SIMPLY CLEVER

ŠKODA

ŠKODA Annual Report 2015

ŠKODA AUTO a.s.

Contents

Foreword

Bernhard Maier
Chairman of the Board of Management

Ladies and Gentlemen,

2015 was a successful year for ŠKODA brand with new record results. We continued our model campaign and for the second time in our company's 120-year history, we produced more than a million cars in one calendar year and delivered them to customers. Around 25 years after becoming part of Volkswagen Group, ŠKODA brand has effectively established itself in the high-volume segments of international car markets. Turnover and operating profit also reached new record values.

The results achieved in 2015 show the power of the ŠKODA brand and the high level of acceptance our cars have achieved. The largest model campaign in the company's history is increasingly demonstrating its strength. In the last four years, we have updated our product range and expanded into new segments. With seven model series and over 40 model variants, we offer the most attractive and widest ŠKODA range of all time.

We will continue our journey just as dynamically. In 2015, we made important steps in setting the course towards doing so. With the launch of the new ŠKODA Superb, we made a real statement in the automotive industry. Our new flagship is delighting our customers with its state-of-the-art technology, plenty of comfort and ŠKODA's new emotive design language. The success of our top-of-the-range model is exceeding all expectations. The ŠKODA Superb thereby points to the future of our model range in an impressive fashion.

The brand will also vigorously press ahead with the expansion of its model range in 2016. In particular, ŠKODA will position itself more broadly in the important SUV segment. We have already established a very successful model in this market with the ŠKODA Yeti. At the Paris Motor Show, we will now present another model – a new, larger SUV model. In doing so, we will strengthen our position in the fastest-growing car segment.

We are working intensively on future mobility. ŠKODA AUTO is currently developing the 2025 Strategy for this purpose. We are placing a particular emphasis on the topics of electromobility, digitalisation and connectivity. In the next ten years, we expect a significant change within the industry in these areas. At the same time we investigate further development areas such as new markets and new business opportunities in the field of products and services.

I am convinced: ŠKODA AUTO is on the right track. This year, we will also face challenging markets and we will have to absorb the effects of a wide range of different crises. Nevertheless, we have every reason to be confident. With new inspiring models, a convincing strategy and with a top team, we will continue the brand's success story over the coming years.

Yours,

Bernhard Maier
Chairman of the Board of Management

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 17 March 2015, VOLKSWAGEN FINANCE LUXEMBURG S.A., as the sole shareholder of ŠKODA AUTO a.s., approved a proposal for commissioning PricewaterhouseCoopers Audit, s.r.o. to carry out an audit of the financial statements for the 2015 accounting period.

An unqualified audit opinion was issued on separate financial statements of the ŠKODA AUTO a.s. pursuant to IFRS as adopted by the EU as at 31 December 2015. Other information included in the annual report but not the financial statements or the independent auditor's report is, according to the auditor, consistent in all material respects with the financial statements of the ŠKODA AUTO a.s.

At its meeting on 3 March 2016, 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 as adopted by the EU. The Supervisory Board also reviewed the report on relations between affiliated persons for 2015 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2015 and the proposal for the distribution of profits to the sole shareholder, VOLKSWAGEN FINANCE LUXEMBURG S.A., for approval.

Frank Witter
Chairman of the Supervisory Board

Management Report

ŠKODA AUTO Company Profile

The company ŠKODA AUTO a.s. ("the Company" or "ŠKODA AUTO"), headquartered in Mladá Boleslav, is an industrial heavyweight in the Czech Republic and one of the world's oldest car makers. Its origins go back to 1895, when Václav Laurin and Václav Klement set up a firm paving the way for more than a century of Czech car production. ŠKODA AUTO currently employs more than 25,400 people.

The ŠKODA brand has been part of the Volkswagen Group for more than 20 years. During this time, ŠKODA AUTO deliveries have increased substantially and its product portfolio has expanded significantly.

The Company's principal business activities are the development, production and sale of ŠKODA cars, components, genuine parts and accessories, and the provision of servicing.

The sole shareholder of ŠKODA AUTO a.s. is VOLKSWAGEN FINANCE LUXEMBURG S.A., established in Luxembourg, Luxembourg. VOLKSWAGEN FINANCE LUXEMBURG S.A. is a subsidiary of VOLKSWAGEN AG.

ŠKODA AUTO runs production plants in the Czech Republic. ŠKODA-branded cars are also manufactured in China, Russia, India, Slovakia, Ukraine and Kazakhstan. This international presence will be the springboard for ŠKODA AUTO's planned growth over the next few years, the conditions for which 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.

ŠKODA AUTO Bodies

Supervisory Board

Frank Witter (*1959)
Chairman of the Supervisory Board since 12 November 2015
(Member of the Supervisory Board since 9 November 2015)
Member of the Board of Management of VOLKSWAGEN AG with responsibility for Finance and Controlling

Matthias Müller (*1953)
Member of the Supervisory Board since 1 November 2015
Chairman of the Board of Management of VOLKSWAGEN AG

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

Peter Daniell Porsche (*1973)
Member of the Supervisory Board since 1 January 2015
Teacher and Music Therapist

Florina Louise Piëch (*1987)
Member of the Supervisory Board since 1 January 2015
Designer

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 KOVO MB Trade Union Works Council

Miloš Kovář (*1964)
Member of the Supervisory Board since 1 May 2015
KOVO MB Trade Union Specialist

Board of Management

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

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

Werner Eichhorn (*1963)
Member of the Board of Management since 1 September 2012
Previous position:
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
Previous position:
Member of the Board of Management for Production and Technical Development, Shanghai-Volkswagen Automotive Company Limited (2005–2010)

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

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

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

Audit Committee

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

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

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

Changes to the Supervisory Board, Board of Management and Audit Committee:

Left office at end of term of office:
Ing. Jan Miller – Member of the Supervisory Board from 16 April 1993 to 30 April 2015

Resigned from the Supervisory Board:
Christian Klingler – Chairman of the Supervisory Board from 22 June 2012 to 5 October 2015
Prof. Dr. rer. nat. Martin Winterkorn – Member of the Supervisory Board from 1 January 2010 to 10 November 2015

Appointed to the Supervisory Board:
Miloš Kovář – Member of the Supervisory Board since 1 May 2015
Matthias Müller – Member of the Supervisory Board since 1 November 2015
Frank Witter – Member of the Supervisory Board since 9 November 2015, Chairman of the Supervisory Board since 12 November 2015

Resigned from the Board of Management:
Prof. Dr. h.c. Winfried Vahland – Chairman of the Board of Management from 1 September 2010 to 31 October 2015
Dr.-Ing. Frank Welsch – Member of the Board of Management from 1 September 2012 to 30 November 2015

Appointed to the Board of Management:
Bernhard Maier – Member of the Board of Management since 1 November 2015, Chairman of the Board of Management since 2 November 2015
Dipl.-Ing. Christian Strube – Member of the Board of Management since 1 December 2015, Technical Development

Declaration of Compliance with the Code of Corporate Governance

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

Against this backdrop, since 2007 ŠKODA AUTO has embraced the relevant recommendations and rules of the Code of Corporate Governance of OECD-based Companies ("the Code"), as updated under the guidance of the Securities Commission in 2004. The Company aims to continuously improve internal processes and rules in accordance with the Code to further encourage transparency and compliance with regulations and ethical behaviour in business in the Czech Republic.

Level of Compliance with Recommendations of the Code of Corporate Governance

In line with best practice at the Volkswagen Group, the majority of the Company's internal governance processes have long been configured in accordance with the Code. Bearing in mind the Company's shareholding structure (comprising a single shareholder – VOLKSWAGEN FINANCE LUXEMBURG S.A.), VOLKSWAGEN AG's organisational structure (see the VOLKSWAGEN AG website) and the fact that the Company is not listed, certain recommendations under the Code are irrelevant or, in the interests of efficiency and synergy, have been duly transferred to the VW Group level for handling. Company policies also draw on the "Code of Conduct at ŠKODA Group – Member of the Volkswagen Group" ("Code of Conduct") adopted and distributed to employees in the third quarter of 2012. The Code of Conduct briefs employees on rules deriving from legislation that could bear down most heavily on the Company. It also encourages employees to comply with universally recognised social values.

In this respect, the Code of Conduct clearly formulates the Company's general requirements regarding the behaviour of its employees, reminds them of their role in protecting the Company's reputation, and details rules on the prevention of conflicts of interest and corruption and on the handling of Company information and assets. The Code of Conduct also outlines basic yardsticks of behaviour towards business partners and third parties and clearly formulates the Company's interest in protecting fair competition. Other Company commitments covered by the Code of Conduct include occupational health and safety and environmental protection.

The Company does not fully comply with the recommendation of the Code of Corporate Governance under Section VI-E-2 (in conjunction with paragraph 18 of the Code annotations) that it should establish committees responsible for remuneration and nominations. In view of the Company's distinct shareholder structure, committee-related activities are concertedly ceded to the VW Group level as far as this is effective. The activities of the remuneration and nomination committee including relevant disclosures are carried out by the VOLKSWAGEN AG Board of Management's Committee for Management Issues.

Nor is the Company fully compliant with the recommendation of Section VI-E-1 of the Code (in conjunction with paragraph 5 of the Code annotations) that the Board of Management or Supervisory Board should have a sufficient number of members who are not employed by the Company and are not in a close relationship with the Company or its management through significant economic, family or other ties.

The above conflict with the respective provisions of the Code does not constitute a failure to comply with the mandatory requirements of Czech law and poses no legal risk to the Company.

Governance, Risk & Compliance, a unit active within the Company since 2011, is tasked, among other things, with providing guidance on issues of governance and compliance and with introducing a prevention programme for the Company and its subsidiaries. It also supports the Internal Audit unit in the enforcement of internal standards and legal requirements.

Strategy

In 2015, ŠKODA AUTO moved forward with its Growth Strategy and reached important milestones.

The current ŠKODA Growth Strategy covers the period from 2010 to 2018. Aiming to update this strategy to reflect future requirements, the Board of Management started working on a plan called Strategy 2025. The Volkswagen Group has set its sights on the same timeframe.

The strategy for the future of the ŠKODA brand grapples with a period that will usher in monumental change in personal mobility. New technical capabilities and increasing digitisation in the transport sector will redefine customers' individual driving experience in the coming years. The watchwords here are e-mobility, connectivity, autonomous driving, infotainment and attainment of the greenest possible values.

The car will remain an important way to get around because it will still be second to none in satisfying our longing for safe, environmentally friendly, comfortable and independent mobility.

ŠKODA AUTO is focused on helping to shape this car-centric future. Under its Strategy 2025, ŠKODA AUTO will respond to tomorrow's road transport challenges and, in doing so, will chart a course for the ŠKODA brand.

The main highlights of the medium-term strategy are the expansion of the product range to embrace further SUV models and the introduction of intelligent connectivity systems. New ŠKODA SUVs will be launched on the market in 2016/2017. E-mobility will be keeping ŠKODA AUTO busy as it pursues its CO_2 emission abatement targets. Other important technological areas are connectivity and the attendant innovative infotainment. ŠKODA will also focus on simplifying vehicle operation. Guided by the brand's "Simply Clever" philosophy, vehicle controls – human/machine interface – will be intuitively arranged to make driving easier.

The brand's market positioning will be another pillar of Strategy 2025. Now that ŠKODA cars have achieved technological and qualitative excellence in the international arena, the plan is for emotional design to shine through in the brand's perception all the more in the future in order to reach out to new customer groups.

We saw the makings of this in 2015, when a strong emphasis was placed on the further development and emotionalisation of the ŠKODA brand. The new ŠKODA Superb sent out a clear signal in this respect. The third generation of this model, launched as both a sedan and Combi in mid-2015, heralds a new era of design, technology, comfort and unrivalled roominess for ŠKODA. By harnessing innovative MQB technology, the brand's flagship has entered new territory in safety, connectivity and environmental protection. The ŠKODA Superb's qualities underscore the brand's eagerness to offer cars beyond compare in those areas and segments where it maintains a presence. The new Superb is available in a special sporty version, the SportLine, which was given its world première at the IAA motor show in Frankfurt am Main.

Besides this high-end product, other product-related events have also borne out the emotionalisation and step-up in the quality of the range of models and the brand per se. What is more, the new products are responding to the ever louder clamouring for greater customisation.

The exceptionally wolfish ŠKODA Octavia RS 230, which took its bow at IAA 2015 in Frankfurt, impresses with its spirited design, advanced technology and awe-inspiring dynamism. Boasting a top speed of 250 km/h, the RS 230 is the fastest ever ŠKODA Octavia.

The brand's emotional side is exemplified by the attractive Monte Carlo family, a popular line that – bolstered by the incoming ŠKODA Fabia Monte Carlo and ŠKODA Rapid Monte Carlo – has now been extended to six models (the Citigo, Fabia, Fabia Combi, Rapid, Rapid Spaceback and Yeti).

In 2015, the Company marked the 120th anniversary of the launch of joint business operations by Laurin and Klement an achievement ranking ŠKODA AUTO as a car maker built on one of the longest traditions anywhere in the world. The Company reflected the occasion in its products by rolling out handsome special editions of the ŠKODA Fabia, Rapid, Octavia and Yeti.

ŠKODA AUTO's new products and their elevation to higher echelons of technology and quality show what a steadfast performer the Company is. In 2015, the growth drive and product offensive were parallelled by redoubled efforts to overhaul the worldwide sales network. By the end of 2015, more than 1,700 dealers and service partners had switched to ŠKODA's new modern corporate design.

Following the successful start-up of the new-generation ŠKODA Superb's production, the Company turned its attention to upgrading and expanding the Kvasiny plant. This site is experiencing the largest-scale modernisation in its 80-year history, with annual production capacity to be ramped up to 280,000 vehicles and as many as 1,300 new jobs to be created in the next few years. Kvasiny is currently home to the production of the ŠKODA Superb, ŠKODA Superb Combi and ŠKODA Yeti.

The Company's efforts have translated into improved sales figures. In 2015, deliveries to customers were once again up on the previous year globally, this time rising by 1.8% to 1.06 million ŠKODA brand vehicles. Sales of the new-generation ŠKODA Fabia, ŠKODA Superb and ŠKODA Octavia in particular flourished.

Product Portfolio

ŠKODA Citigo
The ŠKODA Citigo, available in either a three- or a five-door body style, is perfect for the city. This urban car is powered by a petrol engine, except in its Citigo G-TEC incarnation, which uses petrol or natural gas. A sporty Monte Carlo version is also included in the mix. Whatever variant of the ŠKODA Citigo customers opt for, they can be sure that it will have all the qualities characteristic of ŠKODA cars. The ŠKODA Citigo is compact yet spacious, economical yet agile, sturdy yet ingenious.

ŠKODA Fabia and ŠKODA Fabia Combi
The third-generation ŠKODA Fabia hatchback hit the European markets in late 2014, with the new-look ŠKODA Fabia Combi joining it in January 2015. Customers are impressed as much by the completely new, thrilling design of the car as they are by its high-tech, roominess and capabilities. The exciting ŠKODA Fabia Monte Carlo and ŠKODA Fabia Combi Monte Carlo were also launched during 2015. The attractive and versatile range of Fabia models is winning the hearts of a continuous wave of new customers. The excellent sales netted by the ŠKODA Fabia and ŠKODA Fabia Combi have been accompanied by numerous highly prized automotive-industry accolades, including the "Red Dot Award" for outstanding product design.

ŠKODA Rapid and ŠKODA Rapid Spaceback
Since 2012, the ŠKODA Rapid has neatly filled the gap between the ŠKODA Fabia and the ŠKODA Octavia. The liftback ŠKODA Rapid and, since 2013, the ŠKODA Rapid Spaceback have established themselves as customer favourites, emerging as the second most powerful model – after the ŠKODA Octavia – in the ŠKODA portfolio. The 500,000th ŠKODA Rapid rolled off the line in mid-2015. In July 2015, ŠKODA expanded this model range to include the striking ŠKODA Rapid Spaceback ScoutLine. The brand's sporty and spirited nature is embodied by the ŠKODA Rapid Monte Carlo, which premièred at the IAA in Frankfurt in September. In 2015, the ŠKODA Rapid and ŠKODA Rapid Spaceback offered advanced connectivity, new safety and driver-assist systems, and new engines.

ŠKODA Octavia and ŠKODA Octavia Combi
The ŠKODA Octavia is ŠKODA's top-selling model and the brand's beating heart. The third-generation ŠKODA Octavia, launched in 2013, is in a class of its own as one of the automotive market's standout cars. Since autumn 2015, the ŠKODA Octavia RS 230 has been making waves with its attractive design, sporty interior, advanced technology and formidable performance. This sporty family car, the fastest mass-produced Octavia of all time, is the first ever ŠKODA to feature a front differential with an electrohydraulically controlled lock (VAQ), making for extremely dynamic cornering. Since September 2015, all-wheel drive combined with a six-speed dual-clutch transmission has been available for the ŠKODA Octavia RS powered by a 2.0 TDI (135 kW) engine. This pushes up the tally of ŠKODA Octavia versions marketed to 15, giving the model further reach than ever before. Customers can take their pick of a range starting with the ŠKODA Octavia GreenLine at one end and rounded off by the ŠKODA Octavia RS 230 at the other.

ŠKODA Roomster
The ŠKODA AUTO plant in Kvasiny ceased production of this model in spring 2015, having made more than 370,000 of the compact ŠKODA MPVs in the space of nine years. As the name suggests, the ŠKODA Roomster's hallmarks – and the key to its success among customers – were its spacious luggage compartment and interior modularity.

ŠKODA Yeti

The ŠKODA Yeti is one of the world's most popular compact SUVs. Available with front- or all-wheel drive, the ŠKODA Yeti really is a versatile beast. It comes in two versions: the ŠKODA Yeti is suited to the urban landscape, while the more intrepid ŠKODA Yeti Outdoor feels just as much at home in an off-road setting. The ŠKODA AUTO plant in Kvasiny turned out its 500,000th ŠKODA Yeti in October 2015. In mid-2015, this model series was innovated to encompass new engines and a wider range of infotainment and connectivity.

ŠKODA Superb and ŠKODA Superb Combi

The ŠKODA Superb has always blazed a trail in its class. In 2015, the 750,000th Superb since 2001 was made. The third generation of this model, unveiled in 2015, saw the ŠKODA brand enter a new era. The new Superb sedan saw the light of day in summer 2015, with the ŠKODA Superb Combi hot on its heels in September. In both of these versions, the completely redeveloped top-of-the-range model has revolutionised ŠKODA's design language, attaining new heights in creature comforts and technology. The new ŠKODA Superb impressively interweaves space, function and emotion. The embracing of the Volkswagen Group's advanced MQB technology paves the way for a new dimension in comfort and safety. What's more, the car offers industry-leading connectivity. ŠKODA AUTO ushered in the ŠKODA Superb GreenLine at the IAA motor show in Frankfurt am Main, where it also premièred the ŠKODA Superb SportLine.

Financial Situation

ŠKODA AUTO's financial results are reported according to IFRS.

For ŠKODA AUTO, 2015 was the most successful financial year in its history. The Company achieved record sales, revenue, operating profit, net cash flow and liquidity. As a result of increasing sales and successful measures to improve efficiency, the Company further enhanced its financial performance in 2015.

ŠKODA AUTO sales revenue increased year on year by 5.2% to CZK 314.9 billion, the highest result in the Company's history. Operating profit improved and came to CZK 35.2 billion. After-tax profit amounted to CZK 30.8 billion.

Company Business Performance

In 2015, 1,055,501 ŠKODA brand vehicles were delivered to customers worldwide, up 1.8% year on year, making this the second year in which it had broken through the million-delivery mark. The Company's sales climbed to 778,416 vehicles. Sales revenue rose to CZK 314.9 billion. In the reporting period, vehicle sales accounted for 84.5% of the Company's total sales revenue (2014: 84.1%). The top-selling models were the ŠKODA Octavia, ŠKODA Rapid and ŠKODA Fabia. The genuine parts and accessories business constituted 5.9% of total sales revenue (2014: 5.6%). The remaining 9.6% (2014: 10.3%) was made up of receipts from the supply of components to Volkswagen Group companies and other revenues.

The cost of sales increased by 5.2% year on year to CZK 268.2 billion. The increase was largely the result of material costs (raw material costs, consumables and goods purchasing) and depreciation. Compared to the previous year, gross profit increased by 5.3% to CZK 46.7 billion.

Distribution costs were shepherded down to CZK 13.3 billion. In 2015, administrative costs were 4.8% higher year on year at CZK 7.3 billion.

The Company's operating profit in the reporting period rose to CZK 35.2 billion, fuelled mainly by higher sales, the mix effect, the impact of exchange rates, the sale of a subsidiary and other cost optimisation. The Company's financial result was a loss of CZK 916 million. Profit before tax increased by 60.4% year on year to CZK 34.2 billion. Profit after tax climbed by CZK 12.4 billion (+67.3%) to CZK 30.8 billion. The profit before income tax-to-revenues ratio went up to 10.9%.

Company Cash Flows

In 2015, cash flows from operating activities amounted to CZK 39.6 billion. There was a 44.9% year-on-year increase in net liquidity to CZK 60.1 billion as at 31 December 2015.

Company Asset and Capital Structure

As at 31 December 2015, the Company's balance sheet totalled CZK 202.6 billion, a 14.6% increase, equal to CZK 25.7 billion, on the previous year's balance. Non-current assets remained at more or less the same level as in the benchmark period. The rise on the asset side of the balance sheet can be attributed in particular to current assets. As at the balance-sheet date, current assets stood at CZK 25.0 billion, up 32.4% on the figure reported as at 31 December 2014. Positive developments in net liquidity were the main contributory factor behind this growth.

Equity increased during the year by CZK 17.5 billion to a total of CZK 117.5 billion and drove up the equity and liability side of the balance sheet with it.

In 2015, capital expenditures (net of development costs) amounted to CZK 15.9 billion, the largest proportion of which was channelled into product investment related to the launch of new models and engines.

Other Information

In September 2015, the US Environmental Protection Agency (EPA) issued a Notice of Violation publicly announcing that irregularities in relation to nitrogen oxide (NOx) emissions had been discovered in emissions tests on vehicles with Volkswagen Group diesel engines. The EPA alleged that Volkswagen had used undisclosed engine management software known as "defeat devices" in 2.0 litre (four-cylinder) diesel engines fitted in the 2009 to 2015 model years to circumvent NO_x emissions testing standards in order to comply with certification requirements. Subsequently, on 22 September 2015, Volkswagen AG announced that irregularities relate to vehicles with Type EA 189 engines, involving some eleven million vehicles worldwide. This type of engine had also been installed in about 1.1 million ŠKODA vehicles. All affected cars are technically safe and roadworthy. For the three European variants of the engines (2.0 TDI, 1.6 TDI and 1.2 TDI), technical solutions have been developed. ŠKODA AUTO is preparing a service programme for 2016, under which – depending on the particular engine type – either just the software will be updated or this update will also be followed up by hardware adjustments.

Costs related to the service action are recorded in the financial statements for the year ended 31 December 2015.

