SIMPLY CLEVER

ŠKODA

2012
ŠKODA Annual Report

ŠKODA AUTO a.s.

Contents

Company Overview

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

The ŠKODA brand has been a Volkswagen Group brand for more than 20 years. During this time, the ŠKODA AUTO Group's sales have increased substantially and its product portfolio has expanded significantly. Today, ŠKODA AUTO employs more than 26,400 people worldwide.

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

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

Foreword

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

Ladies and Gentlemen,

The year 2012 was another year of new records for us. The rigorous pursuit of our growth strategy is clearly having an impact. With 939,202 vehicles delivered to customers, we exceeded the previous year's record and increased the number of vehicles delivered to customers by 6.8%.

Positive sales development and successful measures to boost efficiency ensured that our financial performance remained largely stable, despite difficult conditions worldwide. Sales revenue in the amount of CZK 262.6 billion increased by 4.0% year-on-year and, at CZK 17.9 billion, operating profit almost matched the previous year's high figure. This gives us the strength to keep ŠKODA AUTO on a steady growth course.

Our strategic goal remains unchanged: We aim to sell at least 1.5 million ŠKODA automobiles per year worldwide by 2018. Our model offensive will generate the necessary momentum for this. Over the next few years, we will be introducing a new or substantially-revised vehicle onto the market every six months on average. We started out with the ŠKODA Citigo and followed it with the ŠKODA Rapid. The new ŠKODA Octavia also made its world premiere in December 2012.

In December, we also launched a cooperative project with Volkswagen and the Russian manufacturer GAZ Group to build the ŠKODA Yeti at the Nizhny Novgorod plant. This move will strengthen our position in the important Russian market.

To secure our future growth, we made substantial investments in many areas. Mladá Boleslav was one of the main focal points: Production capacity was increased at the plant

itself, the parts centre expanded, a new high-performance ultra-energy-efficient IT centre put into operation and the new "Lean Centre" opened. After extensive remodelling, modernisation and expansion, the Vrchlabí plant also began production of the advanced DQ 200 seven-speed dual clutch transmission, while in Česana, construction of a new engine testing centre got underway.
With a view to our internationalisation and growth strategy, we also invested in employee training programmes. A successful assignment abroad depends on professional expertise and a willingness to adapt to new and often unexpected challenges. Our wide range of programmes prepares our employees for working abroad and supports them while away and on their return.
Although ŠKODA AUTO has its eyes firmly fixed on the future, the Company is understandably proud of its 117-year history. Reason enough for a complete redesign of the ŠKODA Muzeum in Mladá Boleslav – enabling the Company's history to be presented in a new and contemporary way.
The strength of tradition is not only evident at the new ŠKODA Muzeum, but also in the impressive track record of our motorsports team. After its successes in 2010 and 2011, ŠKODA Motorsports found a higher gear and went on to make 2012 the most successful year so far in the 111-year history of ŠKODA Motorsport.
We will continue to use the strength of our brand to convince people of our vehicles' qualities in impressive new models in the future. ŠKODA automobiles make everyday driving more reliable and practical for our customers with lots of smart and useful "Simply Clever" details. "Simply Clever" not only applies to our vehicles these days, but also defines our thoughts and actions throughout the entire company.
We made the important issue of sustainability a priority in 2012 and established the ambitious "GreenFuture" environmental project to entrench sustainability even more firmly throughout the Company. We also improved the transparency of our reporting, and our recently published 2011/2012 Sustainability Report meets the criteria of the Global Reporting Initiative for the first time.
Our work continues. Once again, we have ambitious plans for 2013. We will pursue our model offensive and expand our global presence. We will adhere to our chosen path. We will work hard to ensure that the ŠKODA AUTO success story continues. This fascinating company with its fine history is worth every effort.

Yours

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

Management Report

ŠKODA AUTO Group profile

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

ŠKODA AUTO a.s.

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

ŠKODA AUTO Deutschland GmbH

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

ŠKODA AUTO Slovensko, s.r.o.

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

Skoda Auto India Private Ltd.

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

OOO VOLKSWAGEN Group Rus

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

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

ŠKODA AUTO a.s.

registered office: Mladá Boleslav, Czech Republic

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

Report of the Supervisory Board

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

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

Under its resolution of 23 March 2012, Volkswagen International Finance N.V., as the sole shareholder of ŠKODA AUTO a.s., approved a proposal for commissioning PricewaterhouseCoopers Audit, s.r.o., Prague, to carry out an audit of the financial statements for the 2012 accounting period.

The auditor, reviewing separate financial statements of the ŠKODA AUTO a.s. pursuant to IFRS, the consolidated group financial statements pursuant to IFRS as at 31 December 2012, and the report on relations between affiliated persons for 2012 issued an unqualified opinion. At its meeting on 1 March 2013, the Supervisory Board discussed the financial results and favourably assessed a proposal of the Board of Management for distribution of the ŠKODA AUTO a.s. profits based on the annual financial statements pursuant to IFRS. The Supervisory Board also reviewed the report on relations between affiliated persons for 2012 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2012 and the proposal for the distribution of profits to the sole shareholder, Volkswagen International Finance N.V., Amsterdam, for approval.

Christian Klingler
Chairman of the Supervisory Board

ŠKODA AUTO bodies

Supervisory Board

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

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

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

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

Jaroslav Povšík (*1955)
Member of the Supervisory Board since 16 April 1993
Chairman of the basic organisation of OS KOVO ŠKODA AUTO

Ing. Jan Miller (*1948)
Member of the Supervisory Board since 16 April 1993
Secretary of the basic organisation of OS KOVO ŠKODA AUTO

Board of Management

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

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

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

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

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

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

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

Audit Committee

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

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

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

Changes in the Supervisory Board, Board of Management and Audit Committee

Appointed as Chairman to the Supervisory Board:
Christian Klingler – Chairman since 22 June 2012

Appointed to the Board of Management:
Werner Eichhorn – Member since 1 September 2012
Frank Welsch – Member since 1 September 2012

Resigned from the Board of Management:
Jürgen Stackmann - Member from 1 September 2010 to 31 August 2012
Eckhard Scholz - Member from 1 April 2007 to 31 August 2012

Declaration of Compliance with the Code of Corporate Governance

ŠKODA AUTO is aware of its outstanding position in the Czech business environment and its respect within the Volkswagen Group and among competing manufacturers in the automotive sector. Therefore, it is fundamentally important that ŠKODA AUTO be perceived – by its employees, business partners and all customers, and by the general public – as a successful, transparent and open company. ŠKODA AUTO is conscious of its tradition and reputation built over many years, which is considered of key significance for the further successful development of the Company's business activities.

In light of these facts, ŠKODA AUTO has been committed since 2007 to abiding by the relevant recommendations and rules set forth in the Code of Corporate Governance based on the OECD principles (hereinafter referred to as the "Code") in the form in which it was updated in 2004 under the patronage of the Securities Commission. Through an unceasing improvement of its internal processes and procedures in accordance with the Code, the Company's aim is to further promote transparency and ethical business practices in the Czech Republic.

Degree of compliance with the recommendations of the Code of Corporate Governance

In line with best practice employed at the Volkswagen Group, a predominant part of the internal processes of the Company's corporate governance has, over the long run, been established in accordance with the relevant rules of the Code. Given the shareholding structure of the Company (a sole shareholder – Volkswagen International Finance N.V.), the Volkswagen Group's organisational structure (see the website of VOLKSWAGEN AG) and the fact that the Company's shares are not listed on any stock exchange, some of the recommendations contained in the Code are not relevant, or are transferred, to the appropriate degree, to the Volkswagen Group level to achieve efficiency and synergies.

At the same time, the Company's policies are derived from the Code of Conduct adopted by the ŠKODA AUTO Group, as part of the Volkswagen Group. These adopted principles of conduct are based on the application of generally recognised social values. The document "Principles of Conduct of the ŠKODA AUTO Group, part of the Volkswagen Group" was distributed to all employees in September 2012.

The Company is not in full compliance with the recommendations of the Code pursuant to Chapter VI-E-2 (in conjunction with article 18 of the Commentary on the Code), according to which it should establish committees in charge of remuneration and nomination. In view of the Company's specific shareholding structure, the activities associated with the committees are in synergy and to the effective degree transferred to the corresponding Group level. The activities of the remuneration and nomination committees are undertaken by the personnel committee of the Board of Management of VOLKSWAGEN AG. Moreover, the Company is not in full compliance with the recommendations of the Code pursuant to Chapter VI-E-1 (in conjunction with article 5 of the Commentary on the Code), according to which the Board of Management and/or the Supervisory Board should have a sufficient number of members who are not employed by the company and who are not in a close relationship with the company or its management through significant economic, family or other ties.

Nevertheless, the aforementioned non-compliance with respective Code requirements does not represent non-fulfilment of the mandatory requirements of the law of the Czech Republic nor does it constitute a legal risk for the Company.

Compliance

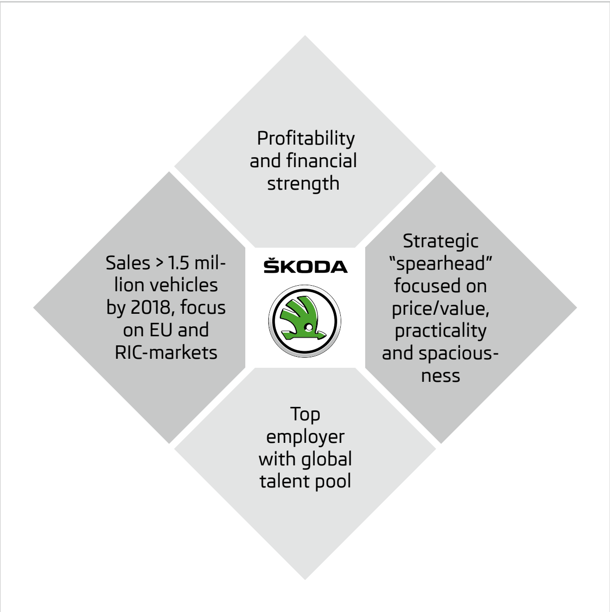
The division responsible for Governance, Risk and Compliance was established at ŠKODA AUTO in 2011. The division's responsibilities include advising the Board of Management on all matters related to Compliance and implementation of preventive measures for management and monitoring of compliance with legislation and internal regulations.

Strategy

ŠKODA growth strategy continues

The implementation of the ŠKODA growth strategy began in 2010, showing the first results by 2011. This development continued throughout the 2012 fiscal year: Sales reached 939,202 deliveries to customers, which was a new record. ŠKODA AUTO continued its product offensive with the European launches of the ŠKODA Citigo and an all-new compact limousine, the ŠKODA Rapid. Also, the third generation of the new ŠKODA Octavia was presented to the media at the end of 2012.

Thanks to its business performance in 2012, the Group is in a good position for the years to come. Our long-term goal is to increase annual deliveries to customers to over 1.5 million cars by 2018. This will involve a substantial expansion of the model line-up. Our model offensive is well under way: In the years to come, a new or updated ŠKODA model will be released every six months on average. The focus is on spacious, high-practicality cars that offer excellent value for money.



The Group's increasing internationalization is another key element of its growth strategy, and leveraging additional potentials in growth markets such as China, Russia and India is a priority.

In 2013, ŠKODA AUTO will strengthen its product portfolio through two new models in China: The ŠKODA Yeti will be manufactured locally, and the production of the ŠKODA Rapid for China is already under way. ŠKODA AUTO is investing in the market development in Russia: production of the ŠKODA Yeti started at the GAZ Group production site in Nizhny Novgorod in December, 2012. GAZ is a corporation partner of VOLKSWAGEN Group Rus and provides ŠKODA AUTO with additional capacity. In the near future, the new ŠKODA Octavia will also be produced there, and a localized version of the ŠKODA Rapid will be manufactured in Russia at a later date, too.

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

"Simply Clever" – the company's mission

All Group activities are defined by the motto "Simply Clever". These two words are the core of the brand. They capture the essence of the mission and shape both of our products and processes. For our customers, "Simply Clever" stands for practical, sophisticated and smart solutions.

Product Portfolio

ŠKODA Citigo

Small ŠKODA with a big future: With its modern design, the smallest ŠKODA brand car, introduced onto the market in 2011, has won the hearts of city dwellers, mainly due to its fuel economy, efficiency and safety. Thanks to many surprising details, the ŠKODA Citigo embodies the concept of a modern automobile for urban use, which is also fun to drive.

ŠKODA Fabia and ŠKODA Fabia Combi

ŠKODA Fabia and ŠKODA Fabia Combi: both models, which offer fuel efficiency and effective use of space, have been among the best sellers in the ŠKODA brand portfolio for several years. Reliability, efficient engines, a reasonable price and the benefits available make the ŠKODA Fabia an excellent choice for anyone looking for an attractively-priced car for everyday use.

ŠKODA Roomster

The ŠKODA Roomster is a remarkably spacious car from the ŠKODA brand. It was designed and named for space, and has been successful with customers for the same reason. It is clearly recognisable by its clean design and versatile interior. Since its introduction onto the market in 2006, the ŠKODA brand has also been successful in the compact multi-purpose vehicle segment.

ŠKODA Yeti

In 2009, ŠKODA entered a new market segment with the ŠKODA Yeti. As one of the first models in the compact SUV segment, the ŠKODA Yeti has attracted attention in many markets – and not only in Europe. This model has also been successful in the market of Russia. Its all-wheel drive system, available upon request, also makes it ideal for off-road use.

ŠKODA Rapid

The ŠKODA Rapid, a family automobile introduced onto the market in the autumn of 2012, is the first model that uses major elements of the new ŠKODA brand design: purity, precision, timelessness and elegance. The interior excels due to its numerous smart details and abundant space. With specific versions for India and China, the ŠKODA Rapid is a key model in the ŠKODA growth strategy.

ŠKODA Octavia and ŠKODA Octavia Combi

The ŠKODA Octavia and ŠKODA Octavia Combi are the core products of the ŠKODA brand. No other model series in the history of the brand has been more successful. Since 1996, the ŠKODA Octavia has impressed buyers with its top design, ample space and high functionality. This entirely new model, which ŠKODA AUTO introduced onto the market at the end of 2012, continues along the path blazed by previous generations of the ŠKODA Octavia series.

ŠKODA Superb and ŠKODA Superb Combi

The ŠKODA Superb offers extraordinary quality for an unbeatable price in the upper middle class. Its spaciousness is exemplary, as are its technical sophistication and attractive prices for customers. The body styles are also sporty and elegant. It is rare for an automobile to combine common sense and feeling to such an extent.

Overview of developments on the automobile markets

Positive developments on the global automobile market

The recovery that had begun in 2011 on the global automobile markets continued in 2012. This trend was mainly driven by the positive developments in markets as India, China and the USA. Other markets were rather stable in the first two quarters. However, in the second half of the year the demand for new cars in Europe weakened. One of the few exceptions was the UK, which recorded single-digit growth. The Russian automobile market also grew significantly. Thanks to the positive development in China, India and the U.S., total global automobile sales increased by 6.3% year-on-year up to the volume of approximately 78.0 million, of which some 66.6 million were passenger cars.

Central Europe

The Central European market dropped by 2.1%. The development of the Czech market in 2012 was stable. Year-on-year gains reached 0.4%, representing 174,009 vehicles sold. The Hungarian (+ 6.7%) and Slovak (+ 2.0%) markets also recorded growth. On the other hand, Croatia (- 22.1%) and Slovenia (- 16.8%) displayed the least positive development in all of Central Europe. A total of 31,596 vehicles were sold in Croatia and 46,891 in Slovenia. A decrease in sales by 0.4% was reported in Poland with 270,587 cars sold.

Western Europe

Compared to other regions in the European area, Western Europe was most seriously hit by the unfavourable economic development. The number of new vehicles sold dropped in year-on-year comparison by as much as 8.2%. The dynamics of this negative trend in the passenger car market became even more pronounced in the second half of the year. The only growing markets in the region were the UK (+ 5.3%) and Switzerland (+ 1.9%). Germany, the strongest economy and major market in Western Europe, suffered a decline of 2.9%.

Other markets with previously robust sales also dropped. The Benelux countries and France contracted significantly, in particular France (- 14.1%), Belgium (-14.9%) and the Netherlands (- 9.6%).

The Southern European markets have been in recession for four consecutive years. The economic development here is quite understandably reflected in the entire car manufacturing industry. Dramatic declines in sales were recorded in Spain (- 13.4%) and Italy (- 19.9%). The passenger car markets in Greece and Portugal were still under the spell of the economic crisis, resulting in yet another remarkable decrease of 40.2%, or 38.0% for all brands.

Eastern Europe

The Eastern European automobile market showed an unexpectedly positive development in 2012, with growth of 7.7%. The driving force was Russia in particular, which also plays an important part in the ŠKODA growth strategy. Compared to 2011, the automobile market growth here was 10.9%. The market in Romania, however, showed a negative trend, with a decrease of 25.6%. Ukraine, another important market for ŠKODA, fell by 1.5%.

Overseas/Asia

The Asian growth markets once again provided the main impetus for the global automobile market with an increase in sales of 13.3% overall in 2012.

The Chinese economy has been on the rise for a number of years. The same applies to the automotive industry, proven by the year-on-year growth in the number of vehicles sold of 9.3%.

In India, negative exchange rate trends and increased price of petrol prevented even higher growth. And yet India recorded an increase by 11.1%. Overall, positive development was seen in other countries in the Overseas/Asia region, with a total growth of 12.6%.

Financial situation

ŠKODA AUTO Group's consolidated financial statements are reported in accordance with the IAS/IFRS methodology. The consolidated financial statements include financial results of the parent company ŠKODA AUTO, financial results of the subsidiaries ŠKODA AUTO Deutschland, ŠKODA AUTO Slovensko, Skoda Auto India, and a share in financial performance of the associates.

ŠKODA AUTO Group

As a result of rising automobile sales and successful implementation of measures to boost efficiency, ŠKODA AUTO Group was able to maintain its financial performance at a stable level in 2012.
Group sales revenues rose by 4.0% year-on-year to CZK 262.6 billion, the highest in the Group's history. Operating profit reached CZK 17.9 billion. The Group's profit after income tax declined by 4.5% to CZK 15.4 billion.

Group business performance

In 2012, ŠKODA AUTO Group delivered a total of 939,202 automobiles to customers worldwide. This is an increase of 6.8% over the previous year and also a new record. Group sales revenues reflected the trend in sales and reached CZK 262.6 billion. Automobile sales accounted for 84.7% of total Group revenues in the year under review (2011: 84.3%). The best-selling models were the ŠKODA Octavia and the ŠKODA Fabia. Positive development was also reported for the ŠKODA Yeti, followed by the ŠKODA Octavia and the new ŠKODA Citigo and ŠKODA Rapid models. Sales of genuine parts and accessories also performed well, with a share of 7.3% of total Group revenues (2011: 7.1%). Income from the sale of parts to other Volkswagen Group companies, plus other revenues, accounted for the remaining 8.0% (2011: 8.6%).
The cost of sales rose by 2.7% year-on-year to CZK 221.8 billion – although the rate of increase was slower than growth in revenues. Material costs (costs of raw materials, production material and purchased goods), which comprised more than three quarters of the Group's total costs, accounted for most of the increase. Distribution expenses rose by 9.3% year-on-year to CZK 19.2 billion. This was due, on the one hand, to the increase in sales; on the other, to rising marketing and advertising costs. Administrative expenses for 2012 totalled CZK 6.9 billion – an increase of 12.0% over the previous year. Other operating profit reached CZK 3.1 billion.
Gross profit was 11.7% higher than the previous year at CZK 40.9 billion. The gross profit margin (gross profit/revenues ratio) climbed to 15.6% and was therefore 1.1 percentage points higher than in 2011. This was essentially due to favourable trends in genuine parts and accessories and further product cost optimisation. Group operating profit decreased by 1.9% in the reporting period to CZK 17.9 billion. The financial result showed a loss of CZK 1.3 billion, due in particular to valuation differences in financial instruments. The Group's profit before income tax declined by 7.0% to CZK 17.9 billion, while profit after tax was CZK 721 million lower (-4.5%) at CZK 15.4 billion. The return on sales before tax was 6.8% in 2012.

Group cash flows

Cash flows from Group operating activities reached CZK 23.4 billion in 2012. Net liquidity dropped by 26.3 year-on-year to reach CZK 34.9 billion as at 31 December 2012.

Group asset and capital structure

The Group's balance sheet total grew by CZK 6.4 billion, at a rate of 4.2% year-on-year, to reach CZK 160.0 billion as at 31 December 2012. This growth stemmed primarily from an increase in non-current assets. As of the date of final balance sheet, the non-current assets represented CZK 83.5 billion, which means by 29.1% more than the value recorded as at 31 December 2011. There was exceptional year-on-year increase of the tangible assets (lands, buildings and facilities) by CZK 10.0 billion (+21.7%).
The Group's capital structure, as defined by the relative amounts of equity and liabilities, shifted slightly from the previous year. Group equity rose by CZK 9.7 billion to CZK 90.9 billion over the course of the year. Profit for the year boosted equity by CZK 15.4 billion, and dividends withdrew CZK 7.1 billion.
The Group's current liabilities were reduced by CZK 1.1 billion (-2.1%) during the reporting period and non-current liabilities decreased by CZK 2.2 billion, resulting in a 10.2% decrease compared to the previous year's balance sheet.
Investments (less development costs) reached a total of CZK 21.1 billion in 2012 and were therefore CZK 6.9 billion higher than in 2011. The bulk of spending went into product investments in connection with new models, engines and transmissions.

Consolidated balance sheet (CZK million)

	31. 12. 2012	31. 12. 2011	2012/2011
Non-current assets	83,493	64,686	29.1%
Current assets	76,493	88,871	-13.9%
of which: deposits*	38,131	49,088	-22.3%
Total assets	**159,986**	**153,557**	**4.2%**
Equity**	90,906	81,211	11.9%
Non-current liabilities	19,176	21,347	-10.2%
Current liabilities	49,904	50,999	-2.1%
Total liabilities	**159,986**	**153,557**	**4.2%**

* interest included ** non-controlling interests included

Consolidated profit and loss account (CZK million)

	2012	2011	2012/2011
Sales revenue	**262,649**	**252,562**	**4.0%**
Costs of sales	221,751	215,956	2.7%
Gross profit	**40,898**	**36,606**	**11.7%**
Distribution expenses	19,179	17,549	9.3%
Administrative expenses	6,855	6,123	12.0%
Other operating income	10,122	10,040	0.8%
Other operating expenses	7,069	4,717	49.9%
Operating profit	**17,917**	**18,257**	**-1.9%**
Financial result	-1,255	791	> 100%
Profit before income tax	**17,934**	**19,275**	**-7.0%**
Income tax expense/income	2,580	3,200	-19.4%
Profit after income tax*	**15,354**	**16,075**	**-4.5%**

* non-controlling interests included

Development of Group financing (CZK million)

	2012	2011	2012/2011
Cash and cash equivalents as at 1 January 2012	**31,251**	**35,986**	**-13.2%**
Cash flows from operating activities	**23,443**	**28,251**	**-17.0%**
Cash flows from investing activities	**-7,032**	**-28,225**	**-75.1%**
Cash flows from financing activities	**-7,177**	**-4,854**	**47.9%**
Gross liquidity*	**40,467**	**52,791**	**-23.3%**
Balance of financial liabilities**	-5,577	-5,443	2.5%
Net liquidity	**34,890**	**47,348**	**-26.3%**

* Gross liquidity consists of closing balance of cash and cash equivalents in the amount of CZK 40,467 million (2011: CZK 31,251 million) and closing balance of other short-term loans in the amount of CZK 0 million (2011: CZK 21,540 million).

** The position Balance of financial liabilities contains in addition to financial liabilities also liabilities to a factoring company within the Volkswagen Group in the amount of CZK 2,470 million (2011: CZK 2,302 million).

Technical development

In 2012, ŠKODA AUTO invested a total of CZK 11 billion in technical development, a year-on-year increase of 17.0%. The 1766 specialists of Technical development cooperate within the Volkswagen Group and expand their professional competence. The acquired skills are applied not only during the development of ŠKODA models, but they also open up other opportunities for external orders. Work for other brands within the Group rose by CZK 347 million year-on-year to reach a total of CZK 894 million, which represents a 63.4% increase.

ŠKODA Rapid – the new class of ŠKODA

At the Paris Motor Show in 2012, the seventh product series in the ŠKODA portfolio, the ŠKODA Rapid model, had its world premiere. It is the first series vehicle featuring the new design: Perfect proportions, cleanly modelled surfaces and sharp, precision-managed lines, which create a timeless and elegant appearance. In the front, the new brand logo is proudly displayed, the typical mask of the cooler with vertical lamellas directly complements the headlights and, together with the fog lights, symbolises a four-leaf shape. The side-view creates a distinctive coupé-like silhouette with the precise and sharp tornado line. The rear group lights have a typical design in the shape of the letter C, this time in a new form with a crystalline finish.
The ŠKODA Rapid was developed to meet the highest demands for functionality, quality and safety. It meets the needs of customers seeking a family vehicle at a reasonable price and raises the bar in its class. Despite the compact exterior dimensions of the vehicle, a record amount of luggage space of up to 550 litres has been created. The quality of the vehicle is confirmed by the five stars it earned in the Euro NCAP independent safety test and the Auto Trophy award for the best-priced automobile of 2012. From 2013 on, the ŠKODA Rapid will also be produced and sold in China. ŠKODA AUTO will therefore be able to fulfil its ambitions on the global market.
Development of "Simply Clever" practical solutions has continued for the ŠKODA Rapid model. The developers' sense for cleverness is evident in the integrated ice scraper covering the fuel tank and the reflective vests located under the driver's seat. The holder for multi-media devices and the beverage holder can secure a mobile phone and other items. Another new feature is the double-sided rug on the floor of the luggage space. One side has the same appearance as the other upholstery, while the other side has a rubber surface that protects the floor of the luggage space from water damage and contamination.

The new ŠKODA Octavia – a class of its own

A significant share of the Company's development activities in 2012 have been focused on the successor to the ŠKODA brand's key product, the ŠKODA Octavia, taking into account trends and customers' wishes. The new design direction has been further pursued, and the ŠKODA Octavia has acquired greater elegance and dynamics. The most state-of-the-art platform in the Volkswagen Group is the basis for the development of the model's recognised values.
The focal point has been to achieve the greatest utility, functionality and safety, while at the same time enhancing quality and maintaining an affordable price. A major reduction in the weight of the vehicle, combined with state-of-the-art engines contributes to a significant reduction in fuel consumption and CO_2 emissions. For the first time in ŠKODA brand vehicles, a series of innovative assistance systems has been developed, such as adaptive cruise control, automatic activation of remote lights and a system for maintaining the vehicle in the lane. Together with new information technology, vehicle comfort has been advanced to a level usually found only in superior classes.

Environment first

ŠKODA AUTO is continuing to reduce emissions by developing alternative fuels. The ŠKODA Citigo CNG model is the brand's first model on the market to run on pressurised natural gas. This efficient engine with an output of 50 kW emits only 79g of CO_2 per km. That is 20% less than vehicles with petrol engines. The emission-free fleet of ŠKODA Octavia Green E Line electric vehicles has already driven more than 250,000 kilometres since 2011. Since May 2012, they have also been used by external partners, such as energy companies and government bodies, as well as families. The evaluation of test operations has become an important source of information for the further development of electric vehicles.

New testing centre for aggregates

A major milestone in the expansion of technical development was the decision to build a testing centre for aggregates. The building, the foundation stone of which was laid in September 2012, is one of the largest investments in development currently being undertaken in the Czech Republic. 15 testing facilities will test new generations of engines series production for ŠKODA AUTO and for customers within the Group, and perform dynamic tests of factory engines with outputs of up to 400 kW for ŠKODA Motorsport. Due to constantly growing demands for global use of engines, the new centre will also be able to test aggregates for various types of fuel, including CNG and ethanol for different markets all over the world.

Historical successes in motorsports

The technical competence and advanced quality of the ŠKODA brand is demonstrated by its successes in competitive racing. In the 2012 rally season, the ŠKODA Motorsport factory team earned its third consecutive title in the manufacturers' championship of the IRC (Intercontinental Rally Challenge) international series with its ŠKODA Fabia Super 2000 vehicles. With 27 stage victories ŠKODA has become the most successful brand in IRC history. The factory team earned the title of European Champion and the ŠKODA Fabia Super 2000 vehicles won six national championship titles. With its first victory in the manufacturers' ranking of the APRC Asia-Pacific championship, ŠKODA also achieved an excellent result on a continent that has major importance for the future of the ŠKODA brand.

Purchasing

Ensuring the smooth progress of the ŠKODA Rapid and the new generation of the ŠKODA Octavia was the main purchasing objective for ŠKODA AUTO in 2012, in accordance with the ŠKODA growth strategy. In cooperation with the purchasing division of the Volkswagen Group, a continuous supply of purchased parts was guaranteed. The Company used a modular transverse toolkit (MQB) for the first time in the ŠKODA Octavia. This modular platforms project within the Volkswagen Group is designed to establish the material cost competitiveness on a solid basis for the future.

Internationalisation of purchasing

ŠKODA AUTO has continued to expand and build its portfolio of suppliers in Europe and Asia. The increased production in the regions and ensuing localization of purchasing helped to use qualified suppliers from those countries.

In China, an important and dynamic market for ŠKODA, the Company has strengthened cooperation with local Chinese purchasing organisations and established additional collaboration.

In 2012, ŠKODA AUTO launched its campaign to promote the new company design. General purchasing started a worldwide sourcing process for the necessary corporate identity elements to ensure the global roll-out activities starting in 2013.

New products and projects

ŠKODA AUTO has ensured the progress of new models, not only with the help of purchased parts, but also through new machines and equipment. Besides expansion and reconstruction of the line for the ŠKODA Octavia and ŠKODA Rapid models, the Company ensured general purchasing of materials for construction of the new Lean Centre and IT Centre at the Mladá Boleslav plant and was also involved in the reconstruction of the ŠKODA Museum in Mladá Boleslav.

The purchasing division also made a significant contribution to the launch of production for the double-clutch transmission DQ 200 in Vrchlabí.

