2020

ŠKODA AUTO
ANNUAL REPORT

CONTENT

FOREWORD OF THE CHAIRMAN OF THE BOARD OF MANAGEMENT

LADIES AND GENTLEMEN,

The Covid-19 pandemic has had society, the economy and politics firmly in its grip for months. Public life and many sectors of the economy came to a standstill for weeks in many places, and we will continue to feel the effects for years to come – not only economically but also socially.

At ŠKODA AUTO, too, production came to a standstill for 39 days in spring. Nevertheless, in this extremely challenging environment, we were able to limit the drop in our sales for the year as a whole. In some markets, we even managed to increase our market share. Our financial result is robust, and the return on sales reached 4.2%.

Overall, ŠKODA AUTO has demonstrated resilience in this exceptional situation. I want to thank the over 42,000 Škodians worldwide for their outstanding commitment. They have laid the foundation for the company to be able to look ahead with confidence despite the crisis.

Undeterred by the pandemic, we have taken crucial strategic decisions in 2020: We are already responsible within the Group for India, and as of 1 January 2021 for Russia and North Africa too. By relocating the production of the new-generation SUPERB to Bratislava, we will have the capacity for more than 150,000 vehicles at our Kvasiny plant from 2023. We will be using it to produce additional volumes of our popular KODIAQ and KAROQ SUV models and another ŠKODA model. This, in turn, will free up space in Mladá Boleslav for the successor to the FABIA COMBI. With this model, we are reaffirming our commitment to offer affordable cars in the entry-level segment.

Two product highlights were the focus of attention in 2020: First, we successfully launched the new-generation OCTAVIA. Never before have we offered a greater variety of drivetrain technologies; the range includes highly efficient petrol, diesel and CNG engines, as well as state-of-the-art mild-hybrid and plug-in hybrid technology. Offering even more e-mobility, we introduced the new ENYAQ iV, which marks the beginning of a new era for ŠKODA. It is the first all-electric vehicle based on the Modular Electric Drive Matrix (MEB) and is being manufactured at the heart of ŠKODA, in Mladá Boleslav.

We will be intensifying our product campaign in the new year: from the new-generation FABIA, to product upgrades of our best-selling KODIAQ and KAROQ SUVs to the ENYAQ iV derivative, we are refreshing and significantly strengthening our model portfolio. We are also launching our first small SUV on the Indian market as part of the INDIA 2.0 project. We have achieved a localisation level of over 95%, enabling us to be price competitive while maintaining profitability.

We will begin the new year by embarking on our NEXT LEVEL ŠKODA program for the future that will guide the company successfully through the transformation process. It focuses on three priorities: expanding our model portfolio towards the entry-level segments, exploring new markets for further growth in the volume segment and making tangible progress in the areas of sustainability, diversity and new business models. ŠKODA has tremendous potential that we will unlock with our team.

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,
ŠKODA AUTO can look back on a compelling 2020 financial year. The brand delivered over one million vehicles, market shares were expanded, the product range was more diverse than ever – and this was all despite the global pandemic. While pursuing its product campaign, the Company reduced fixed costs by almost 500 million euros, enabling it to emerge from the Corona crisis in profit. All in all, the VOLKSWAGEN Group has been able to rely on ŠKODA AUTO entirely throughout this challenging period.

My congratulations on the new OCTAVIA, which sets the standard in its class with hybrid powertrains and connectivity. ŠKODA AUTO entered the era of e-mobility in 2020 with the ENYAQ iV. This marks the next milestone in the company's 125-year history. Globally, ŠKODA is one of the five oldest car brands still operating – and it is more future-oriented than ever. Through the development of an all-electric portfolio, ŠKODA AUTO is supporting our Group on its way to becoming a carbon-neutral company by 2050 at the latest.

ŠKODA AUTO has considerable growth potential in the entry-level segment. The brand will be attacking this segment with additional models and as an example, I am looking forward to the new FABIA COMBI. To continue on our path to growth, we will create additional production capacity in the Czech Republic. Production of the SUPERB is to be relocated to Bratislava alongside the VOLKSWAGEN Passat. These Group synergies are going to make both vehicles even more economical.

I am delighted that ŠKODA AUTO has strengthened its international responsibility. The Group project INDIA 2.0 is making good progress under the brand's leadership and the first model, a compact SUV, will be launched there in 2021. In addition to India, ŠKODA AUTO is taking over the regional management of Russia and North Africa from 2021. These regions expect robust cars of high quality – something ŠKODA AUTO delivers.

The groundwork for growth and internationalisation has been laid. For this, I would like to thank Bernhard Maier for his work as Chairman of the Board of Management over the past five years. Thomas Schäfer, the management and all employees have begun to vigorously prepare ŠKODA for future challenges and the accelerated change in our industry. In 2020, a year marked by the coronavirus, you have delivered an outstanding performance. Stay the course.

Kind regards,

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

MANAGEMENT REPORT

ŠKODA AUTO COMPANY PROFILE

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

ŠKODA AUTO has long been one of the pillars of the Czech economy, currently employing more than 35 thousand people in the Czech Republic. It also makes sure it is a good neighbour in all the regions where it is active. The Company's extraordinary standing is reflected in its regular success in the Czech 100 Best awards, occupying the top spot in 2020 for the twentieth time in the twenty-fifth year history of the award.

The Company is based in Mladá Boleslav, where one of its production plants is also located, another two can be found in Kvasiny and Vrchlabí. However, vehicles bearing the winged arrow are also manufactured in China, Russia, Slovakia, Germany 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 to become the Simply Clever Company for the best mobility solutions by 2025.

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

THE ŠKODA OCTAVIA RS iV ACCELERATES FROM 0 TO 100 KM/H IN JUST 7.3 SECONDS

MISSION

Driven by inventiveness. Since 1895, we have dedicated our entrepreneurial spirit and passion to individual mobility. And we will keep on doing it in future!

VISION

ŠKODA AUTO – Simply Clever company for the best mobility solutions. For families, commuters, companies and everyone who values individual mobility. ŠKODA is the smart understated choice providing peace of mind. Clever ideas for individual mobility have kept us moving for 125 years. Now it is time to invent the best mobility solutions for the future.

125TH ANNIVERSARY OF ŠKODA AUTO

Founded in 1895, ŠKODA AUTO rightly belongs to the family of global carmakers that have the longest tradition and are still active today. It owes its extraordinarily long history to the unique quality of its products, which is based on the technical skill of the generations of ŠKODA AUTO people who tied their careers to it and managed to follow and address the changing needs of their customers.

CORPORATE GOVERNANCE
ŠKODA AUTO BODIES

SUPERVISORY BOARD

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

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

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

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

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

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

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

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

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

BOARD OF MANAGEMENT

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

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

Dr.-Ing. Johannes Felix 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.-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)

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

Dipl.-Ing. Christian Strube
(*1963)
— Member of the Board of Management since 1 December 2015 to 31 December 2020, responsible for Technical Development
Previous position:
— Head of Engineering for Exterior, Interior and Safety, Volkswagen Passenger Cars (2012–2015)

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

CHANGES TO THE SUPERVISORY BOARD AND THE BOARD OF MANAGEMENT

Left the Board of Management:
— Dipl.-Wirt.-Ing. Dieter Seemann – Member of the Board of Management from 1 October 2014 to 30 July 2020
— Bernhard Maier – Chairman of the Board of Management from 1 November 2015 to 31 July 2020
— Dipl.-Ing. Christian Strube – Member of the Board of Management from 1 December 2015 to 31 December 2020

Appointed to the Board of Management:
— Dipl.-Ing. Karsten Schnake – Member of the Board of Management from 1 July 2020
— Dipl.-Ing. Thomas Schäfer – Member of the Board of Management from 1 August 2020
— Dr.-Ing. Johannes Felix Neft – Member of the Board of Management from 1 January 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 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

In 2020, ŠKODA AUTO continued to implement Strategy 2025+, which sets the future direction of the Company. This strategic programme, defined in 2016, aims to position ŠKODA AUTO as the Simply Clever company for the best mobility solutions and among its targets belong growth of car sales volumes, including development of markets outside Europe, broadening the portfolio of digital business models and services in the sphere of mobility, developing electromobility and supporting society-wide sustainability objectives. The Company continued to implement this strategy programme despite the impact of Covid-19 on the whole industry. As part of the regular reviews of new trends and the commercial situation in general, in 2020 the preparation began on an updated strategy stretching to 2030. This will be finalised and presented in 2021.

ELECTRIFICATION OF THE PORTFOLIO

Within the product strategy, the key focus was on setting the path towards compliance with the European Union emission standards and the portfolio was adapted as required. A fourth model was added to the ŠKODA iV family of electrified cars in 2020, the purely electric ENYAQ iV SUV. In light of the objectives of the Green Deal for Europe, a plan which aims to ensure sustainable economic management of the EU and climate neutrality on the continent, the Company will continue with its development of electric cars.

As part of the process of distributing Group responsibilities, high-voltage traction batteries will be assembled at the plant in Mladá Boleslav for Group electric cars. The Company also expanded the charging infrastructure at its plants in the Czech Republic and their surroundings in line with the plan and achieved its target of building more than 800 charging points in those areas by the end of 2020.

The Company continued its product offensive in 2020. In addition to the previously mentioned electric SUV, it introduced a modernised model of the ŠKODA RAPID on the Chinese and Russian markets and a broad portfolio of derivatives of the fourth generation ŠKODA OCTAVIA.

DEVELOPMENT OF DIGITAL TRANSFORMATION

By implementing Strategy 2025+, ŠKODA AUTO aims to realise its vision and transform from a car manufacturer to a “Simply Clever company” offering the best mobility solutions. Further projects in this area were successfully launched as a result of intensive digital transformation throughout the Company.

THE ŠKODA ENYAQ iV IMMEDIATELY GIVES A POWERFUL AND DYNAMIC IMPRESSION DUE TO ITS SCULPTURED LINES AND BALANCED PROPORTIONS

A new generation of infotainment offers customers additional in-car services and innovative integration with a smartphone. The interfaces in the cars are very user--friendly for both drivers and passengers. For example, as soon as the driver sits in a ŠKODA OCTAVIA, they are welcomed by their name on the central display, the driver's seat and the outside rear-view mirrors automatically move to the preferred position and the Climatronic air conditioning sets the preferred temperature. Digital transformation has created demand to develop greater software competencies. An internal reorganisation resulted in integrated approach to the development and introduction of new connectivity services. Among the developed projects there are web applications for infotainment, offers based on the location of the vehicle and the preparation of a service where a courier can deliver online purchases to the car trunk. A growing in-house competence centre for the development of applications that employ artificial intelligence also assists digitalisation at the Company. The centre presented its first results, in cooperation with ŠKODA AUTO DigiLab, in 2020. The Sound Analyser application is designed for vehicle diagnostics. It records the sound of the car and compares it with available acoustic samples. The application uses an algorithm to detect any deviation, its cause and how it can be removed. This speeds up and improves the quality of servicing.

ŠKODA AUTO also actively supports the developing Mobility Innovation Hub. This innovation platform, based on the principle of partnership between the public and the private sector, aims to transform the Czech Republic into a global innovation hub in the automotive industry. The Company's involvement in this initiative is also coordinated by ŠKODA AUTO DigiLab.

THE SITUATION ON STRATEGIC MARKETS

China has been the biggest world market for the Czech car manufacturer for the last ten years. The Company manufactures nine models of ŠKODA cars from different segments at four Chinese production plants as part of a joint venture with its partner. China is also the only country in which the Company sells five SUV models. The Chinese market was also affected by the Covid-19 pandemic and suffered an initial slump in the sale of cars, which only highlighted the need to accelerate the Company's transformation strategy on this market, with a range of steps that will improve its position in the region.

ŠKODA AUTO was mandated by the VOLKSWAGEN Group with the task of managing all Group activities in India back in 2019. The Company introduced the VISION IN concept car at a motor show in Delhi in February 2020 as the forerunner of an SUV for India, which specifically takes into consideration the needs of Indian customers. A specialised Software Development Centre, with offices in Gurugram and Pune, was also established in early 2020. The centre was tasked with providing global support for IT requirements at ŠKODA AUTO and to develop applications and digital solutions that all Group brands in the region and their customers can utilise. In collaboration with local start--ups, the innovation teams at the ŠKODA AUTO DigiLab in Peking and the ŠKODA AUTO DigiLab India in Pune launched their first pilot projects in both countries.

In 2020 the Company was entrusted to take over the managerial responsibility for Russia region, effective from 2021. The Company was also entrusted with managing the North Africa region. In light of the full utilization of production capacities, the Company worked strenuously to increase production effectiveness and ensure additional capacities, for example, at other Group production plants. It was announced in November that transferring production of the next generation SUPERB from the plant in Kvasiny to Bratislava in 2023 would free up the capacities in the Czech Republic required for its growth plan. These capacities will be used for additional production of the popular ŠKODA KODIAQ and KAROQ SUV models, and for other models of the ŠKODA brand.

FOCUS ON INNOVATION AND EMPLOYEES

Strategy 2025+ emphasises innovation, an open and agile corporate culture, improving employees' qualifications and modern work methods. The Company continued to prepare its employees for the arrival of electromobility in 2020 and successfully brought them through the difficult times of the Covid-19 pandemic. Staff were able to take advantage of online training sessions, which focused on coping with stress, the effectiveness of working from home, managing employees and other issues. The Company also began developing a dual form of university studies in the 2019/2020 academic year to prepare graduates for the rising demands of employers for qualified experts with practical experience and skills. Therefore, students can combine their studies in professional bachelor programmes with paid professional experience with the car manufacturer as part of the STUDY & WORK programme.

EMPHASIS ON SUSTAINABILITY

Sustainability at the Company is built on social, environmental and economic pillars. These pillars include the social responsibility strategy, the Green Future environmental strategy, and the principles of ethical and transparent conduct.

As part of the Group's Go To Zero environmental mission, which ŠKODA AUTO also has committed to, it endeavoured to minimise the environmental impact throughout the whole life cycle – from the extraction of raw materials to vehicle and component end-of-lifetime. It also set out an objective of reducing CO_2 emissions produced by its fleet of vehicles and achieving a neutral CO_2 balance of used energy by 2030.

PRODUCT PORTFOLIO

The launch of the new generation of our most popular model series – the OCTAVIA – was the highlight of 2020. The fourth generation of ŠKODA's bestseller is even better, more spacious, safer, more connected, and more emotive than ever.

In February 2020, we introduced the ŠKODA VISION IN concept at the Delhi motor show. This is the very first model built on the MQB-A0-IN modular platform, which has been developed specifically for the Indian market and offers a foretaste of the new and compact family SUV that will be rolled out in 2021 as ŠKODA KUSHAQ. In September, we introduced the ŠKODA ENYAQ iV, our first car based on the VOLKSWAGEN Group's Modular Electric Drive Matrix (MEB).

In 2020, the SCALA, KAMIQ, KAROQ, SUPERB and KODIAQ models received new EVO (i.e. evolution) powertrains in place of the previous engine line-up. The most visible change in the interior of the FABIA, SCALA, KAMIQ, SUPERB and KODIAQ series for the current model year is the new steering wheel, previously introduced in the OCTAVIA. The latest two-spoke wheel features a decorative chrome strip and optional heating. The multi-function version offers a new button configuration and chrome-plated scroll wheels for enhanced usability. The KAROQ, KODIAQ and SUPERB have joined the new OCTAVIA in receiving MIB3, the latest-generation of a modular infotainment system, which offers features such as wireless SmartLink and the Laura digital assistant.

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14 BUTTONS ON THE NEW TWO-SPOKE STEERING WHEEL CONTROL THE CAR

ŠKODA CITIGO^{e} iV

The arrival of the ŠKODA CITIGO^{e} iV in 2019 ushered in a new era for the carmaker. This four-seater city car is the first production model from ŠKODA powered exclusively by an electric motor. The fully-electric model offers local emission-free driving. Its 36.8 kWh lithium-ion battery is suitable for a WLTP range of up to 260 kilometres, making the ŠKODA CITIGO^{e} iV an excellent companion on city roads.

ŠKODA FABIA

The ŠKODA FABIA is one of the key models in the brand's portfolio. It is powered exclusively by efficient three-cylinder 1.0-litre engines and is offered in hatchback and estate versions. The ŠKODA brand offers sophisticated technology and boasts the highest safety standards, even in the supermini class. The numerous options available include LED headlights, two-tone paint as well as a wide range of driving assistants and "Simply Clever" features. It comes in several attractive versions, including the ŠKODA FABIA MONTE CARLO and the ŠKODA FABIA COMBI SCOUTLINE. The range was expanded in 2020 to include a version with a 1.0 TSI 70 kW engine and a DSG gearbox.

ŠKODA RAPID

The ŠKODA RAPID series produced for local markets in China, India and Russia offers excellent value for money, generous interior space and above-average boot size. The Chinese RAPID model was updated in 2020, shortly after the introduction of the revamped RAPID for the Russian market.

ŠKODA SCALA

The ŠKODA SCALA has set a high standard for active and passive safety in the compact class and offers full-LED headlights and taillights, plenty of room for passengers and luggage and many “Simply Clever” features. Five engines are available with power outputs ranging from 66 kW to 110 kW. The five-door hatchback model boasts a combination of emotive design, superior functionality and state-of-the-art connectivity options.

ŠKODA OCTAVIA

The new generation of the brand’s internationally best-selling OCTAVIA series was launched in 2020. The latest generation ŠKODA OCTAVIA is characterised by its innovative design language, remarkable aerodynamic performance due to the compact but exceptionally spacious body, advanced driving assistants and a diverse range of powertrains including hybrid drive. The model range was expanded to include the plug-in hybrid OCTAVIA iV, the mild-hybrid OCTAVIA e-TEC and the natural gas-powered OCTAVIA G-TEC. The robust and versatile OCTAVIA SCOUT with a four-wheel drive highlights the practical characteristics of the series. The OCTAVIA RS is available for the first time with no less than three powertrains – a petrol TSI engine, a diesel TDI engine and a plug-in hybrid system for the OCTAVIA RS iV, which is capable of 100% battery-powered driving.

ŠKODA KAMIQ

ŠKODA expanded its successful European line-up of sport-utility vehicles with a third series, the ŠKODA KAMIQ, which also marked the brand's entry into the fast-growing city SUV segment. The KAMIQ combines the benefits of an SUV, such as increased ride height and an elevated seating position, with the agility of a compact car and the ŠKODA brand's characteristically emotive design. The state-of-the-art driving assistant and infotainment systems, generous interior space and numerous "Simply Clever" features all mean the new ŠKODA KAMIQ is a typical ŠKODA that will appeal to lifestyle-oriented customers and families.

ŠKODA KAMIQ GT

The ŠKODA KAMIQ GT is the brand's second SUV coupé and follows in the footsteps of the larger KODIAQ GT in that it is exclusively available on the Chinese market. The sportier KAMIQ GT model is the coupé version of the KAMIQ city SUV. Its dynamic design, large interior and broad range of practical features make it attractive to young and lifestyle-oriented customers. When under development, ŠKODA designers focused on maximising driving pleasure and everyday practicality. Standard equipment includes advanced connectivity features and a modern infotainment system.

ŠKODA KAROQ

The ŠKODA KAROQ is a compact 4.38-metre-long SUV. Its crystalline design is based on the design language of the ŠKODA SUV family. The KAROQ offers many benefits, including a boot volume of up to 1,630 litres, full-LED headlights and, for the first time in the brand's history, a fully programmable Virtual Cockpit. The model also comes with smart features such as VarioFlex rear seats, contactless Virtual Pedal tailgate opening and the ŠKODA Connect service package.

ŠKODA KODIAQ

At a length of 4.70 metres, the first large SUV from ŠKODA seats up to seven people and features one of the largest boots in its class. It offers the complete ŠKODA Connect service package and a host of new, functional and innovative "Simply Clever" features usually reserved for higher vehicle classes. The new Side Assist system, which alerts the driver to cars in the blind spot at a distance of up to 70 metres, has been available since 2019. Bold ŠKODA lettering across the tailgate of the KODIAQ rounds off the dynamic design, creating striking visual accents on the road.

ŠKODA KODIAQ GT

The ŠKODA KODIAQ GT, which combines the robust exterior and versatility of an SUV with the elegance of a coupé, was exclusively developed for the Chinese market. This was the first--ever production model to bear the ŠKODA name across the centre of the tailgate. The engine range consists of two powerful petrol powertrains – a 2.0 TSI engine with 137 kW driving the front wheels, and a 2.0 TSI engine with 162 kW driving all four wheels via a seven-speed DSG gearbox. The model achieves maximum safety levels due to multiple driving assistants, including Blind Spot Detect (alerting the driver to objects in the blind spot), Front Assist (automatic braking function) and adaptive cruise control (ACC) with Stop&Go.

ŠKODA SUPERB

The largest car offered by ŠKODA is available in hatchback and estate styles, as the SCOUT version and as a plug-in hybrid version, which was released in 2020. With innovative technologies, such as full-LED matrix headlights and an expanded range of assistant systems, the ŠKODA SUPERB is one of the safest and most comfortable cars in its class. It continues to set the bar for interior space in the mid-size segment.

ŠKODA ENYAQ iV

The new ŠKODA ENYAQ iV, whose premiere took place in Prague on 1 September 2020, represents the brand's latest step in implementing its electric mobility strategy. The all-electric SUV is the first series-produced ŠKODA based on the VOLKSWAGEN Group's Modular Electric Drive Matrix (MEB). The ENYAQ iV combines front or all-wheel drive and a practical WLTP range of more than 520 km with ŠKODA's renowned spaciousness. The new electric SUV embodies the latest stage in the evolution of ŠKODA's design language with an entirely new interior concept and customisation options in place of standard trim levels. The limited ENYAQ iV Founders Edition consists of a special run of 1,895 cars to commemorate the 125-year success story of the brand from Mladá Boleslav.

FINANCIAL SITUATION

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

The year 2020 was strongly affected by the impact of the global Covid-19 pandemic, which resulted in a 39-day shutdown of Czech production sites in March and April and a temporary collapse of the sales channels in the second quarter of the year. However, the Company achieved positive operating results and maintained a strong and stable financial performance despite difficult conditions. ŠKODA AUTO was able to do so as the result of the strict cost discipline to reduce costs and capital expenditure.

THE COMMERCIAL DEVELOPMENT OF THE COMPANY

A total of 1,005 thousand ŠKODA cars were delivered to customers in 2020, including deliveries in China, meaning that the brand was able to surpass the milestone of one million cars delivered during a single year for the seventh time in succession (2019: 1,243 thousand cars).