Technical Development

In 2015, ŠKODA AUTO invested CZK 10.57 billion in technical development. Revenue from external orders in 2015 came to CZK 1.09 billion. The development of new models was in the hands of 1,661 employees at the Company's headquarters and 54 colleagues abroad.

Superb Débuts at the Forum Karlín

ŠKODA's flagship model took its bow before approximately 800 guests at Prague's Forum Karlín on 17 February 2015. The importance of the official unveiling of the completely new sedan was brought home by the Czech Philharmonic, which was on hand to play a symphony entitled "Superb", composed especially for the event. The car, having undergone root-and-branch redevelopment, reflects ŠKODA's new design language, which instils a much more emotional quality in the vehicle. The large tailgate lends the car's side silhouette the air of a spacious coupé. The headlights and taillights have been designed to give a crystalline effect. The innovative MQB platform and technology is central to the car, introducing new standards of safety, connectivity and ecology. The new ŠKODA Superb is endowed with an abundance of space in the interior and the luggage compartment. It has welcomed visitors on the cusp of a new era for ŠKODA.

New Superb in Geneva

The Geneva Motor Show was the venue for the world première of the all-new ŠKODA Superb, the third generation of this D-segment car. The new ŠKODA Superb's lines and design features give away that it is a follow-up to the VisionC study. The car's width is intensified by the lower bonnet edge and the design lines of the bumper, the grille and the lights. The headlights, one of the car's striking features, are optionally available in a design combining LED technology with masked xenon projector optics. The technologically highly challenging, hard-to-render seam between the bonnet and the wing is one-of-a-kind. It has been designed to segue with the crisp-cut edges on the bonnet so that it essentially becomes invisible when viewed from the main fields of gaze. On the sides, it steadily transitions into the tornado line typical for the profile. The gradual slope of the large tailgate has made it possible to give this sedan the shape of a four-door coupé. The two-piece light clusters featuring LED technology and light guides dominate the rear of the vehicle. The car conveys powerful emotions in its design, which also underpins the improved spatial configuration. The wheels are bigger and the vehicle has been made 5 cm wider. No other D-segment car offers such rear-seat legroom. The 625-litre luggage compartment can accommodate anything the entire family needs to take with it. The vehicle has made impressive advances in comfort, connectivity and safety. The ŠKODA Superb incorporates technology for LTE reception and WLAN coverage. The infotainment system can be controlled by tablet or smartphone from any point in the car, front or back. According to Euro NCAP methodology, the vehicle attained the highest possible rating of five stars. The wide range of driver-assist systems played an important role in the safety assessment. These assists can activate automatic braking in dangerous situations, keep the car in lane, help the driver to manoeuvre when parking and, thanks to Stop&Go, automatically stop and start the vehicle in heavy traffic.

New Superb Combi in Frankfurt

The new ŠKODA Superb Combi débuted at the Frankfurt Motor Show, where it was decided to exhibit the SportLine, a version replete with design elements underscoring the car's sportiness. Moving on from its predecessor, the ŠKODA Superb Combi now features two-piece rear light clusters. The luggage compartment has ballooned 27 litres to 660 litres. The possibility of folding down the rear seatbacks from the luggage compartment and the hinged towing equipment are just two examples of the numerous Simply Clever solutions.

An Eye on the Environment

ŠKODA AUTO traditionally carries out its plans with keen consideration for sustainable development and sensitivity towards nature. In the final quarter, Technical Development was heavily involved in addressing the emerging situation surrounding diesel engine emissions.

ŠKODA Motorsport's Stellar Season

In the first half of 2015, the ŠKODA Motorsport factory team focused on completing the main development phase and achieving subsequent homologation of the new ŠKODA Fabia R5 rally car, which then stepped out as ŠKODA's new hope in the rally world. Following the recognition of the car's homologation by the Fédération Internationale de l'Automobile (FIA) on 1 April 2015, it was entered in rallies and offered for sale to private teams under the customer scheme. The factory crew of Jan Kopecký and Pavel Dresler won the title in the Czech championship in their ŠKODA Fabia R5. The ŠKODA Motorsport crew of Pontus Tidemand and Emil Axelsson reigned supreme in the Asia-Pacific Rally Championship (APRC), where ŠKODA completely held sway over the other manufacturer teams.

Purchasing

New Products and Projects

Purchasing's primary role is to optimise costs. In 2015, Purchasing worked with Technical Development and the Volkswagen Group to implement concerted measures that were successful in optimising the material costs of the various ŠKODA models.

For Purchasing, every year is characterised by the launch of new models, and 2015 was no exception. We witnessed the start of production and launch of the third generation of ŠKODA's grandest model, the ŠKODA Superb. Purchasing was also behind the smooth launch of the two derivative sedan and Combi versions.

Supply chain localisation intensified in tandem with the expansion of the Kvasiny plant to incorporate new models. With 11 suppliers setting up operations close to the plant, ŠKODA AUTO should enjoy the added benefits of flexibility, security of supply and lower logistics costs. Supply chain localisation also increases the need for labour in the region, and Purchasing has helped suppliers in their search for the right type of employee. Purchasing played a hands-on role in several meetings with representatives of companies, CzechInvest, government authorities, labour offices and developers, which were held to work out mutually beneficial policies on recruitment and the development of the Rychnov region.

Production Purchasing was joined in its parts procurement (related to the launch of the ŠKODA Superb) by Non-production Purchasing, which oversaw sales and marketing activities. The key objective here was to wage a marketing campaign encompassing multiple projects, including the world première of the ŠKODA Superb, TV spots and central product training.

The procurement of two automated warehouses for small pallets and the modernisation of paint lines number among significant investments made via Non-production Purchasing. The Mladá Boleslav plant was also expanded by the construction of a new press shop, spacious enough to accommodate a high-capacity press line, and by the construction of an emissions testing facility at the engine centre, where it will be possible to verify compliance with statutory requirements.

International Collaboration with Suppliers

In relations with its suppliers, Purchasing continues to press ahead with its worldwide enforcement of the frontline principles championed by the VW Group's "Sustainability in Supplier Relations" project. This includes probing whether suppliers operate in line with those principles.

Purchasing is also partly responsible for ŠKODA models and for collaborating with suppliers abroad.

Keeping European suppliers on the Russian market has been a serious challenge. Although the looming exodus of suppliers from Russia, precipitated by the Russian crisis and the steeply plummeting rouble, has been stalled, the situation remains perilous.

Earnest efforts are under way with colleagues from the China region aimed at optimising the material costs of the various ŠKODA models on both sides.

Situation on the Raw Materials Market

As in previous years, trends in raw material prices were better than expected (the prices of inputs contracted). Teamwork with the VW Group's purchasing centre significantly reduced risks linked to developments on markets in raw materials (such as steel and rubber).

Sourcing of Materials

In 2015, ŠKODA AUTO's outlay on production material purchasing totalled CZK 173.7 billion, consistent with a year-on-year increase of CZK 6.3 billion. Much of this material continues to be sourced in the Czech Republic (49.1%), followed by Germany, which accounts for about a third (28.3%) of the production materials purchased. Non-production purchasing came to an aggregate of CZK 28.5 billion, equal to a 1.0% decrease year on year.

Production and Logistics

Expansion of Production Capacities for Worldwide Growth

For ŠKODA AUTO, 2015 was a year in which it continued to move forward with its Growth Strategy, a pivotal part of which was a model offensive spearheaded by the rollout of new models, prompting the essential makeover of production facilities worldwide to satisfy customer demand and interest in ŠKODA cars. Nine new models were launched across the world in 2015.

ŠKODA Growth Strategy and New Car Production in China, India and Ukraine

Foreign plants around the world braced themselves to start implementing new or innovated projects on their production lines in 2015. The largest project was the start of production of the new ŠKODA Superb.

Turning first to China, two ŠKODA brand models were launched here in 2015 as it sought to consolidate its status on this market. In February, the Anting plant started to make a new ŠKODA Fabia, sleekly replacing the previous generation. This was followed by the launch of production of a ŠKODA Superb adapted to the Chinese market. The manufacture of this new generation was based in the Nanjing plant, the predecessor having been made at the Ningbo plant. This move nudged up the number of ŠKODA production sites in China to four facilities.

In December 2015, the Indian assembly plant in Aurangabad started producing the ŠKODA Superb, spelling out just how important this market is to ŠKODA. The other Indian plant, in Pune, is preparing in earnest to introduce the production of an innovated Rapid.

Another country where there was a change in the models making their way down the assembly lines was Ukraine. Here, the ŠKODA Fabia and ŠKODA Superb gave way to their successors.

Production of New Models in the Czech Republic

For ŠKODA AUTO's home plants in the Czech Republic, 2015 was characterised by extensive building alterations, the expansion of production capacities and, not least, the start of production of the ŠKODA brand's new-generation flagship, the ŠKODA Superb, as both a sedan and a Combi. Other model ranges witnessed changes under the bonnet, where new-generation engines were mounted. Some models saw their range expanded to include a Monte Carlo version.

In 2015, the ŠKODA Octavia range welcomed new derivatives training the spotlight on this highly successful model: the RS line was expanded to incorporate the more powerful RS 230, and the diesel-engine RS 4x4 was added to the series. The ŠKODA Fabia JOY and ŠKODA Rapid Spaceback JOY joined the special-edition lineup.

In May 2015, the ever popular Monte Carlo range was broadened to incorporate the ŠKODA Fabia and ŠKODA Rapid. Key events at the Kvasiny plant in 2015 comprised further building alterations and the integration of technology associated with preparations for the start of production of new SEAT and ŠKODA models, due for launch in 2016. A new welding shop was opened, and work continued on the construction of additional logistics premises to cope with increased capacity all over the Kvasiny plant.

Mladá Boleslav – A Parent Facility with Prospects

In 2015, aggregate production at Mladá Boleslav and Kvasiny broke through the half-million mark in terms of the number of cars made.

Reporting 660,179 cars made, domestic production (in Mladá Boleslav and Kvasiny) bore the brunt of global ŠKODA car production in 2015.

In 2015, the number of cars ever made at Mladá Boleslav increased to a level in excess of 12 million.

The ŠKODA Octavia remains the number-one crowd-pleaser, with daily output rising to a record 1,100 units. As a result, 257,805 of these cars were built over the year.

The ŠKODA Fabia, a customer favourite made at the MB II plant, successfully completed the launch of its third generation, with production capacity standing at 850 vehicles per day. The swelling production capacities necessitated the recruitment of 800 new employees and the introduction of a third shift at this plant.

Several capacity-related measures were taken as part of the model care of vehicles at the Mladá Boleslav plant, including work to start the construction of a new press shop in Hall M4, where a PXL II press line is to be integrated. The main advantages of this press line are the possibility of pressing aluminium parts, the low energy consumption, and the speed at which tools can be replaced. The new technology delivers production to the requisite quality, including the exacting ŠKODA AUTO design.

ŠKODA AUTO Plant in Kvasiny

It was time for the ŠKODA Superb's successor to step forward in 2015. On the heels of its successful launch, the new sedan version of the ŠKODA Superb has been mass produced at the Kvasiny plant since March 2015, with the Combi joining the production line in June. In response to this model's major success, the capacity and production plan were ramped up to 400 cars per day, exceeding the planned number of units by 5,332. Such a hike in production during a launch period is a record that extends well beyond the ŠKODA brand. Ultimately, 42,983 units of this model were made. In April, production of the previous-generation ŠKODA Superb and of the ŠKODA Roomster was discontinued, freeing up room for new SUV projects. The Kvasiny plant manufactured 142,286 vehicles overall in 2015. The construction of new logistics premises is moving forward, and a pilot hall in the series has been completed.

Component Production

In 2015, ŠKODA AUTO made 1,020,723 gearboxes, of which 298,495 were MQ 200 gearboxes, 320,156 were MQ/SQ 100 gearboxes, and 402,072 were DQ 200 gearboxes.
From early 2015, production of DQ 200 gearboxes at the Vrchlabí plant reached full capacity at 1,700 units per day.
In 2015, the Company produced a total of 624,760 engines.
The components made by ŠKODA AUTO are not channelled solely into internal consumption, but are also intended for other VW Group brands. In 2015, 254,524 engines and 688,425 gearboxes were produced for other VW Group brands (equal to 67% of all of the gearboxes made).
ŠKODA AUTO celebrated a milestone in component production in 2015, having made 12 million engines since 1899 (it crossed this threshold in April 2015). In September 2015, the landmark 500,000th EA 211 engine was produced, followed in October 2015 by the millionth MQ 100 gearbox. In December, as the year drew to a close, the Company celebrated making six million MQ 200 gearboxes since these components entered production.
More than 6,000 axles can currently be produced per day on the assembly lines. In 2015, in the region of 1.4 million axles were made for ŠKODA cars.

Production of ŠKODA Cars

In 2015, 1,039,321 ŠKODA cars were built worldwide.
At the VW Group's Pune plant in India, 12,676 vehicles were made, a 16.4% year-on-year rise.
At the Nizhny Novgorod partner plant in Russia, 28,609 cars were manufactured during 2015. At the Kaluga plant in Russia, vehicle production stood at 24,423. In aggregate, these two plants recorded a 26.0% year-on-year contraction.
Chinese partner plants produced a total of 268,116 ŠKODA Octavias, Fabias, Superbs, Rapids and Yetis in 2015. Compared to the year previous, production of ŠKODA cars in China climbed by 3.3%.

ŠKODA Citigo

ŠKODA Citigo production was down by 1.7% in 2015, with Volkswagen's Bratislava plant making 41,280 units (2014: 41,974).

ŠKODA Fabia

In 2015, 195,349 ŠKODA Fabias were made worldwide (2014: 162,504). This 20.2% year-on-year growth was fuelled by the launch of the model's new generation.

ŠKODA Roomster

The numbers of ŠKODA Roomsters built at the Kvasiny plant in 2015 tumbled as the model's production reached the end of the line. The 11,153 units of this ŠKODA car that were made corresponded to a 62.8% drop compared to the previous year (2014: 29,983 units).

ŠKODA Octavia

In 2015, the ŠKODA Octavia once again remained ŠKODA AUTO's most important model. Worldwide production of this model was reported at 426,699 units, tantamount to 7.3% year-on-year growth (2014: 397,610 units). The ŠKODA Octavia accounted for the lion's share of the total annual production of ŠKODA cars, coming in at 41.0%.

ŠKODA Yeti

The ŠKODA Yeti experienced a 15.5% year-on-year reduction in production in 2015. In total, 90,331 ŠKODA Yetis were made (2014: 106,853).

ŠKODA Rapid

Compared to the previous year, there was a 16.7% drop in the production of the ŠKODA Rapid. In total, 190,112 ŠKODA Rapids and Rapid Spacebacks were made (2014: 228,273).

ŠKODA Superb

The ŠKODA Superb experienced a substantial increase in demand in its segment. In 2015, the number of ŠKODA Superbs built rose 2.6% to 84,397 (2014: 82,212).

ŠKODA Production Worldwide

	2015	2014	2015/2014
Production of ŠKODA cars			
Fabia	107,997	103,548	4.3%
Fabia Combi	72,614	38,997	86.2%
Fabia total	**180,611**	**142,545**	**26.7%**
Rapid*	54,693	64,013	-14.6%
Rapid Spaceback	49,207	57,792	-14.9%
Rapid total	**103,900**	**121,805**	**-14.7%**
Roomster	10,336	27,728	-62.7%
Roomster Praktik	817	2,255	-63.8%
Roomster total	**11,153**	**29,983**	**-62.8%**
Octavia*	110,878	120,661	-8.1%
Octavia Combi	170,629	156,742	8.9%
Octavia total	**281,507**	**277,403**	**1.5%**
Yeti*	**73,941**	**88,693**	**-16.6%**
Superb*	30,387	21,772	39.6%
Superb Combi	35,750	37,209	-3.9%
Superb total	**66,137**	**58,981**	**12.1%**
Total ŠKODA brand	**717,249**	**719,410**	**-0.3%**
Production of SEAT cars			
Seat	19,728	16,541	19.3%
Total ŠKODA AUTO Company production	**736,977**	**735,951**	**0.1%**
ŠKODA brand production worldwide			
Production of ŠKODA cars in Pune			
Rapid	12,676	10,887	16.4%
Total ŠKODA Pune	**12,676**	**10,887**	**16.4%**
Production of ŠKODA cars in Bratislava			
Citigo	41,280	41,974	-1.7%
Total ŠKODA Bratislava	**41,280**	**41,974**	**-1.7%**
Production of ŠKODA cars in China			
Fabia	14,738	19,959	-26.2%
Rapid	73,536	95,581	-23.1%
Octavia	145,192	120,207	20.8%
Yeti	16,390	18,160	-9.7%
Superb	18,260	23,231	-21.4%
Total ŠKODA China	**268,116**	**277,138**	**-3.3%**
Total ŠKODA worldwide	**1,039,321**	**1,049,409**	**-1.0%**
Production of other Volkswagen Group brands**			
VW	2,787	2,178	28.0%
Audi	11,658	10,258	13.6%
Total other Volkswagen Group brands	**14,445**	**12,436**	**16.2%**
Total ŠKODA worldwide incl. SEAT and other VW Group brands	**1,073,494**	**1,078,386**	**-0.5%**

* including kits shipped to foreign production plants not operated by ŠKODA AUTO Company
** manufactured at the subsidiary Skoda Auto India Private Ltd.

Sales and Marketing

2015 – The Brand's Most Successful Year Ever

In 2015, ŠKODA AUTO celebrated its 120th anniversary. This milestone year saw the brand chalk up more deliveries than ever before, achieving a record 1,055,501 ŠKODA brand vehicles being delivered worldwide. The 1.8% annual rise meant that this was the second year in a row in which the number of vehicle deliveries in a single calendar year had broken through the one-million barrier.

Western and Central Europe reported growth in the overall number of vehicles delivered to customers, a result rooted in the expanding automotive market combined with thriving progress in the model offensive. This was in contrast to Eastern Europe, overshadowed by the tangled political and economic situation in Russia, where deliveries fell short of the previous year. The European region, taken as a whole, saw deliveries climb by 1.2% year on year.

Central Europe

In Central Europe, the ŠKODA brand has kept to its growth trajectory. The Company enjoyed a two-digit rise in overall deliveries, reporting 14.8% growth, with customers taking possession of 172,115 vehicles to hand ŠKODA AUTO greater market reach. In the Czech Republic, the Company underpinned its market leadership by delivering 85,005 cars to customers on its way to 21.1% year-on-year growth. Beyond the Czech Republic, delivery figures were sound in virtually all other Central European markets. In Poland, a record 50,039 ŠKODAs were delivered (+7.3%), once again confirming the brand's status as the market's number one. In Slovakia, too, ŠKODA led the field, delivering 18,252 vehicles. Another place where customers took receipt of record numbers of vehicles was Slovenia, where deliveries were up 13.9% to 5,702. ŠKODA AUTO also reported an upbeat 10,011 vehicle deliveries (+21.4%) in Hungary.

Eastern Europe

ŠKODA deliveries to customers in Eastern Europe plunged as the car markets – especially in Russia, Ukraine and Kazakhstan – went into reverse. Deliveries were down 26.4% year on year to 87,727 vehicles. The decline was particularly sharp on the Russian market, reporting a 34.8% year-on-year slump to 55,012 customer deliveries. This result saw

Customer Deliveries – Largest Markets

	Deliveries to customers (vehicles)		Change (%)
	2015	2014	2015/2014
Total ŠKODA brand	**1,055,501**	**1,037,226**	**1.8%**
China	281,707	281,412	0.1%
Germany	158,747	149,538	6.2%
Czech Republic	85,005	70,200	21.1%
United Kingdom	74,879	76,027	-1.5%
Russia	55,012	84,437	-34.8%
Poland	50,039	46,650	7.3%
Turkey	22,233	14,037	58.4%
Spain*	22,068	17,783	24.1%
France	21,500	21,054	2.1%
Austria	20,503	20,487	0.1%
Switzerland	19,012	17,820	6.7%
Slovakia	18,252	16,402	11.3%
Belgium	18,001	17,807	1.1%
Israel	17,753	15,118	17.4%
Italy	16,550	14,170	16.8%

* excluding the Canary Islands

Russia, ŠKODA's third largest market just a year earlier in 2014, relegated to fifth in the chart of ŠKODA AUTO's biggest outlets. In Ukraine, customer deliveries sank by 51.2% year on year to 2,295 vehicles. The adverse situation in Russia spilled over into Kazakhstan, squeezing the sales result here as vehicle deliveries crashed by 57.6% to 2,352. Despite this negativity, 2015 was still the third most successful year in the Company's history.

While the markets in and around Russia took a turn for the worse, developments elsewhere in Eastern Europe were more productive. In Romania, for example, ŠKODA registered double-digit growth, maintaining its position as the country's second-strongest importer by delivering 8,988 vehicles, up 23.0% on the previous year. The burgeoning sales in Serbia are also noteworthy. Here, customer deliveries rose by 14.4% year on year to a record 5,919, earning ŠKODA AUTO top spot among imported brands. ŠKODA made good headway in customer deliveries in the Baltic countries, too, reporting 9.9% year-on-year growth to 5,920 vehicles.

Western Europe

Western Europe's automotive market got back on its feet in 2015. ŠKODA was not left behind, responding to mounting demand by delivering a record 430,865 cars to Western Europe, equal to 4.3% growth on the previous year.

In Germany – the largest European market – ŠKODA wound up with a record 4.94% market share. Taking delivery of 158,747 vehicles (+6.2%), Germany reported the second best result ever, with ŠKODA remaining the market's largest import brand. The Company broke its sales records in Ireland (7,893 vehicles; +25.1%) and Switzerland (19,012 vehicles; +6.7%). In the UK, ŠKODA underpinned its stable position by delivering 74,879 vehicles to customers (-1.5%).

The Company also performed well on other key Western European markets. ŠKODA celebrated a year of thriving sales in Spain, delivering 22,068 vehicles (+24.1%) to carve out a record market share of 2.24%. ŠKODA also did well elsewhere in Southern Europe, clocking up 16,550 customer deliveries in Italy as it gained 16.8% over the year. In France, too, ŠKODA AUTO nudged up deliveries by 2.1% to 21,500 vehicles in 2015. Other Western European markets also reported sound sales. ŠKODA delivered 15,093 vehicles (+10.9%) in Sweden and 10,020 (+9.5%) in Finland, where its market share had never been higher. In Portugal, there was a 30.7% year-on-year leap in deliveries. Customer deliveries in Austria were up by 0.1% to 20,503 vehicles, while in Belgium they rose by 1.1% to 18,001. In the Netherlands, the final number of deliveries stood at 15,204, down 18.1% on the previous year.

Overseas/Asia

The Overseas/Asia region, and especially the growing market in China, plays a pivotal role in the ŠKODA Growth Strategy. In all, 364,794 ŠKODAs were delivered to customers here, up 2.8% on the previous year.

This productive trend was spearheaded by China, globally ŠKODA's biggest market, where ŠKODA brand succeeded in delivering a record 281,707 cars (+0.1%) in 2015. The new ŠKODA Octavia, launched on the Chinese market in mid-2014, is in very high demand here. In late 2015, the Company's flagship – the ŠKODA Superb – was premièred in China.