Securing production capacities at the GAZ plant in Nizhny Novgorod in Russia was the most important activity abroad for purchasing in 2012. The implementation of successful localisation strategies was supported by local purchasing organisations. The Group ensured purchasing of materials and manufacturing resources for this project, as well as realisation of construction work. In 2012, the manufacture of ŠKODA Yeti vehicles at this plant shifted to a higher knock-down level.

Situation on the raw materials market

The difficult situation on the raw materials market continued in 2012. Despite stagnating or even declining economic growth in many countries, mainly in Western Europe, raw materials prices remained unstable and at a high level. In conjunction with the purchasing divisions of the Volkswagen Group, it was possible to minimise the effects of the situation on the Group.

Supply of materials

In 2012, ŠKODA AUTO invested a total of CZK 131.6 billion in purchasing of production materials. This corresponds to a year-on-year increase of CZK 3.7 billion. A large proportion of this volume originates in the Czech Republic (over 54.5%), followed by Germany, which accounts for approximately a quarter (26.0%) of the volume of production materials. Deliveries from so-called low-cost countries comprised more than 7.3% and grew year-on-year by 7.7%.

The total volume of general purchasing reached CZK 26.5 billion, which is a year-on-year decrease of 7.0%. The main contributing factor to this development was the launch of the new models which had been the subject of investments in the previous year.

Production and logistics

Expansion of production capacities for worldwide growth

The ŠKODA growth strategy was implemented worldwide in 2010. In order to meet the growing demand for ŠKODA automobiles, the main focus in 2012 was the internationalisation of ŠKODA AUTO standards in the various production sites, particularly in partner plants in Russia and China.

The ŠKODA growth strategy in Russia, India and China

The production capacities in the Russian GAZ plant in Nizhny Novgorod were expanded in 2012. At the beginning of December, full production of the ŠKODA Yeti for the Russian market began at the site. Prior to CKD (completely knocked down) production, the ŠKODA Yeti has been produced here as SKD (semi knocked down). In Nizhny Novgorod, 117 cars were produced as CKD in 2012.

Preparations for the production of the new ŠKODA Octavia in the Group's assembly plant in Aurangabad started in 2012. The first sets of pre-series vehicles have already been sent to the Indian facility. At the same time, a number of measures optimising production and logistic costs in order to improve profitability were implemented at both Indian plants (Aurangabad and partner plant in Pune).

The ŠKODA growth strategy is successful in China, too. The first ŠKODA Rapid cars left the Chinese Yizheng factory in 2012 already. In total, more than 226,000 ŠKODA vehicles were produced in China in 2012.

New models for growth

ŠKODA AUTO began its announced model offensive, involving the production of the ŠKODA Rapid, positioned between the ŠKODA Fabia and ŠKODA Octavia models, in the second half of 2012. In late 2012, production of the new version of the ŠKODA Octavia began in Mladá Boleslav, while full production of the ŠKODA Yeti began in Nizhny Novgorod, Russia.

Mladá Boleslav – Parent plant with a perspective for the future

The Mladá Boleslav plant has a key position in the production of ŠKODA brand vehicles. With the implementation of the growth strategy, significant changes were made to Mladá Boleslav's production floor in 2012. Production capacity was extended, and the production facilities were modified. Investment reached record levels.

To achieve the extension of vehicle production capacity in plant Mladá Boleslav in assembly hall MBI from 800 to 1,200 vehicles per day, many adaptions were implemented and new production facilities were built while production was on-going. The ultimate completion, tests and final adjustments were successfully achieved during the plant holiday.

Capacity extension also in component production

19 July 2012 was an important anniversary for the powertrain production of ŠKODA AUTO: on this day, the 750,000th unit left the factory since production of the EA 111 1.2 TSI engines began in 2009. In total, about 485,894 engines were produced in 2012, of which 301,665 units were of the EA 111 1.2 TSI engine model, 183,825 units of the EA 111 1.2 HTP model and 404 units of the EA 211 TSI model.

The NSF ("New Small Family") vehicle generation was given a new gearbox variant in 2012. In Mladá Boleslav, production of the MQ 100 gearbox expanded by the production of the SQ 100 variant. In total, Mladá Boleslav has the capacity to produce 1,200 units of the MQ/SQ 100 gearboxes per day. In addition to the MQ 100 gearboxes, Mladá Boleslav can produce 2,200 units of the MQ 200 gearboxes daily. Furthermore, the Vrchlabí plant began production of the modern DQ 200 dual-clutch gearbox in October 2012, the third plant in the Volkswagen Group to do so. By the end of the year, 10,328 DQ 200 units had been completed. In total, more than 629,329 gearboxes were manufactured by ŠKODA AUTO in 2012.

ŠKODA AUTO does not only produce powertrains for its own needs, but for other brands of the Group as well. This year, more than 311,750 engines and 386,625 gearboxes were produced for other Group brands worldwide.

As a result of the production start of the ŠKODA Rapid and the new ŠKODA Octavia, the production of the axles had to be expended as well. Due to an additional assembly the present production capacity adds up to 5,100 axles daily. In total, approx. 1.4 million axles for ŠKODA vehicles were produced in 2012.

Vehicle production of the ŠKODA brand

A total of 944,432 ŠKODA vehicles were manufactured worldwide in 2012. This represents a 4.9% increase compared with the previous year.
Production of the ŠKODA Rapid and ŠKODA Octavia began in Mladá Boleslav in 2012. In addition, the production of the SEAT Toledo with a total of 5,000 vehicles began.
The increase in production volume did not occur only in Europe, but also in Russia, India and China. In Aurangabad, India, production of Volkswagen and Audi brand vehicles was also increased. In total, 12,591 of those vehicles were produced there. In the Chinese partner plants, a total of 226,653 ŠKODA Octavia, Fabia, Superb and Rapid vehicles was produced in the given period. Overall, this is an increase in production of 1.6%.

ŠKODA Fabia

ŠKODA Fabia production suffered fluctuations in 2012, but the model remains popular in its class. A total of 231,930 ŠKODA Fabia vehicles were produced worldwide – 11.2% fewer than the previous year (2011: 261,107 ŠKODA Fabia vehicles).

ŠKODA Roomster

ŠKODA Roomster production at the Vrchlabí plant saw an increase in 2012. In total, 39,249 ŠKODA Roomster cars were built, an increase of 7.7% compared to 2011 (2011: 36,427 ŠKODA Roomster vehicles).

ŠKODA Octavia

The ŠKODA Octavia was the best-selling model of ŠKODA AUTO once more in 2012. A total of 406,397 vehicles were produced worldwide. The ŠKODA Octavia therefore accounted for the largest share of ŠKODA AUTO production in 2012 with 43,0% (2011: 402,462 ŠKODA Octavia vehicles, 44.7% of total ŠKODA AUTO production).

ŠKODA Yeti

The ŠKODA Yeti, too, recorded rising production numbers. The total volume grew by 17.6% reaching 90,882 vehicles (2011: 77,312 ŠKODA Yeti vehicles).

ŠKODA Superb

In its class, the ŠKODA Superb saw a slight downturn in sales. Overall, 106,847 vehicles were built in 2012, which is a decrease of 10.8% compared to 2011.

Portfolio of models manufactured worldwide (as at 31 December 2012)

	Citigo	Fabia	Rapid	Roomster	Octavia	Yeti	Superb	Seat Toledo	VW Jetta	VW Passat	Audi A6	Audi A4	Audi Q5	Audi Q7
Mladá Boleslav (Czech Republic)		●	●		●			●						
Vrchlabí (Czech Republic)				●	●									
Kvasiny (Czech Republic)						●	●							
Bratislava (Slovakia)	●													
Kaluga (Russia)		●			●									
Nizhny Novgorod (Russia)						●								
Aurangabad (India)					●	●	●		●	●	●	●	●	●
Pune (India)		●	●											
Shanghai (China)		●			●		●							
Yizheng (China)			●											

ŠKODA production worldwide

	2012	2011	2012/2011
Production of ŠKODA cars			
Fabia*	118,129	142,115	– 16.9%
Fabia Combi	59,870	73,023	– 18.0%
Fabia total	**177,999**	**215,138**	**– 17.3%**
Rapid	**8,128**	**–**	**–**
Roomster	36,756	33,414	10.0%
Roomster Praktik	2,493	3,013	– 17.3%
Roomster total	**39,249**	**36,427**	**7.7%**
Octavia*	141,727	142,289	– 0.4%
Octavia Combi	127,831	131,953	– 3.1%
Octavia total**	**269,558**	**274,242**	**– 1.7%**
Yeti*	**90,882**	**77,312**	**17.6%**
Superb	26,125	26,009	0.4%
Superb Combi	39,809	44,882	– 11.3%
Superb total	**65,934**	**70,891**	**– 7.0%**
Total ŠKODA brand	**651,750**	**674,010**	**– 3.3%**
ŠKODA brand production worldwide			
Production of ŠKODA cars in Pune			
Rapid	24,148	2,561	> 100%
Fabia	5,194	–	–
Total ŠKODA Pune	**29,342**	**2,561**	**> 100%**
Production of ŠKODA cars in Bratislava			
Citigo	36,687	1,027	> 100%
Total ŠKODA Bratislava	**36,687**	**1,027**	**> 100%**
Production of ŠKODA cars in China			
Fabia	48,737	45,969	6.0%
Octavia	136,839	128,220	6.7%
Superb	40,913	48,841	– 16.2%
Rapid	164	–	–
Total ŠKODA China	**226,653**	**223,030**	**1.6%**
Total ŠKODA worldwide	**944,432**	**900,628**	**4.9%**
Production of other Volkswagen Group brands			
Seat Toledo	5,000	–	–
VW Passat	1,704	1,338	27.4%
VW Jetta	4,101	1,858	> 100%
Audi A6	2,556	1,254	> 100%
Audi A4	2,904	2,328	24.7%
Audi Q5	1,302	1,092	19.2%
Audi Q7	24	–	–
Total other Volkswagen Group brands	**17,591**	**7,870**	**> 100%**
Total ŠKODA AUTO Group	**669,341**	**681,880**	**– 1.8%**
Total ŠKODA worldwide incl. SEAT and SAIPL	**962,023**	**908,498**	**5.9%**

* including disassembled vehicle kits distributed to production plants outside ŠKODA AUTO Group ** includes Octavia and Octavia Tour

Sales and marketing

New record in deliveries to customers in 2012

The ŠKODA AUTO Group ended 2012 with a new record of 939,202 vehicles delivered to customers worldwide – an increase of 6.8% year-on-year. As regards the total number of cars delivered, Central and Eastern Europe recorded positive trends, while deliveries in Western Europe went down by 0.9% compared to the previous year. However, all regions increased their year-on-year market share statistics. Thus, the ŠKODA growth strategy manifested its viability in the second year of implementation, and its readiness to face the impacts of economic problems in the Eurozone.

Central Europe

In Central Europe, ŠKODA AUTO Group was able to boost deliveries and gain valuable new market share. A total of 124,012 vehicles were delivered to customers – an increase of 0.7%.
In the Czech Republic, ŠKODA maintained its undisputed position as the leading automobile brand. The number of vehicles delivered to customers increased to 59,674. Outside the Czech Republic, growing deliveries were recorded in Slovakia (+ 4.7%) as well as Hungary (+ 20.0%). The ŠKODA brand took the first place in Slovakia with 15,902 vehicles delivered, and the second place in Hungary with 6,899 vehicles delivered. In Poland, the ŠKODA AUTO Group succeeded in delivering 36,307 vehicles and confirmed its position as the market leader.

Eastern Europe

The deliveries of ŠKODA vehicles in Eastern Europe continued to grow. A total of 137,057 vehicles were delivered to customers – a year-on-year increase of 26.4%.
ŠKODA has been very successful in recent years in Russia, and this market is one of the keys to the ŠKODA growth strategy. The Russian market became a major driver of deliveries in 2012. With the total number of vehicles delivered to customers of 99,062, growth reached 33.7%. ŠKODA AUTO has been increasing the deliveries in Ukraine for three years. 14,393 cars were delivered to customers here – an increase of 31.9%. (2011: +42.6%). Even in the shrinking Romanian automobile market ŠKODA AUTO was able to increase its share and confirm its position as the second-strongest importer with 6,833 deliveries to the customers.

Deliveries to customers – largest markets

	Deliveries to customers (vehicles)		Change in %	% share of passenger car market**	
	2012	2011	2012/2011	2012	2011
Total ŠKODA brand	**939,202**	**879,184**	**6.8%**	**1.4%**	**1.4%**
China	235,674	220,089	7.1%	1.7%	1.8%
Germany	132,580	128,011	3.6%	4.3%	4.0%
Russia	99,062	74,074	33.7%	3.7%	3.0%
Czech Republic	59,674	58,202	2.5%	34.1%	33.4%
United Kingdom	53,249	45,282	17.6%	2.6%	2.3%
Poland	36,307	38,116	-4.7%	13.4%	12.7%
India	34,265	30,005	14.2%	1.3%	1.3%
Austria	22,300	21,208	5.1%	6.6%	5.9%
France	22,022	22,356	-1.5%	1.2%	1.0%
Switzerland	17,830	16,298	9.4%	5.5%	5.1%
Belgium	17,530	18,900	-7.2%	3.6%	3.3%
Netherlands	16,455	20,879	-21.2%	3.3%	3.8%
Slovakia	15,902	15,182	4.7%	22.7%	22.1%
Ukraine	14,393	10,909	31.9%	6.6%	4.9%
Spain*	13,026	15,873	-17.9%	1.9%	2.1%

* excl. Canary Islands   ** total markets

Western Europe

Despite the difficult economic situation in some countries of the Eurozone, a total of 358,439 vehicles was delivered in this region – minus 0.9% year-on-year. Despite the massive overall decline in deliveries of vehicles in this region, ŠKODA managed to strengthen its market position in Western Europe in 2012.

ŠKODA has further increased its market share in Germany. With 132,580 vehicles delivered to the customers (+ 3.6%), Germany remains the second most important market for ŠKODA AUTO. Good results were achieved in other major Western European markets in 2012 as well. Deliveries to customers in the challenging French market came to 22,022 vehicles, resulting in a year-on-year decrease by 1.5%. Because of the overall decline in the passenger car market the ŠKODA brand managed to improve its market position. In the UK, ŠKODA AUTO delivered 53,249 vehicles (+ 17.6%), and thus recorded the best sales result there ever while also increasing its market share. Other records were established in Austria with 22,300 vehicles (+ 5.1%) and Denmark with 10,364 vehicles (+ 28.2%). On the other hand, most markets in Southern Europe considerably contracted due to the tense economic situation. Deliveries to Spanish customers dropped by 17.9%. Automobile markets in Portugal and Greece have felt the brunt of the economic and financial crisis, and consequently went into the red. As a result ŠKODA AUTO had to come to terms with losses and reduced deliveries in Portugal (- 24.7%) and Greece (- 29.5%).

Overseas/Asia

The Overseas/Asia region with its growing Chinese and Indian markets plays an important role in the ŠKODA growth strategy. Deliveries in this area developed favourably in 2012. A total of 319,694 ŠKODA brand vehicles were delivered here, which represents an annual increase by 11.8%.

The motor behind this trend was China, globally the biggest market for ŠKODA AUTO. 235,674 vehicles (+ 7.1%) were delivered here in 2012. The growth in India equalled 14.2%, resulting in 34,265 delivered cars. We achieved a growth rate of 49.9% in the Indian market in 2011 already. Almost two thirds of the deliveries are represented by our compact limousine developed for the local conditions – ŠKODA Rapid. The model was introduced at the end of 2011, and the figures for deliveries to customers the last year are in line with the estimated growth potential.

In other countries in the Overseas/Asia region in 2012 a total of 49,755 ŠKODA vehicles were delivered, corresponding to a year-on-year increase of 39.2%.

Deliveries to customers by model lines

ŠKODA Citigo

ŠKODA Citigo is the smallest brand model, launched in European markets in 2012. 29,960 customers bought this new car especially designed for urban areas. It is the first ever model in the brand's modern history that offers both 3-door and 5-door versions.

ŠKODA Fabia

A well-established model, the ŠKODA Fabia, is the second-strongest in terms of volumes delivered. Properly defined pricing policy, two body versions together with variable assortment resulted in 240,470 units delivered in 2012. The fact that the ŠKODA Citigo has been launched and the ŠKODA Fabia is near the end of its life cycle, results in a year-on-year decrease by 9.9%. The RS sports versions and the alluring Monte Carlo derivate contributed to the general attractiveness of the ŠKODA Fabia for a wide range of customers.

Deliveries to customers by region

	Deliveries to customers (vehicles)		Change in %	% share of passenger car market**	
	2012	2011	2012/2011	2012	2011
Central Europe*	124,012	123,156	0.7%	18.9%	17.7%
Eastern Europe	137,057	108,423	26.4%	4.2%	3.6%
Western Europe	358,439	361,777	-0.9%	3.0%	2.8%
Overseas/Asia	319,694	285,828	11.8%	1.3%	0.6%
Total ŠKODA brand	**939,202**	**879,184**	**6.8%**	**1.4%**	**1.4%**

* incl. Czech Republic ** total markets

ŠKODA Roomster
Deliveries of the ŠKODA Roomster model increased in 2012. Customers bought a total of 37,964 ŠKODA Roomster cars, which represents growth of 5.4%. Of those, 2,650, i.e. 7.0%, were the ŠKODA Praktik utility version. ŠKODA Roomster has been on the market without major changes since its launch in 2006. Stable demand for this small MPV is a result of utility features and good price positioning.

ŠKODA Rapid
The ŠKODA Rapid compact limousine entered the global market late in 2012. A total of 24,692 vehicles were delivered to customers of which 3,526 in the Czech Republic, 21,166 in India. When the market launch will have been completed in 2013 it is expected that the ŠKODA Rapid has established itself as one of the most successful models within the ŠKODA model range.

ŠKODA Octavia
The ŠKODA Octavia once again underscored its key role as the best-selling car in the brand's product portfolio. By achieving a total number of 409,632 vehicles delivered in 2012, the model once again exceeded the already good results of the previous year by 5.8%. The ŠKODA Octavia Combi with 124,463 units delivered made up 30.4% of the overall deliveries of the model. The sales figures for the ŠKODA Octavia were excellent, taking into account that the third generation of this model had already been announced and will be launched in 2013.

ŠKODA Yeti
The ŠKODA Yeti is a model that currently has the highest rate of sales growth among all ŠKODA vehicles. 87,397 vehicles were delivered to customers in 2012 – growth of 24.3%. With this, the ŠKODA Yeti model strengthened its position in the attractive compact SUV segment.

ŠKODA Superb
The ŠKODA Superb is the brand's flagship. Globally 109,087 vehicles were delivered, 43,041 in China. The deliveries to customers dropped by 6.5%, which is partially due to the continued problems of European economies.

Deliveries to customers by model

	2012	2011	2012/2011
Citigo	**29,960**	**510**	**> 100%**
Fabia	178,038	192,852	–7.7%
Fabia Combi	62,432	73,911	–15.5%
Fabia total	**240,470**	**266,763**	**–9.9%**
Rapid	**24,692**	**1,671**	**> 100%**
Roomster	35,314	33,005	7.0%
Roomster Praktik	2,650	3,005	–11.8%
Roomster total	**37,964**	**36,010**	**5.4%**
Octavia	285,169	261,572	9.0%
Octavia Combi	124,463	125,611	–0.9%
Octavia total*	**409,632**	**387,183**	**5.8%**
Yeti	**87,397**	**70,321**	**24.3%**
Superb	68,558	73,125	–6.2%
Superb Combi	40,529	43,601	–7.0%
Superb total	**109,087**	**116,726**	**–6.5%**
Total ŠKODA brand	**939,202**	**879,184**	**6.8%**

* includes Octavia and Octavia Tour

Sales to corporate customers

Sales to corporate customers played a major role in the success of the ŠKODA AUTO Group in 2012. Fleet sales (excl. China) in this market segment in 2012 grew to 250,273 vehicles (2011: 239,413 units).

In Western Europe, traditionally a major market for corporate fleets, 148,930 cars were sold. Central Europe followed with 60,445 delivered cars, Eastern Europe (in particular Russia and Ukraine) with 26,791 vehicles. Among the national markets Germany remained the largest in 2012 – here 46,059 cars were sold as fleet vehicles, which is 18.4% of the total fleet sales of ŠKODA AUTO. Throughout 2012, ŠKODA AUTO continued the successful implementation of its "Fit For Fleet" programme, comprising comprehensive and professional offers for commercial customers, small and medium businesses.

Sales of genuine parts and accessories

The sales of genuine parts and accessories in 2012 represented an important part of the sales policy of ŠKODA AUTO. ŠKODA genuine parts and accessories offer premium quality, a wide range of products, guarantee availability and thus secure customers satisfaction. With the ever-growing range of models, the assortment of parts and accessories is expanding; they are sold in more than 100 markets worldwide through advanced logistics channels using the latest IT technologies.

As part of the optimization of the ŠKODA Genuine Parts and Accessories logistics centre, the first stage of the extension of the ŠKODA Parts Centre – new reception and dispatch terminal – was completed in November 2011. The second stage of the project was the construction of a fully automated silo 40 metres high, with a capacity of over 30,000 pallets, completed in December 2012. The total area of the depot is now 74,500 sqm.

Revenues from the sales of ŠKODA genuine parts in 2012 were CZK 16.9 billion, which is an annual increase of 7.5% (2011: CZK 15.7 billion).

By offering genuine accessories the Group is responding to continued growth of a customer segment that requests a higher level of individuality. At the same time the Group extends the offer of leisure-time products while meeting strict quality criteria.

Revenues of ŠKODA genuine accessories were CZK 2.4 billion. Compared to 2011, the increase was 9.1% (2011: CZK 2.2 billion).

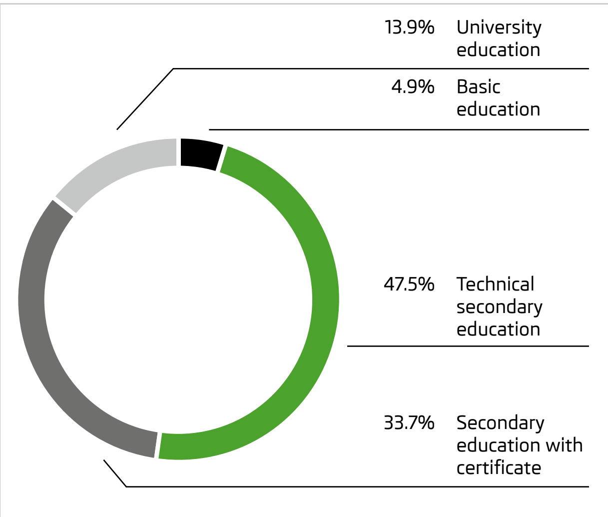
Human resources management

ŠKODA AUTO significantly strengthened its attractiveness as an employer in 2012 and intends to continue this trend over the years to come.

The objective of human resources management is to further strengthen and advance the position as active partner in the specialized domains. This approach includes major support for the specialized areas as regards personnel work, recruitment of highly qualified new employees, efficient development of all colleagues, and building up their loyalty to the Company. One of the main tasks was the adoption of intensive measures aimed at improvement of staff qualification levels, and the Company succeeded in further increasing the share of university graduates. Other important topics included the optimization of staff deployment processes, support during foreign assignments, and internationalization of the Czech plants, in which currently a work force consisting of 40 nationalities is employed.

ŠKODA AUTO has long enjoyed a close partnership with the ZO OS KOVO union within ŠKODA AUTO a.s. Thanks to this cooperation, the Company is able to respond quickly to the needs of its employees, who provide the Company with maximum support and greatly contribute to its results. The Company's success stems from the high loyalty and motivation of employees. This was also reflected in an internal company survey from 2012 with the participation of 95% of the Company's employees, which confirmed a further increase in employee motivation.

Qualification structure of the Company's permanent employees



ŠKODA AUTO continues to place great emphasis on the long-term retention of qualified employees. Certified experience secures permanent employment, work-life balance and health protection in the workplace, as well as gender and diversity management. The Company has been closely involved in the support of women and career development of all age groups. For its activities in this field, ŠKODA AUTO was awarded the TOP Responsible company title in the category "Company welcoming seniors", and in the European project "2012 – European Year for Active Ageing and Solidarity between Generations" it was given second award in the category "Workplaces for all Ages".

Due to the increasing internationalisation of the Company, one of the challenges for human resources management is to increase employee mobility and make working abroad more attractive, particularly at management level. This will also promote in-company transfers of professional knowledge and offer employees extensive opportunities for personal development. Respective programmes are continuously tailored to meet individual needs. As a result, ŠKODA AUTO has greatly increased its presence abroad. In 2012, the number of employees sent abroad exceeded 200 for the first time. A total of 214 employees in 14 countries in Europe and plants in Russia, India and China, represented the interests of ŠKODA AUTO abroad.

Qualifications and professional training for employees

An important building block for the HR activities of ŠKODA AUTO is qualification of employees, with a focus on continuing education.

Key examples of professional training to promote the Company's competitiveness and growth include language courses and training in cross-cultural knowledge and skills, which are intended to prepare employees for the further international development of ŠKODA AUTO.

The Company also focuses on other areas of professional training and has invested a total of CZK 21.4 million in renovating employee training facilities for welding, robotics, pneumatics and hydraulics. Almost 5,000 employees passed through

these laboratories in 2012 and were able to increase their qualifications extensively. ŠKODA AUTO is aware of the shortage of technical experts on the job market and has therefore been heavily involved in enhancing the skills of young technicians.
In 2012, ŠKODA AUTO trained approximately 900 young people for their future careers at its secondary education institute. The Company is also active in university education. In 2012, approximately 1,100 students attended classes for their future professions at the ŠKODA AUTO University. ŠKODA AUTO fulfils its social responsibility in this field in all areas where it is based, in active response to demographic trends in Europe.

Key factor – attractiveness as an employer

In 2012, public opinion surveys once again rated ŠKODA AUTO one of the most popular companies in the Czech Republic. In 2012, it ranked first in the CZECH TOP 100 and is therefore considered the most admired company in the Czech Republic. One of the Company's most important awards in the HR field was the Employer of the Decade award, which clearly confirms the long-term course the Company has taken in its work with employees.
ŠKODA AUTO is a highly attractive employer for university graduates. The Company ranked third in the "Czech Republic Graduate Barometer" and was named "Captain of the Year" in the Czech Republic. The Company also took first place in the categories "Best HR advertisement", "Best recruiter" and "Best presentation at job fairs".
The Company is actively involved in recruiting women. The results of a survey of around 10,200 final-year students and graduates in economics, engineering and IT from 22 universities across the country confirmed that the Company is also a much more attractive employer for women than in 2011.

Group workforce

	31. 12. 2012	31. 12. 2011	2012/2011
Parent Company – permanent employees	**23,978**	**24,177**	**–0.8%**
of which:			
– Mladá Boleslav plant	19,559	19,691	–0.7%
– Vrchlabí plant**	938	860	9.1%
– Kvasiny plant	3,481	3,626	–4.0%
Parent Company – apprentices	810	759	6.7%
Parent Company – employees total*	**24,788**	**24,936**	**–0.6%**
Subsidiaries – permanent employees	1,607	1,622	–0.9%
Subsidiaries – apprentices	9	7	28.6%
Subsidiaries – employees total*	**1,616**	**1,629**	**–0.8%**
ŠKODA AUTO Group employees total*	**26,404**	**26,565**	**–0.6%**

* excl. temporary employees incl. apprentices, representing the number of employees as at 31 December 2012
** As at 31 December 2012 Vrchlabí plant including VAD facility (transmissions)

Sustainability

Sustainablity is a fundamental part of the corporate strategy of ŠKODA AUTO. The comprehensive ŠKODA sustainability strategy is based on three pillars: environmental, social and economic responsibility. Regarding the environment, the main focus is on low-impact production of vehicles and the development of low-emission vehicles. Social responsibility means dealing responsibly with customers, employees, shareholders, business partners and the general public. Economically, the company's economic objectives are the focus.

Environmental responsibility

Technology for lower emissions

In keeping with its responsibility for the community, ŠKODA AUTO is developing technologies for a cleaner, more efficient future for automobiles. The innovative Green tec package developed for the entire portfolio features an automatic start-stop system which reuses braking energy and tyres with optimised rolling resistance. For example the sales of the ŠKODA Rapid started with five Green tec variants. A Green tec – equipped ŠKODA Rapid with a 1.6 litre-engine and an output of 77 kW has an average fuel consumption of 3.9 litres/100 km and emits only 104 grams CO_2/km.

The GreenLine vehicle model series includes additional technical and aerodynamic modifications. The third generation of this technology for a cleaner environment will soon be available. ŠKODA AUTO is showcasing an entirely new approach to reducing CO_2 emissions with its first series model with a pressurised natural gas fuel engine: the ŠKODA Citigo CNG with a 1.0 litre-engine emits only 79 grams CO_2/km.

ŠKODA AUTO and environmental protection

A production which does not put more stress on the environment than absolutely necessary is an important element of the Company's environmental policy. In this respect, all legal requirements are met, and new, stricter standards are complied with as early as possible. The company received a renewed ISO 14001 certificate in 2012.

Environmental investments

As part of its growth strategy, ŠKODA is currently investing in various new capacities and projects. These investments meet cutting-edge environmental standards.

For example, the extension of the already-existing Technology and Development Centre in Česana was begun this year. Further central projects were completed in 2012. Among these are the new Service Training Centre, the new Lean Centre for optimised production and administration processes, the new IT Centre and the new ŠKODA Parts Centre for spare parts and accessories.

Production facilities also received extensive investment. ŠKODA AUTO modernised and expanded significant parts of the production floor in the Mladá Boleslav parent plant for the production of the ŠKODA Rapid and the new ŠKODA Octavia. At the Vrchlabí plant, ŠKODA AUTO has been producing dual-clutch gearboxes for the Volkswagen Group. This addition also required extensive investments.

Besides extending capacities, ŠKODA AUTO continuously monitors its production sites for environmental impact. This includes the adaptation of already approved partial facilities.

Air-quality protection

A "clean" factory is characterised by emissions which are as low as possible. Over the past years, ŠKODA AUTO has implemented many measures to reduce the air pollution caused by production to a minimum.

Significant progress was made in particular regarding the emission of volatile organic compounds (VOC). These compounds are by-products of the painting process and account for more than 83% of the pollutants emitted by paint shops.

