.1% (11.3%) has been applied in 2021 (2020).

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

(CZK million)

Balance as at 1 January 2021	**7,860**
Total change in fair value in the period	409
Balance as at 31 December 2021	**8,269**

(CZK million)

Balance as at 1 January 2020	**8,475**
Total change in fair value in the period	(615)
Balance as at 31 December 2020	**7,860**

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

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

In 2021, the Company expects as reasonably possible the movement of long-term growth rate in the following period of +/- 0.5 percentage point (2020: +/- 0.5 percentage point).

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

2021 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	282	(255)
Increase / (decrease) of the other comprehensive income before tax	282	(255)

2020 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	246	(223)
Increase / (decrease) of the other comprehensive income before tax	246	(223)

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

In 2021, the Company expects as reasonably possible the movement of WACC in the following period of +/- 0.5 percentage point (2020: +/- 0.5 percentage point).

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

2021 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	(440)	487
Increase / (decrease) of the other comprehensive income before tax	(440)	487

2020 (CZK million)	**Increase by 0.5%**	**Decrease by 0.5%**
Increase / (decrease) of the fair value of the investment	(395)	436
Increase / (decrease) of the other comprehensive income before tax	(395)	436

There are no significant interrelationships between significant unobservable inputs.

8.2 TRADE RECEIVABLES

Balance as at 31 December 2021 (CZK million)	**Financial assets at amortised cost**	**Financial assets at fair value through profit or loss**	**Total**
Trade receivables			
Third parties	2,170	18	2,188
Subsidiaries	435	—	435
Other related parties	17,467	2,694	20,161
Total	**20,072**	**2,712**	**22,784**

Balance as at 31 December 2020 (CZK million)	**Financial assets at amortised cost**	**Financial assets at fair value through profit or loss**	**Total**
Trade receivables			
Third parties	2,120	—	2,120
Subsidiaries	653	—	653
Other related parties	22,232	6,660	28,892
Total	**25,005**	**6,660**	**31,665**

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

Other trade receivables held in order to collect contractual cash flows are disclosed in the portfolio Financial assets at amortised cost. Due to their current nature the carrying amount of these receivables after a deduction of allowance for impairment (if any) approximates their fair value. Allowances for trade receivables in amount of CZK 410 million (2020: CZK 511 million) are already included in these amounts. For detailed information on allowances for these receivables refer to Note 3.1.5.

8.3 NON-FINANCIAL ASSETS

(CZK million)	**2021**	**2020**
Current non-financial assets		
Tax receivables (excl. income tax)	4,188	5,220
Other	1,145	762
Total	**5,333**	**5,982**

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

9 INVENTORIES

(CZK million)	**Carrying value as at 31 December 2021**	**Carrying value as at 31 December 2020**
Structure of the inventories		
Raw materials, consumables and supplies	10,441	10,850
Work in progress	13,419	5,569
Finished products and goods	7,983	8,151
Hedges on inventories	58	(54)
Total	**31,901**	**24,516**

(CZK million)	**2021**	**2020**
Loss allowance inventories		
Balance as at 1 January	**(1,565)**	**(1,478)**
Additions / reversals allowance provisions for inventories:		
Raw materials, consumables and supplies	(137)	(105)
Work in progress	(16)	(1)
Finished products and goods	36	19
Balance as at 31 December	**(1,682)**	**(1,565)**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2021 was CZK 372,370 million (2020: CZK 365,984 million).

10 CASH AND CASH EQUIVALENTS

(CZK million)	2021	2020
Cash in hand	1	1
Cash pooling	2,717	6,166
Bank accounts	4	2
Cash equivalents	19,700	12,500
Total	**22,422**	**18,669**

The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2021 was 1.53% (as at 31 December 2020: 0%).

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

The weighted average effective interest rate on current cash equivalents including cash pooling based on the carrying amount as of 31 December 2021 was 1.62% (31 December 2020: 0%). The carrying amount of cash equivalents including cash pooling approximates their fair value. Out of the total value of cash equivalents including cash pooling was denominated in CZK: CZK 21,684 million (31 December 2020: CZK 17,322 million) and in EUR: CZK 733 million (31 December 2020: CZK 1,344 million).

11 SHARE CAPITAL

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

The sole shareholder of the Company is VOLKSWAGEN FINANCE LUXEMBURG S.A. based in Strassen, Grand Duchy of Luxembourg. VOLKSWAGEN FINANCE LUXEMBURG S.A. is directly a 100% subsidiary of VOLKSWAGEN AG. Rights to vote on the Company's general meetings and rights to receive dividends are attached to the ordinary shares.

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

There was no movement in the Company's share capital during the accounting period 2021 (2020).

In 2021, the Company paid dividend in the amount of CZK 15,170 million from profit for the year 2020 (2020: CZK 31,680 million).

The dividend per share was CZK 9,079 in 2021 (2020: CZK 18,960).

12 OTHER RESERVES AND RETAINED EARNINGS

12.1 OTHER RESERVES

(CZK million)	2021	2020
Revaluation reserve from equity instruments*	548	217
Reserves for cash flow hedges*	715	1,678
Statutory reserve fund	3,366	3,366
Total	**4,629**	**5,261**

* Net of deferred tax of 19%.

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

Movement in equity instruments revaluation reserve:

(CZK million)	
Balance as at 1 January 2021	**217**
Total change in fair value in the period	409
Deferred tax on change in fair value	(78)
Balance as at 31 December 2021	**548**

(CZK million)	
Balance as at 1 January 2020	**715**
Total change in fair value in the period	(615)
Deferred tax on change in fair value	117
Balance as at 31 December 2020	**217**

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

(CZK million)	Spot component designated for hedging	Term component designated for hedging	Total
Balance as at 1 January 2021	**1,492**	**186**	**1,678**
Total change in fair value in the period	(399)	41	(358)
Deferred tax on change in fair value	76	(8)	68
Total transfers to net profit in the period – effective hedging	(852)	123	(729)
Total transfers to net profit in the period – hedge ineffectiveness	(153)	(7)	(160)
Deferred tax on transfers to profit or loss – effective hedging	162	(23)	139
Deferred tax on transfers to profit or loss – hedge ineffectiveness	29	1	30
Basis adjustments to inventories carrying value – effective hedge	38	20	58
Deferred tax on transfers to inventories	(7)	(4)	(11)
Balance as at 31 December 2021	**386**	**329**	**715**

(CZK million)	Spot component designated for hedging	Term component designated for hedging	Total
Balance as at 1 January 2020	**(212)**	**(407)**	**(619)**
Total change in fair value in the period	3,079	316	3,395
Deferred tax on change in fair value	(585)	(60)	(645)
Total transfers to net profit in the period – effective hedging	(1,141)	371	(770)
Total transfers to net profit in the period – hedge ineffectiveness	274	(11)	263
Deferred tax on transfers to profit or loss – effective hedging	217	(70)	147
Deferred tax on transfers to profit or loss – hedge ineffectiveness	(52)	2	(50)
Basis adjustments to inventories carrying value – effective hedge	(109)	55	(54)
Deferred tax on transfers to inventories	21	(10)	11
Balance as at 31 December 2020	**1,492**	**186**	**1,678**

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

(CZK million)	2021	2020
Sales	(1,411)	(7)
Cost of sales	465	(778)
Other operating income	(119)	(358)
Other operating expense	336	374
Total transfers to profit or loss in the period – effective hedging	**(729)**	**(770)**

12.2 RETAINED EARNINGS

From the total amount of retained earnings of CZK 78,612 million (as at 31 December 2020: CZK 71,372 million) profit for the year 2021, net of tax, amounts to CZK 22,410 million (2020: CZK 15,175 million).

In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2021 (determined in accordance with IFRS) is going to be allocated based on the decision of the Company's annual general meeting. At the date of preparation of these financial statements, no dividend payments have been proposed, and the distribution of the Company's result for the year ended 31 December 2021 has not been approved.