There was a meteoric 58.4% rise in the number of deliveries ŠKODA AUTO made in Turkey, where customers took possession of a record 22,233 vehicles and the Company gained its largest ever market share here. Israel is another country where ŠKODA celebrated record sales, delivering 17,753 cars (+17.4%) to customers and earning its largest ever slice of the market in the process.

In India, a 1.9% hike in deliveries of ŠKODA brand vehicles was recorded in 2015 to achieve 15,829 vehicles. Other progressive sales results in the Overseas/Asia region in 2015 were reported as far afield as Egypt (+7.8%), Australia (+23.3%), Taiwan (+52.0%) and New Zealand (+25.0%).

Customer Deliveries by Region

	Deliveries to customers (vehicles)		Change (%)	Share of passenger car market (%)**	
	2015	2014	2015/2014	2015	2014
Central Europe*	172,115	149,874	14.8%	20.7%	20.0%
Eastern Europe	87,727	119,186	-26.4%	4.6%	4.2%
Western Europe	430,865	413,184	4.3%	3.3%	3.4%
Overseas/Asia	364,794	354,982	2.8%	0.6%	0.6%
Total ŠKODA brand	**1,055,501**	**1,037,226**	**1.8%**	**1.4%**	**1.4%**

* including the Czech Republic ** total markets

Customer Deliveries by Model

ŠKODA Citigo

The ŠKODA Citigo is the brand's smallest model and currently the only one available in both three-door and five-door versions. This attractive compact city car, rejuvenated throughout its interior in 2015, was purchased by 40,152 customers last year, down 5.5% on the previous year. In the coming year, further new product measures will gradually be implemented.

ŠKODA Fabia

The new ŠKODA Fabia hatchback hit the European markets in November 2014, followed in early 2015 by a larger practical Combi version, the ŠKODA Fabia Combi. This third-generation ŠKODA Fabia, with its meticulous design and balanced proportions, is an attractive proposition delivering both dynamism and a lusty, emotional character. The new Fabia, which, alongside many other accolades, can pride itself on the title of the safest car in its class, enjoyed a very warm reception following its introduction on to the individual markets. In 2015, it enjoyed double-digit year-on-year growth (+19.8%) with a total of 192,358 deliveries. The sporty Monte Carlo, teeming with features, is another version of this model that has won plaudits.

ŠKODA Roomster

The ŠKODA Roomster, available since 2006, found itself approaching the end of its life cycle in 2015. The last cars rolled off the production line in April 2015. In 2015, 16,612 of these small MPVs were delivered (decrease by 44.0%), 1,153 of which were ŠKODA Praktik vans.

ŠKODA Rapid

The ŠKODA Rapid and the ŠKODA Rapid Spaceback fuse the practicality of ŠKODA cars with a fresh and appealing design. The Rapid was rolled out globally in 2012, followed by the Rapid Spaceback a year later. In 2015, major product innovations and enhancements were made to both models, focusing primarily on infotainment, safety and driver assists. In all, 194,321 ŠKODA Rapids/Rapid Spacebacks were delivered to customers, making them the second bestselling range – behind the ŠKODA Octavia – once again in 2015.

ŠKODA Octavia

The ŠKODA Octavia reaffirmed its status as the ŠKODA product portfolio's international bestseller. This model, the central pillar of the ŠKODA Growth Strategy, broke the record for the number of vehicles delivered in a single year when it reported a total of 432,335 deliveries in 2015 (+11.1%). The third-generation ŠKODA Octavia, marketed since 2013, sets the standard in its class and continues to enjoy one success after another. The ŠKODA Octavia's wide range of designs and outstanding qualities make it especially successful among customers in Western Europe, where year-on-year deliveries increased by 4.6%. The ŠKODA Octavia also has a decent track record with its sporty incarnation, the Octavia RS, and its green offering, the G-TEC.

ŠKODA Yeti

The ŠKODA Yeti is one of the most popular compact SUVs. Since its major facelift in 2013, this sport utility vehicle has been available in two design versions: the ŠKODA Yeti, an elegant, stylish city car, and the more rugged ŠKODA Yeti Outdoor. In 2015, this first-generation model was coming to the end of its life cycle. Overall, 99,547 ŠKODA Yetis were delivered to customers, tantamount to a 3.2% year-on-year decline.

ŠKODA Superb

The introduction of the third-generation flagship in March 2015 was a high point in ŠKODA's largest model offensive, which had first been successfully mobilised back in 2010. With the ŠKODA Superb, ŠKODA AUTO is ushering in a new era and, in doing so, is demonstrating its growth aspirations. The new Superb has such eminent design and technical qualities, combined with unrivalled roominess, that it sets a new benchmark in the D-segment. The new model was gradually unveiled on the various global markets in 2015, making its way on to the Chinese market in the autumn. In 2015, 80,176 ŠKODA Superbs were delivered globally, 32,563 of which were new-generation cars.

Customer Deliveries by Model

	2015	2014	2015/2014
Citigo	**40,152**	**42,494**	**-5.5%**
Fabia	127,154	118,975	6.9%
Fabia Combi	65,204	41,543	57.0%
Fabia total	**192,358**	**160,518**	**19.8%**
Rapid	127,095	148,991	-14.7%
Rapid Spaceback	67,226	72,372	-7.1%
Rapid total	**194,321**	**221,363**	**-12.2%**
Roomster	15,459	27,454	-43.7%
Roomster Praktik	1,153	2,189	-47.3%
Roomster total	**16,612**	**29,643**	**-44.0%**
Octavia	264,312	235,486	12.2%
Octavia Combi	168,023	153,771	9.3%
Octavia total	**432,335**	**389,257**	**11.1%**
Yeti	**99,547**	**102,867**	**-3.2%**
Superb	47,400	53,282	-11.0%
Superb Combi	32,776	37,802	-13.3%
Superb total	**80,176**	**91,084**	**-12.0%**
Total ŠKODA brand	**1,055,501**	**1,037,226**	**1.8%**

Human Resources Management

ŠKODA AUTO remained an appealing employer in 2015, as borne out by the reaffirmation of its leader status in numerous employers branding polls in the Czech Republic.

The goal for human resources management (HR) is to continue championing the ŠKODA Growth Strategy and promoting objectives set in all areas. In the field of human resources, the main objective of corporate strategy is to maintain the Company's status as the most attractive employer, able to draw on a global pool of talent. The HR strategy also includes solid backing for areas of personnel-related expertise, quantitative and qualitative planning of staff needs, the recruitment of new highly skilled employees, the efficient development of all staff, and the strengthening of their allegiance to the Company.

ŠKODA AUTO has also boosted employment, especially in specific areas required to handle the launch of new models at the Mladá Boleslav and Kvasiny plants.

ŠKODA AUTO keeps a close eye on trends in the automotive industry. One major challenge is the fourth industrial revolution, embodied in the Industry 4.0 initiative, which entails a number of changes that will transform the automotive industry root and branch in the next few years. In 2015, ŠKODA AUTO and its human resources management team were heavily involved in the "Year of Industry and Technical Training", a joint initiative with the Confederation of Industry of the Czech Republic that the Czech government announced would be an official programme. HR must also respond to the changing landscape. There is a rapidly growing need to train employees in new skills associated with the introduction and more widespread use of state-of-the-art technological systems. Greater support for employees' soft skills is becoming increasingly necessary. ŠKODA AUTO's response has been to target human resources development specifically and strategic key issues more generally, all the while making sure it steadfastly delivers efficiency, flexibility and long-term employment.

Corporate Culture Innovation and Change to Secure Future Development

In 2015, the successfully realised "High Performing Organisation" project was intended in particular to cut back further on red tape while seeking out and pushing through innovations not only in IT, but across the Company. In pursuit of this goal, Company-wide IT-based innovation workshops – attended by the Company's senior managers – were also held. In the realm of human resources, the latest trends were also presented, including modern IT support for HR officers and managers, forms of staff learning and development, modern means of communicating with employees and potential applicants, HR planning, and the latest IT support in occupational medicine and brand protection. New modules in the "High Performing Organisation" project were also well received. The concept of professional and project-based careers worked very well at the Company over the course of the year. Senior staff, experts and project managers are given the opportunity to advance along their specific career paths. Cooperation at the highest level was buoyed by shared interdepartmental objectives. Bearing in mind these objectives, the Company forged ahead with its system – designed for those in incidental positions – to provide for the targeted horizontal development of employees and their rotation through various disciplines. Knowledge of such areas is also essential when training employees for changes to their existing job descriptions or when preparing them for completely new positions.

ŠKODA AUTO has long cooperated on similar projects with the KOVO trade union organisations active at the Company also contribute to projects.

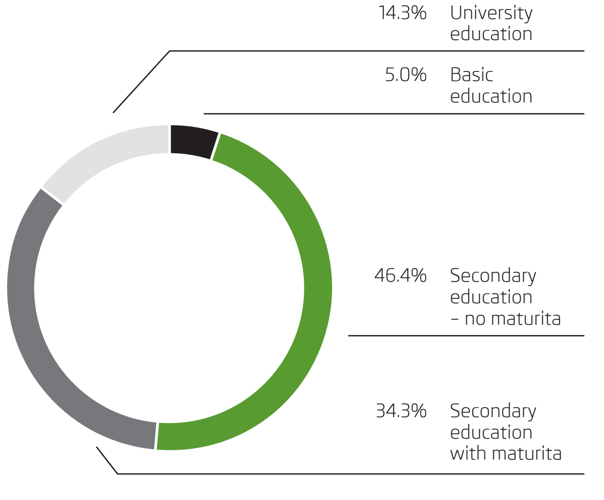
The Company attaches great importance to the long-term retention of skilled employees. Best practice includes the guarantee of a permanent job, a sound work-life balance, the protection of health in the workplace and support for all groups of employees. The Company is committed to the advancement of female staff and the personal development of employees of all ages.

Qualifications and Further Training

An important element of human resources management at ŠKODA AUTO is skills development, with an emphasis on further staff training. The ŠKODA Academy is the umbrella organisation for the Company's educational activities, ranging from vocational training all the way through to adult education. In the domain of staff skills, ŠKODA AUTO is attentive to the demands that will be required of employees and their skills by the fourth industrial revolution. ŠKODA AUTO is involved in the promotion of technical education and training in the Czech Republic at many levels. Examples include the development of its own Secondary Vocational School of Engineering, collaboration with various types of schools, and the initiation of and heavy involvement in discussions running through all strata of society that culminated in the announcement of 2015 as the Year of Industry and Technical Training. This programme encompassed no end of events and conferences, to which ŠKODA AUTO lent its support by providing its own experts and speakers. Under pressure from private employers and their federations, the Czech government took specific action and made statements aimed at bolstering technical education and training.

The Company maintains a keen interest in the professional and post-professional training of workers. More than 6,000 people

Qualification Structure of the Company's Permanent Employees



completed more than 500 training courses in 2015, enabling them to drastically expand their skill sets. ŠKODA AUTO also focuses strongly on new forms of learning, including eLearning, blended learning, and virtual classrooms. New learning methods and further innovations in HR were presented at various meetings attended by Company management, representatives of the KOVO trade union organisation, and Company employees. In 2015, ŠKODA AUTO found itself training more than 900 students for their future careers at its Secondary Vocational School of Engineering. This training facility is being substantially modernised in a project that encompasses not only the renovation of the school building, but also – and more importantly – the furnishing of classrooms with advanced teaching technology and the procurement of equipment capable of arming students with the skills they will need in the fourth industrial revolution. The Company is also an active player in the higher-education sector. The ŠKODA AUTO University is dedicated to further internationalisation, developing courses where English is the language of instruction, and working with other partners. The emphasis is on increasing the quality of studies. International ACBSP accreditation is one way in which this quality has been affirmed. The university has also forged a partnership with Unicorn College, and the two institutions are working on a new field of study that will interlink IT knowledge with the requirements demanded of corporate economists. The university currently teaches approximately 1,090 students from 18 countries.

The Employer Brand – A Key Driver

In 2015, opinion polls once again named ŠKODA AUTO the Czech Republic's most popular company. The Company defended its place at the summit of the CZECH TOP 100 and Czech 100 Best rankings, meaning it is considered to be the most highly regarded company in the Czech Republic.
ŠKODA AUTO is extremely popular with university graduates. It once again topped the "Trendence Graduate Barometer Czech Republic" in both the Business Edition and the Engineering/IT Edition, based on voting by engineering and economics students. The Company also featured in the Universum rankings in 2015. Polling among 13,000 students from 65 Czech colleges and universities saw the Company ranked first by engineering students and second by economics students. These results confirm that the strategy in place for employee care, social dialogue and the appeal of working for ŠKODA AUTO has long been following the right path.

Company Workforce

	31 December 2015	31 December 2014	2015/2014
ŠKODA AUTO Company – permanent employees	**24,567**	**23,748**	**3.4%**
of which:			
– Mladá Boleslav plant	20,414	19,754	3.3%
– Vrchlabí plant	779	754	3.3%
– Kvasiny plant	3,374	3,240	4.1%
ŠKODA AUTO Company – apprentices	885	883	0.2%
ŠKODA AUTO Company – employees total*	**25,452**	**24,631**	**3.3%**

* Number of employees as at 31 December, excluding temporary staff, including apprentices.

Sustainability

The Company is faced with the technological, social and environmental challenges of a fast-moving world. The essence of success lies in sustainable business, which at ŠKODA AUTO relies on creating values and sharing them between the Company and the world around it. The Company creates shared values under its CSR strategy and GreenFuture environmental strategy and by establishing and adhering to principles of ethical and transparent conduct. The Company's executive management is kept informed of sustainability management at the Company.

Environmental Protection

Steadfast environmental protection forms an integral part of all ŠKODA AUTO activities. Environmental responsibility influences the way ŠKODA AUTO conducts itself in vehicle development, production and recycling. As in previous years, key parameters that have an environmental impact are systematically monitored and evaluated. Action is constantly being taken in response to the results.
Within the scope of its integrated management system, ŠKODA AUTO's environmental management system has been certified as compliant with ISO 14001 and its energy management system has been certified as compliant with ISO 50001.

Environmental Investments

The environmental forum regularly evaluates and approves energy-saving measures. At the Mladá Boleslav plant, for example, action has been taken to add frequency inverters to the indoor ventilation system's fan drives, enabling the Company to optimise their operation, make substantial electricity savings, and reduce the current and voltage spikes when starting up the drives.
At the Vrchlabí plant, an evaporator has been installed to treat oily water. This equipment can be used to treat oily process water, minimising the amount of liquid waste requiring disposal. Once processed in this way, the water meets requirements for entry into the municipal wastewater treatment plant. The installation of the evaporator will also significantly reduce the movements of the vehicles used to transport liquid waste away from the plant.
To cope with the start of production of the new-generation ŠKODA Superb at the Kvasiny plant, the Company invested heavily in new production technology for the welding shop, assembly facilities and logistical areas. These investments have made the new facilities more efficient.

Air Protection

As the main pollutants released into the atmosphere when cars are made are volatile organic compounds (VOCs), reducing these emissions is a top air protection priority.
In 2015, the Company optimised measures to reduce VOC emissions from car body painting, which saw these emissions drop by more than 82 tonnes year on year.
In addition, the quantity of VOCs emitted per m^2 of painted area fell to below 40% of the 45 g/m^2 statutory limit. The heat recuperated from the thermal abatement of VOC emissions is used to warm up equipment in the paint shops.

Soil and Water Protection

The Company attaches great importance to the safe handling of compounds that, if leaked, could contaminate the soil or groundwater. It is standard procedure to observe safety rules, such as multiple barrier protection. Where technologically possible, less hazardous compounds are the preferred option. Technological procedures and processes are selected to minimise water consumption, with the aim of scaling down specific water consumption per vehicle produced. In 2015, reused (recycled) water accounted for more than 36% of overall consumption.

Waste Management

In waste management, a prevention policy is in place to respect the waste hierarchy as much as possible.
In 2015, waste management at the Mladá Boleslav plant was put out to tender. The basic requirement was to reduce the proportion of waste for disposal. In 2016, the Company expects this to result in a significant increase in the share of recoverable waste, with a corresponding contraction in waste for disposal.

Energy

Energy consumption per car produced stagnated in 2015. Although energy-saving measures trimmed consumption by roughly 3%, the production overhaul at the Kvasiny plant and the fact that the winter was colder than in 2014 meant that there was little change in this indicator.

Corporate Social Responsibility

ŠKODA AUTO, one of the oldest car makers in the world, has traditions deeply entrenched in the Czech Republic. From the outset, the Company has focused not only on its commercial development, but also on its employees, the regions in which it operates, business partners and, not least, customers. ŠKODA AUTO has always aspired to achieve the best it can, including relations in the milieu in which it finds itself.

Strategy

The concept of corporate social responsibility (CSR) is enmeshed in the Company's key areas of business. In social matters, ŠKODA AUTO pursues four main priorities (road safety, technical education, aid for children and disabled mobility) and two regional priorities (employee welfare and cooperation with the region). Individual activities and projects sponsored by ŠKODA AUTO are dedicated to tackling topical issues and challenges in this area. The CSR strategy at ŠKODA AUTO is managed by the CSR Committee, chaired by the member of the Board of Management responsible for human resources management. Project teams coordinate activities on the ground, with a specialised committee keeping an eye on the financial side. KOVO trade union organisations active at the Company also contribute to projects.

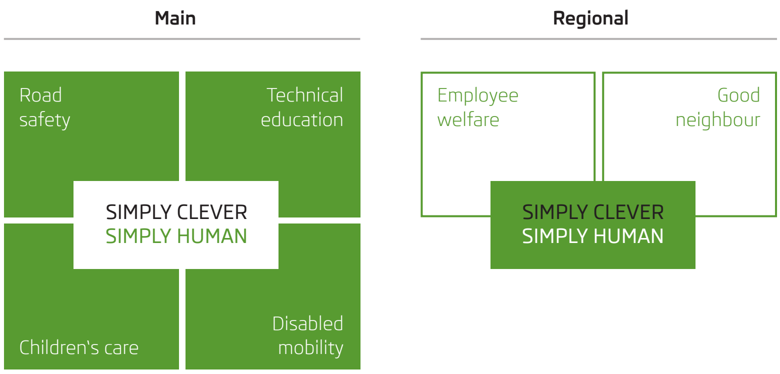
Road Safety

ŠKODA AUTO has long been committed to the development of vehicle safety features and is traditionally involved in road safety awareness. In 2015, the Company continued its practice of running two regional grant schemes in support of road safety education and enhancing traffic safety in towns and villages. Funding was granted to 18 projects under these schemes. Another unique educational initiative in this field is the "ŠKODA hrou" ("Playful ŠKODA") educational website, which encourages children to behave correctly on the road. In 2015, "Little Driver app", a new tablet app designed as an interactive game to teach children the basics of safe driving, was launched. For adult drivers, the "Bezpecnecesty.cz" website was set up to report on the safety of Czech roads and provide motorists with useful advice. In 2015, ŠKODA AUTO was once again the main sponsor of the "Roads through Cities" traffic competition, organised by the Partnership Foundation. This competition, which includes an award from ŠKODA AUTO itself, recognises the involvement of towns and villages in road safety education, and showcases well-designed traffic solutions. In 2015, the prize was awarded to the town of Hustopeče for its traffic park project. ŠKODA AUTO also conducts its own unique "Road Safety Research", in which it collaborates with the fire service, the police and health professionals. This research is particularly instrumental in enhancing the safety of ŠKODA cars.

Promotion of Technical Education

ŠKODA AUTO promotes a practical education system for technical training. It teams up with dozens of schools at all educational levels to work on specific projects. The popularisation of technical subjects at primary and secondary schools and extensive cooperation with universities at home and abroad are follow-ups building on the support the

Priorities



Company channels into the creativity of children at nursery and primary schools under the "Young Designers" project. In 2015, 13 projects were awarded grants in this field. ŠKODA AUTO also has its own secondary vocational school and was the first company in the Czech Republic to set up a corporate university. In 2015, the Company set its sights not only on teachers of technical subjects, but also on the head teachers and career advisers at primary schools. The "Science Has a Future" project is geared towards their further development, training, and motivation to teach science and technical fields. In 2015, the Year of Industry and Technical Training was held, with ŠKODA AUTO playing a central role as a leader in vocational training. This initiative included activities such as June's expert conference on "Collaboration in Education: What It's All About" and a special grant in support of projects implemented by secondary vocational schools (five projects received funding). ŠKODA AUTO also sponsored a one-year initiative by the Czech-German Chamber of Commerce and Industry called "Industry 4.0 – rEvolution in Progress", dedicated to the digital networking of all levels at which added value is generated, from product development to logistics. The Company continues to have a voice in nationwide debates and projects on the concept of the education system in the Czech Republic.

Children's Care

Children are the future. ŠKODA AUTO backs up its agreement with this statement in particular by lending a hand to less fortunate children. The Company is a long-standing partner of "Clown Doctors" (Zdravotní klaun), an organisation which arranges for clowns to visit seriously ill children and, more recently, seniors. In doing so, it helps to alleviate stress and loneliness with "fun therapy". "ROZJEDU TO!" ("Get Started!"), a project implemented in partnership with the Tereza Maxová Foundation, gives support and motivation to 11- to 15-year-olds from children's homes. The aim is to draw on a personal approach and education to forge better job opportunities for them. In 2015, ŠKODA AUTO also sponsored the unique charity sports runs by the Tereza Maxová Foundation's "Teribear" mascot. "Teribear Moves Prague" (and, later, Mladá Boleslav) increased funds for disadvantaged children with every passing kilometre. The Mladá Boleslav run, for Krnsko Children's Home, involved many ŠKODA AUTO employees, as well as the general public. By running, on aggregate, thousands of kilometres, everyone involved in both events showed that efforts to help know no bounds. Another initiative enjoying the Company's endorsement is "New Job New Life", which sets out to help young people from children's homes to succeed in the job market by handing them work experience and providing them with career guidance. Funding was granted to 12 projects in a grant scheme dedicated to children.

Disabled Mobility

The Company has set up the "ŠKODA Handy" project to assist the personal mobility of the disabled by providing them with comprehensive advice in this field. The Company also collaborates with the Czech Paraplegic Association on a mobile app and a website (Vozejkmap.cz) mapping disabled-access sites in the Czech Republic. In 2015, nine projects were awarded grants in this field. The Company affirms its commitment to disabled sports by partnering Paralympic athletes in the Czech Republic.

Employee Welfare and Cooperation with the Regions

ŠKODA AUTO has strong ties not only with its employees, but also with their families and those living near its plants. Reflecting this, it contributes to specific projects for their development in partnership with the trade union organisations active at the Company. Acting on the "Good Neighbour" principle, ŠKODA AUTO is involved in projects directly related to the region in which it operates. The range of activities includes, for example, infrastructure and environmental improvements, as well as the promotion of leisure. In this light, regular meetings are held with regional representatives. ŠKODA AUTO attaches great importance to the welfare of its employees and offers them a wide panoply of social benefits, comprehensive health care, a sound work-life balance and opportunities for professional advancement. The Company guarantees compliance with occupational safety and health standards and runs a unique system of corporate training and professional development.