Due to the continuous optimisation of the painting processes, ŠKODA AUTO has achieved a reduction of volatile organic compound emissions to significantly below the legally permitted maximum levels – and this independently of the number of painted vehicles and their size. Per square metre of painted surface, fewer than 27 grams of volatile organic compounds were emitted; the legally prescribed maximum value is currently 45 grams. Those volatile organic compounds which are emitted are mixed with natural gas and burned. The heat released is used for heating the technology in the paint shop.

Contaminated areas mostly reconditioned

Some contaminated production areas have remained from the years before 1990. By the end of 2012, more than 81% of these had been cleared. The Company invested in these activities a total of CZK 617.8 million until 2012.

For example, ŠKODA AUTO implemented extensive reconditioning measures in the course of converting tool production in the Mladá Boleslav plant. The main aim was to prevent pollutants from entering the ground water. To achieve this, all floors were newly insulated. The quality of the ground water is analysed extensively twice a year.

Water protection

Substances that pose a danger to ground water are handled exclusively in rooms and systems fitted with the appropriate technical safeguards. All substances potentially harmful to ground water are used and stored in accordance with strict regulations. The floors in all rooms in which such substances are emitted or stored are completely secure against seepage. In the interest of maximum resource efficiency, it is of decisive importance to keep water usage to a minimum and to discharge industrial water back into natural circulation. In this area, ŠKODA AUTO has achieved marked improvements both in the total water used and in the amount of wastewater per vehicle. Furthermore, the wastewater quality significantly exceeds the prescribed legal limits.

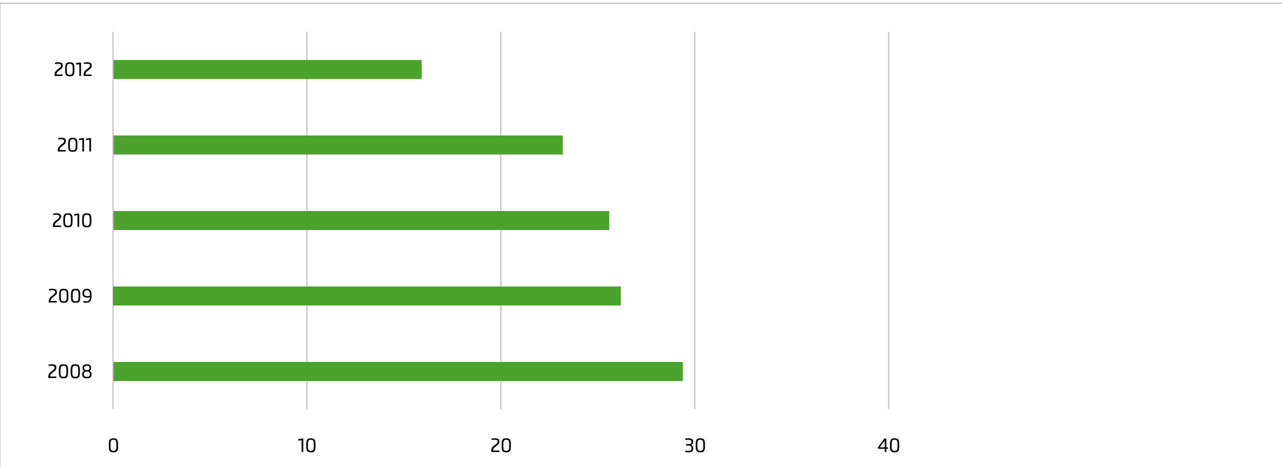
Significant investment in environmental protection

In 2012, ŠKODA AUTO invested in construction projects to step up environmental protection. Total investment in environmental protection since 1991 amounts to CZK 10.3 billion.

Social responsibility

Social responsibility has always played a key role at ŠKODA AUTO. As one of the Czech Republic's leading companies, ŠKODA AUTO believes it has a special responsibility for its employees and their families, and – as a good neighbour – for people in the communities where its plants are located. The Company pays particular attention to the welfare of its employees, offering a broad range of social benefits, guaranteeing health and occupational safety standards, and providing a unique system of corporate training and professional development.
ŠKODA AUTO complies with all relevant recommendations of the Code of Corporate Governance, by which it declares its openness towards the public and the transparency of its internal processes and relations with the sole shareholder. The Company maintains bilateral and mutually beneficial relationships with suppliers and follows the legacy of its founders, Laurin and Klement, stating that "...only the best we can do is good enough for our customers."
The Company pursues a long-term policy of dedicating maximum effort to limiting the negative impact of its operations on the environment. This pertains not only to the Company's own production and sales operations, but also to its selection of suppliers who meet the most stringent ISO 14000 environmental standards. Use of alternative energy sources and

Waste per vehicle produced (kg/vehicle)*



* In 2012, the methods of calculation of waste per vehicles produced was changed. The comparative figures for previous years were recalculated.

development of new products allows ŠKODA AUTO to reduce its output of CO_2 emissions. In 2012, the Company's Board of Management adopted the concept for the GreenFuture programme, which is intended to reduce the environmental impact of production even further.
A summary of information about all of the Company's major activities related to social responsibility – the Sustainability Report of SKODA AUTO for 2011/2012 – was published in February 2013.

Road safety

Aside from sporting, cultural and social activities pursued within the scope of the social responsibility of ŠKODA AUTO, measures to improve road safety have become increasingly important. Projects include funding for children's traffic-themed playgrounds in the regions where the Company's production plants are located, and the development of a unique internet application "ŠKODA hrou" ("Playful ŠKODA").
Another project designed to improve safety features in cars is "Traffic Safety Research" under which the Company collaborates with fire fighters, police and medics. In 2012, ŠKODA AUTO was once again the general partner for a traffic contest "Cesty městy" ("Roads through Cities") organised by the Partnership Foundation. The contest promotes well-designed traffic solutions for reducing traffic density in Czech cities and municipalities.

Support of social activities

ŠKODA AUTO is involved in sponsorships at both local and regional levels, i.e. directly where its factories operate, and also on a nationwide and global scale. In cooperation with leading foundations and charitable organisations, the Company sponsors a variety of social, cultural and humanitarian projects. The Company ensures that it also supports sporting events involving persons with disabilities.

Culture and the arts

The traditional partners of ŠKODA AUTO include the Czech Philharmonic, the National Theatre, the National Museum and the National Technical Museum. The Company also supports selected international events held outside Prague, such as music festival Smetana's Litomyšl and the International Film Festival for Children and Youth in Zlín. In addition, ŠKODA AUTO has established partnerships with the Festival of German Language in Prague and the Municipal Theatre in Mladá Boleslav.

Social commitment

ŠKODA AUTO is a long-time supporter of the Paraple Centre, specifically as a supplier of vehicles with adjusted hand steering, which help patients become more self-sufficient. The Car Club organisation, which provides comprehensive services in eight commercial centres in the Czech Republic, is a major partner in improving the mobility of disabled people. These commercial centres also employ disabled people. Other projects funded by the Company include the Forum 2000 Foundation and the Paralympic Committee.
ŠKODA AUTO continues its long-term funding of the organisation "Zdravotní klaun" ("Clown Doctors"), which arranges for professional clowns to visit seriously ill children across the Czech Republic under the motto "laughter is the best doctor". Another project named "One tree planted for each car sold in the Czech Republic" demonstrates the active approach of ŠKODA AUTO to environmental protection. It allows employees and their families to volunteer for the Company's social responsibility activities. In 2012, cooperation had been established with 44 partners, mainly from municipalities and non-profit organisations, and more than 363,000 trees were planted in more than 50 locations.

Commitment rewarded

As part of the "European Year of Active Aging and Inter-generational Solidarity", ŠKODA AUTO won an award for its exemplary approach to supporting seniors. The Company received an award for the company with the most beneficial approach to seniors in the Top Responsible Company 2012 competition in the Czech Republic. Moreover, it also performed well in the pan-European competition in the category "Workplaces for all ages", where it took second place. The Company was commended for the extensive measures it adopted in response to demographic trends to promote the employment of seniors.

Risk management system

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

Risk management organisation

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

Risk description and management

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

Economic, political and legislative risks

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

Demand risks

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

Purchase risks

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

Financial risks

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

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

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

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

Research and development risks

New products carry the inherent risk that customers might not accept them. The Group therefore performs extensive analyses and customer surveys. Trends are identified early and their relevance for customers is tested. Another potential risk arises from the Group's possible failure to launch production start-ups within the scheduled timeline, in the required quality and with target expenditures. This risk is eliminated by performing on-going project checks and comparisons with specifications, since it allows requisite measures to be adopted if any irregularities are found.

Quality risks

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

Human resources risks

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

Information technology (IT) risks

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

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

Legal risks

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

Other operating risks

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

Short-term and long-term outlook

Projected development on the automobile markets

Should the economic problems of the Eurozone and especially Southern Europe worsen, the sales in individual European markets could be affected. Positive trends will continue in the Indian and Chinese markets. On the other hand Russia is expected not to continue its record growth as in 2012 and stagnation can be foreseen in 2013. Growth in global demand for new vehicles will probably be slower than in the reporting period.

Czech Republic

The development of the market in the Czech Republic is expected to follow the 2012 figures.

Europe

Slight decreasing demand is expected in Germany, which is the most important European market for ŠKODA AUTO. Sales in Western Europe will most likely reflect the economic situation in specific regions. It is expected that Western European market will show a decrease in demand. The same is expected for passenger cars in Central and Eastern European markets. In Russia sales are predicted to stay approximately on the level of 2012.

Overseas/Asia

The positive development of the automobile market in China and India will continue through 2013. The reason is the dynamic economic growth in these countries, combined with the ever-growing domestic demand. ŠKODA AUTO is going to be very active in these markets within the framework of its global growth strategy.

Overview of planned activities and targets

Technical development

Additional new models will play a key role in the Company's plans for boosting its position in the global marketplace. In line with this aim, technical development will continue with the development of new products and implementation of innovations into existing vehicles. A major emphasis will be on reducing carbon dioxide emissions, as well as implementing new information technology.

2013 will be an exceptional year for the ŠKODA AUTO Group: In spring, it will present the successor to its most important, most successful model, the ŠKODA Octavia, at the Geneva Motor Show. Newly developed engines, assistance systems and security features will raise the bar for safety and comfort in its class. An updated ŠKODA Superb model will also be introduced in 2013.

To reinforce the position of technical developments by ŠKODA AUTO in the Volkswagen Group, development capabilities will be further strengthened, particularly in the field of aggregate development. In late 2013, the first testing equipment will be put into operation at the aggregate testing centre.

The ŠKODA Motorsport factory team, driving ŠKODA Fabia Super 2000 cars, will participate in selected races of the World Rally Championship in the categories Super 2000 (WRC-2) and European Rally Championship (ERC) in 2013, which has acquired renewed appeal thanks to the merger with the Intercontinental Rally Challenge (IRC) series, where ŠKODA has become the most successful manufacturer in history after the third victory in a row in 2012.

Production and logistics

Successful implementation of the ŠKODA growth strategy will continue throughout 2013, and the years after with ambitious targets. These include the extension of production capacities not only in the Czech Republic, but also in partner plants in Russia, India and China. In the Company's plants in the Czech Republic, the ramp-up of several new models is planned for 2013. In cooperation with the Volkswagen corporation, new models will be launched in the Russian GAZ factory in Nizhny Novgorod. ŠKODA AUTO is planning to expand its product portfolio in China as well. Due to the growing demand for DQ 200 transmissions, production capacity will be increased in the Vrchlabí plant in 2013.

Environmental Protection

ŠKODA AUTO is continually reducing the environmental impact of its production processes, and has been doing so for a number of years. Since February 2012, the sustainable development of the Company has been given an even stronger impetus by a dedicated project entitled GreenFuture. By 2018, the environmental impact of the Company's production will be lowered by 25 per cent compared to 2010. GreenFuture focuses on five parameters, including energy and water usage, CO_2 emissions, waste amount and volatile organic compounds (VOC). These parameters are continually analysed. On the basis of these data, measures for improvement are developed and implemented.

Markets, sales and marketing

ŠKODA AUTO will strive in 2013 to boost its market shares and sales in the key markets. To achieve this target, the Company will pay special attention not only to the traditional markets, but also to the strategic countries Russia, China and India. The main objectives in 2013 will be the successful implementation of the new generation of the ŠKODA Octavia onto the markets, the ramp-up of the completely new body variant of ŠKODA Rapid, and the establishment of the freshly introduced models ŠKODA Citigo and ŠKODA Rapid.
To improve the presence of the ŠKODA brand in the major markets, a new corporate design will be introduced gradually in the global sales network in 2013. The network will be further extended in all the growth markets. Plus, the second stage of the "Human Touch" initiative will be implemented, which will enable continued improvement of our individual approach to customers throughout the ŠKODA sales and services network.

Employees

In 2013, ŠKODA AUTO will focus on retaining key employees and increasing flexibility in particular. The Company will concentrate on enhancing employee skills and preparing them for future challenges. A further priority will be talent management, aiming at creating the necessary personnel requirements for implementing the Company's global internationalisation and growth strategy. ŠKODA AUTO is primarily interested in highly qualified applicants with excellent language skills for careers within its global network of production companies. In light of the volatility on the global markets, the Company will focus on human resources planning. Major attention will be paid – apart from the quantitative planning – to high quality of personnel planning, which is essential for the recruitment of employees in highly qualified professions, who are generally in short supply. Due to that fact the development of the in-house resources is of fundamental importance. The Company will also step up its efforts to support women in the workplace, as it sees major potential in this area. A further priority for HR is to provide training for the largest possible number of workers. The main focus here is on cooperation with foreign universities and strengthening personnel marketing activities in Russia, China and India, as well as more extensive cooperation with the cities and regions where ŠKODA AUTO plants are located and further enhancing its attractiveness as the TOP employer for life.

Finance

The ŠKODA AUTO Group will continue to renew its model range in 2013. The costs associated with the launch of the new ŠKODA Octavia and the end of the production of its predecessor will effect the year 2013. However, these investments are important for the future of ŠKODA AUTO.
The ŠKODA AUTO Group aims to achieve solid financial figures in 2013. Product cost optimisation and maintaining the productivity will count among the measures in place to ensure the Company's financial goals. The focus will be on cost and liquidity management through strict monitoring of cost targets, optimised use of working capital and continuous tracking of all investments.

Milestones of the year 2012

January

12 January	Opening of three additional training centres
30 January	Production of the fourteen-millionth ŠKODA brand vehicle

February

3 February	Everyday road testing begins for a fleet of ŠKODA Octavia Green E Line cars

March

2 March	ŠKODA AUTO helps plant 363,000 trees as part of its "One planted tree for each car sold in the Czech Republic" project
5 March	World premiere of ŠKODA Citigo model with 5-door body at Geneva Motor Show
14 March	ŠKODA the most successful brand in the Best Cars 2012 survey
21 March	ŠKODA AUTO publishes the results for 2011 at the annual press conference in Prague

April

2 April	Official presentation of the fleet for the IIHF Ice Hockey World Championship
23 April	ŠKODA MissionL China introduced at the Beijing Motor Show
30 April	ŠKODA AUTO main sponsor of the Ice Hockey World Championship IIHF for 20 consecutive years

May

4 May	Production of the three-millionth ŠKODA Fabia
9 May	The Prague Castle Administration accepts a ŠKODA Octavia Green E Line electric vehicle for testing
15 May	World premieres of the ŠKODA Citigo Rally and ŠKODA Citigo DJ Car studies at the GTI meeting on Wörthersee
24 May	Delivery of the ŠKODA Octavia Green E Line electric car to the Faculty of Transportation Sciences of Czech Technical University in Prague for testing

June

18 June	A ŠKODA AUTO employee and his family test a ŠKODA Octavia Green E Line vehicle in everyday operation
19 June	First place in the CZECH TOP 100 competition to find the most successful company
22 June	Manufacturing jubilee in Kvasiny plant: 500,000th ŠKODA Superb vehicle leaves the line
28 June	ŠKODA AUTO once again main sponsor of the Tour de France in 2012

July

4 July	Five-year anniversary of ŠKODA production in China
9 July	Presentation of the new ŠKODA Rapid model to journalists from around the world in Slovakia
24 July	Opening of new training centre for employees, the Lean Centre

August

8 August	ŠKODA Octavia Green E Line vehicles in the service of ČEZ company and the Ministry of Environment of the Czech Republic
23 August	Start of serial production of ŠKODA Rapid
24 August	Worldwide premiere of the ŠKODA Yeti Sochi action model at the Moscow Motor Show
30 August	ŠKODA Citigo in show rooms also with the robotized transmission ASG

September

11 September	ŠKODA AUTO completes construction of its new automatic rack warehouse in ŠKODA Parts Centre in Mladá Boleslav
24 September	ŠKODA Citigo wins the Economy Run 2012 competition with a mere 2.97 litres/100 km consumption
25 September	Construction of a new engine testing centre begins in Mladá Boleslav
29 September	World premiere of the ŠKODA Rapid at the Paris Motor Show

October

6 October	Open House at the ŠKODA AUTO plant in Kvasiny
15 October	ŠKODA AUTO plant in Vrchlabí begins production of the DQ 200 transmission
18 October	ŠKODA AUTO awarded the title "Employer of the decade" in the Czech Republic
22 October	Presented with an award at the international design competition for automobile brands, "Automotive Brand Contest 2012"
31 October	ŠKODA Yeti launch in Laurin & Klement version in the market

November

4 November	ŠKODA wins the IRC brand and racer titles for the third time
7 November	ŠKODA AUTO awarded "Investor of the past two decades" title in the Czech Republic
12 November	Launch of the first private half-year test of ŠKODA Octavia Green E Line
22 November	Chinese premiere of ŠKODA Superb GreenLine model at AUTO GUANGZHOU 2012
26 November	Opening of new interactive ŠKODA Muzeum in Mladá Boleslav
28 November	ŠKODA Rapid received five stars from Euro NCAP for safety

December

3 December	Production of new generation of gasoline engines EA211 launched in Mladá Boleslav
6 December	Production of ŠKODA Yeti model launched in Nizhny Novgorod, Russia
8 December	ŠKODA brand officially receives the cups for victories in the European and Asia-Pacific rally championships from the FIA
11 December	Static presentation in Mladá Boleslav of the new generation of ŠKODA Octavia vehicles
17 December	Serial production of a new generation of ŠKODA Octavia launched
17 December	ŠKODA AUTO awarded the title "Exporter of the year 2012"

Financial Section

Financial Section

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

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

We have audited the separate financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") for the year ended 31 December 2012 disclosed in the annual report on pages 108 to 167 and issued the opinion dated 14 February 2013 and disclosed on pages 106 and 107. We have also audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012 disclosed in the annual report on pages 46 to 105 and issued the opinion dated 14 February 2013 and disclosed on pages 44 and 45 (hereinafter collectivelly referred to as "the financial statements").

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2012 is consistent with the financial statements referred to above. The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

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

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2012 is consistent, in all material respects, with the financial statements.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic,
Identification Number: 765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2012 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

7 March 2013

PricewaterhouseCoopers Audit, s.r.o.

represented by

Jiří Zouhar
Partner

Pavel Kulhavý
Statutory Auditor, Licence No. 1538

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

Auditor's report on the consolidated financial statements

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

We have audited the accompanying consolidated financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies ("the consolidated financial statements").

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal controls 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.

Auditor's Responsibility

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

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Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, 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.

14 February 2013

PricewaterhouseCoopers Audit, s.r.o.

represented by

Jiří Zouhar	Pavel Kulhavý
Partner	Statutory Auditor, Licence No. 1538

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

Consolidated financial statements for the year ended 31 December 2012

Consolidated income statement for the year ended 31 December 2012 (CZK million)

	Note	2012	2011
Sales	**17**	**262,649**	**252,562**
Cost of sales	26	221,751	215,956
Gross profit		**40,898**	**36,606**
Distribution expenses	26	19,179	17,549
Administrative expenses	26	6,855	6,123
Other operating income	18	10,122	10,040
Other operating expenses	19	7,069	4,717
Operating profit		**17,917**	**18,257**
Financial income		1,689	2,757
Financial expenses		2,944	1,966
Financial result	**20**	**(1,255)**	**791**
Share on profit / (loss) of associates		1,272	227
Profit before income tax		**17,934**	**19,275**
Income tax expense	22	2,580	3,200
Profit for the year		**15,354**	**16,075**
Attributable to:			
Owner of the Company		15,354	16,035
Non-controlling interests		–	40
		15,354	**16,075**

The notes on pages 51 to 105 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2012 (CZK million)

	Note	2012	2011
Profit for the year		**15,354**	**16,075**
Cash flow hedges	12	1,780	(4,923)
Exchange differences	12	(155)	54
Other comprehensive income / (loss)		**1,625**	**(4,869)**
Total comprehensive income for the year		**16,979**	**11,206**
Total comprehensive income attributable to:			
Owner of the Company		16,979	11,179
Non-controlling interests		–	27

The notes on pages 51 to 105 are an integral part of these consolidated financial statements..

Consolidated balance sheet as at 31 December 2012 (CZK million)

	Note	31 December 2012	31 December 2011
Assets			
Intangible assets	5	18,782	13,654
Property, plant and equipment	6	56,288	46,265
Investments in associates	7	2,200	940
Other receivables and financial assets	8	4,196	1,159
Deferred tax asset	14	2,027	2,668
Non-current assets		**83,493**	**64,686**
Inventories	9	18,619	16,061
Trade receivables	8	12,015	13,423
Prepaid income tax		447	60
Other receivables and financial assets	8	4,945	28,076
Cash and cash equivalents	10	40,467	31,251
Current assets		**76,493**	**88,871**
Total assets		**159,986**	**153,557**

	Note	31 December 2012	31 December 2011
Equity and liabilities			
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	72,511	64,301
Other reserves	12	108	(1,517)
Equity attributable to owner of the Company		**90,906**	**81,071**
Non-controlling interests		–	140
Equity		**90,906**	**81,211**
Non-current financial liabilities	13	3,000	3,000
Other non-current liabilities	13	5,483	7,317
Non-current provisions	15	10,693	11,030
Non-current liabilities		**19,176**	**21,347**
Current financial liabilities	13	107	141
Trade payables	13	30,807	30,105
Other current liabilities	13	5,933	6,258
Current income tax liabilities		71	1,217
Current provisions	15	12,986	13,278
Current liabilities		**49,904**	**50,999**
Total equity and liabilities		**159,986**	**153,557**

The notes on pages 51 to 105 are an integral part of these consolidated financial statements..

Consolidated statement of changes in equity for the year ended 31 December 2012 (CZK million)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Equity attributable to owner of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2011		**16,709**	**1,578**	**52,968**	**3,339**	**74,594**	**178**	**74,772**
Profit for the year		–	–	16,035	–	16,035	40	16,075
Other comprehensive income / (loss)		–	–	–	(4,856)	(4,856)	(13)	(4,869)
Total comprehensive income for the year		–	–	16,035	(4,856)	11,179	27	11,206
Dividends paid	11	–	–	(4,702)	–	(4,702)	(65)	(4,767)
Balance as at 31 December 2011		**16,709**	**1,578**	**64,301**	**(1,517)**	**81,071**	**140**	**81,211**
Balance as at 1 January 2012		**16,709**	**1,578**	**64,301**	**(1,517)**	**81,071**	**140**	**81,211**
Profit for the year		–	–	15,354	–	15,354	–	15,354
Other comprehensive income / (loss)		–	–	–	1,625	1,625	–	1,625
Total comprehensive income for the year		–	–	15,354	1,625	16,979	–	16,979
Dividends paid	11	–	–	(7,144)	–	(7,144)	–	(7,144)
Disposal of a subsidiary	29	–	–	–	–	–	(140)	(140)
Balance as at 31 December 2012		**16,709**	**1,578**	**72,511**	**108**	**90,906**	**-**	**90,906**

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

The notes on pages 51 to 105 are an integral part of these consolidated financial statements..

Consolidated cash flow statement for the year ended 31 December 2012 (CZK million)

	Note	2012	2011
Cash and cash equivalents as at 1 January	**16**	**31,251**	**35,986**
Profit before income tax		17,934	19,275
Depreciation and impairment of non-current assets	5, 6	11,932	12,746
Change in provisions		(910)	3,875
Gain on disposal of non-current assets		(10)	(11)
Net interest (income) / expense	20	251	53
Change in inventories		(3,747)	(1,937)
Change in receivables		1,623	(3,701)
Change in liabilities		1,219	2,355
Income tax paid from operating activities		(4,068)	(3,561)
Interest paid		(614)	(531)
Interest received		694	652
Share on (profit) / loss of associates		(1,272)	(227)
Income from other investments	20	(84)	(125)
Unrealised (gains) and losses from derivatives and other adjustments for non-cash transactions		715	(612)
(Gain) / loss on disposal of a subsidiary	29	(220)	–
Cash flows from operating activities		**23,443**	**28,251**
Purchases of non-current assets		(18,921)	(13,558)
Additions to capitalised development costs	5	(6,104)	(3,306)
(Increase) / decrease in short-term deposits*	8	21,533	(11,500)
Increase in long-term deposits	8	(3,033)	–
Proceeds from sale of non-current assets		44	14
Proceeds from other investments		84	125
Net cash inflow / (outflow) on disposal of a subsidiary	29	(635)	–
Cash flows from investing activities		**(7,032)**	**(28,225)**
Net cash flows (operating and investing activities)		**16,411**	**26**
Dividends paid		(7,144)	(4,767)
Loans received	13	–	33
Repayments of loans received		(33)	(120)
Cash flows from financing activities		**(7,177)**	**(4,854)**
Net change in cash and cash equivalents		**9,234**	**(4,828)**
Exchange gains / (losses) on cash and cash equivalents		**(18)**	**93**
Cash and cash equivalents as at 31 December	**16**	**40,467**	**31,251**

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

The notes on pages 51 to 105 are an integral part of these consolidated financial statements..

Notes to the consolidated financial statements 2012

Company information

Foundation and company enterprises

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

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

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

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

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

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

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

Note

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

1. Summary of significant accounting policies and principles

1.1 Compliance statement

The consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries (together "the Group") for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2012.
Based on the Company's sole shareholder's decision and under the paragraph 23a Article 2 of Act No. 563/1991 Coll. on Accounting, the Group prepares the consolidated financial statements in accordance with IFRS as adopted by the European Union.
Refer to the Company information in the preceding note "Company information".

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

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on 1 January 2012

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2012, which are applied by the Group:

IFRS	Standard/Interpretation	Effective	Description	Effect
IFRS 7	Financial Instruments: Disclosures Transfers of Financial Assets	1 July 2011	The amendment enhances the disclosure requirements related to transactions including a transfer of financial assets.	The improvement had an impact on the extent of disclosures in respect of the credit risk. The Group has newly disclosed its continuing involvement relating to the derecognised factored receivables and the related maximum exposure to the credit risk in a separate subnote 3.1.6.

There are no other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on or after 1 January 2012 which have material impact on the consolidated financial statements of the Group.

* The effective dates express the dates effective for the Group.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on or after 1 January 2012

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

IFRS	Standard/Interpretation	Effective	Description	Effect
IFRS 9	Financial instruments	1 January 2015*	IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and changes also some disclosure requirements as set out by IFRS 7. Per IFRS 9, all financial assets, currently within scope of IAS 39, are required to be classified into two measurement categories – those to be measured subsequently at amortised cost, and those to be measured subsequently at fair value.	The Group expects that the new IFRS 9 will have impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. However, without a detailed analysis it is not possible to perform reliable estimate of such impact as at the date of the financial statements. The Group does not expect early adoption of the standard, while the transition to IFRS 9 will probably take place after 1 January 2015. The disclosure of information in the area of financial instruments will be ruled by IFRS 7 §44S-44W.
IFRS 13	Fair value measurement	1 January 2013	Aim of the new standard is to reduce complexity, improve consistency and clarify approach to disclosure of items in the financial statements carried at fair value. The standard clearly defines fair value and gives instruction for its application in case the fair value measurement is required or allowed by another IFRS. A definition of the fair value and a single source of fair value measurement and disclosure requirement for use across IFRSs.	The Group expects that the new standard IFRS 13 will have impact on measurement of items carried at fair value through profit or loss. However, without a detailed analysis it is not possible to perform reliable estimate of such impacts at the date of the financial statements.
IAS 1	Presentation of Financial Statements/Disclosure of items presented in other comprehensive income	1 July 2012	The amendments deal with disclosure of items presented in other comprehensive income. The amendments newly require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Information to the user will be provided what proportion of total comprehensive income will never be reclassified to profit or loss for the period.	The Group expects that the amendments to IAS 1 will have impact on the extent of the disclosure of information in the Statement of comprehensive income.
IAS 19	Employee benefits/Changes to the recognition and measurement of defined benefit pension expense and termination benefits	1 January 2013	Amendment to IAS 19 makes changes to the recognition and measurement of defined benefit pension expense and termination benefits. The standard requires recognition of all changes in the defined benefit liability and assets of the plans when they occur, introduces extended disclosures for information about defined benefit plans and adjust accounting for termination benefits and clarifies many issues including classification of employee benefits.	The Group expects that the amendment to IAS 19 will have impact mainly on presentation of benefits upon employment termination. However, without a detailed analysis it is not possible to perform reliable estimate of such impacts at the date of the financial statements.

* Not yet adopted by the European Union as at 31 December 2012 (the specified date relates to effective date as per IASB).