13 FINANCIAL, OTHER AND TRADE LIABILITIES

13.1 FINANCIAL LIABILITIES

Balance as at 31 December 2021 (CZK million)	**Financial liabilities at fair value through profit or loss**	**Financial liabilities carried at amortised cost**	**Financial instruments designated as hedging instruments**	**Total**
Financial non-current liabilities				
Negative fair value of financial derivatives	1	—	1,361	1,362
Leasing liabilities	—	960	—	960
Financial non-current liabilities in total	**1**	**960**	**1,361**	**2,322**
Financial current liabilities				
Negative fair value of financial derivatives	128	—	979	1,107
Leasing liabilities	—	520	—	520
Other	—	93	—	93
Financial current liabilities in total	**128**	**613**	**979**	**1,720**
Total	**129**	**1,573**	**2,340**	**4,042**

Balance as at 31 December 2020 (CZK million)	**Financial liabilities at fair value through profit or loss**	**Financial liabilities carried at amortised cost**	**Financial instruments designated as hedging instruments**	**Total**
Financial non-current liabilities				
Negative fair value of financial derivatives	307	—	780	1,087
Leasing liabilities	—	1,317	—	1,317
Financial non-current liabilities in total	**307**	**1,317**	**780**	**2,404**
Financial current liabilities				
Negative fair value of financial derivatives	335	—	475	810
Leasing liabilities	—	522	—	522
Other	—	44	—	44
Financial current liabilities in total	**335**	**566**	**475**	**1,376**
Total	**642**	**1,883**	**1,255**	**3,780**

In 2021 (2020), a forward component of hedging derivatives recognised in retained earnings as at 31 December 2017 and fair value of derivatives held for trading are disclosed in the portfolio Financial liabilities at fair value through profit or loss (see also Note 3.3.4). In the column Financial liabilities carried at amortised cost are reported lease liabilities in 2021 (2020). In the column Financial derivatives designated as hedging instruments there is the spot component and change in the forward component from 1 January 2018 to 31 December 2021 (2020) relating to the derivatives for currency risk hedging. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4. None of the financial liabilities are secured by a lien.

13.2 TRADE LIABILITIES

All trade liabilities are current in nature.

Balance as at 31 December 2021 (CZK million)	Financial liabilities carried at amortised cost
Trade liabilities	
Third parties	28,499
Subsidiaries	65
Other related parties	29,666
Total	**58,230**

Balance as at 31 December 2020 (CZK million)	Financial liabilities carried at amortised cost
Trade liabilities	
Third parties	38,072
Subsidiaries	210
Other related parties	27,871
Total	**66,153**

Liabilities to a factoring company within the VOLKSWAGEN Group in amount of CZK 2,004 million as at 31 December 2021 (as at 31 December 2020: CZK 2,191 million) are disclosed in line Trade liabilities to other related parties. These liabilities originated in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.

Due to the short term nature of trade liabilities, the carrying amount approximates the fair value. None of the trade liabilities are secured by a lien.

As part of trade liabilities there are advanced payments from customer contracts recognised as at 31 December 2021 in amount of CZK 8,390 million (as at 31 December 2020: CZK 15,624 million) which represents expected future payments to customers for sale bonuses.

13.3 NON-FINANCIAL LIABILITIES

(CZK million)	2021	2020
Non-current non-financial liabilities		
Contract liabilities from considerations received	7,017	6,783
Non-current non-financial liabilities from customer contracts in total	**7,017**	**6,783**
Current non-financial liabilities		
Contract liabilities from considerations received	3,334	3,575
Advances received	3,557	1,832
Other	744	548
Current non-financial liabilities from customer contracts in total	**7,635**	**5,955**
Liabilities to employees	6,322	5,775
Social security	848	838
Tax liabilities	6	8
Current non-financial liabilities in total	**14,811**	**12,576**
Total	**21,828**	**19,359**

In 2021 (2020), contract liabilities from considerations received include mainly consideration received from extended warranty and ŠKODA Connect services which will be rendered in future periods.

14 DEFERRED TAX LIABILITIES AND ASSETS

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

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

(CZK million)	Depreciation	Right-of-use assets	Financial derivatives*	Provisions and refundable considerations	Equity instruments	Other**	Total
Deferred tax liabilities							
Balance as at 1 January 2020	**(6,093)**	**(394)**	**(157)**	**—**	**(168)**	**—**	**(6,812)**
Credited / (debited) to the income statement	(1,114)	52	85	—	—	(234)	(1,211)
Charged to other comprehensive income	—	—	(396)	—	117	—	(279)
Balance as at 31 December 2020	**(7,207)**	**(342)**	**(468)**	**—**	**(51)**	**(234)**	**(8,302)**
Credited / (debited) to the income statement	(459)	66	(234)	—	—	154	(473)
Charged to other comprehensive income	—	—	(11)	—	(78)	—	(89)
Balance as at 31 December 2021	**(7,666)**	**(276)**	**(713)**	**—**	**(129)**	**(80)**	**(8,864)**

(CZK million)	Depreciation	Lease liabilities	Financial derivatives*	Provisions and refundable considerations	Equity instruments	Other**	Total
Deferred tax assets							
Balance as at 1 January 2020	**—**	**400**	**205**	**7,495**	**—**	**1,075**	**9,175**
Credited / (debited) to the income statement	—	(50)	33	265	—	287	535
Charged to other comprehensive income	—	—	(141)	—	—	—	(141)
Balance as at 31 December 2020	**—**	**350**	**97**	**7,760**	**—**	**1,362**	**9,569**
Credited / (debited) to the income statement	—	(69)	74	(98)	—	36	(57)
Charged to other comprehensive income	—	—	237	—	—	—	237
Balance as at 31 December 2021	**—**	**281**	**408**	**7,662**	**—**	**1,398**	**9,749**

(CZK million)	Depreciation	Leases under IFRS 16	Financial derivatives*	Provisions and refundable considerations	Equity instruments	Other**	Total
Deferred tax liabilities and assets net							
Balance as at 31 December 2020	(7,207)	8	(371)	7,760	(51)	1,128	1,267
Balance as at 31 December 2021	**(7,666)**	**5**	**(305)**	**7,662**	**(129)**	**1,318**	**885**

* Further information on financial derivatives is disclosed in Note 2.5.3.

** The category Other includes mainly valuation allowances, temporary differences from accrued liabilities and deferred tax asset from investment incentives.

15 NON-CURRENT AND CURRENT PROVISIONS

	Provisions						
(CZK million)	Warranty claims and recycling	Emission risks	Employee benefits and share-based payment	Litigation risks	Purchase risks	Other business risks	Total
Balance as at 1 January 2020	**20,883**	**—**	**4,746**	**1,094**	**3,657**	**4,006**	**34,386**
Utilised	(2,892)	—	(414)	(11)	(737)	(15)	(4,069)
Additions	5,905	8,097	794	92	1,421	468	16,777
Interest expense	745	—	—	—	—	—	745
Reversals	(1,840)	—	(121)	(56)	(1,984)	(327)	(4,328)
Balance as at 1 January 2021	**22,801**	**8,097**	**5,005**	**1,119**	**2,357**	**4,132**	**43,511**
Utilised	(3,236)	(805)	(435)	—	(541)	(1)	(5,018)
Additions	5,075	45	519	222	3,984	1,811	11,656
Interest expense	(491)	—	—	—	—	—	(491)
Reversals	(2,322)	(406)	(517)	(37)	(159)	(382)	(3,823)
Balance as at 31 December 2021	**21,827**	**6,931**	**4,572**	**1,304**	**5,641**	**5,560**	**45,835**

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

(CZK million)	< 1 year	1–5 years	> 5 years	Total
Balance as at 31 December 2021				
Provisions for warranty claims and recycling	8,967	8,855	4,005	21,827
Provisions for emission risks	6,931	—	—	6,931
Provisions for employee benefits and share-based payment	675	387	3,510	4,572
Provisions for litigation risks	1,304	—	—	1,304
Provisions for purchase risks	5,641	—	—	5,641
Provisions for other business risks	5,560	—	—	5,560
Total	**29,078**	**9,242**	**7,515**	**45,835**

(CZK million)	< 1 year	1–5 years	> 5 years	Total
Balance as at 31 December 2020				
Provisions for warranty claims and recycling	9,961	9,878	2,962	22,801
Provisions for emission risks	8,097	—	—	8,097
Provisions for employee benefits and share-based payment	603	734	3,668	5,005
Provisions for litigation risks	1,119	—	—	1,119
Provisions for purchase risks	2,357	—	—	2,357
Provisions for other business risks	4,132	—	—	4,132
Total	**26,269**	**10,612**	**6,630**	**43,511**

The provision for warranty claims and recycling includes mainly provision for basic guarantees (2-3 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty (except for extended warranty), especially good-will repairs. Furthermore, this provision includes expenses related to the ecological disposal of cars and batteries. This provision also includes expenses related to the ecological disposal of cars and batteries. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines. Provision for extraordinary service actions is recognized at the time of identification of a technical defect in relation to the number of cars sold and the respective estimated rates set for the elimination of defect. Following emissions irregularities discovered at VOLKSWAGEN AG, provisions for warranty repairs include also provision for service action and other expenditures related to technical measures for cars equipped with EA189 engines. The total balance of the provision related to EA189 issue amounted to CZK 940 million in 2021 (as at 31 December 2020: CZK 1,299 million). Expenditures which relate to potential claim settlement will be partly reimbursed to the Company and in connection with the fact stated above, amount receivable from VOLKSWAGEN AG of CZK 208 million was reported in other receivables as at 31 December 2021 (as at 31 December 2020: CZK 195 million).