ŠKODA AUTO is also involved in local, regional and national forms of sponsorship. In its work with frontline foundations and charities, it supports the full gamut of social, cultural and humanitarian projects. In 2015, employees were given the opportunity to become actively involved in Company-endorsed employee collections, thereby supporting one of five non-profit organisations of their own choice. The overall sum donated by employees in 2015 was just shy of CZK 1 million, an amount which the Company pledged to match. The "This is My Home" grant scheme awarded funding to 18 projects placing a stress on solidarity with the region and local community. Employees had an active role to play in nominating projects under this scheme. The environmental project "One Tree Planted for Each Car Sold in the Czech

Republic" continued in 2015. By involving employees and their families, the Company actively contributes to environmental protection in the regions where it operates. Since the project's launch in 2007, cooperation has been established with more than 50 partners, mainly local government authorities and non-profit organisations. In that time, over 540,000 trees have been planted. The Company rounded off 2015 with its traditional backing of the International Christmas Festival, with proceeds donated to various charity projects around the Czech Republic. ŠKODA AUTO stepped out in public with all of these activities at the national event for non-profit organisations, NGO Market, organised by Forum 2000, and at the Open Day hosted by its principal production plant in Mladá Boleslav, which attracted tens of thousands of visitors.

Culture and the Arts

In 2015, ŠKODA AUTO's traditional partners once again numbered prestigious cultural and social institutions, including the Czech Philharmonic, the National Theatre, the National Museum and the National Technical Museum. With new management taking over at the National Theatre and the Czech Philharmonic, cooperation between these institutions and ŠKODA AUTO was particularly fruitful and has gained new momentum. One of the most interesting projects was the Czech Philharmonic's open-air concert in Prague, at which dozens of young musicians performed. The Company also sponsored selected top cultural events held outside of Prague, such as the Smetana's Litomyšl International Opera Festival and the International Film Festival for Children and Youth in Zlín, the largest such show in the world. The Company forged ahead with its sponsorship of the Prague German Language Theatre Festival, the Mladá Boleslav Municipal Theatre and the highly esteemed "World Press Photo in the Czech Republic" exhibition. The Company has backed the Arnošt Lustig Prize since 2012 and the "Memories of the Nation" awards, conferred by Post Bellum, since 2014. Both accolades celebrate powerful human values, such as courage, bravery, humanity and justice, and enjoy respect and repute among the general public. The Arnošt Lustig Prize was awarded to Petr Sýkora, the businessman, visionary, philanthropist and co-founder of the GOOD ANGEL (DOBRÝ ANDĚL) foundation and the company PAPIRIUS. Memories of the Nation awards were presented to four people for their upright morality and personal courage during the events of the Second World War.

Corporate Governance & Compliance

This division's aim is to manage the Company in a reliable, qualified, and transparent manner dedicated to the Company's long-term success and the protection of stakeholders' interests. Corporate governance is a system managing and controlling the Company, defining the distribution of rights and duties between the Company's stakeholders – its shareholders, executive management, bodies, employees and customers.

Via the Compliance unit, the Company is particularly attentive to its responsibility to comply with legislation, internal regulations, ethical principles and other voluntary commitments. Compliance is not limited to business relations, but encompasses all activities both within and outside the Company. This is ŠKODA AUTO's way of showing that its actions will respect all requirements of ethical and legal rules on competition, finance, tax, environmental protection and employee welfare, including equal opportunities.

Risk Management System

ŠKODA AUTO's global operations in automotive markets pose numerous risks potentially adversely affecting its financial performance and business results. At the same time, economic and legislative changes can yield opportunities, which the Company then strives to harness in a bid to strengthen and further improve its competitive position.

Risk Management Organisation

ŠKODA AUTO's risk management structure is based on the uniform principle of risk management in place within the Volkswagen Group, which complies with German legislative requirements for the control and transparency of a company's activities (the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich, or KonTraG). Risk management, as a working component of the business process, must rigorously identify individual risks, assess their reach, introduce measures to minimise or eliminate them, and evidence the effectiveness of such measures.

All of risk management is coordinated centrally by the Governance, Risk & Compliance Department in collaboration with the Controlling Unit. The uniform implementation of the risk management system is described and covered by the Company standard "Risk Management System and Internal Control System" and by the "Operating-Risk Management System" and "Periodic GRC Process" guidelines.

The risk monitoring system is based on decentralised responsibilities. Employees delegated to handle risks in each organisational unit run risk assessments at least once a year, after which the complete picture of the potential risk situation is updated. For each risk identified, the focus is on determining the qualitative probability that it will occur and, if it does occur, what the relative impact would be. Appropriate countermeasures – which for the most part are also described in internal regulations – are drawn up to minimise or eliminate each risk. Internal regulations are clearly defined and are generally available online. The most significant risks are periodically described and reported to the Company management. Countermeasures to eliminate or reduce risks are proposed and subsequently implemented in line with strategic aims. These countermeasures are continuously monitored and evaluated by the managers of organisational units. The effectiveness and adequacy of the system is periodically reviewed and this is reflected in the planning, controlling and business processes system. The system is continuously optimised in the risk management process. Here, the same importance is attached to both internal and external requirements, particularly the German Accounting Law Modernisation Act (the Bilanzrechtsmodernisierungsgesetz, or BilMoG). System optimisation is intended to achieve continuous monitoring of fundamental risk areas, including the responsibilities of individual organisational units.

Risk Description and Management

The most significant risks the Company faces are financial and sector-specific risks, risks arising from changes in general economic and political conditions and amendments to legislation, operating risks and other risks, such as those stemming from changes in quality and human resources risks.

Economic, Political and Legislative Risks

In view of the Company's business activities, its financial position both as an exporter and as a local manufacturer is heavily influenced by general global and local economic conditions, such as the state of the economy and the related economic cycle, legislative changes, the political situation, terrorist activities and pandemics in the countries where the Company is active.

This is accompanied by a persistent threat of risks associated with high public debt ratios, high rates of unemployment and fluctuations in prices of precious metals, oil and plastics. Other significant risks that could affect the Company's business activities in global markets include divergent paces of economic growth in different 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 available on the financial and insurance markets. The Company's partners here are Czech and international banking organisations, including EGAP (the state-controlled export guarantee and insurance company).

The economic situation may also be adversely affected by additional technical development costs 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 to standard vehicle specifications. With environmental protection laws, it should be borne in mind that EU legislation on exhaust gas emissions is likely to be tightened.

Demand-side Risks

Growing and more aggressive competition in the automotive sector is reflected in increasing sales support. The situation is further exacerbated by market risks associated with changes in customer demand, since customers' purchasing patterns depend not only on actual conditions, such as real wages, but also on psychological factors. To mitigate these risks as far as possible, the Company continuously analyses the competition and customer behaviour.

Procurement-related Risks

Close and economically beneficial collaboration between car makers and their suppliers poses procurement-related risks capable of disrupting production and potentially triggering major financial losses. These include late delivery, failure to deliver and quality defects, or – in extreme cases – a supplier's becoming insolvent and dropping out of the supply chain. Other risks stem from growing competition in the supply industry. To mitigate these risks, ŠKODA AUTO sources parts for vehicle assembly from multiple suppliers so that it is able to respond flexibly to any negative developments. In addition, preventive measures are being adopted within the risk management system to address any supplier insolvency. The financial stability of suppliers is continuously reviewed. Taken as a whole, all these measures, both preventive and reactive, help to minimise risks in the Company's relations with suppliers.

Financial Risks

Financial risks and how they are managed are among the most closely monitored aspects of risk management at ŠKODA AUTO.

From the perspective of materiality, the risk associated with exchange rate fluctuations in the Czech crown and their impact on cash flows, financing and the overall economic performance of the Company is of paramount importance. The risk and impact of exchange rate fluctuations are regularly analysed, planned and managed using standard hedging instruments (primarily foreign exchange forwards). The products and strategies employed are discussed and agreed by internal and VW Group committees. This instrument trading meets the requirements of international accounting standards for hedge accounting.

Risks arising from the procurement of aluminium, copper and lead, i.e. raw materials purchased to manufacture ŠKODA AUTO products, are tackled with similar procedures and strategies.

Other integral risk control components are the active management of the potential impacts of interest rate fluctuations on the financing of the Company's activities, and liquidity management.

ŠKODA AUTO uses standard procedures and instruments to manage liquidity risk and ensure sufficient coverage of operations and liabilities for the period required, as defined by its internal rules. The cornerstones here are the Company's own funds and the resources of Volkswagen Group companies.

The Company avoids credit risk by drawing on hedging instruments, whether preventive (for example, the reservation of the right of ownership, advance payment, documentary credit, etc.) or supplementary (such as the recognition of a liability, payment scheduling or a bill of exchange).

Research and Development Risks

New products carry the inherent risk that customers might not accept them. For this reason, the Company conducts extensive analyses and customer surveys. Trends are identified early, and their relevance to customers is probed. The risk of the inability to launch new products according to the scheduled timeline, to the requisite quality and in line with target expenditures is mitigated by ongoing project inspections and cross-checks with specifications, allowing necessary action to be taken in response to any deviations that are identified.

Quality Risks

Escalating competitive pressures, the increasing complexity of production technologies and the large number of suppliers make quality assurance an important part of the manufacturing process. Despite the Company's effective and systematic approach to quality assurance, risks cannot be ruled out. The quality of the Company's products, processes and management system is audited annually by an independent accredited certification company. Quality control system certificates, which ŠKODA AUTO has successfully held and maintained since 1993, are a guarantee of smoothly running processes and figure among the underlying documentation used in product homologation.

The Company's qualified auditor and test engineer network is constantly updated to ensure that deviations, internally or at suppliers, can be spotted in good time. Department managers regularly report to Company management on testing and measurements.

ŠKODA AUTO is mindful of its responsibility for its own products. The quality management department keeps track of customer satisfaction and provides information on the latest market developments. Risk-minimisation measures are instantly deployed in response to negative deviations from expectations.

Human Resources Risks

Against the backdrop of a dynamically evolving automotive industry and ever keener competition, the Company needs to secure its future competitiveness in the form of a stable, skilled and flexible workforce both on and behind the front line. This can only be achieved in the long run by an aptly composed strategy that covers the entire HR process, encompassing planning, recruitment, training and incentivisation.

At the same time, potential risks – such as the loss of skilled staff responsible for key corporate processes, risks deriving from legislative amendments, legal risks or risks associated with long-term demographic changes – must be correctly analysed and averted.

Information Technology (IT) Risks

When it comes to information systems and technologies, the Company takes care to protect itself from risks involving data accessibility, confidentiality and integrity. Particular attention is paid to unauthorised access to and misuse of data. This area is covered by various measures relating to employees, organisation, applications, systems and data networks. ŠKODA AUTO has established an information security management system (ISMS) to minimise information security risks and their impact on economic targets. Employees are bound by Company guidelines on the handling of information and internal regulations on the safe use of information systems. Additionally, standard technical measures are in place to counter external and internal threats (anti-virus protection, firewalls, the allocation of access privileges, etc.).

Legal Risks

ŠKODA AUTO does business in more than a hundred countries worldwide, potentially running the risk of litigation with suppliers, dealers or customers, as well as the risk of administrative proceedings related to particular areas of the Company's business activities.

Other Operating Risks

Aside from the risks explained above, there are factors of influence that cannot be predicted and that may affect the Company's future development, including natural disasters, epidemics and other threats.

Short-term and Long-term Outlook

Overview of Planned Activities and Objectives

Technical Development

Building on the repeated success of delivering one million ŠKODA cars in a single year, the Company continues to improve its products worldwide. Technical Development takes into consideration emerging trends and changing customer demands in each export market. It concentrates on digitisation, communication, safety, comfort, emissions, the utilisation of new materials and the harnessing of technological opportunities.

In 2016, the Company is set to unveil a completely new model in the SUV category, introducing a car that will see ŠKODA reach out to a new customer category. The vehicle, which is also to be made available as a seven-seater, will be built to a design that forges ahead with the latest ŠKODA vehicle components and reinforces the car's emotional side. The new SUV will offer the brand's signature spaciousness while also providing a high level of safety and superior creature comforts. It will incorporate modern new lighting technology, driver assists and multimedia systems.

In 2016, the ŠKODA Motorsport factory team will focus its efforts on competing in WRC2 rallies offering the best promotional opportunities, the Asia-Pacific Championship and the Czech Championship. This will be the first full season for the ŠKODA Fabia R5, which will continue to be offered for sale to private teams.

Production and Logistics

The ŠKODA Growth Strategy, which has set ambitious targets for the coming years, will continue to be successfully implemented in 2016. In the next few years, ŠKODA AUTO will concentrate on expanding production capacities at the Kvasiny plant in the Czech Republic, which will spearhead the Company's ongoing model offensive with the rollout of a range of SUV models. This will be accompanied by a hike in daily capacity to 900 cars when the second assembly line is reopened. This year will see the start of production of the new ŠKODA SUV. The growth in production at ŠKODA plants will not stop there as annual production volumes are set to rise further. Consequently, the Company will be primed to respond to the challenges thrown up by demand for vehicles of the ŠKODA brand.

Logistics also continues to support the ŠKODA Growth Strategy by optimising logistics processes and costs, introducing innovative solutions, and taking measures to protect the environment.

Environmental Protection

Since 2012, ŠKODA AUTO has pursued its GreenFuture strategy (part of the ŠKODA Growth Strategy), under which it fulfils its commitments and steadfastly improves sustainability, primarily by making sparing use of resources throughout the Company.

Markets, Sales and Marketing

In 2016, ŠKODA AUTO will focus on successfully driving forward its growth, expanding its market shares and increasing deliveries in key markets.

2016 will be dominated by ŠKODA's latest product, a large new SUV heralding the next stage in the Company's development. This car will be the ŠKODA brand's ticket to a new and highly important segment. As part of Strategy 2025, ŠKODA AUTO is also gearing up for another Company growth and model offensive.

Employees

In 2016, ŠKODA AUTO will focus on several fundamental HR issues, especially recruitment for the Kvasiny plant, which will be rising much more to the fore as the Company presses ahead with its SUVs. The Company will also address workforce development in connection with the emerging technological changes yielded by the fourth industrial revolution. Major challenges await the Company, particularly in the digitisation and electrification of products, but also in relation to the workforce at large. The step-by-step transformation of corporate culture, which must become more open to innovation and fresh ideas, is of paramount importance.

The Company plans to develop three production sites in the Czech Republic in the near future. New technologies, continuing digitisation, the promotion of innovations, and progress in the staged introduction of elements anchored in Industry 4.0 carry with them the need to further develop existing employees and recruit the best specialists available for frontline and other operations. The Company is particularly interested in highly skilled degree-holding candidates with excellent language skills who will be able to work in the worldwide network of Group companies. ŠKODA AUTO will also seek out high-quality employees with an engineering background for various frontline positions. New forms of learning will play an increasingly important role in staff development. The Company works closely on all issues with the KOVO trade union organisations active at the Company. Cooperation with the towns and regions where it operates remains important to the Company in 2016. This cooperation has recently flourished in particular in the areas around the Kvasiny and Vrchlabí plants. Another prime objective is to maintain ŠKODA AUTO's lead in employer branding.

Finance

In 2016, ŠKODA AUTO will continue refreshing its model range. This year will be influenced by expenditure on the launch of a ŠKODA SUV model as investment in new products is essential for the future of ŠKODA AUTO.

In 2016, ŠKODA AUTO will once again strive to achieve robust results and maintain its financial stability. The optimisation of processes and production costs while maintaining a high level of productivity will be central to meeting the Company's financial targets. The Company also plans to focus on the targeted management of costs and liquidity by rigorously adhering to planned cost targets, optimising the use of working capital and continuously monitoring investment objectives.

Financial Section

Financial Section

Auditor's Report

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 2015, the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the separate financial statements").

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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 separate financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, 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 and with the European Commission's interpretation as described in Note 1.1.

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

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 Evidence No 021.

Other information

The other information comprises the information included in the annual report, but does not include the separate financial statements and our auditor’s report thereon. Management is responsible for the other information.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information in the annual report is not materially inconsistent with the separate financial statements or our knowledge about the Company obtained in the course of the audit of the separate financial statements, whether the annual report was prepared in compliance with legal requirements, and whether the other information does not appear to be otherwise materially misstated.

If, based on the work we have performed, we conclude that the aforementioned requirements of the other information are not met, we are obliged to report that fact herein.

We have nothing to report in this regard.

23 February 2016

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jiří Zouhar
Partner

Pavel Kulhavý
Statutory Auditor, Evidence 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 2015

Income statement for the year ended 31 December 2015 (CZK million)

	Note	2015	2014
Sales	**18**	**314,897**	**299,318**
Cost of sales	27	268,184	254,944
Gross profit		**46,713**	**44,374**
Distribution expenses	27	13,272	13,466
Administrative expenses	27	7,273	6,939
Other operating income	19	18,779	5,130
Other operating expenses	20	9,793	7,501
Operating profit		**35,154**	**21,598**
Financial income		1,781	2,367
Financial expenses		2,697	2,616
Financial result	**21**	**(916)**	**(249)**
Profit before income tax		**34,238**	**21,349**
Income tax expense	23	3,422	2,928
Profit for the year		**30,816**	**18,421**

Statement of comprehensive income for the year ended 31 December 2015 (CZK million)

	Note	2015	2014
Profit for the year, net of tax		**30,816**	**18,421**
Cash flow hedges	13	418	(3,043)
Other comprehensive income/(loss) for the year, net of tax*		**418**	**(3,043)**
Total comprehensive income for the year		**31,234**	**15,378**

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

The notes on pages 46 to 106 are an integral part of these financial statements.

Balance sheet as at 31 December 2015 (CZK million)

	Note	31 December 2015	31 December 2014
Assets			
Intangible assets	5	24,813	25,168
Property, plant and equipment	6	65,642	65,916
Investments in subsidiaries	7	49	49
Investments in associates	8	2,352	2,352
Other non-current receivables and financial assets	9	11,185	9,047
Deferred tax asset	15	3,613	2,607
Non-current assets		**107,654**	**105,139**
Inventories	10	15,115	12,326
Trade receivables	9	11,937	11,941
Other current receivables and financial assets	9	5,629	4,387
Cash and cash equivalents	11	62,280	42,878
		94,961	**71,532**
Assets classified as held for sale	7	–	198
Current assets		**94,961**	**71,730**
Total assets		**202,615**	**176,869**

	Note	31 December 2015	31 December 2014
Equity and liabilities			
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Retained earnings	13	103,963	86,890
Other reserves	13	(4,768)	(5,176)
Equity		**117,482**	**100,001**
Financial and other non-current liabilities	14	5,744	7,898
Non-current provisions	16	13,197	10,509
Non-current liabilities		**18,941**	**18,407**
Trade liabilities	14	38,012	35,741
Financial and other current liabilities	14	10,966	10,280
Current income tax liabilities		2,375	1,559
Current provisions	16	14,839	10,881
Current liabilities		**66,192**	**58,461**
Total equity and liabilities		**202,615**	**176,869**

The notes on pages 46 to 106 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2015 (CZK million)

	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance as at 1 January 2014	**16,709**	**1,578**	**74,162**	**(2,133)**	**90,316**
Profit for the year	–	–	18,421	–	18,421
Other comprehensive income/(loss)	–	–	–	(3,043)	(3,043)
Total comprehensive income for the year	**–**	**–**	**18,421**	**(3,043)**	**15,378**
Transactions with owners					
Dividends paid	–	–	(5,693)	–	(5,693)
Balance as at 31 December 2014	**16,709**	**1,578**	**86,890**	**(5,176)**	**100,001**
Balance as at 1 January 2015	**16,709**	**1,578**	**86,890**	**(5,176)**	**100,001**
Profit for the year	–	–	30,816	–	30,816
Other comprehensive income/(loss)	–	–	–	418	418
Total comprehensive income for the year	**–**	**–**	**30,816**	**418**	**31,234**
Transactions with owners					
Transfers			10	(10)	–
Dividends paid	–	–	(13,753)	–	(13,753)
Balance as at 31 December 2015	**16,709**	**1,578**	**103,963**	**(4,768)**	**117,482**

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

The notes on pages 46 to 106 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2015 (CZK million)

	Note	2015	2014
Cash and cash equivalents as at 1 January	**17**	**42,878**	**31,926**
Profit before income tax		34,238	21,349
Depreciation, amortisation and impairment of non-current assets	5, 6	20,519	16,397
Change in provisions		6,321	3,324
Gain on disposal of non-current and financial assets	19	(12,181)	(15)
Net interest (income)/expense	21	418	87
Change in inventories		(2,853)	(1,288)
Change in receivables		(2,263)	(534)
Change in liabilities		1,687	8,336
Income tax paid from operating activities		(3,713)	(1,694)
Interest paid		(176)	(327)
Interest received		35	118
Dividends income	21	(187)	(1,074)
Adjustments for non-cash transactions on derivatives and other adjustments for non-cash transactions		(2,223)	478
Cash flows from operating activities		**39,622**	**45,158**
Purchases of tangible and intangible assets		(14,946)	(17,373)
Additions to capitalised development costs	5	(4,110)	(5,428)
Decrease in short-term deposits*	9	–	4,500
Increase in long-term loans*	9	–	(8,300)
Proceeds from sale of non-current and financial assets	19	12,402	15
Proceeds from dividends		187	1,074
Cash flows from investing activities		**(6,467)**	**(25,512)**
Net cash flows (operating and investing activities)		**33,155**	**19,646**
Dividends paid	12	(13,753)	(5,693)
Repayments of loans received		–	(3,000)
Cash flows from financing activities		**(13,753)**	**(8,693)**
Net change in cash and cash equivalents		**19,402**	**10,952**
Cash and cash equivalents as at 31 December	**17**	**62,280**	**42,878**

* Loans and deposits which do not meet criteria of cash equivalents according to IAS 7.

The notes on pages 46 to 106 are an integral part of these financial statements.

Notes to the Separate Financial Statements 2015

Company information

Foundation and company enterprises

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

Registered office:	tř. Václava Klementa 869 293 01 Mladá Boleslav Czech Republic 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 FINANCE LUXEMBURG S.A. included in the consolidation group of its ultimate parent company and its ultimate controlling party, VOLKSWAGEN AG ("Volkswagen Group"), with its registered office in Wolfsburg, the Federal Republic of Germany (for details see Note 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 2015. Financial statements of the Company, its subsidiaries and associates are included in the consolidated financial statements of Volkswagen Group for the year ended 31 December 2015.

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

The Company released these separate financial statements as its only financial statements prepared in accordance with IFRS, and relied on the exemption from consolidation under paragraph 4(a) of IFRS 10 and exemption from applying the equity method in accordance with paragraph 17 of IAS 28.