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

IFRS	Standard/Interpretation	Effective	Description
IFRS 1	Government Loans	1 January 2013*	The amendment deals with loans received from governments at a below market rate of interest, by first-time adopters of IFRSs giving them relief from full retrospective application of IFRSs.
IFRS 7	Financial Instruments: Disclosures/Offsetting Financial Assets and Financial Liabilities	1 January 2013	The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
IFRS 10	Consolidated Financial Statements	1 January 2014	IFRS 10 Consolidated Financial Statements replaces previous IAS 27 and SIC-12. The new standard follows up the current principles to determine control, focuses on clarification of the definition of control, while the rules for status of control are substantially extended.
IFRS 11	Joint Arrangements	1 January 2014	IFRS 11 fully replaces IAS 31 and SIC-13. Substantial change introduced by the new standard is elimination of jointly controlled assets and elimination of proportionate consolidation.
IFRS 12	Disclosure of Interest in Other Entities	1 January 2014	IFRS 12 deals with all disclosure requirements in respect of interests held in other reporting entities and replaces the previous standard IAS 27. The scope of the standard includes interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (formerly "special purpose entities").
IAS 27	Separate Financial Statements	1 January 2014	This standard replaces previous standard IAS 27. Requirements for separate financial statements remained without changes. Other parts of IAS 27 were replaced by IFRS 10.
IAS 28	Investments in Associates and Joint Ventures	1 January 2014	The amendment of IAS 28 modified the standard so that changes resulting from issuance of standards IFRS 10, IFRS 11 and IFRS 12 are reflected.
IAS 32	Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014	The amendments to IAS 32 deals with offsetting financial assets and liabilities. It clarifies conditions under which the offsetting may be applied.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	The new interpretation IFRIC 20 deals with presentation of stripping costs in the production phase of a surface mine, the initial measurement and subsequent measurement of the stripping activity asset.
IFRS 10, IFRS 11, IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities - Transition Guidance Amendments	1 January 2013*	The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and define the first day of the adoption of IFRS 10. The amendments determine under which conditions an entity must restate its consolidated figures retrospectively when adopting IFRS 10. The amendments also provide additional transition relief in respect of requirements of IFRS 10, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities.
IFRS 10, IFRS 12, IAS 27	Consolidated Financial Statements, Disclosure of Interest in Other Entities - Transition Guidance Amendments and Separate Financial Statements - Amendment	1 January 2014*	The amendment introduced a definition of an investment entity. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

* Not yet adopted by the European Union as at 31 December 2012 (the specified date relates to effective date as per IASB).

Improvements to International Financial Reporting Standards issued in 2009-2011, mandatory for accounting periods beginning on or after 1 January 2013*:

IFRS	Standard/Interpretation	Effective	Description
IFRS 1	First-time adoption of International Financial Reporting Standards/ Repeated Application	1 January 2013	The amendment clarifies conditions under which an entity may apply IFRS 1 when resuming preparing its financial statements under IFRS, including the requirement to disclose the reasons for the interruption and the resumption of preparation of financial statements under IFRS.
IFRS 1	First-time adoption of International Financial Reporting Standards/ Borrowing Costs	1 January 2013	The amendment defines the presentation of borrowing costs capitalised under previous GAAP prior to the date of transition to IFRS, and presentation of borrowing costs relating to qualifying assets already under construction or production incurred at the date of transition to IFRS and after.
IAS 1	Presentation of Financial Statements/ Clarification of requirements for additional comparative statements	1 January 2013	The amendment clarifies the requirements for presentation of additional comparative statements.
IAS 16	Property, Plant and Equipment/ Classification of servicing equipment	1 January 2013	The amendment points out that stand-by equipment and servicing equipment shall be classified as plant and equipment if they meet the definition of plant and equipment.
IAS 32	Financial Instruments: Presentation/ Tax Consequences of Distributions to Owners	1 January 2013	The amendment specifies that income tax consequences relating to distribution to holders of an equity instrument and relating to transaction costs should be accounted for in accordance with IAS 12 Income Taxes.
IAS 34	Interim Financial Reporting / Disclosure of a measure of total assets and liabilities for an operating segment	1 January 2013	The amendment provides guidance in which cases disclosure of a measure of total assets and liabilities for a particular reportable segment is required in the entity's interim financial statements.

* Not yet adopted by the European Union as at 31 December 2012 (the specified date relates to effective date as per IASB).

2. Basis of preparation of consolidated financial statements

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

2.1 Details of the Group

In addition to ŠKODA AUTO a.s. located in Mladá Boleslav, the Group include all significant subsidiaries.
See the "Company information" note on page 51 for the Company's details.
Subsidiaries are those companies and other entities (including special purpose entities) in which a parent company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. These companies ("subsidiaries") are fully consolidated from the date on which the control is transferred to the Group and are deconsolidated from the date that control ceases.
On 1 January 2012, the Company sold its 51% share in the subsidiary Skoda Auto Polska S.A. to parent company Volkswagen International Finance N.V. (see Note 11). As a result, the Company has lost the entire interest in the subsidiary Skoda Auto Polska S.A. More detailed information about the disposal of the subsidiary is included in Note 29.
The significant subsidiaries controlled by the Company as at 31 December 2012:
- ŠKODA AUTO Deutschland GmbH (100%);
- ŠKODA AUTO Slovensko, s.r.o. (100%);
- Skoda Auto India Private Ltd. (100%).

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.
The ŠKODA AUTO a.s had significant influence as at 31 December 2012 in the associates (see Note 7):
- OOO VOLKSWAGEN Group Rus,
- ŠKO-ENERGO FIN, s.r.o.

2.2 Consolidation principles

The subsidiaries are consolidated using the full-scope consolidation method. Assets and liabilities of the subsidiaries are recognised in the consolidated financial statements in accordance with the uniform accounting policies used within the Group.
The acquisition method of accounting was used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Group measured non-controlling interest that represented present ownership interest and entitled the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.
Goodwill was measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") was recognised in profit or loss, after management reassessed whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviewed appropriateness of their measurement. The consideration transferred for the acquiree was measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed.
Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Investments in associates are accounted for using the equity method of accounting, and were initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any.

The Group's share of post-acquisition profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates and its share of other comprehensive income is recognised in consolidated other comprehensive income. All other post-acquisition changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

2.3.1 Functional of the Company and presentation currency of the Group

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

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

2.3.2 Foreign subsidiaries and associates

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is disposed of, exchange differences that were recorded in other comprehensive income are recognised in the income statement as part of the gain or loss on sale.

Foreign subsidiaries and associates are subject to legal and accounting regulations in their respective country. The respective local currency is their functional currency. The exchange rates published by the Czech National Bank were used when incorporating their financial statements into the consolidated financial statements of the Group:

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

	CZK/Currency	2012	2011
Balance sheet foreign exchange rates as at 31 December			
Poland	PLN	6.172	5.789
India	INR	0.347	0.376
Slovakia, Germany	EUR	25.140	25.800
Russia	RUB	0.625	0.618

2.4 Intangible assets

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

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

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.
Intangible assets not yet available for use are tested annually for possible impairment and are carried at cost less accumulated impairment losses.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less cumulative depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.
All repairs and maintenance costs are charged to the income statement during the reporting period in which they are incurred. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The cost of qualifying tangible assets also includes borrowing costs represented by interest and other costs that an entity incurs in connection with borrowing of funds. A qualifying asset is an asset that necessarily takes at least one year to get ready for its intended use. The Group ceases capitalising of borrowing costs when the qualifying asset is ready for its intended use or sale.
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives as follows:

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

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

2.6 Impairment of assets

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

2.7 Financial instruments

2.7.1 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management of the Group determines the classification of its financial assets at initial recognition.
Purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets, with the exception of financial assets carried at fair value through profit or loss, are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Equity instruments that do not have quoted prices in an active market and their fair value cannot be reliably measured are valued at cost net of impairment, if any. Long-term loans and receivables are carried at amortised cost using the effective interest method.
The Group determines at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets which are not carried at fair value through profit or loss is impaired. Initially the Group determines, in line with IAS 39, if objective evidence exists that individually material financial assets are impaired and performs the same assessment individually or collectively for individually immaterial financial assets. In the event that the Group does not find objective evidence of impairment for individually assessed financial assets, whether material or not, these assets are included in the group of financial assets with common credit risk characteristics and the group of financial assets is assessed collectively for impairment. Individual assets for which objective evidence of impairment has been identified are not included in a group of assets that are assessed collectively for impairment.
In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.
Trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Group will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quanti-

fied on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable. The creation of the allowance is recognised in the income statement within Other operating expenses. When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit or loss and the allowance is utilised.
Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management of the Group. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial assets valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting periods 2012 and 2011, the Group only had financial derivatives within this category (Note 2.7.3).

b) Loans and receivables

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

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Dividend income from these activities is included in financial income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as financial income or expenses.
In the accounting period 2012 (2011), the Group only had, within the category of available-for-sale financial assets investments to equity instruments that did not have a quoted price in an active market.

2.7.2 Financial liabilities

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

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2012 (2011), the Group only had financial derivatives in this category (Note 2.7.3).

b) Financial liabilities measured at amortised cost

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

2.7.3 Financial derivatives

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

The Group uses derivatives to hedge future cash flows. The hedged items are as follows:
– Highly probable future transactions.

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

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

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

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

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

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

2.8 Current and deferred income tax

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

2.8.1 Current income tax

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

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

2.8.2 Deferred income tax

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

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

In accordance with IAS 12, deferred tax assets and liabilities are offset if the deferred tax assets and liabilities relate to income tax is levied by the same taxation authority, and where the companies of the Group have the enforceable right to offset the current tax assets and liabilities.

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

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

2.9 Inventories

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

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

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

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

2.10 Provisions for long-term employee benefits

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

- service jubilee;
- other long-service benefits.

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

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

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

2.11 Other provisions

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

2.12 Revenue and expense recognition

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

2.13 Leases

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

2.14 Investment incentives and subsidies

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

2.15 Related parties

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

2.16 Share capital

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

2.17 Critical accounting estimates and assumptions

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

Capitalisation of development costs

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

Impairment of non-current assets

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

Provision for warranty claims

The Group recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially good-will repairs (the 3rd and the 4th year). The Group recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines.
The amount of the rate for the basic guarantee is determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups

development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair trademark policy with regard to specifics of individual countries.
The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end.
More detailed information about the provision for warranty claims is included in Note 15.

Provision for litigation risks

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

Useful lives

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

3. Financial risk management

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

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss to other party by failing to discharge an obligation.
Credit risk arises in the normal course of the Group's operations, as well as through activities connected with financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by the Group Treasury through determination of maximal limits for individual counterparties.
The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. In assessing these risks, attention is paid to the country in which the headquarters of the counterparties are situated.

The credit rating of these countries is monitored closely and attention is focused on the analysis of macro-economic indices. Apart from the Volkswagen Group's Risk Management Department, the Group also uses the services of external agencies (D&B, Creditreform, Reuters, etc.).
The acceptance of new business partners is reliant on standard approval procedures. The Group's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis. Adhering to these limits is monitored and evaluated on a regular basis.
Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers and Volkswagen Group entities. Receivables are secured by preventative and supplemental instruments.
Receivables secured by preventative security instruments are used mainly when the customer contracts are concluded. An obligatory security instrument incorporated in the written contracts is interest on default payments and furthermore selected trade receivables are secured by an ownership title to the sold goods until full settlement of the purchase price.
Trade receivables from Volkswagen Group companies and from associates are considered to bear the least risk. Therefore the supplies of goods are performed on credit terms or the receivables are transferred to a factor through factoring.
Trade receivables from customers located abroad include receivables from general importers and other customers. The receivables from general importers are secured by the following instruments: payments in advance, letters of credit, documentary collection, bank guarantees, standby letters of credit and transfer of receivables to factoring. Only an immaterial part of receivables from other customers arises on credit terms.
Receivables from domestic customers are divided into two groups: receivables from contractual partners bound by sales or service agreements, and from other domestic customers. The receivables arising from sales of new and used vehicles to contractual partners are transferred to factoring. Credit limits are set up for the supplies of new and used vehicles, original parts and accessories. Deliveries of goods are automatically blocked in case the customer fails to settle outstanding balances on maturity and upon the set limit is exceeded. Only an immaterial part of supplies to other domestic customers is realised on credit terms.
Different combinations of the following instruments are used as an additional security of high-risk receivables: confirmation of debt prolonging the statute of limitation, payment schedules, bills of exchange, pledges, or executory notes.
Loans to employees are secured by other employee guarantees.
As at 31 December 2012 (as at 31 December 2011), the Group did not hold any collateral for loans given.

3.1.1 Maximum exposure to credit risk (CZK million)

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

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

	Carrying amount as at 31 December 2011			
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Impaired financial assets	Total
Loans to employees	542	–	–	542
Deposits in companies within Volkswagen Group	49,088	–	–	49,088
Positive fair value of financial derivatives	1,851	–	–	1,851
Other receivables and financial assets	457	–	–	457
Trade receivables	12,010	1,393	20	13,423
Cash	3,703	–	–	3,703
Total	**67,651**	**1,393**	**20**	**69,064**

The line item Deposits in companies within Volkswagen Group companies includes deposits with original maturity from three months to one year in total amount of CZK 0 million (as at 31 December 2011: CZK 21,540 million) and deposits with original maturity from one year to five years in total amount of CZK 3,033 million (as at 31 December 2011: CZK 0 million) included in balance sheet in the line Other receivables and financial assets (see Note 8), and deposits with original maturity less than three months in total amount of CZK 35,098 million (as at 31 December 2011: CZK 27,548 million) included in balance sheet in the line Cash and cash equivalents (see Note 10).
The amount of guarantees provided by the Group is CZK 51 million as at 31 December 2012 (as at 31 December 2011: CZK 51 million).
In the following table, the reported figures represent either the carrying value of secured trade receivables, or the collateral value if this value is lower, determined individually for each instrument:

CZK million	2012	2011
Retention of legal ownership title to sold cars	1,060	2,403
Bank guarantees	1,217	1,761
Letters of credit	1,287	1,230
Documentary collection	190	235
Accepted deposit	19	19
Total	**3,773**	**5,648**

3.1.2 Risk concentration

The Group monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Group to foreign exchange risk is disclosed in Note 3.4.1. During the accounting period 2012 (2011), the Group did not identify a significant risk concentration on the basis of distribution region.
A significant portion of financial assets is of an intra-group nature. The Group deposited free cash through Volkswagen Group companies (as in 2011).
The total volume of short-term deposits with Volkswagen Group companies amounted to CZK 39,359 million as at 31 December 2012 (as at 31 December 2011: CZK 49,811 million), out of which:

- deposits with original maturity from three months to one year included in balance sheet in the line Other receivables and financial assets (see Note 8) in total amount of CZK 0 million (as at 31 December 2011: CZK 21,540 million),
- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 35,098 million (as at 31 December 2011: CZK 27,548 million), and
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 4,261 million (as at 31 December 2011: CZK 723 million).

In addition to the above mentioned short-term deposits with Volkswagen Group companies, the Group free cash was also deposited for a period exceeding one year in 2012. The total volume of the long-term deposit amounted to CZK 3,033 million as at 31 December 2012 (as at 31 December 2011: CZK 0 millions) and is included in balance sheet in the line Other receivables and financial assets (see Note 8).

In 2012 (2011), the Group did not consider it probable that a default could occur in connection with the free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

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

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

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

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2011			
Loans to employees	542	–	542
Deposits in companies within Volkswagen Group	49,088	–	49,088
Positive fair value of financial derivatives	1,851	–	1,851
Other receivables and financial assets	457	–	457
Trade receivables	10,743	1,267	12,010
Cash	3,703	–	3,703
Total	**66,384**	**1,267**	**67,651**

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

	Months past due			
	Less than 1 month	1-3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2012	**1,553**	**196**	**158**	**1,907**
Balance as at 31 December 2011	935	158	300	1,393

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Group did not identify any need for impairment of these receivables. Out of the total amount of receivables from group companies which were past due as at 31 December 2011 (CZK 868 million), CZK 26 million were still not paid as at 31 December 2012.

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

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

	2012	2011
Other receivables and financial assets		
Gross balance as at 31 December	151	152
Valuation allowance:		
Balance as at 1 January	(152)	(156)
Additions	–	–
Utilised	1	–
Released	–	4
Balance as at 31 December	**(151)**	**(152)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	375	385
Valuation allowance:		
Balance as at 1 January	(365)	(383)
Additions	(87)	(57)
Utilised	38	27
Released	53	48
Balance as at 31 December	**(361)**	**(365)**
Net balance as at 31 December	14	20

During the accounting period 2012 (2011), the Group had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2012 (2011), the Group had valuation allowances only on financial assets included in the category of loans and receivables.

3.1.6 Transferred financial assets where the Group has continuing involvement

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

3.2 Liquidity risk

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

Cash management

Since 2010, when the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS) located in Brussels, centralisation and optimisation of processes is ensured within the Volkswagen Group in the areas of cash management, payments system and liquidity management.
The GTP implementation resulted in changes in the system of outgoing and incoming payments. The outgoing payments are processed on behalf of the Group by VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS. The incoming payments are credited to Group's

Contractual maturity analysis (undiscounted amounts in CZK million)

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

bank accounts and subsequently at the end of each working day they are automatically transferred to VGS' bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS.
All incoming payments are translated into Czech crowns and credited to the Group's bank account at the "Inhouse Bank" (IHC) operated by VGS, where the differences between debit and credit balances on the collected financial resources are netted-off.
Major instruments of the Group used to maintain sufficient liquidity resources are represented by short-term and long-term financial plans, coordination of free liquidity management within the GTP, active cooperation with banks (credit lines) and monitoring of the situation at money market and capital market. Sufficient resources of liquidity are ensured mainly through resources from other Volkswagen Group companies integrated into the GTP and, to a limited extent, through credit lines arranged with external banks.
The total amount of credit lines from banks as at 31 December 2012 was CZK 1,710 million (as at 31 December 2011: CZK 9,583 million) out of which CZK 700 million was in Czech crowns and CZK 1,010 million was in foreign currency (INR 2,910 million). The Group has not utilised any agreed bank credit lines as at 31 December 2012 (as at 31 December 2011).
The credit line from the Volkswagen Group in the total amount of CZK 3,000 million was drawn in the whole amount as at 31 December 2012 (as at 31 December 2011).
The information about financial conditions of credit lines drawn is included in Note 13.

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Total
Balance as at 31 December 2011					
Cash	3,703	–	–	–	3,703
Deposits in companies within Volkswagen Group	43,627	5,516	–	–	49,143
Other receivables and financial assets (except derivatives)	420	143	364	94	1,021
Trade receivables	12,111	1,312	–	–	13,423
Financial liabilities	(172)	–	(3,276)	–	(3,448)
Trade payables	(26,128)	(3,562)	(115)	–	(29,805)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	4,305	20,500	13,913	–	38,718
Outflow of financial resources	(4,125)	(19,567)	(13,292)	–	(36,984)
Commodity swaps	5	10	92	–	107
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	11,642	26,496	65,514	–	103,652
Outflow of financial resources	(12,419)	(28,534)	(70,891)	–	(111,844)
Commodity swaps	(14)	(48)	(102)	–	(164)
Total	**32,955**	**2,266**	**(7,793)**	**94**	**27,522**

3.3 Market risk

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

3.3.1 Currency risk

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

3.3.2 Interest rate risk

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

3.3.3 Price risk

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

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

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

3.3.4 Derivative financial instruments

Nominal and fair value of derivatives (CZK million)

	Nominal value of derivatives				Fair value of derivatives			
	Balance as at 31 December 2012		Balance as at 31 December 2011		Balance as at 31 December 2012		Balance as at 31 December 2011	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Currency instruments								
Currency forwards for trading	24	155	–	–	–	10	–	–
Currency forwards – cash flow hedging	38,316	95,398	36,895	107,628	790	4,515	1,696	6,493
Currency swaps – cash flow hedging	8,486	4,195	1,632	4,193	179	94	50	277
Commodity instruments								
Commodity swaps for trading	140	–	–	–	31	–	–	–
Commodity swaps – cash flow hedging	844	1,137	1,243	1,468	129	83	105	160
Total	**47,810**	**100,885**	**39,770**	**113,289**	**1,129**	**4,702**	**1,851**	**6,930**

The fair values of financial derivatives fulfil the criteria of level 2 in compliance with the IFRS 7 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).

Volume of hedged cash flows (CZK million)

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

Balance as at 31 December 2011	Volume of hedged cash flows		
	Within 1 year	1-5 years	Total
Currency risk exposure			
Hedging of future cash flows – future receivables	49,167	70,354	119,521
Hedging of future cash flows – future liabilities	(15,289)	(10,596)	(25,885)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(609)	(1,921)	(2,530)
Total	**33,269**	**57,837**	**91,106**

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

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

The sensitivity analysis includes analysis of exposure arising from derivative financial assets and liabilities and unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates compared to those published by Czech National Bank. In 2012 (2011) the Group considers (considered) the movements of exchange rates EUR, USD, CHF and GBP against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK) as possible.

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

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

2012 (CZK million)	CZK appreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	881	(67)	(1)	3	(221)	595
Derivative financial instruments	–	(46)	2	(41)	(76)	(161)
Other comprehensive income						
Derivative financial instruments	(1,685)	2,906	1,978	3,706	3,503	10,408

2012 (CZK million)	CZK depreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	(881)	67	1	(3)	221	(595)
Derivative financial instruments	–	46	(2)	41	76	161
Other comprehensive income						
Derivative financial instruments	1,685	(2,906)	(1,978)	(3,706)	(3,503)	(10,408)

2011 (CZK million)	CZK appreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	767	(84)	(10)	5	(400)	278
Derivative financial instruments	10	(41)	2	(68)	(83)	(180)
Other comprehensive income						
Derivative financial instruments	(2,510)	2,307	2,436	3,323	3,739	9,295

2011 (CZK million)	CZK depreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	(767)	84	10	(5)	400	(278)
Derivative financial instruments	(10)	41	(2)	68	83	180
Other comprehensive income						
Derivative financial instruments	2,510	(2,307)	(2,436)	(3,323)	(3,739)	(9,295)

3.4.2 Sensitivity to interest rates

The Group is exposed to interest risk mainly in relation to short-term deposits provided to Volkswagen Group companies.

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

In 2012 (2011) the Group assumes (assumed) possible movements of the yield curve in the following period for short-term deposits provided to Volkswagen Group companies, bank deposits and currency forwards and swaps by +100/ -25 basis points. The Group is most sensitive to movements of the CZK yield curve.

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

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

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

2011 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Income statement		
Non-derivative financial instruments	454	(114)
Derivative financial instruments	91	(23)
Total	**545**	**(137)**

3.4.3 Sensitivity to changes in other price risks

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

In 2012 (2011), the Group assumes (assumed) potential movements in copper prices in the following period of +/- 20%. In 2012 (2011) the Group assumes (assumed) potential movements in aluminium prices in the following period of +/ -10%. In 2012 the Group assumes potential movements in lead prices in the following period of +/- 10%.

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

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

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

2011 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%	Increase of lead prices +10%	Decrease of lead prices (10)%
Income statement						
Derivative financial instruments	–	–	–	–	–	–
Other comprehensive income						
Derivative financial instruments	270	(270)	120	(120)	–	–

The possible impact on income statement of expected price increase or decrease of copper and aluminium was assessed by the Group as immaterial.

3.5 Capital risk management

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

CZK million	2012	2011
Equity	**90,906**	**81,211**
Equity ratio	56.8%	52.9%
Non-current financial liabilities	3,000	3,000
Current financial liabilities	107	141
Total financial liabilities	**3,107**	**3,141**
Ratio of financial liabilities to total equity and liabilities	1.9%	2.0%
Total equity and liabilities	**159,986**	**153,557**

4. Geographical information

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

2012 (CZK million)	**Czech Republic**	**Germany**	**Western Europe - Other**	**Central and Eastern Europe**	**Unallocated**	**Total**
Sales – based on location of customers	21,927	61,155	78,837	56,192	44,538	262,649
Non-current assets*	75,988	193	–	9	1,080	77,270

2011 (CZK million)	**Czech Republic**	**Germany**	**Western Europe - Other**	**Central and Eastern Europe**	**Unallocated**	**Total**
Sales – based on location of customers	22,084	64,184	83,877	47,661	34,756	252,562
Non-current assets*	59,871	187	–	38	763	60,859

* Non-current assets other than financial instruments and deferred tax assets.

5. Intangible assets (CZK million)

	Goodwill	**Capitalised development costs for products currently in use**	**Capitalised development costs for products under development**	**Other intangible assets**	**Total**
Costs					
Balance as at 1 January 2012	**77**	**21,710**	**5,385**	**8,493**	**35,665**
Additions	–	4,012	2,092	2,024	8,128
Disposals	–	–	–	(396)	(396)
Transfers	–	5,251	(5,251)	–	–
Foreign exchange differences	(2)	–	–	(7)	(9)
Balance as at 31 December 2012	**75**	**30,973**	**2,226**	**10,114**	**43,388**
Cumulative amortisation and impairment losses					
Balance as at 1 January 2012	**-**	**(16,369)**	**-**	**(5,642)**	**(22,011)**
Amortisation	–	(2,093)	–	(479)	(2,572)
Impairment losses	–	(404)	–	–	(404)
Disposals	–	–	–	375	375
Foreign exchange differences	–	–	–	6	6
Balance as at 31 December 2012	**-**	**(18,866)**	**-**	**(5,740)**	**(24,606)**
Carrying amount as at 31 December 2012	**75**	**12,107**	**2,226**	**4,374**	**18,782**

	Goodwill	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 2011	**75**	**24,577**	**2,143**	**6,879**	**33,674**
Additions	–	22	3,284	1,896	5,202
Disposals	–	(2,931)	–	(288)	(3,219)
Transfers	–	42	(42)	2	2
Foreign exchange differences	2	–	–	4	6
Balance as at 31 December 2011	**77**	**21,710**	**5,385**	**8,493**	**35,665**
Cumulative amortisation and impairment losses					
Balance as at 1 January 2011	**–**	**(16,228)**	**–**	**(4,477)**	**(20,705)**
Amortisation	–	(2,314)	–	(450)	(2,764)
Impairment losses	–	(758)	–	(998)	(1,756)
Disposals	–	2,931	–	288	3,219
Foreign exchange differences	–	–	–	(5)	(5)
Balance as at 31 December 2011	**–**	**(16,369)**	**–**	**(5,642)**	**(22,011)**
Carrying amount as at 31 December 2011	**77**	**5,341**	**5,385**	**2,851**	**13,654**

Other intangible assets include mainly tooling rights, software and software licences.
Amortisation and impairment losses of intangible assets of CZK 2,837 million (2011: CZK 4,371 million) are included in the cost of sales, CZK 20 million (2011: CZK 14 million) in distribution expenses, and CZK 119 million (2011: CZK 135 million) in administrative expenses.

Impairment reviews

Goodwill is allocated to ŠKODA AUTO Deutschland GmbH as the cash-generating unit for the purpose of impairment testing. The recoverable amount of a cash-generating unit is calculated based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management and covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate that does not exceed the long-term average growth rate for automotive industry. The expected growth rate for the impairment test in 2012 was 1% (2011: 1%). The discount rates used are pre-tax rates reflecting specific risks and characteristics of the segment where the cash-generating unit operates. For the year 2012, the discount rate of 5.6% (2011: 6.0%) was used.
The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Group's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and their potential impact on the carrying amount of the Group's non-current intangible assets. Due to substantial changes in the market environment, the Group has experienced in 2012 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Group's management.
For discounting cash flows, the discount rate of 6.6% has been applied in 2012 (2011: 6.8%), reflecting the specific risks associated with the sector in which the Group operates. For one cash-generating unit the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to intangible assets in the amount of CZK 404 million (2011 two cash-generating units: CZK 1,756 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2012 (31 December 2011).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2012, the Group applied the capitalisation rate of 4.53% (2011: 4.53%). No borrowing costs have been capitalised in the cost of intangible assets in 2012 or 2011 as they were not significant.

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

	2012	2011
Research and non-capitalised development costs	4,848	6,061
Amortisation and impairment losses of development costs	2,497	3,072
Research and development costs recognised in the income statement	**7,345**	**9,133**

6. Property, plant and equipment (CZK million)

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

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Advances paid and assets under construction	Total
Costs					
Balance as at 1 January 2011	**30,243**	**59,338**	**46,188**	**7,468**	**143,237**
Additions	969	1,539	986	8,760	12,254
Disposals	(64)	(1,932)	(1,360)	(2)	(3,358)
Transfers	456	2,793	623	(3,874)	(2)
Foreign exchange differences	(57)	(93)	(26)	(1)	(177)
Balance as at 31 December 2011	**31,547**	**61,645**	**46,411**	**12,351**	**151,954**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2011	**(12,063)**	**(50,363)**	**(38,452)**	**–**	**(100,878)**
Amortisation	(1,119)	(3,135)	(3,479)	–	(7,733)
Impairment losses	(7)	(18)	(468)	–	(493)
Disposals	25	1,933	1,355	–	3,313
Foreign exchange differences	13	80	9	–	102
Balance as at 31 December 2011	**(13,151)**	**(51,503)**	**(41,035)**	**–**	**(105,689)**
Carrying amount as at 31 December 2011	**18,396**	**10,142**	**5,376**	**12,351**	**46,265**

Depreciation and impairment losses of the buildings and equipment of CZK 8,215 million (2011: CZK 7,518 million) are included in the cost of sales, CZK 176 million (2011: CZK 180 million) in distribution expenses, and CZK 565 million (2011: CZK 528 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Group's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Group's non-current tangible assets. Due to substantial changes in the market environment, the Group has experienced in 2012 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Group's management.
For discounting cash flows, the discount rate of 6.6% or 6.8% in 2012 (2011: 6.8% or 7.3%) has been applied depending on the characteristics of individual cash-generating units. The discount rates reflect the specific risks associated with the sector in which the Group operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the total amount of CZK 222 million (2011: CZK 493 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2012 (31 December 2011).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2012, the Group applied the capitalisation rate of 4.53% (2011: 4.53%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2012 or in 2011 as they were not significant.

7. Investments in associates (CZK million)

	2012	2011
Total assets	62,273	52,911
Total liabilities	51,896	49,623
Total revenue	168,391	121,296
Profit / (loss) (aggregated)	7,419	1,600

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o.
The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2012 was 16.8% (31 December 2011: 16.8%).The Company's share of profits or losses of this associate for 2012 was 17.91% (2011: 17.91%). The Company exercises significant influence in the company OOO VOLKSWAGEN Group Rus based on the following factors: the Company is participating in policy-making processes, including participation in decisions about distribution of profit; material transactions are conducted between both companies; an interchange of managerial personnel takes places between both companies and the Company is providing essential technical information to the company OOO VOLKSWAGEN Group Rus.
The Company's share in the registered capital of the company ŠKO-ENERGO FIN as at 31 December 2012 was 31.25% (as at 31 December 2011: 31.25%). The value of the Company's share totalled CZK 529 million as at 31 December 2012 (as at 31 December 2011: CZK 529 million).
ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 83 million (2011: CZK 104 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Group's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Group's financial investments in associates. Based on performed analyses, no factors have been identified which would indicate a need to recognise impairment losses with an exception of future economic benefits arising from investment in the associate OOO VOLKSWAGEN Group Rus. The Group's management has therefore performed an impairment review of this cash-generating unit. Carrying value of the financial investment in the associate has been compared with the relevant recoverable amount. The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Group's management. Cash flows beyond the five years period have been extrapolated with estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. The applied discount rate is post-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2012, discount rate of 11.2% (2011: 9.5%) has been applied. The comparison of the carrying amounts with the relevant recoverable amount has not given rise to any impairment loss as at 31 December 2012 or 31 December 2011.