ŠKODA AUTO sales fell by 17.2% year-on-year to 785,000 cars. Meanwhile, company revenues fell 7.6% year-on-year to CZK 424.3 billion. Car sales accounted for 81% of the overall turnover at the Company during the reference year (2019: 83.4%). The best-selling models were the ŠKODA OCTAVIA and ŠKODA KAROQ. Deliveries of components and sets of disassembled cars to companies in the VOLKSWAGEN Group accounted for 10.6% of total revenues (2019: 8.4%). Business in original parts and accessories accounted for 5% of overall revenues (2019: 5.1%) while the remaining 3.4% (2019: 3.1%) were revenues from the sale of services (e.g. ŠKODA Connect), licences and other yields.

The cost of sales fell by 4% year-on-year to CZK 381.2 billion. Gross profit margin stood at 10.2% in 2020 which means 3.4 percentage points year-on-year downturn.

Distribution costs were CZK 12.3 billion, entailing a year-on-year drop of 16.2%. Administrative costs stood at CZK 13.6 billion in 2020, meaning a year-on-year increase of 2.5%.

The operating profit at the Company during the reference period was CZK 17.3 billion, marking a year--on-year decrease of 53.5%. Profit before tax stood at CZK 17.9 billion (2019: CZK 38.5 billion). Meanwhile, profit after tax was CZK 15.2 billion (2019: CZK 31.7 billion) and the return on sales before tax fell to 4.2% (2019: 8.4%).

CASH FLOW AT THE COMPANY

Cash flow from operating activities in 2020 stood at CZK 36.8 billion, entailing a year-on-year drop of 44.3%. Net liquidity was CZK 16.4 billion as of 31 December 2020 (CZK 42.3 billions as at 31 December 2019). In 2020, ŠKODA AUTO paid out a dividend on profit from the year 2019 of CZK 31.7 billion (2019: CZK 28.9 billion on profit from the year 2018).

COMPANY ASSETS AND CAPITAL STRUCTURE

The Company balance-sheet total as of 31 December 2020 was CZK 227.9 billion, representing a decrease of CZK 13.6 billion on the balance-sheet total at the end of the previous year. The value of non-current assets rose year-on-year by 2.2% to CZK 144.7 billion and current assets stood at CZK 83.3 billion on the record date (31.12.2019: CZK 100.1 billion). The drop in the balance--sheet total on the asset side mainly occurred as a result of decreased cash due to the pandemic situation.

Equity fell by CZK 14.7 billion during 2020 to a total of CZK 94.9 billion in particular due to a decrease in the economic result.

The value of non-current liabilities rose by 5.2% on the comparable period to CZK 26.2 billion. In contrast, current liabilities stagnated at CZK 106.9 billion (-0.2%) in comparison with the previous year. There was a change in their structure: a year-on-year drop in trade liabilities, non-financial liabilities and an increase in current provisions for the risk of future expenditure on fees for exceeding the permitted CO_2 emission limits.

COMPANY INVESTMENT ACTIVITY

Investments in 2020 (excluding development costs) accounted for a total of CZK 17.8 billion (2019: CZK 32.1 billion). The lion's share was expended on product investments connected with the launch of new models, aggregates and batteries.

The Company spent CZK 18.5 billion on research and development of new products in 2020 (2019: CZK 25.2 billion).

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 is 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 2021. 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 2020.

TECHNICAL DEVELOPMENT

In spite of the many challenges which ŠKODA AUTO Technical Development (and all other departments) had to face, 2020 was a successful year in this area, with Company expenditures on technical development amounting to some CZK 18.5 billion during the year. All European models of the make were brought into line with new EU 6 AP emissions legislation and the Company succeeded in completing several new models, or derivatives, including electrified models.

THE TRANSFORMATION OF TECHNICAL DEVELOPMENT

The transformation of Technical Development within E-Strategy 2025+ was an integral part of everyday work in 2020 and required the active involvement of departmental management. The strategy is built on the pillars of Innovation, People and Organisation, Main Competencies, Regions, and Product Sustainability. The transformation of the Product Compliance Management System and successful completion of Monitor Testing certification (a procedure which examined the implemented processes in Technological development) both ran in parallel to this. Technical Development also actively devoted time to the implementation of the new UN ECE WP.29 (United Nations Economic Commission for Europe) regulation, which will enter into force in 2022.

RESPONSIBILITY FOR ENGINE DEVELOPMENT

A master contract was signed in 2020 between Technical Development for Volkswagen Passenger Cars and ŠKODA AUTO under which the Company will take on responsibility for the independent development of small petrol engines. Development primarily concerns motorisation for lower classes of Group vehicles and motorisation for markets that are sensitive to price. Such engines will find an application within the European Union and all over the world. The master contract also concerned the verification and release of aggregates for batch production, certification according to global and local legislative requirements, and subsequent accompaniment of batch production at all Group plants, including technical support for the client network. Technical Development therefore continued to broaden its remit, with the aim of providing customers with sustainable and affordable mobility.

CONSTRUCTION AT THE ČESANA COMPLEX

The Company ceremonially opened a new parking centre with up to 450 parking places in Ptácká Street in 2020. This investment of CZK 215 million helped radically improve traffic and parking for the staff at Technical Development and other Company departments close to the Česana complex.

THE DASHBOARD SHAPE OF THE FOURTH GENERATION OCTAVIA IS INSPIRED BY THE CHARACTERISTIC ŠKODA CAR FACE

THE ENYAQ iV HAS A HEAD-UP DISPLAY FEATURING AUGMENTED REALITY, WHICH PROJECTS INFORMATION ONTO TWO DIFFERENT AREAS

In September 2020, the Company began work at its Test Vehicles Construction building, with Technical Development investing the sum of CZK 654 million in its construction and furnishing it with technologies. Test Vehicles Construction will make it possible to significantly increase the effectiveness, capacity, and quality of making test samples and will provide a modern and safe environment for all employees.

The whole of the year 2020 also saw work continue on the expansion of the Technology Centre – annexe, which provides office space for 420 developers and modern technological premises for the development and testing of cars, their components, electronics, and software.

NEW PRODUCTS

The year 2020 was one of launches and new products at Technical Development. Final developmental work was carried out on derivatives of the ŠKODA OCTAVIA, including an electrified plug-in hybrid version and a model with CNG propulsion and mild-hybrid technology called e-TEC.

The family of derivatives of this ŠKODA AUTO bestseller was completed with the launch of the SCOUT model and a 4 × 4 version. One other fundamental project in this area in 2020 was the premiere of the first electric car to operate on the MEB platform. Technical Development also worked intensively on the INDIA 2.0 project, through which the ŠKODA brand is continuing its transformation on the Indian market. Work at Technical Development was also directed at the market launch of a new generation of the ŠKODA FABIA, with a world premiere planned for 2021.

INNOVATIONS AND PATENTS

It was in 2020 that the Company introduced the public to the ŠKODA ENYAQ iV, a car full of innovations that will offer customers an entirely new perspective of electromobility. With the arrival of the new car, the Company introduced a revolutionary innovation in the form of a head-up display, the use of augmented reality, and illuminated Crystal Face, as a result of which it took its place among the elite of the automotive industry in terms of new technologies. Technical Development processed more than ten physical demonstrators and prototype models in the Innovation Incubator, a space for intensive development of innovation at the early stages of development. As far as patents are concerned, more than 50 patent applications were filed, focusing on benefits to the customer. More intensive collaboration with Czech and foreign universities also led to a number of interesting projects in 2020, projects that will be of benefit to the future of the ŠKODA brand. Cooperation did not focus on university theses alone, however: the best students with the most interesting innovations also had the opportunity to work their designs into ŠKODA cars within the attractive surroundings at Technical Development.

13 ŠKODA MOTORSPORT CUSTOMERS HAVE WON THE NATIONAL TITLE

APPLICATION FOR VIRTUAL REALITY (VR)

The digitalisation of Technical Development reached another milestone. The newly-applied, innovative VRUT 2.0 (Virtual Reality Universal Toolkit) application is a universal, highly-efficient tool for the preparation and execution of VR presentations, VR training sessions, and mutual virtual cooperation among multiple users. Users appreciate the options provided by the application mainly when working with 3D data, and subsequently processing them for the purposes of photo-realistic visualisation in marketing presentations, when training employees using VR training sessions, or at ergonomic and customer clinics. The new VRUT 2.0 application was also launched at the Technology Centre in Pune.

ŠKODA MOTORSPORT STILL AT YOUR SERVICE DURING THE PANDEMIC

The Covid-19 pandemic affected the world of motorsport for most of the year 2020, just as it did other sectors. In spite of this, ŠKODA Motorsport was still able to cope with the extraordinary situation and remain in close contact with its customers at all times. Indeed it managed to keep supplying new rally cars and spare parts almost without interruption. The desire and will to compete was also evident among customer teams, meaning that the Company was able to sell 47 competition specials in 2020. These cars, and the category of cars as a whole, were renamed from R5 to Rally2 in line with a decision taken by the FIA. Total sales since the launch of the FABIA Rally 2 project reached 373 sold vehicles, meaning that our competition special is by far the top-selling car in its class.

The high quality of the car and top-class customer service, a matter-of-course at ŠKODA Motorsport, are responsible for the long-term sales success. Each year, the comprehensive services provided help customers finish in leading positions in national championships and in the World Rally Championships. Perhaps the greatest customer triumph this year was achieved by the Toksport WRT team in the WRC2 team category, with former factory driver Pontus Tidemand key to this success, securing the required number of points for victory together with his colleagues. Customers were also successful in national and European championships, with 13 customers being crowned national champions and one winning a European title. In order to maintain its competitiveness in the year to come, ŠKODA Motorsport continued making technical improvements to the ŠKODA FABIA Rally2 evo, launched at the end of 2020.

ŠKODA Motorsport again took part in the Czech Rally Championship, one of the most keenly-followed sporting events in the country. The much-reduced championship programme saw factory crew Jan Kopecký/Jan Hloušek fight a close battle for victory, ending their first season together in 2nd place. As part of its many years of efforts to focus on young, talented drivers, ŠKODA Motorsport collaborated with the nineteen-year-old Swedish driver Oliver Solberg within its programme of factory support of customer teams. He participated in selected WRC3 races and in the ŠKODA Motorsport testing programme in a ŠKODA FABIA Rally2 evo.

PROCUREMENT

776

776 NEW PARTS FROM SUPPLIERS FOR THE ENYAQ iV WERE PROVIDED BY THE PROCUREMENT TEAM

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

SUPPORT FOR BATCH PRODUCTION AND NEW LAUNCHES

The launch of the first fully-electric ŠKODA SUV car, the ŠKODA ENYAQ iV, required maximum endeavour of staff in this area, with the Procurement team securing 776 new components, in all existing colour configurations, from suppliers. Five new suppliers were also nominated within the tender procedures. The global Covid-19 pandemic caused complications in securing sufficient parts for batch production in 2020, resulting in difficulties sourcing components for production and at the same time led to short-term closures of ŠKODA production plants and supply chains. Tenders for procured parts for newly-prepared models and increased procurement of digital services were among the priorities.

One of the most important General Procurement projects was the assurance of investment costs for a battery production project at ŠKODA AUTO, approved at a cost of CZK 3.6 billion. Another significant assignment for General Procurement was the construction and procurement of technology for the central kitchen in Mladá Boleslav at a total value of almost CZK 530 million.

In addition to standard tenders for production plants, the division helped procure protective equipment for company employees, consisting of more than 500,000 respirators, over 16.5 million face masks and more than 120,000 litres of disinfectant.

The Services Procurement Department dealt with marketing inquiries and was successfully involved in the world premiere of the first purely-electric SUV, the ENYAQ iV. Given the new format of the premiere, with a virtual showroom and a live studio, viewers had the opportunity to watch the event in real time online.

CAR FOR INDIA

A major milestone in 2020 was the public introduction of the VISION IN concept car at the Auto Expo 2020 show in Delhi, India. The public had the opportunity to see how the first car in the INDIA 2.0 model offensive will look. The new ŠKODA KUSHAQ has been tailor-made for Indian customers and is designed to appeal in terms of price and their specific requirements. Skoda Auto Volkswagen India Private Limited built the first pre-production cars in 2020, Procurement securing the parts for this as a priority.

VOLUME OF EXPENDITURES

ŠKODA AUTO spent CZK 203.5 billion on procuring production material in 2020, meaning a year-on-year decrease of CZK 14 billion caused by production downtime at the beginning of the year. The lion's share of this was spent in the Czech Republic (39.2%) and in Germany, where Procurement bought around one-quarter (25.8%) of the overall quantity of production material. The total volume of General Procurement was CZK 24.7 billion, meaning a decrease of 36.8% on 2019. The Production Procurement database held 2,044 suppliers from all over the world in 2020. Moreover, General Procurement had more than 5,721 cooperating suppliers on record from all over the world.

MARKET PRICES OF KEY MATERIALS

ŠKODA AUTO and the VOLKSWAGEN Group faced up to the changes in the market prices of materials in 2020. However, cooperation with the Group's Procurement Division meant that the risks associated with developments in the materials markets could be reduced to a considerable extent. There was, in comparison with the previous year, another significant increase in the prices of rhodium, palladium, and nickel. Despite these circumstances, the Company was able to achieve significant cost optimisation, which proved crucial in helping the brand achieve a positive overall result.

PRODUCTION AND LOGISTICS

ŠKODA AUTO HAS INVESTED CZK 840 MILLION IN THE CONVERSION OF THE PRODUCTION LINE AT MLADÁ BOLESLAV PLANT

PRODUCTION AND LOGISTICS

ŠKODA AUTO manufactured 941,131 ŠKODA cars worldwide in 2020 (2019: 1,243,222 cars). This downturn was primarily caused by the global Covid-19 pandemic. Production came to a standstill for 26 working days at the plant in Mladá Boleslav and 30 working days in Kvasiny.

Far-reaching hygiene measures and organisational changes to individual operations meant the Company could actively and effectively prevent the virus from spreading in workplaces and protect its employees to the maximum possible extent. The Company joined its social partner, the KOVO Trade Union in order to compile and implement more than 80 preventive measures under the concepts of Safe Production and Safe Office.

Despite the problems caused by the pandemic, the Company expanded and modernised production and servicing technology at its plants in 2020. This upgrade involved the robotisation, automation and digitalisation of production processes in line with the Industry 4.0 concept. For example, at the plant in Vrchlabí, a virtual simulation of the production process using a "digital twin" expanded the production line with a robotic station while remaining in full operation. Brand logistics use artificial intelligence at the plant in Mladá Boleslav to optimise container space. The OPTIKON AI application calculates the best arrangement and the optimum number of different types of pallets, which maximises the cargo capacity of a container, thus saving on transport costs and reducing CO_2 emissions.

ŠKODA PRODUCTION STRATEGY ABROAD

Production plants abroad were preparing for the production launch of new and innovated models that began rolling on to the production lines in 2020. The Company launched a modernised version of the ŠKODA RAPID, made at the Russian plant in Kaluga, on the market in May 2020. In September, it began the production of the new ŠKODA OCTAVIA at its partner plant in Nizhny Novgorod in Russia and in November began production of the ŠKODA KAROQ range at its plant in Bratislava. The KAROQ is now made at the plants in Kvasiny, Nizhny Novgorod in Russia and Ningbo in China. It was at the Ningbo plant that the Company reached another significant milestone in June 2020, with the three-millionth ŠKODA car manufactured in China since the launch of production in 2007. The jubilee vehicle was a ŠKODA KAROQ compact SUV.

PRODUCTION OF NEW MODELS IN THE EU

ŠKODA AUTO launched the production of the new generation ŠKODA OCTAVIA in a liftback version in February 2020, which followed on from the successful launch of the fourth generation ŠKODA OCTAVIA COMBI one year earlier. The model was enhanced with

new aggregates in June, and in August the first ŠKODA OCTAVIA iV plug-in hybrid rolled off the production line. The brand bestseller was joined in September by the sporty RS version and the robust SCOUT, with a four-wheel drive option. The Company began the batch production of its first fully-electric SUV, the ŠKODA ENYAQ iV, at the plant in Mladá Boleslav in October. The plant in Kvasiny was also involved in the new models where the rejuvenated SEAT ATECA and its derivative, the CUPRA ATECA, rolled onto its production lines in July. Production of these models was successfully launched despite the global restrictions caused by the Covid-19 pandemic. The exemplary interplay of workers at Production Planning, Machine Production, Car Production and Procurement meant that all the required sets of machinery, quality components and materials were secured in time within the global supply network.

MLADÁ BOLESLAV – INVESTMENT IN THE FUTURE

The Company manufactures FABIA, SCALA, KAMIQ, OCTAVIA, KAROQ and ENYAQ iV cars at the Mladá Boleslav plant. The increasing volume of production and the number of versions of these models go hand in hand with the demands for the expansion and modernisation of production and logistic capacities. The parent plant continued investing in electromobility in 2020 and completed the reconstruction of the welding shop for the OCTAVIA and the assembly line for ENYAQ iV cars. This was done without halting production. At the time of launch, this production line was the only one in the Group to facilitate the parallel production of vehicles based on the Modular Electric Drive Matrix (MEB) and the Modular Transverse Matrix (MQB) for cars with conventional engines. The ENYAQ iV, OCTAVIA and KAROQ models produced contain the most advanced types of propulsion that suit customers' wishes. These range from purely electric, plug-in and mild hybrids, to combustion aggregates. The fundamental transformation of technology ran parallel to the launch of the fourth generation OCTAVIA without any downtime and increased the capacity of the line.

Construction work continued on the Central Pilot Hall, which is due to be completed in the spring of 2021. The hall will become the base for the pre-batch production centre for new models. Investment was also made into the social infrastructure at the plant. Construction of a central kitchen began in 2020 and will provide a contemporary environment for preparing meals for ŠKODA AUTO employees. The kitchen is set for completion in early 2021.

CONTINUING MODERNISATION AT KVASINY

The ŠKODA AUTO plant in Kvasiny is an important pillar in the Company's production capacities and one of the most advanced in the automotive industry. The plant portfolio currently comprises the ŠKODA SUPERB, ŠKODA SUPERB iV, ŠKODA KAROQ, ŠKODA KODIAQ and SEAT ATECA models.

Brand Production and Logistics continued to optimise the production and logistics processes at the plant in 2020. Various innovations were introduced in line with the in-house FORCE programme plan, bringing improvements in ergonomics and productivity. Robots completely replaced the remaining manually-operated welding tongs at the welding shop while the internal spraying of car bodies was robotised at the paint shops. In addition, the assembly of roof systems is now automatically completed using manipulators. ŠKODA AUTO has been using a robot at Kvasiny since June 2020 that removes the starting batteries from the delivered pallets and supplies them to the line according to just-in-sequence. Therefore, the Company has now moved the supply of parts in the order of assembly from the warehouse to the production hall. This has resulted in speeding up the production process.

ŠKODA AUTO also tested a new system for increasing occupational safety at the plant. Fork-lift trucks were fitted with localisation devices to identify other trucks and employees in time. The workers at the plant were given a wristband that warns them by using perceptible vibrations in case of danger. If the localisation device identifies another fork-lift truck or employee, the machines automatically reduce their speed or, if required, come to a standstill to prevent a collision.

COMPONENT PRODUCTION

A total of 852,826 gearboxes were made at ŠKODA AUTO in 2020; 332,534 of these were MQ200 gearboxes, 50,785 were MQ100 gearboxes and 469,507 were DQ200 gearboxes. There were also 410,756 engines and 76,118 batteries made for plug-in hybrid cars. For its own needs and the needs of other Group makes, the Company manufactured 186,880 engines (45% of the total number of aggregates made), 508,544 gearboxes (60% of the total number of gearboxes produced and 49,594 batteries (65% of the total number of batteries made).

The production of axles, of which ŠKODA AUTO made 7,580 a day, is another integral part of component production. A total of 1.5 million axles were made for the production plants in Mladá Boleslav, Kvasiny and Bratislava in 2020. In September, the Company put into operation a new line for the plasma application of the surface layer of engine cylinders. The technically innovative process replaces the existing cylinder liners by applying a powder layer with a total thickness of 150 micrometres. The equipment will be used in the production of new EA211 EVO three-cylinder engines to reduce inner friction. In cooperation with other areas of the Company, Component Production opened a technology centre in 2020, which focuses on electromobility and trains and increases the qualifications of new and existing employees.

ŠKODA AUTO celebrated two jubilees in component production in the past year. It manufactured the three--millionth EA211 engine at the plant in Mladá Boleslav in June and the thirteen-millionth current generation gearbox at the main plant in August.

PRODUCTION OF ŠKODA CARS ABROAD

1,371 ŠKODA cars were made at the Aurangabad plant in India in 2020 and 6,797 at the plant in Pune while at the Company's partner plant in Nizhny Novgorod, 58,128 cars rolled off the line in 2020. This was 9.6% less than in 2019. The Kaluga plant in Russia produced 32,764 ŠKODA cars, meaning a decrease of 19.4%. And a total of 151,273 cars were manufactured in 2020 at partner plants in China.

SERIES PRODUCTION OF THE ENYAQ iV STARTED ON 25 NOVEMBER 2020 AT ŠKODA AUTO'S MAIN PLANT IN MLADÁ BOLESLAV

PRODUCTION BY MODEL

ŠKODA CITIGO There was a 47% drop in the production of ŠKODA CITIGO cars. 14,495 ŠKODA CITIGO cars were made at the VOLKSWAGEN plant in Bratislava (2019: 27,333 cars).
ŠKODA FABIA A total of 100,425 ŠKODA FABIA cars were made worldwide in 2020, meaning a year-on-year drop of 39.6% (2019: 166,237 vehicles).
ŠKODA RAPID A total of 75,324 ŠKODA RAPID cars were made worldwide in 2020, meaning a year-on-year drop of 39.1% on the previous year (2019: 123,656 vehicles).
ŠKODA SCALA 58,054 ŠKODA SCALA cars were manufactured in 2020, meaning a year-on-year increase in production of 5.9% (2019: 54,839 cars).
ŠKODA OCTAVIA The ŠKODA OCTAVIA was again the most prominent model at ŠKODA AUTO in terms of volume in 2020. A total of 233,972 models were made worldwide, meaning a drop in production of 34.7% (2019: 358,364 cars). This model also accounted for the lion's share of the annual worldwide production of ŠKODA cars with 25%.
ŠKODA SUPERB 80,880 ŠKODA SUPERB cars were produced worldwide in 2020, meaning a drop of 21.2% (2019: 102,592 cars).
ŠKODA KAMIQ A total of 113,164 cars were made worldwide in 2020, meaning a 49% increase on the previous year (2019: 75,928 cars).
ŠKODA KAMIQ GT A total of 13,226 cars were made at the Nanjing plant in China in 2020, meaning a 230.2% increase on the previous year (2019: 4,005 cars).
ŠKODA KAROQ This compact SUV has been manufactured since 2017. 132,718 cars were made worldwide in 2020, meaning a year-on-year drop of 13.3% (2019: 153,099 cars).
ŠKODA KODIAQ 114,155 ŠKODA KODIAQ cars were made worldwide in 2020, a meaning a year-on-year drop of 30.6% (2019: 164,601 cars).
ŠKODA KODIAQ GT The ŠKODA KODIAQ GT is the fourth ŠKODA SUV on the Chinese market. Production was launched in September 2018. Some 3,682 cars were made at the plant in Changsha in 2020, meaning a year-on--year drop of 70.7% (2019: 12,568 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 939 cars made in the year.