The consolidated financial statements of Volkswagen Group prepared in accordance with IFRS will be publicly available on the Web after their release* at:
http://www.volkswagenag.com/content/vwcorp/info_center/de/publications/publications.html

The Company publishes only separate financial statements in Collection of documents of respective court maintaining the commercial register based on the exemption from consolidation under paragraph 62 Article 2 and 3 of Decree No. 500/2002 Coll. (effective as at 31 December 2015). Consolidated financial statements of VOLKSWAGEN AG and the auditor's report responsible for their verification will be published in Czech language in the collection of documents in the Commercial register.

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

For more information about the ultimate parent company VOLKSWAGEN AG refer to note 31.

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 2015

None of the new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on 1 January 2015 have material impact on the separate financial statements of the Company.

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

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective for accounting periods beginning on 1 January 2015

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

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IFRS 9	Financial instruments	1 January 2018*	New standard IFRS 9 "Financial instruments" should ultimately replace IAS 39 and some financial instruments disclosure requirements based on IFRS 7. The project to replace IAS 39 is implemented in three phases: Phase 1: Classification and measurement of financial assets and financial liabilities IFRS 9 classifies all financial assets currently under the scope of IAS 39 into three categories: assets subsequently carried at amortized costs using effective interest rate method, assets subsequently measured at fair value through other comprehensive income and assets subsequently measured at fair value through profit or loss. The classification must be performed at the time of acquisition and on initial recognition of financial assets and depends on entity's business model and the contractual cash flow characteristics of the financial instrument. Debt instrument that (i) is held within a business model which objective is to collect contractual cash flows, and (ii) that has contractual cash flows represented only by payments of principal and interest on the outstanding principal amount (i.e. financial instrument has only "basic loan features") are generally measured at amortized costs. Debt instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other debt instruments should be measured at fair value recognised in profit and loss. Equity instruments under the scope of IFRS 9 are subsequently measured at fair value. Gains or losses arising from equity instruments are always included in profit and loss except for equity instruments that are not held for trading. An entity may irrevocably elect for these instruments on initial recognition that realized and unrealized gains and losses arising from the investment will be recognized in other comprehensive income. Dividends are included in profit and loss only if they represent a return on investment. This decision may be done separately for each equity instrument. Phase 2: Impairment methodology New IFRS 9 has introduced more progressive loss impairment model that will require more timely recognition of expected credit losses compared to incurred-loss model under IAS 39. Phase 3: Hedge accounting Hedge accounting requirements were amended to ensure a better link with risk management activity. The standard enables a choice between applying IFRS 9 and continuing with the application of IAS 39 to all hedging relationships as the current standard does not deal with macro hedging.	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. The Company expects further impact of impairment methodology of financial instruments. New IFRS 9 may also influence method of proving the economic relationship between the hedged item and the hedging instrument. However, it is not possible to perform a reliable estimate of all impacts above without detailed analysis as at the date of the financial statements. The Company does not expect early adoption of this standard. The disclosure of information in the area of financial instruments will be set by IFRS 7 para. 44S to 44W.

* Not yet adopted by the European Union as at 31 December 2015 (the specified date relates to effective date as per IASB).

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
IAS 1	Disclosure Initiative – Amendments	1 January 2016	The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.	The Company is currently assessing the impact of the amendments on the disclosures in the notes to the final statements.
IFRS 15	Revenue from Contracts with Customers	1 January 2018*	IFRS 15 introduces the new core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. The goods or services are transferred when the customer obtains control of these. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. Variable consideration should be involved into transaction price at such amount to avoid significant risk of considerable revenue reversal in the future. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.	The Company expects that the new standard IFRS 15 will have impact especially on amount of recognised revenues as a result of new recognition criteria and new conditions for determining amount of variable consideration. However, it is not possible to perform a reliable estimate of such an impact without detailed analysis as at the date of the financial statements.
IFRS 16	Leases	1 January 2019*	New standard IFRS 16 fully replaces recognition of leases in accordance with IAS 17. Significant changes concern in particular the lessees' recognition of leases. IFRS 16 provides a single accounting model for recognition of all lease transactions. New IFRS requires lessee to recognise a right-of-use asset and a lease liability in the balance sheet. Lessor's recognition is more or less comparable with the IAS 17.	The Company expects that the new IFRS 16 will have especially impact on the reported amounts of non-current assets, long-term liabilities, depreciation, interest expense and rental expense. However, it is not possible to perform a reliable estimate of such an impact without detailed analysis as at the date of the financial statements.

* Not yet adopted by the European Union as at 31 December 2015 (the specified date relates to effective date as per IASB).

New standards, amendments, interpretations and improvements to existing standards will not be relevant for the Company or the Company will use the option not to apply them or are not expected to have a significant impact on the Company's operations:

IFRS	Standard/Interpretation	Effective in EU
IAS 7	Statement of cash flows – Amendment (Disclosure Initiative)	1 January 2017*
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses – Amendment	1 January 2017*
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments	1 January 2016
IAS 16 and IAS 41	Bearer plants – Amendments	1 January 2016*
IAS 19	Defined Benefit Plans: Employee Contributions – Amendments	1 February 2015
IAS 27	Equity Method in Separate Financial Statements – Amendments	1 January 2016
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments	1 January 2016*
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception – Amendment	1 January 2016*
IFRS 11	Acquisitions of Interests in Joint Operations – Amendments	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016**
Annual improvements to IFRSs 2010–2012 Cycle		1 February 2015
Annual improvements to IFRSs 2012–2014 Cycle		1 January 2016

* Not yet adopted by the European Union as at 31 December 2015 (the specified date relates to effective date as per IASB).
** The European Commission has decided that IFRS 14 will not be adopted for use in the European Union (the specified date relates to effective date as per IASB).

2. Basis of preparation of financial statements

These separate financial statements have been prepared under the historical cost convention, except for fair value measurement of available-for-sale financial assets, of financial assets and financial liabilities at fair value through profit or loss, and of all derivative contracts.

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

2.1 Foreign currency translation

Functional and presentation currency

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

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

2.2 Intangible assets

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

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

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

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

– Capitalised development costs	2–9 years according to the product life cycle
– Software	3 years
– Tooling rights	5 years
– Other intangible fixed assets	3–5 years

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

Intangible assets not yet available for use are tested annually for possible impairment and are carried at cost less accumulated impairment losses. Intangible assets are derecognised on sale or when no future economic benefits are expected from their use or sale. The gains or losses arising from the derecognition of an intangible asset, which are determined as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the profit or loss when the assets are derecognised.

2.3 Property, plant and equipment

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

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

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

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

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

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

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

2.4 Impairment of assets

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.5 Financial instruments

2.5.1 Financial assets

Classification

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

The Company classifies its financial assets in the following categories:

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial assets valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting periods 2015 and 2014, 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. In the accounting period 2015 (2014), 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.

Recognition and measurement

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

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

Impairment

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

Trade receivables are considered to be impaired if objective evidence exists at the balance sheet date that the Company will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectible, an allowance equal to 100% of the receivable balance is created. For other receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. The value of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate of the receivable. The creation of the allowance is recognised in the income statement within Other operating expenses. When the receivable cannot be collected through legal action (i.e. the receivables have lapsed; insufficient assets due to bankruptcy of the debtor; debtor was liquidated without a legal successor, etc.), it is written off through profit or loss and the allowance is utilised.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired.

Derecognition

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

2.5.2 Financial liabilities

Classification

The classification depends on a purpose for which financial liabilities have been concluded. The Company management designates the appropriate classification of financial liabilities on initial recognition.

The Company classifies its financial liabilities into following categories:

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

Financial liabilities at fair value through profit or loss are financial liabilities held for trading or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Realised and unrealised gains and losses from changes in the fair value of financial liabilities valued at fair value through profit or loss are recognised under financial income or expenses in the period in which they arise. During the accounting period 2015 (2014), the Company only had financial derivatives in this category (Note 2.5.3).

b) Financial liabilities measured at amortised cost

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

Derecognition

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

2.5.3 Financial derivatives

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

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

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

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

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

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

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

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

2.5.4 Offsetting of financial instruments

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

2.6 Investments in subsidiaries and associates

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

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

The significant subsidiaries controlled by the Company as at 31 December 2015 (see note 7):
- ŠKODA AUTO Slovensko s.r.o. (100%);
- Skoda Auto India Private Ltd. (100%).

Effective from 1 January 2015, the Company sold its 100% share of the subsidiary ŠKODA AUTO Deutschland GmbH to a related party of the Company. For more information on the sale refer to Note 7 and 19.

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

The ŠKODA AUTO a.s. had significant influence as at 31 December 2015 (as at 31 December 2014) in the associates (see Note 8):
– OOO VOLKSWAGEN Group Rus,
– ŠKO-ENERGO FIN, s.r.o.

Recognition, measurement and derecognition

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

Investments in subsidiaries and associates are presented in accordance with IFRS 5 Non-current assets held for sale and discontinued operations if classified as held for sale (or included in a disposal group classified as held for sale). Net gains or losses from sale of shares in subsidiaries and associates are included in operating income or expenses.

Impairment

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

2.7 Current and deferred income tax

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

2.7.1 Current income tax

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

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

2.7.2 Deferred income tax

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

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

In accordance with IAS 12, deferred tax assets and liabilities are offset 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.

2.8 Inventories

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

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

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

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

2.9 Provisions for employee benefits

Provisions for other long-term employee benefits

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

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

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

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

2.10 Other provisions

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

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

2.11 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 (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.

Revenue arising from rendering of services, which are separable from the product (e.g. revenue from the sale of extended guarantee), which will be provided in future periods are recognized when the services are rendered respectively on a straight-line basis over the period of time when the services are provided via an indeterminate number of acts over a specific time period.

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.

2.12 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.

2.13 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.

2.14 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.

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

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

2.16 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 and service actions. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model line.

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

The estimates of the rates are continuously revised with the use of the most recent historical data about the number of failures and their repair costs. Changes in these estimates can significantly influence the total amount of the provision. The detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year end. More detailed information about the provision for warranty claims is included in Note 16.

Provision for litigation risks

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

Provision for other risks

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

Useful lives

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

Intangible assets show the highest uncertainty in estimating the useful life. Net book value of intangible assets was CZK 24,813 million as at 31 December 2015 (as at 31 December 2014: CZK 25,168 million). Average useful life of intangible assets was 7 years in 2015 (in 2014: 7 years).

Royalty income

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

Cash equivalents

The Company deposits free cash with Volkswagen Group companies. These deposits are classified as cash equivalents if the Company concludes that the deposits meet criteria of cash equivalents according to IAS 7 and they are, therefore, readily convertible to known amounts of cash and they are subject to an insignificant risk of changes in value.

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 indicators. Apart from the Volkswagen Group's Risk Management Department, the Company also uses the services of external agencies (D&B, Creditreform, Reuters, etc.).

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

Active administration and management of receivables is incorporated into the credit risk management process. In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers and Volkswagen Group entities. Receivables are secured by preventative and supplemental instruments.

Receivables secured by preventative security instruments are used mainly when the customer contracts are concluded. An obligatory security instrument incorporated in the written contracts is interest on default payments and furthermore selected trade receivables are secured by an ownership title to the sold goods until full settlement of the purchase price.

Trade receivables from Volkswagen Group companies and from associates are considered to bear the least risk. Therefore the supplies of goods are performed on credit terms or the receivables are transferred through factoring to factoring companies within the Volkswagen Group.

Trade receivables from customers located abroad include receivables from general importers and other customers. The receivables from general importers are secured by the following instruments: payments in advance, letters of credit, documentary collection, bank guarantees, standby letters of credit and transfer of receivables to factoring without recourse or with partial recourse. Only an immaterial part of receivables from other customers arises on credit terms.

Receivables from domestic customers are divided into two groups: receivables from contractual partners bound by sales or service agreements, and from other domestic customers. The receivables arising from sales of new and used vehicles to contractual partners are transferred to factoring without recourse or with partial recourse. Credit limits are set up for the supplies of new and used vehicles, original parts and accessories. The deliveries of goods are automatically blocked in case the customer fails to settle outstanding balances on maturity and upon the set limit is exceeded. Supplies to other domestic customers are realised on credit terms.

Different combinations of the following instruments are used as an additional security of high-risk receivables: confirmation of debt prolonging the statute of limitation, payment schedules, bills of exchange, pledges, or executory note.

Loans to employees are secured by other employee guarantees.

As at 31 December 2015 (as at 31 December 2014), the Company did not hold any collateral for loans given.

In the following table, the reported figures represent either the carrying value of secured trade receivables, or the collateral value if this value is lower, determined individually for each instrument:

CZK million	**2015**	**2014**
Retention of legal ownership title to sold cars	615	786
Bank guarantees	391	443
Letters of credit	1,492	1,732
Documentary collection	112	108
Accepted deposit	434	–
Total	**3,044**	**3,069**

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 2015		
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Total
Loans to employees	577	–	577
Loans to and deposits in Volkswagen Group companies*	70,589	–	70,589
Positive fair value of financial derivatives	1,685	–	1,685
Other receivables and financial assets	89	–	89
Trade receivables	11,098	839	11,937
Cash	5	–	5
Total	**84,043**	**839**	**84,882**

	Carrying amount as at 31 December 2014		
	Neither past due nor impaired financial assets	Past due but not impaired financial assets	Total
Loans to employees	591	–	591
Loans to and deposits in Volkswagen Group companies*	51,177	–	51,177
Positive fair value of financial derivatives	712	–	712
Other receivables and financial assets	100	–	100
Trade receivables	11,035	906	11,941
Cash**	7	–	7
Total	**63,622**	**906**	**64,528**

* For detailed information related to Loans and deposits in Volkswagen Group companies refer to following note 3.1.2.
** Cash pooling deposits in the amount of CZK 2,571 million disclosed in the Notes to the separate financial statements for the year ended 31 December 2014 under Cash are now disclosed under Loans to and deposits in Volkswagen group companies.

The amount of guarantee provided by the Company is CZK 41 million as at 31 December 2015 (as at 31 December 2014: CZK 41 million). Detailed information on the guarantee are listed in section 3.1.6.

3.1.2 Risk concentration

The Company monitors concentration of credit risk by distribution regions and denomination currency. The sensitivity of the Company to foreign exchange risk is disclosed in Note 3.4.1. During the accounting period 2015 (2014) 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 loaned and deposited free cash only with Volkswagen Group companies.

The total volume of loans to and deposits in Volkswagen Group companies amounted to CZK 70,589 million as at 31 December 2015 (as at 31 December 2014: CZK 51,177 million), out of which:

- loans with original maturity from one to five years included in balance sheet in the line Other non-current receivables and financial assets (see Note 9.1) in total amount of CZK 8,314 million (as at 31 December 2014: CZK 8,306 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 38,000 million (as at 31 December 2014: CZK 40,300 million),
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 11) in total amount of CZK 24,275 million (as at 31 December 2014: CZK 2,571 million).

In 2015 (2014), 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 continues to include receivables, loans to and deposits in Volkswagen Group companies (after consideration of changed rating of Volkswagen AG in 2015), secured receivables from third parties and receivables that will be subject to factoring without recourse. There is no objective evidence indicating impairment of these receivables. Solvency class 2 includes unsecured trade receivables from third parties for which there is no objective evidence indicating impairment (unsecured receivables from dealers).

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2015			
Loans to employees	577	–	577
Loans to and deposits in Volkswagen Group companies*	70,589	–	70,589
Positive fair value of financial derivatives	1,685	–	1,685
Other receivables and financial assets	89	–	89
Trade receivables	10,748	350	11,098
Cash	5	–	5
Total	**83,693**	**350**	**84,043**

	Solvency class 1	Solvency class 2	Total
Balance as at 31 December 2014			
Loans to employees	591	–	591
Loans to and deposits in Volkswagen Group companies*	51,177	–	51,177
Positive fair value of financial derivatives	712	–	712
Other receivables and financial assets	100	–	100
Trade receivables	10,705	330	11,035
Cash**	7	–	7
Total	**63,292**	**330**	**63,622**

* For detailed information related to Loans and deposits in Volkswagen Group companies refer to note 3.1.2.
** Cash pooling deposits in the amount of CZK 2,571 million disclosed in the Notes to the separate financial statements for the year ended 31 December 2014 under Cash are now disclosed under Loans to and deposits in Volkswagen group companies.

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 2015	**136**	**522**	**181**	**839**
Balance as at 31 December 2014	267	339	300	906

Receivables more than 3 months past due are represented mainly by receivables from Volkswagen Group companies. The Company did not identify any need for impairment of these receivables.

3.1.5 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:

	2015	2014
Other receivables and financial assets		
Gross balance as at 31 December	167	167
Valuation allowance:		
Balance as at 1 January	(167)	(176)
Additions	–	–
Utilised	–	9
Released	–	–
Balance as at 31 December	**(167)**	**(167)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	187	197
Valuation allowance:		
Balance as at 1 January	(197)	(199)
Additions	(18)	(34)
Utilised	14	29
Released	14	7
Balance as at 31 December	**(187)**	**(197)**
Net balance as at 31 December	–	–

During the accounting period 2015 (2014) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2015 (2014) 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 41 million in 2015 (in 2014: CZK 41 million). This amount represents carrying amount and fair value of the recognised continuing involvement in these receivables, and related financial liabilities. At the same time, this amount represents the maximum exposure to credit risk. The loss recognised at the date of transfer of the assets was CZK 23 million in 2015 (in 2014: CZK 22 million).

3.1.7 Offsetting of financial assets and financial liabilities

Balance as at 31 December 2015	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial liabilities/ assets set off in the balance sheet	Net amount of financial assets/ liabilities presented in the balance sheet	Related amount not set off in the balance sheet*	Net amount**
Receivables from financial derivatives	1,685	–	1,685	(1,608)	77
Liabilities from financial derivatives	9,479	–	9,479	(1,608)	7,871

Balance as at 31 December 2014	Gross amount of recognised financial assets/ liabilities	Gross amount of recognised financial liabilities/ assets set off in the balance sheet	Net amount of financial assets/ liabilities presented in the balance sheet	Related amount not set off in the balance sheet*	Net amount**
Receivables from financial derivatives	712	–	712	(703)	9
Liabilities from financial derivatives	11,142	–	11,142	(703)	10,439

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

As at 31 December 2015 the Company did not offset any trade receivables and trade liabilities in balance sheet because none of the trade receivables and trade liabilities fulfilled criteria for offsetting according to amendment to IAS 32.

There was no collateral held or given in respect of derivative financial assets/liabilities as at 31 December 2015 (as at 31 December 2014). The total amount of collateral value of trade receivables was CZK 3,044 million as at 31 December 2015 (as at 31 December 2014: CZK 3,069 million). Details related to types of collateral are presented in Note 3.1.

3.2 Liquidity risk

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

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

Management of the Company monitors the liquidity and its development at regular monthly meetings, so called "liquidity meetings", attended by representatives of the Treasury, Controlling and Accounting departments. The predetermined agenda generally includes the information about daily development of liquidity and its structure. The Company's management is also presented with the short-term forecasts of the liquidity development.

Cash management

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 Company by VGS, based on payment orders placed by the Company and are transferred from a bank account held by VGS. The incoming payments are credited to Company's bank accounts and subsequently at the end of each working day they are automatically transferred to VGS' bank accounts (master account). Terms of such transactions are defined within the cash pooling concept agreed upon between the Company, the bank and VGS. All incoming payments are credited to the Company's bank accounts 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 2015 was CZK 700 million (as at 31 December 2014: CZK 700 million). All credit lines are contracted in Czech crowns. The Company has not utilised any agreed bank credit lines as at 31 December 2015 (as at 31 December 2014).

The Company has not drawn any credit line from the Volkswagen Group as at 31 December 2015. The credit line from the Volkswagen Group was fully repaid (CZK 3,000 million) in the year ended 31 December 2014.

Contractual maturity analysis (undiscounted amounts in CZK million)

	Within 1 year	1–5 years	Total
Balance as at 31 December 2015			
Trade liabilities	(36,927)	–	(36,927)
Derivatives with positive fair value:			
Currency forwards and swaps	(14,870)	(39,833)	(54,703)
Commodity swaps	–	–	–
Derivatives with negative fair value:			
Currency forwards and swaps	(51,976)	(40,863)	(92,839)
Commodity swaps	(265)	(112)	(377)
Total	**(104,038)**	**(80,808)**	**(184,846)**

	Within 1 year	1–5 years	Total
Balance as at 31 December 2014			
Trade liabilities	(35,236)	–	(35,236)
Derivatives with positive fair value:			
Currency forwards and swaps	(11,412)	(2,732)	(14,144)
Commodity swaps	–	–	–
Derivatives with negative fair value:			
Currency forwards and swaps	(45,740)	(60,583)	(106,323)
Commodity swaps	(128)	(116)	(244)
Total	**(92,516)**	**(63,431)**	**(155,947)**

Cash inflows from derivatives, which are settled on the gross basis (FX forwards and swaps), match with cash outflows from these derivatives. The inflows are not included in the maturity analysis. After deduction of the inflows, the net outflows would be zero for the derivatives with positive fair value and significantly lower for the derivatives with negative fair value.

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 EUR, GBP, PLN, CHF, USD and RUB. The Company also applies hedge accounting for currency risk.

For the analysis of sensitivity to exchange rates please refer to Note 3.4.1.

3.3.2 Interest rate risk

Interest rate risk is a risk that the 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 countries where the Company operates. The Company's management is also presented with short-term forecasts of the interest rates development.

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

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

3.3.3 Price risk

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

Due to continuous volatility in the prices of raw material commodities and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High 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 2015	Balance as at 31 December 2014	Balance as at 31 December 2015		Balance as at 31 December 2014	
	With positive and negative fair value	With positive and negative fair value	Positive	Negative	Positive	Negative
Currency instruments						
Currency forwards and swaps for trading	51	2,749	1	–	114	15
Currency forwards and swaps – cash flow hedging	147,629	118,249	1,681	9,101	598	10,884
Commodity instruments						
Commodity swaps for trading	53	107	3	(13)	–	12
Commodity swaps – cash flow hedging	1,609	1,757	–	391	–	231
Total	**149,342**	**122,862**	**1,685**	**9,479**	**712**	**11,142**

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

Volume of hedged cash flows (CZK million)

Balance as at 31 December 2015	Volume of hedged cash flows Within 1 year	1–5 years	Total
Currency risk exposure			
Hedging of future cash flows – future receivables	51,108	80,199	131,307
Hedging of future cash flows – future liabilities	(14,669)	–	(14,669)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(1,050)	(563)	(1,613)
Total	**35,389**	**79,636**	**115,025**

Balance as at 31 December 2014	Volume of hedged cash flows Within 1 year	1–5 years	Total
Currency risk exposure			
Hedging of future cash flows – future receivables	52,626	62,346	114,972
Hedging of future cash flows – future liabilities	(3,950)	(191)	(4,141)
Other price risks (combination of commodity and currency risks)			
Hedging of future cash flows – future liabilities	(694)	(789)	(1,483)
Total	**47,982**	**61,366**	**109,348**

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 and Switzerland (EUR, GBP, CHF, PLN) 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. As at 31 December 2015 the Company considers as reasonably possible the movements of exchange rates EUR, USD, CHF and GBP against CZK in the following period of +15% (appreciation of CZK) and -15% (depreciation of CZK) and as reasonably possible the movement of RUB against CZK in the following period of +40% (appreciation of CZK) and -40% (depreciation of CZK). As at 31 December 2014 the Company considered as reasonably possible 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) and as reasonably possible the movement of RUB against CZK in the following period of +40% (appreciation of CZK) a -40% (depreciation of CZK).