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

Balance as at 31 December 2012	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	573	–	–	–	573
Deposits in companies within Volkswagen Group	–	3,033	–	–	–	3,033
Positive fair value of financial derivatives	(29)	–	–	1,158	–	1,129
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	3,412	3,412
Others	–	58	–	–	932	990
Total	**(29)**	**3,664**	**4**	**1,158**	**4,344**	**9,141**
Trade receivables						
Third parties	–	3,311	–	–	–	3,311
Related parties	–	8,704	–	–	–	8,704
Total	**-**	**12,015**	**-**	**-**	**-**	**12,015**

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

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.7.3). As the spot component exceeded the fair value as at 31 December 2012, the forward component was negative.

Balance as at 31 December 2011	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	542	–	–	–	542
Deposits in companies within Volkswagen Group	–	21,540	–	–	–	21,540
Positive fair value of financial derivatives	(242)	–	–	2,093	–	1,851
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	4,405	4,405
Others	–	457	–	–	436	893
Total	**(242)**	**22,539**	**4**	**2,093**	**4,841**	**29,235**
Trade receivables						
Third parties	–	4,733	–	–	–	4,733
Related parties	–	8,690	–	–	–	8,690
Total	**–**	**13,423**	**–**	**–**	**–**	**13,423**

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

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.7.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component was negative.

The carrying amount of loans to employees and deposits in companies within Volkswagen Group approximates their fair value. The carrying amount net of impairment loss for each class of financial assets which are not carried at fair value approximates their fair value due to the short-term nature of these items.
The line Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 0 million (as at 31 December 2011: CZK 21,540 million) with original maturity from three months to one year and deposits in the amount of CZK 3,033 million (as at 31 December 2011: CZK 0) with original maturity from one year to five years. The weighted average effective interest rate based on the carrying amount of deposits with original maturity from three months to one year provided to Volkswagen Group companies as at 31 December 2012 was 0% (31 December 2011: 0.88%). The weighted average effective interest rate based on the carrying amount of deposits with original maturity from one year to five years provided to Volkswagen Group companies as at 31 December 2012 was 1.58% (31 December 2011: 0%).
All deposits provided to Volkswagen Group companies with original maturity from three months to five years are denominated in CZK.
Line Others in other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets. Cumulative impairment losses reflect the incurred risks of the debtors' delays or defaults. The allowance for the impairment of trade receivables of CZK 361 million (2011: CZK 365 million) has been deducted from presented carrying values of trade receivables. The carrying amount of trade receivables approximates the fair value at the balance sheet date after the valuation allowance is taken into account.

9. Inventories (CZK million)

	Carrying value as at 31 December 2012	Carrying value as at 31 December 2011
Structure of the inventories		
Raw materials, consumables and supplies	4,546	4,818
Work in progress	2,751	2,368
Finished products and goods	11,322	8,875
Total	**18,619**	**16,061**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2012 was CZK 215,088 million (2011: CZK 208,208 million).

10. Cash and cash equivalents (CZK million)

	2012	2011
Cash in hand	4	4
Cash pooling	4,261	723
Bank accounts	1,104	2,976
Cash equivalents	35,098	27,548
Total	**40,467**	**31,251**

The line Cash pooling also includes also overnight deposits from the use of cash pooling (Note 3.2). The line Cash equivalents includes deposits in Volkswagen Group companies with original maturity less than three months. These deposits are included in the portfolio Loans and receivables in terms of IAS 39.
The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2012 was 0.08% (as at 31 December 2011: 1.91%). The weighted average effective interest rate based on the carrying amount of deposits in Volkswagen Group companies with original maturity less than three months as at 31 December 2012 was 0.55% (as at 31 December 2011: 0.93%). Out of the total amount of deposits provided to Volkswagen Group companies with original maturity less than three months of CZK 35,098 million (as at 31 December 2011: CZK 27,548 million) there were deposits denominated in CZK in the amount of CZK 33,501 million (as at 31 December 2011: CZK 23,309 million), in EUR in the amount of CZK 0 million (as at 31 December 2011: CZK 3,484 million) and deposits denominated in INR in the amount of CZK 1,597 million (as at 31 December 2011: CZK 755 million).

11. Share capital

The issued share capital consists of 1,670,885 ordinary shares at a par value of CZK 10,000 per share. The Company's sole shareholder Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG.
There was no movement in the Group's share capital during the accounting period 2012 (2011).
The Company paid a dividend of CZK 7,144 million in 2012 (2011: CZK 4,702 million). The dividend per share was CZK 4,276 in 2012 (2011: CZK 2,814).

12. Other reserves and retained earnings (CZK million)

12.1 Other reserves

	2012	2011
Currency translation reserve	(502)	(347)
Reserves for cash flow hedges*	(2,766)	(4,546)
Statutory reserve fund	3,366	3,366
Funds contributed by owner	10	10
Total	**108**	**(1,517)**

* Net of deferred tax from financial derivatives

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

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

Balance as at 1 January 2011 (CZK million)	**377**
Total change in fair value in the period	(4,540)
Deferred tax on change in fair value	875
Total transfers to profit or loss in the period – effective hedging	(1,546)
Total transfers to profit or loss in the period – ineffective hedging	8
Deferred tax on transfers to profit or loss	280
Balance as at 31 December 2011	**(4,546)**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2012 presented in the line Other operating expense in amount of CZK 2,822 million (2011: CZK 1,076 million) and in the line Other operating income in amount of CZK 1,236 million (2011: CZK 2,622 million).

12.2 Retained earnings

From the total amount of the Group's retained earnings of CZK 72,511 million as at 31 December 2012 (as at 31 December 2011: CZK 64,301 million) unconsolidated profit for the year 2012 amounts to CZK 15,354 million (2011: CZK 16,075 million).
In compliance with the relevant regulations of the commercial code, the unconsolidated profit of the Company for the year 2012 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

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

Balance as at 31 December 2012	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and credits	–	3,107	–	–	3,107
Total	**-**	**3,107**	**-**	**-**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	505	–	4,197	–	4,702
Other tax liabilities (excl. income tax)	–	221	–	3,190	3,411
Liabilities to employees	–	–	–	1,857	1,857
Social security	–	–	–	454	454
Others	–	–	–	992	992
Total	**505**	**221**	**4,197**	**6,493**	**11,416**
Trade liabilities to					
Third parties	–	18,830	–	357	19,187
Related parties	–	11,620	–	–	11,620
Total	**-**	**30,450**	**-**	**357**	**30,807**

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

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.7.3).

Balance as at 31 December 2011	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and credits	–	3,141	–	–	3,141
Total	**–**	**3,141**	**–**	**–**	**3,141**
Other liabilities					
Negative fair value of financial derivatives	(742)	–	7,672	–	6,930
Other tax liabilities (excl. income tax)	–	2,079	–	1,786	3,865
Liabilities to employees	–	–	–	1,731	1,731
Social security	–	–	–	433	433
Others	–	–	–	616	616
Total	**(742)**	**2,079**	**7,672**	**4,566**	**13,575**
Trade liabilities to					
Third parties	–	19,010	–	247	19,257
Related parties	–	10,795	–	53	10,848
Total	**–**	**29,805**	**–**	**300**	**30,105**

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

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.7.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component is negative.

The line Trade liabilities to related parties includes liabilities to a factoring company within the Volkswagen Group of CZK 2,470 million as at 31 December 2012 (2011: CZK 2,302 million). These liabilities arose in the ordinary course of business and do not represent financing of the Group.
The detailed information relating to the liabilities arising out of financial derivatives can be found under Note 3.3.4.
The carrying value for other classes of financial liabilities (other liabilities, trade payables and loans) approximates the fair value as they include only current liabilities.
None of the financial liabilities are secured by a lien.

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

Carrying amount as at 31 December 2012

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

Carrying amount as at 31 December 2011

Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1-5 years	Maturity > 5 years	Total
CZK	fixed	1-5 years	4.53%	3,000	107	3,000	–	3,107
INR	fixed	< 1 year	10.50%	34	34	–	–	34
Total financial liabilities				**3,034**	**141**	**3,000**	**-**	**3,141**

14. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.
As at 31 December 2012 the Group recognised on the balance sheet deferred tax assets of CZK 2,027 million (as at 31 December 2011: CZK 2,668 million).
The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

	Depreciation	Financial derivatives*	Provisions	Consolidation differences	Other	Total
Deferred tax liabilities						
Balance as at 1 January 2011	**(2,582)**	**(86)**	**-**	**-**	**-**	**(2,668)**
Credited / (debited) to the income statement	86	–	–	–	–	86
Charged to other comprehensive income	–	86	–	–	–	86
Exchange differences	(1)	–	–	–	–	(1)
Balance as at 31 December 2011	**(2,497)**	**-**	**-**	**-**	**-**	**(2,497)**
Credited / (debited) to the income statement	(900)	–	–	–	–	(900)
Charged to other comprehensive income	–	–	–	–	–	–
Exchange differences	(14)	–	–	–	–	(14)
Balance as at 31 December 2012	**(3,411)**	**-**	**-**	**-**	**-**	**(3,411)**

	Depreciation	Financial derivatives*	Provisions	Consolidation differences	Other	Total
Deferred tax assets						
Balance as at 1 January 2011	**-**	**-**	**3,197**	**154**	**644**	**3,995**
Credited / (debited) to the income statement	–	–	237	(122)	1	116
Charged to other comprehensive income	–	1,069	–	–	–	1,069
Exchange differences	–	–	57	–	(72)	(15)
Balance as at 31 December 2011	**-**	**1,069**	**3,491**	**32**	**573**	**5,165**
Credited / (debited) to the income statement	–	14	243	125	340	722
Charged to other comprehensive income	–	(431)	–	–	–	(431)
Exchange differences	–	–	(21)	–	3	(18)
Balance as at 31 December 2012	**-**	**652**	**3,713**	**157**	**916**	**5,438**

* Further information on financial derivatives is disclosed in Note 2.7.3.

The Group did not recognise deferred tax assets (from tax losses) in the amount of CZK 510 million, because its utilisation is not expected. As at 31 December 2011, the unrecognised deferred tax asset was CZK 329 million.

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

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for personnel costs	Provisions for the disposal of end-of-life vehicles	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2011	**10,950**	**3,128**	**1,618**	**910**	**1,593**	**784**	**1,305**	**20,288**
Utilised	(3,546)	(2,469)	(438)	–	(1)	(161)	(570)	(7,185)
Additions	5,071	3,792	1,746	81	76	719	1,314	12,799
Interest expense / (income)	83	(19)	–	80	–	–	–	144
Reversals	(149)	(336)	(191)	(272)	(176)	(611)	(148)	(1,883)
Foreign exchange differences	53	101	–	24	–	–	(33)	145
Balance as at 1 January 2012	**12,462**	**4,197**	**2,735**	**823**	**1,492**	**731**	**1,868**	**24,308**
Utilised	(4,311)	(3,003)	(1,311)	–	(2)	(543)	(28)	(9,198)
Additions	4,839	3,181	1,428	46	138	268	756	10,656
Interest expense / (income)	185	9	–	53	–	–	–	247
Reversals	(249)	(267)	(268)	(379)	(414)	(188)	(506)	(2,271)
Foreign exchange differences	(89)	94	(4)	(19)	(42)	–	(3)	(63)
Balance as at 31 December 2012	**12,837**	**4,211**	**2,580**	**524**	**1,172**	**268**	**2,087**	**23,679**

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

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

	< 1 year	1-5 years	> 5 years	Total
Balance as at 31 December 2011				
Provisions for warranty claims	3,830	7,667	965	12,462
Provisions for other obligations arising from sales	3,816	381	–	4,197
Provisions for personnel costs	1,723	328	684	2,735
Provisions for the disposal of end-of-life vehicles	–	–	823	823
Provisions for litigation risks	1,492	–	–	1,492
Provisions for purchase risks	731	–	–	731
Other provisions	1,686	182	–	1,868
Total	**13,278**	**8,558**	**2,472**	**24,308**

The provision for warranty repairs includes provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty especially good-will repairs (the 3rd and 4th year). The Group recognises the provision for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines.
Provisions for other obligations arising from sales include provision for sale discounts, sale bonuses and similar allowances incurred, settlement of which is expected after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date. The additions to provision for other obligations arising from sales are decreasing revenues.
Provisions for personnel costs include mainly provisions for other long-term employee benefits, severance payments and provision for management personnel remuneration.
Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU directive no. 2000/53/EC and are determined mainly on the basis of registered cars in the respective countries, official statistics, expected costs of the cars ecological scrapping and legal requirements valid in individual countries.
Provisions for litigation risks relate mainly to provision for risks arising from legal disputes, legal fees, penalty interest and other litigation risks. The Group provides for the probable cash outflows for existing legal and arbitration proceedings by means of a relevant provision.
The Group is not involved in any legal cases or arbitration proceedings for which no provision has been created and which could have a significant impact on the financial position and the financial results (financial statements) of the Group and there are no such proceedings expected in the near future.
Provisions for purchase risks include mainly provision for risks of retrospective changes in prices of raw materials and parts.
Other provisions include mainly provision for tax risks and customs risks in countries where the Group operates.

16. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash and short-term deposits, short-term deposits in Volkswagen Group companies with original maturity of less than three months. The detailed information relating to the cash and cash equivalents can be found under Note 10. Cash flows are presented in the cash flow statement and are classified into cash flows from operating activities, investing activities and financing activities.
Cash flows from operating activities are derived indirectly from profit before tax. Profit before tax is adjusted to eliminate non-cash expenses (mainly depreciation and amortisation) and income and changes in working capital. Investing activities include additions to property, plant and equipment, financial assets, as well as to capitalised development cost. Financing activities include in addition to the outflows of cash from dividend payments, redemption of liabilities from financing, also outflows and inflows from other borrowings.

17. Sales (CZK million)

	2012	2011
Cars	222,341	212,787
Spare parts and accessories	19,293	17,930
Supplies of components within Volkswagen Group	14,443	15,363
Revenues from license fees	1,897	1,248
Services related to sales	292	180
Other	4,383	5,054
Total	**262,649**	**252,562**

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

18. Other operating income (CZK million)

	2012	2011
Foreign exchange gains	2,790	2,627
Income from derivative transactions	1,158	2,219
Gains on non-current assets disposal	44	10
Reversal of provisions and accruals	2,816	2,868
Reversal of provision for receivables	53	53
Services – others	630	339
Gain on disposal of a subsidiary	220	–
Other	2,411	1,924
Total	**10,122**	**10,040**

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

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

19. Other operating expenses (CZK million)

	2012	2011
Foreign exchange losses	2,364	2,728
Losses from derivative transactions	3,158	1,078
Receivables write-offs	101	12
Other	1,446	899
Total	**7,069**	**4,717**

20. Financial result (CZK million)

	2012	2011
Interest income	627	708
Foreign exchange gains from cash	6	45
Foreign exchange gains from spot operations	340	337
Income from other investments	84	125
Gains on revaluation of financial derivatives including ineffective hedging	632	1,542
Financial income total	**1,689**	**2,757**
Interest expenses	878	761
Foreign exchange losses from cash	14	49
Foreign exchange losses from spot operations	338	378
Loss on revaluation of financial derivatives including ineffective hedging	1,714	778
Financial expenses total	**2,944**	**1,966**
Net financial result	**(1,255)**	**791**

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

	2012	2011
Financial instruments at fair value through profit or loss	(1,084)	783
Loans and receivables	339	760
Available for sale financial assets	1	21
Financial liabilities carried at amortised costs	84	(792)
Financial instruments designated as hedging instruments	(1,586)	1,546
Net gains / (losses) total	**(2,246)**	**2,318**

The line Financial instruments at fair value through profit or loss represents gains or losses in particular from the forward component of currency forwards and swaps.
Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest income from deposits in companies within Volkswagen Group provided net interest loss from derivative hedging instruments, foreign exchange gains/losses from bank deposits and impairment losses on financial assets.

22. Income tax (CZK million)

	2012	2011
Current tax expense – domestic	2,134	3,127
Current tax expense – foreign	356	275
Current tax expense – total	**2,490**	**3,402**
Deferred tax income – domestic	196	(139)
Deferred tax income – foreign	(106)	(63)
Deferred tax income – total	**90**	**(202)**
Income tax total	**2,580**	**3,200**

Statutory income tax rate in the Czech Republic for the 2012 assessment period was 19% (2011: 19%).
As at 31 December 2012 and 31 December 2011, deferred income taxes attributable to the Czech tax jurisdiction were measured at a tax rate of 19% that corresponds with the statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected.
The local income tax rates applied for companies outside the Czech Republic vary between 19% and 32.45%.

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

	2012	2011
Profit before income tax	17,934	19,275
Expected income tax expense at 19% (2011: 19%)	**3,407**	**3,662**
Effect of different tax rates outside the Czech Republic	88	93
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income and share on profit on associates	(344)	(133)
Expenses not deductible for tax purposes	77	214
Tax allowances and other tax credits	(429)	(659)
Prior-period current tax expense	366	(114)
Effect of tax rate changes	(14)	–
Reassessment and recognition of deferred tax from unused tax credits from investment incentives	(585)	110
Other taxation effects	14	27
Effective income tax expense	**2,580**	**3,200**
Effective income tax rate	14%	17%

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

23. Subsidies and investment incentives

Subsidies

In 2012, the Company recognised income from subsidies of entrepreneurial activities and employee training and retraining costs in the amount of CZK 123 million (2011: CZK 66 million).

Investment incentives

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

Model A SUV

The total amount of the incentive is limited to the amount of CZK 561 million. The project was completed in 2010. As at 31 December 2012 (2011), utilisation of the investment incentive in the form of tax credit was regarded as uncertain by the Company and therefore, no related deferred tax asset was recognised.

Enlargement of production of parts of engine EA211 and its assembly

The total amount of the incentive is limited to CZK 800 million. In 2012 (2011), the project was in progress and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2012 is CZK 531 million (31 December 2011: CZK 0 million). CZK 429 million out of this amount relates to amounts invested in prior periods. The deferred tax asset was not recognised as at 31 December 2011 because utilisation was regarded as uncertain.

Enlargement of production of transmissions – MQ 100

The total amount of the incentive is limited to CZK 496 million. In 2012 (2011), the project was in progress and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2012 is CZK 390 million (31 December 2011: CZK 335 million).

Enlargement of technical development – Česana Jih premises

The total amount of the incentive is limited to CZK 306 million. The realisation of the project is expected in the following years.
The Group was also granted incentives in the form of deferral of payment of sales tax liabilities. The carrying amount of the liability amounted to CZK 1,766 million as at 31 December 2012 (2011: CZK 2,074 million).

24. Contingent liabilities

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

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

Future commitments as at balance sheet date are as follows:

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

	Payable until year 2012	Payable 2013-2016	31 December 2011
Investment commitments – property, plant and equipment	10,926	1,328	12,254
Investment commitments – intangible assets	5,941	3,099	9,040
Operating leasing payments	184	584	768

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

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

	2012	2011
Material costs – raw materials and other supplies, goods	**179,183**	**169,932**
Production related services	9,675	14,843
Personnel costs	**19,099**	**18,044**
Wages	14,545	13,781
Pension benefit costs (defined contribution plans)	2,702	2,507
Social insurance and other personnel costs	1,852	1,756
Depreciation, amortisation and impairment losses	**11,932**	**12,746**
Other services	**27,896**	**24,063**
Total cost of sales, distribution and administrative expenses	**247,785**	**239,628**
Number of employees		
Number of employees*	28,546	27,936

* Average number of employees (including temporary employees).

27. Related party transactions

In 2012, there were no changes in the ownership structure of the Company and the company VOLKSWAGEN AG has been the ultimate parent company and the ultimate controlling party of the Company for the entire accounting period.

On 1 August 2012, the company VOLKSWAGEN AG gained full control over the Porsche AG Group. Since that date, all companies of this group are fully consolidated by the ultimate parent VOLKSWAGEN AG and are included in the category Companies controlled by ultimate parent company.

Items in category Other related parties are companies under joint control of VOLKSWAGEN AG, however, according to the law they do not meet the definition of an entity controlled by the same controlling entity pursuant to §66a of the Act No. 513/1991 Coll., Commercial Code, as amended. In 2012 and 2011, this category includes mainly transactions with Shanghai Volkswagen Automotive Company Ltd. and with those companies of the Porsche Holding GmbH Group and the Porsche AG Group, which were not fully consolidated in the respective periods by the ultimate parent VOLKSWAGEN AG.

The Group participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2012	2011
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	3,759	5,352
Associates		
OOO VOLKSWAGEN Group Rus	24,845	16,462
Companies controlled by ultimate parent company	91,653	76,919
Other related parties	2,149	2,387
Total	**122,406**	**101,120**

The above table Sales to related parties comprises only revenues from sales of vehicles, spare parts and supplies of vehicle components.
In addition to revenues specified in the table Sales to related parties, in 2012 (2011) the Group also realised revenues from royalties:

	2012	2011
Revenues from license fees		
Ultimate parent company	–	112
Associates	129	72
Companies controlled by ultimate parent company	–	–
Other related parties	1,768	1,039
Total	**1,897**	**1,223**

In addition to revenues specified in the table Sales to related parties, in 2012 (2011) the Group also realised revenues with related parties relating to interest from intercompany deposits:

	2012	2011
Interest income from deposits		
Ultimate parent company	2	8
Associates	–	–
Companies controlled by ultimate parent company	318	416
Other related parties	–	–
Total	**320**	**424**

In addition to the revenues specified in the table Sales to related parties in 2012 Group recognised revenue on disposal of its 51% share on the subsidiary Skoda Auto Polska S.A. to parent Volkswagen International Finance N.V. (see Note 11) in the amount of CZK 361 million. More detailed information about the disposal of the subsidiary is included in Note 29.
Dividends received from associates are disclosed in Note 7.

Purchases from related parties (CZK million)

	2012	2011
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	36,920	35,029
Associates		
OOO VOLKSWAGEN Group Rus	331	203
Companies controlled by ultimate parent company	48,094	38,348
Other related parties	37	76
Total	**85,381**	**73,656**

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

Receivables from related parties (CZK million)

	2012	2011
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	553	325
Associates		
OOO VOLKSWAGEN Group Rus	2,932	3,508
Companies controlled by ultimate parent company	2,770	3,710
Other related parties	2,449	1,147
Total	**8,704**	**8,690**

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

	2012	2011
Receivables from royalties		
Ultimate parent company	–	–
Associates	169	84
Companies controlled by ultimate parent company	–	–
Other related parties	2,097	519
Total	**2,266**	**603**

In addition to trade receivables and receivables from royalties, the Group also had deposits in companies controlled by ultimate parent company in the total amount of CZK 38,094 million (31 December 2011: CZK 49,037 million). Receivables from interest from the deposits as at 31 December 2012 amounted to CZK 37 million (31 December 2011: CZK 51 million). Average interest rate relating to these deposits is disclosed in Note 8 and Note 10.

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

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

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

Investments in associates are disclosed in Note 7.

Liabilities to related parties (CZK million)

	31 December 2012	31 December 2011
Parent company		
Volkswagen International Finance N.V.	–	-
Ultimate parent company		
VOLKSWAGEN AG	1,877	1,886
Associates		
OOO VOLKSWAGEN Group Rus	16	18
Companies controlled by ultimate parent company	9,696	8,884
Other related parties	31	60
Total	**11,620**	**10,848**

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

In addition to the trade liabilities stated in the table above, the Group had a liability from a loan from VOLKSWAGEN AG of total amount of CZK 3,000 million as at 31 December 2012 (31 December 2011: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 107 million as at 31 December 2012 (31 December 2011: CZK 107 million). Details about the loan are specified in Note 13.

	31 December 2012	31 December 2011
Contractual obligations and other future commitments		
Ultimate parent company	6,958	8,284
Associates	–	-
Companies controlled by ultimate parent company	345	736
Other related parties	–	-
Total	**7,303**	**9,020**

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)

	2012	2011
Salaries and other short-term employee benefits*	487	355
Other long-term employee benefits	12	14
Total	**499**	**369**

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

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Group having authority and responsibility for planning, directing and controlling the activities of the Group.
The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes the remuneration paid, payable or provided by the Group in the form of wages, salaries, bonuses and non-monetary remuneration.
CZK 252 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2012 (31 December 2011: CZK 130 million).

28. Other information (CZK million)

The compensation paid to the Group's auditors for the accounting period was CZK 37 million (2011: CZK 36 million) and covered the following services:

	2012	2011
Audit and other assurance services	19	20
Tax and related services	4	6
Other advisory services	14	10
Total	**37**	**36**

29. Disposal of the subsidiary

The following table presents the analysis of assets and liabilities of the subsidiary Skoda Auto Polska S.A. as at 1 January 2012 when the Company sold the whole 51% share:

	2012
Intangible assets	20
Property, plant and equipment	10
Deferred tax asset	89
Inventories	416
Trade receivables	331
Prepaid income tax	45
Other receivables and financial assets	7
Cash	996
Trade payables	(960)
Other current liabilities	(695)
Current provisions	(29)
Total net assets	**230**
Non-controlling interest	(140)
Company's share on net assets disposed of	**90**

Gain on disposal of the subsidiary

	2012
Consideration received in cash	361
Company's share on net assets disposed of	(90)
Cumulative foreign exchange loss recycled from other comprehensive income to profit or loss	(51)
Gain / (loss) on disposal of a subsidiary	**220**

Gain on disposal of the subsidiary in the amount of CZK 220 million is included in other operating income (see Note 18).

Net cash outflow arising from disposal of the subsidiary

	2012
Consideration received in cash	361
Consideration transferred in cash	(996)
Net cash inflow / (outflow) on disposal of a subsidiary	**(635)**

30. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the consolidated financial statements of the Group for the year ended 31 December 2012.

31. Information about Volkswagen Group

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

Mladá Boleslav, 14 February 2013

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Dana Němečková

Jana Fernández Zambrano

Auditor´s report on the separate financial statements

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

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s., identification number 00177041, with registered office at Tř. Václava Klementa 869, Mladá Boleslav ("the Company"), which comprise the balance sheet as at 31 December 2012, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies ("the separate financial statements").

Board of Directors' Responsibility for the Separate Financial Statements

The Board of Directors is responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal controls 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.

Auditor's Responsibility

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

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

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

Opinion
In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, 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.

14 February 2013

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Pavel Kulhavý
Statutory Auditor, Licence No. 1538

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

Separate financial statements for the year ended 31 December 2012

Income statement for the year ended 31 December 2012 (CZK million)

	Note	2012	2011
Sales	**18**	**239,101**	**231,742**
Cost of sales	27	203,216	201,765
Gross profit		**35,885**	**29,977**
Distribution expenses	27	13,724	11,613
Administrative expenses	27	6,155	5,504
Other operating income	19	7,207	8,347
Other operating expenses	20	6,209	3,983
Operating profit		**17,004**	**17,224**
Financial income		2,163	2,790
Financial expenses		3,455	2,859
Financial result	**21**	**(1,292)**	**(69)**
Profit before income tax		**15,712**	**17,155**
Income tax expense	23	2,453	2,867
Profit for the year		**13,259**	**14,288**

Statement of comprehensive income for the year ended 31 December 2012 (CZK million)

	Note	2012	2011
Profit for the year		**13,259**	**14,288**
Cash flow hedges	13	1,780	(4,861)
Other comprehensive income / (loss)		**1,780**	**(4,861)**
Total comprehensive income for the year		**15,039**	**9,427**

The notes on pages 112 to 167 are an integral part of these financial statements.