PRODUCTION OF CARS AT ŠKODA AUTO COMPANY*	VEHICLES 2020	VEHICLES 2019	CHANGE (%) 2020/2019
PRODUCTION OF ŠKODA CARS			
ŠKODA FABIA	61,903	109,653	(43.5%)
ŠKODA FABIA COMBI	38,522	56,584	(31.9%)
ŠKODA FABIA TOTAL	**100,425**	**166,237**	**(39.6%)**
ŠKODA RAPID	—	15,511	(100%)
ŠKODA RAPID SPACEBACK	—	4,374	(100%)
ŠKODA RAPID TOTAL	**—**	**19,885**	**(100%)**
ŠKODA SCALA	**58,054**	**54,839**	**5.9%**
ŠKODA OCTAVIA	37,426	93,419	(59.9%)
ŠKODA OCTAVIA COMBI	149,759	169,047	(11.4%)
ŠKODA OCTAVIA TOTAL	**187,185**	**262,466**	**(28.7%)**
ŠKODA SUPERB	26,999	29,298	(7.8%)
ŠKODA SUPERB COMBI	44,103	49,715	(11.3%)
ŠKODA SUPERB TOTAL	**71,102**	**79,013**	**(10.0%)**
ŠKODA KAMIQ	**86,042**	**29,301**	**193.6%**
ŠKODA KAROQ	**88,265**	**94,739**	**(6.8%)**
ŠKODA KODIAQ	**80,888**	**101,586**	**(20.4%)**
ŠKODA ENYAQ iV	**939**	**—**	**—**
ŠKODA BRAND TOTAL	**672,900**	**808,066**	**(16.7%)**
PRODUCTION OF SEAT CARS			
SEAT TOLEDO	—	1,506	(100%)
SEAT ATECA	76,710	98,370	(22.0%)
SEAT BRAND TOTAL	**76,710**	**99,876**	**(23.2%)**
TOTAL ŠKODA AUTO PRODUCTION	**749,610**	**907,942**	**(17.4%)**

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

ŠKODA BRAND PRODUCTION WORLDWIDE	VEHICLES 2020	VEHICLES 2019	CHANGE (%) 2020/2019
PRODUCTION OF ŠKODA CARS IN INDIA			
ŠKODA RAPID	6,700	9,529	(29.7%)
ŠKODA OCTAVIA	14	2,731	(99.5%)
ŠKODA SUPERB	1,352	1,415	(4.5%)
ŠKODA KODIAQ	5	1,847	(99.7%)
ŠKODA KUSHAQ	97	—	—
TOTAL ŠKODA IN INDIA	**8,168**	**15,522**	**(47,4%)**
PRODUCTION OF ŠKODA CARS IN SLOVAKIA			
ŠKODA CITIGO / ŠKODA CITIGOe iV	14,495	27,333	(47.0%)
ŠKODA KAROQ	3,403	—	—
TOTAL ŠKODA IN SLOVAKIA	**17,898**	**27,333**	**(34.5%)**
PRODUCTION OF ŠKODA CARS IN GERMANY			
ŠKODA KAROQ	—	21,000	(100%)
TOTAL ŠKODA IN GERMANY	**—**	**21,000**	**(100%)**
PRODUCTION OF ŠKODA CARS IN RUSSIA			
ŠKODA RAPID	32,764	40,654	(19.4%)
ŠKODA OCTAVIA	19,843	28,071	(29.3%)
ŠKODA KAROQ	17,662	200	—
ŠKODA KODIAQ	20,623	35,999	(42.7%)
TOTAL ŠKODA IN RUSSIA	**90,892**	**104,924**	**(13.4%)**
PRODUCTION OF ŠKODA CARS IN CHINA			
ŠKODA RAPID	35,860	53,588	(33.1%)
ŠKODA OCTAVIA	26,930	65,096	(58.6%)
ŠKODA SUPERB	8,426	22,164	(62.0%)
ŠKODA KAMIQ	27,122	46,627	(41.8%)
ŠKODA KAMIQ GT	13,226	4,005	230.2%
ŠKODA KAROQ	23,388	37,160	(37.1%)
ŠKODA KODIAQ	12,639	25,169	(49.8%)
ŠKODA KODIAQ GT	3,682	12,568	(70.7%)
TOTAL ŠKODA IN CHINA	**151,273**	**266,377**	**(43.2%)**
TOTAL ŠKODA BRAND WORLDWIDE*	**941,131**	**1,243,222**	**(24.3%)**
TOTAL ŠKODA PRODUCTION WORLDWIDE, INCLUDING OTHER GROUP BRANDS	**1,017,841**	**1,343,098**	**(24.2%)**

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

SALES AND MARKETING

ŠKODA AUTO delivered a total of 1,004,816 cars to customers in 2020. This meant the Company passed the one-million-car mark for the seventh year in succession although deliveries to customers dropped by 19.1% (2019: 1,242,767 cars), primarily due to the Covid-19 pandemic. The main reasons for this were that the Czech production plants were closed for 39 days, sales channels were temporarily interrupted in the second quarter, and sales fell on the Chinese market. As a result, the Company introduced programmes to support its business partners, which were individually tailored to the conditions on each particular market to best compensate for the temporary interruption of international sales channels. The upturn in deliveries to customers in the second half of the year confirmed the effectiveness of the measures taken.

The Company increased its market share in Europe to 5.4% (2019: 4.9%). This success was in large part due to its attractive and modern range of cars. ŠKODA cars have the ability to excite customers with their extraordinary spaciousness, maximum functionality, modern design, the range of Simply Clever solutions and an outstanding price-to-performance ratio. One milestone in 2020 was the production launch of the purely-electric ŠKODA ENYAQ iV SUV.

CENTRAL EUROPE

The Company delivered a total of 181,937 cars to its customers in Central Europe, 15.7% fewer than in the previous year. Despite this, the ŠKODA brand increased its market share by 1.7 percentage points to 19.7%. On the Czech market, which became the fourth largest for the Company worldwide, deliveries to customers between January and December 2020 fell by 11.6% to 83,249 (2019: 94,152 cars). The market share rose by 3.3 percentage points to 41%.

EASTERN EUROPE

The Company achieved significant growth in Russia, increasing its deliveries by 6.8% to 94,632 cars (2019: 88,609 cars). The Russian market leapfrogged the Czech Republic into third place on the ladder of deliveries to world markets. However, overall sales in Eastern Europe (not including Russia) fell by 20.8%, although ŠKODA AUTO did achieve a record share of 16.3% of the market in Estonia (2019: 14.3%).

WESTERN EUROPE

The Company made a total of 434,461 deliveries to customers in Western Europe (2019: 520,475 cars; decrease by 16.5%). In Germany, the Company's second-largest market in the world, deliveries fell in 2020 by 15.4% to 161,775 cars (2019: 191,213 cars). Great Britain, where ŠKODA delivered 58,431 cars, retained its position in the brand's TOP 5 most significant markets.

OVERSEAS/ASIA

In China, the Company's largest market in the world, deliveries to customers fell on the previous year by 38.7% to 173,000 cars (2019: 282,038 cars). ŠKODA delivered a total of 10,902 cars to customers in India in 2020, meaning a drop of 27.9% on the previous year. The Company confirmed the success of the course it has delivered in Turkey, where it provided customers with 24,175 cars (+56.3%), and in Egypt, with 5,500 cars (+52.8%). There was also double-digit growth in Taiwan (7,040 cars and growth of 22.1%).

CUSTOMER DELIVERIES LARGEST MARKETS	VEHICLES 2020	VEHICLES 2019	CHANGE (%) 2020/2019
CHINA	173,000	282,038	(38.7%)
GERMANY	161,775	191,213	(15.4%)
RUSSIA	94,632	88,609	6.8%
CZECH REPUBLIC	83,249	94,152	(11.6%)
GREAT BRITAIN	58,431	75,159	(22.3%)
POLAND	56,152	70,748	(20.6%)
FRANCE	30,587	37,239	(17.9%)
ITALY	25,085	26,928	(6.8%)
TURKEY	24,175	15,464	56.3%
AUSTRIA	23,708	27,355	(13.3%)
SPAIN*	21,058	27,830	(24.3%)
BELGIUM	20,075	20,934	(4.1%)
ISRAEL	18,758	19,526	(3.9%)
SLOVAKIA	18,453	22,632	(18.5%)
SWITZERLAND	17,560	22,605	(22.3%)
ŠKODA BRAND TOTAL	**1,004,816**	**1,242,767**	**(19.1%)**

* excluding the Canary Islands

CUSTOMER DELIVERIES BY REGION	VEHICLES 2020	VEHICLES 2019	CHANGE (%) 2020/2019	MARKET SHARE (%) 2020**	MARKET SHARE (%) 2019**
CENTRAL EUROPE*	181,937	215,784	(15.7%)	19.7%	17.9%
EASTERN EUROPE	134,393	138,791	(3.2%)	6.3%	5.9%
WESTERN EUROPE	434,461	520,475	(16.5%)	4.0%	3.6%
OVERSEAS/ASIA	254,025	367,717	(30.9%)	0.5%	0.6%
ŠKODA BRAND TOTAL	**1,004,816**	**1,242,767**	**(19.1%)**	**1.5%**	**1.6%**

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

DELIVERIES BY MODEL

ŠKODA CITIGO Production of the compact mini car came to an end in August 2019 although customers were provided with another 403 cars in 2020. Batch production of the ŠKODA CITIGOᵉ iV, an environmentally-friendly urban car powered exclusively by an electric engine, was launched in October 2019. The Company delivered 14,568 of these cars to customers by the end of the year.
ŠKODA FABIA Since its market launch in 2014, the ŠKODA FABIA has maintained its position at the summit and continues to conquer its competitors as a result of its quality, the size of the interior and the luggage space, and its excellent range of equipment and steering. 105,459 ŠKODA FABIA cars were delivered, meaning a drop of 39.0% on the previous year.
ŠKODA RAPID The ŠKODA RAPID saloon was launched on world markets in 2012 with the ŠKODA RAPID SPACEBACK hatchback one year later. The production of models for European markets came to an end in May 2019. Special versions of the RAPID are still made for China, India and Russia, however, and are also manufactured in those countries. 79,702 ŠKODA RAPID and ŠKODA RAPID SPACEBACK cars were delivered to customers, entailing a year-on-year decrease in deliveries of 43.9%.
ŠKODA SCALA A model that combines emotional design, a high level of functionality and the most advanced connectivity options. It arrived on the market in February 2019 and has since found great favour with customers. The year 2020 saw 63,181 of these cars delivered to customers, a growth of 61.7%.

ŠKODA OCTAVIA There was a generational change to this model in 2020, and the range was broadened to include the plug-in hybrid OCTAVIA iV, the mild-hybrid OCTAVIA e-TEC, the environmentally-friendly OCTAVIA G-TEC, which runs on natural gas, and the robust and versatile OCTAVIA SCOUT. The ŠKODA OCTAVIA has long been the Company's best-selling model, a situation that remained unchanged in 2020. However, with a total of 257,364 cars delivered in 2020, the ŠKODA OCTAVIA experienced a drop of 29.2% in the number of cars delivered in the year.
ŠKODA SUPERB ŠKODA entered a new era with its third-generation ŠKODA SUPERB, launched in 2015. A new plug-in hybrid version arrived on the market in 2020. However, the number of cars delivered fell in 2020 by 17.8% to 86,151.
ŠKODA KAMIQ The world premiere of the ŠKODA KAMIQ urban SUV for the Chinese market took place in Beijing in 2018. Customers in Europe were then able to buy the KAMIQ in 2019. Therefore, the Company broadened its successful range of European SUVs with a third model and for the first time added to the fast-expanding urban SUV segment. A total of 128,539 cars were delivered to customers in 2020. Record deliveries were made in 33 markets across the world, among them the Czech Republic, Slovakia, Germany, Great Britain, Italy and France.

CUSTOMER DELIVERIES BY MODEL	VEHICLES 2020	VEHICLES 2019	CHANGE (%) 2020/2019
ŠKODA CITIGO / ŠKODA CITIGOᵉ iV	**14,971**	**31,199**	**(52.0%)**
ŠKODA FABIA	65,870	115,480	(43.0%)
ŠKODA FABIA COMBI	39,589	57,313	(30.9%)
ŠKODA FABIA TOTAL	**105,459**	**172,793**	**(39.0%)**
ŠKODA RAPID	75,499	121,374	(37.8%)
ŠKODA RAPID SPACEBACK	4,203	20,744	(79.7%)
ŠKODA RAPID TOTAL	**79,702**	**142,118**	**(43.9%)**
ŠKODA SCALA	**63,181**	**39,071**	**61.7%**
ŠKODA OCTAVIA	104,805	186,587	(43.8%)
ŠKODA OCTAVIA COMBI	152,559	177,135	(13.9%)
ŠKODA OCTAVIA TOTAL	**257,364**	**363,722**	**(29.2%)**
ŠKODA SUPERB	40,930	55,108	(25.7%)
ŠKODA SUPERB COMBI	45,221	49,647	(8.9%)
ŠKODA SUPERB TOTAL	**86,151**	**104,755**	**(17.8%)**
ŠKODA KAMIQ	**128,539**	**64,597**	**99.0%**
ŠKODA YETI	**2**	**10**	**(80.0%)**
ŠKODA KAROQ	**137,223**	**152,708**	**(10.1%)**
ŠKODA KODIAQ	**131,590**	**171,794**	**(23.4%)**
ŠKODA ENYAQ iV	**634**	**—**	**—**
ŠKODA BRAND TOTAL	**1,004,816**	**1,242,767**	**(19.1%)**

ŠKODA KAROQ The new compact ŠKODA KAROQ SUV was launched in 2017 and the Company introduced new versions in 2018: the sports-tuned KAROQ SPORTLINE and the adventure-ready KAROQ SCOUT. Since its launch on the market, customers throughout the world have been delighted with the model, which became the Company's second best-selling in 2020. A total of 137,223 cars were delivered to customers, meaning 10.1% fewer than in the previous year. The ŠKODA KAROQ, therefore, remained an important engine of growth. The greatest interest was shown on the markets of Hungary, Romania, Belarus, Turkey, Singapore, Egypt, Morocco, Australia, Ukraine and Réunion.

ŠKODA KODIAQ The Company's first large SUV, the ŠKODA KODIAQ, was given its premiere in 2016 and again had a remarkably successful year. The range was broadened in 2018 to include the ŠKODA KODIAQ RS, the Company's first family RS with SUV body, and the ŠKODA KODIAQ GT, its first SUV coupé. The Company delivered a total of 131,590 cars to its customers in 2020, some 23.4% fewer than in the previous year. Record deliveries were recorded on the markets of Hungary, Israel, Iraq, Egypt, Moldova, Ukraine, and Iceland.
ŠKODA ENYAQ iV The premiere of the fully-electric SUV was the main event of 2020. The model was launched on the market in September 2020 as the first ŠKODA car based on the Group's MEB platform (Modular Electric Drive Matrix). A total of 634 cars were put into operation by the end of 2020.

THE ENYAQ iV RED CAR FOR THE DIRECTOR OF THE TOUR DE FRANCE REACHED THE TOP OF COL DU GALIBIER 2,642 METRES ABOVE SEA LEVEL

THE MARKETING STRATEGY OF THE ŠKODA BRAND

The brand marketing strategy is built on knowing our customers and is adapted to suit them in the inventive and imaginative way so typical of the ŠKODA brand. The global communication strategy of the ŠKODA brand has been adjusted and targeted more precisely within Strategy 2025+. The concept for this draws on the mission and vision in place at the Company, building on the 125-year tradition of success that stems from continual inventiveness and the ability to find smart solutions to new challenges. ŠKODA will adapt to the changing needs of its customers and find convincing answers to digitalisation and electrification in the automotive industry.

CARS THAT ARISE FROM INVENTIVE THINKING

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

THE CUSTOMER ALWAYS COMES FIRST

ŠKODA AUTO understands that all customers are different. They are all individuals with different needs and interests. For this reason, the Company designs and sells its products to fulfil its customers' wishes and priorities to the utmost. The human dimension at the Company is also reflected in caring for customer comfort in all models and keeping passengers entertained during long and short journeys.

THE EMOTIVE WORLD OF THE ŠKODA BRAND

ŠKODA AUTO carries out a whole range of activities aimed at emotionalising the ŠKODA brand and capturing the hearts of its customers. This is why the brand has ties to culture and, above all, sport – cycling, ice hockey and motorsport, in which ŠKODA Motorsport is celebrating its 120th anniversary. A shared passion for continual improvement is what ŠKODA and sportsmen and women have in common, and what drives us forward.

125 YEARS ON THE MARKET

In 2020, ŠKODA AUTO celebrated its 125th anniversary and brought all activities relating to this significant event under the slogan, "Driving inventiveness since 1895". The ŠKODA Museum welcomed its first visitors to the "From Heritage to Future" exhibition in May, which focused on the various points of interest, contexts and details that enshrine the rich history of the car manufacturer.

Young and old were drawn to Time Machine, a virtual reality game in which the player can figuratively sit at the wheel of cars such as the VOITURETTE A, TUDOR and FAVORIT and literally drive through the history of the Company. In August, ŠKODA AUTO embarked on an unconventional journey through the 125-year history of the Company with twelve fundamental models. The range of cars stretched from the first car made by the brand, the VOITURETTE A from 1905, to the times of the ŠKODA ENYAQ iV, which had yet to be revealed. The Company also recalled its famous past with a series of 125 tweets on its Twitter account. And a special section at the ŠKODA Storyboard content site was devoted to the Company's iconic cars, the people that created them, sporting triumphs and technological milestones.

ENTERING THE ELECTRIC ERA

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

INTRODUCING THE ENYAQ iV

The names of ŠKODA's SUVs all end in the letter Q, and the ŠKODA ENYAQ honours this tradition. It is a name that captures the character of the new model to perfection. The stem is taken from the Irish name Enya, meaning "source of life", which symbolises the Company entering the new era of electromobility while expressing the dynamism and economy of the car. The first batch model made by the Czech brand based on the Modular Electric Drive Matrix (MEB) combines the typical virtues of ŠKODA cars, which include generous space inside the car, emotional design, the joy of an environmentally-friendly drive and well-known Simply Clever details. The brand-new interior design features a modern concept and high-quality materials.

A MODERN PREMIERE

The world premiere of the ENYAQ iV in September 2020 was staged in two ways as a result of the safety measures in place to combat the Covid-19 pandemic: the car was introduced to invited journalists and guests in Prague and presented to the public in a new virtual format. Individually operable 360° cameras gave the audience the feeling of being at the centre of events, while motoring enthusiasts could send questions to the studio in real-time over social networks. Authorised ŠKODA dealers began advance sales of the ENYAQ iV 80 model in the Czech Republic in September 2020. The car has an 82 kWh capacity battery and an electric engine with a maximum power of 150 kW. The entry-level version, the ENYAQ iV 60, with a 62 kWh capacity battery and power of 132 kWh, went on advance sale one month later.

CHARGING FOR EVERY CONCEIVABLE SITUATION

Drivers of purely electric and electrified ŠKODA iV models will be able to enjoy all the benefits of the ecosystem of the same name. Simple, worry-free charging is brought to them by the Powerpass service, which users can use at more than 143,000 charging points throughout Europe, all with one card. The network takes in standard public charging points and super-fast chargers IONITY. Powerpass cardholders will also be able to use charging points at ŠKODA dealers, which are currently being installed. These stations will also be able to use new smart ideas that make charging simpler, more effective and cheaper. An example of this is the energy storage system put together with used accumulators from electric cars and plug-in hybrids. And for home charging, there is a wall box, which the Company offers in three versions. The entry-level ŠKODA iV Charger is designed for use at home, the ŠKODA iV Charger Connect can connect to a LAN or Wi-Fi network and has an RFID reader, and the more advanced iV Charger Connect+ adds to these functions with LTE mobile network connectivity.

COMMERCIAL FROM THE LIVING ROOM

Three small cars, three creative directors and a couple of essential props. These were the main features of an original series of commercials for ŠKODA SUV models, which the creators shot at home because of the Covid-19 pandemic and involved their families in the preparation. They went about it playfully and unconventionally, for example, using stop motion technique or cameras with eight-millimetre film. The resulting commercials outstripped all expectations and deservedly attracted customers' attention to the sports utility vehicles from Mladá Boleslav.

A YEAR PACKED WITH AWARDS

ŠKODA models find favour with customers and the expert public alike. The fourth-generation ŠKODA OCTAVIA enjoyed exceptional success in the Auto Express New Car Awards 2020, where it came out top in the Compact Family Car and Estate Car categories and triumphed overall as Best Car. The magazine also awarded gold to the ŠKODA flagship car, with the new SUPERB voted Family Car of the Year.

Readers of the German motoring magazine AUTO Straßenverkehr also chose ŠKODA models as the car of the year in a total of six categories. Therefore, the Company won more awards than any other make. The new digital assistant, Laura, also had a huge impact and was presented with the title of SMARTBEST 2019 for meeting every demand of AUTOBEST European for the implementation of new, easy-to-operate technology in a car.

17 YEARS IN THE SADDLE OF THE TOUR DE FRANCE

ŠKODA AUTO was again the Official Main Partner for the most famous stage cycling race in the world in 2020. A specially-adapted Red ENYAQ iV headed the peloton on three stages of the Tour de France 2020. In doing so, it replaced the traditional SUPERB in the role of the director's car. The purely-electric SUV was thoroughly prepared for this role. A panoramic sunroof was fitted above the rear seats, from which director Christian Prudhomme started and managed the race. There was also a five-channel radio inside so he could keep contact with other parts of the tour. Six antennae, on the roof and at the back of the car, were installed to transmit the signal. Designers also fitted the legendary Champagne chiller between the rear seats, allowing the race director to sip Champagne with his guests. ŠKODA AUTO provided the race organisers with a total of 250 cars, 30 of which were plug-in hybrid or purely battery-powered ŠKODA iV family models.