The provision for covering emission expenditures includes in particular the provision created on the basis of the Company's contractual obligation to the emission pool of the VOLKSWAGEN Group for the EU and UK markets and to the emissions pool of Swiss importers. The Company recognizes a provision for covering emission expenditures based on registered sales of new cars in the EU, Switzerland and UK at the time when the expense is probable and the Company will realize the outflow of economic benefits due to the settlement of the obligation to the relevant emission pool. The Company recognizes a provision in the amount of the best possible estimate of future expenses due to exceeding the permitted emission limits monitored at the level of the emission pool, which are allocated to the Company.

Provisions for employee benefits consist mainly of provision for other long-term employee benefits, provision for termination benefits and provision for share-based payments.

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

The provision for purchase risks is made for future probable expenses from open business negotiations with suppliers, which in 2021 were triggered mainly by the deterioration of the overall economic situation caused by the Covid-19 pandemic, the global shortage of semiconductors on the market, related production volume, the rise in prices of input materials, energy and inflation.

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

16 SALES

(CZK million)	2021	2020
Cars	327,656	343,502
Spare parts and accessories	23,940	21,356
Supplies of components within VOLKSWAGEN Group	50,999	44,847
Income from licence fees within VOLKSWAGEN Group	2,215	3,127
Revenues from services	9,493	7,264
Other	6,893	4,189
Revenue from contracts with customers in total	**421,196**	**424,285**
Gains from derivative transactions - hedging of future sales	1,411	7
Total	**422,607**	**424,292**

In 2021 (2020) line Other relates mainly to sales of used cars, scrap and tooling.

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

Revenue from contracts with customers by geographical regions

2021 (CZK million)	Cars	Spare parts and accessories	Supplies of components within VOLKSWAGEN Group	Income from licence fees within VOLKSWAGEN Group	Revenues from services	Other	Total
Main geographical regions							
Central and Eastern Europe	77,180	10,543	25,829	1,674	2,073	3,187	120,486
Western Europe	220,380	12,771	16,326	53	6,501	3,302	259,333
Overseas /Asia	30,096	626	8,844	488	919	404	41,377
Total	**327,656**	**23,940**	**50,999**	**2,215**	**9,493**	**6,893**	**421,196**
Timing of revenue recognition							
At a point in time	327,656	23,940	50,999	2,215	5,417	6,893	417,120
Over time	—	—	—	—	4,076	—	4,076
Total	**327,656**	**23,940**	**50,999**	**2,215**	**9,493**	**6,893**	**421,196**

2020 (CZK million)	Cars	Spare parts and accessories	Supplies of components within VOLKSWAGEN Group	Income from licence fees within VOLKSWAGEN Group	Revenues from services	Other	Total
Main geographical regions							
Central and Eastern Europe	82,870	9,346	23,826	501	1,822	2,366	120,731
Western Europe	230,987	11,503	15,210	(24)	4,865	1,385	263,926
Overseas /Asia	29,645	507	5,811	2,650	577	438	39,628
Total	**343,502**	**21,356**	**44,847**	**3,127**	**7,264**	**4,189**	**424,285**
Timing of revenue recognition							
At a point in time	343,502	21,356	44,847	3,127	4,438	4,189	421,459
Over time	—	—	—	—	2,826	—	2,826
Total	**343,502**	**21,356**	**44,847**	**3,127**	**7,264**	**4,189**	**424,285**

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

(CZK million)	2021	2020
Revenue classified as contract liabilities at the beginning of the period	**3,267**	**2,645**
of which:		
Extended warranty	2,252	1,330
Services	862	828
Licence fees	153	487
Revenue recognised from the performance obligations satisfied in prior periods – release of provisions and accruals relating to change in transaction price	**2,920**	**1,375**

The amount of the transaction price which has not yet been recognised as revenue at 31 December 2021 (31 December 2020) in relation to extended warranty, licences and services for which the realisation timing is more than one year is disclosed in the following table:

(CZK million)	2022	2023 – 2026
Revenue arising from contract liability expected to be satisfied in the following periods		
Extended warranty	2,466	6,052
Services	868	965
Licence fees	—	—
Total revenue	**3,334**	**7,017**

(CZK million)	2021	2022 – 2025
Revenue arising from contract liability expected to be satisfied in the following periods		
Extended warranty	2,560	5,963
Services	862	820
Licence fees	153	—
Total revenue	**3,575**	**6,783**

In addition to Revenue arising from contract liability expected to be satisfied in the following periods the Company had in 2021 (2020) contract liabilities for cars. The Company did not use any practical expedient for revenue disclosures and did not incur any costs to obtain contracts with customers.

17 OTHER OPERATING INCOME

(CZK million)	2021	2020
Income from licence fees not relating to the ordinary activities	235	262
Foreign exchange gains	7,597	8,021
Gains from derivative transactions	3,757	2,388
Gains on non-current assets disposal	11	20
Reversal of provisions	37	229
Reversal of loss allowance provision for receivables	260	447
Other	1,979	1,141
Total	**13,876**	**12,508**

Other in 2021 (2020) includes mostly re-invoicing of expenses.

Foreign exchange gains include mainly gains from differences in exchange rates between the dates of recognition and payment of receivables and payables denominated in foreign currencies, as well as exchange rate gains resulting from translation as at the balance sheet date of these receivables and payables. Foreign exchange losses from these items are included in other operating expenses.

18 OTHER OPERATING EXPENSES

(CZK million)	2021	2020
Foreign exchange losses	4,277	9,084
Losses from derivative transactions	1,257	2,434
Receivables write-offs and impairments	163	261
Additions to provisions for litigation risks and provisions for other business risks	239	560
Other	1,084	10
Total	**7,020**	**12,349**

19 FINANCIAL RESULT

(CZK million)	2021	2020
Interest income	586	229
Foreign exchange gains from cash	131	1,248
Foreign exchange gains from spot operations	43	74
Dividend income	601	1,289
Other financial income	1,099	2
Total financial income	**2,460**	**2,842**
Interest expense of lease liabilities	51	63
Other interest expense	15	745
Foreign exchange losses from cash	430	1,131
Foreign exchange losses from spot operations	49	89
Factoring fees	188	237
Other financial expenses	623	30
Total financial expenses	**1,356**	**2,295**
Net financial result	**1,104**	**547**

Dividend income in 2021 includes mainly dividend income of CZK 507 million from the investment in SAIC (2020: CZK 705 million).

20 NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

(CZK million)	2021	2020
Financial instruments at fair value through profit or loss	2,717	(30)
Financial assets at amortised cost	(1,561)	428
Financial assets at fair value through other comprehensive income	507	705
Financial liabilities carried at amortised cost	2,063	(1,172)
Financial instruments designated as hedging instruments	783	770
Net gains / (losses) in profit or loss	**4,509**	**701**
Financial instruments designated as hedging instruments	(1,189)	2,834
Financial assets at fair value through other comprehensive income	409	(615)
Net gains / (losses) in profit or loss through other comprehensive income	**(780)**	**2,219**
Total net gains / (losses)	**3,729**	**2,920**

Gains less losses from financial derivatives held for trading are recognized in Financial instruments at fair value through profit or loss in 2021 (2020).

Unrealized and realized foreign exchange gains / losses on receivables, foreign exchange gains / losses on bank deposits, impairment losses on financial assets and losses on derecognition of financial assets at amortized cost are recognized in Financial assets at amortized cost in 2021 (2020). In 2021, the gain/loss on derecognized financial assets at amortized cost amounted to CZK 192 million (2020: CZK 244 million).

Unrealized and realized foreign exchange gains / losses from liabilities are mainly recognized in Financial liabilities carried at amortised cost in 2021 (2020).

In 2021 (2020), Financial assets at fair value through other comprehensive income include income from dividends from investments in equity instruments recognized in the income statement and gains / losses from revaluation of equity investments carried at fair value in other comprehensive income.

Financial instruments designated as hedging instruments include in 2021 (2020) gains and losses from financial instruments designated as hedging instruments recognized in the income statement and revaluation gain sand losses on Financial instruments designated as hedging instruments recognized in other comprehensive income.

Further information on net gains and losses on financial instruments recognized in other comprehensive income is disclosed in Note 12.

21 INCOME TAX

(CZK million)	2021	2020
Current tax expense	**4,380**	**2,012**
of which: adjustment in respect of prior years	(7)	(153)
Deferred tax	**530**	**676**
Income tax total	**4,910**	**2,688**

Statutory income tax rate in the Czech Republic for the 2021 assessment period was 19% (2020: 19%).

As at 31 December 2021 and 31 December 2020, 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)	2021	2020
Profit before tax	27,320	17,863
Expected income tax expense	**5,191**	**3,394**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(341)	(300)
Expenses not deductible for tax purposes	267	363
Tax allowances and other tax credits*	(269)	(329)
Adjustment to current tax expense relating to prior periods	(7)	(153)
Recognition of deferred tax assets from unused tax credits from investment incentives	(8)	(393)
Other taxation effects	77	107
Income tax expense	**4,910**	**2,688**
Effective income tax rate	18%	15%

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

22 SUBSIDIES, GOVERNMENT GRANTS AND INVESTMENT INCENTIVES

In 2021, the Company recognised income from subsidies for non-investment projects in research and development, increased qualifications of employees and mobility of students and teachers from high schools (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 83 million (2020: CZK 76 million).