Balance sheet as at 31 December 2012 (CZK million)

	Note	31 December 2012	31 December 2011
Assets			
Intangible assets	5	18,679	13,531
Property, plant and equipment	6	55,108	45,397
Investments in subsidiaries	7	247	247
Investments in associates	8	2,352	2,352
Other receivables and financial assets	9	4,188	1,152
Deferred tax asset	15	1,012	1,762
Non-current assets		**81,586**	**64,441**
Inventories	10	9,528	8,437
Trade receivables	9	11,177	11,695
Other receivables and financial assets	9	3,793	26,893
Prepaid income tax		420	–
Cash and cash equivalents	11	34,738	24,105
Current assets		**59,656**	**71,130**
Total assets		**141,242**	**135,571**

	Note	31 December 2012	31 December 2011
Equity and liabilities			
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Retained earnings	13	69,405	63,290
Other reserves	13	610	(1,170)
Equity		**88,302**	**80,407**
Non-current financial liabilities	14	3,000	3,000
Other non-current liabilities	14	3,496	4,965
Non-current provisions	16	6,961	7,361
Non-current liabilities		**13,457**	**15,326**
Current financial liabilities	14	107	107
Trade payables	14	25,624	24,466
Other current liabilities	14	4,447	4,676
Current income tax liabilities		–	1,184
Current provisions	16	9,305	9,405
Current liabilities		**39,483**	**39,838**
Total equity and liabilities		**141,242**	**135,571**

The notes on pages 112 to 167 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2012 (CZK million)

	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2011	**16,709**	**1,578**	**53,704**	**3,691**	**75,682**
Profit for the year	–	–	14,288	–	14,288
Other comprehensive income/(loss)	–	–	–	(4,861)	(4,861)
Total comprehensive income for the year	–	–	14,288	(4,861)	9,427
Dividends paid	–	–	(4,702)	–	(4,702)
Balance as at 31 December 2011	**16,709**	**1,578**	**63,290**	**(1,170)**	**80,407**
Balance as at 1 January 2012	**16,709**	**1,578**	**63,290**	**(1,170)**	**80,407**
Profit for the year	–	–	13,259	–	13,259
Other comprehensive income/(loss)	–	–	–	1,780	1,780
Total comprehensive income for the year	–	–	13,259	1,780	15,039
Dividends paid	–	–	(7,144)	–	(7,144)
Balance as at 31 December 2012	**16,709**	**1,578**	**69,405**	**610**	**88,302**

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

The notes on pages 112 to 167 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2012 (CZK million)

	Note	2012	2011
Cash and cash equivalents as at 1 January	**17**	**24,105**	**29,256**
Profit before income tax		15,712	17,155
Depreciation and impairment of non-current assets	5, 6	11,792	12,601
Change in provisions		(611)	2,287
Gain on disposal of non-current assets		(10)	(11)
Net interest (income) / expense	21	98	53
Change in inventories		(1,092)	117
Change in receivables		1,069	(2,783)
Change in liabilities		(398)	901
Income tax paid from operating activities		(3,738)	(3,081)
Interest paid		(356)	(384)
Interest received		389	456
Dividends income	21	(455)	(388)
Impairment losses of investments in subsidiaries	7, 21	922	1,141
Unrealised (gains) and losses from derivatives and other adjustments for non-cash transactions		857	(797)
(Gain) / loss on disposal of a subsidiary	7	(360)	–
Cash flows from operating activities		**23,819**	**27,267**
Purchases of non-current assets		(18,376)	(13,312)
Additions to capitalised development costs	5	(6,104)	(3,306)
Increase in financial investments	8	(922)	–
(Increase) / decrease in short-term deposits*	9	21,533	(11,500)
Increase in long-term deposits	9	(3,033)	–
Proceeds from sale of non-current assets		44	14
Proceeds from dividends		455	388
Proceeds from sale of the subsidiary		361	–
Cash flows from investing activities		**(6,042)**	**(27,716)**
Net cash flows (operating and investing activities)		**17,777**	**(449)**
Dividends paid	12	(7,144)	(4,702)
Cash flows from financing activities		**(7,144)**	**(4,702)**
Net change in cash and cash equivalents		**10,633**	**(5,151)**
Cash and cash equivalents as at 31 December	**17**	**34,738**	**24,105**

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

The notes on pages 112 to 167 are an integral part of these financial statements.

Notes to the separate financial statements 2012

Company information

Foundation and company enterprises

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

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

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

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

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

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

Note

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

1. Summary of significant accounting policies and principles

1.1 Compliance statement

These financial statements are separate financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2012 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries and associates for the year ended 31 December 2012. Users of these separate financial statements should read them together with the consolidated financial statements for the year ended 31 December 2012 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.
The Company as a controlled entity is obliged to be part of the consolidated financial statements of the Volkswagen Group in accordance with the International Financial Reporting Standards as adopted by the European Union. As a result and based on the Company's sole shareholder's decision and under paragraph 19a Article 7 of Act No. 563/1991 Coll. on Accounting, the Company prepares the separate financial statements in accordance with IFRS as adopted by the European Union.
Refer to the Company information in the preceding note "Company information".

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

1.2.1 New standards, amendments and interpretations to existing standards mandatory for accounting periods beginning on 1 January 2012

New standards, amendments, interpretations and improvements to existing standards mandatory for accounting periods beginning on or after 1 January 2012, which are applied by the Company:

IFRS	Standard/Interpretation	Effective	Description	Effect
IFRS 7	Financial instruments: Disclosures/Transfers of Financial Assets	1 July 2011	The amendment enhances the disclosure requirements related to transactions including a transfer of financial assets.	The improvement had an impact on the extent of disclosures in respect of the credit risk. The Company has newly disclosed its continuing involvement relating to the derecognised factored receivables and the related maximum exposure to the credit risk in a separate subnote 3.1.6.

There are no other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on or after 1 January 2012 which have material impact on the separate financial statements of the Company.

* The effective dates express the dates effective for the Company.

1.2.2 1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on or after 1 January 2012

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

IFRS	Standard/Interpretation	Effective	Description	Effect
IFRS 9	Financial instruments	1 January 2015*	IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets and changes also some disclosure requirements as set out by IFRS 7. Per IFRS 9, all financial assets, currently within scope of IAS 39, are required to be classified into two measurement categories – those to be measured subsequently at amortised cost, and those to be measured subsequently at fair value.	The Company expects that the new IFRS 9 will have impact on classification, measurement and disclosure of financial instruments in the notes to the financial statements. However, without a detailed analysis it is not possible to perform reliable estimate of such impact as at the date of the financial statements. The Company does not expect early adoption of the standard, while the transition to IFRS 9 will probably take place after 1 January 2015. The disclosure of information in the area of financial instruments will be ruled by IFRS 7 §44S-44W
IFRS 13	Fair value measurement	1 January 2013	Aim of the new standard is to reduce complexity, improve consistency and clarify approach to disclosure of items in the financial statements carried at fair value. The standard clearly defines fair value and gives instruction for its application in case the fair value measurement is required or allowed by another IFRS. A definition of the fair value and a single source of fair value measurement and disclosure requirement for use across IFRSs.	The Company expects that the new standard IFRS 13 will have impact on measurement of items carried at fair value through profit or loss. However, without a detailed analysis it is not possible to perform reliable estimate of such impacts at the date of the financial statements.
IAS 1	Presentation of Financial Statements/Disclosure of items presented in other comprehensive income	1 July 2012	The amendments deal with disclosure of items presented in other comprehensive income. The amendments newly require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Information to the user will be provided what proportion of total comprehensive income will never be reclassified to profit or loss for the period.	The Company expects that the amendments to IAS 1 will have impact on the extent of the disclosure of information in the Statement of comprehensive income.
IAS 19	Employee benefits/Changes to the recognition and measurement of defined benefit pension expense and termination benefits	1 January 2013	Amendment to IAS 19 makes changes to the recognition and measurement of defined benefit pension expense and termination benefits. The standard requires recognition of all changes in the defined benefit liability and assets of the plans when they occur, introduces extended disclosures for information about defined benefit plans and adjust accounting for termination benefits and clarifies many issues including classification of employee benefits.	The Company expects that the amendment to IAS 19 will have impact mainly on presentation of benefits upon employment termination. However, without a detailed analysis it is not possible to perform reliable estimate of such impacts at the date of the financial statements.

* Not yet adopted by the European Union as at 31 December 2012 (the specified date relates to effective date as per IASB).

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

IFRS	Standard/Interpretation	Effective	Description
IFRS 1	Government Loans	1 January 2013*	The amendment deals with loans received from governments at a below market rate of interest, by first-time adopters of IFRSs giving them relief from full retrospective application of IFRSs.
IFRS 7	Financial Instruments: Disclosures/Offsetting Financial Assets and Financial Liabilities	1 January 2013	The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
IFRS 10	Consolidated Financial Statements	1 January 2014	IFRS 10 Consolidated Financial Statements replaces previous IAS 27 and SIC-12. The new standard follows up the current principles to determine control, focuses on clarification of the definition of control, while the rules for status of control are substantially extended.
IFRS 11	Joint Arrangements	1 January 2014	IFRS 11 fully replaces IAS 31 and SIC-13. Substantial change introduced by the new standard is elimination of jointly controlled assets and elimination of proportionate consolidation.
IFRS 12	Disclosure of Interest in Other Entities	1 January 2014	IFRS 12 deals with all disclosure requirements in respect of interests held in other reporting entities and replaces the previous standard IAS 27. The scope of the standard includes interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (formerly "special purpose entities").
IAS 27	Separate Financial Statements	1 January 2014	This standard replaces previous standard IAS 27. Requirements for separate financial statements remained without changes. Other parts of IAS 27 were replaced by IFRS 10.
IAS 28	Investments in Associates and Joint Ventures	1 January 2014	The amendment of IAS 28 modified the standard so that changes resulting from issuance of standards IFRS 10, IFRS 11 and IFRS 12 are reflected.
IAS 32	Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014	The amendments to IAS 32 deals with offsetting financial assets and liabilities. It clarifies conditions under which the offsetting may be applied.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	The new interpretation IFRIC 20 deals with presentation of stripping costs in the production phase of a surface mine, the initial measurement and subsequent measurement of the stripping activity asset.
IFRS 10, IFRS 11, IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities - Transition Guidance Amendments	1 January 2013*	The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and define the first day of the adoption of IFRS 10. The amendments determine under which conditions an entity must restate its consolidated figures retrospectively when adopting IFRS 10. The amendments also provide additional transition relief in respect of requirements of IFRS 10, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities.
IFRS 10, IFRS 12, IAS 27	Consolidated Financial Statements, Disclosure of Interest in Other Entities - Transition Guidance Amendments and Separate Financial Statements - Amendment	1 January 2014*	The amendment introduced a definition of an investment entity. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

* Not yet adopted by the European Union as at 31 December 2012 (the specified date relates to effective date as per IASB).

Improvements to International Financial Reporting Standards issued in 2009-2011, mandatory for accounting periods beginning on or after 1 January 2013*:

IFRS	Standard/Interpretation	Effective	Description
IFRS 1	First-time adoption of International Financial Reporting Standards/ Repeated Application	1 January 2013	The amendment clarifies conditions under which an entity may apply IFRS 1 when resuming preparing its financial statements under IFRS, including the requirement to disclose the reasons for the interruption and the resumption of preparation of financial statements under IFRS.
IFRS 1	First-time adoption of International Financial Reporting Standards/ Borrowing Costs	1 January 2013	The amendment defines the presentation of borrowing costs capitalised under previous GAAP prior to the date of transition to IFRS, and presentation of borrowing costs relating to qualifying assets already under construction or production incurred at the date of transition to IFRS and after.
IAS 1	Presentation of Financial Statements/ Clarification of requirements for additional comparative statements	1 January 2013	The amendment clarifies the requirements for presentation of additional comparative statements.
IAS 16	Property, Plant and Equipment/ Classification of servicing equipment	1 January 2013	The amendment points out that stand-by equipment and servicing equipment shall be classified as plant and equipment if they meet the definition of plant and equipment.
IAS 32	Financial Instruments: Presentation/ Tax Consequences of Distributions to Owners	1 January 2013	The amendment specifies that income tax consequences relating to distribution to holders of an equity instrument and relating to transaction costs should be accounted for in accordance with IAS 12 Income Taxes.
IAS 34	Interim Financial Reporting / Disclosure of a measure of total assets and liabilities for an operating segment	1 January 2013	The amendment provides guidance in which cases disclosure of a measure of total assets and liabilities for a particular reportable segment is required in the entity's interim financial statements.

* Not yet adopted by the European Union as at 31 December 2012 (the specified date relates to effective date as per IASB).

2. Basis of preparation of financial statements

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

2.1 Foreign currency translation

Functional and presentation currency

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

2.2 Intangible assets

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

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

Estimated useful lives and depreciation method are reviewed at the end of each accounting period, the effect of any changes in estimates are accounted for prospectively.
Intangible assets not yet available for use are tested annually for possible impairment and are carried at cost less accumulated impairment losses.

2.3 Property, plant and equipment

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

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

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

2.4 Impairment of assets

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

2.5 Financial instruments

2.5.1 Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables, available-for-sale financial assets and investments in subsidiaries and associates. The classification depends on the purpose for which the financial assets were acquired. Management of the Company determines the classification of its financial assets at initial recognition.
Purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Financial assets, with the exception of financial assets carried at fair value through profit or loss, are initially recognised at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Equity instruments that do not have quoted prices in an active market and their fair value cannot be reliably measured are valued at cost net of impairment, if any. Long-term loans and receivables are carried at amortised cost using the effective interest method.
The Company determines at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets which are not carried at fair value through profit or loss is impaired. Initially the Company determines, in line with IAS 39, if objective evidence exists that individually material financial assets are impaired and performs the same assessment individually or collectively for individually immaterial financial assets. In the event that the Company does not find objective evidence of impairment for individually assessed financial assets, whether material or not, these assets are included in the group of financial assets with common credit risk characteristics and the group of financial assets is assessed collectively for impairment. Individual assets for which objective evidence of impairment has been identified are not included in a group of assets that are assessed collectively for impairment.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.
Trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Company will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable.
The creation of the allowance is recognised in the income statement within Other operating expenses. When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit or loss and the allowance is utilised.
Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial assets valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting periods 2012 and 2011, the Company only had financial derivatives within this category (Note 2.5.3).

b) Loans and receivables

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

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Dividend income from these activities is included in financial income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as financial income or expenses.
In the accounting period 2012 (2011), the Company only had, within the category of available-for-sale financial assets, investments to equity instruments that did not have quoted price in an active market.

d) Investments in subsidiaries and associates

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

2.5.2 Financial liabilities

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

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2012 (2011), 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.

2.5.3 Financial derivatives

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

The Company uses derivatives to hedge future cash flows. The hedged items are as follows:

– Highly probable future transactions.

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

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

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

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

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

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

2.6 Current and deferred income tax

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

2.6.1 Current income tax

Current tax liabilities (receivables) for the current period and preceding periods are recognised in the amount of expected payments to or claims from tax offices, using the tax rates (and tax laws) valid in the respective period. Current income tax relating to the current accounting period and to preceding periods reduced by the amount already paid is recorded as a liability. If the amount already paid in the current and in preceding periods exceeds current income tax related to these periods, the difference is recorded as an asset.
The situations, in which the expected amount of payment to the tax authorities (or expected receipt from them) is based on the interpretation of tax laws, are regularly reassessed and the expected payments to tax authorities (or expected receipt from them) are adjusted accordingly to reflect the best estimate of the amount to be paid to tax authorities (or to be received from them) based on legislation enacted or substantively enacted by the balance sheet date.

2.6.2 Deferred income tax

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

2.7 Inventories

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

2.8 Provisions for long-term employee benefits

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

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

2.9 Other provisions

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

2.10 Revenue and expense recognition

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

2.11 Leases

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

2.12 Investment incentives and subsidies

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

2.13 Related parties

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

2.14 Share capital

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

2.15 Critical accounting estimates and assumptions

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

Capitalisation of development costs

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

Impairment of non-current assets

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

Provision for warranty claims

The Company recognises provisions for warranty claims for future expenses connected with the basic guarantee (2 years), with the guarantee for corrosion (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic guarantee, especially good-will repairs (the 3rd and the 4th year). The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line.
The amount of the rate for the basic guarantee is determined on the basis of a management estimate of the average number of failures in the guarantee period and average single failure costs with regard to the specifics of individual countries and on the basis of other specific assumptions (inflation, customers groups development, etc.). The amount of the provision for corrosion is determined through a mathematical model which extrapolates the curve of future costs development for the relevant period on the basis of weighted average of actual costs from previous calendar years of the model production. The amount of the provision for good-will repairs is determined on the basis of a management estimate of existing good-will repair costs and defined strategy of the good-will repair trademark policy with regard to specifics of individual countries.
The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end.
More detailed information about the provision for warranty claims is included in Note 16.

Provision for litigation risks

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

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.

3. Financial risk management

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

3.1 Credit risk

Credit risk is a risk that one party to a financial instrument will cause a financial loss to other party by failing to discharge an obligation.
Credit risk arises in the normal course of the Company's operations, as well as through activities connected with financial market transactions (money market, currency conversion, derivatives transactions, etc.). Credit risk arising from operations on the financial market is managed by the Company Treasury through determination of maximal limits for individual counterparties.
The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. In assessing these risks, attention is paid to the country in which the headquarters of the counterparties are situated. The credit rating of these countries is monitored closely and attention is focused on the analysis of macroeconomic indices. Apart from the Volkswagen Group's Risk Management Department, the Company also uses the services of external agencies (D&B, Creditreform, Reuters, etc.).
The acceptance of new business partners is reliant on standard approval procedures. The Company's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis. Adhering to these limits is monitored and evaluated on a regular basis.
Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers and Volkswagen Group entities. Receivables are secured by preventative and supplemental instruments.
Receivables secured by preventative security instruments are used mainly when the customer contracts are concluded. An obligatory security instrument incorporated in the written contracts is interest on default payments and furthermore selected trade receivables are secured by an ownership title to the sold goods until full settlement of the purchase price.
Trade receivables from Volkswagen Group companies and from associates are considered to bear the least risk. Therefore the supplies of goods are performed on credit terms or the receivables are transferred to a factor through factoring.
Trade receivables from customers located abroad include receivables from general importers and other customers. The receivables from general importers are secured by the following instruments: payments in advance, letters of credit, documentary collection, bank guarantees, standby letters of credit and transfer of receivables to factoring. Only an immaterial part of receivables from other customers arises on credit terms.
Receivables from domestic customers are divided into two groups: receivables from contractual partners bound by sales or service agreements, and from other domestic customers. The receivables arising from sales of new and used vehicles to contractual partners are transferred to factoring. Credit limits are set up for the supplies of new and used vehicles, original parts and accessories.

The deliveries of goods are automatically blocked in case the customer fails to settle outstanding balances on maturity and upon the set limit is exceeded. Only an immaterial part of supplies to other domestic customers is realised on credit terms.
Different combinations of the following instruments are used as an additional security of high-risk receivables: confirmation of debt prolonging the statute of limitation, payment schedules, bills of exchange, pledges, or executory note.
Loans to employees are secured by other employee guarantees.
As at 31 December 2012 (as at 31 December 2011), the Company did not hold any collateral for loans given.

3.1.1 Maximum exposure to credit risk (CZK million)

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

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

	Carrying amount as at 31 December 2011			
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Impaired financial assets	Total
Loans to employees	542	–	–	542
Deposits in companies within Volkswagen Group	44,848	–	–	44,848
Positive fair value of financial derivatives	1,851	–	–	1,851
Other receivables and financial assets	238	–	–	238
Trade receivables	11,025	670	–	11,695
Cash	796	–	–	796
Total	**59,300**	**670**	**-**	**59,970**

The line item Deposits in companies within Volkswagen Group companies includes deposits with original maturity from three months to one year in total amount of CZK 0 million (as at 31 December 2011: CZK 21,539 million) and deposits with original maturity from one year to five years in total amount of CZK 3,033 million (as at 31 December 2011: CZK 0 million) included in balance sheet in the line Other receivables and financial assets (see Note 9), and deposits with original maturity less than three months in total amount of CZK 33,501 million (as at 31 December 2011: CZK 23,309 million) included in balance sheet in the line Cash and cash equivalents (see Note 11).

The amount of guarantees provided by the Company is CZK 51 million as at 31 December 2012 (as at 31 December 2011: CZK 51 million).
In the following table, the reported figures represent either the carrying value of secured trade receivables, or the collateral value if this value is lower, determined individually for each instrument:

CZK million	2012	2011
Retention of legal ownership title to sold cars	1,176	2,336
Bank guarantees	767	837
Letters of credit	1,287	1,230
Documentary collection	190	235
Accepted deposit	19	19
Total	**3,439**	**4,657**

3.1.2 Risk concentration

The Company monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Company to foreign exchange risk is disclosed in Note 3.4.1. During the accounting period 2012 (2011) the Company did not identify any significant risk concentration on the basis of distribution region. A significant portion of financial assets is of an intra-group nature. The Company deposited free cash through Volkswagen Group companies (as in 2011).
The total volume of short-term deposits with Volkswagen Group companies amounted to CZK 34,689 million as at 31 December 2012 (as at 31 December 2011: CZK 45,571 million), out of which:

- deposits with original maturity from three months to one year included in balance sheet in the line Other receivables and financial assets (see Note 9) in total amount of CZK 0 million (as at 31 December 2011: CZK 21,539 million),
- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 11) in total amount of CZK 33,501 million (as at 31 December 2011: CZK 23,309 million), and
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 11) in total amount of CZK 1,188 million (as at 31 December 2011: CZK 723 million).

In addition to the above mentioned short-term deposits with Volkswagen Group companies, the Company's free cash was also deposited for a period exceeding one year in 2012. The total volume of the long-term deposit amounted to CZK 3,033 million as at 31 December 2012 (as at 31 December 2011: CZK 0 millions) and is included in balance sheet in the line Other receivables and financial assets (see Note 9).
In 2012 (2011), the Company did not consider it probable that a default could occur in connection with the free cash deposited. Possible risk of unpaid receivables from third parties was individually not significant (spread between various debtors and regions).

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

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

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

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2011			
Loans to employees	542	–	542
Deposits in companies within Volkswagen Group	44,848	–	44,848
Positive fair value of financial derivatives	1,851	–	1,851
Other receivables and financial assets	238	–	238
Trade receivables	10,600	425	11,025
Cash	796	–	796
Total	**58,875**	**425**	**59,300**

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

	Months past due			
	Less than 1 month	1-3 months	More than 3 months	Total
Trade receivables				
Balance as at 31 December 2012	**1,221**	**129**	**128**	**1,478**
Balance as at 31 December 2011	303	91	276	670

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Company did not identify any need for impairment of these receivables. Out of the total amount of receivables from group companies which were past due as at 31 December 2011 (CZK 445 million), CZK 26 million were still not paid as at 31 December 2012.

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

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

	2012	2011
Other receivables and financial assets		
Gross balance as at 31 December	151	152
Valuation allowance:		
Balance as at 1 January	(152)	(155)
Additions	–	–
Utilised	1	–
Released	–	3
Balance as at 31 December	**(151)**	**(152)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	194	211
Valuation allowance:		
Balance as at 1 January	(211)	(223)
Additions	(39)	(15)
Utilised	39	13
Released	17	14
Balance as at 31 December	**(194)**	**(211)**
Net balance as at 31 December	–	–

During the accounting period 2012 (2011) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2012 (2011) the Company had valuation allowances only on financial assets included in the category of loans and receivables.

3.1.6 Transferred financial assets where the Company has continuing involvement

The Company has concluded a factoring contract with the company ŠkoFIN s.r.o., under which the majority of risks and rewards relating to ownership of receivables arising from sale of new or used cars are transferred to ŠkoFIN s.r.o. Under certain conditions, the company ŠkoFIN s.r.o. can claim compensation relating to realized credit losses up to 2% of the total amount of transferred receivables during the year, however, not more than 49% of these losses and not more than CZK 51 million for the year. This amount represents carrying amount and fair value of the recognised continuing involvement in these receivables, and related financial liabilities.

At the same time, this amount represents the maximum exposure to credit risk. The loss recognised at the date of transfer of the assets was CZK 25 million in 2012.

3.2 Liquidity risk

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

Cash management

Since 2010, when the Company was integrated into the "Global Treasury Platform" of Volkswagen Group (GTP) which is operated by Volkswagen Group Services (VGS) located in Brussels, centralisation and optimalisation of processes is ensured within the Volkswagen Group in the areas of cash management, payments system and liquidity management.
The GTP implementation resulted in changes in the system of outgoing and incoming payments. The outgoing payments are processed on behalf of the Company by VGS, based on payment orders placed by the

Contractual maturity analysis (undiscounted amounts in CZK million)

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

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

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

The total amount of credit lines from banks as at 31 December 2012 was CZK 700 million (as at 31 December 2011: CZK 8,440 million).

All credit lines are contracted in Czech crowns. The Company has not utilised any agreed bank credit lines as at 31 December 2012 (as at 31 December 2011).

The credit line from the Volkswagen Group in the total amount of CZK 3,000 million was drawn in the whole amount as at 31 December 2012 (as at 31 December 2011).

The information about financial conditions of credit lines drawn is included in Note 14.

Contractual maturity analysis (undiscounted amounts in CZK million)

	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Total
Balance as at 31 December 2011					
Cash	796	–	–	–	796
Deposits in companies within Volkswagen Group	39,382	5,516	–	–	44,898
Other receivables and financial assets (except derivatives)	210	134	364	94	802
Trade receivables	11,301	394	–	–	11,695
Financial liabilities	(138)	–	(3,276)	–	(3,414)
Trade payables	(23,074)	(569)	(115)	–	(23,758)
Derivatives with positive fair value:					
Currency forwards and swaps					
Inflow of financial resources	4,305	20,500	13,912	–	38,717
Outflow of financial resources	(4,125)	(19,567)	(13,292)	–	(36,984)
Commodity swaps	5	10	92	–	107
Derivatives with negative fair value:					
Currency forwards and swaps					
Inflow of financial resources	11,642	26,496	65,514	–	103,652
Outflow of financial resources	(12,419)	(28,534)	(70,891)	–	(111,844)
Commodity swaps	(14)	(48)	(102)	–	(164)
Total	**27,871**	**4,332**	**(7,794)**	**94**	**24,503**

3.3 Market risk

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

3.3.1 Currency risk

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

3.3.2 Interest rate risk

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

3.3.3 Price risk

Price risk is a risk that the fair value of future cash flows from the financial instruments will fluctuate because of changes in market prices, especially commodity prices (apart from that which results from currency and interest risk).
Due to continuous volatility in the prices of raw material commodities and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High risk commodities include primarily aluminium, copper, palladium, lead, platinum and rhodium. Those commodities identified as high risk are controlled at the Volkswagen Group level through long-term supply contracts with suppliers.
The Company hedges against price risks in general (as a consequence of changes in particular commodity prices and foreign exchange rates) through commodity swaps (for copper, aluminium and lead) and currency forwards. Those financial derivatives, except for commodity swaps for lead, are subject to hedge accounting — hedging of future cash flows.

3.3.4 Derivative financial instruments

Nominal and fair value of derivatives (CZK million)

	Nominal value of derivatives				Fair value of derivatives			
	Balance as at 31 December 2012		Balance as at 31 December 2011		Balance as at 31 December 2012		Balance as at 31 December 2011	
	With positive fair value	With negative fair value	With positive fair value	With negative fair value	Positive	Negative	Positive	Negative
Currency instruments								
Currency forwards for trading	24	155	–	–	–	10	–	–
Currency forwards – cash flow hedging	38,316	95,398	36,895	107,628	790	4,515	1,696	6,493
Currency swaps – cash flow hedging	8,486	4,195	1,632	4,193	179	94	50	277
Commodity instruments								
Commodity swaps for trading	140	–	–	–	31	–	–	–
Commodity swaps – cash flow hedging	844	1,137	1,243	1,468	129	83	105	160
Total	**47,810**	**100,885**	**39,770**	**113,289**	**1,129**	**4,702**	**1,851**	**6,930**

The fair values of financial derivatives fulfil the criteria of level 2 in compliance with the IFRS 7 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).

Volume of hedged cash flows (CZK million)

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

Balance as at 31 December 2011	Volume of hedged cash flows		
	Within 1 year	1-5 years	Total
Currency risk exposure			
Hedging of future cash flows - future receivables	49,167	70,354	119,521
Hedging of future cash flows - future liabilities	(15,289)	(10,596)	(25,885)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows - future liabilities	(609)	(1,921)	(2,530)
Total	**33,269**	**57,837**	**91,106**

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

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

The sensitivity analysis includes analysis of exposure arising from derivative financial assets and liabilities and unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at balance sheet date by using adjusted exchange rates compared to those published by Czech National Bank. In 2012 (2011) the Company considers (considered) the movements of exchange rates EUR, USD, CHF and GBP against CZK in the following period of +10% (appreciation of CZK) and -10% (depreciation of CZK) as possible.

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

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

2012 (CZK million)	CZK appreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	881	(67)	(1)	3	(221)	595
Derivative financial instruments	–	(46)	2	(41)	(76)	(161)
Other comprehensive income						
Derivative financial instruments	(1,685)	2,906	1,978	3,706	3,503	10,408

2012 (CZK million)	CZK depreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	(881)	67	1	(3)	221	(595)
Derivative financial instruments	–	46	(2)	41	76	161
Other comprehensive income						
Derivative financial instruments	1,685	(2,906)	(1,978)	(3,706)	(3,503)	(10,408)

2011 (CZK million)	CZK appreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	767	(84)	(10)	5	(400)	278
Derivative financial instruments	10	(41)	2	(68)	(83)	(180)
Other comprehensive income						
Derivative financial instruments	(2,510)	2,307	2,436	3,323	3,739	9,295

2011 (CZK million)	CZK depreciation by 10%					
	EUR	USD	CHF	GBP	Other currencies	Total
Income statement						
Non-derivative financial instruments	(767)	84	10	(5)	400	(278)
Derivative financial instruments	(10)	41	(2)	68	83	180
Other comprehensive income						
Derivative financial instruments	2,510	(2,307)	(2,436)	(3,323)	(3,739)	(9,295)

3.4.2 Sensitivity to interest rates

The Company is exposed to interest risk mainly in relation to short-term deposits provided to Volkswagen Company companies.

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

In 2012 (2011) the Company assumes (assumed) possible movements of the yield curve in the following period for short-term deposits provided to Volkswagen Group companies, bank deposits and currency forwards and swaps by +100/ -25 basis points. The Company is most sensitive to movements of the CZK yield curve.

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

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

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

2011 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Income statement		
Non-derivative financial instruments	454	(114)
Derivative financial instruments	91	(23)
Total	**545**	**(137)**

3.4.3 Sensitivity to changes in other price risks

The Company is exposed to a combination of commodity and currency risks due to volatility in prices of particular commodities traded in foreign currencies. This risk of change in cash flows is hedged by a combination of commodity swaps and currency forwards.

The sensitivity analysis to changes in commodity prices was determined based on the exposure to derivative financial assets and liabilities as at the balance sheet date.

In 2012 (2011), the Company assumes (assumed) potential movements in copper prices in the following period of +/- 20%. In 2012 (2011) the Company assumes (assumed) potential movements in aluminium prices in the following period of +/ -10%. In 2012, the Company assumes potential movements in lead prices in the following period of +/- 10 %.

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

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

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

2011 (CZK million)	Increase of copper prices +20%	Decrease of copper prices (20)%	Increase of aluminium prices +10%	Decrease of aluminium prices (10)%	Increase of lead prices +10%	Decrease of lead prices (10)%
Income statement						
Derivative financial instruments	–	–	–	–	–	–
Other comprehensive income						
Derivative financial instruments	270	(270)	120	(120)	–	–

The possible impact on income statement of expected price increase or decrease of copper and aluminium was assessed by the Company as immaterial.