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 sixth time in a row. The Company was also responsible for making a 60-cm high trophy weighing 4 kilograms for the winner, created by Czech glassmakers. As is now tradition, the members of the ŠKODA Design team took care of the design, drawing on Czech cubism.

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

FROM THE NATIONAL TEAM TO THE GENERAL PUBLIC

The ŠKODA brand has always had strong links to cycling since its inception – after all, a bicycle was the first product that the company made back in 1895. For this reason, it also sponsored many amateur races for the general public, including the Kolo pro život (Bike for Life) series of mountain bike races, and remained general partner to the Czech national team in all cycling disciplines. Its links to the Czech Cycling Federation meant that the Company became general partner to national teams in all eight cycling disciplines. The Company has built on its involvement in the sport to date and intensified it as a collective concept, with the emphasis on the national team. It was also from this relationship that the multi-channel WeLoveCycling.cz platform was born, linking the ŠKODA name to cycling and acting as an umbrella for all its activities in this field.

A STRONG PARTNER TO FAST SPORTS

ŠKODA AUTO does not live for cycling alone and is involved in other popular sports. Since 1992, it has been the general partner to the IIHF World Ice Hockey Championship. 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 Tipsport extraliga which is the elite-level league in the country. ŠKODA is also successful in the FIA European Rally Championship, in regional series, and national championships with more than 300 special ŠKODA FABIA Rally2 and ŠKODA FABIA Rally2 EVO cars.

POWERPASS USERS CAN USE MORE THAN 143,000 CHARGING STATIONS THROUGHOUT EUROPE

HUMAN RESOURCE MANAGEMENT

Human Resource Management plays a key role in the fulfilment of Strategy 2025+ and the successful transformation of the Company at a time of fundamental change in the automotive industry. The main tasks in 2020 were guiding employees through the hardships of the Covid-19 pandemic, the preparation of employees for the advent of electromobility, the promotion of an open corporate culture and a welcoming work environment, the introduction of digital tools in the everyday work assignments of employees and the recruitment of new staff. In addition to recruiting production workers, Human Resource Management also endeavours to secure technically-educated, highly-qualified specialists to work in all areas at the Company.

SAFETY FIRST

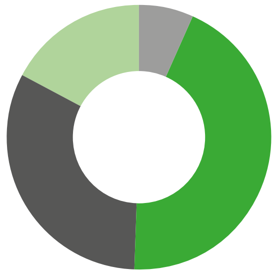
The health of Company employees is our highest priority. Immediately after production commenced once again on 27 April 2020, ŠKODA AUTO introduced far-reaching safety and hygiene measures in agreement with its partner, the KOVO Trade Union. These measures included issuing employees with face masks and respirators. The Company also provided disinfectants and random temperature checks were introduced at the entrance to the complex. Employees were also offered free examinations for the presence of antibodies. A further wave of measures came in after the return from the company holidays when in collaboration with medical partners, the Company arranged PCR tests for employees to check for the presence of the virus in the body. ŠKODA AUTO also uses antigen tests to prevent the virus from spreading in the Company as these are faster and independent of the capacity at the laboratory. Recommendations were made to those divisions whose staff were able to work from home to increase reciprocally-agreed mobile work in the first week after the company holidays.

STABLE EMPLOYMENT

The Company showed a slight increase in employment in 2020, with almost 43,000 permanent and agency staff worldwide. The Company aims to keep employment at a high level and to ensure the long-term sustainability of staff even in light of developments relating to the Covid-19 pandemic.

31

31 STUDENTS AT THE ŠKODA VOCATIONAL SCHOOL WERE INVOLVED IN DEVELOPING THE STUDENT CAR CALLED SLAVIA



QUALIFICATION STRUCTURE OF THE COMPANY'S PERMANENT EMPLOYEES AS OF 31 DECEMBER 2020

PRIMARY SCHOOL 7.5%
VOCATIONAL SCHOOL 43.5%
HIGH SCHOOL WITH A LEVELS 31.9%
UNIVERSITY GRADUATE 17.1%

EDUCATION IN ELECTROMOBILITY

The Company built on the production of the ŠKODA SUPERB iV plug-in hybrid, ŠKODA OCTAVIA iV plug-in hybrid and fully-electric ŠKODA ENYAQ iV SUV in 2020. Human Resource Management continued to support the development of electromobility in the area of education where it systematically and pointedly prepares employees, pupils at vocational schools, workers at supply firms and agency employees for the new demands required.

The Company's ŠKODA Academy and assembly training centres provided training in electric mobility to 1,166 participants in 2020, including external workers, agency staff and pupils at vocational schools. This means that almost 17,000 staff members have now supplemented their education in this field since May 2016. ŠKODA AUTO also launched informative training on the subject of electromobility for all employees in 2020.

THE MODERNISATION OF ELECTRO--CLASSROOMS

In light of the development of electromobility and the production launch of a fully-electric car, the Company's ŠKODA Academy reconstructed its premises for teaching "electro-subjects". The modernised premises will be used by students taking traditional classroom-based studies at the Company vocational school and by employees enhancing their education in electro-subjects in line with Company requirements. ŠKODA AUTO invested almost CZK 18 million in the modernisation of electro-classrooms, and CZK 850 million in education in 2020.

EXTRAORDINARY SITUATION, EXTRAORDINARY SOLUTION

The Company launched the #STRONGERTOGETHER project when production was halted in March and April because of the Covid-19 pandemic. The project aimed to support managerial staff in this difficult situation, help them see the crisis as a common opportunity and prepare them for a new beginning. An instructional video was created to help all employees cope with stress and mobile work. This was soon supplemented by a wide range of online training courses on issues such as communication, health, etc. and webinars on a variety of topics. One practical innovation was the engagement of an online selection procedure tool for recruiting applicants for management positions. Human Resource Management plans to continue with the digitalisation process even after the end of the pandemic.

The measures taken against the pandemic disrupted the 2019/2020 and 2020/2021 academic years at the secondary vocational school as pupils could not attend in person for some time and had to learn from home instead. The school was able to cope with the sudden switch to online learning and made sure that pupils remained in close contact with their teachers. Pupils were also able to attend "live" webinars with experts from ŠKODA AUTO, who provided them with information on specific matters at the Company.

NEW TECHNICAL SPECIALISATIONS

The secondary vocational school of engineering opened a total of 17 specialisations in the 2020/2021 academic year, including supplementary secondary education for holders of a journeyman's certificate and distance studies.

COMPANY WORKFORCE*	HEADCOUNT 31 DECEMBER 2020	HEADCOUNT 31 DECEMBER 2019	CHANGE (%) 2020/2019
ŠKODA AUTO – PERMANENT EMPLOYEES	**34,514**	**33,881**	**1.9%**
OF WHICH:			
— MLADÁ BOLESLAV PLANT	26,800	26,044	2.9%
— VRCHLABÍ PLANT	824	845	(2.5%)
— KVASINY PLANT	6,890	6,992	(1.5%)
ŠKODA AUTO – APPRENTICES	**923**	**948**	**(2.6%)**
ŠKODA AUTO TOTAL**	**35,437**	**34,829**	**1.7%**
ŠKODA AUTO – TEMPORARY STAFF	**3,262**	**3,232**	**0.9%**

* 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.

Two of these specialisations were entirely new, with the vocational school reacting flexibly to the current demand for specialised professions in the automotive industry. The specialisations of IT technician for production systems and electronics engineer for equipment and apparatus will prepare pupils for the modern requirements of Industry 4.0.

PERSONNEL SYSTEMS

The Company changed its personnel system after 25 years and replaced the original system with SAP SuccessFactors, which follows the latest trends and developments in HR. KOMPAS, the in-house name given to the system, replaces selected printed forms and transfers the entire process of recruitment and submitting change requests in management self-service to electronic format. A mobile application can also be used for work with KOMPAS. All employees can access the system from where they can edit their personal information, display the organisational structure of their team and that of the Company or check the in-house labour exchange. Looking for and filtering vacancies is now more user friendly.

The ŠKODA Space employee portal, which was put into full operation in December 2019, brought new functions, a modern appearance and access for all employees wherever they might be – from any fixed or mobile device connected to the Internet. Work began in 2020 on ŠKODA Space 3.2, one of the aims of which is to improve searching in the archive, personalise reports in line with the Company structure, provide the option of evaluating reports and improve the accessibility of the portal to employees.

AWARD-WINNING EMPLOYER

At the beginning of the year 2020, ŠKODA AUTO was successful for the ninth consecutive year in the TOP Employers 2020 study where the results are decided by 11,500 university students. The Company took first place in the automotive and engineering industry category and won an award for its HR marketing campaign, specifically its Skoda-Kariera.cz careers website and profile on Facebook. The Company regularly occupied the leading positions in other surveys that evaluate employer attractiveness. In June, ŠKODA AUTO defended its triumph in the Czech round of the Randstad Employer Brand Research international survey of employer attractiveness. It was also successful in the Employer of the Year competition in 2020, taking second in the main category. The Company also came first in the Most Popular Employer category among students in the Central Bohemia region. In October, for the seventh time in succession, the Company was named the most attractive employer among students of technical disciplines and also fared well in the economic disciplines and IT categories where it came second and sixth respectively. The prestigious Universum survey confirmed that students now view the Czech automotive company as a major company in the sphere of information technology.

DIVERSITY STRATEGY

ŠKODA AUTO consistently promotes a fair and equal approach to all employees and is active in the issue of diversity. Support for diversity is an important prerequisite for the Company in remaining successful and recruiting talented people. Together with other leading Czech enterprises, the Company signed the European Diversity Charter in 2019, on the occasion of the Diversity Day conference at the Parliament of the Czech Republic. This initiative aims to take the recognition, appreciation and integration of diversity in the organisational structure to a new level and to develop a tolerant work environment, irrespective of age, faith, sex, ethnic origin, sexual orientation and the medical condition of employees. The Company also has equal opportunities and equal treatment anchored in its Code of Ethics. ŠKODA AUTO was once again a partner of the Diversity Day conference, which convened online in 2020 as a result of the measures to combat the pandemic.

DIRECT CORPORATE CULTURE

Openness, a friendly work environment, the opportunity for career growth, and a higher level of independence are among the fundamental requirements of the new generation of employees. This is why work continued in 2020 on reinforcing the corporate culture at the Company. This was promoted by communicating the Principles of the VOLKSWAGEN Group, which present the fundamental rules of conduct for all Group brands and companies. It was not possible to attend corporate culture workshops in person for some time as a result of the pandemic, resulting in a new concept that responds to current safety requirements. Another phase of the Role Model programme was prepared for Company management, which aims to reinforce the openness of all employees at the Company and to facilitate contact among workers across the Company hierarchy. ŠKODA AUTO also works regularly with its social partner, the KOVO Trade Union, on improving the working and social conditions of its employees.

ŠKODA AUTO AND ITS SOCIAL PARTNER, THE KOVO TRADE UNION, INTRODUCED MORE THAN 80 MANDATORY MEASURES TO KEEP STAFF HEALTHY

SUSTAINABILITY

60 RESPIRATOR SETS
A DAY WERE MADE USING
3D PRINTERS IN ŠKODA
TECHNICAL DEVELOPMENT
IN SPRING 2020

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

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

CORPORATE GOVERNANCE & COMPLIANCE

Corporate Governance and Compliance endeavours to ensure that the Company is run in a way which is responsible, qualified, and transparent and 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, executive management, Company bodies, employees and customers.

As far as Compliance is concerned, the Company pays particular attention to its duty to observe valid legal and internal regulations. Integral to corporate culture are the voluntary duties in the sphere of ethical conduct, which are comprehensively specified in the ŠKODA AUTO Group Code of Conduct, which is regularly updated and distributed to all Company employees. These principles and duties are not restricted to business relations and apply to all internal and external Company activities. This ensures that ŠKODA AUTO always complies with the requirements that stem from legal and ethical rules applying to, for example, economic competition, the financial and tax sectors, environmental protection and employee relations, which includes the promotion of equal opportunities.

The Company and all relevant subsidiaries and affiliates have introduced and administered a comprehensive and structured Compliance Management System to achieve such compliance, which aggregates all relevant measures, processes and systems in this area. A strong emphasis is placed on the processes of checking the integrity of business partners, anti-money laundering, HR Compliance and the whistleblowing system.

These measures include regularly updated training, for which Governance, Risk & Compliance ("GRC") department is responsible. For example, training in the Code of Conduct, anti-corruption, personal data protection and in preventing fraud and money laundering. This training is compulsory for all relevant subsidiaries and affiliates within the ŠKODA AUTO Group.

In 2020, the Company focused on developing its whistleblowing system, which provides employees of the Company, the Group and outside parties with a discrete and reliable method of drawing attention to any breaches of valid legal regulations and/or the internal regulations in place at the Company.

Following on from previous years, ŠKODA AUTO exerted considerable effort in 2020 on activities connected with 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 and strategy at the Company and are a decision-making criterion at the management level.

The development of corporate culture and the achievement of successful cooperation with business partners and customer satisfaction, aided by targeted development programmes, training and workshops, have also come under focus. Company employees have been motivated to participate in voluntary activities, for example, the Integrity Ambassador's programme, in which they were able to share their experiences of integrity and act as an example to their colleagues.

As in previous years, the themes mentioned above were implemented in the subsidiaries and affiliate companies for which the Company, and specifically GRC department, 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 GRC department, or compliance organisations, or by way of Service Level Agreements with the Company. The scope of these activities was regularly broadened in 2020, as was the circle of relevant subsidiaries and affiliate companies.

The Company (and other relevant brands within the VOLKSWAGEN Group) actively partook in the implementation of a comprehensive Compliance programme in 2020, which was crucial to fulfilling the "plea agreement" between the Group and the American Attorney General in connection with the "Diesel issue". The work of Independent Compliance Monitor Larry D. Thompson reached a successful conclusion in September 2020 with the certification of the Group with participation of the Company.

SOCIAL RESPONSIBILITY

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

ŠKODA AUTO HELPS

The Covid-19 pandemic and the state of emergency announced in the Czech Republic brought an entirely new dimension to the partnerships built between public and private organisations. Despite the crisis significantly affecting the entire automotive industry, Company management remained active and contributed towards preventive measures and solutions in this unforeseeable situation, both financially and by providing its own human and material resources.

In response to the spread of the pandemic, ŠKODA AUTO launched an initiative aimed at promoting the mobility of key stakeholders in the closest surroundings in cooperation with ŠKODA AUTO DigiLab under the name of #SKODAAUTOpomaha (ŠKODA AUTO helps). The Company used the HoppyGo technical car-sharing platform so that non-profit organisations and city districts could rapidly respond to vital mobility needs in distributing food and medicine and providing for the elderly and people with disabilities. The platform made it possible to lend the current fleet of vehicles used in the HoppyGo and Uniqway project within hours of the state of emergency being announced. In addition, #SKODAAUTOpomaha enabled the entire fleet of 150 BeRider electric scooters to be used free-of-charge by front-line health workers and doctors. Two hundred ŠKODA cars were also made available throughout the Czech Republic within hours thanks to the HoppyGo platform. Partner towns in the Company's production regions were also provided with financial and logistical support. Help culminated with a gift of 100 ŠKODA OCTAVIA cars to health providers and social services throughout the Czech Republic. The Company was also involved in a project with the Czech Technical University and other partners, which focused on 3D printing, the certification of protective equipment and its subsequent transport to hospitals and elsewhere. The Company refused to take a back seat during the autumn wave of the pandemic and provided almost 3,000 front-line workers (doctors, health workers, emergency workers, and social service staff) with packages that included vitamins to boost immunity, disinfection and respirators as a thank you for their work. It also provided CZK 625,000 for the purchase of notebooks with an internet connection to support distance learning by children from socially disadvantaged backgrounds. In total, ŠKODA AUTO spent over CZK 100 million on the initiative with the donation of hundreds of new ŠKODA OCTAVIA cars accounting for around CZK 85 million. One-off financial support to towns accounted for CZK 9 million and further aid was provided by a donation to the Czech Technical University for the development of an FFP3 respirator.

SUPPORT FOR ALL-ROUND DEVELOPMENT OF THE ATTRACTIVENESS OF REGIONS

ŠKODA AUTO provides tens of millions of crowns each year in the areas of culture, sport and other leisure time activities to improve the quality of life of the people living there. This takes place in cooperation with the municipalities in the regions in which the Company is active. It also invests in traffic safety, social and health services, developing public spaces and the environment. In 2020, the Company focused on providing help to cope with the crisis brought about by the Covid-19 pandemic, preferentially supporting club activities, social and health services and distance learning at primary schools.

The Company supported twenty projects in the Mladá Boleslav region in 2020, primarily in the areas of sport, culture, social services and education and provided financial support to six other neighbouring towns for the implementation of preventive health measures. Help was also provided to the Kvasiny area, where the specific nature of the development of the plant requires close cooperation with the municipalities. The aid that the Company provided helped launch around fifty projects in the sphere of safety, traffic safety, education, social services and leisure time. In the Vrchlabí region, the Company provided support to 15 projects in the areas of mobility for social and health services, digital education, traffic safety, the environment, sport and culture.

ŠKODA AUTO encourages as much public investment as possible in the development of transport and technical infrastructure. As a significant contributor to the state budget and the largest exporter in the Czech Republic, the Company is able to help regional representatives prepare and negotiate public investment approved by the resolutions of the Government of the Czech Republic.

ŠKODA AUTO ENDOWMENT FUND

In 2018, Company management decided to provide the sum of CZK 780 million to develop the attractiveness of the Mladá Boleslav region. The ŠKODA AUTO Endowment Fund used this money to implement and support regional development projects. The fund supported projects with a sum in excess of CZK 62 million in 2020, in collaboration with the involved parties, with another CZK 5.8 million going towards the necessary development studies.

Public space was significantly revitalised by the opening of Pluhárna, a historically-valuable, but neglected factory on the grounds of the Secondary School of Industry in Mladá Boleslav. It was there during the First Republic that the Laurin & Klement automotive company manufactured Excelsior motor cultivators. The hall was used as a warehouse for many years but now serves the public, with a range of attractive cultural events on offer.

The programme of events at ŠKODA Gaming Day staged at the ŠKODA Museum in Mladá Boleslav, introduced those that came along to the best in the world of virtual gaming, all accompanied by personalities from the gaming world and professional local sports. There was also an educational side to the event, with talks and discussions on topics such as internet security, fake news and a healthy lifestyle.

Children's play parks and sports fields were completed in surrounding towns, and the traffic playground underwent reconstruction in Mnichovo Hradiště. The regional campaign of the nationwide Safe Friday project concentrated on education for children and raising awareness of traffic safety.

The year 2020 was also one for supporting charities. Thirty-seven organisations were provided with support via the Crisis fund to help them come to terms with the negative impacts of the Covid-19 pandemic.

TRAFFIC SAFETY

In this area, the Company focused on the safety of its ŠKODA cars, the safety of infrastructure and a number of educational and preventive activities at primary and secondary schools. The previously mentioned "Safe Friday" project continued and aims to make Czech roads a safer place. The project is built on over ten years' experience acquired by the experts at the unique Traffic Safety Research Team, which analyses the causes, circumstances and events of road traffic accidents, and assesses to what

further extent a vehicle can eliminate the consequences of an accident or how the driver or other road users can prevent such an accident. ŠKODA AUTO has long been the general partner to the bezpecnecesty.cz website, which uses multimedia elements, applications and explanatory videos to provide practical information about road safety, traffic education and for advising driving school students. ŠKODA AUTO contributes towards the training of students and instructors at driving schools in the Czech Republic by organising workshops for instructors that focus on the active and passive safety elements in cars, and the very latest assistance systems.

TECHNICAL EDUCATION

Technical education is a strategic area at ŠKODA AUTO. The Company works on specific projects with dozens of schools at all levels and runs its secondary vocational school, Company university and the ŠKODA Academy, all of which focus on the further education of employees. These activities mean the Company can train its own experts, of which there is a shortage on the market.

Since 2013, ŠKODA has been a partner to the Science Has a Future programme run by AISIS, a non--profit organisation. The programme motivates teachers, principals and education advisors at primary schools and increases the attractiveness of natural and technical sciences to their pupils. Nearly 250 people have been engaged in the project over the past seven years.

The year 2020 saw the fourth year of a unique questionnaire distributed to primary schools in the three regions in which ŠKODA AUTO is active. The aim is to define the strengths and weaknesses of individual schools. A strategic list of projects that a school will carry out with the financial assistance of the Company was then compiled based on the results. The Company can therefore monitor if the aid is as effective as it should be and if there is any positive development in the teaching of subjects such as mathematics and IT. Thirty-two schools from the Company's home regions took part in the project in 2020. However, in light of the situation, the focus was more on developing the digital skills of teachers and supporting online teaching.

BARRIER-FREE MOBILITY

The ŠKODA Handy project has been supporting people with disabilities and their families since 2010. More and more authorised dealers have joined up over time and anyone interested can find them under the name of ŠKODA Handy centrum. The specially-trained dealers help clients choose the right car and modifications and assist with applications for government contributions. The Company has been collaborating with the Czech Paraplegic Association (CZEPA) since 2014, primarily in creating the "VozejkMap" information database, which helps people with disabilities plan journeys. ŠKODA AUTO also loaned the Czech Paraplegic Association two OCTAVIA COMBI cars to ensure greater mobility for clients.

The ŠKODA NEŘÍDIT programme (which translates as "a pity not to drive") provides financial support and motivation to people with disabilities to obtain a driving licence. An educational programme on barrier-free mobility was created for people with disabilities in cooperation with the partner Cesta za snem (Way to the Dream). Also in 2020, the ŠKODA We Love Cycling team won the Handy Cyklo Marathon relay race, which encourages sporting spirit and the integration of people with disabilities.

CARING FOR CHILDREN

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

The Company works with the Tereza Maxová Foundation on the "ROZJEDU TO!" (I'll start it up!) project, which motivates children and young people from children's homes to place more emphasis on education and personal development while helping them choose a future career. Since 2013, the programme has supported 172 children aged between 11 and 15 years old. The superstructure of this activity is the ŠKODA AUTO and Tereza Maxová Foundation Education Fund, which supports other educational activities and provides study materials. Since the fund was set up in 2016, 119 children have been provided with support and a number of them on more than one occasion in successive years.