In 2021, the Company did not receive contributions from the government's "Antivirus program" or any other programs. In 2020, the Company received a contribution to full or partial wage compensation under the government's "Antivirus program" in the total amount of CZK 1,237 million during the period of shutdown and production restrictions). For more information on this contribution refer to Notes 1.3 and 2.14.

Investment incentives

To be granted the investment incentives, the Company has to meet the General conditions of paragraph 2 art. 2 of the Act No. 72/2000 Coll., on Investment Incentives, as amended and conditions of paragraph 6a art. 2 and 5 of the same act and Special conditions paragraph 35b of the Act No. 586/1992 Coll., on Income Tax as amended. For the investment incentives granted to the Company, the total amount of the incentive is always dependent on the amount invested.

The following table summarises granted investment incentives and their use in 2021:

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

The following table summarises granted investment incentives and their use in 2020:

Investment incentive (CZK million)	**Maximum amount of the investment incentive**	**Recognised deferred tax asset from investment incentives**	**Utilisation of tax credits from investment incentives**
Enlargement of the production assortment for the production of electric vehicles	401	393	—
Total	**401**	**393**	**—**

23 COMMITMENTS AND CONTINGENCIES

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

(CZK million)	Payable until year 2022	Payable 2023–2026	31 December 2021
Capital commitments – property, plant and equipment	4,790	1,478	6,268
Capital commitments – intangible assets	14,774	11,865	26,639
Future lease payments for short-term and low-value leases	212	706	918

(CZK million)	Payable until year 2021	Payable 2022–2025	31 December 2020
Capital commitments – property, plant and equipment	3,852	354	4,206
Capital commitments – intangible assets	12,615	5,515	18,130
Future lease payments for short-term and low-value leases	222	744	966

In 2021 (2020), the Company leased especially office equipment and pallets for transport based on the short-term and low-value lease agreements. Cash outflows from the options to extend leases were CZK 201 million (2020: CZK 320 million) in 2021 (2020) and cash flows from options for lease terminations were CZK 1 million (2020: CZK 1 million).

The Company is committed to ensure the availability of spare parts for ŠKODA vehicles for a period of at least 10 years after the end of production of individual models or their import. Given the nature and substance of this commitment, it cannot be reliably measured.

24 EXPENSES BY NATURE

(CZK million)	2021	2020
Material costs – raw materials and other supplies, goods	294,388	295,752
Production related services	10,027	5,988
Personnel costs	39,746	37,091
Wages	30,162	27,285
Pension benefit costs (defined contribution plans) incl. employer's contribution	6,043	5,914
Social insurance and other personnel costs	3,541	3,892
Depreciation, amortisation, impairment losses and reversal of impairment losses	26,556	25,712
Depreciation, amortisation lease and impairment losses	546	539
Low-value leases expense	94	165
Short-term lease expense	93	96
Other services	31,797	41,793
Total cost of sales, distribution and administrative expenses	**403,247**	**407,135**
Number of employees		
Number of employees*	38,716	37,728

* Average number of employees including temporary employees and without apprentices

The item other services mainly includes costs for advertising services and transport.

25 RELATED PARTY TRANSACTIONS

The sole shareholder of the Company was VOLKSWAGEN FINANCE LUXEMBURG S.A. during the whole accounting period ended 31 December 2021 (31 December 2020).

VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period ended 31 December 2021 (31 December 2020).

Items in category Other related parties are companies under joint control of VOLKSWAGEN AG, however, for the purposes of compiling the Report on relations they do not meet the definition of an entity controlled by the same controlling entity pursuant to paragraph 74 of the Act No. 90/2012 Coll., Business Corporations Act, as amended.

Capital transactions with subsidiaries and associates are disclosed in Notes 6 and 7.

THE COMPANY PARTICIPATED IN THE FOLLOWING TRANSACTIONS WITH RELATED PARTIES

Sales to related parties

(CZK million)	2021	2020
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	12,776	10,249
Subsidiaries		
ŠKODA AUTO Slovensko s.r.o.	6,581	7,916
ŠKODA AUTO DigiLab s.r.o.	—	10
ŠKODA AUTO DigiServices s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	—	3
Associates		
OOO Volkswagen Group Rus	22,200	21,808
SKODA AUTO Volkswagen India Private Ltd.	5,570	2,427
ŠKO-ENERGO s.r.o.	—	15
ŠKO-ENERGO FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	—	2
Companies controlled by ultimate parent company	**246,027**	**279,205**
Other related parties	**607**	**899**
Total	**293,761**	**322,534**

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

In addition to revenue specified in the table Sales to related parties, in 2021 (2020) the Company also earned income from licence fees:

(CZK million)	2021	2020
Income from licence fees within VOLKSWAGEN Group		
Ultimate parent company	—	—
Subsidiaries	—	—
Associates	1,689	511
Other related parties	526	2,616
Total	**2,215**	**3,127**

In addition to the revenue specified in the table Sales to related parties, in 2021 (2020) the Company also earned income from related parties transactions relating to interest from intercompany loans and deposits:

(CZK million)	2021	2020
Interest income from loans and deposits		
Ultimate parent company	—	—
Companies controlled by ultimate parent company	74	206
Total	**74**	**206**

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

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

Purchases from related parties

(CZK million)	2021	2020
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	75,441	68,796
Subsidiaries		
ŠKODA AUTO Slovensko s.r.o.	127	115
ŠKODA AUTO DigiLab s.r.o.	232	219
ŠKODA AUTO DigiServices s.r.o.	8	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	12	30
SKODA AUTO Volkswagen India Private Ltd.	2,146	1,648
ŠKO-ENERGO s.r.o.	2,452	2,130
ŠKO-ENERGO FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	719	450
Companies controlled by ultimate parent company	**30,005**	**35,719**
Other related parties	**16**	**955**
Total	**111,158**	**110,062**

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

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

Receivables from related parties

The receivables listed in the following table include only trade receivables and, where applicable, receivables from licenses for all listed categories of related parties.

(CZK million)	31 December 2021	31 December 2020
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	3,010	3,936
Subsidiaries		
ŠKODA AUTO Slovensko s.r.o.	429	638
ŠKODA AUTO DigiLab s.r.o.	6	6
ŠKODA AUTO DigiServices s.r.o.	—	1
UMI Urban Mobility International Česká republika s.r.o.	—	8
Associates		
OOO Volkswagen Group Rus	2,218	6,747
SKODA AUTO Volkswagen India Private Ltd.	2,688	915
ŠKO-ENERGO s.r.o.	21	53
ŠKO-ENERGO FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	5	—
Companies controlled by ultimate parent company	**10,619**	**15,207**
Other related parties	**1,600**	**2,034**
Total	**20,596**	**29,545**

Receivables from licence fees are specified below.

(CZK million)	31 December 2021	31 December 2020
Receivables licence fees		
Ultimate parent company	—	—
Subsidiaries	—	—
Associates	347	518
Other related parties	1,287	1,420
Total	**1,634**	**1,938**

In addition to trade receivables and receivables from licence fees, the Company as at 31 December 2021 also had deposits including cash pooling in companies controlled by ultimate parent company in the nominal amount of CZK 22,417 million (as at 31 December 2020: CZK 18,666 million). Receivables from interest from the loans as at 31 December 2021 amounted to CZK 27 million (as at 31 December 2020: CZK 0 million). The weighted average effective interest rate on current deposits with original maturity less than three months (including cash pooling) is disclosed in Note 10. In addition to that, the Company also had receivable from its ultimate parent company VOLKSWAGEN AG amounting to CZK 310 million as at 31 December 2021 relating mainly to the claim refund necessary for settlement of the provision described in Note 15 (as at 31 December 2020: CZK 297 million). Receivables from related parties are considered by the Company to be of the least risk. The products delivered to the related parties are supplied on credit terms or the resulting receivables are transferred to factoring companies. Amount of allowances for receivables due as stated in credit terms is determined according to simplified approach using provision matrix described in Note 3.1.5. No impairment loss was identified for any of the receivables transferred to factoring companies. The value of receivables from related parties that will be subject to factoring is stated in Note 8.2. Further information on these receivables classified in the FVPL portfolio is provided in Notes 2.5.1 and 3.1.3. As at 31 December 2021, the Company had open receivables from the factoring companies of the VOLKSWAGEN Group in the amount of CZK 0 million (as at 31 December 2020: CZK 572 million). Furthermore, in 2021, the Company assigned its trade receivables to these factoring companies in the amount of CZK 237 813 million (2020: CZK 231 618 million).

Liabilities to related parties

The liabilities listed in the following table include only trade payables for all listed categories of related parties.