3.5 Capital risk management

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

CZK million	2012	2011
Equity	**88,302**	**80,407**
Equity ratio	62.5%	59.3%
Non-current financial liabilities	3,000	3,000
Current financial liabilities	107	107
Total financial liabilities	**3,107**	**3,107**
Ratio of financial liabilities to total equity and liabilities	2.2%	2.3%
Total equity and liabilities	**141,242**	**135,571**

4. Geographical information

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

2012 (CZK million)	**Czech Republic**	**Germany**	**Western Europe - Other**	**Central and Eastern Europe**	**Unallocated**	**Total**
Sales – based on location of customers	21,927	54,717	78,837	55,142	28,478	239,101
Non-current assets*	74,316	198	–	1,872	–	76,386

2011 (CZK million)	**Czech Republic**	**Germany**	**Western Europe - Other**	**Central and Eastern Europe**	**Unallocated**	**Total**
Sales – based on location of customers	22,084	55,579	83,877	45,274	24,928	231,742
Non-current assets*	59,457	198	–	1,872	–	61,527

* Non-current assets other than financial instruments and deferred tax assets.

5. Intangible assets (CZK million)

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

	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 2011	**24,577**	**2,143**	**6,600**	**33,320**
Additions	22	3,284	1,877	5,183
Disposals	(2,931)	–	(288)	(3,219)
Transfers	42	(42)	–	–
Balance as at 31 December 2011	**21,710**	**5,385**	**8,189**	**35,284**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2011	**(16,228)**	**–**	**(4,240)**	**(20,468)**
Amortisation	(2,314)	–	(434)	(2,748)
Impairment losses	(758)	–	(998)	(1,756)
Disposals	2,931	–	288	3,219
Balance as at 31 December 2011	**(16,369)**	**–**	**(5,384)**	**(21,753)**
Carrying amount as at 31 December 2011	**5,341**	**5,385**	**2,805**	**13,531**

Other intangible assets include mainly tooling rights, software and software licences.
Amortisation and impairment losses of intangible assets of CZK 2,835 million (2011: CZK 4,365 million) are included in the cost of sales, CZK 19 million (CZK 2011: 13 million) in distribution expenses, and CZK 112 million (2011: CZK 126 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and their potential impact on the carrying amount of the Company's non-current intangible assets. Due to substantial changes in the market environment, the Company has experienced in 2012 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed. The carrying amounts of the assets relating to the cash-generating units have been compared with the relevant recoverable amounts. The recoverable amounts have been determined based on the calculation of the value in use applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans, approved by the Company's management.
For discounting cash flows, the discount rate of 6.6% has been applied in 2012 (2011: 6.8%), reflecting the specific risks associated with the sector in which the Company operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to intangible assets in the amount of CZK 404 million (2011 two cash-generating units: CZK 1,756 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2012 (31 December 2011).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2012, the Company applied the capitalisation rate of 4.53% (2011: 4.53%). No borrowing costs have been capitalised in the cost of intangible assets in 2012 or 2011 as they were not significant.

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

	2012	2011
Research and non-capitalised development costs	4,848	6,061
Amortisation and impairment losses of development costs	2,497	3,072
Research and development costs recognised in the income statement	**7,345**	**9,133**

6. Property, plant and equipment (CZK million)

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

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Advances paid and assets under construction	Total
Costs					
Balance as at 1 January 2011	**29,680**	**58,432**	**45,427**	**7,433**	**140,972**
Additions	941	1,468	917	8,697	12,023
Disposals	(64)	(1,913)	(1,337)	(1)	(3,315)
Transfers	454	2,784	603	(3,841)	–
Balance as at 31 December 2011	**31,011**	**60,771**	**45,610**	**12,288**	**149,680**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2011	**(11,931)**	**(49,591)**	**(37,938)**	**–**	**(99,460)**
Amortisation	(1,098)	(3,106)	(3,400)	–	(7,604)
Impairment losses	(7)	(18)	(468)	–	(493)
Disposals	26	1,915	1,333	–	3,274
Balance as at 31 December 2011	**(13,010)**	**(50,800)**	**(40,473)**	**–**	**(104,283)**
Carrying amount as at 31 December 2011	**18,001**	**9,971**	**5,137**	**12,288**	**45,397**

Depreciation and impairment losses of the buildings and equipment of CZK 8,131 million (2011: CZK 7,444 million) are included in the cost of sales, CZK 162 million (2011: CZK 160 million) in distribution expenses, and CZK 533 million (2011: CZK 493 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Company's non-current tangible assets. Due to substantial changes in the market environment, the Company has experienced in 2012 a decrease in the planned cash inflows relating to two cash-generating units (production of cars of certain models). Impairment reviews of assets relating to those cash-generating units have been performed.

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

For discounting cash flows, the discount rate of 6.6% has been applied in 2012 (2011: 6.8%), reflecting the specific risks associated with the sector in which the Company operates. For one cash-generating unit, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the amount of CZK 222 million (2011: CZK 493 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2012 (31 December 2011).

Capitalisation of borrowing costs

For the capitalisation of borrowing costs in 2012, the Company applied the capitalisation rate of 4.53% (2011: 4.53%). No borrowing costs have been capitalised in the cost of property, plant and equipment in 2012 or in 2011 as they were not significant.

7. Investments in subsidiaries

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

The subsidiaries in which the Company has a financial investment paid dividends to the Company in the amount of CZK 371 million in 2012 (2011: CZK 263 million).
In 2012, the Company made a cash contribution into the registered capital of the subsidiary Skoda Auto India Private Ltd. in the total amount of CZK 1,189 million. Also, the preference shares, which were previously included in the carrying value of the investment, have been repaid in the amount of CZK 267 million.
On 1 January 2012, the Company sold its 51% share in the subsidiary Skoda Auto Polska S.A. to parent Volkswagen International Finance N.V. (see Note 12). As a result, the Company has lost the entire interest in the subsidiary. Gain on disposal of the subsidiary is included in the financial result in the line Income from investments in associates (see Note 21) in the amount of CZK 360 million. Carrying value of the investment before the sale was less than CZK 1 million.

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Company's financial investments in subsidiaries. The Company's management has performed an impairment review of the cash-generating unit, for which the development of the automotive industry and planned volumes of sold cars indicated a possible impairment loss. Carrying value of the financial investment in the subsidiary has been compared with the relevant recoverable amount. The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Company's management.
Cash flows beyond the five years period have been extrapolated with an estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. For determination of the value in use of the financial investment in 2012 (2011), estimated growth rate of 1% has been applied. The applied discount rate is pre-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2012, a discount rate of 6.8% (2011: 7.3%) has been applied.
For one cash-generating, the comparison of the carrying amount with the relevant recoverable amount resulted in an impairment loss in the amount of CZK 922 million (2011: CZK 1,141 million), which has been posted to the income statement (within line Financial expense for the year ended 31 December 2012).

8. Investments in associates (CZK million)

	2012	2011
Total assets	62,273	52,911
Total liabilities	51,896	49,623
Total revenue	168,391	121,296
Profit / (loss) (aggregated)	7,419	1,600

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o.
The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2012 was 16.8% (31 December 2011: 16.8%). The Company's share of profits or losses of this associate for 2012 was 17.91% (2011: 17.91%). The Company exercises significant influence in the company OOO VOLKSWAGEN Group Rus based on the following factors: the Company is participating in policy-making processes, including participation in decisions about distribution of profit; material transactions are conducted between both companies; an interchange of managerial personnel takes places between both companies and the Company is providing essential technical information to the company OOO VOLKSWAGEN Group Rus.
The Company's share in the registered capital of the company ŠKO-ENERGO FIN as at 31 December 2012 was 31.25% (as at 31 December 2011: 31.25%). The value of the Company's share totalled CZK 529 million as at 31 December 2012 (as at 31 December 2011: CZK 529 million).
ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 83 million (2011: CZK 104 million).

Impairment reviews

The requirements of the IAS 1, IAS 10 and IAS 36 standards were assessed by the Company's management in relation to the development of the automotive industry and planned volumes of sold cars and the potential impacts on the carrying amount of the Company's financial investments in associates. Based on performed analyses, no factors have been identified which would indicate a need to recognise impairment losses with an exception of future economic benefits arising from investment in the associate OOO VOLKSWAGEN Group Rus. The Company's management has therefore performed an impairment review of this cash-generating unit. Carrying value of the financial investment in the associate has been compared with the relevant recoverable amount.
The recoverable amount has been determined based on the calculation of the value in use applying cash flow projections over the following five years, reflecting financial plans approved by the Company's management. Cash flows beyond the five years period have been extrapolated with estimated growth rate which is not higher than expected long-term average growth rate in the automotive industry. The applied discount rate is post-tax and reflects specific risks associated with the sector and the region in which the reviewed company operates. In 2012, discount rate of 11.2% (2011: 9.5%) has been applied. The comparison of the carrying amounts with the relevant recoverable amount has not given rise to any impairment loss as at 31 December 2012 or 31 December 2011.

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

Balance as at 31 December 2012	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	573	–	–	–	573
Deposits in companies within Volkswagen Group	–	3,033	–	–	–	3,033
Positive fair value of financial derivatives	(29)	–	–	1,158	–	1,129
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	2,867	2,867
Others	–	68	–	–	307	375
Total	**(29)**	**3,674**	**4**	**1,158**	**3,174**	**7,981**
Trade receivables						
Third parties	–	1,915	–	–	–	1,915
Subsidiaries	–	758	–	–	–	758
Other related parties	–	8,504	–	–	–	8,504
Total	**-**	**11,177**	**-**	**-**	**-**	**11,177**

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

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2012, the forward component was negative.

Balance as at 31 December 2011	Financial assets at fair value through profit or loss**	Loans and receivables	Available for sale financial assets	Financial assets designated as hedging instruments	Other*	Total
Other receivables and financial assets						
Loans to employees	–	542	–	–	–	542
Deposits in companies within Volkswagen Group	–	21,539	–	–	–	21,539
Positive fair value of financial derivatives	(242)	–	–	2,093	–	1,851
Available for sale financial assets	–	–	4	–	–	4
Tax receivables (excl. income tax)	–	–	–	–	3,574	3,574
Others	–	238	–	–	297	535
Total	**(242)**	**22,319**	**4**	**2,093**	**3,871**	**28,045**
Trade receivables						
Third parties	–	2,773	–	–	–	2,773
Subsidiaries	–	955	–	–	–	955
Other related parties	–	7,967	–	–	–	7,967
Total	**–**	**11,695**	**–**	**–**	**–**	**11,695**

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

Note:
The line Positive fair value of financial derivatives in the portfolio Financial assets designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial assets at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2011, the forward component was negative.

The carrying amount of loans to employees and deposits in companies within Volkswagen Group approximates their fair value.
The carrying amount net of impairment loss for each class of financial assets which are not carried at fair value approximates their fair value due to the short-term nature of these items.
The line Deposits in companies within Volkswagen Group comprises deposits in the amount of CZK 0 million (as at 31 December 2011: CZK 21,539 million) with original maturity from three months to one year and deposits in the amount of CZK 3,033 million (as at 31 December 2011: CZK 0) with original maturity from one year to five years. The weighted average effective interest rate based on the carrying amount of deposits with original maturity from three months to one year provided to Volkswagen Group companies as at 31 December 2012 was 0% (31 December 2011: 0.88%). The weighted average effective interest rate based on the carrying amount of deposits with original maturity from one year to five years provided to Volkswagen Group companies as at 31 December 2012 was 1.58% (31 December 2011: 0%). All deposits provided to Volkswagen Group companies with original maturity from three months to five years are denominated in CZK.
Line Others in other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets. Cumulative impairment losses reflect the incurred risks of the debtors' delays or defaults. The allowance for the impairment of trade receivables of CZK 194 million (2011: CZK 211 million) has been deducted from the presented carrying values of trade receivables. Due to their short term nature the carrying amount of trade receivables approximates the fair value as at the balance sheet date after the valuation allowance is taken into account.

10. Inventories (CZK million)

	Carrying value as at 31 December 2012	Carrying value as at 31 December 2011
Structure of the inventories		
Raw materials, consumables and supplies	2,965	2,745
Work in progress	2,377	2,171
Finished products and goods	4,186	3,521
Total	**9,528**	**8,437**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2012 was CZK 198,280 million (2011: CZK 196,167 million).

11. Cash and cash equivalents (CZK million)

	2012	2011
Cash in hand	4	4
Cash pooling	1,188	723
Bank accounts	45	69
Cash equivalents	33,501	23,309
Total	**34,738**	**24,105**

The line Cash pooling also includes overnight deposits from the use of cash pooling (Note 3.2). The line Cash equivalents includes deposits in Volkswagen Group companies with original maturity less than three months. These deposits are included in the portfolio Loans and receivables in terms of IAS 39.
The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2012 was 0.006% (as at 31 December 2011: 0.002%). The weighted average effective interest rate based on the carrying amount of deposits in Volkswagen Group companies with original maturity less than three months as at 31 December 2012 was 0.09% (as at 31 December 2011: 0.64%). All deposits provided to Volkswagen Group companies with original maturity less than three months are denominated in CZK.

12. Share capital

The issued share capital consists of 1,670,885 ordinary shares at a par value of CZK 10,000 per share. The Company's sole shareholder Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG.
There was no movement in the Company's share capital during the accounting period 2012 (2011).
The Company paid a dividend of CZK 7,144 million in 2012 (2011: CZK 4,702 million). The dividend per share was CZK 4,276 in 2012 (2011: CZK 2,814).

13. Other reserves and retained earnings (CZK million)

13.1 Other reserves

	2012	2011
Reserves for cash flow hedges*	(2,766)	(4,546)
Statutory reserve fund	3,366	3,366
Funds contributed by owner	10	10
Total	**610**	**(1,170)**

* Net of deferred tax from financial derivatives.

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

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

Balance as at 1 January 2011 (CZK million)	**315**
Total change in fair value in the period	(4,543)
Deferred tax on change in fair value	875
Total transfers to profit or loss in the period – effective hedging	(1,481)
Total transfers to profit or loss in the period – ineffective hedging	8
Deferred tax on transfers to profit or loss	280
Balance as at 31 December 2011	**(4,546)**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2012 presented in the line Other operating expense in amount of CZK 2,697 million (2011: CZK 1,074 million) and in the line Other operating income in amount of CZK 1,096 million (2011: CZK 2,555 million).

13.2 Retained earnings

From the total amount of retained earnings of CZK 69,405 million (as at 31 December 2011: CZK 63,290 million) unconsolidated profit for the year 2012 amounts to CZK 13,259 million (2011: CZK: 14,288 million).
In compliance with the relevant regulations of the commercial code, the unconsolidated profit of the Company for the year 2012 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

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

Balance as at 31 December 2012	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and credits	–	3,107	–	–	3,107
Total	**-**	**3,107**	**-**	**-**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	505	–	4,197	–	4,702
Liabilities to employees	–	–	–	1,800	1,800
Social security	–	–	–	453	453
Others	–	–	–	988	988
Total	**505**	**-**	**4,197**	**3,241**	**7,943**
Trade liabilities					
Third parties	–	16,249	–	357	16,606
Subsidiaries	–	1,523	–	–	1,523
Other related parties	–	7,495	–	–	7,495
Total	**-**	**25,267**	**-**	**357**	**25,624**

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

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.5.3).

Balance as at 31 December 2011	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised costs	Financial liabilities designated as hedging instruments	Other*	Total
Financial liabilities					
Loans and credits	–	3,107	–	–	3,107
Total	**–**	**3,107**	**–**	**–**	**3,107**
Other liabilities					
Negative fair value of financial derivatives	(742)	–	7,672	–	6,930
Liabilities to employees	–	–	–	1,679	1,679
Social security	–	–	–	429	429
Others	–	–	–	603	603
Total	**(742)**	**–**	**7,672**	**2,711**	**9,641**
Trade liabilities					
Third parties	–	15,905	–	222	16,127
Subsidiaries	–	825	–	433	1,258
Other related parties	–	7,028	–	53	7,081
Total	**–**	**23,758**	**–**	**708**	**24,466**

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

Note:
The line Negative fair value of financial derivatives in the portfolio Financial liabilities designated as hedging instruments is represented by the spot component of financial derivatives and in the portfolio Financial liabilities at fair value through profit or loss it is represented by the forward component of financial derivatives (see also Note 2.5.3) As the spot component exceeded the fair value as at 31 December 2011, the forward component is negative.

The line Trade liabilities to other related parties includes liabilities to a factoring company within the Volkswagen Group of CZK 759 million as at 31 December 2012 (2011: CZK 1,138 million). These liabilities arose in the ordinary course of business and do not represent financing of the Company.
The detailed information relating to the liabilities arising out of financial derivatives can be found under Note 3.3.4.
The carrying value for other classes of financial liabilities (trade payables and loans) approximates the fair value as they include only current liabilities.
None of the financial liabilities are secured by a lien.

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

Carrying amount as at 31 December 2012 Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	 1-5 years	 > 5 years	Total
CZK	fixed	1-5 years	4.53 %	3,000	107	3,000	–	3,107
Total financial liabilities				**3,000**	**107**	**3,000**	**-**	**3,107**

Carrying amount as at 31 December 2011 Currency	Interest terms	Interest commitment ending	Weighted average effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	 1-5 years	 > 5 years	Total
CZK	fixed	1-5 years	4.53 %	3,000	107	3,000	–	3,107
Total financial liabilities				**3,000**	**107**	**3,000**	**-**	**3,107**

15. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority.
As at 31 December 2012 the Company recognised on the balance sheet deferred tax assets of CZK 1,012 million (2011: deferred tax asset CZK 1,762 million).
The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting, are as follows:

	Depreciation	Financial derivatives*	Provisions, Valuation allowances	Other	Total
Deferred tax liabilities					
Balance as at 1 January 2011	**(2,782)**	**(86)**	**-**	**-**	**(2,868)**
Credited/(debited) to the income statement	102	–	–	–	102
Charged to other comprehensive income	–	86	–	–	86
Balance as at 31 December 2011	**(2,680)**	**-**	**-**	**-**	**(2,680)**
Credited/(debited) to the income statement	(875)	–	–	–	(875)
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2012	**(3,555)**	**-**	**-**	**-**	**(3,555)**

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

	Depreciation	Financial derivatives*	Provisions, Valuation allowances	Other	Total
Deferred tax assets					
Balance as at 1 January 2011	**-**	**-**	**2,654**	**561**	**3,215**
Credited/(debited) to the income statement	–	–	282	(124)	158
Charged to other comprehensive income	–	1,069	–	–	1,069
Balance as at 31 December 2011	**-**	**1,069**	**2,936**	**437**	**4,442**
Credited/(debited) to the income statement	–	14	(5)	547	556
Charged to other comprehensive income	–	(431)	–	–	(431)
Balance as at 31 December 2012	**-**	**652**	**2,931**	**984**	**4,567**

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

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

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for personnel costs	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2011	**8,380**	**1,037**	**1,504**	**1,349**	**784**	**1,278**	**14,332**
Utilised	(2,393)	(991)	(391)	(1)	(161)	(478)	(4,415)
Additions	3,344	1,346	1,655	61	719	1,082	8,207
Interest expense / (income)	147	–	–	–	–	–	147
Reversals	(142)	(46)	(190)	(176)	(611)	(340)	(1,505)
Balance as at 1 January 2012	**9,336**	**1,346**	**2,578**	**1,233**	**731**	**1,542**	**16,766**
Utilised	(3,029)	(977)	(1,239)	–	(543)	(8)	(5,796)
Additions	3,411	1,156	1,361	27	268	646	6,869
Interest expense / (income)	111	–	–	–	–	–	111
Reversals	(244)	(112)	(243)	(407)	(188)	(490)	(1,684)
Balance as at 31 December 2012	**9,585**	**1,413**	**2,457**	**853**	**268**	**1,690**	**16,266**

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

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

	< 1 year	1-5 years	> 5 years	Total
Balance as at 31 December 2011				
Provisions for warranty claims	2,974	5,369	993	9,336
Provisions for other obligations arising from sales	1,346	–	–	1,346
Provisions for personnel costs	1,603	291	684	2,578
Provisions for litigation risks	1,233	–	–	1,233
Provisions for purchase risks	731	–	–	731
Other provisions	1,518	–	24	1,542
Total	**9,405**	**5,660**	**1,701**	**16,766**

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

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

Provisions for personnel costs include mainly provisions for other long-term employee benefits, severance payments and provision for management personnel remuneration.

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

The Company is not involved in any legal cases or arbitration proceedings for which no provision has been created and which could have a significant impact on the financial position and the financial results (financial statements) of the Company and there are no such proceedings expected in the near future.

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

Other provisions include mainly provision for tax risks and customs risks in countries where the Company operates.

17. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash and short-term deposits, short-term deposits in Volkswagen Group companies with original maturity of less than three months. The detailed information relating to the cash and cash equivalents can be found under Note 11.

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

Cash flows from operating activities are derived indirectly from profit before tax. Profit before tax is adjusted to eliminate non-cash expenses (mainly depreciation and amortisation) and income and changes in working capital.

Investing activities include additions to property, plant and equipment, financial assets, as well as to capitalised development cost. Financing activities include in addition to the outflows of cash from dividend payments, redemption of liabilities from financing, also outflows and inflows from other borrowings.

18. Sales (CZK million)

	2012	**2011**
Cars	204,378	197,746
Spare parts and accessories	14,306	13,071
Supplies of components within Volkswagen Group	14,610	15,366
Revenues from license fees	1,917	1,265
Services related to sales	292	180
Other	3,598	4,114
Total	**239,101**	**231,742**

Other sales relate mainly to sales of results of technical development, scrap and tooling.

19. Other operating income (CZK million)

	2012	2011
Foreign exchange gains	2,746	2,553
Income from derivative transactions	1,019	2,219
Gains on non-current assets disposal	44	10
Reversal of provisions and accruals	2,256	2,490
Reversal of provision for receivables	17	17
Services – others	630	339
Other	495	719
Total	**7,207**	**8,347**

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

20. Other operating expenses (CZK million)

	2012	2011
Foreign exchange losses	2,235	2,643
Losses from derivative transactions	3,035	1,078
Receivables write-offs	52	24
Other	887	238
Total	**6,209**	**3,983**

21. Financial result (CZK million)

	2012	2011
Interest income	370	478
Foreign exchange gains from cash	6	45
Foreign exchange gains from spot operations	340	337
Income from investments *	815	388
Gains on revaluation of financial derivatives including ineffective hedging	632	1,542
Financial income total	**2,163**	**2,790**
Interest expenses	468	531
Foreign exchange losses from cash	14	49
Foreign exchange losses from spot operations	338	378
Impairment losses investments in subsidiaries	922	1,141
Loss on revaluation of financial derivatives including ineffective hedging	1,713	760
Financial expenses total	**3,455**	**2,859**
Net financial result	**(1,292)**	**(69)**

* The line Income from investments also includes gain on disposal of the subsidiary, see Note 7.

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

	2012	2011
Financial instruments at fair value through profit or loss	(1,084)	781
Loans and receivables	319	725
Available for sale financial assets	1	21
Financial liabilities carried at amortised costs	218	(751)
Financial instruments designated as hedging instruments	(1,601)	1,481
Net gains / (losses) total	**(2,147)**	**2,257**

The line Financial instruments at fair value through profit or loss represents gains or losses in particular from the forward component of currency forwards and swaps.
Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest income from deposits in companies within Volkswagen Group, net interest loss from derivative hedging instruments, foreign exchange gains/losses from bank deposits and impairment losses on financial assets.

23. Income tax (CZK million)

	2012	2011
Current tax expense	**2,134**	**3,127**
of which: adjustment in respect of prior years	366	(114)
Deferred tax	**319**	**(260)**
Income tax total	**2,453**	**2,867**

Statutory income tax rate in the Czech Republic for the 2012 assessment period was 19% (2011: 19%). As at 31 December 2012 and 31 December 2011, 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)

	2012	2011
Profit before income tax	15,712	17,155
Expected income tax expense	**2,985**	**3,259**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(199)	(133)
Expenses not deductible for tax purposes	315	404
Tax allowances and other tax credits	(429)	(659)
Prior-period current tax expense	366	(114)
Reassessment and recognition of deferred tax from unused tax credits from investment incentives	(585)	110
Effective income tax expense	**2,453**	**2,867**
Effective income tax rate	16%	17%

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

24. Subsidies and investment incentives

Subsidies

In 2012, the Company recognised income from subsidies of entrepreneurial activities and employee training and retraining costs in the amount of CZK 123 million (2011: CZK 66 million).

Investment incentives

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

Model A SUV

The total amount of the incentive is limited to the amount of CZK 561 million. The project was completed in 2010.
As at 31 December 2012 (2011), utilisation of the investment incentive in the form of tax credit was regarded as uncertain by the Company and therefore, no related deferred tax asset was recognised.

Enlargement of production of parts of engine EA 211 and its assembly

The total amount of the incentive is limited to CZK 800 million. In 2012 (2011), the project was in progress and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2012 is CZK 531 million (31 December 2011: CZK 0 million). CZK 429 million out of this amount relates to amounts invested in prior periods. The deferred tax asset was not recognised as at 31 December 2011 because utilisation was regarded as uncertain.

Enlargement of production of transmissions - MQ 100

The total amount of the incentive is limited to CZK 496 million. In 2012 (2011), the project was in progress and the Company expects utilisation of the investment incentive in the future. The amount of deferred tax asset recognised as at 31 December 2012 is CZK 390 million (31 December 2011: CZK 335 million).

Enlargement of technical development - Česana Jih premises

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

25. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records subsequently to the reported tax year as governed by the respective legislation, and may impose additional tax assessments and penalties.
The Company's management is not aware of any circumstances that could result in material liabilities arising from the tax audits carried out at present or potentially in the future, except for the tax risks for which provision for tax risks has been created (see Note 16).

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

Future commitments as at balance sheet date are as follows:

	Payable until year 2013	Payable 2014-2017	31 December 2012
Investment commitments – property, plant and equipment	8,968	606	9,574
Investment commitments – intangible assets	3,857	3,434	7,291
Operating leasing payments	310	251	561

	Payable until year 2012	Payable 2013-2016	31 December 2011
Investment commitments – property, plant and equipment	10,894	1,328	12,222
Investment commitments – intangible assets	5,941	3,099	9,040
Operating leasing payments	178	248	426

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

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

	2012	2011
Material costs – raw materials and other supplies, goods	**162,712**	**158,044**
Production related services	**8,237**	**12,955**
Personnel costs	**18,123**	**17,099**
Wages	13,736	12,979
Pension benefit costs (defined contribution plans)	2,702	2,507
Social insurance and other personnel costs	1,685	1,613
Depreciation, amortisation and impairment losses	**11,792**	**12,601**
Other services	**22,231**	**18,183**
Total cost of sales, distribution and administrative expenses	**223,095**	**218,882**
Number of employees		
Number of employees*	26,909	26,265

* Average number of employees (including temporary employees).

28. Related party transactions

In 2012, there were no changes in the ownership structure of the Company and the company VOLKSWAGEN AG has been the ultimate parent company and the ultimate controlling party of the Company for the entire accounting period.

On 1 August 2012, the company VOLKSWAGEN AG gained full control over the Porsche AG Group. Since that date, all companies of this group are fully consolidated by the ultimate parent VOLKSWAGEN AG and are included in the category Companies controlled by ultimate parent company.

Items in category Other related parties are companies under joint control of VOLKSWAGEN AG, however, according to the law they do not meet the definition of an entity controlled by the same controlling entity pursuant to §66a of the Act No. 513/1991 Coll., Commercial Code, as amended. In 2012 and 2011, this category includes mainly transactions with Shanghai Volkswagen Automotive Company Ltd. and with those companies of the Porsche Holding GmbH Group and the Porsche AG Group, which were not fully consolidated in the respective periods by the ultimate parent VOLKSWAGEN AG.

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2012	2011
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	3,723	5,335
Subsidiaries		
Skoda Auto India Private Ltd.	2,198	4,443
ŠKODA AUTO Deutschland GmbH	48,007	46,687
ŠKODA AUTO Slovensko, s.r.o.	4,459	4,670
Skoda Auto Polska S.A.	–	10,336
Associates		
OOO VOLKSWAGEN Group Rus	24,845	16,462
Companies controlled by ultimate parent company	80,585	68,405
Other related parties	2,149	2,387
Total	**165,966**	**158,725**

The above table Sales to related parties comprises only revenues from sales of vehicles, spare parts and supplies of vehicle components.
In addition to revenues specified in the table Sales to related parties, in 2012 (2011) the Company also realised revenues from royalties:

	2012	2011
Revenues from license fees		
Ultimate parent company	–	112
Subsidiaries	20	42
Associates	129	72
Companies controlled by ultimate parent company	–	–
Other related parties	1,768	1,039
Total	**1,917**	**1,265**

In addition to the revenues specified in the table Sales to related parties, in 2012 (2011) the Company also realised revenues with related parties relating to interest from intercompany deposits:

	2012	2011
Interest income from deposits		
Ultimate parent company	2	8
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	317	416
Other related parties	–	–
Total	**319**	**424**

In addition to the revenues specified in the table Sales to related parties in 2012 Company recognised revenue on disposal of its 51% share on the subsidiary Skoda Auto Polska S.A. to parent Volkswagen International Finance N.V. (see Note 12) in the amount of CZK 361 million. More detailed information about the disposal of the subsidiary is included in Note 7.
Dividends received from subsidiaries are disclosed in Note 7. Dividends received from associates are disclosed in Note 8.

Purchases from related parties (CZK million)

	2012	2011
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	36,048	33,829
Subsidiaries		
Skoda Auto India Private Ltd.	49	94
ŠKODA AUTO Deutschland GmbH	758	553
ŠKODA AUTO Slovensko, s.r.o.	66	67
Skoda Auto Polska S.A.	–	196
Associates		
OOO VOLKSWAGEN Group Rus	331	203
Companies controlled by ultimate parent company	28,634	23,173
Other related parties	37	76
Total	**65,923**	**58,191**

The table Purchases from related parties comprises only purchases relating to trade activities.
The amount of dividends paid to the parent company is disclosed in Note 12

Receivables from related parties (CZK million)

	31 December 2012	31 December 2011
Parent company		
Volkswagen International Finance N.V.	–	-
Ultimate parent company		
VOLKSWAGEN AG	532	321
Subsidiaries		
Skoda Auto India Private Ltd.	505	786
ŠKODA AUTO Deutschland GmbH	232	22
ŠKODA AUTO Slovensko, s.r.o.	22	60
Skoda Auto Polska S.A.	–	87
Associates		
OOO VOLKSWAGEN Group Rus	2,932	3,508
Companies controlled by ultimate parent company	2,591	2,991
Other related parties	2,448	1,147
Total	**9,262**	**8,922**

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

	31 December 2012	31 December 2011
Receivables from royalties		
Ultimate parent company	–	-
Subsidiaries	13	17
Associates	169	84
Companies controlled by ultimate parent company	–	-
Other related parties	2,097	519
Total	**2,279**	**620**

In addition to trade receivables and receivables from royalties, the Company also had deposits in companies controlled by ultimate parent company in the total amount of CZK 36,500 million (31 December 2011: 44,800 million). Receivables from interest from the deposits as at 31 December 2012 amounted to CZK 34 million (31 December 2011: CZK 49 million). Average interest rate relating to these deposits is disclosed in Note 9 and Note 11.