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

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

	CZK appreciation by 15%					+40%
2015 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**Other currencies**	**RUB**
Profit before tax						
Non-derivative financial instruments	1,981	(146)	(1)	32	69	(428)
Derivative financial instruments	–	(8)	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	(1,376)	3,421	2,993	9,375	2,064	–

	CZK depreciation by 15%					(40)%
2015 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**Other currencies**	**RUB**
Profit before tax						
Non-derivative financial instruments	(1,981)	146	1	(32)	(69)	428
Derivative financial instruments	–	8	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	1,376	(3,421)	(2,993)	(9,375)	(2,064)	–

	CZK appreciation by 10%					+40%
2014 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**Other currencies**	**RUB**
Profit before tax						
Non-derivative financial instruments	1,345	(122)	(1)	9	13	(610)
Derivative financial instruments	–	(9)	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	–	2,328	1,738	5,136	1,619	–

	CZK depreciation by 10%					(40)%
2014 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**Other currencies**	**RUB**
Profit before tax						
Non-derivative financial instruments	(1,345)	122	1	(9)	(13)	610
Derivative financial instruments	–	9	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	–	(2,328)	(1,738)	(5,136)	(1,619)	–

3.4.2 Sensitivity to interest rates

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

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

For current deposits provided to Volkswagen Group companies, bank deposits and currency forwards and swaps the Company assumed reasonably possible increase by 100 basis points of the yield curve and reasonably possible decrease by 25 basis points of the yield curve in 2015 (2014: +100/-25 basis points). Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered in 2015 (2014). Result of the Company is most sensitive to movements of the CZK yield curve.

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

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

2015 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Profit before tax		
Non-derivative financial instruments	715	(21)
Derivative financial instruments	4	(57)
Total	**719**	**(78)**

2014 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Profit before tax		
Non-derivative financial instruments	493	(21)
Derivative financial instruments	114	(29)
Total	**607**	**(50)**

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 2015 the Company assumes reasonably possible movements in aluminium, copper and lead prices in the following period of +/-20%. In 2014 the Company assumed reasonably possible movements in aluminium, copper and 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:

2015 (CZK million)	**Increase of copper prices +20%**	**Decrease of copper prices (20)%**	**Increase of aluminium prices +20%**	**Decrease of aluminium prices (20)%**	**Increase of lead prices +20%**	**Decrease of lead prices (20)%**
Profit before tax						
Derivative financial instruments	–	–	–	–	10	(10)
Other comprehensive income before tax						
Derivative financial instruments	97	(97)	147	(147)	–	–

2014 (CZK million)	**Increase of copper prices +10%**	**Decrease of copper prices (10)%**	**Increase of aluminium prices +10%**	**Decrease of aluminium prices (10)%**	**Increase of lead prices +10%**	**Decrease of lead prices (10)%**
Profit before tax						
Derivative financial instruments	–	–	–	–	9	(9)
Other comprehensive income before tax						
Derivative financial instruments	70	(70)	81	(81)	–	–

3.5 Capital management

The optimal capitalisation of the Company is the result of a compromise between two interests: return on capital and the Company's capacity to meet all of its liabilities due for payment.

The Company's capital is controlled on the Volkswagen Group level. It is the objective of the capital management function to maintain an adequate owned to borrowed capital ratio to guarantee due payments of all financial liabilities while promoting continued growth of the Company's value for the shareholders. Management of the Company considers as capital equity presented in these financial statements.

The ratios of equity and of borrowed capital on total capital are shown in the following table:

(CZK million)	2015	2014
Equity	**117,482**	**100,001**
Equity ratio	58.0%	56.5%

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 three basic geographical regions: Western Europe; Central and Eastern Europe; and Overseas/Asia/Africa/Australia. Overseas/Asia/Africa/Australia region is due to its immateriality reported as Other.

2015 (CZK million)	Western Europe	Central and Eastern Europe	Other	Total
Sales – based on location of customers	198,769	84,176	31,952	314,897

2014 (CZK million)	Western Europe	Central and Eastern Europe	Other	Total
Sales – based on location of customers	184,693	83,992	30,633	299,318

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 2015	**26,769**	**7,382**	**13,270**	**47,421**
Additions	1,321	2,789	1,200	5,310
Disposals	(3,996)	–	(37)	(4,033)
Transfers	6,705	(6,705)	–	–
Balance as at 31 December 2015	**30,799**	**3,466**	**14,433**	**48,698**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2015	**(15,156)**	**–**	**(7,097)**	**(22,253)**
Amortisation	(3,365)	–	(1,509)	(4,874)
Impairment losses	(783)	–	(7)	(790)
Disposals	3,997	–	35	4,032
Balance as at 31 December 2015	**(15,307)**	**–**	**(8,578)**	**(23,885)**
Carrying amount as at 31 December 2015	**15,492**	**3,466**	**5,855**	**24,813**

	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 2014	**31,438**	**6,087**	**11,479**	**49,004**
Additions	1,959	3,469	1,875	7,303
Disposals	(8,802)	–	(84)	(8,886)
Transfers	2,174	(2,174)	–	–
Balance as at 31 December 2014	**26,769**	**7,382**	**13,270**	**47,421**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2014	**(21,286)**	**–**	**(6,230)**	**(27,516)**
Amortisation	(2,672)	–	(951)	(3,623)
Impairment losses	–	–	–	–
Disposals	8,802	–	84	8,886
Balance as at 31 December 2014	**(15,156)**	**–**	**(7,097)**	**(22,253)**
Carrying amount as at 31 December 2014	**11,613**	**7,382**	**6,173**	**25,168**

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

Amortisation and impairment losses of intangible assets of CZK 5,564 million (2014: CZK 3,518 million) are included in the cost of sales, CZK 8 million (CZK 2014: 10 million) in distribution expenses, and CZK 92 million (2014: CZK 95 million) in administrative expenses.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and their potential impact on the carrying amount of the Company's intangible assets. Due to substantial changes in the market environment, the Company has experienced in 2015 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 of the cash-generating unit applying cash flow projections over the life cycle of the cash-generating units reflecting financial plans approved by the Company's management for following 5 years.

For discounting cash flows, the pretax discount rate of 6.5% has been applied in 2015 (2014: 6.1%), reflecting the specific risks associated with the sector in which the Company operates. The comparison of the carrying amounts with the relevant recoverable amounts for one cash-generating unit resulted impairment loss of CZK 790 million (2014: CZK 0 million) allocated to intangible assets, which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2015.

Capitalisation of borrowing costs

No borrowing costs have been capitalised in the cost of intangible assets in 2015 or 2014 as they were not material.

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

	2015	2014
Research and non-capitalised development costs	6,207	7,542
Amortisation and impairment losses of development costs	4,148	2,672
Research and development costs recognised in the income statement	**10,355**	**10,214**

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 2015	**39,251**	**82,567**	**66,243**	**4,940**	**193,001**
Additions	652	3,942	6,100	3,963	14,657
Disposals	(228)	(6,594)	(1,855)	–	(8,677)
Transfers	350	(147)	(919)	716	–
Balance as at 31 December 2015	**40,025**	**79,768**	**69,569**	**9,619**	**198,981**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2015	**(16,640)**	**(61,599)**	**(48,846)**	**–**	**(127,085)**
Depreciation	(1,469)	(5,882)	(6,104)	–	(13,455)
Impairment losses	–	–	(1,400)	–	(1,400)
Disposals	169	6,586	1,846	–	8,601
Balance as at 31 December 2015	**(17,940)**	**(60,895)**	**(54,504)**	**–**	**(133,339)**
Carrying amount as at 31 December 2015	**22,085**	**18,873**	**15,065**	**9,619**	**65,642**

	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 2014	**36,685**	**76,574**	**56,926**	**8,122**	**178,307**
Additions	1,241	4,918	6,784	4,332	17,275
Disposals	(95)	(1,286)	(1,200)	–	(2,581)
Transfers	1,420	2,361	3,733	(7,514)	–
Balance as at 31 December 2014	**39,251**	**82,567**	**66,243**	**4,940**	**193,001**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2014	**(15,319)**	**(56,672)**	**(44,870)**	**–**	**(116,861)**
Depreciation	(1,397)	(6,208)	(4,903)	–	(12,508)
Impairment losses	–	–	(266)	–	(266)
Disposals	76	1,281	1,193	–	2,550
Balance as at 31 December 2014	**(16,640)**	**(61,599)**	**(48,846)**	**–**	**(127,085)**
Carrying amount as at 31 December 2014	**22,611**	**20,968**	**17,397**	**4,940**	**65,916**

* Advances paid amount to CZK 2,706 million (as at 31 December 2014: CZK 2,378 million) from the total amount of Advances paid and assets under construction.

Impairment reviews

The requirements of IAS 1, IAS 10 and IAS 36 have been assessed by the Company's management in relation to the decrease in planned cash inflows regarding particular ŠKODA models and its potential impact on the carrying amount of the Company's non-current tangible assets. Due to substantial changes in the market environment, the Company has experienced in 2015 a decrease in the planned cash inflows relating to one cash-generating unit (production of cars of certain model). Impairment reviews of assets relating to the cash-generating unit have been performed.

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

For discounting cash flows, the pretax discount rate of 6.5% has been applied in 2015 (2014: 6.1%), 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 1,400 million (2014: CZK 266 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2015 (31 December 2014).

Capitalisation of borrowing costs

No borrowing costs have been capitalised in the cost of property, plant and equipment in 2015 or in 2014 as they were not material.

7. Investments in subsidiaries

	Country of incorporation	Shareholding %
Subsidiaries:		
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 34 million in 2015 (2014: CZK 927 million).

Effective from 1 January 2015, the Company sold its 100% share of the subsidiary ŠKODA AUTO Deutschland GmbH to a related party of the Company. The change in ownership structure will have no impact on business activities and scope of operation of ŠKODA AUTO Deutschland GmbH and ŠKODA AUTO a.s. ŠKODA AUTO Deutschland GmbH will continue to operate on the German market as an importer of ŠKODA cars. Gain on the sale of subsidiary is included in operating income in the item Other operating income (see Note 19). The carrying amount of the investment before the sale was CZK 198 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 2015 (2014), 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 2015, a discount rate of 7.0% (2014: 6.5%) has been applied. The carrying amount of financial investment has been compared with its recoverable amount as at 31 December 2015 (31 December 2014). The comparison has not resulted in any impairment losses recognized in current and previous year.

8. Investments in associates (CZK million)

	2015	2014
Total assets	30,596	38,326
Total liabilities	26,921	29,133
Total revenue	72,144	120,972
Profit/loss (aggregated)	(4,930)	638

The table above summarises financial data of the associates OOO VOLKSWAGEN Group Rus and ŠKO-ENERGO FIN, s.r.o. The principal place of business and country of incorporation is the Russian Federation for OOO VOLKSWAGEN Group Rus and the Czech Republic for 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 2015 was 16.8% (31 December 2014: 16.8%). The Company exercises significant influence in the company OOO VOLKSWAGEN Group Rus based on the following factors: the Company is participating in policy-making processes, including participation in decisions about distribution of profit; material transactions are conducted between both companies; an interchange of managerial personnel takes places between both companies and the Company is providing essential technical information to the company OOO VOLKSWAGEN Group Rus.

The carrying amount of the Company's share totalled CZK 1,823 million as at 31 December 2015 (as at 31 December 2014: CZK 1,823 million).

The Company's share in the registered capital of the company ŠKO-ENERGO FIN as at 31 December 2015 was 31.25% (as at 31 December 2014: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2015 (as at 31 December 2014: CZK 529 million).

ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 152 million (2014: CZK 147 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 2015, discount rate of 12.8% (2014: 12.2%) 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 2015 or 31 December 2014.

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

9.1 Other non-current receivables and financial assets

Balance as at 31 December 2015	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 non-current receivables and financial assets						
Loans to employees	–	513	–	–	–	513
Loans to and deposits in Volkswagen Group companies	–	8,314	–	–	–	8,314
Positive fair value of financial derivatives	(233)	–	–	1,311	–	1,078
Available for sale financial assets	–	–	4	–	–	4
Other	–	–	–	–	1,276	1,276
Total	**(233)**	**8,827**	**4**	**1,311**	**1,276**	**11,185**

Balance as at 31 December 2014	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 non-current receivables and financial assets						
Loans to employees	–	526	–	–	–	526
Loans to and deposits in Volkswagen Group companies	–	8,306	–	–	–	8,306
Positive fair value of financial derivatives	(85)	–	–	296	–	211
Available for sale financial assets	–	–	4	–	–	4
Other	–	–	–	–	–	–
Total	**(85)**	**8,832**	**4**	**296**	**-**	**9,047**

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

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss (see also Note 2.5.3).
As the spot component exceeded the fair value as at 31 December 2015 (2014), the forward component was negative.

The carrying value of non-current loans to employees approximates their fair value. The fair value of non-current loans to employees was determined as the present value of future cash flows based on market interest rates at the balance sheet date. The fair value of non-current loans to employees qualifies for Level 3 in accordance with IFRS 13.

The weighted average effective interest rate on non-current loans and deposits in Volkswagen Group companies based on the carrying value as at 31 December 2015 was 0.364% (31 December 2014: 0.364%). The carrying value of non-current loans and deposits in Volkswagen Group companies approximates their fair value. The fair value of non-current loans and deposits in Volkswagen Group companies was determined as the present value of future cash flows based on market interest rates at the balance sheet date. The fair value of non-current loans and deposits in Volkswagen Group companies qualifies for Level 2 in accordance with IFRS 13.

As at 31 December 2015 (31 December 2014) were all non-current loans and deposits in Volkswagen group companies disclosed in Note 9.1 denominated in CZK.

For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

For detailed information on Available for sale financial assets, including information relating to their fair value in accordance with IFRS 13, refer to Note 2.5.1 c). The fair value of Available for sale financial assets qualifies for level 3 under IFRS 13.

9.2 Other current receivables and financial assets

Balance as at 31 December 2015	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 current receivables and financial assets						
Loans to employees	–	64	–	–	–	64
Positive fair value of financial derivatives	(118)	–	–	725	–	607
Tax receivables (excl. income tax)	–	–	–	–	3,300	3,300
Other	–	89	–	–	1,569	1,658
Total	**(118)**	**153**	**-**	**725**	**4,869**	**5,629**

Balance as at 31 December 2014	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 current receivables and financial assets						
Loans to employees	–	65	–	–	–	65
Positive fair value of financial derivatives	(63)	–	–	563	–	500
Tax receivables (excl. income tax)	–	–	–	–	3,252	3,252
Other	–	100	–	–	470	570
Total	**(63)**	**165**	**-**	**563**	**3,722**	**4,387**

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

Notes:
Positive fair value of financial derivatives consists of spot component disclosed in portfolio Financial assets designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial assets at fair value through profit or loss (see also Note 2.5.3). As the spot component exceeded the fair value as at 31 December 2015 (2014), the forward component was negative.

The carrying amount of current loans to employees approximates their fair value due to their short-term nature. The fair value of current loans to employees qualifies for level 3 of the fair value hierarchy in accordance with IFRS 13.

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

Line Other includes mainly current receivables from employees and advances paid. Due to their short-term nature the carrying amount of other current receivables approximates their fair value (net of impairment losses). The fair value of other current receivables qualifies for level 2 in accordance with IFRS 13.

There are not any significant restrictions regarding the rights of use imposed on other receivables and financial assets. Potential risks of delay or default are taken into account through accumulated impairment losses.

9.3 Trade receivables

Balance as at 31 December 2015	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
Current trade receivables						
Third parties	–	2,371	–	–	–	2,371
Subsidiaries	–	598	–	–	–	598
Other related parties	–	8,968	–	–	–	8,968
Total	**-**	**11,937**	**-**	**-**	**-**	**11,937**

Balance as at 31 December 2014	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
Current trade receivables						
Third parties	–	2,744	–	–	–	2,744
Subsidiaries	–	923	–	–	–	923
Other related parties	–	8,274	–	–	–	8,274
Total	**-**	**11,941**	**-**	**-**	**-**	**11,941**

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

Due to their current nature the carrying amount of current trade receivables approximates their fair value (after the valuation allowance is taken into account). The fair value of current trade receivables qualifies for Level 2 in accordance with IFRS 13. The allowance for the impairment of trade receivables of CZK 187 million (2014: CZK 197 million) has been deducted from the presented carrying values of trade receivables.

10. Inventories (CZK million)

	Carrying value as at 31 December 2015	Carrying value as at 31 December 2014
Structure of the inventories		
Raw materials, consumables and supplies	4,756	3,851
Work in progress	4,059	2,861
Finished products and goods	6,300	5,614
Total	**15,115**	**12,326**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2015 was CZK 260,743 million (2014: CZK 247,741 million).

11. Cash and cash equivalents (CZK million)

	2015	2014
Cash in hand	4	5
Cash pooling	24,275	2,571
Bank accounts	1	2
Cash equivalents	38,000	40,300
Total	**62,280**	**42,878**

The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2015 was 0.000% (as at 31 December 2014: 0.011%).

The line Cash pooling includes overnight deposits from the use of cash pooling (see Note 3.2). The line Cash equivalents includes other current deposits in Volkswagen Group companies with original maturity less than three months. These deposits including cash pooling deposits are included in Loans and receivables category in accordance with IAS 39.

The weighted average effective interest rate on current cash equivalents including cash pooling based on the carrying amount as of 31 December 2015 was 0.0% (31 December 2014: 0.0%). The carrying amount of cash equivalents including cash pooling approximates their fair value. The fair value of cash equivalents including cash pooling qualifies for level 2 in accordance with IFRS 13. Out of the total value of cash equivalents including cash pooling was denominated in CZK: CZK 62,030 million (31 December 2014: CZK 42,038 million) and in EUR: CZK 245 million (31 December 2014: CZK 833 million).

12. Share capital

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

Due to changes in organisational structure of the Volkswagen Group, Volkswagen International Finance N.V., the Kingdom of the Netherlands was succeeded by Global VW Automotive B.V. based in Amsterdam, the Kingdom of the Netherlands, which became the Company's sole shareholder on 13 May 2014, and VOLKSWAGEN FINANCE LUXEMBURG S.A. based in Luxembourg, Grand Duchy of Luxembourg on 28 June 2014. VOLKSWAGEN FINANCE LUXEMBURG S.A. is directly a 100% subsidiary of VOLKSWAGEN AG.

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

There was no movement in the Company's share capital during the accounting period 2015 (2014).

The Company paid a dividend of CZK 13,753 million in 2015 (2014: CZK 5,693 million). The dividend per share was CZK 8,231 in 2015 (2014: CZK 3,407).

13. Other reserves and retained earnings (CZK million)

13.1 Other reserves

	2015	2014
Reserves for cash flow hedges*	(8,134)	(8,552)
Statutory reserve fund	3,366	3,366
Funds contributed by owner	–	10
Total	**(4,768)**	**(5,176)**

* Net of deferred tax from financial derivatives.

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

Movement in reserve for cash flow hedges:

Balance as at 1 January 2015 (CZK million)	**(8,552)**
Total change in fair value in the period	(5,292)
Deferred tax on change in fair value	1,005
Total transfers to net profit in the period – effective hedging	5,823
Total transfers to net profit in the period – ineffective hedging	(12)
Deferred tax on transfers to profit or loss	(1,106)
Balance as at 31 December 2015	**(8,134)**

Balance as at 1 January 2014 (CZK million)	**(5,509)**
Total change in fair value in the period	(6,247)
Deferred tax on change in fair value	1,187
Total transfers to net profit in the period – effective hedging	2,477
Total transfers to net profit in the period – ineffective hedging	13
Deferred tax on transfers to profit or loss	(473)
Balance as at 31 December 2014	**(8,552)**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2015 presented in the line Other operating expense in amount of CZK 6,237 million (2014: CZK 3,459 million) and in the line Other operating income in amount of CZK 414 million (2014: CZK 982 million).

13.2 Retained earnings

From the total amount of retained earnings of CZK 103,962 million (as at 31 December 2014: CZK 86,890 million) profit for the year 2015, net of tax, amounts to CZK 30,816 million (2014: CZK 18,421 million).

In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2015 (determined in accordance with IFRS) is going to be allocated based on the decision of the Company's annual general meeting. At the date of approval of these financial statements, no dividend payments have been proposed, and the distribution of the Company's result for the year ended 31 December 2015 has not been approved.

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

14.1 Financial and other non-current liabilities

Balance as at 31 December 2015	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	109	–	3,530	–	3,639
Other	–	–	–	2,105	2,105
Total	**109**	**-**	**3,530**	**2,105**	**5,744**

Balance as at 31 December 2014	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	309	–	5,118	–	5,427
Other	–	–	–	2,471	2,471
Total	**309**	**-**	**5,118**	**2,471**	**7,898**

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

Notes:
Negative fair value of financial derivatives consists of spot component disclosed in portfolio Financial liabilities designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial liabilities at fair value through profit or loss (see also Note 2.5.3).

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

The carrying amount of other non-current liabilities approximates their fair value. The fair value of other non-current liabilities was determined as the present value of future cash flows based on market interest rates at the balance sheet date. The fair value of other non-current liabilities qualifies for Level 2 in accordance with IFRS 13.

14.2 Financial and other current liabilities

Balance as at 31 December 2015	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	178	–	5,662	–	5,840
Liabilities to employees	–	–	–	3,222	3,222
Other	–	–	–	1,454	1,454
Total	**178**	**-**	**5,662**	**5,126**	**10,966**

Balance as at 31 December 2014	Financial liabilities at fair value through profit or loss**	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	353	–	5,363	–	5,716
Liabilities to employees	–	–	–	3,121	3,121
Social security	–	–	–	410	410
Other	–	–	–	1,033	1,033
Total	**353**	**-**	**5,363**	**4,564**	**10,280**

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

Notes:
Negative fair value of financial derivatives consists of spot component disclosed in portfolio Financial liabilities designated as hedging instruments, term component of hedging derivatives and fair value of derivatives held for trading disclosed in portfolio Financial liabilities at fair value through profit or loss (see also Note 2.5.3).

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

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

14.3 Trade liabilities

All trade liabilities are current in nature.

Balance as at 31 December 2015	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other	Total
Trade liabilities					
Third parties	–	24,508	–	922	25,430
Subsidiaries	–	21	–	–	21
Other related parties	–	12,398	–	163	12,561
Total	**-**	**36,927**	**-**	**1,085**	**38,012**

Balance as at 31 December 2014	Financial liabilities at fair value through profit or loss	Financial liabilities carried at amortised cost	Financial liabilities designated as hedging instruments	Other	Total
Trade liabilities					
Third parties	–	24,465	–	395	24,860
Subsidiaries	–	1,918	–	–	1,918
Other related parties	–	8,853	–	110	8,963
Total	**-**	**35,236**	**-**	**505**	**35,741**

The line Trade liabilities to other related parties includes liabilities to a factoring company within the Volkswagen Group of CZK 2,203 million as at 31 December 2015 (as at 31 December 2014: CZK 1,426 million). These liabilities arose in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.