ŠKODA AUTO was also involved, for the sixth consecutive time, as the general partner in a charity that supports children – Hýbejte se s TERIBEAREM (Get Moving with TERIBEAR), otherwise known as Prima pohyb s medvědem powered by ŠKODA AUTO (Great Exercise with the Bear, powered by ŠKODA AUTO). In 2020, the traditional sporting and charity event TERIBEAR hýbe Prahou (TERIBEAR Moves through Prague) was staged in virtual form as a result of the measures introduced to combat the Covid-19 pandemic. A total of 23,116 registered participants downloaded the STRAVA running application, which they used to record the kilometres that they ran. Partners to the event turned each kilometre ran into ten crowns of aid, with the target of CZK 10 million achieved in 24 days. A team of ŠKODA AUTO staff covered 5,810 kilometres, and by running this distance contributed CZK 58,096 to helping disadvantaged children.

Cooperation with the Zdravotní klaun (Clown for Health) non-profit organisation also continued. The Company contributed CZK 400,000 to the project in 2020 and provided the clowns with cars for their journeys.

ŠKODA GRANT PROGRAMMES

ŠKODA AUTO distributed almost CZK 7 million to the seven grant programmes (Transport Education, Traffic Safety, My Home is Here, Region without Barriers, ŠKODA for Children, Support of Technical Education, ŠKODA Trees) for the eighth consecutive year in 2020. The programmes are designed to improve the quality of life, mainly in the areas around the Company's three plants in the Czech Republic, to support the community life of employees and their families, to increase traffic safety and to improve the quality of technical education. The Company also provided the Czech landscape with new trees, doing so for the fourteenth time. The ŠKODA Trees grant programme was launched in 2007 when the Company decided to plant one tree for every ŠKODA car sold in the Czech Republic. More than 1,000,000 trees had been planted by the end of 2020, meaning almost 210 hectares of new forest. In recent years, employees and their families have been joined in the project by trainees and students at the ŠKODA AUTO Secondary Vocational School of Engineering.

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

For the sixth consecutive year, ŠKODA AUTO 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 event takes place in the Czech Republic and aims to clear up illegal dumps and waste in the countryside. Employees and trainees at the Company along with their families and friends regularly took part in the past.

EMPLOYEE COLLECTIONS

Employees are also involved in charity work through long-term collections. The third round of the campaign got underway in 2020. Each employee at the Company can support up to ten non-profit organisations, which are chosen in a vote, by having a sum of money deducted from their salaries each month from 2020 to 2023. ŠKODA AUTO doubles the funds raised. Four-fifths of the money that the Company provides is sent to the accounts of the non-profit organisations; the other fifth is used for social responsibility projects in Pune and Aurangabad in India. Almost 1,350 employees signed up for the collections in 2020 with their donations totalling CZK 3.25 million. After including the money added by the Company, donations stood at CZK 6.5 million.

Two one-off collections were also announced in 2020, with the KOVO Trade Union taking an active role in these. The spring collection, intended for health workers at the hospitals in Mladá Boleslav, Rychnov nad Kněžnou and Semily in the battle against Covid-19, raised CZK 1.1 million. The autumn collection, "Pomoc pro Jagriti School v Púně" (Aid for Jagriti School in Pune), raised CZK 1.5 million, which will be used to help complete the construction of higher quality accommodation for the blind girls that attend the school.

ENVIRONMENTAL PROTECTION

Environmental protection is one of the pillars on which sustainability at the Company is built and this has been supported since 2012 by the GreenFuture Strategy. ŠKODA AUTO endeavours to minimise environmental impacts throughout the life cycle of all its products and mobility solutions, from the extraction of raw materials to end-of-life time. The aim is to make sure that ecosystems remain untouched to create a positive impact on society. Adherence to environmental regulations, standards and voluntary commitments is a fundamental prerequisite of all Company activities.

This strategy motivates staff to create cutting-edge personal mobility solutions for today's world, and the world of tomorrow, with minimum environmental impact while positively impacting society and regional development. A new environmental mission, Go To Zero, was approved in 2019 as part of the GreenFuture Strategy. This defines four priority areas: climate change, resources, air quality and environmental compliance. These areas were given due consideration when updating the "Environmental Targets to 2025" document and the target value for key indicators (decarbonisation index, reducing the environmental impact of production, the percentage of battery electric vehicles (BEV) and the implementation of ECMS).

1,350

ALMOST 1,350 STAFF PARTICIPATED IN EMPLOYEE COLLECTIONS IN 2020

ENVIRONMENTALLY-FRIENDLY ACTION UNDER THE MICROSCOPE OF ECMS

The original Environmental Management System (EMS) monitored the environmental impact and compliance with specific requirements and targets in the sphere of environmental protection. This has now been reinforced by incorporating compliance and conformity with rules, and in doing so, goes towards achieving the Group's vision of "acting as an example in the sphere of the environment". Therefore, the EMS has been replaced with the ECMS (Environmental Compliance Management System). The everyday activities already in place have been broadened to include other themes, procedures and mechanisms, which place greater emphasis on open communication, preventing and detecting rule breaches, grouping and managing risks, and on the systematic education and provision of information about the level of meeting binding requirements in the sphere of environmental protection. The parent companies of all Group brands will introduce ECMS at all stages of commercial activity and throughout the life cycle of products and services. ŠKODA, as one brand in the VOLKSWAGEN Group, has accepted the requirements on compliance in the sphere of the environment, introduced them into internal standards, and actively promotes and applies them in everyday practice.

ENERGY FROM RENEWABLE SOURCES

The Company invests heavily not only in constructing new technologies and buildings, but also in achieving environmental targets within management systems that comply with ISO 14001 and ISO 50001 standards. The mandatory Best Available Technique (BAT) principle is applied to each new investment. In addition to reducing CO_2 emissions in its models, the Company has set out the commitment to use only CO_2 neutral energy at all Czech plants for the production of vehicles and components in the second half of the 2020s. The plant in Vrchlabí was the first to achieve the Company's long-term objective of becoming entirely carbon-neutral, doing so in 2020. The vast majority of the original carbon dioxide emissions produced by plant annually, was reduced by purchasing electricity from renewable sources. The remaining emissions were offset by so-called carbon credits.

ŠKODA AUTO will continue to participate in mobility that is considerate to the environment and the climate even without the production of cars. The Company will support the construction of an internal charging structure with 1,500 charging points at its plants in Mladá Boleslav, Kvasiny, Vrchlabí and their surroundings by 2022. The recycling or reasonable repeat use of batteries as energy storage sites to drive vehicles is set to become a new environmental and economic milestone in connection with the electrification of ŠKODA cars.

MEASURES TO REDUCE ATMOSPHERIC EMISSIONS

Paint shops are mostly accountable for the number of atmospheric emissions. The opening of a new paint shop at the plant in Mladá Boleslav, equipped with the most advanced technology for cleaning waste air, brought a fundamental improvement in 2019. The technology for dry separation of paint overspray into crushed limestone significantly reduces the amount of solid pollutants in atmospheric emissions in comparison with paint shops using wet separation. The system also enables adsorption wheels to be fitted to remove volatile organic compounds (VOC) from the extracted air. VOC from the spray booths are concentrated on these wheels, which can then be burnt off in special equipment. This leads to a fundamental reduction in VOC to less than one-third of the valid emission limit of 45 g per m^2 per painted area. The effectiveness of the separation equipment was verified by authorised emission measurement in 2020.

The Company also addresses more marginal sources of VOC. Paint booths for teaching apprentices were modernised, the paint shop at the Servicing Centre in Kosmonosy underwent reconstruction and the paint booths at Technical Development were replaced and relocated. The additional installation of equipment for the thermal limitation of VOC from the acetylene hardening process on an ALD vacuum hardening line at the hardening plant in Mladá Boleslav made another significant contribution toward air protection. The extremely high effectiveness in limiting VOC emissions of over 99% was confirmed by authorised emission measurement in 2020.

PROTECTING LAND AND WATER

The Company makes considerable efforts to protect water sources and land against pollution. Total water consumption in 2020 was 1.3 million m^3, a quantity affected by the interruption to production on account of the Covid-19 pandemic (consumption in 2019: 1.56 million m^3). The Company uses advanced technology that complies with European criteria for the Best Available Technique and reduces the consumption of water.

ŠKODA AUTO also cares for how it processes rainwater. The retention tank was expanded in 2020 in connection with the construction of a new central kitchen at the plant in Mladá Boleslav, which slowed down the outflow of rainwater from the newly paved surfaces. 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 plans linked to electromobility. Where technology allows, ŠKODA AUTO uses substances that are considerate to the environment or effective technology to eliminate the production of hazardous substances.

WASTE AS A RESOURCE

The Company primarily endeavours to prevent the production of waste and to considerately use raw materials. Brand Logistics minimises packaging or replaces packaging materials with recyclable or reusable materials.

ŠKODA AUTO is actively engaged in applying the principles of a circular economy. Within this circular economy, for example, pigmented limestone is used within the cycle of a secondary product from the process of capturing oversprays at the new painting shop for desulphurising flue gases at the ŠKO-ENERGO heat-production plant in Mladá Boleslav. When waste is produced as a result of a production process, a hierarchy of waste handling is consistently applied – material and energy use is favoured over dumping. No waste from production at the Company's plants in the Czech Republic was dumped in 2020.

REPORT ON RISKS AND OPPORTUNITIES

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

STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND THE INTERNAL CONTROL SYSTEM

The structure of RMS/ICS in place at ŠKODA AUTO draws on the uniform principle of risk management at the VOLKSWAGEN Group, which follows on from the internationally-recognised COSO Enterprise Risk Management Framework (COSO: Committee of Sponsoring Organizations of the Treadway Commission). RMS/ICS is centrally managed by the Governance, Risk & Compliance Division, in collaboration with the Controlling Division. The principles, responsibilities and individual component parts of the entire process are regulated by Group guideline Risk Management System and Internal Control System and by the Regular GRC Process and Operative Risk Management System methodical guidelines. The final responsibility for the risk management system lies with the Board of Management at ŠKODA AUTO. The day-to-day implementation of the system is a matter 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. Then Sub-proposals are created, and counter-measures put into place to reduce the likelihood that a risk will occur, or moderate its potential impacts, and management employees check and assess such counter-measures on a regular basis. RMS/ICS also involves regular risk reporting to the Board of Management at the Company and to management at VOLKSWAGEN AG with the aim of securing information on the overall picture of a particular risk situation. The adequacy, effectiveness and transparency of the whole system are regularly and independently checked within processes that make up an integrated part of RMS/ICS. The quality of all processes is currently undergoing improvement under the supervision of the VOLKSWAGEN Group, with the focus on documenting activities in relation to RMS/ICS.

RISKS AT ŠKODA AUTO

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

ECONOMIC, POLITICAL AND LEGISLATIVE RISKS

From the financial perspective, ŠKODA AUTO is both an exporter and a local manufacturer and is influenced by general global and European economic conditions and by the situation in particular economies. These include the condition of the economy and the associated economic cycle, amendments to legislation and changes to the political situation in those countries where the Company is active. This brings with it a constant threat of risks associated with a high level of public debt, unemployment and fluctuations in the prices of precious metals, crude oil and plastics. Other significant risks that can influence the Company's commercial activities on global markets are the uneven economic development in different states or regions and a vulnerable banking system. ŠKODA AUTO identifies, in advance, export contracts to countries with a potential territorial and political risk and hedges them with approved financial and insurance products as standard. 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 95 EUR 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.

1,004,800

1,004,800 CARS WERE DELIVERED TO CUSTOMERS BY ŠKODA AUTO

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 RISK

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

FINANCIAL RISKS

Financial risks and the management of such risks are among those which are 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.

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

RESEARCH AND DEVELOPMENT RISKS

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

QUALITY RISKS

The Company places huge emphasis on the risk management system in relation to quality on account of ever-rising competitive pressure, the increasing complexity of production technologies, the high number of suppliers and the use of Group-wide systems. It endeavours to identify and remove as quickly as possible any problems regarding quality from the very first stages of product development to ensure there are no delays in launching production. It also ensures long-term quality and timely supplies from the very start of the supply chain using the risk management system, which helps the Company meet customer expectations. 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 on particular markets. If negative deviations are found, measures are immediately implemented to ensure that any damage is kept to the minimum.

HUMAN RESOURCE RISKS

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

INFORMATION TECHNOLOGY RISKS

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

LEGAL RISKS

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

OTHER OPERATING RISKS

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

The Covid-19 pandemic also hit ŠKODA AUTO hard in the year 2020. 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 onward 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

With our broad product range, technologies and services, we are well prepared for future challenges in the mobility business. Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENT IN THE GLOBAL ECONOMY

Our planning is based on the assumption that global economic output will recover overall in 2021 if a successful, lasting containment of the Covid-19 pandemic is achieved. However, this growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. 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 could be negatively impacted by ongoing geopolitical tensions and conflicts. Overall, we anticipate that both the advanced economies and the emerging markets may experience a positive momentum.

Furthermore, we anticipate that the global economy will continue to grow in the period from 2022 to 2025.

EUROPE

In Western Europe, we expect moderate economic growth in 2021 after the downturn in the last fiscal year. The impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom's withdrawal from the European Union will pose major challenges. We expect gross domestic product (GDP) in Germany, our biggest European market, to grow similarly at a moderate pace in 2021 but to remain short of its pre-pandemic level. The labour market situation is likely to deteriorate. We also anticipate moderate growth rates in Central Europe in 2021. The economic situation in Eastern Europe is expected to recover as well, albeit at a slower pace given that only marginal growth is anticipated for the Russian economy.

CHINA

The Chinese economy will probably continue growing at a relatively high level in 2021 after being one of the few economies which did not experience a recession throughout 2020.

INDIA

After a sharp contraction in the reporting year, we also expect a relatively high rate of rebounded expansion for the Indian economy in 2021, outpacing the average growth seen in previous years prior to the Covid-19 pandemic.

TRENDS IN THE GLOBAL MARKET FOR PASSENGER CARS

We expect that trends in the markets for passenger cars per region will vary in 2021. Overall, the volume of global demand for new vehicles is expected to rise again in 2021, if a successful, lasting containment of the Covid-19 pandemic is achieved. We are thus forecasting also a growing global demand for passenger cars from 2022 to 2025.

EUROPE

For 2021, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above the reporting year 2020. At the same time, however, possible consequences of the Covid-19 pandemic and the yet to some extent non-overt impact of the United Kingdom's exit from the European Union may cause ongoing concerns among consumers and dampen demand. Nonetheless, we anticipate a year-on-year increase in registrations for the United Kingdom in 2021 as well as for the German passenger car market.

Sales of passenger cars in Central Europe are expected to exceed previous figures of 2020 while a significant rise is forecasted especially for Eastern Europe. In Russia, a moderate year-on-year increase in volumes is anticipated.

CHINA

The passenger car markets in the Asia-Pacific region are expected to be noticeably up again in 2021. We expect demand in China to be noticeably above 2020. Especially attractively priced entry-level models in the SUV segment may profit from strong demand.

INDIA

We anticipate an appreciable increase in new registrations in the Indian market compared to the previous year.

DEVELOPMENT PLANS OF ŠKODA AUTO

Despite further impacts of the Covid-19 pandemic in 2021 and beyond, ŠKODA AUTO will focus on growing car sales volumes (including positive market development outside Europe), extending the portfolio of digital business models and mobility services, providing electromobility solutions, and promoting sustainability.

The company will strive for compliance with the European Union's emissions and CO_2 standards and continue its related product portfolio transformation. It also set out an objective of achieving a neutral CO_2 balance of used energy in all of its Czech plants by 2030.

By implementing Strategy 2025+, ŠKODA AUTO aims to realise its vision and transform from a car manufacturer to a “Simply Clever company” offering the best mobility solutions. At the same time, it emphasises innovation, an open and agile corporate culture, improving employees' qualifications and modern work methods.

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 2020, 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 2020, 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 MATTERS

The prior year financial statements were audited by other auditors whose report dated 26 February 2020 expressed an unqualified opinion on those financial statements.

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

26 February 2021

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 2020

BALANCE SHEET AS AT 31 DECEMBER 2020

Assets (CZK million)	Note	31 December 2020	31 December 2019
Intangible assets	4	44,600	39,422
Property, plant and equipment	5	85,632	87,316
Investments in subsidiaries	6	600	594
Investments in associates	7	2,356	2,356
Other non-current receivables and financial assets	8	10,196	9,473
Deferred tax asset	14	1,267	2,363
Non-current assets		**144,651**	**141,524**
Inventories	9	24,516	24,863
Trade receivables	8	31,665	21,686
Other current receivables and financial assets	8	2,500	831
Current non-financial assets	8	5,982	6,978
Cash and cash equivalents	10	18,669	45,753
Current assets		**83,332**	**100,111**
Total assets		**227,983**	**241,635**

Equity and liabilities (CZK million)	Note	31 December 2020	31 December 2019
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	71,372	87,877
Other reserves	12	5,261	3,462
Equity		**94,920**	**109,626**
Non-current financial liabilities	13	2,404	2,864
Non-current non-financial liabilities	13	6,783	6,837
Non-current provisions	15	17,242	15,169
Non-current liabilities		**26,429**	**24,870**
Trade liabilities	13	66,153	70,267
Other current financial liabilities	13	1,376	1,752
Current non-financial liabilities	13	12,576	15,212
Current income tax liabilities		260	691
Current provisions	15	26,269	19,217
Current liabilities		**106,634**	**107,139**
Total equity and liabilities		**227,983**	**241,635**

The notes on pages 99 to 179 are an integral part of these financial statements.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

(CZK million)	Note	2020	2019
Sales	**16**	**424,292**	**459,122**
Cost of sales	24	381,221	397,086
Gross profit		**43,071**	**62,036**
Distribution expenses	24	12,349	14,735
Administrative expenses	24	13,565	13,234
Other operating income	17	12,508	8,143
Other operating expenses	18	12,349	4,990
Operating profit		**17,316**	**37,220**
Financial income		2,842	1,959
Financial expenses		2,295	681
Net financial result	**19**	**547**	**1,278**
Profit before tax		**17,863**	**38,498**
Income tax expense	21	2,688	6,809
Profit for the year		**15,175**	**31,689**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

(CZK million)	Note	2020	2019
Profit for the year, net of tax		**15,175**	**31,689**
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	2,297	(3,689)
Items that will not be reclassified to profit or loss:			
Net fair value gain / (loss) net of tax on equity instruments	12	(498)	(1,158)
Other comprehensive income / (loss) for the year, net of tax		**1,799**	**(4,847)**
Total comprehensive income for the year		**16,974**	**26,842**

The notes on pages 99 to 179 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

The notes on pages 99 to 179 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

(CZK million)	Note	2020	2019
Cash and cash equivalents as at 1 January	**10**	**45,753**	**45,846**
Profit before tax		17,863	38,498
Depreciation, amortisation, impairment loss and reversal of impairment loss of non-current assets	4, 5	26,251	20,942
Change in provisions		8,380	842
(Gain) / loss of tangible and intangible assets		15	34
Net interest (income) / expense	19	816	(289)
Dividend income	19	(1,289)	(1,143)
Adjustments for non-cash transactions on derivatives and other adjustments for non-cash transactions		(980)	(722)
Change in inventories		350	(4,184)
Change in receivables		(8,794)	1,140
Change in liabilities		(3,266)	14,769
Income tax paid from operating activities		(2,442)	(4,025)
Interest paid		(300)	(346)
Interest received		229	635
Cash flows from operating activities		**36,833**	**66,151**
Purchases of tangible and intangible assets	4, 5	(21,009)	(26,213)
Purchase of subsidiary	6	—	(5)
Payment for increase in equity of a subsidiary	6	(6)	(439)
Additions to capitalised development costs	4	(12,004)	(11,436)
Proceeds from sale of tangible and intangible assets		21	38
Proceeds from dividends		1,289	1,143
Cash flows from investing activities		**(31,709)**	**(36,912)**
Net cash flows (operating and investing activities)		**5,124**	**29,239**
Dividends paid	11	(31,680)	(28,890)
Repayments of lease liabilities - principals		(528)	(442)
Cash flows from financing activities		**(32,208)**	**(29,332)**
Net change in cash and cash equivalents		**(27,084)**	**(93)**
Cash and cash equivalents as at 31 December	**10**	**18,669**	**45,753**

Total cash outflow from lease liabilities and from low-value assets leases was CZK 853 million in 2020 (2019: 841 million).
For non-cash transactions from investing activities relating to leases under IFRS 16 refer to Note 5.
The notes on pages 99 to 179 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 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**

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

The notes on pages 99 to 179 are an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS 2020

COMPANY INFORMATION

FOUNDATION AND COMPANY ENTERPRISES

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

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

The Company is registered in the Commercial Register maintained with the Municipal Court in Prague, Section B, Insert 332, with File No. Rg. B 332.
The organisational structure of the Company is divided into the following main areas:
— Central Management Department
— Technical Development
— Production and Logistics
— Sales and Marketing
— Finance and IT
— Human Resource Management
— Procurement

The Company has its main production plant in Mladá Boleslav and two other production plants in Vrchlabí and Kvasiny.
ŠKODA AUTO a.s. is a subsidiary of VOLKSWAGEN FINANCE LUXEMBURG S.A. included in the consolidation group of its ultimate parent company and its ultimate controlling party, VOLKSWAGEN AG (“VOLKSWAGEN Group”), with its registered office in Wolfsburg, the Federal Republic of Germany (for details see Note 29).

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

1. SUMMARY OF ACCOUNTING POLICIES AND PRINCIPLES

1.1 COMPLIANCE STATEMENT

These financial statements are separate financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2020. 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 2020.

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://annualreport2020.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 2020). Consolidated financial statements of VOLKSWAGEN AG and the auditor's report thereon will be published in Czech language in the collection of documents in the Commercial Register.

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

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

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

1.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS

1.2.1 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS MANDATORY FOR ACCOUNTING PERIODS BEGINNING ON 1 JANUARY 2020

New standards, amendments and interpretations to existing standards applied by the Company:

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IAS 1, IAS 8	Amendment regarding the definition of materiality	1 January 2020	The definition of a significant accounting concept "materiality" assists an entity in deciding whether to include certain information in the financial statements. New definition of this term: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.	Lower aggregation rate and expanded commentary for potentially material items.