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

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

Cash pooling balance with Volkswagen Group Services S.A. is disclosed in Note 11.

Investments in subsidiaries are disclosed in Note 7 and investments in associates are disclosed in Note 8.

Liabilities to related parties (CZK million)

	31 December 2012	31 December 2011
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,725	1,428
Subsidiaries		
Skoda Auto India Private Ltd.	379	1
ŠKODA AUTO Deutschland GmbH	1,082	1,127
ŠKODA AUTO Slovensko, s.r.o.	62	37
Skoda Auto Polska S.A.	–	92
Associates		
OOO VOLKSWAGEN Group Rus	16	18
Companies controlled by ultimate parent company	5,750	5,576
Other related parties	4	60
Total	**9,018**	**8,339**

Liabilities to related parties represent only trade liabilities for all the categories stated above.
In addition to the trade liabilities stated in the table above, the Company had a liability from a loan from VOLKSWAGEN AG of a total amount of CZK 3,000 million as at 31 December 2012 (31 December 2011: CZK 3,000 million). Interest payable relating to this loan amounts to CZK 107 million as at 31 December 2012 (31 December 2011: CZK 107 million). Details about the loan are specified in Note 14.

	31 December 2012	31 December 2011
Contractual obligations and other future commitments		
Ultimate parent company	6,958	8,284
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	345	736
Other related parties	–	–
Total	**7,303**	**9,020**

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)

	2012	2011
Salaries and other short-term employee benefits*	487	355
Other long-term employee benefits	12	14
Total	**499**	**369**

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

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company.
The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes the remuneration paid, payable or provided by the Company in the form of wages, salaries, bonuses and non-monetary remuneration.
CZK 252 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2012 (31 December 2011: CZK 130 million).

29. Other information (CZK million)

The compensation paid to the Company's auditors for the accounting period was CZK 31 million (2011: CZK 29 million) and covered the following services:

	2012	2011
Audit and other assurance services	15	16
Tax and related services	3	4
Other advisory services	13	9
Total	**31**	**29**

30. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the separate financial statements of the Company for the year ended 31 December 2012.

31. Information about Volkswagen Group

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

Mladá Boleslav, 14 February 2013

The Board of Management:

Winfried Vahland

Winfried Krause | Bohdan Wojnar | Frank Welsch

Werner Eichhorn | Karlheinz Emil Hell | Michael Oeljeklaus

Persons responsible for accounting:

Dana Němečková | Jana Fernández Zambrano

Report on relations

Report on relations between VOLKSWAGEN AG and ŠKODA AUTO AUTO a.s. and between ŠKODA AUTO a.s. and other entities controlled by VOLKSWAGEN AG in the accounting period 1 January 2012 - 31 December 2012

The report on relations between VOLKSWAGEN AG, having its registered office in Wolfsburg, Federal Republic of Germany, (hereinafter referred to as the "Controlling Entity" or "Volkswagen") and ŠKODA AUTO a.s., having its registered office in Mladá Boleslav, Tř. Václava Klementa 869, Post code: 293 60, ID No.: 00177041 (hereinafter referred to as the "Controlled Entity" or "the Company" or "ŠKODA AUTO"), and between ŠKODA AUTO and other entities controlled by Volkswagen in the accounting period 1 January 2012 to 31 December 2012 (hereinafter referred to as the "accounting period") was prepared pursuant to provision § 66a paragraph 9 of the Act No. 513/1991 Coll., Commercial Code, as amended.
Volkswagen was the sole shareholder of ŠKODA AUTO with 100% voting rights till 18 July 2007. At the date Volkswagen International Finance N.V., having its registered office in Amsterdam, The Kingdom of the Netherlands, became a new sole shareholder of ŠKODA AUTO due to structural changes within the Volkswagen Group. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of Volkswagen AG.
In accordance with the Commercial Code and internal policies, the Controlling Entity considers more detailed information regarding contracts, which are listed in the section "Contracts concluded" of this Report, as a matter of trade secret, which cannot be publicly disclosed. All transactions regarding the Controlling Entity arising from these contracts were carried out in adequate amounts and reflected contractual conditions in respect of price and quality of services that would be otherwise provided by third parties at the same time and on the same or similar market. For the above stated reasons, this report does not contain any information about prices, quantities or values.

Contracts concluded

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

1. Sale of own products, goods and services

a) vehicles

ŠKODA AUTO did not conclude any new contracts regarding sale of vehicles in the accounting period.

b) genuine parts

ŠKODA AUTO did not conclude any new contracts regarding sale of genuine parts in the accounting period.

c) other

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

AUDI AG
Centro Técnico De SEAT, S.A.
OOO VOLKSWAGEN Group Rus
SEAT, S.A.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
VOLKSWAGEN Group Italia S.p.A.
Volkswagen of South Africa (Pty.) Ltd.

2. Purchase of goods and services

a) production material and goods

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

Gearbox del Prat, S.A.
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen India Private Ltd.
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.

b) indirect material and services

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

AUDI AG
Audi Akademie GmbH
AUDI BRUSSELS S.A.
AUDI Elektronics Venture GmbH
AUDI HUNGARIA MOTOR Kft.
Audi Vertriebsbetreuungsgesellschaft mbH
Automotive Safety Technologies GmbH
Automobilmanufaktur Dresden GmbH
AutoVision GmbH
Bentley Motors Ltd.
Carmeq GmbH
Centro Técnico De SEAT, S.A.
e4t electronics for transportation s.r.o.
Gearbox del Prat, S.A.
Groupe VOLKSWAGEN France s.a.
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o.
Italdesign Giugiaro S.p.A.
OOO VOLKSWAGEN Group Rus
Porsche Austria GmbH & Co. OG
Porsche Consulting GmbH
Porsche Česká republika s.r.o.
Porsche Engineering Group GmbH
Porsche Inter Auto CZ spol. s r.o.
Porsche Inter Auto Hungaria Kft.
Porsche Makedonija dooel
PORSCHE ROMANIA SRL
Porsche SLOVENIJA d.o.o.
SEAT, S.A.
Scania Czech Republic s.r.o.
SITECH Sitztechnik GmbH
SITECH Sp. z o.o.
Skoda Auto India Private Ltd.
ŠKODA AUTO Deutschland GmbH
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen (China) Investment Company Ltd.
Volkswagen-Audi España S.A.
Volkswagen Automatic Transmission (Dalian) Co. Ltd.
Volkswagen Coaching GmbH

Volkswagen Design Center Potsdam GmbH
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
VOLKSWAGEN FINANCIAL SERVICES AG
Volkswagen Group Australia Pty Ltd.
Volkswagen Group Ireland Ltd.
VOLKSWAGEN Group Italia S.p.A.
VOLKSWAGEN Group Japan K.K.
Volkswagen Group of America, Inc.
Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Sverige AB
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen India Private Ltd.
Volkswagen Logistics GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Motorsport GmbH
Volkswagen Navarra, S.A.
Volkswagen Poznan Sp. z o.o.
Volkswagen Procurement Services GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SARAJEVO, d.o.o
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Versicherungsvermittlung GmbH
Volkswagen Zubehör GmbH

c) genuine parts
ŠKODA AUTO entered into new contracts regarding purchases of genuine parts with the following companies:
AUDI HUNGARIA MOTOR Kft.
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.

d) investments
ŠKODA AUTO entered into new contracts regarding purchases of investments with the following companies:
e4t electronics for transportation s.r.o.
SEAT Sport S.A.
VOLKSWAGEN AG
Volkswagen Coaching GmbH
Volkswagen Procurement Services GmbH

3. Other contractual relationships

ŠKODA AUTO also established new contractual relationships (particularly marketing services, training, sales support, financial services, system support, consultancy, and production of cars) with the following companies:
AUDI AG
Groupe VOLKSWAGEN France s.a.
Intercar Austria GmbH
OOO VOLKSWAGEN Group Rus
Porsche Albania Sh.p.k.
Porsche Hungaria Handels Kft.
Porsche Makedonija dooel
Porsche Romania s.r.l,
Porsche SLOVENIJA d.o.o
SEAT, S.A.
SEAT Sport S.A.

- Skoda Auto India Private Ltd.
- Skoda Auto Polska S.A.
- ŠKODA AUTO Deutschland GmbH
- ŠKODA AUTO Slovensko, s.r.o.
- ŠkoFIN s.r.o.
- VOLKSWAGEN AG
- Volkswagen Group Australia Pty Ltd.
- Volkswagen Group Import Company Ltd.
- Volkswagen Group Ireland Ltd.
- VOLKSWAGEN Group Italia S.p.A.
- Volkswagen Group Polska Sp. z o.o.
- Volkswagen Group Sverige AB
- Volkswagen (China) Investment Company Ltd.
- VOLKSWAGEN Group United Kingdom Ltd.
- Volkswagen Motorsport GmbH
- Volkswagen-Audi España S.A.
- Volkswagen of South Africa (Pty.) Ltd.
- VOLKSWAGEN SLOVAKIA, a.s.
- Volkswagen Versicherungsvermittlung GmbH
- Volkswagen Zubehör GmbH

Transactions relating to contracts concluded in previous years

Besides companies disclosed in points 1, 2 and 3, the Controlled Entity carried out transactions with the following companies, controlled by the same controlling entity, based on contracts concluded in previous years.

- Audi (China) Enterprise Management Co. Ltd.
- Automobili Lamborghini S.p.A.
- Autostadt GmbH
- BUGATTI Automobiles S.A.S
- Euromobil Autovermietung GmbH
- Import VOLKSWAGEN Group s.r.o.
- MMI Marketing Management Institut GmbH
- Porsche Holding Salzburg Automotive
- Porsche Slovakia spol. s r.o.
- PSW automotive engineering GmbH
- Seat Deutschland GmbH
- Shanghai Volkswagen Powertrain Company Ltd.
- ŠKO-ENERGO FIN, s.r.o.
- ŠKO-ENERGO, s.r.o.
- Volkswagen Autoeuropa, Lda.
- Volkswagen de México S.A. de C.V.
- Volkswagen Group Sales India P.L.
- Volkswagen Group Services S.A.
- Volkswagen Immobilien GmbH
- Volkswagen Leasing GmbH
- Volkswagen Original Teile Logistik GmbH & Co. KG
- Volkswagen Osnabrück GmbH

Other legal acts

On 1 January 2012, the Company sold its 51% share in the subsidiary Skoda Auto Polska S.A. to parent Volkswagen International Finance N.V. As a result, the Company has lost the entire interest in the subsidiary Skoda Auto Polska S.A. Consideration from the sale of the subsidiary amounts of CZK 361,118 thousand.
In the accounting period no further legal acts were reported which were carried out in favour of Volkswagen and entities controlled by Volkswagen, which went beyond the scope of standard legal acts carried out by Volkswagen while exercising its rights as the Controlling Entity of ŠKODA AUTO.
ŠKODA AUTO paid a dividend of CZK 7,143,970 thousand to Volkswagen International Finance N.V., as the

sole shareholder, on 5 April 2012 based on the Decision of the sole shareholder Volkswagen International Finance N.V. from 23 March 2012.
In 2012, dividends and share in profit of CZK 370,875 thousand were paid out to the Company by the subsidiaries. In 2012, dividends and share in profit of CZK 83,803 thousand were paid out to the Company by the associates.

Other measures, their advantages and disadvantages

During the accounting period, ŠKODA AUTO did not adopt or take any measures on the behalf of or at the incentive of Volkswagen, and other entities controlled by Volkswagen, other than steps normally taken vis-a-vis Volkswagen as the Controlling Entity of ŠKODA AUTO.

Performance provided and counter-performance accepted

In the accounting period no other performance and counter-performance in favour or at the initiative of Volkswagen, and entities controlled by Volkswagen, which exceeded the scope of standard performance and counter-performance taken by ŠKODA AUTO regarding Volkswagen, as the Controlling Entity of ŠKODA AUTO, were taken or implemented by ŠKODA AUTO.
Total values of transactions with related parties among which belong also the related entities during the accounting period are disclosed in the notes 7, 8, 9, 12, 14 and 28 of the notes to the separate financial statements.
The Board of Directors of the Controlled Entity declares that ŠKODA AUTO did not suffer from any damage or detriment as a result of the conclusion of the above mentioned contracts, the other aforesaid legal acts, other measures, performance provided or accepted counter-performance.

In Mladá Boleslav, 14 February 2013

Members of Board of Directors:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Karlheinz Emil Hell

Michael Oeljeklaus

Glossary of terms and abbreviation

BilMoG – Bilanzrechtsmodernisierungsgesetz – German Accounting Act

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

CKD – completely knocked down, pressed and welded parts of certain body sub-assemblies, all parts for assembly including engine, gearbox, chassis and fluids

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

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

Deliveries to customers – number of ŠKODA -brand vehicles delivered to end customers that were produced in ŠKODA AUTO Group and/or partner plants

EGAP – Export Guarantee and Insurance Corporation

Gross liquidity – liquid funds, i.e. cash, short-term deposits and short-term lendings

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

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

Investment ratio – ratio of capital expenditures (less capitalised development expenses) to total sales revenues

KonTraG – Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – German Information Disclosure and Transparency Act

MPV – multi-purpose vehicle in the mid-range category of cars

Net liquidity – gross liquidity less financial obligations and liabilities to a factoring company within the Volkswagen Group

Platform MQB – Modularer Querbaukasten – modular platform

Production – number of vehicles produced. The total production figure also includes production of vehicles for other Volkswagen Group brands (Volkswagen, Audi and SEAT). For accuracy, vehicle assembly kits are reported in the vehicles segment

Sales – number of vehicles sold to importers and dealers. The unit sales figure also includes sales of vehicles manufactured by other Volkswagen Group brands (SEAT vehicles sold by ŠAS; VW and AUDI vehicles sold by SAIPL). For accuracy, vehicle assembly kits are reported in the vehicles segment

SAIPL – Skoda Auto India Private Ltd., a subsidiary ŠKODA AUTO a.s.

SKD – semi-knocked down, fully equipped car body, power train, chassis, exhaust manifold, small parts for assembly and operating fluids

SUV – Sport utility vehicle in the mid-range category of cars

Temporary workers – employees of a labour agency who are temporarily seconded to work for a different employer

List of non-consolidated capital holdings of ŠKODA AUTO

ŠKODA AUTO a.s.

ŠKO-ENERGO, s.r.o

Mladá Boleslav, Czech Republic
ŠKODA AUTO stake: 44.5%

Principal business:
generation and distribution of heat,
electricity generation and trading,
gas distribution,
production of drinking and service water,
water mains and sewer systems operation.

e4t electronics for transportation s.r.o

Prague, Czech Republic
ŠKODA AUTO stake: 49.0%

Principal business:
Research and development in the field of natural,
technical and social sciences,
training and consulting services.

Persons responsible for the annual report and post-balance sheet events

Events after the Balance Sheet Date

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

Affirmation

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

Mladá Boleslav, on 7 March 2013

The Board of Management:

Winfried Vahland

Winfried Krause

Bohdan Wojnar

Frank Welsch

Werner Eichhorn

Karlheinz Emil Hell

Michael Oeljeklaus

Persons responsible for accounting:

Dana Němečková

Jana Fernández Zambrano

Key figures and financial results at a glance*

ŠKODA AUTO key figures and financial results according to CAS

Production, sales and technical data

		1999	2000	2001	2002	2003	2004
Deliveries to customers	**vehicles**	**385,330**	**435,403**	**460,252**	**445,525**	**449,758**	**451,675**
Sales	**vehicles**	**376,329**	**448,394**	**460,670**	**440,572**	**438,843**	**441,820**
Production	**vehicles**	**371,169**	**450,910**	**460,886**	**442,469**	**437,554**	**444,121**
Employees	persons	22,030	25,833	24,129	23,470	22,798	24,561

Profit and loss account

		1999	2000	2001	2002	2003	2004
Sales revenue	**CZK millions**	**110,409**	**136,283**	**153,271**	**145,694**	**145,197**	**153,550**
of which:							
Domestic	%	19	18	18	18	17	15
Export	%	81	82	82	82	83	85
Raw materials and consumables	CZK millions	80,426	105,996	116,350	109,868	108,283	115,382
	% of revenues	72.8	77.8	75.9	75.4	74.6	75.1
Value added	**CZK millions**	**18,513**	**18,977**	**22,296**	**22,056**	**23,343**	**24,884**
	% of revenues	16.8	13.9	14.6	15.1	16.0	16.2
Staff costs	CZK millions	6,629	7,465	7,583	7,834	8,060	8,500
Depreciation	CZK millions	6,516	7,768	9,646	10,826	10,296	10,606
Operating profit	**CZK millions**	**5,237**	**5,204**	**4,643**	**3,677**	**5,209**	**5,856**
	% of revenues	4.7	3.8	3.0	2.5	3.6	3.9
Financial result	CZK millions	(1,422)	(1,029)	(1,969)	(1,188)	(2,692)	(1,041)
Profit before income tax	**CZK millions**	**3,814**	**4,175**	**2,674**	**2,489**	**2,517**	**4,815**
Profit before income tax-to-revenues ratio	%	3.5	3.1	1.7	1.7	1.7	3.2
Tax on profit or loss	CZK millions	1,177	839	545	664	1,039	1,318
Profit for the year	**CZK millions**	**2,637**	**3,336**	**2,129**	**1,825**	**1,478**	**3,497**
Profit for the year-to-revenues ratio	%	2.4	2.4	1.4	1.3	1.0	2.3

* The financial results reported according to CAS are not comparable with the financial results reported according to IFRS.

Balance sheet / financing

		1999	2000	2001	2002	2003	2004
Fixed assets	**CZK millions**	**33,687**	**39,175**	**45,008**	**44,873**	**44,074**	**41,143**
Current assets and other assets	**CZK millions**	**21,923**	**27,486**	**21,603**	**21,945**	**22,077**	**30,694**
of which:							
Loans to and deposits	CZK millions	–	–	–	–	–	8,600
Equity	**CZK millions**	**22,700**	**26,032**	**28,157**	**29,817**	**31,758**	**32,844**
Liabilities and other liabilities	**CZK millions**	**32,910**	**40,629**	**38,454**	**37,001**	**34,393**	**38,993**
of which:							
Bonds	CZK millions	–	10,000	10,000	10,000	10,000	10,000
Provisions under special regulations	CZK millions	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	3,000	4,850	2,000	5,000	–	–
Assets	**CZK millions**	**55,610**	**66,661**	**66,611**	**66,818**	**66,151**	**71,837**
Net liquidity	**CZK millions**	**(1,339)**	**(4,007)**	**(798)**	**(4,660)**	**2,495**	**4,534**
Investments	**CZK millions**	**11,313**	**13,873**	**16,235**	**11,586**	**10,248**	**8,430**
Investment ratio	%	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1	79.8

Key figures and financial results according to IFRS

Production, sales and technical data

		ŠKODA AUTO Group				ŠKODA AUTO Company			
		2005	**2006**	**2007**	**2008**	**2005**	**2006**	**2007**	**2008**
Deliveries to customers	**vehicles**	**492,111**	**549,667**	**630,032**	**674,530**	**492,111**	**549,667**	**630,032**	**674,530**
Sales	**vehicles**	**498,467**	**562,251**	**619,635**	**625,819**	**493,119**	**555,202**	**623,085**	**622,090**
Sales of ŠKODA cars		496,387	559,821	617,269	621,683	493,119	555,202	623,085	622,083
Production	**vehicles**	**494,127**	**556,347**	**623,291**	**606,614**	**494,637**	**556,433**	**623,529**	**603,247**
Production of ŠKODA cars		494,127	556,347	622,811	603,981	494,637	556,433	623,529	603,247
Employees*	persons	26,742	27,680	29,141	26,695	26,014	26,738	27,753	25,331

		ŠKODA AUTO Group				ŠKODA AUTO Company			
		2009	**2010**	**2011**	**2012**	**2009**	**2010**	**2011**	**2012**
Deliveries to customers	**vehicles**	**684,226**	**762,600**	**879,184**	**939,202**	**684,226**	**762,600**	**879,184**	**939,202**
Sales	**vehicles**	**551,604**	**584,763**	**690,350**	**726,576**	**539,382**	**583,780**	**676,787**	**691,853**
Sales of ŠKODA cars		545,690	576,270	679,112	708,956	539,380	583,780	676,785	686,948
Production	**vehicles**	**522,542**	**583,333**	**681,880**	**669,341**	**519,910**	**576,362**	**673,127**	**656,306**
Production of ŠKODA cars		519,645	575,742	674,010	651,750	519,910	576,362	673,127	651,306
Employees*	persons	26,153	24,714	26,565	26,404	24,817	23,308	24,936	24,788

* In 2010 the method of reporting the employee's headcount was altered. The number of employees is reported excluding temporary employees and including apprentices and represents actual number of employees as at 31 December.

Profit and loss account

		ŠKODA AUTO Group				ŠKODA AUTO Company			
		2005	2006	2007	2008	2005	2006	2007	2008
Sales revenue	**CZK millions**	**187,382**	**203,659**	**221,967**	**200,182**	**177,822**	**189,816**	**211,026**	**188,572**
of which:									
Domestic	%	13.3	12.6	11.8	11.9	14.0	13.5	12.4	12.7
Export	%	86.7	87.4	88.2	88.1	86.0	86.5	87.6	87.3
Cost of sales	**CZK millions**	**163,738**	**175,636**	**185,474**	**171,523**	**159,187**	**167,709**	**180,865**	**165,600**
	% of revenues	87.4	86.2	83.6	85.7	89.5	88.4	85.7	87.8
Gross profit	**CZK millions**	**23,644**	**28,023**	**36,493**	**28,659**	**18,635**	**22,107**	**30,161**	**22,972**
	% of revenues	12.6	13.8	16.4	14.3	10.5	11.6	14.3	12.2
Distribution expenses	CZK millions	10,611	11,903	13,201	12,804	6,558	6,905	7,964	7,590
Administrative expenses	CZK millions	3,676	3,587	4,207	4,712	3,329	3,161	3,701	4,223
Balance of other operating revenues/costs	CZK millions	1,503	2,069	699	2,477	1,256	1,735	525	1,477
Operating profit	**CZK millions**	**10,860**	**14,602**	**19,784**	**13,620**	**10,004**	**13,776**	**19,021**	**12,636**
	% of revenues	5.8	7.2	8.9	6.8	5.6	7.3	9.0	6.7
Financial result	CZK millions	(787)	(404)	171	262	(564)	(216)	425	651
Profit before income tax	**CZK millions**	**10,073**	**14,198**	**19,860**	**13,376**	**9,440**	**13,560**	**19,446**	**13,287**
Profit before income tax-to-revenues ratio	%	5.4	7.0	8.9	6.7	5.3	7.1	9.2	7.0
Income tax expense	CZK millions	2,180	3,136	3,878	2,558	2,077	2,678	3,554	2,020
Profit for the year*	**CZK millions**	**7,893**	**11,062**	**15,982**	**10,818**	**7,363**	**10,882**	**15,892**	**11,267**
Profit for the year-to-sales ratio	%	4.2	5.4	7.2	5.4	4.1	5.7	7.5	6.0

* Consolidated figures are given net of non-controlling interests.

Profit and loss account

		ŠKODA AUTO Group				ŠKODA AUTO Company			
		2009	2010	2011	2012	2009	2010	2011	2012
Sales revenue	**CZK millions**	**187,858**	**219,454**	**252,562**	**262,649**	**170,666**	**203,695**	**231,742**	**239,101**
of which:									
Domestic	%	11.5	10.0	8.7	8.3	12.5	10.7	9.5	9.2
Export	%	88.5	90.0	91.3	91.7	87.5	89.3	90.5	90.8
Cost of sales	**CZK millions**	**166,296**	**190,234**	**215,956**	**221,751**	**155,868**	**180,343**	**201,765**	**203,216**
	% of revenues	88.5	86.7	85.5	84.4	91.3	88.5	87.1	85.0
Gross profit	**CZK millions**	**21,562**	**29,220**	**36,606**	**40,898**	**14,798**	**23,352**	**29,977**	**35,885**
	% of revenues	11.5	13.3	14.5	15.6	8.7	11.5	12.9	15.0
Distribution expenses	CZK millions	13,153	14,509	17,549	19,179	7,702	9,449	11,613	13,724
Administrative expenses	CZK millions	4,826	5,256	6,123	6,855	4,320	4,666	5,504	6,155
Balance of other operating revenues/ costs	CZK millions	2,341	1,861	5,323	3,053	1,948	1,798	4,364	998
Operating profit	**CZK millions**	**5,924**	**11,316**	**18,257**	**17,917**	**4,724**	**11,035**	**17,224**	**17,004**
	% of revenues	3.2	5.2	7.2	6.8	2.8	5.4	7.4	7.1
Financial result	CZK millions	(667)	(382)	791	(1,255)	(343)	180	(69)	(1,292)
Profit before income tax	**CZK millions**	**4,702**	**10,586**	**19,275**	**17,934**	**4,381**	**11,215**	**17,155**	**15,712**
Profit before income tax-to-revenues ratio	%	2.5	4.8	7.6	6.8	2.6	5.5	7.4	6.6
Income tax expense	CZK millions	1,240	1,747	3,200	2,580	942	1,811	2,867	2,453
Profit for the year*	**CZK millions**	**3,462**	**8,839**	**16,075**	**15,354**	**3,439**	**9,404**	**14,288**	**13,259**
Profit for the year-to-sales ratio	%	1.8	4.0	6.4	5.8	2.0	4.6	6.2	5.5

* Consolidated figures are given net of non-controlling interests.

Balance sheet / financing

		ŠKODA AUTO Group				ŠKODA AUTO Company			
		2005	2006	2007	2008	2005	2006	2007	2008
Non-current assets	**CZK millions**	**55,424**	**54,292**	**56,767**	**60,017**	**55,023**	**53,936**	**56,903**	**60,119**
Current assets	**CZK millions**	**34,331**	**50,920**	**59,014**	**62,439**	**28,956**	**43,499**	**48,658**	**51,276**
of which:									
Loans and deposits	CZK millions	11,200	23,950	25,554	25,721	11,200	23,950	25,554	25,238
Equity*	**CZK millions**	**46,757**	**58,321**	**67,034**	**71,608**	**46,483**	**58,007**	**66,532**	**71,721**
Non-current and current liabilities	**CZK millions**	**42,998**	**46,891**	**48,747**	**50,848**	**37,496**	**39,428**	**39,029**	**39,674**
of which:									
Nominal value of bonds	CZK millions	5,000	5,000	2,000	2,000	5,000	5,000	2,000	2,000
Assets	**CZK millions**	**89,755**	**105,212**	**115,781**	**122,456**	**83,979**	**97,435**	**105,561**	**111,395**
Net liquidity	**CZK millions**	**4,911**	**21,157**	**29,736**	**18,272**	**6,070**	**19,352**	**26,283**	**18,676**
Cash flows from operating activities	**CZK millions**	**23,550**	**27,420**	**30,787**	**13,014**	**21,421**	**24,203**	**29,275**	**13,978**
Cash flows from investing activities	**CZK millions**	**(11,566)**	**(11,090)**	**(13,785)**	**(16,147)**	**(11,299)**	**(10,910)**	**(13,913)**	**(14,445)**
Investment ratio	%	4.7	4.1	4.9	5.6	4.8	4.3	4.9	5.4
Equity ratio	%	52.1	55.4	57.9	58.5	55.4	59.5	63.0	64.4
Equity-to-fixed assets ratio	%	84.4	107.4	118.1	119.3	84.5	107.5	116.9	119.3

* Consolidated figures are given net of non-controlling interests.

Balance sheet / financing

		ŠKODA AUTO Group				ŠKODA AUTO Company			
		2009	2010	2011	2012	2009	2010	2011	2012
Non-current assets	**CZK millions**	**59,083**	**58,864**	**64,686**	**83,493**	**59,926**	**59,989**	**64,441**	**81,586**
Current assets	**CZK millions**	**59,293**	**76,872**	**88,871**	**76,493**	**48,099**	**62,278**	**71,130**	**59,656**
of which:									
Loans and deposits	CZK millions	13,562	35,678	49,088	38,131	13,562	34,378	44,848	36,534
Equity*	**CZK millions**	**68,180**	**74,772**	**81,211**	**90,906**	**68,519**	**75,682**	**80,407**	**88,302**
Non-current and current liabilities	**CZK millions**	**50,196**	**60,964**	**72,346**	**69,080**	**39,506**	**46,585**	**55,164**	**52,940**
of which:									
Nominal value of bonds	CZK millions	2,000	–	–	–	2,000	–	–	–
Assets	**CZK millions**	**118,376**	**135,736**	**153,557**	**159,986**	**108,025**	**122,267**	**135,571**	**141,242**
Net liquidity	**CZK millions**	**28,013**	**40,211**	**47,348**	**34,890**	**23,350**	**35,047**	**41,399**	**30,872**
Cash flows from operating activities	**CZK millions**	**26,529**	**28,168**	**28,251**	**23,443**	**22,321**	**26,256**	**27,267**	**23,819**
Cash flows from investing activities	**CZK millions**	**(10,942)**	**(23,313)**	**(28,225)**	**(7,032)**	**(11,454)**	**(22,590)**	**(27,716)**	**(6,042)**
Investment ratio	%	5.4	4.6	5.6	8.0	6.0	4.9	6.0	8.6
Equity ratio	%	57.6	55.1	52.9	56.8	63.4	61.9	59.3	62.5
Equity-to-fixed assets ratio	%	115.4	127.0	125.5	108.9	114.3	126.2	124.8	108.2

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