(CZK million)	31 December 2021	31 December 2020
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	14,034	7,156
Subsidiaries		
ŠKODA AUTO Slovensko s.r.o.	8	147
ŠKODA AUTO DigiLab s.r.o.	55	62
ŠKODA AUTO DigiServices s.r.o.	2	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	188	87
SKODA AUTO Volkswagen India Private Ltd.	874	1,101
ŠKO-ENERGO s.r.o.	226	157
ŠKO-ENERGO FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	134	101
Companies controlled by ultimate parent company	**12,620**	**15,225**
Other related parties	**1,590**	**4,045**
Total	**29,731**	**28,081**

Trade payables also include payables to a factoring company within the VOLKSWAGEN Group in the amount of CZK 2,004 million as at 31 December 2021 (31 December 2020: CZK 2,191 million). For more information on these payables refer to Note 13.2.

The Company has a factoring agreement with ŠkoFIN s.r.o., according to which ŠkoFIN s.r.o. can claim compensation for realized credit losses under certain conditions. Detailed information on this financial guarantee is disclosed in Note 3.1.6.

Other related party transactions

In 2021 and 2020, the Company entered into internal derivative contracts directly with the ultimate parent company VOLKSWAGEN AG to hedge currency and price risk. As at 31 December 2021, the fair value of receivables from internal derivative contracts was CZK 1,312 million (31 December 2020: CZK 268 million). The fair value of liabilities from internal derivative contracts amounted to CZK 1,361 million as at 31 December 2021 (31 December 2020: CZK 409 million). Further information on internal derivatives for currency risk hedging is disclosed in Note 3.3.4. Information on Investments in subsidiaries is disclosed in Note 6, information on Investments in associates is disclosed in Note 7 and information on Investments in equity instruments issued by related parties is disclosed in Note 8.1. Based on the contractual obligation arising from the membership in the emission pool of the companies of the VOLKSWAGEN Group, the Company recognized a provision for covering emission expenditures in 2021. As at 31 December 2021, the total amount of the provision for covering emission expenditures in EU and UK was CZK 6,931 million (as at 31 December 2020: CZK 7,283 million). Further information on this provision is disclosed in Note 15.

(CZK million)	31 December 2021	31 December 2020
Contractual obligations and other future commitments		
Ultimate parent company	26,663	17,513
Subsidiaries	—	—
Associates	—	—
Companies controlled by ultimate parent company	745	1,647
Total	**27,408**	**19,160**

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)	2021	2020
Salaries and other short-term employee benefits*	757	713
Pension benefit costs (defined contribution plans)	22	22
Share-based payment	126	250
Total	**905**	**985**

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

Key management personnel include members of the Board of Management, the Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company.

CZK 391 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2021 (31 December 2020: CZK 488 million).

The remuneration system for key management members consists of a fixed and variable part. Variable remuneration consists of an annual bonus dependent on the ROI and ROS result for ŠKODA AUTO including its subsidiaries and for the VOLKSWAGEN Group within the one-year evaluation period and from long-term incentives in the form of so-called Performance Shares Plan with three-year period tied to the future development of priority shares of the company VOKLSWAGEN AG (share-based payments). For more details refer to Note 2.17. A total of 26,255 performance shares were allocated to key management members in 2021 (2020: 31,116 performance shares).

The total target amounts for certain key members of the Company's management for the 2021-2023 performance period amounted as of grant date 1 January 2021 to CZK 117 million (for the 2020 – 2022 period as of grant date 1 January 2020 amounted to CZK 141 million). The corresponding costs of CZK 146 million (2020: CZK 261 million) were reported as personnel costs (Note 24). Should the beneficiaries of the Performance Shares Plan leave the Company as of 31 December 2021, the intrinsic value of the vested share-based payments would amount to a total of CZK 99 million (2020: CZK 124 million).

The remuneration system was modified also for other key members of the Company's management at the end of 2019 effective from 1 January 2020. The new system of remuneration of these additional key management members consists of a fixed and variable part. Variable remuneration consists of an annual bonus dependent on the ROI and ROS result for ŠKODA AUTO including its subsidiaries and also for the VOLKSWAGEN Group within the one-year evaluation period and from long-term bonus dependent on the price development of VOLKSWAGEN AG's preference shares (including dividend and EPS*) for the past three years. For more details refer to Note 2.17.

*EPS Earnings per share

26 OTHER INFORMATION

The compensation paid to the Company's auditors for the accounting period 2021 was CZK 94 million (2020: CZK 94 million) and covered the following services:

(CZK million)	2021	2020
Audit of annual financial statements	18	15
Other assurance services	8	8
Tax and related services	1	2
Other advisory services	67	69
Total	**94**	**94**

27 CONTINGENT LIABILITIES

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

In some countries (especially in Belgium, the Netherlands, the Czech Republic and the United Kingdom), there are judicial proceedings conducted on the basis of collective actions or legal instruments of similar nature against the Company and other companies of the VOLKSWAGEN Group or also against other persons, which assert, inter alia, claims for monetary compensation. Given that in many cases the proceedings are not yet at a later stage, or the actions filed are seeking declaratory decisions, the amount of the claims asserted cannot yet be quantified with certainty. The last year has not brought any significant new knowledge, which would enable reliable specification of the claims.

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

Currently, it is impossible to reliably estimate the number of customers who will use the possibility to bring their alleged claims against the Company by filing a lawsuit in the future, nor what the chances of success of such claims will be. Likewise, it is not possible to reliably estimate how many customers bring their alleged claims against dealers, service partners and importers of ŠKODA brand, what actions they will seek and what will be the extent of their success. However, it can be expected that the chances of success will continue to decline as more time passes since the EA 189 theme became known in September 2015. It can be also expected that dealers, service partners and importers of ŠKODA brand who would not be successful in disputes started by customers, could then exercise alleged recourse claims against the Company.

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

28 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

As at the preparation date of the Financial Statements, there is a risk that developments of the Russian-Ukrainian conflict could have a negative impact on the Company's business activities, including the risk of supply chain constraints.

The Company has no subsidiaries or equity investments in Ukraine. In Russia, the Company owns a 16.8% investment share in a company OOO Volkswagen Group Rus that may be impacted in particular by the sanctions currently adopted and further political and economic developments in Russia.

The Company's business activities in these two countries do not have a material impact on the Company's earnings and financial position and there is no risk of material impairment of the assets recognised in the financial statements as at 31 December 2021.

As at the preparation date of the Financial Statements, it is not possible to predict with sufficient degree of certainty the extent to which further escalation of the Russian-Ukrainian conflict will affect the global economy in 2022 and at the same time an adverse effect on the Company's results of operations, financial position and net assets cannot be ruled out.

29 INFORMATION ABOUT VOLKSWAGEN GROUP

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG, with a registered office in Wolfsburg, the Federal Republic of Germany.

The VOLKSWAGEN Group consists of two divisions – Automotive and Financial Services. The activities related to the Automotive Division include the development of cars and aggregates, production and sale of passenger and commercial cars, trucks, buses and motorcycles as well as the business with spare parts, large-bore diesel engines and turbomachinery. The following brands belong to VOLKSWAGEN Group: Audi, Bentley, CARIARD, CUPRA, Ducati, Lamborghini, MAN, MOIA, Navistar, Porsche, Scania, SEAT, ŠKODA, TRATON, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles.

The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services and the fleet management.

ŠKODA AUTO and its subsidiaries (see Note 6) and its investments in associates (see Note 7) are included in the consolidation of VOLKSWAGEN Group's financial statements. These consolidated financial statements, and other information relating to the VOLKSWAGEN Group, are available in the annual report of VOLKSWAGEN AG and on its internet site (www.volkswagenag.com).

Mladá Boleslav, 4 March 2022

The Board of Management:

Thomas Schäfer

Maren Gräf

Martin Jahn

Johannes Neft

Michael Oeljeklaus

Christian Schenk

Karsten Schnake

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

The original of the Separate Financial Statements was signed with a qualified electronic signature.

REPORT ON RELATIONS

OF THE COMPANY ŠKODA AUTO A.S. PURSUANT TO THE PROVISIONS OF SECTION 82 OF ACT NO. 90/2012 COLL., ON COMMERCIAL COMPANIES AND COOPERATIVES (HEREINAFTER REFERRED TO AS THE "BUSINESS CORPORATIONS ACT") FOR THE ACCOUNTING PERIOD 1 JANUARY – 31 DECEMBER 2021

The Board of Management of ŠKODA AUTO a.s., having its registered office tř. Václava Klementa 869, Mladá Boleslav II, 293 01 Mladá Boleslav, identification number 00177041, registered in the Commercial Register kept by Municipal Court in Prague, Section B, Insert 332, with File No. Rg. B 332 (hereinafter referred to as "the Company" or "ŠKODA AUTO"), prepared the following Report on Relations pursuant to the provision of § 82 of Business Corporations Act, in the accounting period 1 January – 31 December 2021 (hereinafter referred to as "the Period").