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

None of the financial liabilities are secured by a lien.

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 income taxes charged by the same fiscal authority.

As at 31 December 2015 the Company recognised on the balance sheet deferred tax assets of CZK 3,613 million (as at 31 December 2014: deferred tax asset CZK 2,607 million).

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

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax liabilities					
Balance as at 1 January 2014	**(4,103)**	**–**	**–**	**–**	**(4,103)**
Credited/(debited) to the income statement	(512)	–	–	–	(512)
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2014	**(4,615)**	**–**	**–**	**–**	**(4,615)**
Credited/(debited) to the income statement	195	–	–	–	195
Charged to other comprehensive income	–	–	–	–	–
Balance as at 31 December 2015	**(4,420)**	**–**	**–**	**–**	**(4,420)**

	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Deferred tax assets					
Balance as at 1 January 2014	**–**	**1,295**	**1,134**	**3,198**	**5,627**
Credited/(debited) to the income statement	–	–	24	857	881
Charged to other comprehensive income	–	714	–	–	714
Balance as at 31 December 2014	**–**	**2,009**	**1,158**	**4,055**	**7,222**
Credited/(debited) to the income statement	–	–	177	735	912
Charged to other comprehensive income	–	(101)	–	–	(101)
Balance as at 31 December 2015	**–**	**1,908**	**1,335**	**4,790**	**8,033**

* Further information on financial derivatives is disclosed in Note 2.5.3.
** The category Other includes mainly provisions, valuation allowances and temporary differences from accrued liabilities.

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

	Provisions arising from sales	Provisions for employee benefits	Provisions for litigation risks	Provisions for purchase risks	Other provisions	Total
Balance as at 1 January 2014	**12,089**	**2,456**	**1,047**	**412**	**2,258**	**18,262**
Utilised	(4,584)	(1,253)	(93)	(105)	(13)	(6,048)
Additions	7,006	676	510	323	1,001	9,516
Interest expense	(99)	–	–	–	–	(99)
Reversals	(38)	(203)	–	–	–	(241)
Balance as at 1 January 2015	**14,374**	**1,676**	**1,464**	**630**	**3,246**	**21,390**
Utilised	(5,286)	(361)	(7)	(95)	(826)	(6,575)
Additions	11,127	618	427	531	826	13,529
Interest expense	285	–	–	–	–	285
Reversals	(8)	–	(455)	–	(130)	(593)
Balance as at 31 December 2015	**20,492**	**1,933**	**1,429**	**1,066**	**3,116**	**28,036**

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 2015				
Provisions arising from sales	8,627	8,899	2,966	20,492
Provisions for employee benefits	602	435	896	1,933
Provisions for litigation risks	1,429	–	–	1,429
Provisions for purchase risks	1,066	–	–	1,066
Other provisions	3,116	–	–	3,116
Total	**14,840**	**9,334**	**3,862**	**28,036**

	< 1 year	1–5 years	> 5 years	Total
Balance as at 31 December 2014				
Provisions arising from sales	5,060	6,741	2,573	14,374
Provisions for employee benefits	481	403	792	1,676
Provisions for litigation risks	1,464	–	–	1,464
Provisions for purchase risks	630	–	–	630
Other provisions	3,246	–	–	3,246
Total	**10,881**	**7,144**	**3,365**	**21,390**

Provisions arising from sales include provisions for warranty repairs and provisions for other obligations arising from sales. The provisions for warranty repairs include provision for basic guarantees (2 years), provision for corrosion guarantees (dependent on the model for 10 or 12 years) and other guarantees beyond the scope of basic warranty especially good-will repairs. The Company recognises the provisions for warranty claims at the moment of sale on the basis of the number of sold cars and in advance determined rates for individual model lines. Provisions arising from sales include further provisions for sale bonuses and other 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 provisions for bonuses and other obligations arising from sales decrease revenues. Following emissions irregularities discovered at VOLKSWAGEN AG in the year 2015, provisions arising from sales included also additions to the provision for service action and other expenditures related to technical measures for cars equipped with EA 189 engines. The total additions to the provision related to EA 189 issue amount to CZK 3,200 million. The additions to the provision were reported within costs of sales in the income statement. Expenditures which relate to claim settlement will be reimbursed to the Company and in connection with the fact stated above, amount receivable from VOLKSWAGEN AG company amounting to CZK 1,843 million was reported within other receivables.

Provisions for personnel costs consist mainly of provision for other non-current employee benefits and provision for termination benefits.

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

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

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

17. Cash flow statement

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

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

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

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

18. Sales (CZK million)

	2015	2014
Cars	265,936	251,768
Spare parts and accessories	18,542	16,871
Supplies of components within Volkswagen Group	23,465	23,608
Revenues from license fees	2,432	2,128
Revenues from services	1,917	1,702
Other	2,605	3,241
Total	**314,897**	**299,318**

In 2015 (2014) line Other relates mainly to sales of used cars, scrap and tooling.

19. Other operating income (CZK million)

	2015	2014
Foreign exchange gains	2,877	1,512
Income from derivative transactions	414	982
Gains on non-current assets disposal	64	15
Reversal of provisions and accruals	1,251	690
Reversal of provision for receivables	14	7
Other operating income from provided services	863	820
Gains from license fees not relating to the ordinary activities	210	217
Other*	13,086	887
Total	**18,779**	**5,130**

* The line Other includes mainly the gain from sale of subsidiary (see Note 7).

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

Other operating income from provided services includes mainly gains from consultancy and IT services not relating to ordinary activities of the Company.

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)

	2015	2014
Foreign exchange losses	2,279	2,744
Losses from derivative transactions	6,238	3,459
Receivables write-offs	19	34
Other	1,257	1,264
Total	**9,793**	**7,501**

Line Other includes mainly additions to provisions for litigation risks.

21. Financial result (CZK million)

	2015	2014
Interest income	38	133
Foreign exchange gains from cash	123	3
Foreign exchange gains from spot operations	130	101
Income from investments	187	1,074
Gains on settlement and revaluation of financial derivatives – ineffective hedging (includes forward component of currency financial derivatives)	1,303	1,056
Financial income total	**1,781**	**2,367**
Interest expenses	456	220
Foreign exchange losses from cash	379	4
Foreign exchange losses from spot operations	132	120
Loss on settlement and revaluation of financial derivatives – ineffective hedging (includes forward component of currency financial derivatives)	1,730	2,272
Financial expenses total	**2,697**	**2,616**
Net financial result	**(916)**	**(249)**

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

	2015	2014
Financial instruments at fair value through profit or loss	(427)	(1,216)
Loans and receivables	(348)	(946)
Available for sale financial assets	1	1
Financial liabilities carried at amortised cost	565	(481)
Financial instruments designated as hedging instruments	(5,823)	(2,477)
Net gains/(losses) total	**(6,032)**	**(5,119)**

The portfolio of Financial instruments at fair value through profit or loss contains mainly gains and losses from term component of hedging derivatives and gains and losses from derivatives held for trading.

Other items contain mainly unrealised and realised foreign exchange gains and losses on trade receivables and liabilities, from hedging instruments, interest income from loans and 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)

	2015	2014
Current tax expense	**4,529**	**3,297**
of which: adjustment in respect of prior years	98	(39)
Deferred tax	**(1,107)**	**(369)**
Income tax total	**3,422**	**2,928**

Statutory income tax rate in the Czech Republic for the 2015 assessment period was 19% (2014: 19%).

As at 31 December 2015 and 31 December 2014, 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)

	2015	2014
Profit before income tax	34,238	21,349
Expected income tax expense	**6,505**	**4,056**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income*	(2,460)	(268)
Expenses not deductible for tax purposes	512	433
Tax allowances and other tax credits**	(330)	(430)
Adjustment to current tax expense relating to prior periods	98	(39)
Utilisation of tax credits from investment incentives relating to prior periods	(306)	–
Recognition of deferred tax assets from unused tax credits from investment incentives	(597)	(824)
Effective income tax expense	**3,422**	**2,928**
Effective income tax rate	10%	14%

* Permanent differences resulting from tax exempt income include especially gain from sale of subsidiary (see Note 7).
** Tax allowances and other tax credits represents mainly tax credits from double deduction of research and development costs.

24. Subsidies and investment incentives (CZK million)

In 2015, the Company recognised income from subsidies relating to the promotion of an entrepreneurial activity, investments in energy-saving measures in production field, construction of employees-training premises, cooperation within research and development projects and support of private schools and cross-border mobility of students (ŠKODA AUTO a.s., Střední odborné učiliště strojírenské, odštěpný závod) in the total amount of CZK 65 million (2014: CZK 70 million).

Investment incentives

To be granted the investment incentives, the Company has to meet the General conditions of paragraph 2 art. 2 of the Act No. 72/2000 Coll., on Investment Incentives, as amended and conditions of paragraph 6a art. 2 and 5 of the same act and Special conditions paragraph 35b of the Act No. 586/1992 Coll., on Income Tax as amended. For the investment incentives granted to the Company, the total amount of the incentive is always dependent on the amount invested.

The following table summarises granted investment incentives and their use in 2015:

Investment incentive	Maximum amount of the investment incentive	Recognised deferred tax asset from investment incentives	Unrecognised deferred tax asset from investment incentives*	Utilisation of tax credits from investment incentives**
Enlargement of production of transmissions – MQ 100	496	–	–	420
Enlargement of technical development – Česana Jih premises	306	–	–	306
Enlargement of current production by production of automatic transmissions – DQ 200 Vrchlabí	738	738	–	–
Enlargement of Welding shop by production technology used for bodies based on MQB platform – Kvasiny	707	597	–	–

* Deferred tax asset has not been recognised because the drawing of investment incentives was considered doubtful by the Company as at 31 December 2015.
** The amount represents estimated utilisation of investment incentives as at 31 December 2015, which the Company included in the calculation of corporate income tax estimate for 2015.

The following table summarises granted investment incentives and their use in 2014:

Investment incentive	Maximum amount of the investment incentive	Recognised deferred tax asset from investment incentives	Unrecognised deferred tax asset from investment incentives*	Utilisation of tax credits from investment incentives**
Enlargement of production of parts of engine EA 211 and its assembly	800	–	–	800
Enlargement of production of transmissions – MQ 100	496	420	–	–
Enlargement of technical development – Česana Jih premises	306	–	306	–
Enlargement of current production by production of automatic transmissions – DQ 200 Vrchlabí	738	738	–	–
Enlargement of Welding shop by production technology used for bodies based on MQB platform – Kvasiny	707	–	435	–

* Deferred tax asset has not been recognised because the drawing of investment incentives was considered doubtful by the Company as at 31 December 2014.
** The amount represents estimated utilisation of investment incentives as at 31 December 2014, which the Company included in the calculation of corporate income tax estimate for 2014.

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 2016	Payable 2017–2020	31 December 2015
Investment commitments – property, plant and equipment	5,286	772	**6,058**
Investment commitments – intangible assets	6,490	6,163	**12,653**
Operating leasing payments	193	404	**597**

	Payable until year 2015	Payable 2016–2019	31 December 2014
Investment commitments – property, plant and equipment	3,968	912	**4,880**
Investment commitments – intangible assets	3,863	6,692	**10,555**
Operating leasing payments	243	476	**719**

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)

	2015	2014
Material costs – raw materials and other supplies, goods	**211,126**	**202,137**
Production related services	**12,280**	**13,135**
Personnel costs	**20,815**	**19,680**
Wages	15,742	14,869
Pension benefit costs (defined contribution plans)	3,031	2,802
Social insurance and other personnel costs	2,042	2,010
Depreciation, amortisation and impairment losses	**20,519**	**16,397**
Other services	**23,989**	**24,000**
Total cost of sales, distribution and administrative expenses	**288,729**	**275,349**
Number of employees		
Number of employees*	27,544	26,765

* Average number of employees (including temporary employees).

28. Related party transactions

The sole shareholder of the Company was VOLKSWAGEN FINANCE LUXEMBURG S.A. during the whole accounting period ended 31 December 2015.

In 2014, there was a change in ownership structure of the Company. VOLKSWAGEN FINANCE LUXEMBURG S.A. became the sole shareholder of the Company on 28 June 2014. The category Parent company in the following tables includes transactions with all companies that were the sole shareholder of the Company during 2014. For more information about these companies and the change in ownership structure refer to note 12.

VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period ended 31 December 2015 (2014).

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 paragraph 74 of the Act No. 90/2012 Coll., Business Corporations Act, as amended.

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2015	2014
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	7,681	7,279
Subsidiaries		
Skoda Auto India Private Ltd.	2,043	1,598
ŠKODA AUTO Deutschland GmbH*	–	59,789
ŠKODA AUTO Slovensko s.r.o.	6,102	5,165
Associates		
OOO VOLKSWAGEN Group Rus	8,734	15,320
Companies controlled by ultimate parent company	194,535	117,555
Other related parties	1,620	1,417
Total	**220,715**	**208,124**

* Effective from 1 January 2015, the Company sold its 100% share of the subsidiary ŠKODA AUTO Deutschland GmbH to a related party of the Company (see Note 7).

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

In addition to the revenues disclosed in the table Sales to related parties, the Company also sold its 100% share of the subsidiary ŠKODA AUTO Deutschland GmbH in 2015 to a related party of the Company controlled by ultimate parent company. For more information on the sale of the subsidiary refer to Note 7.

In addition to revenues specified in the table Sales to related parties, in 2015 (2014) the Company also realised revenues from royalties:

	2015	2014
Revenues from license fees		
Ultimate parent company	–	–
Subsidiaries	13	11
Associates	91	132
Companies controlled by ultimate parent company	–	–
Other related parties	2,328	2,077
Total	**2,432**	**2,220**

In addition to the revenues specified in the table Sales to related parties, in 2015 (2014) the Company also realised income with related parties relating to interest from intercompany loans and deposits:

	2015	2014
Interest income from loans and deposits		
Ultimate parent company	1	2
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	30	17
Other related parties	–	–
Total	**31**	**19**

Dividends received from subsidiaries are disclosed in Note 7. Dividends received from associates are disclosed in Note 8.

Purchases from related parties (CZK million)

	2015	2014
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	46,251	45,798
Subsidiaries		
Skoda Auto India Private Ltd.	486	521
ŠKODA AUTO Deutschland GmbH*	–	974
ŠKODA AUTO Slovensko s.r.o.	58	124
Associates		
OOO VOLKSWAGEN Group Rus	513	486
Companies controlled by ultimate parent company	28,124	27,442
Other related parties	468	135
Total	**75,900**	**75,480**

* Effective from 1 January 2015, the Company sold its 100% share of the subsidiary ŠKODA AUTO Deutschland GmbH to a related party of the Company (see Note 7).

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 2015	31 December 2014
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,450	630
Subsidiaries		
Skoda Auto India Private Ltd.	588	608
ŠKODA AUTO Deutschland GmbH*	–	297
ŠKODA AUTO Slovensko s.r.o.	10	18
Associates		
OOO VOLKSWAGEN Group Rus	1,301	2,080
Companies controlled by ultimate parent company	5,387	3,842
Other related parties	830	1,722
Total	**9,566**	**9,197**

* Effective from 1 January 2015, the Company sold its 100% share of the subsidiary ŠKODA AUTO Deutschland GmbH to a related party of the Company (see Note 7).

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

	31 December 2015	31 December 2014
Receivables from royalties		
Ultimate parent company	–	–
Subsidiaries	8	6
Associates	100	280
Companies controlled by ultimate parent company	200	210
Other related parties	2,194	1,696
Total	**2,502**	**2,192**

In addition to trade receivables and receivables from royalties, the Company as at 31 December 2015 also had loans to and deposits including cash pooling in companies controlled by ultimate parent company in the amount of CZK 70,575 million (31 December 2014: CZK 51,171 million). Receivables from interest from the loans as at 31 December 2015 amounted to CZK 14 million (31 December 2014: CZK 6 million). The weighted average effective interest rate on non-current loans is disclosed in Note 9.2. The weighted average effective interest rate on current deposits with original maturity less than three months (including cash pooling) is disclosed in Note 11.

In addition to that, the Company also had receivable from its ultimate parent company VOLKSWAGEN AG amounting to CZK 2,444 million relating particularly to claim refund necessary for settlement of the provision described in point 16 of the Notes.

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.

Investments in subsidiaries are disclosed in Note 7 and investments in associates are disclosed in Note 8.

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

Liabilities to related parties (CZK million)

	31 December 2015	31 December 2014
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,779	1,683
Subsidiaries		
Skoda Auto India Private Ltd.	3	422
ŠKODA AUTO Deutschland GmbH*	–	1,443
ŠKODA AUTO Slovensko s.r.o.	18	54
Associates		
OOO VOLKSWAGEN Group Rus	75	174
Companies controlled by ultimate parent company	10,579	7,089
Other related parties	128	16
Total	**12,582**	**10,881**

* Effective from 1 January 2015, the Company sold its 100% share of the subsidiary ŠKODA AUTO Deutschland GmbH to a related party of the Company (see Note 7).

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

	31 December 2015	31 December 2014
Contractual obligations and other future commitments		
Ultimate parent company	11,612	10,530
Subsidiaries	–	–
Associates	–	–
Companies controlled by ultimate parent company	1,248	163
Other related parties	–	–
Total	**12,860**	**10,693**

Contractual obligations to related parties include mainly commitments in respect of research and development costs and tooling rights.

Effective from 1 January 2015, on the basis of a management agreement between the Company and the new owner, which is a related party of the Company controlled by the ultimate parent company, the Company became an agent with the power to control and perform further managerial competencies in ŠKODA AUTO Deutschland GmbH, for which the Company is entitled to a reward.

Information on key management personnel remuneration (CZK million)

	2015	2014
Salaries and other short-term employee benefits*	658	555
Pension benefit costs (defined contribution plans)	13	13
Total	**671**	**568**

* 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.

CZK 283 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2015 (31 December 2014: CZK 306 million).

29. Other information (CZK million)

The compensation paid to the Company's auditors for the accounting period was CZK 22 million (2014: CZK 24 million) and covered the following services:

	2015	2014
Audit, other audit related and assurance services	20	21
Tax and related services	1	2
Other advisory services	1	1
Total	**22**	**24**

30. Significant events after the balance sheet date

After the balance sheet date, there were no other events that could have a significant impact on the separate financial statements of the Company for the year ended 31 December 2015.

31. Information about Volkswagen Group

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

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

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

ŠKODA AUTO and its subsidiaries (see Note 7) and its investments in associates (see Note 8) 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, 23 February 2016

The Board of Management:

Bernhard Maier

Winfried Krause

Werner Eichhorn

Michael Oeljeklaus

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

Report on Relations

Report on relations of the company ŠKODA AUTO a.s. pursuant to § 82 of the Business Corporation Act in the accounting period 1 January – 31 December 2015

The board of directors of ŠKODA AUTO a.s., having its registered office at tř. Václava Klementa 869, 293 01 Mladá Boleslav, IČ 00177041, registered in the Commercial Register kept by Municipal Court in Prague, Section B, insert 332 (hereinafter referred to as "the Company" or "ŠKODA AUTO"), prepared the following report on relations pursuant to § 82 Act No. 90/2012 Coll., on Business Corporations, as subsequently amended, in the accounting period 1 January 2015 – 31 December 2015 (hereinafter referred to as the "Period").

1. Structure of Relations

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

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

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

Information about the structure of relations is stated as at 31 December 2015, based on the information available to the statutory body of the Company acting with due managerial care. The ownership structure of ŠKODA AUTO and the structure of relations among companies in which the Company holds participating interest are graphically illustrated in the Appendix.

2. Function of the Company within the Group

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

3. Means of control

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

4. Overview of transactions realised at the instigation or in the interest of the Controlling Entity or entities controlled by the Controlling Entity

Effective from 1 January 2015, the Company sold its 100% share in subsidiary ŠKODA AUTO Deutschland GmbH to an Entity controlled by Volkswagen. The selling price of the share exceeds its carrying amount. The change in ownership structure will have no impact on business activities and scope of operation of ŠKODA AUTO Deutschland GmbH and ŠKODA AUTO a.s.

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

The Company has not carried out any other transactions during the Period concerning assets exceeding 10% of the Company's equity per the last individual financial statements as at 31 December 2015.

ŠKODA AUTO paid a dividend of CZK 13,753 million to VOLKSWAGEN FINANCE LUXEMBURG S.A., as the sole shareholder, on 31 March 2015 based on the Decision of the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. from 17 March 2015.

In 2015, dividends and share in profit of CZK 34 million were paid out to the Company by the subsidiaries. In 2015, dividends and share in profit of CZK 153 million were paid out to the Company by the associates.

5. Overview of the contracts within the Group

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

5.1 Sale of own products, goods and services

a) vehicles

ŠKODA AUTO entered into new contracts regarding sales of vehicles with the following companies:
Audi Volkswagen Korea Ltd.
Porsche Colombia S.A.S.
Porsche Croatia d.o.o.

b) genuine parts

ŠKODA AUTO concluded new contracts regarding sales of genuine parts in the Period with the following company:
Porsche BH d.o.o.

c) others

ŠKODA AUTO entered into new contracts regarding sales of services, licenses, aggregates, bodyworks and other products with the following companies:
AUDI AG
Centro Técnico de SEAT, S.A.
e4t electronics for transportation s.r.o.
OOO Volkswagen Group Rus
Porsche Česká republika s.r.o.
SEAT, S.A.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen Autoeuropa, Lda.
Volkswagen de México, S.A. de C.V.
Volkswagen India Pvt. Ltd.
Volkswagen Konzernlogistik GmbH & Co. OHG
Volkswagen Sachsen GmbH

5.2 Purchase of goods and services

a) production material and goods

ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:
AUDI BRUSSELS S.A.
AUDI HUNGARIA MOTOR Kft.
SEAT, S.A.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen de México, S.A. de C.V.
Volkswagen Konzernlogistik GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Osnabrück GmbH
Volkswagen Sachsen GmbH
Volkswagen Sarajevo, d.o.o.
VOLKSWAGEN SLOVAKIA, a.s.

b) indirect material and services

ŠKODA AUTO entered into new contracts regarding purchases of indirect material and services (purchases of indirect material and services, research and development cooperation, IT services, software and hardware supplies, customer services consultancy) with the following companies:
AUDI AG
AUDI BRUSSELS S.A.
Audi Electronics Venture GmbH
AUDI HUNGARIA MOTOR Kft.
Audi Volkswagen Korea Ltd.
Automotive Safety Technologies GmbH
AutoVision GmbH
AutoVision Magyarország Kft.
Carmeq GmbH
Centro Técnico de SEAT, S.A.
e4t electronics for transportation s.r.o.
Italdesign Giugiaro Barcelona S.L.
Italdesign Giugiaro S.p.A.
Nardò Technical Center S.r.l.
OOO Volkswagen Group Rus
Porsche Česká republika s.r.o.
Porsche Engineering Group GmbH
Porsche Inter Auto CZ spol. s r.o.
Riviera Technic S.A.S.
Scania Czech Republic s.r.o.
Scania Finance Deutschland GmbH
SEAT, S.A.
Shanghai Volkswagen Powertrain Co., Ltd.
SITECH Sitztechnik GmbH
SKODA AUTO India Pvt. Ltd.
ŠKODA AUTO Deutschland GmbH
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen (China) Investment Co., Ltd.
Volkswagen de México, S.A. de C.V.
Volkswagen Group Japan K.K.
Volkswagen Group of America, Inc.
Volkswagen Group Sales India Pvt. Ltd.
Volkswagen India Pvt. Ltd.