Other new standards, amendments, interpretations and improvements to existing standards will not be relevant for the Company or had no material impact on the separate financial statements of the Company:

IFRS	Standard/Interpretation	Effective in EU
IFRS 3	Definition of a business – amendments to IFRS 3 Amendments aimed at resolving the difficulties that arise when en entity determines whether it has acquired a business or a group of assets.	1 January 2020
IBOR reform Phase 1	Interest Rate Benchmark Reform (IBOR) – amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
References to the Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.	1 January 2020
IFRS 16	Covid-19-Related Rent Concessions – Amendment to IFRS 16 An 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 June 2020

1.2.2 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS PUBLISHED NOT YET EFFECTIVE FOR ACCOUNTING PERIODS BEGINNING ON 1 JANUARY 2020

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:

IFRS	Standard/Interpretation	Effective in EU
IBOR reform Phase 2	Interest Rate Benchmark Reform (IBOR) – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
IFRS 4	Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	1 January 2021
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) 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	Onerous Contracts-Cost of Fulfilling a Contract (Amendments to IAS 37) The changes in Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract 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*
IAS 1	Classification of Liabilities as Current or Non-current (Amendment to IAS 1) The amendment to IAS 1 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.	1 January 2023*
IFRS 3	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*
IFRS 17	Insurance Contracts	1 January 2023*

* Not adopted by the European Union as at 31 December 2020 (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 2020. As a result of the pandemic, there was not only a global decline in demand for new cars, but also a complete shutdown of production at the Company's production plants during the first wave of the pandemic.

To mitigate the effects of the pandemic, the Company's management has taken a number of measures, in particular in the area of cost savings and capital expenditures. Other measures were focused on optimizing current assets and liquidity. All the measures taken had a positive effect in the third and fourth quarters of 2020.

After a large decline in deliveries of cars and financial indicators of Company in the first half of the year, due to widespread restrictions on the spread of coronavirus during the first wave of the pandemic, a slight recovery followed in the third and fourth quarters. Even the favorable development of indicators in the second half of the year failed to offset the decline in performance in the first half of 2020, and the Company thus recorded a year-on-year decrease in sales of 7.6% and a year-on-year deterioration of profit before tax of 53.6% in 2020.

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, anticipating that it will gain additional customers with a new SUV based on a modular electrified platform.

In assessing the entity's ability to continue as a going concern, the Company's management assumed the temporary nature of the pandemic, while taking into account the positive trend achieved in the last two quarters of 2020. 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 a 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 and the calculation parameters are given in Notes 4 and 5.

The Covid-19 pandemic also caused significant fluctuations in exchange rates on global foreign exchange markets that led to a year-on-year decrease in the Company's profit by CZK 3,551 million. This decline caused, in particular, a significant decrease in net gains on the translation of receivables and payables including effects from hedging.

The pandemic 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 was either suspended or canceled 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 losses from other comprehensive income to other operating income in the amount of CZK 263 million occurred in 2020. Details on the ineffectiveness of hedging are given in Note 12.1.

Furthermore, the Company assessed the risk of possible losses caused by pandemics that could result from existing long-term contracts, while the Company has not identifying any significant indicators leading to the creation of a provision for onerous contracts.

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.

Due to the measures related to the Covid-19 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 on this government grants refer to Notes 2.14 and 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 2020, 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 2020. 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 favor 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 will be closely monitored by the Company and the decision will be 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 from 1 January 2023 onwards using derivative transactions contracted in EUR. At the same time, it 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.

1.5 IMPACT OF TRANSITION TO IFRS 16 LEASES (2019)

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

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

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

Lease liabilities by maturity:

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

1.6 NEW DEFINITION OF CASH-GENERATING UNIT (2019)

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

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

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

The change in the definition of the CGU also had a prospective effect on the conditions for capitalization of internally generated intangible assets and on the annual impairment testing of the related intangible assets (intangible assets that are not yet ready for use and intangible assets with indefinite useful lives).

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 2020 (31 December 2019).

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	1–7 years according to the product life cycle
— Software	3 years
— Tooling rights	1–8 years according to the product life cycle
— Other intangible fixed assets	3–8 years

Estimated useful lives and 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 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

CLASSIFICATION AND MEASUREMENT IN ACCORDANCE

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

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

Debt financial instruments

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

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

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

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

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

Financial assets at amortised cost (portfolio AC)

In this category, the Company presents debt instruments, which are held under a business model, which aim is to collect all contractual cash flows and which also have contractual cash flows representing solely principal and interest on the outstanding principal. Subsequently, they are measured at amortised cost, as determined by the effective interest rate method (hereinafter the amortised cost). During the accounting period 2020 (2019), 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.

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 2020 (2019) accounting period. The realised and unrealised losses from the changes in the fair value of these receivables were included in the financial expenses in 2020 (2019).

Derivatives are classified in category FVPL, provided that they do not meet the conditions of hedge accounting. During the accounting period 2020 (2019), the Company had receivables from trading derivatives in this category (refer to Note 2.5.3). The realised and unrealised gains and losses from changes in the fair value of financial derivatives held for trading were included in other operating income or other operating expenses in the year 2020 (2019).

Equity instruments

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

In this category, the Company only held investments in equity instruments that did not have an observable price in an active market in 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) × loss given default (LGD) × 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 2020, 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 2020 or in the other operating expenses. During the accounting period 2020 (2019), 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 2020 (2019) (see Note 6):
— ŠKODA AUTO Slovensko s.r.o. (100%);
— ŠKODA AUTO DigiLab s.r.o. (100%);
— UMI Urban Mobility International Česká republika s.r.o. (100%);
— ŠKODA AUTO DigiServices s.r.o. (2019: Smart City Lab s.r.o.) (100%);
— SKODA AUTO India Private Ltd. (till 5 October 2019* - 100 %).

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

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

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

The Company had significant influence as at 31 December 2020 (2019) in the following associates (see Note 7):

— OOO Volkswagen Group Rus;
— ŠKO-ENERGO FIN, s.r.o.;
— ŠKO-ENERGO s.r.o.;
— Digiteq Automotive s.r.o.;
— SKODA AUTO Volkswagen India Private Limited - from 5 October 2019*.

Recognition, measurement and derecognition

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

Impairment

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

2.7 CURRENT AND DEFERRED INCOME TAX

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

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

2.7.1 CURRENT INCOME TAX

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

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

2.7.2 DEFERRED INCOME TAX

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

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

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

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

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

2.8 INVENTORIES

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

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

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

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

2.9 CASH AND CASH EQUIVALENTS AND CASH FLOW STATEMENT

The cash and cash equivalents disclosed in the cash flow statement also comprise, in addition to cash and short-term deposits in banks, short-term deposits in VOLKSWAGEN Group companies (mainly in Volkswagen International Belgium SA (VIB), the Regional Treasury Center) with original maturity of less than three months, which are readily convertible to known amounts of cash, the risk of changes in value is not significant and are held to meet short-term financial liabilities rather than for investment or other purposes. 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 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. 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 approximately less than EUR 5,000 when new are considered to be low-value assets by the Company.

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

Lease liability

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

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

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

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

Refer to Note 13 for further information on lease commitments.

Right of use assets

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

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

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

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

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

2.14 SUBSIDIES AND GOVERNMENT GRANTS

Subsidies of entrepreneurial activities and of employee training and retraining costs are recognised as income on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate. Extraordinary government grant (refer to Note 1.3) in the form of a contribution to the employer to reimburse wages is reported as a reduction in personnel costs in 2020.

Government grants, including non-monetary grants related to the purchase of tangible and intangible assets, are recognised at fair value as reduction in the value of tangible and intangible assets.

2.15 RELATED PARTIES

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

2.16 EQUITY

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

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

2.17 SHARE-BASED PAYMENTS

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.

*Earnings per share

2.18 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including the realistic assessment of future developments. As a result of the global Covid-19 pandemic, the Company's management had to make significantly more judgments in 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 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 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 is disclosed in Note 8.

Provision for warranty claims

The Company recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially good-will repairs and service actions. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line.

The rates for the basic guarantee are determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair trademark policy with regard to specifics of individual countries. The amount of the provision for service actions is determined on the basis of a management estimate, particularly of material, personnel and possible other expenses necessary for eliminating the defects.

The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end. More detailed information about the provision for warranty claims is included in Note 15.

Provision for litigation risks

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

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 an average emissions target of 95 g CO_2 for new passenger cars registered in the EU. Furthermore, emissions from these types of vehicles should be reduced by 15% by 2025 and by 37.5% by 2030 compared to 2021. Car manufacturers whose average emissions exceed the set limits should 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. In 2020, 95% of newly produced vehicles will be included in this limit; from 2021, this limit will apply to the average of all cars produced.

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.

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 44,600 million as at 31 December 2020 (as at 31 December 2019: CZK 39,422 million). Average useful life of intangible assets was 6 years in 2020 (in 2019: 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 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 a 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.

The assumption for securing receivables is a properly concluded written contract, which should include interest on default payments and furthermore selected trade receivables are secured by an ownership title to the sold goods until full settlement of the purchase price. 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 2020 (as at 31 December 2019), 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)	2020	2019
Retention of legal ownership title to sold cars	719	839
Bank guarantee	1,051	1,013
Letters of credit	1,270	1,383
Documentary collection	68	5
Total	**3,108**	**3,240**

Furthermore, in 2020 the Company secured a bank guarantee in the amount of CZK 2,856 million (2019: CZK 2,842 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 2020 (as at 31 December 2019: 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 2020, as in 2019, 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 18,666 million as at 31 December 2020 (as at 31 December 2019: CZK 45,750 million), out of which:

— deposits with original maturity less than three months included in the balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 12,500 million (as at 31 December 2019: CZK 37,500 million);
— overnight deposits from cash pooling included in the balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 6,166 million (as at 31 December 2019: CZK 8,250 million).

The Company did not consider probable that a default could occur in connection with the free cash deposited in 2020 (2019). 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

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 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 loss

	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 2019					
Solvency class 1, of which:	**46,351**	**—**	**18,695**	**—**	**65,046**
Trade receivables	—	—	18,695	—	18,695
Cash equivalents	37,503	—	—	—	37,503
Cash pooling	8,250	—	—	—	8,250
Other	598	—	—	—	598
Solvency class 2, of which:	**—**	**—**	**373**	**—**	**373**
Trade receivables	—	—	373	—	373
Solvency class 3, of which:	**—**	**111**	**—**	**1,066**	**1,177**
Trade receivables	—	—	—	1,066	1,066
Other	—	111	—	—	111
Total	**46,351**	**111**	**19,068**	**1,066**	**66,596**

* ECL – expected credit loss

In stage 2 of ECL model the Company included no financial assets in 2020 (2019). Besides the amounts presented above in the table Credit quality of financial assets at amortised cost, the Company included in Solvency class 1 also receivables that will be subject to factoring without recourse (portfolio FVPL) in the amount of CZK 6,660 million (as at 31 December 2019: CZK 2,253 million).

3.1.4 CREDIT RISK ANALYSIS

Gross carrying amount of financial assets at amortised cost

(CZK million)	General approach to impairment: Stage 1 12-month ECL*	General approach to impairment: Stage 3 lifetime ECL* – individually impaired	Simplified approach to impairment: Lifetime ECL* based on provision matrix	Simplified approach to impairment: Lifetime ECL* – individually impaired	Total
Trade receivables					
Balance as at 1 January 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 loss

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

* ECL – expected credit loss

In stage 2 of ECL model the Company included no financial assets in 2020 (2019).

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 2020	**(197)**	**(504)**	**(701)**
Additions	(250)	(3)	(253)
Reversals	75	368	443
Balance as at 31 December 2020	**(372)**	**(139)**	**(511)**

* ECL – expected credit loss

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

* ECL – expected credit loss

Impairment matrix for trade receivables

(CZK million)	Not due	Months past due: Less than 1 month	Months past due: 1–3 months	Months past due: 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)**

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

Allowances for lifetime expected credit loss for other receivables and financial assets were CZK 4 million in stage 1 (as at 31 December 2019: CZK 3 million) and CZK 107 million in stage 3 (as at 31 December 2019: CZK 111 million).

During the accounting period 2020 (2019) 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 2020 (in 2019: 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 110 million in 2020 (in 2019: CZK 98 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 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

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

* 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 2020 (as at 31 December 2019) the Company did not offset any trade receivables and trade liabilities in the 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 2020 (as at 31 December 2019). The total amount of collateral value of trade receivables was CZK 3,108 million as at 31 December 2020 (as at 31 December 2019: CZK 3,240 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 a 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 2020 (as at 31 December 2019).

The Company has not drawn any credit line from the external banks as at 31 December 2020 (as at 31 December 2019).

Contractual maturity analysis

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 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)
Total	**(72,611)**	**(75,998)**	**(97,276)**	**(236)**	**(246,121)**

CZK million	Within 1 year	1–5 years	More than 5 years	Total
Balance as at 31 December 2019				
Trade liabilities	(70,267)	—	—	(70,267)
Leasing liabilities	(534)	(1,410)	(358)	(2,302)
Derivatives:				
Currency forwards and swaps – gross cash outflows	(87,139)	(86,529)	—	(173,668)
Commodity swaps – net cash outflows	(153)	(100)	—	(253)
Financial guarantee contracts	—	(75)	—	(75)
Total	**(158,093)**	**(88,114)**	**(358)**	**(246,565)**

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 a 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 a 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

(CZK million)	Nominal value of derivatives – Balance as at 31 December 2020 – With positive and negative fair value	Nominal value of derivatives – Balance as at 31 December 2019 – With positive and negative fair value	Fair value of derivatives – Balance as at 31 December 2020 – Positive	Fair value – 31 December 2020 – Negative	Fair value – Balance as at 31 December 2019 – Positive	Fair value – 31 December 2019 – Negative
Currency instruments						
Currency forwards and swaps for trading	8,286	10,451	4	576	115	223
Currency forwards and swaps – cash flow hedging	169,190	162,846	3,230	1,254	990	2,034
Commodity instruments						
Commodity swaps for trading	7,698	6,867	996	67	129	252
Total	**185,174**	**180,164**	**4,230**	**1,897**	**1,234**	**2,509**

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 2020 (CZK million)	Due date – Within 1 year	1–2 years	2–3 years	3–4 years	More than 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 CZK in detail per currencies

Balance as at 31 December 2019 (CZK million)	Due date – Within 1 year	1–2 years	2–3 years	3–4 years	More than 5 years	Total
Currency instruments						
Currency forwards and swaps – cash flow hedging						
EUR	25,626	—	—	—	—	25,626
AUD	1,446	1,088	645	—	—	3,179
GBP	19,458	16,011	9,918	3,948	239	49,574
CHF	8,046	6,128	3,974	1,253	—	19,401
JPY	719	140	—	—	—	859
NOK	1,977	2,236	653	—	—	4,866
PLN	17,425	11,768	6,242	3,584	—	39,019
RUB	1,409	—	—	—	—	1,409
SEK	4,838	4,325	3,324	1,676	—	14,164
TWD	1,760	1,401	1,039	202	—	4,401
USD	348	—	—	—	—	348
Total	**83,052**	**43,097**	**25,795**	**10,663**	**239**	**162,846**

Nominal amount of derivatives contracted in EUR in detail per currencies

Balance as at 31 December 2020 (CZK million)	Due date – Within 1 year	1–2 years	2–3 years	3–4 years	More than 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 the 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 2020 (2019) the Company considers as reasonably possible the movements of exchange rates EUR, USD, CHF, GBP, SEK and PLN against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK).

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)

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

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

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

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 the balance sheet date by using adjusted exchange rates compared to those published by ECB.

As at 31 December 2020, 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:

	EUR appreciation by 10%						
2020 (CZK million)	**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

	EUR depreciation by 10%						
2020 (CZK million)	**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 the 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 2020 (2019: +100/ -100 basis points). Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered in 2020 (2019). 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:

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

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

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 2020 the Company assumes reasonably possible movements in prices of particular commodities in the following period of +/-10% (2019: +/-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:

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)

2019 (CZK million)	**Increase of copper prices +10%**	**Decrease of copper prices (10%)**	**Increase of aluminium prices +10%**	**Decrease of aluminium prices (10%)**	**Increase of lead prices +10%**	**Decrease of lead prices (10%)**
Profit before tax						
Derivative financial instruments	232	(232)	430	(430)	41	(41)

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 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**

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

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

Amortisation of intangible assets of CZK 8,712 million (2019: CZK 7,397 million) are included in the cost of sales, CZK 168 million (CZK 2019: 139 million) in distribution expenses, and CZK 114 million (2019: CZK 92 million) in administrative expenses.

IMPAIRMENT REVIEWS

Impairment reviews in 2020

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 recoverable amount of the defined cash-generating unit did not result 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%). The WACC rate (5.3%) was used to discount cash flows in 2020. 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.

Impairment reviews in 2019

In connection with significant changes in the economic and legal environment of entities operating in the automotive industry, the Company's management reassessed the definition of a cash-generating unit in vehicle production in 2019, which led to a change in the level of the cash-generating unit (see Note 1.6). Based on this change in the definition of the cash-generating unit, in 2019 the Company tested the assets of the newly defined cash-generating unit (the Company's automotive business) for impairment. A comparison of the carrying amount and the recoverable amount of the newly defined cash-generating unit resulted in the reversal of an impairment loss on intangible assets allocated to intangible assets of CZK 1,682 million, which the Company recognized in the income statement (within the line Cost of sales) for the year ended 31 December 2019. 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 and an estimate of cash flows after the end of the planning period using growth rates (1.0%). The WACC rate (5.7%) was used to discount cash flows in 2019. 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 intangible assets in 2020 or 2019 as they were not material.

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

(CZK million)	2020	2019
Research and development costs expensed	6,473	13,808
Amortisation and impairment losses of development costs	6,590	5,025
Research and development costs recognised in profit or loss	**13,063**	**18,833**

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 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**

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

*As at 31 December 2020 advances paid amount to CZK 2,662 million (as at 31 December 2019: CZK 2,793 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 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**

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

IMPAIRMENT REVIEWS

Impairment reviews in 2020

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. 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%). The WACC rate (5.3%) was used to discount cash flows in 2020. This rate reflects the specific risks associated with the industry in which the Company operates.

Impairment reviews in 2019

With respect to significant changes in economic and legal environment of entities operating in automotive industry, the Company's management reassessed the definition of a cash-generating unit (CGU) for car production in 2019, which has led to a change in the level of the cash-generating unit (see Note 1.6). Due to the changes in definition of CGU (automotive-related business of the Company) the Company performed impairment review of assets relating to this newly defined cash-generating unit in 2019. The comparison of the carrying amount with the relevant recoverable amount for the redefined cash-generating unit resulted in a reversal of impairment loss of CZK 761 million allocated to tangible fixed assets, which has been posted to the income statement (within the line Cost of sales) for the year ended 31 December 2019. The recoverable amount of the cash-generating unit has been determined based on the calculation of the value in use of the assets applying cash flow projections of the cash-generating unit reflecting financial plans approved by the Company's management for the following 5 years and growth rate used to estimate cash flow after the end of the planning period (1.0%). For discounting cash flows, the WACC (5.7%) has been applied in 2019, reflecting the specific risks associated with the sector in which the Company operates.

CAPITALISATION OF BORROWING COSTS

No borrowing costs have been capitalised in the cost of property, plant and equipment in 2020 or in 2019 as they were not material.

6. INVESTMENTS IN SUBSIDIARIES

Subsidiaries	Country of incorporation	Shareholding (%) 2020	Shareholding (%) 2019	Value of ownership interest (CZK million) 2020	Value of ownership interest (CZK million) 2019
ŠKODA AUTO Slovensko s.r.o.	Slovakia	100	100	49	49
ŠKODA AUTO DigiLab s.r.o.	Czech Republic	100	100	176	170
UMI Urban Mobility International Česká republika s.r.o.	Czech Republic	100	100	217	217
ŠKODA AUTO DigiServices s.r.o.	Czech Republic	100	100	158	158

The subsidiaries in which the Company holds an equity interest paid dividends to the Company in the total amount of CZK 81 million in 2020 (2019: CZK 65 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 (in 2019: CZK 69 million), (see Note 25).

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

In 2019, the Company acquired a 100% stake in Smart City Lab s.r.o. In the same year, the Company provided the newly acquired company with a contribution outside the registered capital in the total amount of CZK 153 million. In 2020, Smart City Lab s.r.o. was renamed to ŠKODA AUTO DigiServices s.r.o. (see Note 25).

7. INVESTMENTS IN ASSOCIATES

The Company's share in the registered capital of the company OOO Volkswagen Group Rus as at 31 December 2020 was 16.8% (31 December 2019: 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 2020 (as at 31 December 2019: CZK 1,823 million). The recoverable amount of the associate is significantly higher than its carrying amount as at 31 December 2020 (as at 31 December 2019). OOO Volkswagen Group Rus paid dividends to the Company in the amount of CZK 448 million (2019: CZK 0 million).

The Company's share in the registered capital of the company ŠKO-ENERGO FIN, s.r.o. as at 31 December 2020 was 31.25% (as at 31 December 2019: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2020 (as at 31 December 2019: CZK 529 million). ŠKO-ENERGO FIN, s.r.o. paid dividends to the Company in the amount of CZK 20 million (2019: CZK 99 million).

The Company's share in the registered capital of the company ŠKO-ENERGO s.r.o. as at 31 December 2020 was 44.5% (as at 31 December 2019: 44.5%). The carrying amount of the Company's share totalled CZK 4 million as at 31 December 2020 (as at 31 December 2019: CZK 4 million). ŠKO-ENERGO s.r.o. paid dividends to the Company in the amount of CZK 1 million (2019: CZK 1 million).

The Company's share in the registered capital of the company Digiteq Automotive s.r.o. as at 31 December 2020 was 49% (as at 31 December 2019: 49%). The carrying amount of the Company's share totalled CZK 98 thousand as at 31 December 2020 (as at 31 December 2019: CZK 98 thousand). Digiteq Automotive s.r.o. paid dividends to the Company in the amount of CZK 34 million (2019: CZK 49 million).

Effective from 5 October 2019 the Company became a shareholder of the associated company SKODA AUTO Volkswagen India Private Ltd., see Notes 2.6 and 25. The ownership interest of the Company on registered capital of SKODA AUTO Volkswagen India Private Ltd. was 8.13% as at 31 December 2020 (31 December 2019: 8.13%). If the preference shares issued by SKODA AUTO Volkswagen India Private Ltd. are taken into account, then the Company's share in the registered capital of the associated company was 3.47% as at 31 December 2020 (31 December 2019: 3.47%). 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 2020 (31 December 2019: 26.46%). While the Company's ownership interest in the share capital is based on the ratio of the Company's shares to ordinary shares issued by SKODA AUTO Volkswagen India Private Ltd., its share of voting rights is based on the ratio of the Company's shares to voting shares.

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

8.1 OTHER RECEIVABLES AND FINANCIAL ASSETS

Balance as at 31 December 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**

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

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

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

In 2020 (2019), 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 2020 (2019) 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 7,860 million as at 31 December 2020 (as at 31 December 2019: CZK 8,475 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 2020 (2019) FCF have been extrapolated with a growth rate of 1.0% (1.0%). For discounting free cash flows, the WACC of 11.3% (10.9%) has been applied in 2020 (2019).