1 STRUCTURE OF RELATIONS

The Company has been a part of VOLKSWAGEN Group (hereinafter referred to as "the Group") for the whole Period, where the controlling entity is VOLKSWAGEN AG (hereinafter referred to as „VOLKSWAGEN" or "the Controlling Entity").

ŠKODA AUTO company was in the Period indirectly controlled by VOLKSWAGEN AG based at Berliner Ring 2, 384 40 Wolfsburg, Federal Republic of Germany through VOLKSWAGEN FINANCE LUXEMBURG S.A. seated in Luxembourg, 19/21 route d'Arlon, L-8009, Grand Duchy of Luxembourg, which is the sole shareholder of the Company.

The Controlling Entity is the ultimate parent company of the Group, the activities of which comprise especially the development of vehicles and aggregates, automotive software, the production and sale of passenger and commercial cars, trucks, buses, and motorcycles, as well as business with spare parts, large-bore diesel engines and turbo machinery (via brands Audi, Bentley, CARIAD, CUPRA, Ducati, Lamborghini, MAN, MOIA, Navistar, Porsche, SEAT, ŠKODA, TRATON, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles). In addition, the Group engages in financial services segment in activities related to the dealer and customer financing, leasing, banking and insurance services, and the fleet management.

Information about the structure of relations is stated as at 31 December 2021, based on the information available to the statutory body of the Company acting with due managerial care. The ownership structure of ŠKODA AUTO is graphically illustrated in the Appendix. The ownership structure of the Controlling Entity of VOLKSWAGEN AG is available on the website www.volkswagenag.com/ir.

2 FUNCTION OF THE COMPANY WITHIN THE GROUP

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

3 MEANS OF CONTROL

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

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

The Company deposits surplus liquidity with Volkswagen Group Services S.A. in the form of deposits and cash pooling at the instigation of the Controlling Entity in the usual way applied within the Group. As at 31 December 2021, the value of cash equivalents amounted to CZK 19,700 million and the value of cash pooling amounted to CZK 2,717 million. CZK. The value of interest income on loans and deposits for 2021 was CZK 74 million.

Based on the Decision of the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. from 18 March 2021, ŠKODA AUTO paid a dividend of CZK 15,170 million on 12 April 2021 to the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A.

The Company has not carried out any other transactions during the Period concerning assets exceeding 10% of the Company's equity per the last individual financial statements as at 31 December 2020.

In 2021, dividends and share in profit of CZK 61 million were paid out to the Company by the subsidiaries. In 2021, dividends and share in profit of CZK 33 million were paid out to the Company by the associates.

5 OVERVIEW OF THE CONTRACTS WITHIN THE GROUP

During the Period, agreements existed or were newly concluded between ŠKODA AUTO and VOLKSWAGEN and between ŠKODA AUTO and companies controlled by VOLKSWAGEN in the following areas:

5.1 SALE OF OWN PRODUCTS, GOODS AND SERVICES

a) vehicles

In the context of car sales, ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- Audi Volkswagen Taiwan Co., Ltd.
- MAN Truck & Bus Slovenija d.o.o.
- OOO Volkswagen Group Rus
- Porsche Albania Sh.p.k.
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Croatia d.o.o.
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Chile S.p.A.
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Macedonia d.o.o.e.l.
- Porsche Romania S.R.L.
- SEAT, S.A.
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
- SKODA AUTO Deutschland GmbH
- ŠKODA AUTO Slovensko, s.r.o.
- ŠkoFIN s.r.o.
- Volkswagen Group Australia Pty. Ltd.
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group France S.A.
- Volkswagen Group Ireland Ltd.
- Volkswagen Group Italia S.p.A.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Singapore Pte. Ltd.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.

b) genuine parts

In the context of genuine parts sales, ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- Audi Volkswagen Taiwan C+A2:B21o., Ltd.
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Colombia S.A.S.
- Porsche Croatia d.o.o.
- Porsche Česká republika s.r.o.
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Chile S.p.A.
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Konstruktionen GmbH & Co. KG
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovakia, spol. s r.o.
- Porsche Slovenija d.o.o.
- SEAT, S.A.
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
- SKODA AUTO Deutschland GmbH
- ŠKODA AUTO Volkswagen India Pvt. Ltd.
- ŠKODA AUTO Slovensko, s.r.o.
- VOLKSWAGEN AG
- Volkswagen de México, S.A. de C.V.
- Volkswagen Group Australia Pty. Ltd.
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group France S.A.
- Volkswagen Group Ireland Ltd.
- Volkswagen Group Italia S.p.A.
- Volkswagen Group of America, Inc.
- Volkswagen Group Polska Sp. z o.o.
- OOO Volkswagen Group Rus
- Volkswagen Group Singapore Pte. Ltd.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen of South Africa (Pty) Ltd., Uitenhage

c) others

In the context of sale of services, licenses, aggregates, bodyworks and other products, ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- AUDI AG
- Audi Brussels S.A./N.V.
- Audi Hungaria Zrt.
- Bentley Motors Ltd.
- Connectivity Lab s.r.o.
- Digiteq Automotive s.r.o.
- HoppyGo Czechia s.r.o.
- HoppyGo Poland Sp. z o.o.
- HoppyGo s.r.o.
- INIS International Insurance Service s.r.o.
- Mobility Lab s.r.o.
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- Porsche Česká republika s.r.o.
- Porsche Konstruktionen GmbH & Co. KG
- Porsche Slovenija d.o.o.
- Porsche Werkzeugbau s.r.o.
- SEAT CUPRA S.A.
- SEAT, S.A.
- Shanghai Volkswagen Powertrain Co., Ltd.
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
- SKODA AUTO Deutschland GmbH
- ŠKODA AUTO DigiLab s.r.o.
- ŠKODA AUTO DigiServices s.r.o.
- ŠKODA AUTO Slovensko, s.r.o.
- ŠKODA AUTO Volkswagen India Pvt. Ltd.
- ŠKO-ENERGO FIN s.r.o.
- ŠKO-ENERGO s.r.o.
- Volkswagen (China) Investment Co., Ltd.
- VOLKSWAGEN AG
- Volkswagen Argentina S.A.
- Volkswagen de México, S.A. de C.V.
- Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
- Volkswagen Financial Services Digital Solutions GmbH
- Volkswagen Group Australia Pty. Ltd.
- Volkswagen Group France S.A.
- Volkswagen Group Import Co., Ltd.
- Volkswagen Group Malaysia Sdn. Bhd.
- Volkswagen Group of America Chattanooga Operations, LLC
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Real Estate Czech Republic s.r.o.
- Volkswagen Group United Kingdom Ltd.
- Volkswagen Immobilien GmbH
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Osnabrück GmbH
- Volkswagen Poznan Sp. z o.o.
- VOLKSWAGEN SACHSEN GmbH
- Weser-Ems Vertriebsgesellschaft mbH

5.2 PURCHASE OF GOODS, SERVICES AND NON-CURRENT ASSETS

a) production material

In the context of purchases of production material, ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- AUDI AG
- Audi Brussels S.A./N.V.
- Audi Hungaria Zrt.
- Digiteq Automotive s.r.o.
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- Porsche Werkzeugbau GmbH
- SEAT, S.A.
- Shanghai Volkswagen Powertrain Co., Ltd.
- SITECH Sitztechnik GmbH
- SITECH Sp. z o.o.
- SKODA AUTO Deutschland GmbH
- ŠKODA AUTO Volkswagen India Pvt. Ltd.
- ŠKO-ENERGO s.r.o.
- ŠkoFIN s.r.o.
- VOLKSWAGEN AG
- Volkswagen Argentina S.A.
- Volkswagen Autoeuropa, Lda.
- Volkswagen Automatic Transmission (Dalian) Co., Ltd.
- Volkswagen de México, S.A. de C.V.
- Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
- Volkswagen Group Logistics GmbH
- Volkswagen Group of America, Inc.
- Volkswagen Group Services GmbH
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Konzernlogistik GmbH & Co. OHG
- Volkswagen Motor Polska Sp. z o.o.
- Volkswagen Navarra, S.A.
- Volkswagen of South Africa (Pty) Ltd.
- Volkswagen Osnabrück GmbH
- Volkswagen Poznan Sp. z o.o.
- Volkswagen Sachsen GmbH
- Volkswagen Sarajevo d.o.o.
- Volkswagen Slovakia, a.s.
- Volkswagen Transmission (Shanghai) Co., Ltd.
- Volkswagen Navarra, S.A.
- Volkswagen de México, S.A. de C.V.
- Volkswagen Original Teile Logistik GmbH & Co. KG

b) overheads

In the context of purchases of indirect material and services (including research and development cooperation, IT services, software and hardware supplies, customer services consultancy), ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- AUDI AG
- Audi Brussels S.A./N.V.
- Audi Business Innovation GmbH
- Audi Hungaria Zrt.
- Audi Planung GmbH
- Audi Volkswagen Taiwan Co., Ltd.
- Automotive Safety Technologies GmbH
- Autostadt GmbH
- CARIAD SE
- Digiteq Automotive s.r.o.