Volkswagen Konzernlogistik GmbH & Co. OHG
Volkswagen of South Africa (Pty) Ltd.
Volkswagen Poznan Sp. z o.o.
Volkswagen Procurement Services GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.

c) genuine parts

ŠKODA AUTO entered into new contracts regarding purchases of genuine parts with the following companies:
AUDI HUNGARIA MOTOR Kft.
OOO VOLKSWAGEN Group Rus
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen Autoeuropa, Lda.
Volkswagen Group Polska Sp. z o.o.
Volkswagen Poznan Sp. z o.o.
VOLKSWAGEN SLOVAKIA, a.s.

d) investments

ŠKODA AUTO entered into new contracts regarding purchases of investments with the following companies:
AUDI AG
e4t electronics for transportation s.r.o.
VOLKSWAGEN AG
Volkswagen Procurement Services GmbH
Volkswagen Sarajevo, d.o.o.

5.3 Other contracted relationships

ŠKODA AUTO also established new contractual relationships (particularly marketing services, training, sales support, financial services, system support, consultancy, and production of cars) with the following companies:
AUDI AG
Audi Electronics Venture GmbH
Audi Vertriebsbetreuungsgesellschaft mbH
Audi Volkswagen Middle East FZE
Audi Volkswagen Taiwan Co., Ltd.
Autostadt GmbH
Bentley Motors Ltd.
Dr. Ing. h.c. F. Porsche AG
e4t electronics for transportation s.r.o.
Intercar Austria GmbH
OOO Volkswagen Group Rus
Porsche Albania Sh.p.k.
Porsche Chile SpA
Porsche Consulting GmbH
Porsche Colombia S.A.S.
Porsche Croatia d.o.o.
Porsche Česká republika s.r.o.
Porsche Holding Stuttgart GmbH
Porsche Hungaria Kereskedelmi Kft.
Porsche Inter Auto CZ spol. s r.o.
Porsche Macedonia d.o.o.e.l.
Porsche Romania S.R.L.
Porsche Siebte Vermögensverwaltung GmbH
Porsche Slovenija d.o.o.
SEAT, S.A.
SKODA AUTO India Pvt. Ltd.

ŠKODA AUTO Deutschland GmbH
ŠKODA AUTO Slovensko s.r.o.
ŠKO-ENERGO s.r.o.
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen-Audi España, S.A.
Volkswagen (China) Investment Co., Ltd.
VOLKSWAGEN FINANCIAL SERVICES AG
Volkswagen Group Australia Pty. Ltd.
Volkswagen Group Firenze S.p.A.
Volkswagen Group France S.A.
Volkswagen Group Import Co., Ltd.
Volkswagen Group Ireland Ltd.
Volkswagen Group Italia S.p.A.
Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Sales India Pvt. Ltd.
Volkswagen Group Singapore Pte. Ltd.
Volkswagen Group Sverige AB
Volkswagen Group United Kingdom Ltd.
Volkswagen India Pvt. Ltd.
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Zubehör GmbH

Transactions relating to contracts concluded in previous years

Besides companies disclosed in points 5.1, 5.2 and 5.3, the Company carried out transactions with the following companies, controlled by the same Controlling entity, based on contracts concluded and presented in reports in relations of the Company in previous years:
Auto & Service PIA GmbH
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o.
MAN Truck & Bus AG
MMI Marketing Management Institut GmbH
Porsche Holding Salzburg Automotive
Porsche Siebte Vermögensverwaltung GmbH
Porsche Werkzeugbau s.r.o.
Scania AB
Scania CV AB
SEAT Sport S.A.
ŠKO-ENERGO-FIN s.r.o.
Volkswagen Automatic Transmission (Dalian) Co., Ltd.
Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Volkswagen-Bildungsinstitut GmbH
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
Volkswagen Gebrauchtfahrzeughandels und Service GmbH
Volkswagen Group Hong Kong Ltd.
Volkswagen Group Japan K.K.
Volkswagen Immobilien GmbH
Volkswagen Insurance Brokers GmbH
Volkswagen Group Malaysia Sdn. Bhd.
Volkswagen Group Services S.A.
Volkswagen Motorsport GmbH
Volkswagen Navarra, S.A.
Volkswagen Original Teile Logistik GmbH & Co. KG
Volkswagen R & Accessory (China) Ltd.
Volkswagen Transmission (Shanghai) Co., Ltd.
Volkswagen-Versicherungsdienst GmbH

6. Assessment of a detriment and its settlement

The Company did not suffer from any damage or detriment as a result of the contracts concluded in the Period between the Company and other Group companies, or as a result of other transactions or measures realised during the Period by the Company at the instigation or in the interest of these entities.

7. Evaluation of the relations and risks within the Group

7.1 Evaluation of advantages and disadvantages of the relations within the Group

Involvement in the Group leads mainly to advantages for the Company. The Group is a world-leading automotive manufacturer. Involvement in the Group brings economies of scale to the Company, realised through shared platforms and modern technologies. At the same time, it provides shared know-how and distribution channels.

Currently, there is no apparent disadvantage for the Company emerging from involvement in the Group.

7.2 There are no risks for the Company arising from the relations within the Group.

Mladá Boleslav, 23 February 2016

The Board of Management:

Bernhard Maier

Winfried Krause

Werner Eichhorn

Michael Oeljeklaus

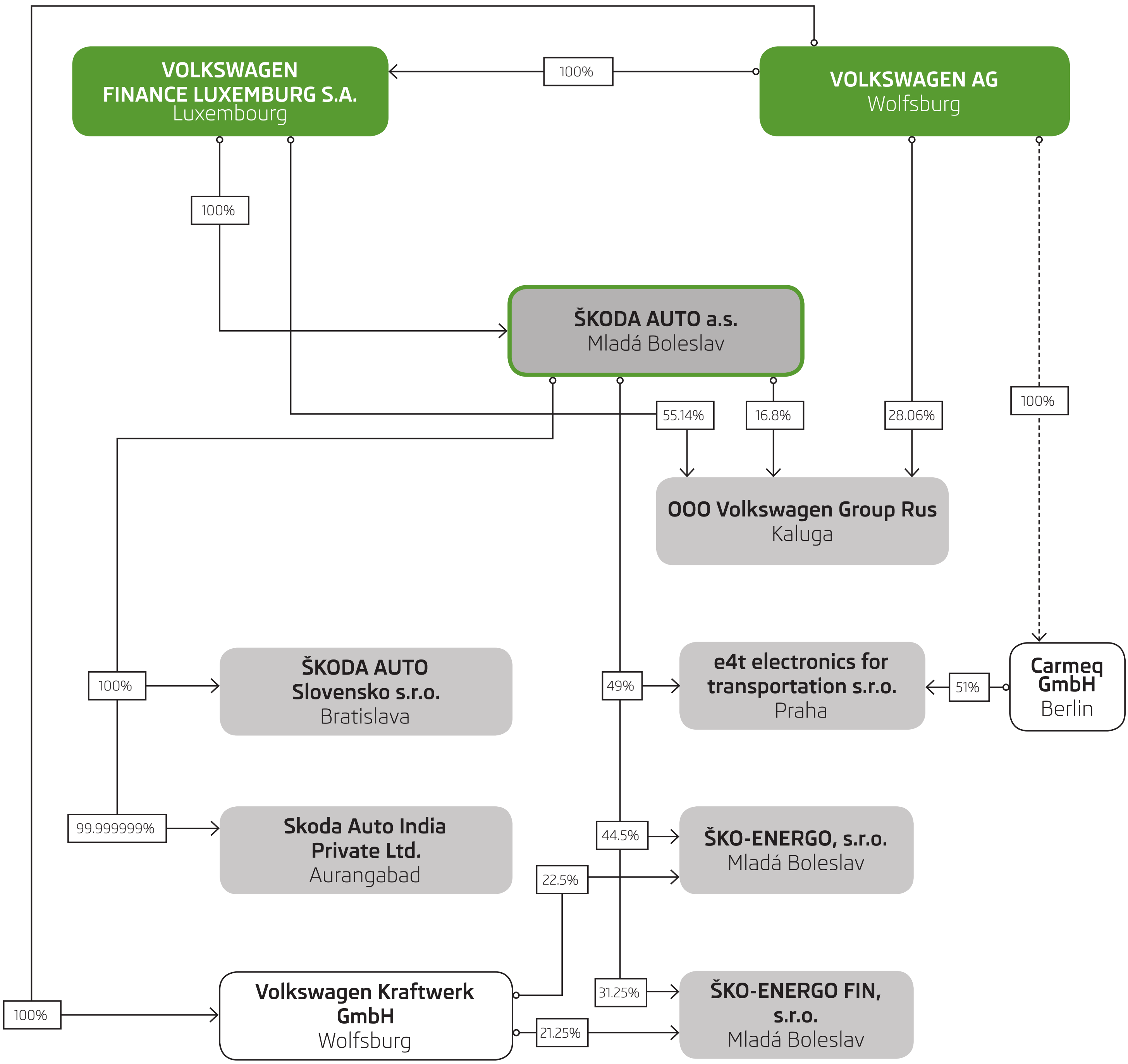
Dieter Seemann

Christian Strube

Bohdan Wojnar

Appendix:

The ownership structure of ŠKODA AUTO and the structure of relations among companies in which the Company holds participating interest



Glossary of Terms and Abbreviations

ACBSP – Accreditation Council for Business Schools and Programs – global accrediting body providing specialized accreditations for business programs at all levels of higher education

BilMoG – Bilanzrechtsmodernisierungsgesetz – German Accounting Act

Blended learning – a modern teaching method combining traditional face-to-face classroom methods with instruction via online and digital media

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.

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

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

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

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

Euro NCAP – European New Car Assessment Programme, European consumer organisation that conducts safety tests

Group – in the Annual Report, the terms "the Group" and "the ŠKODA AUTO Group" are used as synonyms for the ŠKODA AUTO Consolidated Group

IFRS – International Financial Reporting Standards as adopted by the European Union

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

Infotainment – Multimedia information system consisting of radio, navigation system and other multimedia devices in a vehicle

Investment ratio – ratio of capital expenditures (less capitalised development expenses) to total sales revenues

KonTraG – Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – German Information Disclosure and Transparency Act

LTE – Long-term Evolution – technology devised for high-speed internet in mobile networks

MPV – multi-purpose vehicle in the mid-range category of cars

MQB – Modularer Querbaukasten – modular platform

Net liquidity – gross liquidity less financial obligations and liabilities to a factoring company within the Volkswagen Group

OECD – Organization for Economic Cooperation and Development

Production – number of vehicles produced. The total production figure also includes production of vehicles for the Volkswagen Group brand SEAT manufactured by the company ŠKODA AUTO. 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 of the Volkswagen Group brand SEAT manufactured by the company ŠKODA AUTO. For accuracy, vehicle assembly kits are reported in the vehicles segment.

SUV – Sport utility vehicle in the mid-range category of cars

Temporary employees – employees of a labour agency who are temporarily seconded to work for a different employer

WLAN – Wireless Local-Area Network

Persons Responsible for the Annual Report and Events after the Balance Sheet Date

Events after the Balance Sheet Date

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

Affirmation

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

Mladá Boleslav, 23 February 2016

The Board of Management:

Bernhard Maier

Winfried Krause

Werner Eichhorn

Michael Oeljeklaus

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

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**
Raw materials and consumables	CZK millions	80,426	105,996	116,350	109,868	108,283	115,382
	% of revenues	72.8	77.8	75.9	75.4	74.6	75.1
Value added	**CZK millions**	**18,513**	**18,977**	**22,296**	**22,056**	**23,343**	**24,884**
	% of revenues	16.8	13.9	14.6	15.1	16.0	16.2
Staff costs	CZK millions	6,629	7,465	7,583	7,834	8,060	8,500
Depreciation	CZK millions	6,516	7,768	9,646	10,826	10,296	10,606
Operating profit	**CZK millions**	**5,237**	**5,204**	**4,643**	**3,677**	**5,209**	**5,856**
	% of revenues	4.7	3.8	3.0	2.5	3.6	3.9
Financial result	CZK millions	(1,422)	(1,029)	(1,969)	(1,188)	(2,692)	(1,041)
Profit before income tax	**CZK millions**	**3,814**	**4,175**	**2,674**	**2,489**	**2,517**	**4,815**
Profit before income tax-to-revenues ratio	%	3.5	3.1	1.7	1.7	1.7	3.2
Tax on profit or loss	CZK millions	1,177	839	545	664	1,039	1,318
Profit for the year	**CZK millions**	**2,637**	**3,336**	**2,129**	**1,825**	**1,478**	**3,497**
Profit for the year-to-revenues ratio	%	2.4	2.4	1.4	1.3	1.0	2.3

* The financial result reported according to CAS are not comparable with the financial results reported according to IFRS.

Balance sheet/financing

		1999	2000	2001	2002	2003	2004
Fixed assets	**CZK millions**	**33,687**	**39,175**	**45,008**	**44,873**	**44,074**	**41,143**
Current assets and other assets	**CZK millions**	**21,923**	**27,486**	**21,603**	**21,945**	**22,077**	**30,694**
of which:							
Loans to and deposits	CZK millions	–	–	–	–	–	8,600
Equity	**CZK millions**	**22,700**	**26,032**	**28,157**	**29,817**	**31,758**	**32,844**
Liabilities and other liabilities	**CZK millions**	**32,910**	**40,629**	**38,454**	**37,001**	**34,393**	**38,993**
of which:							
Bonds	CZK millions	–	10,000	10,000	10,000	10,000	10,000
Provisions under special regulations	CZK millions	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	3,000	4,850	2,000	5,000	–	–
Assets	**CZK millions**	**55,610**	**66,661**	**66,611**	**66,818**	**66,151**	**71,837**
Net liquidity	**CZK millions**	**(1,339)**	**(4,007)**	**(798)**	**(4,660)**	**2,495**	**4,534**
Investments	**CZK millions**	**11,313**	**13,873**	**16,235**	**11,586**	**10,248**	**8,430**
Investment ratio	%	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1	79.8

ŠKODA AUTO key figures and financial results according to IFRS

Production, sales and technical data

		2005	2006	2007	2008
Deliveries to customers	**vehicles**	**492,111**	**549,667**	**630,032**	**674,530**
Sales	**vehicles**	**493,119**	**555,202**	**623,085**	**622,090**
Sales of ŠKODA cars		493,119	555,202	623,085	622,083
Production	**vehicles**	**494,637**	**556,433**	**623,529**	**603,247**
Production of ŠKODA cars		494,637	556,433	623,529	603,247
Employees*	persons	26,014	26,738	27,753	25,331

		2009	2010	2011	2012
Deliveries to customers	**vehicles**	**684,226**	**762,600**	**879,184**	**939,202**
Sales	**vehicles**	**539,382**	**583,780**	**676,787**	**691,853**
Sales of ŠKODA cars		539,380	583,780	676,785	686,948
Production	**vehicles**	**519,910**	**576,362**	**673,127**	**656,306**
Production of ŠKODA cars		519,910	576,362	673,127	651,306
Employees*	persons	24,817	23,308	24,936	24,788

		2013	2014	2015
Deliveries to customers	**vehicles**	**920,750**	**1,037,226**	**1,055,501**
Sales	**vehicles**	**682,402**	**773,791**	**778,416**
Sales of ŠKODA cars		660,634	757,330	758,742
Production	**vehicles**	**639,889**	**735,951**	**736,977**
Production of ŠKODA cars		618,118	719,410	717,249
Employees*	persons	24,548	24,631	25,452

* 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

		2005	2006	2007	2008
Sales revenue	**CZK millions**	**177,822**	**189,816**	**211,026**	**188,572**
Cost of sales	**CZK millions**	**159,187**	**167,709**	**180,865**	**165,600**
	% of revenues	89.5	88.4	85.7	87.8
Gross profit	**CZK millions**	**18,635**	**22,107**	**30,161**	**22,972**
	% of revenues	10.5	11.6	14.3	12.2
Distribution expenses	CZK millions	6,558	6,905	7,964	7,590
Administrative expenses	CZK millions	3,329	3,161	3,701	4,223
Balance of other operating revenues/costs	CZK millions	1,256	1,735	525	1,477
Operating profit	**CZK millions**	**10,004**	**13,776**	**19,021**	**12,636**
	% of revenues	5.6	7.3	9.0	6.7
Financial result	CZK millions	(564)	(216)	425	651
Profit before income tax	**CZK millions**	**9,440**	**13,560**	**19,446**	**13,287**
Profit before income tax-to-revenues ratio	%	5.3	7.1	9.2	7.0
Income tax expense	CZK millions	2,077	2,678	3,554	2,020
Profit for the year	**CZK millions**	**7,363**	**10,882**	**15,892**	**11,267**
Profit for the year-to-sales ratio	%	4.1	5.7	7.5	6.0

		2009	2010	2011	2012
Sales revenue	**CZK millions**	**170,666**	**203,695**	**231,742**	**239,101**
Cost of sales	**CZK millions**	**155,868**	**180,343**	**201,765**	**203,216**
	% of revenues	91.3	88.5	87.1	85.0
Gross profit	**CZK millions**	**14,798**	**23,352**	**29,977**	**35,885**
	% of revenues	8.7	11.5	12.9	15.0
Distribution expenses	CZK millions	7,702	9,449	11,613	13,724
Administrative expenses	CZK millions	4,320	4,666	5,504	6,155
Balance of other operating revenues/costs	CZK millions	1,948	1,798	4,364	998
Operating profit	**CZK millions**	**4,724**	**11,035**	**17,224**	**17,004**
	% of revenues	2.8	5.4	7.4	7.1
Financial result	CZK millions	(343)	180	(69)	(1,292)
Profit before income tax	**CZK millions**	**4,381**	**11,215**	**17,155**	**15,712**
Profit before income tax-to-revenues ratio	%	2.6	5.5	7.4	6.6
Income tax expense	CZK millions	942	1,811	2,867	2,453
Profit for the year	**CZK millions**	**3,439**	**9,404**	**14,288**	**13,259**
Profit for the year-to-sales ratio	%	2.0	4.6	6.2	5.5

		2013	2014	2015
Sales revenue	**CZK millions**	**243,624**	**299,318**	**314,897**
Cost of sales	**CZK millions**	**209,538**	**254,944**	**268,184**
	% of revenues	86.0	85.2	85.2
Gross profit	**CZK millions**	**34,086**	**44,374**	**46,713**
	% of revenues	14.0	14.8	14.8
Distribution expenses	CZK millions	13,067	13,466	13,272
Administrative expenses	CZK millions	6,679	6,939	7,273
Balance of other operating revenues/costs	CZK millions	(1,803)	(2,371)	8,986
Operating profit	**CZK millions**	**12,537**	**21,598**	**35,154**
	% of revenues	5.1	7.2	11.2
Financial result	CZK millions	413	(249)	(916)
Profit before income tax	**CZK millions**	**12,950**	**21,349**	**34,238**
Profit before income tax-to-revenues ratio	%	5.3	7.1	10.9
Income tax expense	CZK millions	1,564	2,928	3,422
Profit for the year	**CZK millions**	**11,386**	**18,421**	**30,816**
Profit for the year-to-sales ratio	%	4.7	6.2	9.8

Balance sheet/financing

		2005	2006	2007	2008
Non-current assets	**CZK millions**	**55,023**	**53,936**	**56,903**	**60,119**
Current assets	**CZK millions**	**28,956**	**43,499**	**48,658**	**51,276**
Equity	**CZK millions**	**46,483**	**58,007**	**66,532**	**71,721**
Non-current and current liabilities	**CZK millions**	**37,496**	**39,428**	**39,029**	**39,674**
of which:					
Nominal value of bonds	CZK millions	5,000	5,000	2,000	2,000
Assets	**CZK millions**	**83,979**	**97,435**	**105,561**	**111,395**
Net liquidity	**CZK millions**	**6,070**	**19,352**	**26,283**	**18,353**
Cash flows from operating activities	**CZK millions**	**21,421**	**24,203**	**29,275**	**13,978**
Cash flows from investing activities	**CZK millions**	**(11,299)**	**(10,910)**	**(13,913)**	**(14,445)**
Investment ratio	%	4.8	4.3	4.9	5.4
Equity ratio	%	55.4	59.5	63.0	64.4
Equity-to-fixed assets ratio	%	84.5	107.5	116.9	119.3

		2009	2010	2011	2012
Non-current assets	**CZK millions**	**59,926**	**59,989**	**64,441**	**81,586**
Current assets	**CZK millions**	**48,099**	**62,278**	**71,130**	**59,656**
Equity	**CZK millions**	**68,519**	**75,682**	**80,407**	**88,302**
Non-current and current liabilities	**CZK millions**	**39,506**	**46,585**	**55,164**	**52,940**
of which:					
Nominal value of bonds	CZK millions	2,000	–	–	–
Assets	**CZK millions**	**108,025**	**122,267**	**135,571**	**141,242**
Net liquidity	**CZK millions**	**23,350**	**35,047**	**41,399**	**30,872**
Cash flows from operating activities	**CZK millions**	**22,321**	**26,256**	**27,267**	**23,819**
Cash flows from investing activities	**CZK millions**	**(11,454)**	**(22,590)**	**(27,716)**	**(6,042)**
Investment ratio	%	6.0	4.9	6.0	8.6
Equity ratio	%	63.4	61.9	59.3	62.5
Equity-to-fixed assets ratio	%	114.3	126.2	124.8	108.2

		2013	2014	2015
Non-current assets	**CZK millions**	**87,923**	**105,139**	**107,654**
Current assets	**CZK millions**	**64,078**	**71,730**	**94,961**
Equity	**CZK millions**	**90,316**	**100,001**	**117,482**
Non-current and current liabilities	**CZK millions**	**61,685**	**76,868**	**85,133**
Assets	**CZK millions**	**152,001**	**176,869**	**202,615**
Net liquidity	**CZK millions**	**27,871**	**41,452**	**60,077**
Cash flows from operating activities	**CZK millions**	**28,965**	**45,158**	**39,622**
Cash flows from investing activities	**CZK millions**	**(25,148)**	**(25,512)**	**(6,467)**
Investment ratio	%	7.9	6.4	5.0
Equity ratio	%	59.4	56.5	58.0
Equity-to-fixed assets ratio	%	102.7	95.1	109.1

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www.skoda-auto.com

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