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

(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**

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

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 2020, the Company expects as reasonably possible the movement of long-term growth rate in the following period of +/- 0.5 percentage point (2019: +/- 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:

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)

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

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

In 2020, the Company expects as reasonably possible the movement of WACC in the following period of +/- 0.5 percentage point (2019: +/- 0.5 percentage point).

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

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

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

There are no significant interrelationships between significant unobservable inputs.

8.2 TRADE RECEIVABLES

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**

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

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 511 million (2019: CZK 701 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)	**2020**	**2019**
Current non-financial assets		
Tax receivables (excl. income tax)	5,220	6,025
Other	762	953
Total	**5,892**	**6,978**

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 2020	Carrying value as at 31 December 2019
Structure of the inventories		
Raw materials, consumables and supplies	10,850	6,960
Work in progress	5,569	3,725
Finished products and goods	8,151	14,148
Hedges on inventories	(54)	30
Total	**24,516**	**24,863**

(CZK million)	2020	2019
Loss allowance inventories		
Balance as at 1 January	**(1,478)**	**(1,049)**
Additions / reversals allowance provisions for inventories	(87)	(429)
Balance as at 31 December	**(1,565)**	**(1,478)**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2020 was CZK 365,984 million (2019: CZK 392,733 million).

10. CASH AND CASH EQUIVALENTS

(CZK million)	2020	2019
Cash in hand	1	2
Cash pooling	6,166	8,250
Bank accounts	2	1
Cash equivalents	12,500	37,500
Total	**18,669**	**45,753**

The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2020 was 0% (as at 31 December 2019: 0.58%).

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 2020 was 0% (31 December 2019: 1.29%). 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 17,322 million (31 December 2019: CZK 42,980 million) and in EUR: CZK 1,344 million (31 December 2019: CZK 2,770 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 2020 (2019).

In 2020, the Company paid dividend in the amount of CZK 31,680 million from profit for the year 2019 (2019: CZK 28,890 million).

The dividend per share was CZK 18,960 in 2020 (2019: CZK 17,290).

12. OTHER RESERVES AND RETAINED EARNINGS

12.1 OTHER RESERVES

(CZK million)	2020	2019
Revaluation reserve from equity instruments*	217	715
Reserves for cash flow hedges*	1,678	(619)
Statutory reserve fund	3,366	3,366
Total	**5,261**	**3,462**

* 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):

(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**

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

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 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**

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

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

(CZK million)	**2020**	**2019**
Sales	(7)	(2,082)
Cost of sales	(778)	124
Other operating income	(358)	(61)
Other operating expense	374	254
Total transfers to profit or loss in the period – effective hedging	**(770)**	**(1,765)**

12.2 RETAINED EARNINGS

From the total amount of retained earnings of CZK 71,372 million (as at 31 December 2019: CZK 87,877 million) profit for the year 2020, net of tax, amounts to CZK 15,175 million (2019: CZK 31,689 million).

In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2020 (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 2020 has not been approved.

13. FINANCIAL, OTHER AND TRADE LIABILITIES

13.1 FINANCIAL LIABILITIES

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**

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

In 2020 (2019), 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 2020 (2019). 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 2020 (2019) 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 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**

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

Liabilities to a factoring company within the VOLKSWAGEN Group in amount of CZK 2,191 million as at 31 December 2020 (as at 31 December 2019: CZK 3,432 million) are disclosed in line Trade liabilities to other related parties. These liabilities originated in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.

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

As part of trade liabilities there are refundable considerations from customer contracts recognised as at 31 December 2020 in amount of CZK 15,624 million (as at 31 December 2019: CZK 13,278 million) which represents expected future payments to customers for sale bonuses.

13.3 NON-FINANCIAL LIABILITIES

(CZK million)	2020	2019
Non-current non-financial liabilities		
Contract liabilities from considerations received	6,783	6,837
Deferred income	—	—
Current non-financial liabilities		
Contract liabilities from considerations received	4,123	3,287
Advances received	1,832	3,834
Current non-financial liabilities from customer contracts in total	**5,955**	**7,121**
Liabilities to employees	5,775	7,336
Social security	838	753
Tax liabilities	8	2
Current non-financial liabilities in total	**12,576**	**15,212**
Total	**19,359**	**22,049**

In 2020 (2019), 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 2019	**(4,887)**	**—**	**(821)**	**—**	**(439)**	**—**	**(6,147)**
Credited / (debited) to the income statement	(1,206)	(394)	2	—	—		(1,598)
Charged to other comprehensive income	—	—	662	—	271	—	933
Balance as at 31 December 2019	**(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)**

(CZK million)	Depreciation	Lease liabilities	Financial derivatives*	Provisions and refundable considerations	Equity instruments	Other**	Total
Deferred tax assets							
Balance as at 1 January 2019	**—**	**—**	**—**	**6,832**	**—**	**856**	**7,688**
Credited / (debited) to the income statement	—	400	3	663	—	219	1,285
Charged to other comprehensive income	—	—	202	—	—	—	202
Balance as at 31 December 2019	**—**	**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**

(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 2019	(6,093)	6	48	7,495	(168)	1,075	2,363
Balance as at 31 December 2020	**(7,207)**	**8**	**(371)**	**7,760**	**(51)**	**1,128**	**1,267**

* 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

(CZK million)	Provisions for warranty claims and recycling	Provision for covering emission expenditures	Provisions for employee benefits and share-based payment	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2019	**20,350**	**—**	**2,685**	**2,769**	**2,791**	**4,949**	**33,544**
Utilised	(3,001)	—	(444)	(451)	(730)	(342)	(4,968)
Additions	4,413	—	2,597	179	1,863	174	9,226
Interest expense	(4)	—	—	—	—	—	(4)
Reversals	(875)	—	(92)	(1,403)	(267)	(775)	(3,412)
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 31 December 2020	**22,801**	**8,097**	**5,005**	**1,119**	**2,357**	**4,132**	**43,511**

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 2020				
Provisions for warranty claims and recycling	9,961	9,878	2,962	22,801
Provision for covering emission expenditures	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
Other provisions	4,132	—	—	4,132
Total	**26,269**	**10,612**	**6,630**	**43,511**

(CZK million)	< 1 year	1–5 years	> 5 years	Total
Balance as at 31 December 2019				
Provisions for warranty claims and recycling	9,665	8,376	2,842	20,883
Provision for covering emission expenditures	—	—	—	—
Provisions for employee benefits and share-based payment	795	751	3,200	4,746
Provisions for litigation risks	1,094	—	—	1,094
Provisions for purchase risks	3,657	—	—	3,657
Other provisions	4,006	—	—	4,006
Total	**19,217**	**9,127**	**6,042**	**34,386**

The provision for warranty claims and recycling includes mainly provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty (except for extended warranty), especially good-will repairs. 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. Following emissions irregularities discovered at VOLKSWAGEN AG, provisions for warranty repairs include also provision for service action and other expenditures related to technical measures for cars equipped with EA189 engines. The total balance of the provision related to EA189 issue amounted to CZK 1,299 million in 2020 (as at 31 December 2019: CZK 1,712 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 195 million was reported in other receivables as at 31 December 2020 (as at 31 December 2019: CZK 263 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, created for the purpose of sharing emission targets and achieving synergies from savings fees for excess emissions within the EU. The Company recognizes a provision for covering emission expenditures based on registered sales of new cars in the EU 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 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 purchasing risks is formed by the provision for probable expenses from open business negotiations with global suppliers of the VOLKSWAGEN Group, which in 2020 was caused the deterioration of the overall economic situation due to the Covid-19 pandemic. In 2019 the provision for purchase risks was formed primarily by the provision for retroactive changes in the prices of input raw materials and parts.

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

16. SALES

(CZK million)	2020	2019
Cars	343,502	382,122
Spare parts and accessories	21,356	23,572
Supplies of components within VOLKSWAGEN Group	44,847	38,631
Income from licence fees	3,127	3,479
Revenues from services	7,264	5,370
Other	4,189	3,866
Revenue from contracts with customers in total	**424,285**	**457,040**
Gains from derivative transactions - hedging of future sales	7	2,082
Total	**424,292**	**459,122**

In 2020 (2019) 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:

2020 (CZK million)	**Cars**	**Spare parts and accessories**	**Supplies of components within VW Group**	**Income from licence fees within VW 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**

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

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)	2020	2019
Revenue classified as contract liabilities at the beginning of the period	**2,645**	**2,256**
of which:		
Extended warranty	1,330	875
Services	828	716
Licence fees	487	665
Revenue recognised from the performance obligations satisfied in prior periods	**1,375**	**298**

The amount of the transaction price which has not yet been recognised as revenue at 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)	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**

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

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

In addition to Revenue arising from contract liability expected to be satisfied in the following periods the Company had in 2020 (2019) 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)	2020	2019
Income from licence fees not relating to the ordinary activities	262	255
Foreign exchange gains	8,021	3,546
Gains from derivative transactions	2,388	811
Gains on non-current assets disposal	20	37
Reversal of provisions and accruals	229	2,003
Reversal of loss allowance provision for receivables	447	267
Other	1,141	1,224
Total	**12,508**	**8,143**

Other in 2020 (2019) 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)	2020	2019
Foreign exchange losses	9,084	2,408
Losses from derivative transactions	2,434	1,359
Receivables write-offs and impairments	261	473
Additions to provisions for litigation risks and other provisions	560	353
Other	10	397
Total	**12,349**	**4,990**

Other in 2020 (2019) includes mostly re-invoicing of expenses.

19. FINANCIAL RESULT

(CZK million)	2020	2019
Interest income	229	635
Foreign exchange gains from cash	1,248	116
Foreign exchange gains from spot operations	74	60
Dividend income	1,289	1,143
Other financial income	2	5
Total financial income	**2,842**	**1,959**
Interest expense of lease liabilities	63	69
Other interest expense	745	—
Foreign exchange losses from cash	1,131	244
Foreign exchange losses from spot operations	89	63
Factoring fees	237	277
Other financial expenses	30	28
Total financial expenses	**2,295**	**681**
Net financial result	**547**	**1,278**

Dividend income in 2020 includes mainly dividend income of CZK 705 million from the investment in SAIC (2019: CZK 929 million).

20. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

(CZK million)	2020	2019
Financial instruments at fair value through profit or loss	(30)	(517)
Financial assets at amortised cost	428	1,285
Financial assets at fair value through other comprehensive income	705	929
Financial liabilities carried at amortised cost	(1,172)	634
Financial instruments designated as hedging instruments	770	1,651
Net gains / (losses) in profit or loss	**701**	**3,982**
Financial instruments designated as hedging instruments	2,834	(4,553)
Financial assets at fair value through other comprehensive income	(615)	(1,429)
Net gains / (losses) in profit or loss through other comprehensive income	**2,219**	**(5,982)**
Total net gains / (losses)	**2,920**	**(2,000)**

Gains less losses from financial derivatives held for trading are recognized in Financial instruments at fair value through profit or loss in 2020 (2019).

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 2020 (2019). In 2020, the gain/loss on derecognized financial assets at amortized cost amounted to CZK 244 million (2019: CZK 337 million).

Unrealized and realized foreign exchange gains / losses from liabilities are mainly recognized in Financial liabilities carried at amortised cost in 2020 (2019).

In 2020 (2019), 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 2020 (2019) gains and losses from financial instruments designated as hedging instruments recognized in the income statement and revaluation gains and 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)	2020	2019
Current tax expense	**2,012**	**6,496**
of which: adjustment in respect of prior years	(153)	162
Deferred tax	**676**	**313**
Income tax total	**2,688**	**6,809**

Statutory income tax rate in the Czech Republic for the 2020 assessment period was 19% (2019: 19%).

As at 31 December 2020 and 31 December 2019, 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)	2020	2019
Profit before tax	17,863	38,498
Expected income tax expense	**3,394**	**7,315**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(300)	(276)
Expenses not deductible for tax purposes	363	238
Tax allowances and other tax credits*	(329)	(770)
Adjustment to current tax expense relating to prior periods	(153)	162
Recognition of deferred tax assets from unused tax credits from investment incentives	(393)	—
Other taxation effects	107	140
Income tax expense	**2,688**	**6,809**
Effective income tax rate	15%	18%

* 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 2020, 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 76 million (2019: CZK 79 million).

In 2020, the Company received an extraordinary 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 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**	**—**

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

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

23. COMMITMENTS AND CONTINGENCIES

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

(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

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

In 2020 (2019), 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 320 million (2019: CZK 292 million) in 2020 (2019) and cash flows from options for lease terminations were CZK 1 million (2019: CZK 1 million).

24. EXPENSES BY NATURE – ADDITIONAL INFORMATION

(CZK million)	**2020**	**2019**
Material costs – raw materials and other supplies, goods	295,752	314,376
Production related services	5,988	15,563
Personnel costs	37,091	40,181
Wages	27,285	32,321
Pension benefit costs (defined contribution plans)	5,914	5,480
Social insurance and other personnel costs	3,892	2,380
Depreciation, amortisation, impairment losses and reversal of impairment losses	25,712	20,466
Depreciation, amortisation lease and impairment losses	539	476
Low-value leases expense	165	207
Short-term lease expense	96	125
Other services	41,793	33,661
Total cost of sales, distribution and administrative expenses	**407,135**	**425,055**
Number of employees		
Number of employees*	37,728	37,358

* Average number of employees (including temporary employees)

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 2020 (31 December 2019).

VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period ended 31 December 2020 (31 December 2019).

Items in category Other related parties are companies under joint control of VOLKSWAGEN AG, however, for the purposes of compiling the Report on Relations they do not meet the definition of an entity controlled by the same controlling entity pursuant to paragraph 74 of the Act No. 90/2012 Coll., Business Corporations Act, as amended.

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

In 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 (2019: CZK 69 million). For more information refer to Note 6.

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

In 2019, the Company purchased from its subsidiary Škoda Auto DigiLab s.r.o. 100% share in Smart City Lab s.r.o. for CZK 5 million. In the same year, the Company provided to the newly acquired company contribution outside the registered capital in the total amount of CZK 153 million. In 2020, Smart City Lab s.r.o was renamed to ŠKODA AUTO DigiServices s.r.o. For more information refer to Note 6.

THE COMPANY PARTICIPATED IN THE FOLLOWING TRANSACTIONS WITH RELATED PARTIES

Sales to related parties

(CZK million)	2020	2019
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	10,249	8,415
Subsidiaries		
SKODA AUTO India Private Ltd.	—	1,677
ŠKODA AUTO Slovensko s.r.o.	7,916	9,329
ŠKODA AUTO DigiLab s.r.o.	10	18
ŠKODA AUTO DigiServices s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	3	—
Associates		
OOO Volkswagen Group Rus	21,808	14,833
SKODA AUTO Volkswagen India Private Ltd.	2,427	1,107
ŠKO-ENERGO s.r.o.	15	13
ŠKO-ENERGO FIN s.r.o.	—	1
Digiteq Automotive s.r.o.	2	4
Companies controlled by ultimate parent company	**279,205**	**299,782**
Other related parties	**899**	**367**
Total	**322,534**	**335,546**

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 2020 (2019) the Company also earned income from licence fees:

(CZK million)	2020	2019
Income from licence fees within VOLKSWAGEN Group		
Ultimate parent company	—	—
Subsidiaries	—	15
Associates	511	1,675
Other related parties	2,616	1,789
Total	**3,127**	**3,479**

In addition to the revenue specified in the table Sales to related parties, in 2020 (2019) the Company also earned income from related parties transactions relating to interest from intercompany loans and deposits:

(CZK million)	2020	2019
Interest income from loans and deposits		
Ultimate parent company	—	—
Companies controlled by ultimate parent company	206	584
Total	**206**	**584**

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)	2020	2019
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	68,796	80,789
Subsidiaries		
SKODA AUTO India Private Ltd.	—	61
ŠKODA AUTO Slovensko s.r.o.	115	95
ŠKODA AUTO DigiLab s.r.o.	219	255
ŠKODA AUTO DigiServices s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	30	1,864
SKODA AUTO Volkswagen India Private Ltd.	1,648	856
ŠKO-ENERGO s.r.o.	2,130	2,447
ŠKO-ENERGO FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	450	608
Companies controlled by ultimate parent company	**35,719**	**38,943**
Other related parties	**955**	**224**
Total	**110,062**	**126,142**

In particular 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 2020	31 December 2019
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	3,936	3,222
Subsidiaries		
ŠKODA AUTO Slovensko s.r.o.	638	667
ŠKODA AUTO DigiLab s.r.o.	6	3
ŠKODA AUTO DigiServices s.r.o.	1	—
UMI Urban Mobility International Česká republika s.r.o.	8	—
Associates		
OOO Volkswagen Group Rus	6,747	3,936
SKODA AUTO Volkswagen India Private Ltd.	915	457
ŠKO-ENERGO s.r.o.	53	3
ŠKO-ENERGO FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	—	—
Companies controlled by ultimate parent company	**15,207**	**10,125**
Other related parties	**2,034**	**1,252**
Total	**29,545**	**19,665**

Receivables from licence fees are specified below.

(CZK million)	31 December 2020	31 December 2019
Receivables licence fees		
Ultimate parent company	—	—
Subsidiaries	—	29
Associates	518	522
Other related parties	1,420	1,082
Total	**1,938**	**1,604**

In addition to trade receivables and receivables from licence fees, the Company as at 31 December 2020 also had deposits including cash pooling in companies controlled by ultimate parent company in the nominal amount of CZK 18,666 million (as at 31 December 2019: CZK 45,750 million). Receivables from interest from the loans as at 31 December 2020 amounted to CZK 0 million (as at 31 December 2019: CZK 70 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 297 million as at 31 December 2020 relating mainly to the claim refund necessary for settlement of the provision described in Note 15 (as at 31 December 2019: CZK 366 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 2020, the Company had open receivables from the factoring companies of the VOLKSWAGEN Group in the amount of CZK 572 million (as at 31 December 2019: CZK 250 million). Furthermore, in 2020, the Company assigned its trade receivables to these factoring companies in the amount of CZK 231,618 million (2019: CZK 273,026 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 2020	31 December 2019
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	—	—
Ultimate parent company		
VOLKSWAGEN AG	7,156	6,442
Subsidiaries		
ŠKODA AUTO Slovensko s.r.o.	147	169
ŠKODA AUTO DigiLab s.r.o.	62	58
ŠKODA AUTO DigiServices s.r.o.	—	—
UMI Urban Mobility International Česká republika s.r.o.	—	—
Associates		
OOO Volkswagen Group Rus	87	72
SKODA AUTO Volkswagen India Private Ltd.	1,101	557
ŠKO-ENERGO s.r.o.	157	244
ŠKO-ENERGO FIN s.r.o.	—	—
Digiteq Automotive s.r.o.	101	153
Companies controlled by ultimate parent company	**15,225**	**16,845**
Other related parties	**4,045**	**719**
Total	**28,081**	**25,259**

Trade payables also include payables to a factoring company within the VOLKSWAGEN Group in the amount of CZK 2,191 million as at 31 December 2020 (31 December 2019: CZK 3,432 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 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 2020, the fair value of receivables from internal derivative contracts was CZK 268 million. The fair value of liabilities from internal derivative contracts amounted to CZK 409 million as at 31 December 2020. 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 2020. As at 31 December 2020, the total amount of the provision for covering emission expenditures in EU was CZK 7,283 million. Further information on this provision is disclosed in Note 15.

(CZK million)	31 December 2020	31 December 2019
Contractual obligations and other future commitments		
Ultimate parent company	17,513	16,070
Subsidiaries	—	—
Associates	—	—
Companies controlled by ultimate parent company	1,647	1,063
Total	**19,160**	**17,133**

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)	2020	2019
Salaries and other short-term employee benefits*	713	764
Pension benefit costs (defined contribution plans)	22	20
Share-based payment	250	180
Total	**985**	**964**

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

Key management personnel include members of the Board of Management, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company.

CZK 488 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2020 (31 December 2019: CZK 465 million).

In 2018, Supervisory Board of the Company decided to modify the remuneration system for certain key members of the Company's management, effective from 1 January 2019. The new system of remuneration of these key management members consists of a fixed and variable part. Variable remuneration consists of an annual bonus dependent on the ROI and ROS result for ŠKODA AUTO including its subsidiaries and for the VOLKSWAGEN Group within the one-year evaluation period and from long-term incentives in the form of so-called Performance Shares Plan with three-year period tied to the future development of priority shares of the company VOKLSWAGEN AG (share-based payments). For more details refer to Note 2.17. A total of 31,116 performance shares were allocated to key management members in 2020 (2019: 35,944 performance shares). For the first time, this payment from performance shares was be provided to certain key members of the Company's management in 2020 for 2019.

The total target amounts for certain key members of the Company's management for the 2020-2022 performance period amounted as of grant date 1 January 2020 to CZK 141 million (for the 2019 – 2021 period as of grant date 1 January 2019 amounted to CZK 135 million). The corresponding costs of CZK 261 million (2019: CZK 180 million) were reported as personnel costs (Note 24). Should the beneficiaries of the Performance Shares Plan leave the Company as of 31 December 2020, the intrinsic value of the vested share-based payments would amount to a total of CZK 124 million (2019: CZK 159 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.

*Earnings per share

26. OTHER INFORMATION

The compensation paid to the Company's auditors for the accounting period 2020 was CZK 94 million (2019: CZK 42 million) and covered the following services:

(CZK million)	2020	2019
Audit of Annual Financial Statements	15	18
Other Assurance Services	8	8
Tax and related services	2	2
Other advisory services	69	14
Total	**94**	**42**

27. CONTINGENT LIABILITIES

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

In some countries (especially 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, in which alleged entitlement to a refund and compensation, among other, are claimed. Since the proceedings are not yet at a later stage, or are aimed at issuing declaratory decisions, the value of the claims cannot be quantified so far. The last year has not brought any significant new knowledge, which would enable reliable specification of the claims.

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

Currently, it is impossible to 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. It can be expected that dealers, service partners and importers of ŠKODA brand who would not be successful in disputes started by customers, could then exercise alleged recourse claims against the Company.

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

During the preparation of ŠKODA models data for 2019 CO_2 emissions monitoring it was identified that for one variant of the ŠKODA RAPID model a higher deviation factor should be reported for in the homologation process according to the European Commission interpretation. According to European Union interpretations and available analyses (weighted average of all deviation factors in the relevant years), reporting a higher deviation factor could lead to a higher financial burden for the Company. Due to the ongoing technical investigations and negotiations with the European Union Commission, it is currently not possible to reliably estimate the possible financial impact on the Company within the contractual obligations in the emission pool.

28. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, there were no events that could have a significant impact on the separate financial statements of the Company for the year ended 31 December 2020.