- Dr. Ing. h.c. F. Porsche AG
- dx.one GmbH
- EURO-Leasing GmbH
- HoppyGo Czechia s.r.o.
- Italdesign Giugiaro S.p.A.
- MHP Management- und IT-Beratung GmbH
- Mobility Asia Smart Technology Co., Ltd.
- Nardò Technical Center S.r.l.
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Croatia d.o.o.
- Porsche Česká republika s.r.o.
- Porsche Engineering Services s.r.o.
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Chile S.p.A.
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovenija d.o.o.
- Porsche Werkzeugbau GmbH
- Scania Czech Republic s.r.o.
- SEAT, S.A.
- Shanghai Volkswagen Powertrain Co., Ltd.
- SITECH Sitztechnik GmbH
- SITECH Sp. z o.o.
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
- SKODA AUTO Deutschland GmbH
- ŠKODA AUTO DigiLab s.r.o.
- ŠKODA AUTO DigiServices s.r.o.
- ŠKODA AUTO Slovensko, s.r.o.
- ŠKODA AUTO Volkswagen India Pvt. Ltd.
- ŠKO-ENERGO s.r.o.
- ŠkoFIN s.r.o.
- Volkswagen (China) Investment Co., Ltd.
- VOLKSWAGEN AG
- Volkswagen AirService GmbH
- Volkswagen Argentina S.A.
- Volkswagen Autoeuropa, Lda.
- Volkswagen de México, S.A. de C.V.
- Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
- Volkswagen Gebrauchtfahrzeughandels und Service GmbH
- Volkswagen Group Australia Pty. Ltd.
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group France S.A.
- Volkswagen Group Charging GmbH
- Volkswagen Group Ireland Ltd.
- Volkswagen Group Italia S.p.A.
- Volkswagen Group of America, Inc.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Services GmbH
- Volkswagen Group Services Kft.
- Volkswagen Group Services, s.r.o.
- Volkswagen Group Singapore Pte. Ltd.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen Infotainment GmbH
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Konzernlogistik GmbH & Co. OHG
- Volkswagen Motor Polska Sp. z o.o.
- Volkswagen Navarra, S.A.
- Volkswagen Navarra, S.A.
- Volkswagen of South Africa (Pty) Ltd.
- Volkswagen Osnabrück GmbH
- Volkswagen Payments S.A.
- Volkswagen Sachsen GmbH
- Volkswagen Software Asset Management GmbH
- Volkswagen Software Asset Management GmbH
- Volkswagen Zubehör GmbH
- VW Kraftwerk GmbH

c) genuine parts

In the context of purchases of genuine parts, ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- OOO Volkswagen Group Rus
- SITECH Sp. z o.o.
- VOLKSWAGEN AG
- Volkswagen Motor Polska Sp. z o.o.
- Volkswagen Slovakia, a.s.
- Volkswagen Original Teile Logistik GmbH & Co. KG

d) non-current assets

In the context of purchases of non-current assets, ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- Audi Brussels S.A./N.V.
- Digiteq Automotive s.r.o.
- Dr. Ing. h.c. F. Porsche AG
- MHP Management- und IT-Beratung GmbH
- SKODA AUTO Deutschland GmbH
- ŠKO-ENERGO s.r.o.
- VOLKSWAGEN AG
- Volkswagen Group Services GmbH

5.3 OTHER CONTRACTUAL RELATIONSHIPS

In the context of other contractual relationships (particularly marketing services, training, sales support, financial services, consultancy, production of cars, purchase of capital interests, system and other support), ŠKODA AUTO had contractual relationships in force in the Period (concluded in the Period or in previous years) with the following companies:

- Audi (China) Enterprise Management Co., Ltd.
- Audi Business Innovation GmbH
- Audi Hungaria Zrt.
- Audi México S.A. de C.V.
- Audi Volkswagen Middle East FZE
- Audi Volkswagen Taiwan Co., Ltd.
- Auto Union GmbH
- Bentley Motors Ltd.
- CARIAD SE
- Digiteq Automotive s.r.o.
- HoppyGo Czechia s.r.o.
- INIS International Insurance Service s.r.o.
- Konnect with the Volkswagen Group Ltd.
- MAN Truck & Bus SE
- OOO Volkswagen Group Rus
- Porsche Albania Sh.p.k.
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Colombia S.A.S.
- Porsche Croatia d.o.o.
- Porsche Česká republika s.r.o.
- Porsche Engineering Services s.r.o.
- Porsche Hungaria Kereskedelmi Kft.
- Porsche Chile S.p.A.
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovakia, spol. s r.o.
- Porsche Slovenija d.o.o.
- Scania CV AB
- SEAT CUPRA S.A.
- SEAT, S.A.
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
- SKODA AUTO Deutschland GmbH
- ŠKODA AUTO DigiLab s.r.o.
- ŠKODA AUTO DigiServices s.r.o.
- ŠKODA AUTO Slovensko, s.r.o.
- ŠKODA AUTO Volkswagen India Pvt. Ltd.
- ŠKO-ENERGO s.r.o.
- ŠkoFIN s.r.o.
- TRATON SE
- UMI Urban Mobility International Česká republika s.r.o.
- VDF Servis ve Ticaret A.S.
- Volkswagen (China) Investment Co., Ltd.
- VOLKSWAGEN AG
- Volkswagen Argentina S.A.
- Volkswagen Automatic Transmission (Tianjin) Co., Ltd.

- Volkswagen de México, S.A. de C.V.
- Volkswagen FAW Engine (Dalian) Co., Ltd.
- VOLKSWAGEN FINANCIAL SERVICES AG
- Volkswagen Group Australia Pty. Ltd.
- Volkswagen Group Canada, Inc.
- Volkswagen Group España Distribución, S.A.
- Volkswagen Group France S.A.
- Volkswagen Group Charging CZ s.r.o.
- Volkswagen Group Import Co., Ltd.
- Volkswagen Group Ireland Ltd.
- Volkswagen Group Italia S.p.A.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Singapore Pte. Ltd.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen Insurance Brokers GmbH
- Volkswagen International Belgium S.A.
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Konzernlogistik GmbH & Co. OHG
- VOLKSWAGEN NAVARRA S.A.
- Volkswagen of South Africa (Pty) Ltd.
- Volkswagen Original Teile Logistik GmbH & Co. KG
- Volkswagen Payments S.A.
- Volkswagen Poznan Sp. z o.o.
- Volkswagen Slovakia, a.s.
- Volkswagen Vertriebsbetreuungsgesellschaft GmbH
- VW Kraftwerk GmbH

6. ASSESSMENT OF A DETRIMENT AND ITS SETTLEMENT

Contracts concluded in the Period and in previous years were concluded under conditions in the ordinary course of business.

The Company did not suffer from any damage or detriment as a result of the contracts concluded in the Period and in previous periods 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, 4 March 2022

The Board of Management:

Thomas Schäfer

Maren Gräf

Martin Jahn

Johannes Neft

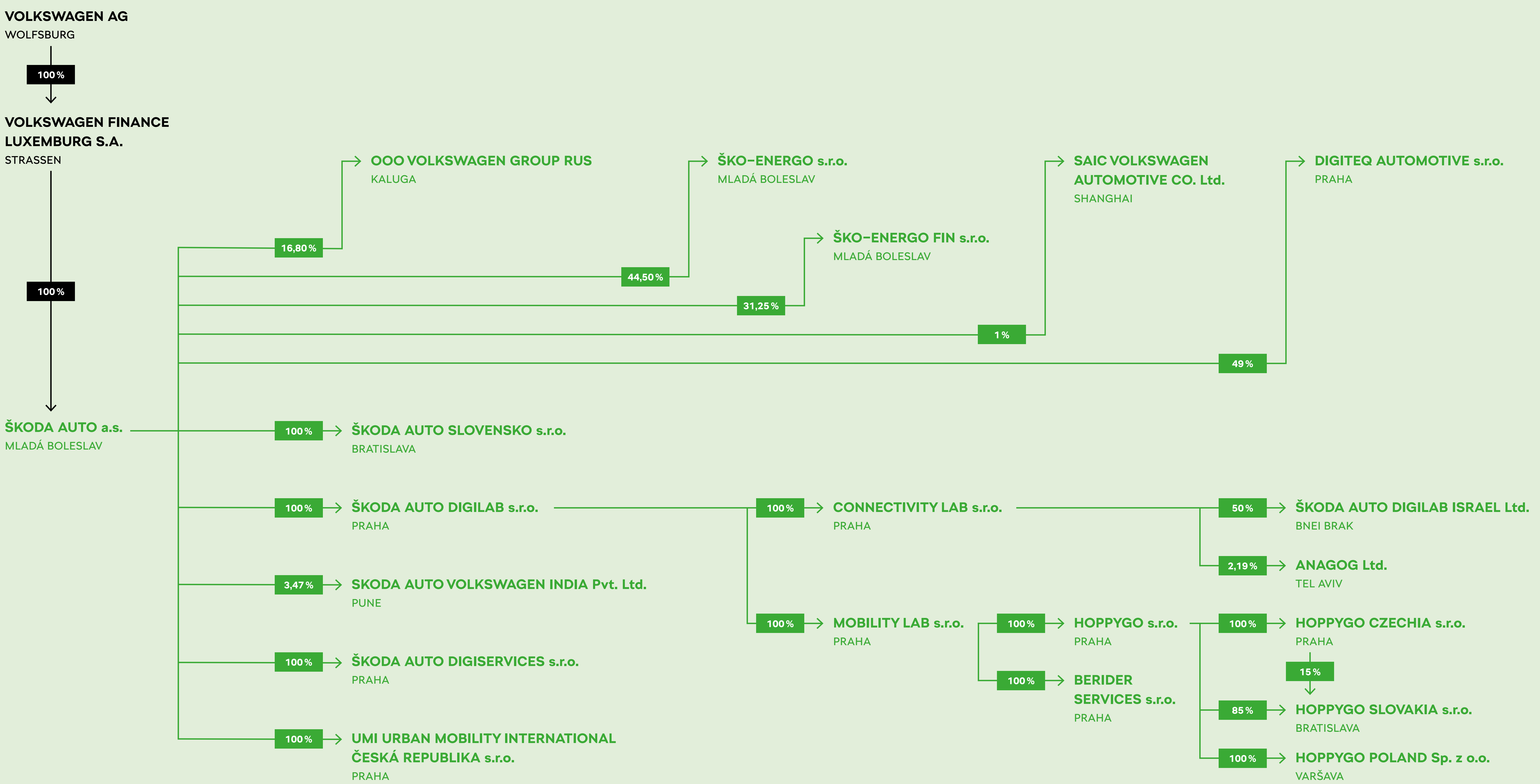
Michael Oeljeklaus

Christian Schenk

Karsten Schnake

The original of the Report on Relations was signed with a qualified electronic signature.

STRUCTURE OF COMPANIES WITH ŠKODA AUTO PARTICIPATION



GLOSSARY OF TERMS AND ABBREVIATIONS

ASEAN
The Association of Southeast Asian Nations is a political and economic union comprising Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam

BEV
Battery electric vehicle

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

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

CNG
Compressed natural gas; methane fuel

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

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

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

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

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

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

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

GRC
Governance, Risk management and Compliance

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

HR
Human Resource

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

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

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

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

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

MEB
Modular Electric Drive Matrix; modular platform for electric vehicles

MQB
Modular Transverse Matrix; modular platform

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

OECD
Organization for Economic Cooperation and Development

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

PRODUCTION
number of vehicles produced; the total production figure also includes production of vehicles for the VOLKSWAGEN Group brand SEAT manufactured by the company ŠKODA AUTO; for accuracy, vehicle assembly kits are reported in the vehicles segment

RMS/ICS
Risk Management System / Internal Control System

SALES
number of vehicles sold to importers and dealers; the unit sales figure also includes sales of vehicles of the VOLKSWAGEN Group brand SEAT manufactured by the company ŠKODA AUTO; for accuracy, vehicle assembly kits are reported in the vehicles segment

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

TEMPORARY EMPLOYEES
employees of a labour agency who are temporarily seconded to work for a different employer

UNECE
United Nations Economic Commission for Europe

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

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

EVENTS AFTER THE BALANCE SHEET DATE

As at the preparation date of this Annual Report, there is a risk that developments of the Russian-Ukrainian conflict could have a negative impact on the Company’s business activities, including the risk of supply chain constraints. The Company has no subsidiaries or equity investments in Ukraine. In Russia, the Company owns a 16.8% investment share in a company OOO Volkswagen Group Rus that may be impacted in particular by the sanctions currently adopted and further political and economic developments in Russia. The Company’s business activities in these two countries do not have a material impact on the Company’s earnings and financial position and there is no risk of material impairment of the assets recognised in the financial statements as at 31 December 2021.

As at the preparation date of the Annual Report, it is not possible to predict with sufficient degree of certainty the extent to which further escalation of the Russian-Ukrainian conflict will affect the global economy in 2022 and at the same time an adverse effect on the Company’s results of operations, financial position and net assets cannot be ruled out.

OTHER INFORMATION

The Company did not acquire any treasury shares during the relevant period. The Company as an accounting entity does not have a branch or part of a business plant abroad. The Company is subject to no further disclosure obligations pursuant to the provision of Section 21(2)(g) of Act No. 563/1991 Coll., on Accounting, as amended, with the exception of the obligations arising from Act No. 542/2020 Coll. on End-of-Life Products described in the Sustainability section.

AFFIRMATION

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

Mladá Boleslav, 4 March 2022

The Board of Management:

Thomas Schäfer

Maren Gräf

Martin Jahn

Johannes Neft

Michael Oeljeklaus

Christian Schenk

Karsten Schnake

The original of the Annual Report was signed with a qualified electronic signature.

KEY FIGURES AND FINANCIAL RESULTS

OF ŠKODA AUTO ACCORDING TO IFRS IN BRIEF

SALES, PRODUCTION AND WORKFORCE		2017	2018	2019	2020	2021
Deliveries to customers	**vehicles**	**1,200,535**	**1,253,741**	**1,242,767**	**1,004,816**	**878,202**
Sales*	**vehicles**	**909,567**	**932,035**	**947,531**	**784,871**	**691,889**
Sales of ŠKODA cars*	vehicles	818,976	831,067	847,655	708,161	633,389
Production*	**vehicles**	**858,103**	**886,103**	**907,942**	**749,610**	**680,397**
Production of ŠKODA cars*	vehicles	767,474	785,128	808,066	672,900	621,897
Employees	persons	31,626	33,696	34,829	35,437	36,032

* Sales and production volumes are reported excluding kits shipped to foreign production plants not operated by ŠKODA AUTO company. These kits are reported as other intragroup deliveries.

INCOME STATEMENT		2017	2018	2019	2020	2021
Sales revenue	**CZK million**	**407,400**	**416,695**	**459,122**	**424,292**	**422,607**
Cost of sales	CZK million	347,519	359,421	397,086	381,221	380,689
	% of revenues	85.3	86.3	86.5	89.8	90.1
Gross profit	**CZK million**	**59,881**	**57,274**	**62,036**	**43,071**	**41,918**
	% of revenues	14.7	13.7	13.5	10.2	9.9
Distribution expenses	CZK million	15,040	14,046	14,735	12,349	10,287
Administrative expenses	CZK million	9,710	12,366	13,234	13,565	12,271
Net other operating result	CZK million	5,400	2,978	3,153	159	6,856
Operating profit	**CZK million**	**40,531**	**33,840**	**37,220**	**17,316**	**26,216**
	% of revenues	9.9	8.1	8.1	4.1	6.2
Net financial result	CZK million	(1,406)	1,291	1,278	547	1,104
Profit before tax	**CZK million**	**39,125**	**35,131**	**38,498**	**17,863**	**27,320**
Return on sales before tax	%	9.6	8.4	8.4	4.2	6.5
Income tax expense	CZK million	7,284	6,239	6,809	2,688	4,910
Profit for the year	**CZK million**	**31,841**	**28,892**	**31,689**	**15,175**	**22,410**
Return on sales after tax	%	7.8	6.9	6.9	3.6	5.3

BALANCE SHEET / FINANCING		2017	2018	2019	2020	2021
Non-current assets	CZK million	106,675	118,871	141,524	144,651	144,902
Current assets	CZK million	144,184	100,447	100,111	83,332	86,561
Equity	CZK million	117,484	111,674	109,626	94,920	101,528
Non-current and current liabilities	CZK million	133,375	107,644	132,009	133,063	129,935
Balance sheet total	**CZK million**	**250,859**	**219,318**	**241,635**	**227,983**	**231,463**
Net liquidity	**CZK million**	**95,078**	**43,333**	**42,321**	**16,478**	**20,418**
Cash flows from operating activities	CZK million	60,811	44,763	66,151	36,833	51,964
Cash flows from investing activities	CZK million	(17,996)	(25,758)	(36,912)	(31,709)	(32,485)
Net cash flows	**CZK million**	**42,815**	**19,005**	**29,239**	**5,124**	**19,479**
Investments	**CZK million**	**18,885**	**22,574**	**32,105**	**17,849**	**15,300**
Investment ratio	%	4.6	5.4	7.0	4.2	3.6
Equity ratio	%	46.8	50.9	45.4	41.6	43.8
Non-current asset to equity ratio	%	110.1	93.9	77.5	65.6	70.1

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