29. INFORMATION ABOUT VOLKSWAGEN GROUP

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG, with a registered office in Wolfsburg, the Federal Republic of Germany.

The VOLKSWAGEN Group consists of two divisions – Automotive and Financial Services. The activities related to the Automotive Division include the development of cars and aggregates, production and sale of passenger and commercial cars, trucks, buses and motorcycles as well as the business with spare parts, large-bore diesel engines, special gear units and turbomachinery. The following brands belong to VOLKSWAGEN Group: Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN, Moia, Porsche, Scania, SEAT, ŠKODA, VOLKSWAGEN Passenger Cars and VOLKSWAGEN Commercial Vehicles.

The Financial Services Division includes activities related to the dealer and customer financing, leasing, banking and insurance services and the fleet management.

ŠKODA AUTO and its subsidiaries (see Note 6) and its investments in associates (see Note 7) are included in the consolidation of VOLKSWAGEN Group's financial statements. These consolidated financial statements, and other information relating to the VOLKSWAGEN Group, are available in the Annual Report of VOLKSWAGEN AG and on its internet site (www.volkswagenag.com).

Mladá Boleslav, 26 February 2021

The Board of Management:

Thomas Schäfer

Alain Favey **Johannes Felix Neft** **Michael Oeljeklaus**

Karsten Schnake **Klaus-Dieter Schürmann** **Bohdan Wojnar**

REPORT ON RELATIONS

OF THE COMPANY ŠKODA AUTO A.S. PURSUANT TO § 82 OF THE ACT ON CORPORATION FOR THE ACCOUNTING PERIOD 1 JANUARY – 31 DECEMBER 2020

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, Case B, 332 (hereinafter referred to as "the Company" or "ŠKODA AUTO"), prepared the following Report on Relations pursuant to the provision of § 82 of Act No. 90/2012 Coll., on Corporations, as subsequently amended, in the accounting period 1 January – 31 December 2020 (hereinafter referred to as "the Period").

1. STRUCTURE OF RELATIONS

The Company has been a part of VOLKSWAGEN Group (hereinafter referred to as "the Group") for the whole Period, where the controlling entity is VOLKSWAGEN AG (hereinafter referred to as „VOLKSWAGEN" or "the Controlling Entity").

ŠKODA AUTO company was in the Period indirectly controlled by VOLKSWAGEN AG based at Berliner Ring 2, 384 40 Wolfsburg, Federal Republic of Germany through VOLKSWAGEN FINANCE LUXEMBURG S.A. seated in Luxembourg, 291, Route d'Arlon, L-1150, Grand Duchy of Luxembourg, which is the sole shareholder of ŠKODA AUTO company.

The Controlling Entity is the ultimate parent company of the Group, the activities of which comprise especially the development of vehicles and aggregates, the production and sale of passenger and commercial cars, trucks, buses, and motorcycles, as well as business with spare parts, large-bore diesel engines, special gear units and turbo machinery (via brands Audi, Bentley, Bugatti, Ducati, Lamborghini, MAN, Moia, Porsche, Scania, SEAT, ŠKODA, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles). In addition, the Group engages in financial services segment in activities related to the dealer and customer financing, leasing, banking and insurance services, and the fleet management.

Information about the structure of relations is stated as at 31 December 2020, based on the information available to the statutory body of the Company acting with due managerial care. The ownership structure of ŠKODA AUTO and the structure of relations among companies in which the Company holds participating interest are graphically illustrated in the Appendix.

The ownership structure of the controlling entity VOLKSWAGEN AG is available at www.volkswagenag.com/ir.

2. FUNCTION OF THE COMPANY WITHIN THE GROUP

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

3. MEANS OF CONTROL

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

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

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

Based on the Decision of the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. from 2 October 2020, ŠKODA AUTO paid a dividend of CZK 25,344 million on 23 October 2020 and CZK 6,336 million on 30 October 2020 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 2020, dividends and share in profit of CZK 81 million were paid out to the Company by the subsidiaries. In 2019, dividends and share in profit of CZK 503 million were paid out to the Company by the associates.

5. OVERVIEW OF THE CONTRACTS WITHIN THE GROUP

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

5.1. Sale of own products, goods and services

a) vehicles

ŠKODA AUTO entered into new contracts regarding sale of vehicles with the following companies:
— SEAT, S.A.

b) genuine parts

ŠKODA AUTO concluded new contracts regarding sales of genuine parts in the Period with the following companies:
— OOO Volkswagen Group Rus
— Porsche Austria GmbH & Co. OG
— Porsche BH d.o.o.
— Porsche Croatia d.o.o.
— Porsche Hungaria Kereskedelmi Kft.
— Porsche 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.
— SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
— ŠKODA AUTO Deutschland GmbH
— Volkswagen Group Australia Pty. Ltd.
— Volkswagen Group España Distribución, S.A.
— Volkswagen Group France S.A.
— Volkswagen Group Ireland Ltd.
— Volkswagen Group Italia S.p.A.
— Volkswagen Group Sverige AB
— Volkswagen Group United Kingdom Ltd.

c) others

ŠKODA AUTO entered into new contracts regarding sales of services, licenses, aggregates, bodyworks and other products with the following companies:
— AUDI AG
— Audi Volkswagen Taiwan Co., Ltd.
— Bentley Motors Ltd.
— Connectivity Lab s.r.o.
— Digiteq Automotive s.r.o.
— Dr. Ing. h.c. F. Porsche AG
— OOO Volkswagen Group Rus
— SEAT, S.A.
— SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
— ŠKODA AUTO Slovensko, s.r.o.
— VOLKSWAGEN AG
— Volkswagen Group Sverige AB
— Volkswagen Immobilien GmbH
— Volkswagen Sachsen GmbH
— Volkswagen Slovakia, a.s.
— Volkswagen Vertriebsbetreuungsgesellschaft mbH
— Volkswagen Group Real Estate Czech Republic s.r.o.

5.2. Purchase of goods, services and non-current assets

a) production material

ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:
— AUDI AG
— Audi Hungaria Zrt.
— OOO Volkswagen Group Rus
— OOO Volkswagen Komponenten und Services
— SEAT, S.A.
— SITECH Sp. z o.o.
— VOLKSWAGEN AG
— Volkswagen Argentina S.A.
— Volkswagen Autoeuropa, Lda.

- Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
- Volkswagen de México, S.A. de C.V.
- Volkswagen do Brasil Ltda.
- Volkswagen Group Services GmbH
- Volkswagen Group Services Kft.
- Volkswagen Konzernlogistik GmbH & Co. OHG
- Volkswagen Motor Polska Sp. z o.o.
- Volkswagen Motorsport GmbH
- 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.

b) overheads
ŠKODA AUTO entered into new contracts regarding purchases of indirect material and services (including research and development cooperation, IT services, software and hardware supplies, customer services consultancy) with following companies:
- AUDI AG
- Audi Business Innovation GmbH
- Audi Hungaria Zrt.
- Audi Planung GmbH
- Audi Volkswagen Middle East FZE
- Audi Volkswagen Taiwan Co., Ltd.
- Autostadt GmbH
- Carmeq GmbH
- Digiteq Automotive s.r.o.
- Dr. Ing. h.c. F. Porsche AG
- EURO-Leasing GmbH
- Greger Porsche Classic Cars Gmbh
- HoppyGo s.r.o.
- IAV Fahrzeugsicherheit Verwaltungs GmbH
- Italdesign Giugiaro S.p.A.
- Konnect with the Volkswagen Group Ltd.
- MHP Management- und IT-Beratung GmbH
- Nardò Technical Center S.r.l.
- OOO Volkswagen Group Rus
- Porsche Austria GmbH & Co. OG
- Porsche BH d.o.o.
- Porsche Croatia d.o.o.
- Porsche Česká republika s.r.o.
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Slovenija d.o.o.
- Porsche Werkzeugbau GmbH
- SEAT CUPRA S.A.
- SEAT, S.A.
- SITECH Sitztechnik GmbH
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
- SKODA AUTO Volkswagen India Pvt. Ltd.
- ŠKODA AUTO Deutschland GmbH
- ŠKODA AUTO Slovensko, s.r.o.
- ŠkoFIN s.r.o.
- Volkswagen (China) Investment Co., Ltd.
- VOLKSWAGEN AG
- Volkswagen Argentina S.A.
- Volkswagen Bank GmbH
- Volkswagen do Brasil Ltda.
- Volkswagen Finance Luxemburg S.A.
- 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 Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen Infotainment GmbH
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Motorsport GmbH
- Volkswagen Navarra, S.A.
- Volkswagen of South Africa (Pty) Ltd.
- Volkswagen Osnabrück GmbH
- Volkswagen Payments S.A.
- Volkswagen Sachsen GmbH
- Volkswagen Slovakia, a.s.
- Volkswagen Transmission (Shanghai) Co., Ltd.
- Volkswagen Vertriebsbetreuungsgesellschaft mbH

c) genuine parts
ŠKODA AUTO entered into new contracts regarding purchases of genuine parts with the following companies:
- Audi Hungaria Zrt.
- OOO Volkswagen Group Rus
- Porsche Werkzeugbau GmbH
- SEAT, S.A.
- SITECH Sp. z o.o.
- VOLKSWAGEN AG
- Volkswagen Motor Polska Sp. z o.o.
- Volkswagen Sachsen GmbH
- Volkswagen Slovakia, a.s.

d) non-current assets
ŠKODA AUTO entered into new contracts regarding purchases of non-current assets with the following companies:
- Digiteq Automotive s.r.o.
- Dr. Ing. h.c. F. Porsche AG
- MHP Management- und IT-Beratung GmbH
- ŠKO-ENERGO s.r.o.
- VOLKSWAGEN AG
- Volkswagen Group Services GmbH
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Sachsen GmbH

5.3. Other contractual relationships
ŠKODA AUTO also established new contractual relationships (particularly marketing services, training, sales support, financial services, consultancy, production of cars, purchase of capital interests, system and other support) with the following companies:
- AUDI AG
- Audi Business Innovation GmbH
- Audi Volkswagen Taiwan Co., Ltd.
- Autostadt GmbH
- D'Ieteren Lease S.A.
- Digiteq Automotive s.r.o.
- Dr. Ing. h.c. F. Porsche AG
- HoppyGo s.r.o.
- INIS International Insurance Service s.r.o.
- MHP Management- und IT-Beratung GmbH
- Mobility Lab s.r.o.
- OOO Volkswagen Group Rus
- OOO Volkswagen Komponenten und Services
- Porsche Albania Sh.p.k.
- 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 SpA
- Porsche Inter Auto CZ spol. s r.o.
- Porsche Konstruktionen GmbH & Co. KG
- Porsche Macedonia d.o.o.e.l. Skopje
- Porsche Romania S.R.L.
- Porsche Slovenija d.o.o.
- Porsche Werkzeugbau GmbH
- Porsche Werkzeugbau s.r.o.
- PTV Planung Transport Verkehr AG
- Scania Czech Republic s.r.o.
- SEAT, S.A.
- SIVA – Sociedade de Importação de Veículos Automóveis, S.A.
- SKODA AUTO Volkswagen India Pvt. Ltd.
- ŠKO-ENERGO FIN s.r.o.
- ŠKO-ENERGO s.r.o.
- ŠKODA AUTO Deutschland GmbH
- ŠKODA AUTO DigiLab s.r.o.
- ŠKODA AUTO Slovensko, s.r.o.
- ŠkoFIN s.r.o.
- Volkswagen (China) Investment Co., Ltd.
- VOLKSWAGEN AG
- Volkswagen Finance Luxemburg S.A.
- VOLKSWAGEN FINANCIAL SERVICES AG
- Volkswagen Gebrauchtfahrzeughandels und Service GmbH
- 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 Singapore Pte. Ltd.
- Volkswagen Group Sverige AB
- Volkswagen Group United Kingdom Ltd.
- Volkswagen Insurance Brokers GmbH
- Volkswagen IT Services India Pvt. Ltd.
- Volkswagen Konzernlogistik GmbH & Co. OHG
- Volkswagen Osnabrück GmbH
- Volkswagen Payments S.A.
- Volkswagen Sachsen GmbH
- Volkswagen Slovakia, a.s.
- Volkswagen Software Asset Management GmbH
- Volkswagen-Bildungsinstitut GmbH
- Volkswagen Group Real Estate Czech Republic s.r.o.

Transactions relating to contracts concluded in previous years

Besides companies disclosed in points 5.1, 5.2 and 5.3 the Company carried out transactions with the following companies, controlled by the same Controlling Entity, based on contracts concluded and presented in reports in relations of the Company in previous years concerning the production material, overheads, services and genuine parts.

- Audi Brussels S.A./N.V.
- Audi Electronics Venture GmbH
- Audi México S.A. de C.V.
- Audi Singapore Pte. Ltd.
- Bugatti Engineering GmbH
- Eurocar Italia s.r.l.
- Euromobil Autovermietung GmbH
- MAN Latin America Indústria e Comércio de Veículos Ltda.
- MAN Truck & Bus SE
- MMI Marketing Management Institut GmbH
- Porsche Air Service GmbH
- Porsche Automobil Holding SE
- Porsche Colombia S.A.S.
- Porsche Consulting GmbH
- Porsche Engineering Group GmbH
- Porsche Inter Auto d.o.o.
- Porsche Inter Auto GmbH&Co.KG
- Porsche SCG d.o.o. Beograd
- Porsche Siebte Vermögensverwaltung GmbH
- Porsche Slovakia spol. s.r.o.
- Smart City Lab s.r.o.
- Seat Deutschland GmbH
- Shanghai Volkswagen Powertrain Co., Ltd.
- VfL Wolfsburg-Fußball GmbH
- Volkswagen AirService GmbH
- Volkswagen Automatic Transmission (Dalian) Co., Ltd.
- Volkswagen Financial Services (UK) Ltd.
- Volkswagen Financné služby Slovensko s.r.o.
- Volkswagen Group Import Co., Ltd.
- Volkswagen Group Japan K.K.
- Volkswagen Group Hong Kong Ltd.
- VW Group Malaysia Sdn. Bhd
- Volkswagen Original Teile Logistik GmbH & Co. KG
- Volkswagen Zubehör GmbH
- VW Kraftwerk GmbH
- WESER-EMS VertriebsGmbH

6. ASSESSMENT OF A DETRIMENT AND ITS SETTLEMENT

Contracts concluded in the Period and in previous periods 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, 26 February 2021

The Board of Management:

Thomas Schäfer

Alain Favey

Johannes Felix Neft

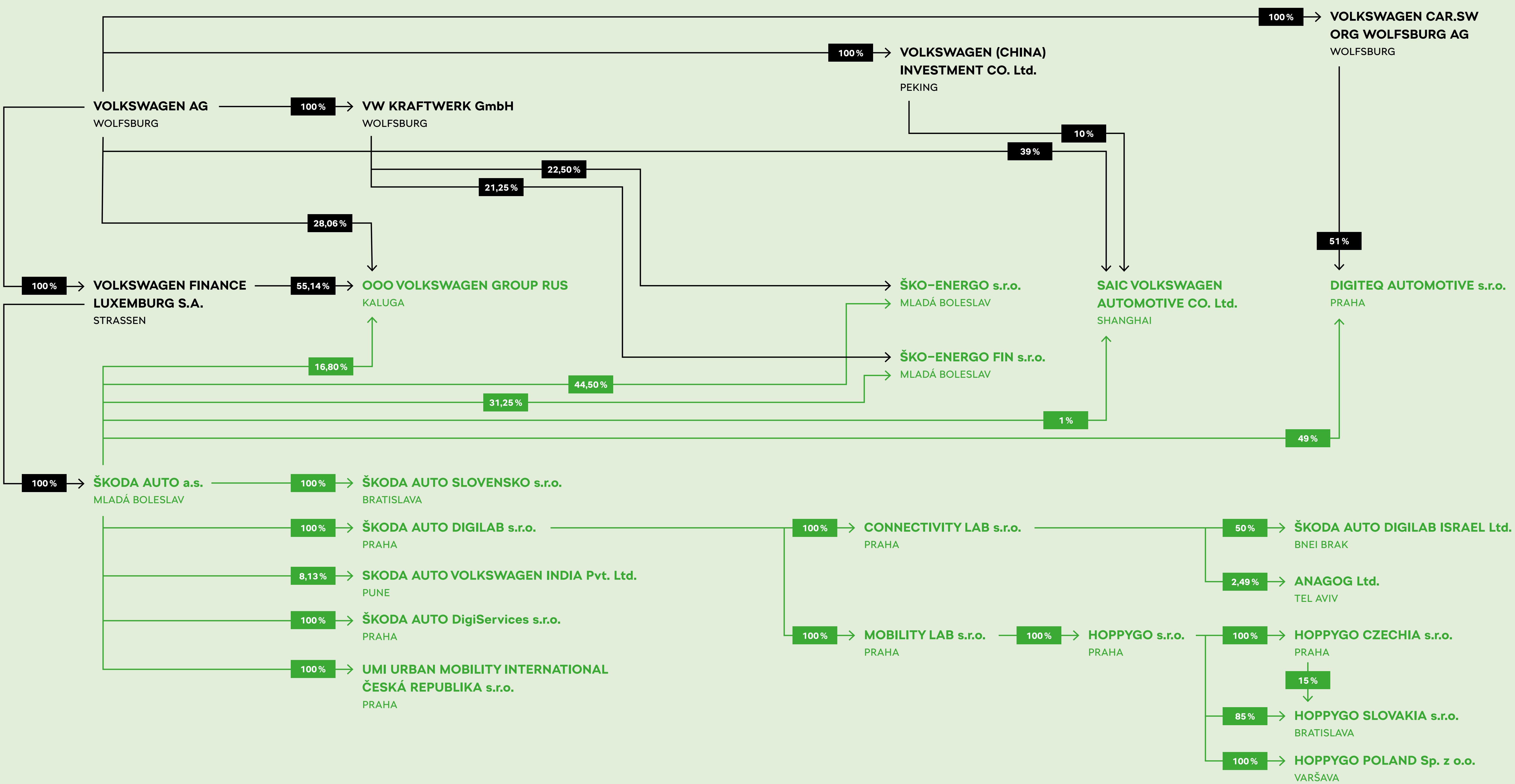
Michael Oeljeklaus

Karsten Schnake

Klaus-Dieter Schürmann

Bohdan Wojnar

OWNERSHIP STRUCTURE



GLOSSARY OF TERMS AND ABBREVIATIONS

BEV
Battery electric vehicle

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

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

CNG
Compressed natural gas; methane fuel

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

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

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

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

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

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

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

GRC
Governance, Risk management and Compliance

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

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

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 obligation under the provision of § 21(2)(g) of Act No. 563/1991 Coll. on accounting, as amended.

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

Mladá Boleslav, 26 February 2021

The Board of Management:

Thomas Schäfer

Alain Favey **Johannes Felix Neft** **Michael Oeljeklaus**

Karsten Schnake **Klaus-Dieter Schürmann** **Bohdan Wojnar**

KEY FIGURES AND FINANCIAL RESULTS

OF ŠKODA AUTO ACCORDING TO IFRS IN BRIEF

SALES, PRODUCTION AND WORKFORCE		2016	2017	2018	2019	2020
Deliveries to customers	**vehicles**	**1,126,477**	**1,200,535**	**1,253,741**	**1,242,767**	**1,004,816**
Sales*	**vehicles**	**799,938**	**909,567**	**932,035**	**947,531**	**784,871**
Sales of ŠKODA cars*	vehicles	746,551	818,976	831,067	847,655	708,161
Production*	**vehicles**	**765,171**	**858,103**	**886,103**	**907,942**	**749,610**
Production of ŠKODA cars*	vehicles	711,309	767,474	785,128	808,066	672,900
Employees	persons	28,373	31,626	33,696	34,829	35,437

* 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		2016	2017	2018	2019	2020
Sales revenue	**CZK million**	**347,987**	**407,400**	**416,695**	**459,122**	**424,292**
Cost of sales	CZK million	295,232	347,519	359,421	397,086	381,221
	% of revenues	84.8	85.3	86.3	86.5	89.8
Gross profit	**CZK million**	**52,755**	**59,881**	**57,274**	**62,036**	**43,071**
	% of revenues	15.2	14.7	13.7	13.5	10.2
Distribution expenses	CZK million	13,503	15,040	14,046	14,735	12,349
Administrative expenses	CZK million	7,843	9,710	12,366	13,234	13,565
Net other operating result	CZK million	(517)	5,400	2,978	3,153	159
Operating profit	**CZK million**	**30,892**	**40,531**	**33,840**	**37,220**	**17,316**
	% of revenues	8.9	9.9	8.1	8.1	4.1
Net financial result	CZK million	(43)	(1,406)	1,291	1,278	547
Profit before tax	**CZK million**	**30,849**	**39,125**	**35,131**	**38,498**	**17,863**
Return on sales before tax	%	8.9	9.6	8.4	8.4	4.2
Income tax expense	CZK million	5,686	7,284	6,239	6,809	2,688
Profit for the year	**CZK million**	**25,163**	**31,841**	**28,892**	**31,689**	**15,175**
Return on sales after tax	%	7.2	7.8	6.9	6.9	3.6

BALANCE SHEET / FINANCING		2016	2017	2018	2019	2020
Non-current assets	CZK million	104,838	106,675	118,871	141,524	144,651
Current assets	CZK million	123,342	144,184	100,447	100,111	83,332
Equity	CZK million	137,580	117,484	111,674	109,626	94,920
Non-current and current liabilities	CZK million	90,600	133,375	107,644	132,009	133,063
Balance sheet total	**CZK million**	**228,180**	**250,859**	**219,318**	**241,635**	**227,983**
Net liquidity	**CZK million**	**70,910**	**95,078**	**43,333**	**42,321**	**16,478**
Cash flows from operating activities	CZK million	50,426	60,811	44,763	66,151	36,833
Cash flows from investing activities	CZK million	(24,051)	(17,996)	(25,758)	(36,912)	(31,709)
Net cash flows	**CZK million**	**26,375**	**42,815**	**19,005**	**29,239**	**5,124**
Investments	**CZK million**	**14,652**	**18,885**	**22,574**	**32,105**	**17,849**
Investment ratio	%	4.2	4.6	5.4	7.0	4.2
Equity ratio	%	60.3	46.8	50.9	45.4	41.6
Non-current asset to equity ratio	%	131.2	110.1	93.9	77.5	65.6

PUBLISHED BY:

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The Annual Report 2020 is published in Czech and English. In all matters of interpretation of information, views or opinions, the Czech version takes precedence over the English version.
Both versions are available on the Company's website:
www.skoda-auto.cz
www.skoda-auto.com
Annual Report prepared in-house using firesys.

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